

GAO Highlights

Highlights of [GAO-14-737T](#), a testimony before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Over the past decade, GAO has issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies. The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Improvement Act of 2012, requires federal executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. In general, reported improper payment estimates include payments that should not have been made, were made in the incorrect amount, or were not supported by sufficient documentation.

This testimony addresses (1) federal agencies' reported estimates of improper payments, (2) remaining challenges in meeting current requirements to estimate and report improper payments, and (3) strategies for reducing improper payments. This testimony is primarily based on GAO's fiscal year 2013 audit of the *Financial Report of the United States Government* and prior GAO reports related to improper payments issued over the past 3 years. The testimony also includes improper payment information recently presented in federal agencies' fiscal year 2013 financial reports.

View [GAO-14-737T](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

July 9, 2014

IMPROPER PAYMENTS

Government-Wide Estimates and Reduction Strategies

What GAO Found

Federal agencies reported an estimated \$105.8 billion in improper payments in fiscal year 2013, a decrease from the prior year revised estimate of \$107.1 billion. The fiscal year 2013 estimate was attributable to 84 programs spread among 18 agencies. The specific programs included in the government-wide estimate may change from year to year. For example, with Office of Management and Budget (OMB) approval, an agency can obtain relief from estimating improper payments if the agency has reported improper payments under a certain threshold for at least 2 consecutive years. A net of 10 additional programs were added to the government-wide estimate by OMB in fiscal year 2013 when compared to fiscal year 2012.

For fiscal year 2013, GAO identified the federal government's inability to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them as a material weakness in internal control. In addition, existing internal control weaknesses at the agency level continued to increase the risk of improper payments occurring. In fiscal year 2013, four agencies did not report estimates for four risk-susceptible programs, including the Department of Health and Human Services' (HHS) Temporary Assistance for Needy Families (TANF) program. HHS cited a statutory barrier that prevents it from requiring states to estimate improper payments for TANF. Estimates reported for two programs were also not included in the government-wide total because their estimation methodologies were not approved by OMB. Further, inspectors general reported deficiencies related to compliance with criteria listed in the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2013, such as the use of estimation methodologies that were not statistically valid.

As GAO has previously found, a number of strategies across government, some of which are currently under way, could help to reduce improper payments. For example

- Analysis of the root causes of improper payments can help agencies target effective corrective actions. Some agencies reported root causes of improper payments using three error categories required by OMB (documentation and administrative, authentication and medical necessity, and verification). However, because the three categories are general, more detailed analysis to understand the root causes could help agencies identify and implement more effective corrective actions.
- Designing and implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as up-front validation of eligibility through data sharing, predictive analytic tests, and training programs.
- Implementing effective detection techniques to quickly identify and recover improper payments after they have been made is also important to a successful reduction strategy. Detection activities include data mining and recovery audits. Another area for further exploration is the broader use of incentives to encourage and support states in efforts to implement effective preventive and detective controls in state-administered programs.