

GAO

Testimony

Before the Subcommittee on Government Management,  
Finance, and Accountability, Committee on Government  
Reform, House of Representatives

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For Release on Delivery  
Expected at 2:00 p.m. EDT  
Wednesday, April 5, 2006

FINANCIAL  
MANAGEMENT

Challenges Continue in  
Meeting Requirements of  
the Improper Payments  
Information Act

Statement of McCoy Williams, Director  
Financial Management and Assurance





Highlights of [GAO-06-581T](#), a testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

### Why GAO Did This Study

Improper payments are a long-standing, widespread, and significant problem in the federal government. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) to address this issue. Fiscal year 2005 marked the second year that agencies were required to report improper payment information under IPIA. One result of IPIA has been increased visibility over improper payments by requiring executive branch agencies to identify programs and activities susceptible to significant improper payments, estimate the amount of their improper payments, and report on the amounts of improper payments and their actions to reduce them in their annual performance and accountability reports (PAR).

Because of continued interest in addressing the governmentwide improper payments issue, GAO was asked to report on the progress made by agencies in complying with requirements of IPIA and the status of efforts to identify, reduce, and eliminate improper payments. As part of the review, GAO looked at (1) the extent to which agencies have performed risk assessments, (2) the annual amount of improper payments estimated, and (3) the amount of improper payments recouped through recovery audits.

[www.gao.gov/cgi-bin/getrpt?GAO-06-581T](http://www.gao.gov/cgi-bin/getrpt?GAO-06-581T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov).

## FINANCIAL MANAGEMENT

# Challenges Continue in Meeting Requirements of the Improper Payments Information Act

### What GAO Found

The federal government continues to make progress in identifying programs susceptible to the risk of improper payments in addressing the new IPIA requirements. At the same time, significant challenges remain to effectively achieve the goals of IPIA. The 33 fiscal year 2005 PARs GAO reviewed show that some agencies still have not instituted systematic methods of reviewing all programs and activities, have not identified all programs susceptible to significant improper payments, or have not annually estimated improper payments for their susceptible programs as required by the act.

The full magnitude of the problem remains unknown because some agencies have not yet prepared estimates of improper payments for all of their programs. Of the 33 agencies reviewed, 18 reported over \$38 billion of improper payments in 57 programs. This represented almost a \$7 billion, or 16 percent, decrease in the amount of improper payments reported by 17 agencies in fiscal year 2004. However, as shown in the table below, the total improper payments estimate does not include 7 major agency programs with outlays totaling about \$228 billion.

**Major Programs That Have Not Reported Improper Payments Estimates**

Dollars in billions			
Agency	Program	Fiscal year 2005 outlays	Target fiscal year for estimating
Department of Agriculture	School Programs	\$8.2	2007
Department of Health and Human Services	State Children's Insurance Program	5.1	2008
Department of Agriculture	Women, Infants, and Children	4.8	2008
Department of Health and Human Services	Medicaid	181.7	2008
Department of Health and Human Services	Child Care and Development Fund	4.9	Did not report
Department of Health and Human Services	Temporary Assistance for Needy Families	17.4	Did not report
Department of Housing and Urban Development	Community Development Block Grant	5.4	Did not report
<b>Total</b>		<b>\$227.5</b>	

Sources: Office of Management and Budget and cited agencies' fiscal year 2005 PARs.

Further, agency auditors have identified major management challenges related to agencies' improper payment estimating methodologies and significant internal control weaknesses for programs susceptible to significant improper payments. In addition, two agency auditors cited noncompliance with IPIA in their annual audit reports.

For fiscal year 2005 PARs, agencies that entered into contracts with a total value exceeding \$500 million annually were required to report additional information on their recovery audit efforts. Nineteen agencies reported reviewing over \$300 billion in vendor payments, identifying approximately \$557 million to be recovered, and actually recovering about \$467 million.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the governmentwide problem of improper payments in federal programs and activities.<sup>1</sup> Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. The extent of the problem initially had been masked because only a limited number of agencies reported their annual payment accuracy rates and estimated improper payment amounts prior to the passage of the Improper Payments Information Act of 2002 (IPIA).<sup>2</sup>

Fiscal year 2005 marked the second year that federal agencies governmentwide were required to report improper payment information under IPIA in their performance and accountability reports (PAR). IPIA has increased visibility over improper payments to a higher, more appropriate level of importance by requiring executive agency heads, based on guidance from the Office of Management and Budget (OMB),<sup>3</sup> to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Further, in fiscal year 2005, OMB began to separately track the elimination of improper payments under the President's Management Agenda (PMA).

As collected from agencies' fiscal year 2005 PARs, the governmentwide improper payment estimate for fiscal year 2005 exceeded \$38 billion, but did not include any amounts for some of the highest risk programs, such as Medicaid with outlays exceeding \$181 billion for fiscal year 2005. I highlight these omissions later in my testimony. From our review, we noted that agencies made progress in addressing improper payments by implementing processes and controls to identify, estimate, and reduce improper payments. For example, agencies demonstrated improved error detection and measurement by addressing and reporting improper payments

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<sup>1</sup>We use the term improper payments to include inadvertent errors, such as duplicate payments; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from fraud by program participants, federal employees, or both.

<sup>2</sup>Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

<sup>3</sup>OMB Memorandum M-03-13, *Improper Payments Information Act of 2002* (Public Law 107-300), May 21, 2003.

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estimates for 17 newly reported programs<sup>4</sup> totaling about \$1.2 billion, which are included in the governmentwide improper payments estimate now totaling over \$38 billion. However, we noted that some agencies still have not instituted systematic methods of reviewing all programs and activities, have not identified all programs susceptible to significant improper payments, or have not annually estimated improper payments for their high-risk programs.

Because of the Subcommittee's interest in addressing the governmentwide improper payments issue, you asked us to report on the progress made by agencies in complying with requirements of IPIA and the status of efforts to identify, reduce, and eliminate improper payments. In my testimony today, I will discuss (1) the extent to which agencies have performed the required assessments to identify programs and activities that are susceptible to significant improper payments, (2) the annual amount of improper payments estimated by the reporting agencies, and (3) the amount of improper payments recouped through recovery audits. A list of related GAO products is provided at the end of this testimony.

The scope of our review included the 35 federal agencies<sup>5</sup> that the Department of the Treasury (Treasury) determined to be significant to the U.S. government's consolidated financial statements. Based on available information, we reviewed improper payment information reported by 33 agencies<sup>6</sup> in their fiscal year 2005 PARs or annual reports. We further reviewed OMB guidance on implementation of IPIA and its report on the results of agency-specific reports, significant findings, agency accomplishments, and remaining challenges. We did not independently validate the data that agencies reported in their PARs or annual reports or that OMB reported. However, we are providing these agency-reported data as descriptive information that will inform interested parties about the magnitude of governmentwide improper payments and other improper payments related information. We believe the data to be sufficiently reliable for this purpose. We conducted our work from February 2006 to

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<sup>4</sup>Fiscal year 2005 was the first time that these agency programs were reported under the reporting requirements of IPIA.

<sup>5</sup>See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700. A list of the 35 agencies is included in app. II.

<sup>6</sup>Two agencies' annual reports were not available prior to the end of our fieldwork.

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March 2006 in accordance with generally accepted government auditing standards.

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## Background

Before I discuss our review of agencies' fiscal year 2005 PARs, I would like to summarize IPIA, related OMB initiatives, and statutory requirements for recovery audits. The act, passed in November 2002, requires executive branch agency heads to review their programs and activities annually and identify those that may be susceptible to significant improper payments. For each program and activity agencies identify as susceptible, the act requires them to estimate the annual amount of improper payments and to submit those estimates to the Congress. The act further requires that for programs for which estimated improper payments exceed \$10 million, agencies are to report annually to the Congress on the actions they are taking to reduce those payments.

The act requires the Director of OMB to prescribe guidance for agencies to use in implementing IPIA. OMB issued guidance in May 2003<sup>7</sup> requiring the use of a systematic method for the annual review and identification of programs and activities that are susceptible to significant improper payments. The guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and \$10 million annually. It requires agencies to estimate improper payments annually using statistically valid techniques for each susceptible program or activity. For those agency programs determined to be susceptible to significant improper payments and with estimated annual improper payments greater than \$10 million, IPIA and related OMB guidance require each agency to report the results of its improper payment efforts for fiscal years ending on or after September 30, 2004. OMB guidance requires the results to be reported in the Management Discussion and Analysis section of the agency's PAR.

In August 2004, OMB established Eliminating Improper Payments as a new program-specific initiative under the PMA. This separate improper payments PMA program initiative began in the first quarter of fiscal year 2005. Previously, agency efforts related to improper payments were tracked along with other financial management activities as part of the Improving Financial Performance initiative of the PMA. The objective of establishing a

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<sup>7</sup>OMB Memorandum M-03-13.

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separate initiative for improper payments was to ensure that agency managers are held accountable for meeting the goals of IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements. With this new initiative, 15 agencies are to measure their improper payments annually, develop improvement targets and corrective actions, and track the results annually to ensure the corrective actions are effective.

In August 2005, OMB revised its Circular No. A-136, *Financial Reporting Requirements*, and incorporated IPIA reporting details from its May 2003 IPIA implementing guidance. Among other things, OMB Circular No. A-136 includes requirements for agencies to report on their risk assessments; annual improper payment estimates; corrective action plans; and recovery auditing efforts, including the amounts recovered in the current year. Section 831 of the National Defense Authorization Act for Fiscal Year 2002<sup>8</sup> contains a provision that requires all executive branch agencies entering into contracts with a total value exceeding \$500 million in a fiscal year to have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. The legislation further states that a required element of such a program is the use of recovery audits and recovery activities. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Agencies that are required to undertake recovery audit programs were directed by OMB to provide annual reports on their recovery audit efforts, along with improper payment reporting details<sup>9</sup> in an appendix to their PARs.

The fiscal year 2005 PARs, the second set of annual reports representing the results of agency assessments of improper payments for all federal programs, were due November 15, 2005. In our December 2005 report<sup>10</sup> on

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<sup>8</sup>Pub. L. No. 107-107, div. A, title VIII § 831, 115 Stat. 1012, 1186 (Dec. 28, 2001) (codified at 31 U.S.C. §§ 3561-3567).

<sup>9</sup>In November 2005, OMB issued draft revisions to its IPIA implementing guidance. This revised implementing guidance, together with recovery auditing guidance, is to be consolidated into Parts I and II of future Appendix C to OMB Circular No. A-123, *Management's Responsibility for Internal Controls* (Dec. 21, 2004).

<sup>10</sup>For GAO's audit report on the U.S. government's consolidated financial statements for fiscal year 2005, see Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: December 2005), 135-154, which can be found on GAO's Internet site at [www.gao.gov](http://www.gao.gov).

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the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2005, and 2004, which includes our associated opinion on internal control, we reported improper payments as a material weakness in internal control. Specifically, we reported that while progress had been made to reduce improper payments, significant challenges remain to effectively achieve the goals of IPIA.

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## Some Agencies Still Have Not Assessed All Programs and Activities for Risk of Improper Payments

We reviewed the fiscal year 2005 PARs or annual reports for 33 of the 35 federal agencies that the Treasury determined to be significant to the U.S. government's consolidated financial statements and that were available as of March 2006. Of those 33 agencies, 23 reported that they had completed risk assessments for all programs and activities. See appendix II for detailed information on each agency. This was the same number of agencies that reported having completed risk assessments in our prior year review.<sup>11</sup> The remaining 10 agencies either were silent on IPIA reporting details in their PARs or annual reports or had not yet assessed the risk of improper payments for all their programs.

In addition, we noted that selected agency auditors reviewed agencies' risk assessment methodologies and identified issues of noncompliance or other deficiencies. For example, auditors for the Departments of Justice and Homeland Security cited agency noncompliance with IPIA in their fiscal year 2005 annual audit reports, primarily caused by inadequate risk assessments. The Department of Justice auditor stated that one agency component had not established a program to assess, identify, and track improper payments. The agency acknowledged this noncompliance in its PAR as well. The Department of Homeland Security (DHS) auditor reported that the department did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments. This was the second consecutive year that the auditor reported IPIA noncompliance for DHS. Although the auditors identified the agency's risk assessment methodology as inadequate, DHS reported in its PAR that it had assessed all of its programs for risk. A third agency auditor reported that the Department of Agriculture needed to strengthen its program risk assessment methodology to identify and test critical internal controls over program payments totaling over \$100 million.

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<sup>11</sup>GAO, *Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act*, GAO-05-417 (Washington, D.C.: Mar. 31, 2005).

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## Magnitude of Improper Payments Is Still Unknown

As I highlighted in my introduction, agencies' reported estimates of improper payments for fiscal year 2005 exceeded \$38 billion. This represents almost a \$7 billion, or 16 percent, decrease in the amount of improper payments reported by 17 agencies in fiscal year 2004.<sup>12</sup> On the surface, this appears to be good news. However, the magnitude of the governmentwide improper payment problem remains unknown. This is because, in addition to not assessing all programs, some agencies had not yet prepared estimates of significant improper payments for all programs determined to be at risk. Specifically, of the 33 agency PARs included in our review, 18 agencies reported improper payment estimates totaling in excess of \$38 billion for some or all of their high-risk programs. The \$38 billion represents estimates for 57 programs. Of the remaining 15 agencies that did not report estimates, 8 said they did not have any programs susceptible to significant improper payments, 6 were silent about whether they had programs susceptible to significant improper payments, and the remaining 1 agency identified programs susceptible to significant improper payments and said it plans to report an estimate by fiscal year 2007. Further details are included in appendix I.

Regarding the reported \$7 billion decrease in the governmentwide improper payment estimate for fiscal year 2005, we determined that this decrease was primarily due to a \$9.6 billion reduction in the Department of Health and Human Services's (HHS) Medicare program improper payment estimate, which was partially offset by more programs reporting estimates of improper payments, resulting in a net decrease of \$7 billion. Based on our review, HHS's \$9.6 billion decrease<sup>13</sup> in its Medicare program improper payment estimate was principally due to its efforts to educate health care providers about its Medicare error rate testing program and the importance of responding to its requests for medical records to perform detailed statistical reviews of Medicare payments. HHS reported that these more intensive efforts had dramatically reduced the number of "no documentation" errors in its medical reviews. The relevance of this significant decrease is that when providers do not submit documentation to

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<sup>12</sup>In their fiscal year 2005 PARs, selected agencies updated their fiscal year 2004 improper payment estimates to reflect changes since issuance of their fiscal year 2004 PARs. These updates increased the governmentwide improper payment estimate for fiscal year 2004 from \$45 billion to \$46 billion.

<sup>13</sup>HHS reported an improper payment estimate for its Medicare program of \$12.1 billion for fiscal year 2005 and \$21.7 billion for fiscal year 2004.



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justify payments, these payments are counted by HHS as erroneous for purposes of calculating an annual improper payment estimate for the Medicare program. HHS reported marked reductions in its error rate attributable to (1) nonresponses to requests for medical records and (2) insufficient documentation submitted by the provider. We noted that these improvements partially resulted from HHS extending the time that providers have for responding to documentation requests from 55 days to 90 days.

These changes primarily affected HHS's processes related to its efforts to perform detailed statistical reviews for the purposes of calculating an annual improper payment estimate for the Medicare program. While this may represent a refinement in the program's improper payment estimate, the reported reduction may not reflect improved accountability over program dollars. Our work did not include an overall assessment of HHS's estimating methodology. However, we noted that the changes made for the fiscal year 2005 estimate were not related to improvements in prepayment processes, and we did not find any evidence that HHS had significantly enhanced its preventive controls in the Medicare payment process to prevent future improper payments. Therefore, the federal government's progress in reducing improper payments may be exaggerated because the reported improper payments decrease in the Medicare program accounts for the bulk of the overall reduction in the governmentwide improper payments estimate. Mr. Chairman, I think the only valid observation at this time is that improper payments are a serious problem, agencies are working on this issue at different paces, and the extent of the problem and the level of effort necessary to control these losses are as yet unknown.

What is clear is that there is a lot of work to do in this area. Agency auditors have reported major management challenges related to agencies' improper payment estimating methodologies and highlighted internal control weaknesses that continue to plague programs susceptible to significant improper payments. For example, the Department of Labor's agency auditor reported that inadequate controls existed in the processing of medical bill payments for its Federal Employees' Compensation Act program.<sup>14</sup> As a result, medical providers were both overpaid and underpaid. Internal control weaknesses were also identified in the Small Business Administration's (SBA) 7(a) Business Loan program. SBA did not

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<sup>14</sup> This act was repealed and parts of it are now codified in code sections of Title 1, 5, and 18 of the United States Code.

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consistently identify instances of noncompliance with its own requirements, resulting in improper payments. In another example, agency auditors for the Department of Education (Education) raised concerns about the methodology Education used to estimate improper payments for its Federal Student Aid program. The auditors reported that the methodology used did not provide a true reflection of the magnitude of improper payments in the student loan programs. To overcome these major management challenges, agencies will need to aggressively deploy more innovative and sophisticated approaches to correct such deficiencies and identify and reduce improper payments.

Also, I would like to point out that the fiscal year 2005 governmentwide improper payments estimate of \$38 billion did not include seven major programs, with outlays totaling over \$227 billion for fiscal year 2005. OMB had specifically required these seven programs to report selected improper payment information for several years before IPIA reporting requirements became effective.<sup>15</sup> After passage of IPIA, OMB's implementing guidance required that these programs continue to report improper payment information under IPIA. As shown in table 1, the fiscal year 2005 governmentwide improper payment estimate does not include one of the largest federal programs determined to be susceptible to risk, HHS's Medicaid program, with outlays exceeding \$181 billion annually.

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<sup>15</sup>Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11, required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

**Table 1: Major Programs That Did Not Report Improper Payment Estimates as Previously Required by OMB and Target Dates for Estimates**

Dollars in billions

Agency/program	Fiscal year 2005 outlays	Target date for improper payment estimates		
		Fiscal year 2007	Fiscal year 2008	Did not report target date
Department of Agriculture—School Programs	\$8.2	X		
Department of Health and Human Services—State Children’s Insurance Program	5.1		X	
Department of Agriculture—Women, Infants, and Children	4.8		X	
Department of Health and Human Services—Medicaid	181.7		X	
Department of Health and Human Services—Child Care and Development Fund	4.9			X
Department of Health and Human Services—Temporary Assistance for Needy Families	17.4			X
Department of Housing and Urban Development—Community Development Block Grant	5.4			X
<b>Total</b>	<b>\$227.5</b>	<b>1</b>	<b>3</b>	<b>3</b>

Sources: OMB and cited agencies’ fiscal year 2005 PARs.

Of these seven programs, four programs reported that they would be able to estimate and report on improper payments sometime within the next 3 fiscal years, but could not do so for fiscal year 2005. For the remaining three programs, the agencies did not estimate improper payment amounts in their fiscal year 2005 PARs and were silent about whether they would report estimates in the future. As a result, improper payments for these programs susceptible to risk will not be known for at least several years, even though these agencies had been required to report this information since 2002, with their fiscal year 2003 budget submissions under previous OMB Circular No. A-11 requirements. OMB reported that some of the agencies were unable to determine the rate or amount of improper payments because of measurement challenges or time and resource constraints, which OMB expects to be resolved in future reporting years. However, in the case of the HHS programs, the agency auditor recognized

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this lack of reporting as a reportable condition related to the reliability of the department's financial statements. In the component of its fiscal year 2005 audit report dealing with compliance with laws and regulations, the auditor reported that HHS potentially had not fully complied with IPIA because nationwide improper payment estimates and rates for significant health programs were under development and the agency did not expect to complete the estimation process until fiscal year 2007.

Also, as mentioned earlier and shown in appendix I, 8 of 33 agencies said they did not have programs susceptible to significant amounts of improper payments. However, certain programs associated with the government's response to mitigate the effects of Hurricane Katrina, one of the largest natural disasters in our nation's history, had material risks of improper payments. In order to respond to the immediate needs of disaster victims and to rebuild the affected areas, government agencies used streamlined eligibility verification requirements for delivery of benefits and expedited contracting methods in order to commit contractors to begin work immediately. These expedited processes can increase the potential for improper payments.

For example, from our recent review of the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP)<sup>16</sup> we identified significant flaws in the process for registering disaster victims for assistance payments. As part of its relief efforts, FEMA had distributed nearly \$5.4 billion in IHP assistance, with \$2.3 billion in the form of expedited assistance, as of mid-December 2005. These payments were made via checks, electronic fund transfers, and debit cards. We found limited procedures in place designed to prevent, detect, and deter certain types of duplicate and potentially fraudulent disaster registrations. As a result, we determined that thousands of registrants provided incorrect Social Security numbers, dates of birth, and addresses to obtain assistance and found that FEMA made duplicate assistance payments to about 5,000 of the nearly 11,000 debit card recipients.

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<sup>16</sup>GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-403T](#) (Washington, D.C.: Feb. 13, 2006).

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In one example of expedited contracting, the Department of Transportation (DOT) Office of Inspector General (OIG)<sup>17</sup> determined that DOT had overpaid a contractor by approximately \$32 million for services to provide buses for evacuating hurricane victims from the New Orleans area. According to the OIG, the overpayment occurred because DOT had made partial payments based on initial task estimates and without documentation that substantiated the dollar amount of services actually provided to date. Although DOT promptly recovered the funds, the nature of these types of exigencies to adequately respond to the hurricane victims makes it likely that future improper payments are likely to occur. As a result, selected agencies, such as DHS and DOT, have said they plan to perform concentrated reviews of payments related to relief efforts to identify the extent of improper payments, develop actions to reduce these types of payments, and enhance internal controls for future relief efforts.

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## Additional Reporting Requirements for Recovery Auditing Information

Section 831 of the National Defense Authorization Act for Fiscal Year 2002 provides an impetus for applicable agencies to systematically identify and recover contract overpayments. Recovery auditing is another method that agencies can use to recoup detected improper payments. Recovery auditing focuses on the identification of erroneous invoices, discounts offered but not received, improper late penalty payments, incorrect shipping costs, and multiple payments for single invoices. Recovery auditing can be conducted in-house or contracted out to recovery audit firms. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Any residual recoveries, net of these program costs, shall be credited back to the original appropriation from which the improper payment was made, subject to restrictions as described in legislation. As we previously reported,<sup>18</sup> with the passage of this law, the Congress has provided agencies a much needed incentive for identifying and reducing their improper payments that slip through agency prepayment controls. The techniques used in recovery auditing offer the opportunity for identifying weaknesses in agency internal controls, which

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<sup>17</sup>Department of Transportation Office of Inspector General, *Internal Controls Over the Emergency Disaster Relief Transportation Services Contract*, AV-2006-032 (Washington, D.C.: Jan. 20, 2006).

<sup>18</sup>GAO, *Financial Management: Challenges Remain in Addressing the Government's Improper Payments*, [GAO-03-750T](#) (Washington, D.C.: May 13, 2003).

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can be modified or upgraded to be more effective in preventing improper payments before they occur.

For fiscal year 2005, OMB expanded the type of recovery auditing information that applicable agencies are to report in their annual PARs. Prior to fiscal year 2005, applicable agencies were only required to report on the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted or strengthened to prevent further occurrences. In addition, OMB was not reporting on a governmentwide basis agencies' recovery audit activities in its annual report on agencies' efforts to improve the accuracy and integrity of federal payments.

In fiscal year 2005, OMB revised its recovery auditing reporting requirements and required applicable agencies to provide more detailed information on their recovery auditing activities. Specifically, in addition to the prior year requirements, agencies that entered into contracts with a total value exceeding \$500 million annually were required to discuss any contract types excluded from review and justification for doing so. In addition, agencies were required to report, in table format, various amounts related to contracts subject to review and actually reviewed, contract amounts identified for recovery and actually recovered, and prior year amounts.

For fiscal year 2005, 19 agencies<sup>19</sup> reported entering into contracts with a total value in excess of the \$500 million reporting threshold. These 19 agencies reported reviewing more than \$300 billion in contract payments to vendors. From these reviews, agencies reported identifying about \$557 million in improper payments for recovery and reported actually recovering about \$467 million, as shown in table 2.

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<sup>19</sup>We identified one additional agency—the Department of Commerce—that should have reported recovery auditing amounts in its PAR and followed the required reporting format included in OMB's guidance. According to Commerce, the results of its recovery audit revealed no significant improper payments or internal control deficiencies. However, subsequent to its PAR issuance, Commerce reported to OMB that based on its final recovery auditing report, the amount identified for recovery totaled \$96,354 and the amount actually recovered totaled \$84,551 for fiscal year 2005. We also noted that the Department of Labor did not follow the required reporting format included in OMB's guidance. Labor reported that no improper payments were noted from its recovery auditing activities for fiscal year 2005 and that recovery audit efforts were not necessary.

**Table 2: Improper Payment Amounts Identified and Recovered in Fiscal Year 2005**

	<b>Department or agency</b>	<b>Amount identified for recovery in fiscal year 2005</b>	<b>Amount recovered in fiscal year 2005</b>
1	Agency for International Development	\$5,900,000	\$5,782,000
2	Department of Agriculture	333,000	189,000
3	Department of Defense	473,000,000	418,500,000
4	Department of Education	274,367	112,506
5	Department of Energy	10,600,000	9,500,000
6	Department of Health and Human Services	2,100,000 <sup>a</sup>	14,430
7	Department of Homeland Security	2,191,000	1,207,000
8	Department of Housing and Urban Development <sup>b</sup>	0	0
9	Department of the Interior	1,548,620	195,479
10	Department of Justice	1,044,320	765,086
11	National Aeronautics and Space Administration	617,442	617,442
12	Department of State	5,350,000	5,190,000
13	Department of Transportation	2,663,984	2,663,984
14	Department of the Treasury	428,977	364,680
15	Department of Veterans Affairs	23,001,137	12,957,264
16	Environmental Protection Agency	130,000	130,000
17	General Services Administration	26,638,654	8,317,187
18	Social Security Administration	317,000	50,000
19	Tennessee Valley Authority	909,573	443,763
	<b>Total</b>	<b>\$557,048,074</b>	<b>\$466,999,821</b>

Sources: OMB and cited agencies' fiscal year 2005 PARs.

<sup>a</sup>HHS reported that of the \$2.1 million identified as potential improper payments, \$1.3 million was determined to be related to payments that were either voided, subsequently credited, or both.

<sup>b</sup>For fiscal year 2005, the Department of Housing and Urban Development (HUD) reported that contracts subject to review totaled about \$2.3 billion. Of this amount, HUD reported reviewing about \$207 million in contract payments, but identified no improper payments for recovery.

## Concluding Observations

In closing, I want to say that we recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks and will not be easily accomplished. The ultimate success of the governmentwide effort to reduce improper payments depends, in part, on each agency's continuing diligence and commitment to meeting the

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requirements of IPIA and the related OMB guidance. The level of importance each agency, the administration, and the Congress place on the efforts to implement the act will determine its overall effectiveness and the level to which agencies reduce improper payments and ensure that federal funds are used efficiently and for their intended purposes. With budgetary pressures rising across the federal government, and the Congress's and the American public's increasing demands for accountability over taxpayer funds, identifying, reducing, and recovering improper payments become even more critical. Fulfilling the requirements of IPIA will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

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## Contacts and Acknowledgments

For more information regarding this testimony, please contact McCoy Williams, Director, Financial Management and Assurance, at (202) 512-9095 or by e-mail at [williamsm1@gao.gov](mailto:williamsm1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Carla Lewis, Assistant Director; Francine DeVecchio; Christina Quattrociocchi; and Donell Ries.



# Agency Improper Payment Estimate Reporting in Fiscal Year 2005

	Department or agency	Agency reported estimate for one or more programs	Agency did not report estimate		Agency reported future date to report estimate
			Agency reported that no programs were susceptible to significant improper payments	Agency silent as to whether it had programs susceptible to significant improper payments	
1	Agency for International Development			X	
2	Department of Agriculture	X			
3	Department of Commerce		X		
4	Department of Defense	X			
5	Department of Education	X			
6	Department of Energy	X			
7	Environmental Protection Agency	X			
8	Export-Import Bank of the United States			X	
9	Federal Communications Commission				X
10	Federal Deposit Insurance Corporation			X	
11	General Services Administration		X		
12	Department of Health and Human Services	X			
13	Department of Homeland Security		X		
14	Department of Housing and Urban Development	X			
15	Department of the Interior		X		
16	Department of Justice		X		
17	Department of Labor	X			
18	National Aeronautics and Space Administration		X		
19	National Science Foundation	X			
20	Nuclear Regulatory Commission		X		
21	Office of Personnel Management	X			
22	Pension Benefit Guaranty Corporation			X	
23	Postal Service			X	

**Appendix I  
Agency Improper Payment Estimate  
Reporting in Fiscal Year 2005**

*(Continued From Previous Page)*

	Department or agency	Agency reported estimate for one or more programs	Agency did not report estimate		
			Agency reported that no programs were susceptible to significant improper payments	Agency silent as to whether it had programs susceptible to significant improper payments	Agency reported future date to report estimate
24	Railroad Retirement Board	X			
25	Securities and Exchange Commission		X		
26	Small Business Administration	X			
27	Smithsonian Institution			X	
28	Social Security Administration	X			
29	Department of State	X			
30	Tennessee Valley Authority	X			
31	Department of Transportation	X			
32	Department of the Treasury	X			
33	Department of Veterans Affairs	X			
	<b>Total</b>	<b>18</b>	<b>8</b>	<b>6</b>	<b>1</b>

Source: GAO's analysis of cited agencies' fiscal year 2005 performance and accountability reports (PAR) or annual reports.

# Improper Payment Estimates Reported in Agency Fiscal Years 2004 and 2005 PARs or Annual Reports

Dollars in millions

Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		2004	2005			
1. Agency for International Development	1. All programs and activities	0.0 <sup>a</sup>	0.0 <sup>a</sup>			
2. Department of Agriculture	All programs and activities				X	
	2. Marketing Assistance Loan Program (previously Commodity Loan Programs)	0.0 <sup>a</sup>	\$45.0	X		
	3. Food Stamp Program	\$1,400.0 <sup>b</sup>	1,432.0	X		
	4. School Programs <sup>c</sup>	0.0	0.0	X		
	5. Women, Infants, and Children <sup>c</sup>	0.0	0.0	X		
	6. Child and Adult Care Food Program	0.0 <sup>a</sup>	0.0 <sup>a</sup>			
	7. Wildland Fire Suppression Management	0.0 <sup>a</sup>	73.0			
	8. Rental Assistance Program	20.0 <sup>b</sup>	27.0			
	9. Federal Crop Insurance Corporation	125.0	28.0			
	10. Farm Security and Rural Investment	0.0 <sup>a</sup>	16.0			
	11. Milk Income Loss Contract Program	0.0 <sup>a</sup>	0.2			
	12. Loan Deficiency Payments	0.0 <sup>a</sup>	5.0			
3. Department of Commerce	13. All programs and activities	0.0	0.0		X	X
4. Department of Defense	All programs and activities				X	

**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
Annual Reports**

(Continued From Previous Page)

Dollars in millions

Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		2004	2005			
	14. Military Retirement Fund	66.0 <sup>b</sup>	49.3	X		X <sup>d</sup>
	15. Military Health Benefits	99.6 <sup>b</sup>	150.0	X		X <sup>d</sup>
	16. Military Pay	0.0 <sup>a</sup>	432.0			
5. Department of Education	All programs and activities				X	
	17. Student Financial Assistance—Pell Grants <sup>e</sup>	571.0 <sup>b</sup>	617.0	X		
	18. Student Financial Assistance—Federal Family Education Loan <sup>e</sup>	10.0 <sup>b</sup>	16.0			
	19. Title I	0.0 <sup>a</sup>	149.0	X		X <sup>d</sup>
6. Department of Energy	20. Payment programs	20.3	14.5		X	X <sup>d</sup>
7. Environmental Protection Agency	21. Clean Water State Revolving Funds	10.3	3.1	X		X
	22. Drinking Water State Revolving Fund	0.0 <sup>f</sup>	0.0 <sup>f</sup>	X		X
8. Export-Import Bank of the United States <sup>i</sup>	23. All programs and activities	0.0	0.0			
9. Farm Credit System Insurance Corporation <sup>h</sup>	24. All programs and activities	0.0	0.0			
10. Federal Communications Commission	All programs and activities				X	
	25. Universal Service Fund's Schools and Libraries	0.0 <sup>a</sup>	0.0 <sup>a</sup>			
	26. High Cost Support Program	0.0 <sup>a</sup>	0.0 <sup>a</sup>			

**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
Annual Reports**

(Continued From Previous Page)

Dollars in millions

	Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
			2004	2005			
11.	Federal Deposit Insurance Corporation <sup>i</sup>	27. All programs and activities	0.0	0.0			
12.	General Services Administration	28. All programs and activities	0.0	0.0		X	X
13.	Department of Health and Human Services	All programs and activities				X	
		29. Medicaid <sup>c</sup>	0.0	0.0	X		X
		30. Medicare	21,700.0	12,100.0	X		X
		31. Head Start	255.0	110.0	X		X <sup>d</sup>
		32. Temporary Assistance for Needy Families <sup>c</sup>	0.0	0.0	X		X
		33. Foster Care—Title IV-E	186.0 <sup>b</sup>	182.0	X		X
		34. State Children's Insurance Program <sup>c</sup>	0.0	0.0	X		X
		35. Child Care and Development Fund <sup>c</sup>	0.0	0.0	X		X
14.	Department of Homeland Security	36. All programs and activities	0.0	0.0		X	X
15.	Department of Housing and Urban Development	All programs and activities				X	
		37. Low Income Public Housing	356.0	326.0 <sup>g</sup>	X		
		38. Section 8 Tenant Based	840.0	551.0 <sup>g</sup>	X		
		39. Section 8 Project Based	511.0	324.0 <sup>g</sup>	X		
		40. Community Development Block Grant (Entitlement Grants, States/Small Cities) <sup>c</sup>	0.0	0.0	X		X

**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
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(Continued From Previous Page)

Dollars in millions

Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		2004	2005			
	41. Federal Housing Administration's Single Family Acquired Asset Management System	26.1	2.2			X
	42. Public Housing Capital Fund	0.0 <sup>a</sup>	133.5			
16. Department of the Interior	43. All programs and activities	0.0	0.0		X	X
17. Department of Justice	44. All programs and activities	0.0	0.0			X
18. Department of Labor	All programs and activities				X	
	45. Unemployment Insurance	3,861.0	3,267.0	X		
	46. Federal Employees' Compensation Act	6.4	3.3	X		X
	47. Workforce Investment Act	0.0 <sup>a</sup>	7.9	X		X
19. National Aeronautics and Space Administration	48. All programs and activities	0.0	0.0		X	X
20. National Credit Union Administration <sup>h</sup>	49. All programs and activities	0.0	0.0			
21. National Science Foundation	50. Research and Education Grants and Cooperative Agreements	4.4	1.1	X	X	X
22. Nuclear Regulatory Commission	51. All programs and activities	0.0	0.0		X	X
23. Office of Personnel Management	All programs and activities				X	

**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
Annual Reports**

(Continued From Previous Page)

Dollars in millions

Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		2004	2005			
	52. Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	197.7	152.2	X		X
	53. Federal Employees Health Benefits Program	86.1	196.5	X		X
	54. Federal Employees Group Life Insurance	2.1	2.0	X		X
24. Pension Benefit Guaranty Corporation <sup>i</sup>	55. All programs and activities	0.0	0.0			
25. Postal Service <sup>i</sup>	56. All programs and activities	0.0	0.0			
26. Railroad Retirement Board	All programs and activities				X	
	57. Retirement and Survivors Benefits	147.9 <sup>b</sup>	150.6	X		X <sup>d</sup>
	58. Railroad Unemployment Insurance Benefits	2.6 <sup>b</sup>	2.3	X		X
27. Securities and Exchange Commission	59. All programs and activities	0.0	0.0			X
28. Small Business Administration	All programs and activities				X	
	60. 7(a) Business Loan Program	0.0 <sup>a</sup>	31.4	X		
	61. 504 Certified Development Companies	0.0	0.0	X		X
	62. Disaster Assistance	1.1	1.6	X		X
	63. Small Business Investment Companies	129.0	10.5	X		X <sup>d</sup>

**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
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(Continued From Previous Page)

Dollars in millions

	Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
			2004	2005			
29.	Smithsonian Institution <sup>l</sup>	64. All programs and activities	0.0	0.0			
30.	Social Security Administration	All programs and activities				X	
		65. Old Age and Survivors' Insurance	1,707.0	3,681.0	X		X <sup>d</sup>
		66. Disability Insurance	0.0 <sup>f</sup>	0.0 <sup>f</sup>	X		X <sup>d</sup>
		67. Supplemental Security Income Program	2,639.0	2,910.0	X		
31.	Department of State	All programs and activities				X	
		68. International Narcotic and Law Enforcement Affairs-Narcotics Program	1.7	0.6			
		69. International Information Program—U.S. Speaker and Specialist Program	1.4	1.9			
		70. Vendor payments	0.8	0.4			X
		71. Structures and Equipment	0.3 <sup>b</sup>	0.2			X
32.	Tennessee Valley Authority	72. Payment programs	8.1	36.3			
33.	Department of Transportation	All programs and activities				X	
		73. Airport Improvement Program	0.0 <sup>i</sup>	0.0 <sup>i</sup>	X		X
		74. Highway Planning and Construction	0.0 <sup>i</sup>	0.0 <sup>i</sup>	X		X
		75. Federal Transit—Capital Investment Grants	0.0 <sup>i</sup>	0.0 <sup>i</sup>	X		X
		76. Federal Transit—Formula Grants	0.0 <sup>i</sup>	0.0 <sup>i</sup>	X		X



**Appendix II  
Improper Payment Estimates Reported in  
Agency Fiscal Years 2004 and 2005 PARs or  
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(Continued From Previous Page)

Dollars in millions

Department or agency	Program or activity	Improper payment estimates reported		Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		2004	2005			
34. Department of the Treasury	All programs and activities				X	
	77. Earned Income Tax Credit	10,300.0 <sup>b</sup>	10,500.0	X		
35. Department of Veterans Affairs	All programs and activities				X	
	78. Compensation	302.4 <sup>b</sup>	322.9	X		
	79. Dependency and Indemnity Compensation	0.0 <sup>f</sup>	0.0 <sup>f</sup>	X		
	80. Education programs	70.0 <sup>b</sup>	64.0			
	81. Pension	280.7 <sup>b</sup>	261.0	X		
	82. Insurance programs	0.3 <sup>b</sup>	0.3	X		X
	83. Loan Guaranty	6.3	4.2			
	84. Vocational Rehabilitation	9.5	9.8			
<b>Total</b>		<b>\$45,962.1</b>	<b>\$38,404.8</b>	<b>46</b>	<b>23</b>	<b>43</b>

Source: GAO's analysis of cited agencies' fiscal year 2005 performance and accountability reports (PAR) or annual reports.

<sup>a</sup>Agency did not report an annual improper payment estimate.

<sup>b</sup>Fiscal year 2004 estimates were updated to the revised estimates reported in the fiscal year 2005 PARs.

<sup>c</sup>See table 1 of this testimony.

<sup>d</sup>The agency reported that this program was not high risk, meaning not susceptible to significant improper payments because it did not meet the Office of Management and Budget (OMB) reporting threshold of exceeding both \$10 million and 2.5 percent of program payments.

<sup>e</sup>Student Financial Assistance—Pell Grants and Federal Family Education Loan are combined together as Student Financial Assistance in OMB Circular No. A-11, Section 57.

<sup>f</sup>Agency combined with the above program.

<sup>g</sup>An additional \$266 million of improper payments exist for these three programs. In its PAR, HUD did not provide a breakout of this amount among the three programs.

<sup>h</sup>Agency fiscal year 2005 PAR or annual report information not available as of the end of our fieldwork.

<sup>i</sup>Agency did not address improper payments or the Improper Payments Information Act (IPIA) requirements for this program in its fiscal year 2005 PAR or annual report.

<sup>j</sup>Agency reported that the annual improper payment amount was zero.

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# Related GAO Products

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*Financial Management: Challenges Remain in Meeting Requirements of the Improper Payments Information Act.* [GAO-06-482T](#). Washington, D.C.: March 9, 2006.

*Financial Management: Challenges in Meeting Governmentwide Improper Payment Requirements.* [GAO-05-907T](#). Washington, D.C.: July 20, 2005.

*Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act.* [GAO-05-605T](#). Washington, D.C.: July 12, 2005.

*Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act.* [GAO-05-417](#). Washington, D.C.: March 31, 2005.

*Financial Management: Fiscal Year 2003 Performance and Accountability Reports Provide Limited Information on Governmentwide Improper Payments.* [GAO-04-631T](#). Washington, D.C.: April 15, 2004.

*Financial Management: Status of the Governmentwide Efforts to Address Improper Payment Problems.* [GAO-04-99](#). Washington, D.C.: October 17, 2003.

*Financial Management: Effective Implementation of the Improper Payments Information Act of 2002 Is Key to Reducing the Government's Improper Payments.* [GAO-03-991T](#). Washington, D.C.: July 14, 2003.

*Financial Management: Challenges Remain in Addressing the Government's Improper Payments.* [GAO-03-750T](#). Washington, D.C.: May 13, 2003.

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