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Before the Subcommittee on Government  
Organization, Efficiency, and Financial Management,  
Committee on Oversight and Government Reform,  
House of Representatives

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## IMPROPER PAYMENTS

# Recent Efforts to Address Improper Payments and Remaining Challenges

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Highlights of [GAO-11-575T](#), a testimony before the Subcommittee on Government Organization, Efficiency, and Financial Management, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

GAO's work over the past several years has highlighted long-standing, widespread, and significant problems with improper payments in the federal government. Fiscal year 2010 marked the 7th year of implementation of the Improper Payments Information Act of 2002 (IPIA). IPIA requires executive-branch agencies to identify programs and activities susceptible to significant improper payments, estimate annual amounts improperly paid, and report these estimates and actions taken to reduce them. On July 22, 2010, the Improper Payments Elimination and Recovery Act of 2010 (IPERA) was enacted. IPERA amended IPIA and expanded requirements for recovering overpayments across a broad range of federal programs.

This testimony addresses (1) progress federal agencies have reported in estimating and reducing improper payments in fiscal year 2010, (2) challenges that continue to hinder full reporting of improper payment information, and (3) recent efforts by Congress and the executive branch intended to improve transparency and accountability for reporting, reducing, and recovering improper payments. This testimony is primarily based on prior GAO reports. GAO summarized available fiscal year 2010 improper payment information reported by federal executive-branch agencies and actions taken by the executive branch and Congress intended to improve transparency over, accountability for, and reduction of improper payments.

View [GAO-11-575T](#) or key components. For more information, contact Kay Daly at (202) 512-9312 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

April 15, 2011

## IMPROPER PAYMENTS

### Recent Efforts to Address Improper Payments and Remaining Challenges

#### What GAO Found

Federal agencies reported an estimated \$125.4 billion in improper payments for fiscal year 2010. The \$125.4 billion estimate of improper payments federal agencies reported in fiscal year 2010 was attributable to over 70 programs spread among 20 agencies. Federal agencies' fiscal year 2010 estimated improper payment amount is an increase of \$16.2 billion from federal agencies' prior year reported estimate of \$109.2 billion.

- **Progress Reported in Estimating and Reducing Improper Payments.** Since the initial implementation of IPIA in fiscal year 2004, federal agencies have consistently identified new programs or activities as risk-susceptible and reported estimated improper payment amounts. In addition, federal agencies have reported progress in reducing improper payments and payment error rates in some programs and activities. From fiscal years 2004 through 2010, 28 programs have consistently reported estimated improper payment error rates for each year. Of these 28, 17 agency programs reported reduced error rates in comparison with their initial or baseline error rates reported in fiscal year 2004.
- **Challenges Remain in Meeting Legislative Requirements to Fully Report Improper Payments Information.** Agency reporting highlighted challenges that remain in meeting the requirements of IPIA, including determining the full extent of improper payments across the federal government and in reasonably assuring that effective actions are taken to reduce improper payments. Specifically, two agencies did not report on risk assessments of their programs and activities and three agencies did not develop and report on improper payments estimates for seven risk-susceptible programs with significant amounts of outlays.
- **Recent Efforts to Address Improper Payments.** During fiscal year 2010, a number of changes and initiatives were put in place that are intended to strengthen the framework for reducing and reporting improper payments. For example, the President issued Executive Order 13520, *Reducing Improper Payments*. The President also issued two memoranda intended to expand agency efforts to recapture overpayments and directed that a Do Not Pay List be established to help prevent improper payments. Further, IPERA was enacted. In addition to amending the IPIA existing requirements, IPERA establishes additional requirements, among others, related to (1) federal agency management accountability; and (2) recovery auditing aimed at identifying and reclaiming payments made in error. We view these actions as positive steps; however, it is too soon to determine whether these activities will achieve their goal of reducing improper payments while continuing to ensure that federal programs serve and provide access to intended beneficiaries.

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Chairman Platts, Ranking Member Towns, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the issue of improper payments in federal programs and activities, including efforts by federal agencies to identify and remediate improper payments.<sup>1</sup> Since fiscal year 2000, we have issued a number of reports and testimonies aimed at raising the level of attention and corrective actions surrounding improper payments. Our work over the past several years has highlighted long-standing, widespread, and significant problems with improper payments across the federal government.<sup>2</sup> Fiscal year 2010 marked the 7th year of implementation of the Improper Payments Information Act of 2002 (IPIA).<sup>3</sup> IPIA requires executive-branch agencies to annually review all programs and activities to identify those that are susceptible to significant improper payments, estimate the annual amount of improper payments for such programs and activities, and report these estimates along with actions taken to reduce improper payments for programs with estimates that exceed \$10 million. The Improper Payments Elimination and Recovery Act of 2010 (IPERA),<sup>4</sup> enacted July 22, 2010, amended IPIA by expanding on the previous requirements for identifying, estimating, and reporting on programs and activities susceptible to significant improper payments and expanding requirements for recovering overpayments across a broad range of federal programs.<sup>5</sup> IPERA provisions generally become effective in fiscal year 2011. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees

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<sup>1</sup>An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payment for services not received, and any payment that does not account for credit for applicable discounts. Office of Management and Budget (OMB) guidance also instructs agencies to report payments for which insufficient or no documentation was found as improper payments.

<sup>2</sup>See GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011), pp. 209-210.

<sup>3</sup>Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

<sup>4</sup>Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010).

<sup>5</sup>For fiscal year 2010, OMB defined the term significant improper payments under IPIA as exceeding both 2.5 percent of program payments and \$10 million. IPERA sets forth specific criteria to define the term significant for future fiscal years.

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spend hundreds of billions of taxpayer dollars annually, including safeguarding those expenditures against improper payments, as well as for establishing mechanisms to recoup those funds when improper payments occur.

The Office of Management and Budget (OMB) continues to play a key role in the oversight of the governmentwide improper payments problem. OMB has established guidance for federal agencies on reporting, reducing, and recovering improper payments<sup>6</sup> and has established various work groups intended to develop recommendations aimed at improving federal financial management activities related to reducing improper payments.

Today, my testimony will focus on three key areas:

- federal agencies' reported progress in estimating and reducing improper payments under IPIA for fiscal year 2010;
- challenges hindering full reporting of improper payment information; and
- recent efforts by Congress and the executive branch intended to improve transparency and accountability for reporting, reducing, and recovering improper payments.

In preparing this statement, we drew upon our previously issued work related to fiscal year 2010 improper payments.<sup>7</sup> Our previous reports are listed at the end of this statement. That work was conducted in accordance with generally accepted government auditing standards. For fiscal year 2010 data in those reports, we summarized information reported by federal executive-branch agencies and the actions they reported taking to help reduce improper payments. In those reports, we also summarized actions taken by the executive branch and Congress during fiscal year 2010 intended to improve transparency over, accountability for, and reduction of improper payments. Our scope

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<sup>6</sup>OMB, Circular No. A-123, app. C, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006); OMB Memorandum M-10-13, Issuance of Part III to OMB Circular A-123, app. C (Mar. 22, 2010); OMB, Circular No. A-136 Revised, *Financial Reporting Requirements* (Sept. 29, 2010); and OMB Memorandum M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits* (Nov. 16, 2010).

<sup>7</sup>GAO-11-318SP; and U.S. Department of the Treasury, *2010 Financial Report of the United States Government* (Washington, D.C.: Dec. 21, 2010), pp. 221-249.

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included the 24 Chief Financial Officer Act<sup>8</sup> agencies and 11 other entities that are significant to the *2010 Financial Report of the United States Government*. In conducting that work, we obtained 31<sup>9</sup> federal entities' fiscal year 2010 performance and accountability reports (PAR), agency financial reports (AFR), or annual reports to identify and aggregate the reported improper payment information. We did not independently validate the improper payment data reported in these PARs, AFRs, and annual reports.

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## Progress Reported in Estimating and Reducing Improper Payments

Federal agencies reported improper payments of an estimated \$125.4 billion in fiscal year 2010. This estimate represents about 5.5 percent of the \$2.3 trillion of reported outlays for the related programs in fiscal year 2010. The \$125.4 billion estimate is an increase of \$16.2 billion from federal agencies' prior year reported estimate of \$109.2 billion.<sup>10</sup> Estimated improper payment amounts for both of these years may include estimates based on prior years' data, if current reporting year data were not available, as allowed by OMB guidance. The \$125.4 billion in estimated federal improper payments reported for fiscal year 2010 was attributable to over 70 programs spread among 20 agencies. As shown in table 1, the highest reported improper payment estimated amounts were associated with 10 programs. Specifically, the 10 programs accounted for about \$118 billion or 94 percent of the total estimated improper payments reported for fiscal year 2010.

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<sup>8</sup>See 31 U.S.C. § 901.

<sup>9</sup>Of the 35 federal entities that are significant to the *2010 Financial Report of the United States Government*, we did not obtain PARs, AFRs, or annual reports for the following 4 entities, because these entities had not issued their reports as of February 1, 2011: the Farm Credit System Insurance Corporation, Federal Deposit Insurance Corporation, National Credit Union Administration, and Smithsonian Institution.

<sup>10</sup>In their fiscal year 2010 performance and accountability reports and agency financial reports, select federal entities updated their fiscal year 2009 improper payment estimates to reflect changes since issuance of their fiscal year 2009 reports. These updates increased the governmentwide improper payment estimate for fiscal year 2009 from \$98.7 billion to \$109.2 billion.

**Table 1: Ten Programs with the Highest Reported Fiscal Year 2010 Improper Payment Estimated Amounts**

<b>Program</b>	<b>Agency</b>	<b>Estimated amount reported (dollars in billions)</b>	<b>Primary cause(s) reported</b>
Medicare Fee-for-Service	Health and Human Services	\$34.3	Medically unnecessary services and insufficient documentation
Medicaid	Health and Human Services	22.5	Insufficient or no documentation provided for conducting medical reviews and cases that were either ineligible or their eligibility status could not be determined
Unemployment Insurance	Labor	17.5	Eligibility errors, errors in handling separation issues, and claimants who have returned to work and continue to claim benefits
Earned Income Tax Credit	Treasury	16.9	High turnover of eligible claimants, confusion among eligible claimants, complexity of the law, structure of the program, unscrupulous return preparers, and fraud
Medicare Advantage	Health and Human Services	13.6	Insufficient supporting documentation, and errors in the transfer of data and payment calculations
Supplemental Security Income	Social Security Administration	4.8	Incorrect computations, misapplication of an income or resource exclusion, and inadequate verification of accounts and wages
Old Age Survivors' and Disability Insurance	Social Security Administration	3.2	Computation errors; nonverification of earnings, income, or work status; and incorrect processing of applications or payments
Supplemental Nutrition Assistance	Agriculture	2.2	Incomplete or inaccurate reporting of income by participants and incorrect eligibility determination by caseworkers
National School Lunch	Agriculture	1.5	Verification and authentication errors, including inadequate documentation and fraud or misrepresentation by participants
Pell Grants	Education	1.0	Verification errors <sup>a</sup>

Source: GAO summary of agencies' data.

<sup>a</sup>Primary causes were provided by Department of Education officials and were not reported in the AFR.

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It is important to recognize that the \$125.4 billion in improper payments federal agencies reported in fiscal year 2010 is not intended to be an estimate of fraud in federal agencies' programs and activities.<sup>11</sup> Rather, reported improper payment estimates include many types of overpayments, underpayments, and payments that were not adequately documented. Agencies cited a number of causes for the estimated \$125.4 billion in reported improper payments, including insufficient documentation, incorrect computations, changes in program requirements, and in some cases fraud.

Increases in the estimated amounts of improper payments reported for fiscal year 2010 were primarily attributable to increases in estimated improper payments related to four major programs: (1) Department of Labor's Unemployment Insurance program, (2) Department of the Treasury's Earned Income Tax Credit program, (3) Department of Health and Human Services' (HHS) Medicaid program, and (4) HHS' Medicare Advantage program. Agencies reported that the increases in the estimates for these programs were primarily attributable to an increase in program outlays. That was the case for the Medicaid and Medicare Advantage programs even though these two programs reported lower error rates.<sup>12</sup> Both Unemployment Insurance and Earned Income Tax Credit programs reported higher program outlays and higher error rates for fiscal year 2010 when compared to fiscal year 2009.

Since the implementation of IPIA in 2004, federal agencies have consistently identified new programs or activities as risk-susceptible and reported estimated improper payment amounts.

- fiscal year 2005—17 new programs or activities,
- fiscal year 2006—15 new programs or activities,
- fiscal year 2007—19 new programs or activities,
- fiscal year 2008—10 new programs or activities,

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<sup>11</sup>Fraud consists of intentional acts of deception with knowledge that the action or representation could result in an inappropriate gain.

<sup>12</sup>Reported error rates reflect the estimated improper payments as a percentage of total program outlays.

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- fiscal year 2009—5 new programs or activities, and
  - fiscal year 2010—2 new programs or activities.<sup>13</sup>

In addition, federal agencies have reported progress since 2004 in reducing improper payment amounts and payment error rates in some programs and activities. From the initial implementation of IPIA in 2004 through 2010, 28 programs have consistently reported estimated improper payment error rates for each year. Of these 28, 17 agency programs reported reduced error rates in comparison with their initial or baseline error rates reported in fiscal year 2004. Following are examples of agencies reporting reductions in program error rates and estimated improper payment amounts (along with corrective actions to reduce improper payments) in their fiscal year 2010 PARs, AFRs, or annual reports.

- HHS reported that the fiscal year 2010 Head Start program's estimated improper payment amount decreased from the fiscal year 2009 amount of \$213 million to \$123 million, which represented a decrease in the error rate of 1.3 percentage points to a 1.7 percent error rate. HHS reported that it reduced payment errors by issuing additional guidance for employees on verifying income eligibility and a standard template form to help guide grantees in the enrollment process.
- The U.S. Department of Agriculture (USDA) reported that the fiscal year 2010 estimated improper payment amount for the Marketing Assistance Loan program decreased from the fiscal year 2009 reported amount of \$85 million to \$35 million, which represented a decrease in the error rate of 1.75 percentage points to a 0.81 percent error rate. USDA reported that corrective actions taken to reduce improper payments included providing additional training and instruction on improper payment control procedures, and integrating employees' individual performance results related to reducing improper payments into annual performance ratings.

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<sup>13</sup>In fiscal year 2010, the Department of Homeland Security identified the Customs and Border Protection–Border Security Fencing and Federal Emergency Management Agency–Grants–Transit Security Grants programs as risk-susceptible for the first time and reported on estimated improper payment amounts for those programs.

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## Challenges Remain in Meeting Legislative Requirements to Fully Report Improper Payment Information

Despite reported progress in reducing estimated improper payment amounts and error rates for some programs and activities during fiscal year 2010, federal agencies' reporting indicates the federal government still faces challenges in this area. Agency reporting highlighted challenges that remain in meeting the requirements of IPIA, including determining the full extent of improper payments across the federal government and in reasonably assuring that effective actions are taken to reduce improper payments. Specifically, some federal agencies' fiscal year 2010 reporting did not include information demonstrating that (1) risk assessments were conducted on all of their programs and activities, and (2) improper payment estimates were developed and reported for all risk-susceptible programs.

IPIA required agencies to annually review all of their programs and activities to identify their risk of susceptibility to significant improper payments. However, two agencies—the United States Postal Service and the Department of Transportation—did not report on risk assessments of their programs and activities. The agencies either did not report any information on risk assessments in their PARs, AFRs, or annual reports, or included some risk assessment-related information (such as listing risk factors), but not on the results of any assessments of risk for all of their programs and activities.

Further, IPIA required agencies to estimate improper payments for each program identified as susceptible to significant improper payments during the risk assessment process. However, three agencies did not report estimated improper payment amounts for fiscal year 2010 for seven risk-susceptible programs with significant amounts of outlays. Most notably, HHS has yet to report a comprehensive improper payment estimate amount for the Medicare Prescription Drug Benefit program, which had about \$59 billion in outlays in fiscal year 2010. However, HHS expects to report a comprehensive estimate for this program in fiscal year 2011. While none of the seven risk-susceptible programs reported an improper payment estimated amount in fiscal year 2010 or 2009, all but one—Medicare Prescription Drug Benefit program—reported an improper payment estimated amount for fiscal year 2008.

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## Recent Efforts to Address Improper Payments

During fiscal year 2010, a number of actions were taken intended to strengthen the framework for reducing and reporting improper payments. First, in November 2009, the President issued Executive Order 13520, *Reducing Improper Payments*. This order was intended to focus on increasing transparency and accountability for reducing improper

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payments and creating incentives for reducing improper payments. Under the Executive Order, OMB established a Web site ([www.PaymentAccuracy.gov](http://www.PaymentAccuracy.gov)) and designated 14 high-error programs to focus attention on the programs that significantly contribute to the federal government's improper payments.<sup>14</sup> The Web site provides information on (1) the programs' senior accountable officials responsible for efforts to reduce improper payments; (2) current, targeted, and historical estimated rates of improper payments; (3) why improper payments occur in the programs; and (4) what federal agencies are doing to reduce improper payments and recover overpayments. The President also issued two memoranda in March and June 2010, intended to expand agency efforts to recapture improper overpayments using recapture audits,<sup>15</sup> and directing the establishment of a Do Not Pay List to help prevent improper payments to ineligible recipients, respectively. In addition, in 2010, the President set goals, as part of the Accountable Government Initiative, for federal agencies to reduce overall improper payments by \$50 billion, and recapture at least \$2 billion in improper contract payments and overpayments to health providers, by the end of fiscal year 2012.

In July 2010, Congress passed and the President signed IPERA. This legislation was intended to enhance reporting and the reduction of improper payments. In addition to amending the IPIA improper payment estimation requirements, IPERA established additional requirements related to (1) federal agency management accountability; (2) recovery auditing aimed at identifying and reclaiming payments made in error; (3) compliance and noncompliance determinations based on an inspector general's assessment of an agency's adherence to IPERA requirements and reporting that determination; and (4) an opinion on internal controls over

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<sup>14</sup>The 14 high-error programs designated by OMB for fiscal year 2010 include: Medicare Fee-for-Service; Medicaid; Unemployment Insurance; Medicare Advantage; Supplemental Security Income; Retirement, Survivors, and Disability Insurance; Supplemental Nutrition Assistance Program; National School Lunch Program; Rental Housing Assistance Programs; Federal-Aid Highway Program, Highway Planning and Construction; Children's Health Insurance Program; Earned Income Tax Credit; High Cost Program of the Universal Service Fund; and Medicare Prescription Drug Benefit. The Children's Health Insurance Program, High Cost Program of the Universal Service Fund, and Medicare Prescription Drug Benefit programs did not report improper payment error rates and amounts for fiscal year 2010.

<sup>15</sup>Payment recapture audits, also called recovery audits, are conducted to identify and reclaim payments made in error.

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improper payments.<sup>16</sup> For example, regarding management accountability, IPERA requires agency managers, programs, and, where appropriate, states and localities, to be held accountable for achieving the law's goals. This includes management's use of the annual performance appraisal process to assess whether improper payment reduction targets were met and whether sufficient internal controls were established and maintained. In addition, IPERA included a new, broader requirement for agencies to conduct recovery audits, where cost-effective, for each program and activity with at least \$1 million in annual program outlays. This IPERA provision significantly reduces the threshold requirement for conducting recovery audits from \$500 million to \$1 million and expands the scope for required recovery audits to all programs and activities. Previously, recovery audits were only required for agencies whose annual contract obligations exceeded the threshold. Another new IPERA provision calls for federal agencies' inspectors general to annually determine whether their respective agencies are in compliance with key IPERA requirements and to report on their determinations.

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## Concluding Observations

In closing, given the pressures resulting from today's fiscal environment, the need to ensure that federal dollars are spent as intended is critical. While the increase in governmentwide improper payment estimates is alarming, federal agencies' efforts to more comprehensively report on estimated improper payments represent a positive step to improve transparency over the full magnitude of federal improper payments for which corrective actions are necessary. With more federal dollars flowing into risk-susceptible programs, establishing effective accountability measures to prevent and reduce improper payments, and to recover overpayments, becomes an even higher priority. However, measuring

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<sup>16</sup>IPERA also modified the definition of the terms payments and improper payments, and added an explicit definition of a payment for an ineligible good or service. IPERA defined a payment as any transfer, or commitment for future transfers, of federal funds such as cash, securities, loans, loan guarantees, and insurance subsidies to any nonfederal person or entity that is made by federal agencies, federal contractors, federal grantees, or governmental or other organizations administering federal programs or activities. The new definition excludes transfers to other federal entities from the definition of "payment." Under IPIA, improper payments included any payments to ineligible recipients, payments for ineligible services, duplicative payments, payments for services not received, and payments that do not account for credit for applicable discounts. IPERA expanded on this list by adding payments for ineligible goods and payments for goods not received as also constituting improper payments. In addition, IPERA defined a payment for an ineligible good or service as a payment for any good or service that is rejected under any provision of any contract, grant, lease, cooperative agreement, or any other funding mechanism.

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improper payments and designing and implementing actions to reduce and prevent them are not simple tasks. Nonetheless, the ultimate success of the governmentwide effort to prevent and reduce improper payments hinges on the level of sustained commitment the agencies and the administration places on implementing the requirements established by IPERA, the Executive Order, and other guidance. We view the recent actions taken by Congress and the administration as positive steps toward improving transparency over and reducing improper payments. However, it is too soon to determine whether the activities called for in the Executive Order, Presidential memoranda, and IPERA will achieve their goal of reducing improper payments while continuing to ensure that federal programs serve and provide access to intended beneficiaries. Moreover, congressional efforts to oversee agencies will be essential to ensure that agencies are taking the appropriate action to fully implement these administrative and legislative requirements to improve accountability, achieve targeted goals, and reduce overall improper payments.

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Chairman Platts, Ranking Member Towns, this completes my prepared statement. I would be happy to respond to any questions you or other members of the subcommittee may have at this time.

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## Contact and Acknowledgments

For more information regarding this testimony, please contact, Kay L. Daly, Director, Financial Management and Assurance, at (202) 512-9312 or by e-mail at [dalykl@gao.gov](mailto:dalykl@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 Shirley Abel, Assistant Director; Sabrina Springfield, Assistant Director; Liliam Coronado; Nicole Dow; Vanessa Estevez; Crystal Lazcano; Chelsea Lounsbury; Kerry Porter; Debra Rucker; and Danietta Williams.

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# Related GAO Products

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*Medicare and Medicaid Fraud, Waste, and Abuse: Effective Implementation of Recent Laws and Agency Actions Could Help Reduce Improper Payments.* [GAO-11-409T](#). Washington, D.C.: March 9, 2011.

*Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue.* [GAO-11-318SP](#). Washington, D.C.: March 1, 2011.

For our report on the U.S. government's consolidated financial statements for fiscal year 2010, see U.S. Department of the Treasury. *2010 Financial Report of the United States Government*. Washington, D.C.: December 21, 2010, pp. 221-249.

*Improper Payments: Progress Made but Challenges Remain in Estimating and Reducing Improper Payments.* [GAO-09-628T](#). Washington, D.C.: April 22, 2009.

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