

GAO Highlights

Highlights of [GAO-18-377](#), a report to congressional addressees

Why GAO Did This Study

Improper payments—which include payments that should not have been made or were made in an incorrect amount—are a long-standing, significant problem in the federal government, estimated at almost \$141 billion for fiscal year 2017. Executive branch agencies are required to annually estimate improper payments for certain programs. Estimation of improper payments is key to understanding the extent of the problem and to developing effective corrective actions. Relevant laws and guidance provide agencies flexibility in developing estimates.

This report describes agencies' processes to estimate improper payments in selected programs for fiscal year 2017 and the extent to which certain differences in these processes can affect the usefulness of the resulting estimates. GAO selected 10 programs across six agencies with the largest reported program outlays in fiscal years 2015 and 2016. For these programs, GAO reviewed relevant laws and guidance, analyzed agencies' policies and procedures, and interviewed officials at relevant agencies and OMB staff.

What GAO Recommends

GAO recommends that OMB develop guidance on treatment of nonresponse cases and testing to identify improper payments, that DOD and OPM assess their estimation processes, and that IRS revise its methodology to not exclude recovered payments from its estimate. All of the agencies either agreed or partially agreed with the specific recommendations to them. GAO believes that the actions are warranted, as discussed in the report.

View [GAO-18-377](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

May 2018

IMPROPER PAYMENTS

Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes

What GAO Found

The six agencies GAO reviewed reported taking various approaches related to key components of estimating improper payments—shown in the figure below—for 10 selected programs, which collectively reported outlays of over \$2.5 trillion for fiscal year 2017.

Key Components in the Development of Improper Payment Estimates



Source: GAO analysis. | GAO-18-377

Sample selection. Eight of the 10 programs GAO reviewed reported using statistically valid approaches, and the remaining 2 reported using alternative methodologies approved by the Office of Management and Budget (OMB). The sampled data elements varied, including payments, medical claims, and tax returns. The age of the data used to develop fiscal year 2017 improper payment estimates also varied, ranging from calendar year 2013 to fiscal year 2017.

Identification of improper payments. Some of the six agencies reported using processes designed specifically to estimate improper payments, whereas others reported leveraging existing reviews. These agencies' policies and procedures include a review of aspects of eligibility, except for those related to the Department of Defense's (DOD) Military Pay and the Office of Personnel Management's (OPM) Retirement overpayments. DOD and OPM have not fully assessed whether their estimation processes effectively consider key program risks. OMB guidance does not specifically address how agencies are to test to identify improper payments, such as using a risk-based approach to help ensure that key risks of improper payments are addressed.

The six agencies also varied in the treatment of insufficient documentation, both in identifying and in reporting the root causes of improper payments. For the agencies that contact entities outside the agency to estimate improper payments, the treatment of nonresponse differed, with one agency including nonresponses as improper payments and another generally excluding the nonresponse cases from review. Although OMB guidance states that agencies should treat cases of insufficient documentation as improper payments, it does not specifically address the treatment of nonresponse cases.

Calculation of the improper payment estimate. The six agencies generally reported using law and OMB guidance to calculate improper payment estimates for the selected programs, except for the Earned Income Tax Credit (EITC). The Internal Revenue Service (IRS) removed overpayments that were recovered when developing its estimate. OMB guidance requires agencies to include recovered amounts in their estimates. Removing these overpayments understates the EITC improper payment estimate and may limit IRS's ability to develop corrective actions to prevent improper payments.