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Report to the Chairman, Committee on Governmental Affairs, U.S. Senate

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FINANCIAL MANAGEMENT

Billions in Improper Payments Continue to Require Attention

G A O

Accountability * Integrity * Reliability

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Contents

Abbreviations

BDR	Budget Data Request
CACFP	Child and Adult Care Food Program
C&P	Compensation and Pension Program
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CSRS	Civil Service Retirement System
DCIA	Debt Collection Improvement Act
DI	Disability Insurance
DOD	Department of Defense
DOE	Department of Energy
DOJ	Department of Justice
DOL	Department of Labor
EITC	Earned Income Tax Credit
FASAB	Federal Accounting Standards Advisory Board
FBI	Federal Bureau of Investigation
FCIC	Federal Crop Insurance Corporation
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance
FEHBP	Federal Employees' Health Benefits Program
FERS	Federal Employees' Retirement System
FHA	Federal Housing Administration
FICA	Federal Insurance Contributions Act
FMFIA	Federal Managers' Financial Integrity Act
FNS	Food and Nutrition Service
FSP	Food Stamp Program
FSRDF	Foreign Service Retirement and Disability Fund
GMRA	Government Management Reform Act
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IG	inspector general
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Program
NFC	National Finance Center
NIH	National Institutes of Health
OASI	Old Age and Survivors Insurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
PHA	Public Housing Authority

PMO	Priority Management Objective
SECA	Self-Employment Contributions Act
SSA	Social Security Administration
SSI	Supplemental Security Income
STAR	Systematic Technical Accuracy Review
TOP	Treasury Offset Program
USDA	Department of Agriculture
VA	Department of Veterans Affairs
VBA	Veterans Benefits Administration
VHA	Veterans Health Administration
WCP	Workers' Compensation Program

United States General Accounting Office
Washington, D.C. 20548

October 27, 2000

The Honorable Fred Thompson
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

The federal government—the largest and most complex organization in the world—annually expends approximately $1.7 trillion dollars for a variety of grants, transfer payments, and procurement of goods and services. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend those funds and is responsible for safeguarding against improper payments.

In our view, improper payments include payments that should not have been made or were made for incorrect amounts irrespective of whether the agency had effective controls in place.[1] Specifically, improper payments would include inadvertent errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or to ineligible beneficiaries; and payments resulting from outright fraud and abuse.[2] However, improper payments do not necessarily include all losses suffered by the government, such as defaults on student loans made to individuals who met program criteria.

While we cannot estimate the number or dollar amount of improper payments attributable to specific categories, reported estimates of improper payments total billions of dollars annually. Viewed in the simplest context, improper payments are an inefficient use of taxpayers' funds. Specifically, for programs with legislative or regulatory eligibility criteria, improper payments indicate that agencies are spending more than necessary. Conversely, for programs with fixed funds, any waste of federal funds translates into serving fewer recipients or accomplishing less programmatically than could be expected.

[1]Even if an agency has effective controls, it may not be able to preclude improper payments if fraudulent activity, such as collusion, is perpetrated against the agency.

[2]This report does not address situations in which the federal government made underpayments, which could be considered improper payments as well.

Last year, at your request, we prepared a report[3] detailing the extent of improper payments reported in agencies' fiscal year 1998 financial statements prepared pursuant to the Chief Financial Officers (CFO) Act of 1990,[4] the reported causes of improper payments, and the extent to which improper payments were addressed in agencies' fiscal year 2000 performance plans under the Government Performance Results Act of 1993 (GPRA).[5] Because of your continued interest and concerns regarding financial management in the federal government, you asked us to update certain aspects of our 1999 report. Specifically, you requested that we (1) quantify, where possible, the amount of improper payments reported in agencies' fiscal year 1999 financial statement reports, (2) determine the extent to which the Office of Management and Budget (OMB) has implemented the recommendations made in our prior report, (3) assess the extent to which agencies' fiscal year 1999 financial management plans, fiscal year 2001 performance plans, and fiscal year 1999 performance reports address improper payments, and (4) identify other actions that might encourage agencies to better report the extent of their improper payments. At your request, in July of this year, we prepared a letter that responded to your first objective covering financial statements issued through mid-July, 2000.[6] This report incorporates information from our July letter and responds to all of the objectives detailed above.

Results in Brief

In their fiscal year 1999 financial statement reports, 12 of the 24 CFO Act agencies (appendix I contains the names of executive departments and agencies covered) took the initiative to collectively report improper payment estimates of $20.7 billion. While nine of these agencies reported known improper payments, three went further. These three reviewed a statistical sample of payments to quantify the extent of improper payments

[3] *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments* (GAO/AIMD-00-10, October 29, 1999).

[4] The CFO Act, as expanded by the Government Management Reform Act of 1994, requires 24 major departments/agencies to prepare agencywide financial statements and have them audited. See appendix I for a list of the 24 CFO Act agencies.

[5] GPRA requires agencies to prepare annual performance plans that include performance goals and measures, strategies, and resources required to achieve performance goals and procedures to verify and validate performance information.

[6] *Financial Management: Improper Payments Reported in Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-261R, July 27, 2000).

for at least one of their major programs, resulting in the disclosure of important information for oversight and decision-making.[7] These improper payment estimates include $4.4 billion of receivables[8] that these agencies expect to collect and relate to 21[9] major programs[10] that expended more than half of the government's net outlays in fiscal year 1999.[11] The programs and related improper payment estimates include

- Medicare Fee-for-Service claim payments ($13.5 billion),
- Supplemental Security Income ($1.6 billion),
- Old Age and Survivors Insurance ($1.3 billion),
- Disability Insurance ($1.1 billion),
- Food Stamps ($1.3 billion),

[7]Improper payments reported by the Department of Health and Human Services (HHS) for Medicare Fee-for-Service claim payments, the Department of Agriculture for the Food Stamp program, and the Department of Housing and Urban Development for Housing Subsidy programs are estimates made using statistical sampling. In some instances, these estimates are based on prior year activity. According to the HHS Office of Inspector General, the majority of the improper payments for Medicare Fee-for-Service claim payments were detected through medical record reviews. Once an improper payment is identified for Medicare Fee-for-Service claims payments, the provider has the option to appeal the decision and provide more documentation to support the payment. It should be noted that the Health Care Financing Administration upheld 99 percent of the overpayments identified in their 1998 sample and recovered about 87 percent; the remaining 13 percent have not been collected due to an ongoing investigation.

[8]Improper payments reported as receivables represent the outstanding balance of overpayments made over multiple fiscal years, including 1999.

[9]In our report, *Financial Management: Improper Payments Reported in Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-261R, July 27, 2000), we identified 20 programs that reported improper payments in their fiscal year 1999 financial statements. Subsequent to issuing this report, we received a copy of the Commodity Credit Corporation's fiscal year 1999 financial statements, which included a reference to improper payments. Accordingly, we have incorporated this program into the discussion of improper payments in this report.

[10]For purposes of this report, we have defined major programs as those that disburse $1 billion or more annually with one exception—the State Department. We initially assessed the State Department as a major program in our July 27 report based on State's fiscal year 1999 financial statements. Subsequent to issuing our report, the State Department released updated financial statements that revised its disclosure related to overpayments. The revised disclosure specifically noted reported overpayments related to the Foreign Service Retirement and Disability Fund. While this fund does not have disbursements that exceed $1 billion annually, we are including this program in our report to be consistent with our July 27 report. See appendix II for a description of the 21 major programs or their agencies.

[11]This amount primarily consists of programs' fiscal year 1999 net outlays. However, no outlay amount was included for the Federal Housing Administration because its activities primarily relate to guaranteeing loans.

- Housing subsidies ($935 million),
- Medicare Fee-for-Service cost report settlements ($600 million),[12] and
- Unemployment Insurance, federal employee health and retirement benefits, and others ($364 million).

Our audits and those of agency inspectors general (IG) continue to demonstrate that the extent of the problem is much more widespread than has been disclosed in agency financial statement reports. The methodologies used by some agencies to estimate improper payments do not always result in complete estimates, and many other agencies have not attempted to identify or estimate improper payments. As a result, the government does not have a reasonable basis for gauging the extent of its improper payments.

Ascertaining the extent of improper payments is the first step in assessing the need for and extent of corrective actions required. Self-assessments, such as those contemplated under the Federal Managers' Financial Integrity Act (FMFIA) for assessing internal controls, may be helpful in identifying significant programs at risk for improper payments. Determining the extent of these payments gives agencies baseline information for assessing causes and making cost-effective decisions about enhancing controls to minimize future improper payments. By analyzing the characteristics of cases identified as having improper payments, agencies can then identify the circumstances and root causes leading to improper payments. This provides a foundation for developing sound strategies to mitigate improper payments in their programs.

OMB has stated its intention to expand its focus on improper payments. It also agreed with our recommendation in our October 1999 report on improper payments, calling for guidance to assist agencies in developing and implementing a methodology for annually estimating and reporting improper payments for major federal programs and developing goals and strategies to address improper payments in their annual performance plans. OMB officials said that they expect agencies to include goals or objectives for reducing improper payments in their strategic plans if the level of improper payments was determined to be mission-critical—that is,

[12]The cost report settlement process represents the value of final outlays to providers based on fiscal intermediary audits, reviews, and final settlements of Medicare cost reports. By not performing full-scope audits on all cost settlements, the Health Care Financing Administration estimated that it may have overpaid providers by as much as $600 million.

those which prospectively and realistically threaten achievement of agency missions, objectives, or strategic goals.

In this regard, OMB has expanded the administration's Priority Management Objective (PMO) [13] related to error reduction in the distribution of benefits. As expanded, this PMO now commits OMB to issuing guidance to agencies in 2000 to ensure that the right person is getting the right benefit. In addition, the PMO calls for the administration to assist federal agencies in estimating the extent of, and addressing the underlying causes of, improper payments. OMB has also undertaken a project to develop guidance to provide uniform reporting and disclosure of improper payments by agency management. To assist in this project and on other efforts related to improper payments, OMB is working through inter-agency councils such as the CFO Council and the President's Council on Integrity and Efficiency (PCIE).

At the same time, only 4 of the 12 agencies reporting improper payments—many of which we identified in our High-Risk and Performance and Accountability series issued in 1999[14]—comprehensively addressed these payments in either their fiscal year 1999 financial management plans and/or their fiscal year 2001 performance plans. In addition, we found that in all but one instance, those agencies that addressed improper payments in their performance plans discussed improper payments in their performance reports.

Last year, we made specific recommendations to OMB designed to strengthen agency management and reporting of improper payments. We are encouraged that OMB has begun to move forward on this issue. Expeditious completion of its current efforts and action to implement all of our recommendations will help strengthen accountability over federal funds. Delays in implementing these recommendations will perpetuate the

[13]Priority Management Objectives focus the administration's efforts to meet some of the government's biggest management challenges. These include specific management initiatives covering a range of concerns—from streamlining the Social Security Administration's disability claims process to strengthening the Health Care Financing Administration's management capacity.

[14]*High-Risk Series: An Update* (GAO/HR-99-1, January 1999) and *Performance and Accountability Series: Major Management Challenges and Program Risks* (GAO/OCG-99-22SET, January 1999). These two series of reports outline actions needed to improve the performance and accountability of, and manage the risk relating to, our national government.

government's inability to reasonably gauge the extent of improper payments and act to effectively prevent them. Therefore, we are reaffirming our prior year recommendations to the Director of OMB directed at developing and implementing a methodology for annually estimating and reporting improper payments and for addressing improper payments in agencies' annual performance and strategic plans and performance reports.

In tandem with OMB, there are opportunities for Congress to leverage its oversight function to improve agency management and reporting of improper payments. Past congressional oversight has been a powerful tool for implementing key federal management reforms and could be an impetus for instituting change related to agency management and reporting of improper payments. Such oversight actions could include consultations with agency management and hearings that focus on OMB's leadership role and agency progress related to improper payments on both a governmentwide and individual program level.

In commenting on a draft of this report, OMB agreed that efforts to reduce improper payments require continued attention. OMB stated that it plans to issue guidance shortly that provides an overall framework for agencies to assess the risk of improper payments in their programs, take action to reduce the risk by strengthening controls where needed, and measure and report on progress. OMB said that issuing this guidance is a step in a long-term process to minimize improper payments. OMB noted that several agencies have made efforts in the area of estimating, reporting, and minimizing improper payments but is concerned that legislative requirements, competing priorities, and program structure limit agencies' ability to estimate and reduce the level of improper payments. In this regard, until agencies begin to comprehensively estimate and report improper payments, they will lack essential baseline information on which to develop and refine their strategies for minimizing improper payments. Sustained progress in achieving the requisite accountability over federal resources will require reliable information on the nature and extent of improper payments, detailed analysis to discern underlying causes, and continual efforts to strengthen internal controls. We agree with OMB that removing or mitigating the effects of any impediments are fundamental efforts that agencies need to work through.

Background

Annually, the federal government expends approximately $1.7 trillion for a variety of grants, transfer payments, and procurement of goods and services. Because of its size, program complexity, historically weak payment control environment, and insufficient preventive controls, the federal government risks disbursing improper payments. Agency-specific studies and audits continue to indicate that improper payments are a widespread and significant problem. They occur in a variety of programs and activities, including those involving contract management, financial assistance benefits—such as Supplemental Security Income (SSI) benefits—and tax refunds. However, some overpayments, by their nature, are not considered improper payments, such as routine contract price adjustments.[15]

Furthermore, the government has numerous programs in which benefits are paid in advance. These payments are made assuming that the beneficiary's circumstances remain the same during the period for which payment was rendered. However, changes in a beneficiary's circumstances, such as income and asset levels or death, during the payment period can lead to overpayments, which are subject to recovery. For example, the Social Security Administration (SSA) disburses SSI payments to recipients at the beginning of the month, based on the income and asset levels a recipient expects to maintain during the month. If an SSI recipient obtains employment during the month that consequently reduces the amount of benefits to which he or she is entitled, an overpayment has occurred. In our view, these payments are not improper at the time they were made. However, any subsequent unadjusted payments to that recipient would be considered improper payments. Some agencies, such as SSA, include these amounts in their disclosures related to overpayments, while others may not. These disclosures do not contain detailed information regarding this aspect of overpayments. Therefore, we have included all amounts reported as overpayments in our report.

In addition, legal requirements may place constraints on agency management of improper payments. For example, SSA stated that precedents set by certain court decisions[16] and language in the Social

[15]For example, a routine contract price adjustment allows for the payment of an expense at a provisional rate until the actual cost information is available and audited. When the actual cost is lower than that provisionally paid, an overpayment has occurred. These amounts may be offset in future payments or returned directly to the government. This type of overpayment is not considered an improper payment.

[16]*Cardinale v. Mathews*, 399 F. Supp. 1163 (D.D.C. 1975), and *Goldberg v. Kelly*, 397 U.S. 254 (1970).

Security Act (42 U.S.C. §423 (g)) permit individuals to continue receiving SSI and disability insurance benefits pending a hearing process to determine eligibility. We could not determine from SSA's financial statement disclosures the amount of overpayments that resulted from this legal restriction. Therefore, we have included all amounts reported as overpayments in our report.

Legislative efforts have focused on improving the federal government's control environment. For example, under FMFIA agency managers are responsible for ensuring that adequate systems of internal controls are developed and implemented. An adequate system of internal controls, as defined by the Comptroller General's internal control standards, which are issued pursuant to FMFIA, should provide reasonable assurance that an agency is effectively and efficiently using resources, producing reliable financial reports, and complying with applicable laws and regulations.[17] Accordingly, cost-effective internal controls should be designed to provide reasonable assurance regarding prevention of, or prompt detection of, unauthorized acquisition, use, or disposition of an agency's assets.

Legislation enacted over the past 10 years has provided an impetus for agencies to systematically measure and reduce the extent of improper payments. For example, with the advent of the CFO Act, the Government Management and Reform Act (GMRA), and GPRA, agencies are challenged to increase attention to identifying and addressing improper payments. The CFO Act, as expanded by GMRA, requires 24 major departments/agencies to prepare and have audited agencywide financial statements, which are intended to report on the agencies' stewardship over their financial resources—including how they expended available funds. OMB's Bulletin 97-01, *Form and Content of Agency Financial Statements*, provides implementing guidance on these CFO Act requirements. In addition, the CFO Act sets expectations for agencies to routinely produce sound cost and operating performance information. Effective implementation of this requirement would enable managers to have timely information for day-to-day management decisions. The CFO Act also requires OMB to prepare and annually revise a governmentwide 5-year financial management plan and status report that discusses the activities the executive branch plans to undertake and has undertaken to improve financial management in the federal government. Additionally, each agency CFO is responsible for

[17] *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999).

developing annual plans to support the governmentwide 5-year financial management plan.

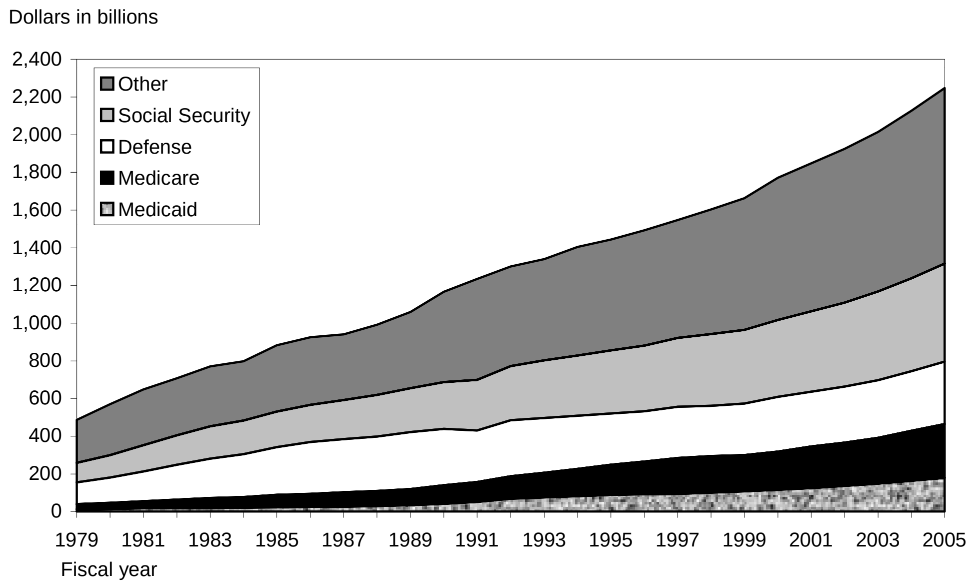
GPRA seeks to improve the effectiveness and efficiency of the federal government by requiring that agencies develop strategic and annual performance goals and report on their progress in achieving these goals. Each agency's strategic plan is required to include the agency's mission statement; identify long-term general goals, including outcome-related goals and objectives; and describe how the agency intends to achieve these goals. Agencies are required to consult with Congress when developing their strategic plans and consider the views of other interested parties. In their annual performance plans, agencies are required to set annual goals, covering each program activity in an agency's budget, with measurable target levels of performance. Agencies are also required to issue annual performance reports that compare actual performance to the annual goals. Consequently, one would expect to find a discussion of issues, such as mission critical improper payments, in the annual performance reports of those agencies that identified related goals and strategies in their annual performance plans. Together, these plans and reports are the basis for the federal government to manage for results. GPRA is supported by the development of federal cost accounting standards under the CFO Act, which require agencies to identify the costs of government activities.[18] These standards can lead to and support linking costs with achieving performance levels. This can give managers information for assessing the full costs of goods, services, and benefits compared to program outputs and results. Such information can provide the basis for agencies to develop performance goals to monitor and track improper payments as well as strategies for preventing such future disbursements.

The risk of improper payments and the government's ability to prevent them will continue to be of concern in the future. Under current federal budget policies, as the baby boom generation leaves the workforce, spending pressures will grow rapidly due to increased costs of Medicare,

[18]Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Standards*; *Managerial Cost Accounting System Requirements*, *Federal Financial Management System Requirements* 8, Joint Financial Management Improvement Program (JFMIP), February 1998; and *The Managerial Cost Accounting Implementation Guide*, CFO Council and JFMIP, February 1998.

Medicaid, and Social Security.[19] Other federal expenditures are also likely to increase. Thus, absent improvements over internal controls, the potential for additional or larger volumes of improper payments will be present. Figure 1 illustrates the reported and projected trends in federal expenditures, excluding interest on the public debt, for fiscal years 1979 through 2005.

Figure 1: Trends in Certain Federal Expenditures: Fiscal Years 1979 Through 2005



Note: Expenditures for fiscal years 2000-2005 are projections.

Source: Actual and projected amounts are from the *Budget of the United States Government, Fiscal Year 2001*, Historical Tables.

Historically, the recovery rates for certain programs identified as having improper payments have been low. Therefore, it is critical that adequate attention be directed to strengthen controls to prevent improper payments.

[19] *Medicare Reform: Issues Associated With General Revenue Financing* (GAO/T-AIMD-00-126, March 27, 2000), *Medicare Reform: Leading Proposals Lay Groundwork, While Design Decisions Lie Ahead* (GAO/T-HEHS/AIMD-00-103, February 24, 2000), *Federal Debt: Answers to Frequently Asked Questions—An Update* (GAO/OCG-99-27, May 28, 1999), and *Medicare and Budget Surpluses: GAO's Perspective on the President's Proposal and the Need for Reform* (GAO/T-AIMD/HEHS-99-113, March 10, 1999).

Scope and Methodology

This report is based on our review of the 24 CFO Act agencies', and certain subcomponents', fiscal year 1999 financial statement reports prepared under the CFO Act, as expanded by GMRA. We reviewed these financial statement reports to identify amounts of reported improper payments. We also identified and reviewed recent GAO reports to identify additional agencies/programs at risk. We supplemented our review with IG reports from CFO Act agencies. For the 12 agencies that reported having made improper payments in their financial statement reports, we also reviewed the agencies' (1) fiscal year 1999 financial management plans,[20] (2) GPRA performance plans for fiscal year 2001, and (3) GPRA performance reports for fiscal year 1999 to determine the extent to which these documents addressed improper payments. Because of the nature of improper payments, our review would not capture all reported instances of such payments.[21] We met with OMB officials and reviewed documents regarding OMB's progress in implementing recommendations made in our prior report. We also identified and analyzed options for managing and reporting improper payments based on discussions with federal government financial managers and our prior work, and the work of IGs, in this area.

To gather information on existing financial statement, financial management, and performance reporting criteria, we reviewed relevant professional literature, including the American Institute of Certified Public Accountants' *Codification of Statements on Auditing Standards* and the

[20]Agencies used a variety of means to report their financial management plan information. For example, certain agencies included this information in their annual budget submissions.

[21]For example, to the extent that individuals who owe the federal government for certain programs and/or activities receive other federal benefits and payments, such amounts constitute missed opportunities for collection. If outstanding amounts are owed to the government for one type of program or activity, these amounts could be collected through offsetting other federal benefits and payments. Along these lines, the Debt Collection Improvement Act (DCIA) of 1996 calls for the centralization and aggressive pursuit of delinquent nontax federal receivables, including delinquent loans and other forms of payment owed the federal government. The Treasury Offset Program (TOP) offsets federal payments such as tax refunds, vendor and miscellaneous payments, and federal retirement payments against federal nontax debts, states' child support debts, and certain states' tax debts. For fiscal year 1999, most of the TOP offsets were from tax refunds. However, it was beyond the scope of this report to consider the magnitude of payments that might otherwise be offset to recover other delinquent amounts owed or to review Treasury's efforts to implement DCIA. See *Debt Collection: Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative* (GAO/AIMD-00-234, August 4, 2000) and *Unpaid Payroll Taxes: Billions in Delinquent Taxes and Penalty Assessments Are Owed* (GAO/AIMD/GGD-99-211, August 2, 1999). In addition, we did not include information on improper payments that resulted in underpayments by the federal government.

Federal Accounting Standards Advisory Board's *Statements of Federal Financial Accounting Concepts and Standards*. In addition, we reviewed OMB Bulletin 97-01, *Form and Content of Agency Financial Statements* and OMB Circular A-11, Part 1, *Preparation and Submission of Budget Estimates*[22] and Part 2, *Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports*.

We performed our work from May 2000 through September 2000. Our work was conducted in accordance with generally accepted government auditing standards. We requested written comments on a draft of this report from the Director of the Office of Management and Budget or his designee. The Deputy Director for Management provided us with written comments. These comments are discussed in the "OMB Comments and Our Evaluation" section and reprinted in appendix V.

Improper Payments Are Widespread Across Government, but the Full Extent Remains Unknown

Agency-specific studies performed by GAO, IGs, and others indicate that improper payments continue to be a widespread and significant problem. However, efforts by agencies to develop estimates have varied. Twelve agencies took the initiative to disclose improper payments for 21 of their programs in their fiscal year 1999 financial statement reports. While nine of these agencies reported known improper payments, three went further. These three reviewed a statistical sample of payments to quantify the extent of improper payments for at least one of their major programs resulting in the disclosure of important information for oversight and decision-making.[23] At the same time, the methodologies used by some agencies to estimate improper payments did not always result in complete estimates. For example, the methodology used by the Department of Health and Human Services (HHS) is not intended to and would not detect all potentially fraudulent schemes perpetrated against the Medicare Fee-for-Service program. While it would be impractical to expect any methodology to detect all fraudulent activity, the Health Care Financing Administration (HCFA)—the HHS agency responsible for overseeing the Medicare program—is working to enhance the fee-for-service improper

[22]We reviewed OMB Circular A-11, Part 1, *Preparation and Submission of Budget Estimates*, for criteria for preparing agency financial management plans.

[23]Several agencies prepare program wide estimates of improper payments, but do not include this information in their financial statements. For example, the Department of Labor's Benefit Accuracy Measurement Program samples from over 91 percent of the unemployment compensation benefits paid to determine their accuracy.

payment measurement effort, where practical. It has also begun a new initiative to arrive at a more comprehensive measurement[24] that could help it better target management improvement efforts.

Many other agencies have not attempted to identify or estimate improper payments and some only do it for certain of their programs. As a result, the full extent of improper payments governmentwide remains largely unknown, hampering efforts to reduce such payments. Agency self-assessment is necessary to identify significant programs at risk for improper payments and to determine efficient, effective, and cost beneficial means of estimating improper payments. Ascertaining the full extent of improper payments governmentwide and determining related causes would give agencies baseline information for making cost-effective decisions about enhancing controls to minimize improper use of federal resources.

Twelve Agencies Reported Improper Payments, but Estimates Are Incomplete

Twelve of the CFO Act agencies that had issued their fiscal year 1999 audited financial statements as of the end of our fieldwork[25] acknowledged that at least some improper payments were made in their programs. Last year, we reported that 8 of these 12 agencies reported improper payments in their fiscal year 1998 financial statements. This year, we identified four additional agencies—the Departments of Defense (DOD), Energy (DOE), Justice (DOJ), and State—that reported improper payments in their fiscal year 1999 financial statements. Another agency—the Agency for International Development—which reported making improper payments in its fiscal year 1998 financial statements, did not report any improper payments in its fiscal year 1999 financial statements.

In fiscal year 1999, three agencies made proactive attempts to quantify improper payments for at least one of their major programs. Specifically, the Departments of HHS, Agriculture (USDA), and Housing and Urban Development (HUD) collectively reported improper payment estimates of $16.3 billion[26] in their financial statement reports. HHS' estimated improper

[24] *Medicare Improper Payments: Challenges for Measuring Potential Fraud and Abuse Remain Despite Planned Enhancements* (GAO/T-AIMD/OSI-00-251, July 12, 2000).

[25] HHS' Indian Health Service had not issued its audited financial statements as of the end of our fieldwork. Therefore, the statements were not available for our analysis.

[26] These estimates do not reflect any actual or anticipated recoveries.

Medicare Fee-for-Service claim payments constitute $13.5 billion of this amount, which represents approximately 8 percent of the $164 billion Medicare Fee-for-Service benefit costs for fiscal year 1999. USDA disclosed $1.3 billion in food stamp overissuances, approximately 6.8 percent of its annual program cost of $19.1 billion. HUD's excess housing subsidy payments totaled $935 million, 5 percent of its rental assistance payments for this $18.6 billion program. These agencies continue to estimate and report improper payments for these programs by implementing methodologies that use statistical sampling. However, implementing a statistically valid methodology will pose challenges for certain other programs. For example, HCFA will need to gain the cooperation of state and local government officials to develop a methodology for estimating improper payments nationwide for the Medicaid program.

The disclosure methods used by HHS, USDA, HUD, and the other nine agencies varied. Some agencies, such as SSA, reported improper payments at year-end as receivables that they expect to collect and provided explanatory disclosures in the notes accompanying their financial statements. Other agencies disclosed explanatory information in other sections of their financial statement reports, such as in management's discussion and analysis.

Reporting within agencies for different programs also varied. Some agencies disclosed the amount of improper payments for some programs, but not others. For example, USDA disclosed improper payments of $1.3 billion for the Food Stamp Program. At the same time, USDA acknowledged making improper payments without providing a specific amount for its Federal Crop Insurance Corporation. Furthermore, certain agencies only addressed some aspects of improper payments within specific programs. HHS disclosed improper payments of $13.5 billion for its Medicare Fee-for-Service claim payments, but did not report any improper payment estimates for Medicare managed care payments.

Three of the 12 agencies reported improper payments as costs for 3 programs, while 5 agencies reported them as accounts receivable for 11 programs. Seven agencies acknowledged making improper payments, primarily by disclosure in the notes to their financial statements, but did not quantify the dollar amounts for seven programs. Twelve of the CFO Act agencies did not report any information related to improper payments in their financial statement reports. Nondisclosure of improper payment estimates may indicate the absence or, in the agency's view, an insignificant level of improper payments. On the other hand, some agencies may have been unable to determine, or did not attempt to estimate, the amount of improper payments. Such inconsistent financial reporting makes it difficult to quantify the full extent of the problem governmentwide and indicates a need for more guidance.

Table 1 lists the 12 agencies and the manner in which they reported improper payments in their fiscal year 1999 financial statement reports for the 21 programs identified. See appendix II for a description of these agencies and/or their programs.

Table 1: Agencies and Programs That Reported Improper Payments in Their Fiscal Year 1999 Financial Statements

(Dollars in millions)

Department or agency	Program/component	Estimated amount reported as a cost of operations	Amount reported as part of multiyear accounts receivable
Department of Agriculture	Commodity Credit Corporation		$0.0[a]
	Federal Crop Insurance Corporation		0.0[b]
	Food Stamp Program	$1,290.0	
Department of Defense	Military Retirement Fund		25.3
Department of Energy	No specific program identified		0.0[b]
Department of Health and Human Services[c]	Medicare Fee-for-Service		
	Claim Payments	13,500.0	
	Cost Reports	600.0	
	Medicaid	0.0[d]	
Department of Housing and Urban Development	Housing Subsidy programs	935.0	
	Federal Housing Administration		0.0[b]
Department of Justice	Federal Bureau of Investigation		0.0[b]
Department of Labor (DOL)	Federal Employees' Compensation Act		19.2
	Unemployment Insurance		142.3
Office of Personnel Management	Federal Employees' Group Life Insurance		0.2
	Federal Employees' Health Benefits		93.0
	Retirement		84.0
Social Security Administration	Disability Insurance		1,118.0
	Old Age and Survivors Insurance		1,325.0
	Supplemental Security Income		1,578.0
Department of State	Foreign Service Retirement and Disability		0.0[b]
Department of the Treasury – Customs	Drawbacks and refunds		0.4[e]
Department of Veterans Affairs	Veterans Benefits programs		0.0[b]
	Total	**$16,325.0**	**$ 4,385.4**

[a]In the notes to its financial statements, the Commodity Credit Corporation (CCC) reported $43 million in gross receivables related to improper payments, but did not disclose how much of those receivables it expects to collect. USDA reported $41 million in receivables it expects to collect for CCC

overpayments in USDA's consolidated financial statements. However, the CCC statements, issued subsequent to USDA's financial statements, superseded this information.

[b]The agencies administering these programs acknowledged making improper payments as part of their discussion of accounts receivables in their fiscal year 1999 financial statements but did not disclose specific dollar amounts for the improper payments. The appropriate segments of these accounts receivable—such as receivables with the public—ranged from $1 million at USDA to $581 million at the Department of Veterans Affairs. However, there was no indication of how much of these accounts receivable had stemmed from improper payments.

[c]Within its financial statement footnotes, HHS also acknowledged that various programs under the Administration for Children and Families, the Health Resources and Services Administration, and the Substance Abuse and Mental Health Administration may have made improper payments. However, HHS stated that it did not believe that these amounts would be material to the agency's financial statements.

[d]HHS acknowledged making improper payments related to the Medicaid Program as part of its management's discussion and analysis in its fiscal year 1999 financial statements but did not disclose a specific dollar amount.

[e]Customs stated that a portion of these receivables is the result of provisional payments and that annual reviews it performed indicate that the current error rate for Drawbacks and Refunds is less than 0.5 percent.

Source: GAO analysis based on a review of the CFO Act agencies' fiscal year 1999 financial statement reports.

The extent of the problem for some of these agencies' programs is unknown because not all agencies are performing comprehensive internal studies or reviews to estimate the range and/or identify rates of improper payments, as the following examples illustrate.

- SSA reported $2.6 billion in gross receivables as overpayments related to its SSI program—a $28.1 billion program annually providing cash assistance to about 7 million financially needy individuals who are aged, blind, or disabled. SSA anticipates collecting approximately $1.6 billion of these receivables, which consist of amounts specifically identified over multiple years based on SSA's discussions with recipients and the results of its efforts to match data provided by recipients with information from other federal and state agencies, such as IRS 1099 information, Department of Veterans Affairs (VA) benefits data, and state-maintained earnings and employment data. SSA reports a statistically based accuracy rate for new SSI awards of 92.5 percent.[27] However, this accuracy rate does not consider the medical eligibility of

[27]This represents the fiscal year 1997 initial payment accuracy rate as reported in SSA's fiscal year 1999 Accountability Report, the most current information reported for this measure by SSA.

recipients.[28] Since the majority of SSI program dollars are historically directed to recipients with medical disabilities, refining the methodology to factor in any questions concerning medical risk is critical to determining improper payments within this program. According to SSA's year 2001 performance plan, SSA continues to work on developing a measurement system which includes medical and nonmedical factors in assessing the overall accuracy of payment outlays for disability-based benefit payments. However, no timing for implementation has yet been determined.

- HHS does not currently have a comprehensive quality assurance program or other methodology[29] in place for estimating improper Medicaid payments. Administered by HCFA and state agencies, Medicaid provided $109 billion in health care services to approximately 41.9 million low-income individuals in fiscal year 1999. The IG recommended[30] that HCFA work with the states to develop a methodology to determine the range of improper payments in the Medicaid program. However, developing a statistically valid methodology to estimate Medicaid improper payments poses a challenge. To work toward this goal, HCFA has established a working group to evaluate payment accuracy rates used by states and assess the feasibility of developing a methodology suitable for measuring improper payments by all states.[31] Other state-administered or intergovernmental programs also face difficulties in developing estimates due to the variable nature of the programs and the need to gain the cooperation of state and local government officials nationwide.
- While DOD reported improper payments related to the Military Retirement Fund, it had not reported other improper payments that it has disbursed. For example, between fiscal year 1994 and fiscal year 1999, DOD contractors returned nearly $1.2 billion that DOD's Defense

[28]Although the accuracy rate does not consider the medical eligibility of the recipient, SSA performs continuing disability reviews (CDR) to determine whether individuals receiving disability benefits have medically improved so that they are no longer considered disabled and thus no longer eligible for benefits. SSA increased the number of CDRs performed annually from approximately 500,000 in fiscal year 1996 to over 1.7 million in fiscal year 1999.

[29]*Report on the Financial Statement Audit of the Department of Health and Human Services for Fiscal Year 1999* (A-17-99-00002, February 2000).

[30]See previous footnote.

[31]Statement of Penny Thompson, Program Integrity Director, HCFA, Before the House Budget Committee Health Care Task Force, July 12, 2000.

Finance and Accounting Service erroneously paid them as a result of inadvertent errors, such as paying the same invoice twice or misreading invoice amounts. Further, in its fiscal year 1999 financial statements DOD reported $3.6 billion in uncollected debt that relates to a variety of contract payments problems. Of this amount, we determined that at least $225 million relates to duplicate payments, overpayments, and payments for goods not received—all of which we consider improper payments. DOD has not yet made a comprehensive estimate of improper payments to its contractors, and there are likely more overpayments that have yet to be identified and returned. With an annual budget of over $130 billion in purchases involving contractors, DOD would benefit from estimating the magnitude of improper payments. We have ongoing work to assess the amount of overpayments DOD disbursed to its largest contractors in fiscal year 1999 and will report on this at a later date.

Other Programs and Activities Have Improper Payments or Are at Risk

Previous audits conducted by GAO and IGs have identified other agencies and programs that had improper payments. For example, the Internal Revenue Service's (IRS) Earned Income Tax Credit (EITC) program—a refundable tax credit available to low-income, working taxpayers—continues to be vulnerable to high rates of invalid claims. During fiscal year 1999, IRS reported that it processed EITC claims totaling about $30 billion, including approximately $26 billion (87 percent) in refunds.[32, 33] Of 573,000 tax returns with EITC claims and indications of errors or irregularities that IRS examiners reviewed, most ($1.08 billion or 86 percent of the $1.25 billion reviewed) were found to be invalid during fiscal year 1999. IRS has not disclosed estimated improper payments in its financial statement reports.

IRS examinations of tax returns claiming EITC are important control mechanisms for detecting questionable claims and providing a deterrent to future invalid claims. However, because examinations are often performed after any related refunds are disbursed, they are less efficient and effective than preventive controls designed to identify invalid claims before refunds are made. In addition, the high rate of invalid EITC claims found during IRS

[32] EITC claims do not always result in refunds; they may also reduce tax assessments.

[33] *Financial Audit: IRS' Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, February 29, 2000).

examinations suggests that invalid EITC claims continue to be significant. For example, IRS research on tax year 1997 EITC claims revealed that net of recoveries from IRS enforcement actions, an estimated $7.8 billion in EITC claims were erroneously paid to taxpayers.[34]

In fiscal year 1998, IRS began implementing a 5-year EITC compliance initiative intended to minimize losses in this area. This initiative is intended to increase taxpayer awareness, strengthen enforcement of EITC requirements, and research sources of EITC noncompliance. EITC compliance efforts include a significant focus on prerefund fraud/error prevention and detection. For example, the EITC compliance initiative includes recalculation of erroneous overclaims, identification of questionable returns, and initiation of many EITC audits, which should occur prior to issuing refunds. We will be issuing a report shortly on financial management issues at IRS, identified as part of our audit of IRS' fiscal year 1999 financial statements, that will include a discussion of controls over issuing EITC refunds.

The Department of Education is another agency with improper payments. Education's student financial assistance programs have been designated as high risk[35] since our governmentwide assessment of vulnerable federal programs began in 1990. Education's Student Financial Assistance office reported that it provided over $46 billion in aid to more than 8 million students in fiscal year 1998.[36] As discussed in our January 1999 Performance and Accountability Series,[37] Education-administered student financial aid programs have a number of features that make them inherently risky. They provide grants to a population composed largely of students who would not otherwise have access to the funds necessary for higher education. Education IG reports[38] repeatedly note that systematic

[34] *Compliance Estimates for Earned Income Tax Credit Claimed on 1997 Returns*, Department of the Treasury, Internal Revenue Service (September 2000).

[35] *High-Risk Series: An Update* (GAO/HR-99-1, January 1999).

[36] This is the last year for which complete data were available, per *U.S. Department of Education Student Financial Assistance Fiscal Year 1999 Financial Statements.*

[37] *Major Management Challenges and Program Risks: Department of Education* (GAO/OCG-99-5, January 1999).

[38] *U.S. Department of Education Office of Inspector General Semiannual Report to Congress No. 40* (October 1, 1999 – March 31, 2000) and *U.S. Department of Education Office of Inspector General Semiannual Report to Congress No. 39* (April 1 – September 30, 1999).

weaknesses and individual instances of fraud, such as underreporting of income by student aid applicants (and their parents), cost federal taxpayers millions of dollars annually in financial losses, including overpayments of Pell grants and awards to ineligible recipients.

Other types of federal programs and activities also risk making improper payments. Internal control deficiencies and other problems similar to those prevalent in programs that have acknowledged improper payments suggest that additional federal financial assistance programs, contract management activities, and other miscellaneous programs may also be particularly vulnerable to disbursing improper payments. For example, USDA's IG reported[39] numerous instances of improper payments in the Child and Adult Care Food Program (CACFP). According to examples noted by the IG, the owner of 16 day care centers defrauded USDA of approximately $27 million dollars by inflating meal counts for reimbursement. In another case, seven persons conspired to illegally obtain more than $1.1 million in CACFP funds over a period of about 10 years through a combination of false reimbursement claims and fictitious provider homes. CACFP, which disbursed over $1.5 billion in fiscal year 1999, provides reimbursements to state agencies for meals served to preschool and other children, as well as certain adults. The IG identified control weaknesses in oversight and monitoring and eligibility verification as well as program design issues, which impair CACFP's ability to prevent and detect fraud and improper payments.[40] Without a measurement of the full extent of improper payments, it is difficult to assess the appropriate level of management attention needed to mitigate these program risks.

Once agencies have implemented methodologies to estimate the amount of improper payments, they can use this information to develop error rates. Agencies may find it useful to compute the dollar amount of errors as a percentage of program outlays and the number of transaction errors as a

[39]*United States Department of Agriculture Office of Inspector General Audit Report: Food and Nutrition Service Child and Adult Care Food Program National Report on Program Abuses* (USDA OIG Audit Report # 27601-7-SF, August 23, 1999).

[40]USDA and others are taking a number of steps to improve the integrity of CACFP. The Agriculture Risk Protection Act of 2000 (P.L. 106-224) contained program integrity measures, such as site visits, and in a September 2000 proposed rule, USDA laid out revisions to existing criteria for approving and renewing institution applications. In addition, the Food and Nutrition Service (FNS) is undertaking comprehensive evaluations of all state agencies' effectiveness in managing the CACFP and has provided management improvement training to FNS and state agency staff.

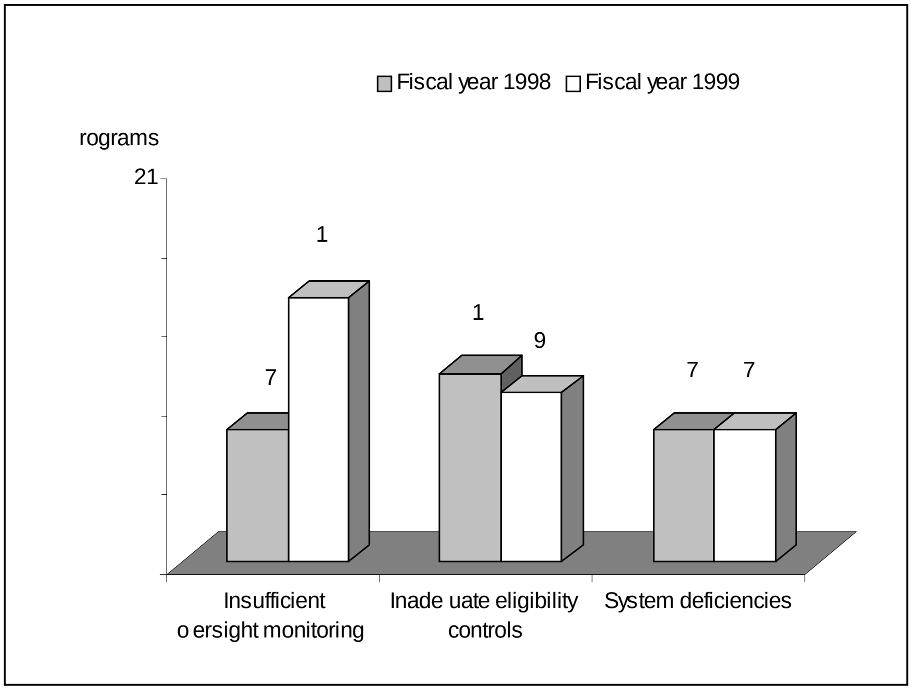
percentage of the total number of transactions processed. Management could then use these error rates to evaluate whether further action is needed to address improper payments.

Internal Control Weaknesses and Program Design Issues Contribute to Improper Payments

In our prior report, we described in detail how deficiencies in internal control across the federal government result in the payment of federal funds for purposes other than those originally intended. For example, certain agencies face challenges in ensuring adequate controls for assessing beneficiaries' initial and continued eligibility due to ineffective data sharing and sources of information.[41] Also, some agencies have insufficient oversight and monitoring mechanisms, such as site visits and reviews of appropriate documentation, to ensure the validity of payments—particularly for federal financial assistance programs. Systems deficiencies also contribute to improper payments when accurate, timely data are not available for payment decisions. Figure 2 illustrates our categorization of internal control weaknesses that continue to contribute to improper payments within the programs for which agencies reported improper payments.

[41] *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity* (GAO/HEHS-00-119, September 13, 2000).

Figure 2: Internal Control Weaknesses Continue to Cause Improper Payments



Note: For fiscal year 1998, 6 of 17 programs reporting improper payments had two or more internal control weaknesses reported in this chart. For fiscal year 1999, 7 of the 21 programs reporting improper payments had two or more internal control weaknesses reported in this chart.

Source: GAO analysis based on prior agency, IG, and GAO reports and work performed on these programs.

Our analysis of GAO and IG reports showed that insufficient federal monitoring and oversight of program expenditures exist in 14 of the 21 programs for which agencies reported improper payments in their fiscal year 1999 financial statements. In comparison, for those 17 programs that reported improper payments in their fiscal year 1998 financial statements, we identified 7 programs with monitoring and oversight-related weaknesses. Effective federal monitoring assesses the quality of performance over time and includes regular management and supervisory activities, such as periodic comparisons of expected and actual results and reconciliation of data to their source. Activities such as site visits, reviews of progress and financial reports filed by contractors and grantees, and reviews of contracts and grant agreements are also techniques federal officials often use to oversee and monitor programs.

The lack of sufficient oversight and monitoring controls can lead to improper payments by fostering an atmosphere that invites waste, fraud, and abuse. For instance, we have reported[42] that HCFA's insufficient oversight of the Medicare program hampered it from preventing improper Medicare payments. To fulfill its primary mission of providing health care coverage for approximately 40 million eligible individuals, Medicare pays contractors to process claims for health care services. These contractors are responsible for all aspects of claims administration and serve as HCFA's front line of defense against fraud and abuse. Yet, vulnerabilities in contractors' procedures for paying Medicare claims have created opportunities for unscrupulous providers to obtain unjustified payments.[43] These activities include billing for services never rendered, misrepresenting the nature of services provided, duplicate billing, and providing services that were not medically necessary. HCFA has recognized these weaknesses and taken a number of steps to strengthen oversight of its contractors and the integrity of the Medicare program.[44] Nevertheless, HCFA's most recent estimate of improper payments in its $164 billion Medicare Fee-for-Service program did not consider improper payments made as part of the $37 billion Medicare Managed Care program.[45] Therefore, Medicare-related improper payments could be more extensive than current estimates indicate.

Other programs at risk of making improper payments have similar issues. For example, we identified oversight and monitoring of grant recipients at the National Institutes of Health (NIH)—with over $17 billion appropriated in fiscal year 2000 to conduct and sponsor biomedical research—as an area in need of strengthening. We found that NIH did not effectively use

[42]*Medicare Contractors: Further Improvements Needed in Headquarters and Regional Office Oversight* (GAO/HEHS-00-46, March 23, 2000*); Medicare Contractors: Despite Its Efforts, HCFA Cannot Ensure Their Effectiveness or Integrity* (GAO/HEHS-99-115, July 14, 1999); and *Medicare: Improprieties by Contractors Compromised Medicare Program Integrity* (GAO/OSI-99-7, July 14, 1999).

[43]*Medicare Financial Management: Further Improvements Needed to Establish Adequate Financial Control and Accountability* (GAO/T-AIMD-00-118, March 15, 2000) and *Improper Fiscal Year 1999 Medicare Fee-for-Service Payments* (Department of Health and Human Services' Office of Inspector General Audit Report CIN: A-17-99-00199, February 17, 2000).

[44]*Medicare Contractors: Further Improvements Needed in Headquarters and Regional Oversight* (GAO/HEHS-00-46, March 23, 2000).

[45]Medicare beneficiaries have the option of enrolling in prepaid health care plans (typically health maintenance organizations) that are commonly referred to as managed care plans.

available information for deciding on grantees' eligibility for grant funds, and discrepancies existed between the data in its management, payment, and accounting systems that affect the accuracy of grant award amounts. These deficiencies could result in NIH's erroneously awarding grants to ineligible grant recipients and in funds being used for improper purposes.[46]

Our reviews of GAO and IG reports also highlighted that ensuring adequate controls over determining beneficiaries' eligibility often proves difficult for many agencies. Initial and/or continued eligibility determination problems were noted for 9 of the 21 programs that reported improper payments—down slightly from the 10 programs we identified as having similar deficiencies as part of our prior year report. For instance, the VA IG reported[47] that concurrent payments of VA Compensation and Pension (C&P) and the DOL-administered Workers' Compensation Program (WCP) compensation benefits were being paid for the same injury. The C&P program is VA's largest, with $21 billion in benefits paid to more than 3.3 million veterans and their survivors in fiscal year 1999. VA's fiscal year 1999 payments for WCP costs were approximately $129 million. WCP benefits are paid to federal employees and certain others when they are temporarily or permanently disabled due to injury or disease sustained while performing their duties. WCP and VA regulations prohibit concurrent payments for the same injury or disability; therefore, the claimant would be ineligible to receive benefits from both programs. However, through an automated analysis of WCP cases in VA's Workers' Compensation Management Information System and beneficiary claims in VA's C&P system, the IG identified 1,251 claimants who were potentially receiving dual benefits. The annual VA C&P award costs for these cases is estimated to be about $8.5 million.

Enhanced data sharing could improve agencies' efforts to make timely and accurate initial and/or continued eligibility determinations. However, legal restrictions designed to protect individual privacy, as well as management, administrative, and technological challenges, such as coordination among programs and agencies, and access to shared information and systems limit the ability of federally funded benefit and loan programs to effectively

[46] *NIH Research: Improvements Needed in Monitoring Extramural Grants* (GAO/HEHS/AIMD-00-139, May 31, 2000).

[47] *Audit of High-Risk Areas in the Veterans Health Administration's (VHA) Workers' Compensation Program (WCP)*, (VA OIG Audit Report Number 99-00046-16, December 21, 1999).

share information with one another. For example, a number of laws have been enacted over the past 25 years that limit access to sensitive data sources (or restrict how such data may be used) in an effort to protect individual privacy and the confidentiality of sensitive information or to address concerns about taxpayer compliance with tax laws. These statutes include section 6103 of the Internal Revenue Code, which governs the disclosure of taxpayer information; provisions in the Social Security Act that restrict access to the Office of Child Support Enforcement's National Directory of New Hires; and the Privacy Act (including the Computer Matching and Privacy Protection Act amendments of 1988), which balances the government's need to collect and maintain sensitive information about individuals against their right to privacy. [48]

In addition, deficiencies in agencies' automated systems, or the lack of systems, prevent personnel from accessing reliable and timely information, which is integral to making disbursement decisions. As a result, improper payments frequently occur because agency personnel lack needed information, rely on inaccurate data, and/or do not have timely information. Once again, in fiscal year 1999, agency systems deficiencies have been identified for seven programs reporting improper payments. For example, we reported[49] that in USDA's Food Stamp Program, over 3,000 disqualified individuals in four states reviewed were improperly counted as members in households that received food stamp benefits during calendar year 1997. The disqualified participation was due, in part, to (1) states not checking USDA's national database of disqualified individuals to determine if household members had been disqualified by another state or (2) delays in updating information in the database. Furthermore, USDA's database is incomplete and contains errors; therefore, even if state agencies check the database, they may not receive full and accurate disqualification information. Because USDA's most current annual estimate indicates that food stamp overissuances account for over 6.8 percent of the program's $19.1 billion in annual benefit costs, strengthening systems and related controls is a critical issue for USDA.

Other programs at risk of making improper payments demonstrate system deficiencies. For example, USDA's National Finance Center (NFC)

[48] *Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity* (GAO/HEHS-00-119, September 13, 2000).

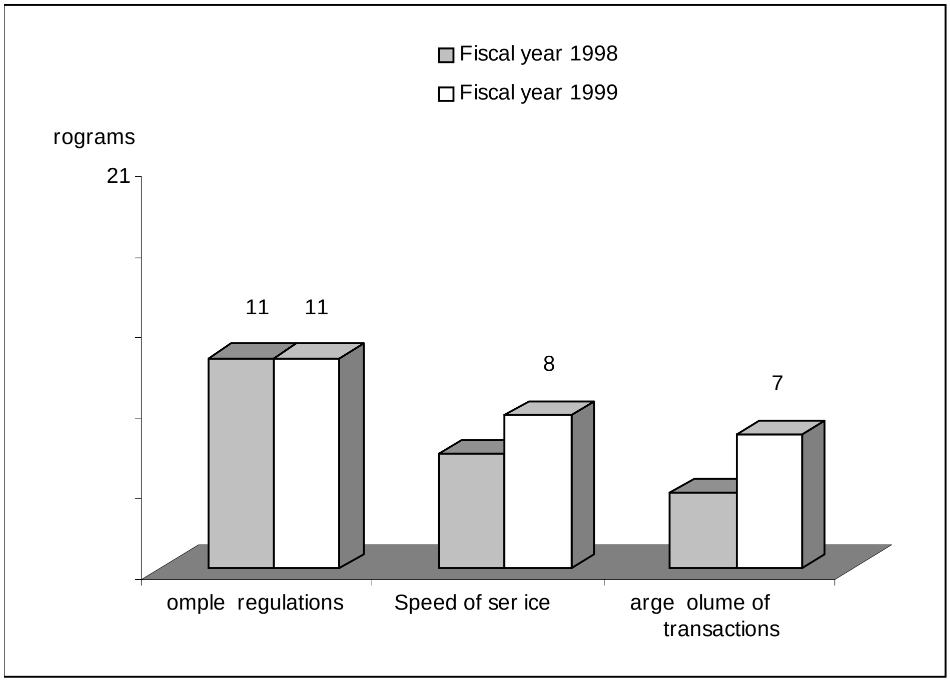
[49] *Food Stamp Program: Households Collect Benefits for Persons Disqualified for Intentional Program Violations* (GAO/RCED-99-180, July 8, 1999).

develops and operates administrative and financial systems, including payroll/personnel, administrative payments, accounts receivable, property management, and accounting systems for both USDA and more than 60 other federal organizations under cross-servicing or franchising agreements. NFC processed more than $19 billion in payroll payments for more than 450,000 employees from federal organizations, serviced more than $1 billion in accounts receivable, and processed more than 450 million accounting transactions in fiscal year 1998. NFC is also responsible for maintaining records for the world's largest 401(k)-type program, the federal Thrift Savings Program. Serious access control weaknesses affected NFC's ability to prevent and/or detect unauthorized changes to payroll and other payment data and computer software, control electronic access to Thrift Savings Program account information, and restrict physical access to sensitive computing areas. These weaknesses increased the risk that users could cause improper payments. NFC management recognized the seriousness of the weaknesses we identified and expressed its commitment to improving information system controls.[50]

The nature of a program can also contribute to the disbursement of improper payments. Many programs have complex program regulations, and several emphasize expediting payments or have high volumes of transactions to process. Absent compensating safeguards, these program design issues inherently increase the potential for improper payments. However, strengthening business practices and developing targets or goals for reducing improper payments can mitigate the risk of improper payments occurring. Also, measuring progress in relation to such targets or goals may serve as a measure of the effectiveness of an agency's improper payment reduction program. According to our analysis of GAO and IG reports, program design issues continue to be present in programs with improper payments, as illustrated in figure 3.

[50] *USDA Information Security: Weaknesses at National Finance Center Increase Risk of Fraud, Misuse, and Improper Disclosure* (GAO/AIMD-99-227, July 30, 1999).

Figure 3: Program Design Issues Continue to Contribute to Improper Payments



Note: For fiscal year 1998, 5 of the 17 programs had 2 or more program design issues. For fiscal year 1999, 8 of the 21 programs had 2 or more program design issues.

Source: GAO analysis based on prior agency, IG, and GAO reports and work performed on these programs.

Complex program regulations continued to be the most frequently cited program design issue contributing to the risk of improper payments. Previous GAO and IG reports disclosed this condition for 11 of the programs reporting improper payments in fiscal years 1998 and 1999. For example, the complexity of state Medicaid programs provides challenges for federal oversight because of the variations in managing these programs on a state-by-state basis. Medicaid—the primary source of health care for 12 percent of the U.S. population—provides matching grants to states based on formulas encompassing states' per capita income. States have a variety of options for program administration; they can elect to administer the program at the state or county level. Also, they can operate a fee-for-service program, a managed care program, or some combination of the two. States may also elect to operate their claims processing systems directly or contract with private vendors. Because of the size of this program—it disbursed approximately $109 billion in federal funds during fiscal year 1999—it is critical that HCFA comprehensively estimate its improper payments to assess its risk and determine appropriate actions to strengthen oversight controls. Such actions would help to ensure that HCFA is fulfilling its stewardship responsibilities for this program.

Another program, DOD's health care program, TRICARE, also has complex regulations that can lead to claims processing errors. DOD spends about $16 billion on health care for over 5 million beneficiaries, including active-duty personnel, military retirees, and dependents. TRICARE provides health care in military-operated hospitals and clinics worldwide and is supplemented by civilian providers. Of the many programs that TRICARE contractors administer—including Medicare and private plans—TRICARE is unique and the most complicated, contributing to claims processing difficulties.

In addition, speed of service issues, coupled with resource constraints, can affect improper payments. Many programs' missions emphasize speed of service. As a result, errors are more likely to occur, resulting in improper payments. We considered this condition to exist for 8 of the 21 programs with reported improper payments—up from the 6 programs we identified as having this issue in our prior report. For example, we noted this condition in the SSI program—the nation's largest cash assistance program paying $28.1 billion of benefits in fiscal year 1999. As we previously reported,[51] SSA and its Disability Determination Services staff said that they do not always follow procedures designed to deny or terminate benefits when program fraud and abuse is detected in the SSI program because they believe these procedures conflict with agency work incentives that stress speed in processing claims.

Speed of service issues also occur in agencies that had improper payments but did not report them. For example, IRS' ability to successfully meet the financial management challenges it faces must be balanced with the competing demands placed on its resources by its customer service and tax law compliance responsibilities. IRS is mandated to process tax refunds within 45 days of receipt of a tax return. If the refund is not processed within this time, IRS must remit interest payments to the taxpayer. However, IRS' systems were not designed to handle this volume of

[51] *Supplemental Security Income: Additional Actions Needed to Reduce Program Vulnerability to Fraud and Abuse* (GAO/HEHS-99-151, September 15, 1999).

information within the 45-day time frame. Further, we reported[52] that IRS lacks critical preventive controls, such as comparing the information on tax returns to third-party data such as W-2s (Wage and Tax Statements) and 1099s, because of the high volume of tax returns and the impact this could have on promptly processing tax returns and issuing refunds. As a result, the agency is unable to identify and correct discrepancies between these documents that allow duplicate refunds to be issued. Although IRS has compensating detective (post-refund) controls in place, they often occur months after the returns are submitted and processed and have significant gaps in their effectiveness. Insufficient preventive controls expose the government to potentially significant losses due to inappropriate disbursement of refunds. As we previously reported, the magnitude of improper payments disbursed by IRS is unknown but could be in the billions of dollars.

We recognize that delivering services expeditiously while ensuring that the right amount is paid to the right person poses a significant challenge for many agencies. Without state-of-the-art information management systems and appropriate sharing of data, agency personnel cannot readily access needed information for payment decisions and thus are hampered from preventing improper payments. Due to the diverse nature of programs, consulting with congressional oversight bodies would assist agencies when establishing targets and goals to reduce improper payments without impairing service delivery and would be an important means of obtaining agreement with Congress as to the expected results for each program.

A significant volume of claims or payments is also a factor that contributes to improper payments, especially when compounded with resource constraints and/or control weaknesses. Large volumes of claims were identified in 7 of the 21 programs with reported improper payments. For example, in a single year, Medicare contractors process approximately 870 million claims with limited time for processing, while SSA processes monthly payments to approximately 51 million individuals. IRS is another agency with large volumes of activity. IRS processed approximately 210 million tax returns, with 94 million involving refunds in fiscal year 1999 alone. Given the high volume of transactions, inadvertent clerical errors are more likely, and they could result in improper payments.

[52] *Financial Audit: IRS' Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, February 29, 2000).

For most of the agencies and programs we reviewed, multiple deficiencies in internal controls and program design issues resulted in improper payments. As a result, it is impractical to identify the dollar amount of improper payments stemming from each type of internal control weakness or design issue.

OMB Has Begun to Implement Recommendations to Help Agencies Estimate and Manage Improper Payments

To address the issues we identified relating to agencies identifying and reporting on improper payments, in last year's report we recommended that OMB

- develop and issue guidance to executive agencies to assist them in (1) developing and implementing a methodology for annually estimating and reporting improper payments for major federal programs and (2) developing goals and strategies to address improper payments in their annual performance plans and
- require agencies to (1) include a description of steps being taken to address improper payments in their strategic and annual performance plans when the level of improper payments is mission-critical and (2) consult with congressional oversight committees, as appropriate, on the projected target levels and goals for estimating and reducing improper payments, as presented in the agencies' annual performance plans.

OMB agreed that its focus on improper payments should be expanded. It also agreed with our recommendation calling for guidance to assist agencies in developing and implementing a methodology for annually estimating and reporting improper payments for major federal programs and developing goals and strategies to address improper payments in their annual performance plans. OMB also said that it expects agencies to include goals or objectives in their strategic plans if the level of improper payments was determined to be mission-critical.

To expand its focus on improper payments, OMB has broadened the Administration's PMO[53] related to error reduction to better focus its efforts to meet this governmentwide challenge. As such, the PMO now commits

[53]Priority Management Objectives focus the administration's efforts to meet some of the government's biggest management challenges. They are specific management initiatives covering a wide range of concerns—ranging from streamlining SSA's disability claims process to strengthening HCFA's management capacity.

OMB to issuing guidance to agencies in 2000 to ensure that the right person is getting the right benefit. In addition, the PMO calls for the administration to assist federal agencies in estimating the extent of, and addressing the underlying causes of, improper payments.

OMB has also undertaken a project to develop guidance to provide uniform reporting and disclosure of improper payments by agency management. As a first step, OMB sent out a Budget Data Request (BDR) to all CFO agencies to gather data it intends to use in formulating decisions about which programs should have improper payments estimates and where they should be reported. Specifically, the BDR requested information regarding

- the extent to which federal agencies are estimating and reporting improper payments,
- methodologies used for estimating improper payments, and
- obstacles or constraints to estimating improper payments.

OMB officials are currently evaluating agency responses and are working through inter-agency councils, such as the CFO Council and the PCIE to assist in their efforts related to improper payments.

In a previous report,[54] we noted that OMB planned to require agencies to develop and implement procedures to estimate and report the nature and extent of material improper payments in annual financial statements and have such information audited. However, OMB officials recently stated that they now plan to fully evaluate the BDR data before making a final determination of where OMB believes improper payments should be reported. In making this decision, OMB officials stated that they would consider requiring that improper payments be reported in agency performance reports, FMFIA reports, annual financial statements, or in a combination of these documents. We agree with OMB that each of these is an appropriate mechanism for reporting improper payments. However, at a minimum, we believe improper payments should be separately disclosed in

[54] *Financial Audit: 1999 Financial Report of the United States Government* (GAO/AIMD-00-131, March 31, 2000).

agency financial statements, to the extent they are material, and in FMFIA reports when they represent a material weakness.[55]

In the meantime, OMB continues to work with agencies individually to address the issue of improper payments in the way most appropriate to the individual programs. For example, OMB has worked with Education to reduce improper payments and improve collections of defaulted student loans and over-awards to grant recipients through data sharing efforts—including data matches with IRS and Office of Child Support Enforcement—to verify income and other eligibility factors of student aid applicants. In a related effort, OMB has drafted guidance to improve data sharing efforts among executive branch agencies.

We previously testified that OMB may need additional targeted resources to carry out its management functions.[56] We are encouraged by OMB's actions in seeking additional resources to carry out its work in this area. We believe that committing sufficient resources to this issue is integral for OMB to fulfill its leadership responsibilities in the area of improper payments.

Most Agency Financial and Performance Plans Do Not Comprehensively Address Improper Payments

As previously discussed, 12 agencies acknowledged making improper payments in 21 programs for fiscal year 1999. Based on our review of these agencies' fiscal year 1999 financial management and fiscal year 2001 performance plans, prepared under the CFO Act and GPRA, we found that most agencies are not comprehensively addressing improper payments. Where improper payments may be material, and in the case of GPRA, where they are deemed to be mission critical management problems, agency financial and performance plans should comprehensively address improper payments. Therefore, these plans should include goals and strategies to strengthen key internal controls and mitigate related weaknesses that may lead to improper payments. Also, in their

[55] OMB Circular A-123, *Management Accountability and Control*, defines an FMFIA material weakness as a deficiency that an agency head determines to be significant enough to be reported outside the agency (meaning included in the annual Integrity Act Report to the President and Congress). This designation requires a judgment by agency managers as to the relative risk and significance of deficiencies. In our view, such a material weakness would significantly impair the fulfillment of an agency's mission; deprive the public of needed services; violate statutory or regulatory requirements; or significantly weaken safeguards against fraud, waste, and abuse.

[56] *Office of Management and Budget: Future Challenges to Management* (GAO/T-GGD/AIMD-00-141, April 7, 2000).

performance reports, agencies should report the results of their efforts to achieve these goals. As would be expected, our work shows that most agencies that addressed improper payments in their performance plans also reported on these payments in their performance reports. Appendix III contains our assessment of the extent to which each agency reporting improper payments addressed them in its financial management and performance plans. Appendix IV contains our assessment of whether improper payments are discussed in performance reports.

Self-assessments, such as those contemplated under FMFIA for assessing internal controls, may be helpful in identifying significant programs at risk for improper payments. For programs at risk, the first step in addressing improper payments is to determine the magnitude of these payments. Agencies can then analyze the characteristics of these cases to identify the circumstances and root causes leading to the improper payments. Using this analysis, agencies can make cost-benefit decisions on systems and other internal control improvements to mitigate the risk of improper payments and establish and work toward performance goals to manage for results.

The use of appropriate performance goals relating to improper payments can focus management attention on reducing such payments. For example, HCFA has reported a national estimate of improper payments in its Medicare Fee-for-Service benefits since fiscal year 1996. Analysis of improper Medicare payments, as part of the financial statement preparation and audit process, led HCFA to implement several initiatives intended to enhance identification and reduction of improper payments. HCFA has also initiated efforts to prevent future improper payments. These initiatives included prepayment reviews of selected claims, an increase in the overall level of prepay and postpay claims reviews, and medical reviews of providers identified as having nonstandard billing practices. Annual estimates of improper payments in future audited financial statements as well as HCFA's annual performance report will provide information on the results of such efforts.

Without a systematic measurement of the extent of the problem, management cannot determine (1) if the problem is significant enough to require corrective action, (2) how much to invest in internal controls, or (3) the success of efforts implemented to reduce improper payments. For example, in fiscal year 1999, VA implemented a measurement system to determine the accuracy of veterans' benefit payments—the Systematic Technical Accuracy Review (STAR) system. Using the STAR system, the

Veterans Benefits Administration (VBA)—a component of VA—determined that in 1999 its regional offices were accurate only 68 percent of the time when making initial benefit decisions—a 4 percent increase over its 1998 rate identified during VBA's pilot of STAR. While this measure notes that VBA's regional offices have slightly increased their accuracy in making initial benefit decisions, it also indicates that VBA should focus additional attention on ensuring that correct decisions are made the first time. Acknowledging the need to improve the accuracy rate, VBA currently has a goal of achieving an 81-percent accuracy rate for its core workload in fiscal year 2000 and a long-term strategic goal to achieve a 96-percent accuracy rate. Although it is too early to determine whether VBA's efforts to meet its accuracy improvement goal will be met, the new STAR system represents an important step forward by VBA in identifying and correcting the causes of errors and establishing a baseline against which to measure results and progress.

Currently, there is no governmentwide guidance on how to develop mechanisms for identifying and estimating improper payments, which would help agencies to identify whether a need exists to address improper payments in their financial management, strategic, and performance planning processes. As previously discussed, OMB has initiated efforts to develop such guidance. Developing mechanisms to assess programs at risk and estimating improper payments would enable each agency's management to better understand the full extent of its problem. With these mechanisms in place, appropriate cost-beneficial corrective actions could be designed and implemented.

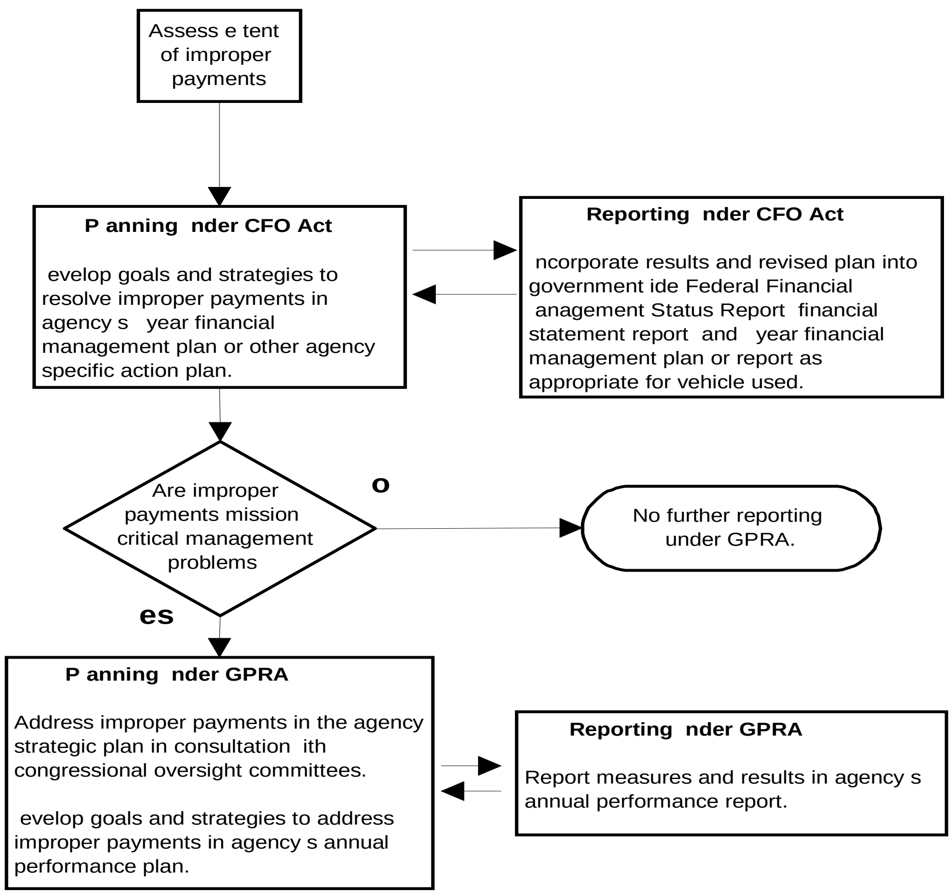
Although no governmentwide guidance currently exists for identifying and estimating improper payments, the CFO Act and GPRA provide a framework for OMB and agencies to report on efforts to minimize improper payments. Under the CFO Act, OMB is required to prepare and annually revise a governmentwide 5-year financial management plan and status report that discusses the activities the executive branch has undertaken to improve financial management in the federal government. Each agency CFO is responsible for developing annual agency-specific plans to support the governmentwide 5-year financial management plan. The CFO Act also requires OMB to provide the governmentwide 5-year plan and status report to appropriate congressional committees. This reporting process keeps the appropriate congressional committees informed of agencies' efforts to improve accountability and stewardship over federal funds.

As discussed earlier, under GPRA, agencies are required to prepare strategic plans that identify goals and objectives at least every 3 years. Complementing the strategic plans are annual performance plans that set annual goals with measurable target levels of performance and annual performance reports that compare actual performance to the annual goals. As such, agencies' annual performance reports should include a discussion of issues, such as improper payments, for those programs that identified related goals and strategies in their annual performance plans. GPRA also requires that OMB annually prepare a governmentwide performance plan as a part of the President's budget. The agency performance plans are the foundation for OMB's governmentwide plan.

The framework afforded by the CFO Act and GPRA suggests that agencies have a variety of mechanisms for reporting on improper payments, depending upon the magnitude or significance of those payments. OMB calls[57] for mission-critical management problems—those which prospectively and realistically threaten achievement of major program goals—to be discussed in agencies' strategic plans and also in their annual performance plans under GPRA. For programs providing financial assistance benefits, such as the Supplemental Security Income program, maintaining integrity and accuracy in the payment of benefits is critical to the missions of the programs. Ultimately, this is a decision for management to make considering the agency's other objectives and program goals. For those agencies where these payments are not deemed mission-critical, a vehicle for managing significant improper payments would be agency 5-year financial management plans developed under the auspices of the CFO Act or other vehicles, such as action plans. Figure 4 shows how the CFO Act and GPRA provide a broad structure under which agencies can report the status of their efforts to reduce improper payments.

[57] *Preparation and Submission of Strategic Plans, Annual Performance Plans and Annual Program Performance Reports*, OMB Circular A-11 Part 2, OMB/Executive Office of the President (Washington, D.C., as revised).

Figure 4: Reporting Improper Payments Within the Framework of the CFO Act and GPRA



Note: The planning and reporting stages become iterative as management assesses the relative success of internal controls employed to minimize improper payments.

Source: GAO analysis of GPRA and CFO Act reporting requirements.

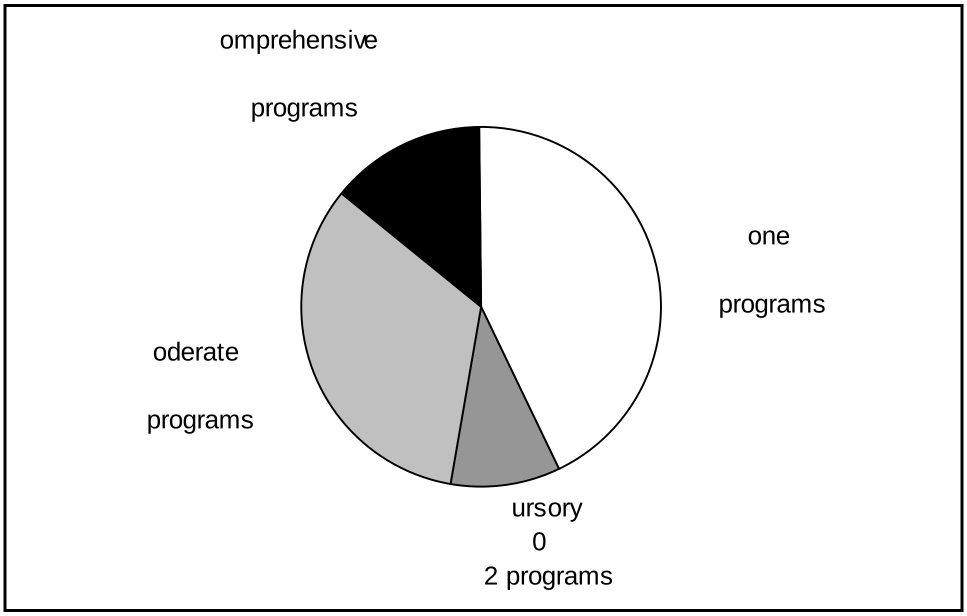
We evaluated the extent to which the 12 agencies that reported improper payments in their financial statement reports also addressed improper payments in their fiscal year 1999 financial management plans, fiscal year 2001 performance plans, and fiscal year 1999 performance reports.[58]

Based on our review of the 12 agencies' financial management plans, we found that only HHS, the Office of Personnel Management (OPM), and SSA comprehensively addressed improper payments using this framework for the Medicare Fee-for-Service, Federal Employees' Group Life Insurance, and Old Age and Survivors Insurance programs. These 3 programs represent 56 percent of the total program dollars for the 21 programs. In contrast, agency financial management plans for 11[59] of the 21 programs did not or only cursorily addressed improper payments, while financial management plans for the remaining 7 programs addressed improper payments in a moderate (that is, less than comprehensive) manner. Figure 5 illustrates our categorization of the degree to which the 21 programs addressed improper payments in agency financial management plans.

[58]We did not evaluate the extent to which DOJ and the Department of State addressed improper payments in their fiscal year 2001 performance plans and fiscal year 1999 performance reports because we do not believe that the acknowledged overpayments are mission-critical to these agencies. However, we did evaluate the extent to which their financial management plans addressed improper payments.

[59]Insignificant improper payments do not need to be discussed in agency financial management plans. The State Department is one agency that considered the amount of its improper payments to be insignificant. However, since we do not know the full extent of improper payments for each of the 12 agencies with improper payment disclosures, we reviewed the financial management plan information for each of these agencies.

Figure 5: Degree to Which 21 Programs Addressed Improper Payments in Agency Financial Management Plans



Legend:

None: Agency financial management plan does not address the issue of improper payments for this program.

Cursory: Agency financial management plan addresses the need to minimize improper payments but does not provide any substantive goals or strategies to minimize improper payments in this program.

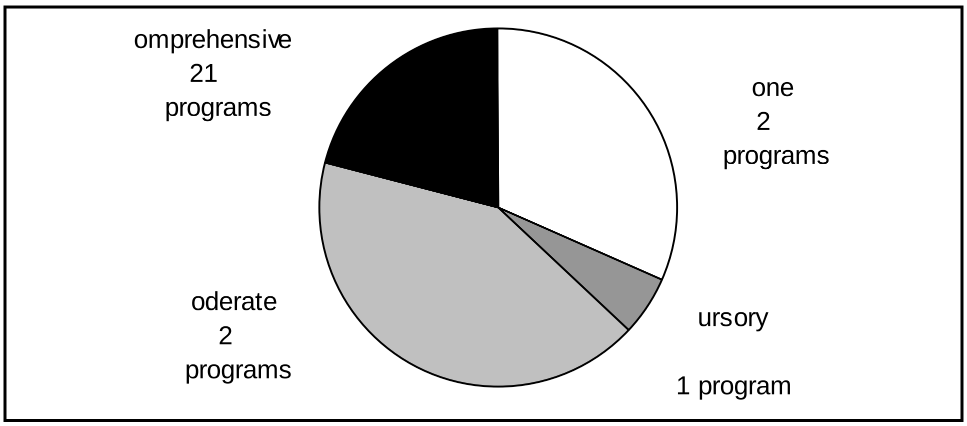
Moderate: Agency financial management plan has either goals to address improper payments or strategies to minimize improper payments in this program, but not both, or lacks a comprehensive approach.

Comprehensive: Agency financial management plan has goals and strategies that address key internal control weaknesses to minimize improper payments in this program.

Source: GAO analysis based on review of agency fiscal year 2000 financial management plans.

Similarly, four agencies—HHS, SSA, VA, and OPM—comprehensively addressed improper payments in their fiscal year 2001 performance plans. These agencies included both performance goals and strategies for minimizing improper payments for the Medicare Fee-for-Service, Old Age and Survivors Insurance, Veterans Benefits, and Federal Employees' Life Insurance programs as they had in their fiscal year 2000 performance plans. As shown in figure 6, these four programs represent 21 percent of those that reported improper payments, excluding the Departments of Justice and State, as discussed above. Agencies did not or only cursorily addressed improper payments for seven programs (37 percent) in their performance plans. For eight programs (42 percent), the respective agencies addressed improper payments in a moderate manner.

Figure 6: Degree to Which 19 Programs Addressed Improper Payments in Agency Performance Plans



Legend:

None: Agency performance plan does not address the issue of improper payments for this program.

Cursory: Agency performance plan addresses the need to minimize improper payments but does not provide any substantive performance goals or strategies to minimize improper payments in this program.

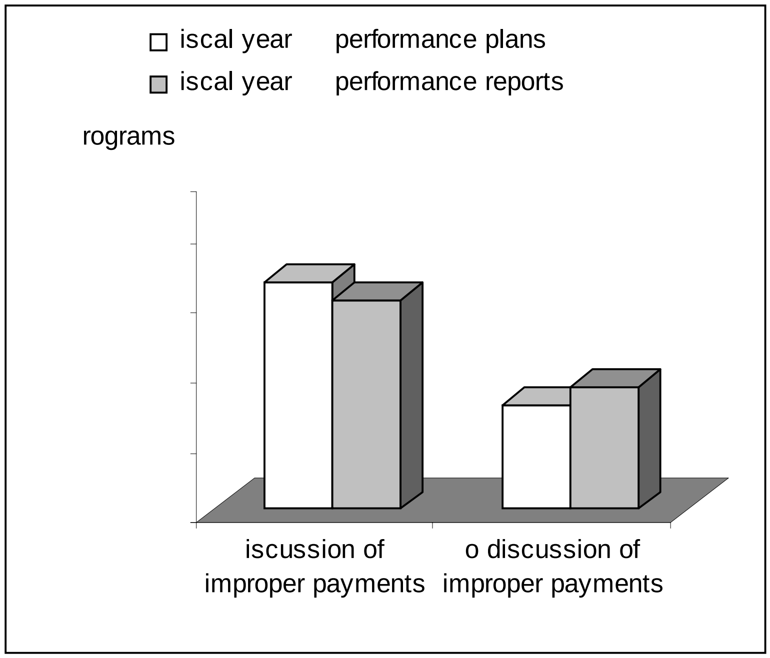
Moderate: Agency performance plan has either performance goals to address improper payments or strategies to minimize improper payments in this program, but not both, or lacks a comprehensive approach.

Comprehensive: Agency performance plan has performance goals and strategies that address key internal control weaknesses to minimize improper payments in this program.

Source: GAO analysis based on review of agency fiscal year 2001 performance plans.

Those agencies that addressed improper payments in their performance plans generally discussed improper payments in their performance reports as well. As shown in figure 7, 12 of the 13 programs for which agencies included at least a cursory discussion of improper payments in their fiscal year 2001 performance plans also discussed improper payments in their fiscal year 1999 performance reports. Likewise, for the six programs with no discussion of improper payments in the agency fiscal year 2001 performance plans, there was also no discussion of improper payments in their 1999 performance reports.

Figure 7: Discussion of Improper Payments in Agency Performance Plans and Performance Reports



Source: GAO analysis based on review of agency performance plans and performance reports.

Because some agencies are not comprehensively addressing improper payments in their financial management plans, performance plans, and/or performance reports, they may not consider the prevention of improper payments a priority or focus adequate attention on this issue. OMB Circular A-11, Part 1, includes guidance and criteria for agencies to follow in preparing and submitting their annual financial management plans. Specifically, the circular notes that agencies should include goals and strategies for implementing governmentwide financial management improvements.

OMB Circular A-11, Part 2, which serves as implementing guidance for agencies in preparing and submitting GPRA strategic and performance plans, states that agency plans should include goals for resolving mission-critical management problems. Circular A-11 also directs agencies to describe actions taken to address and resolve these issues in their performance plans by developing performance goals and discussing strategies. We have also advocated[60] that agencies address mission-critical management problems in their performance plans by developing performance goals and discussing strategies. Similarly, we previously recommended that OMB ensure that agencies incorporate PMOs—such as “verify that the right person is getting the right benefit”—in their performance plans to better guarantee attention and accountability.[61]

Our prior report indicates that additional guidance on improper payments may be helpful to agency managers. Without an appropriate methodology in place for estimating and reporting improper payments, agency managers cannot effectively establish performance and financial management goals for managing improper payments, and Congress and the public are not informed of the full extent of this problem.

Options to Improve Managing and Reporting of Improper Payments

Proactive leadership at the highest levels of government is one of the most important factors in prompting attention and action on critical stewardship issues. The administration, through OMB, is responsible for taking a leadership role in focusing attention and resources on the federal government's biggest management challenges, such as improper payments. Last year, we made specific recommendations to OMB designed to strengthen agency management and reporting of improper payments. These recommendations were to

- develop and issue guidance to executive agencies to assist them in (1) developing and implementing a methodology for annually estimating and reporting improper payments for major federal programs and (2) developing goals and strategies to address improper payments in their annual performance plans and
- require agencies to (1) include a description of steps being taken to address improper payments in their strategic and annual performance plans when the level of improper payments is mission-critical and (2) consult with congressional oversight committees, as appropriate, on the projected target levels and goals for estimating and reducing

[60] *Agency Performance Plans: Examples of Practices That Can Improve Usefulness to Decisionmakers* (GAO/GGD/AIMD-99-69, February 26, 1999).

[61] *The GPRA: Assessment of the Governmentwide Performance Plan for Fiscal Year 1999* (GAO/AIMD/GGD-98-159, September 8, 1998).

improper payments, as presented in the agencies' annual performance plans.

We are encouraged that OMB has initiated action on the first recommendation and is working to secure additional resources necessary for this effort. Expeditiously completing its current efforts and taking action to implement all of our recommendations will help to strengthen accountability over federal funds. Delays in implementing these recommendations will perpetuate the government's inability to reasonably gauge the extent of improper payments and take action to effectively prevent them.

In tandem with OMB, there are opportunities for Congress to leverage its oversight function to improve agency management and reporting of improper payments. For example, you recently sent a letter to the Federal Financial Accounting Standards Advisory Board requesting that it determine financial statement reporting and disclosure requirements for improper payments. Such action can facilitate improvements in this area. In addition, our experience in working with Congress on key federal management reforms, such as the CFO Act and GPRA, has shown that congressional oversight and related legislation provide momentum to achieve results, especially during presidential transition years.

Congressional consultations similar to those your office conducted as part of its review of agency performance plans prepared under GPRA, and related correspondence, have served to elevate attention and facilitate corrective action on major management challenges. Similar consultations could also improve agency management of improper payments. For example, for those agencies with mission-critical improper payments, Congress may consider encouraging agency consultation with oversight committees, such as those contemplated under GPRA. These consultations could focus on the projected target levels and goals for estimating and reducing improper payments and for addressing mission-critical improper payments in agency financial statements and performance plans.

To determine the progress made in managing improper payments, Congress could also consider holding regular oversight hearings. These hearings could be held by congressional oversight, appropriations, and authorization committees and focus on OMB's leadership role as well as agency progress related to improper payments on both a governmentwide and individual program level. These hearings could serve to highlight those agencies that are successfully managing improper payments and identify best practices to assist other agencies in this area.

Your Committee has suggested that it may take legislative action to improve agency reporting of improper payments. Legislative action may be ultimately required if Congress determines through its oversight that sufficient progress has not been made.

Conclusions

Reported amounts of improper payments totaled $20.7 billion in fiscal year 1999, resulting in the disclosure of important information for oversight and decision-making about some of the government's major programs. Twelve agencies took the initiative to report improper payments; however, in some instances, these estimates did not include all applicable programs and/or aspects of these programs. In addition, many agencies, including some of the 12, have yet to systematically identify, estimate, and report the nature and full extent of improper payments. As a result, the magnitude remains largely unknown. Compounding this problem, some agencies have not recognized the need to address and resolve improper payment problems in their financial management plans and, when these problems are mission-critical, incorporate and/or report on appropriate goals and strategies to resolve improper payments in their performance plans and reports.

Economic and demographic projections indicate that federal expenditures in certain programs will grow significantly. With billions of dollars at risk, agencies will need to continually and closely safeguard those resources entrusted to them and assign a high priority to reducing fraud, waste, and abuse. A first step for some agencies will involve assessing programs at risk and developing mechanisms to identify, estimate, and report the nature and extent of improper payments annually. Without this fundamental knowledge, agencies cannot be fully informed about the magnitude, trends, and types of payment errors occurring within their programs. As a result, most agencies cannot make informed cost-benefit decisions about strengthening their internal controls to minimize future improper payments or effectively develop goals and strategies to reduce them. Consulting with congressional oversight committees on the development of these goals and strategies is also important to obtaining consensus on how to address this multibillion dollar problem.

While we are encouraged by OMB's efforts to address one of our prior year recommendations, it is critical that OMB act quickly to implement all of these recommendations. Therefore, we continue to support our prior year recommendations. Furthermore, Congress has opportunities for applying its oversight function to institute lasting improvements in agency management and reporting of improper payments.

OMB Comments and Our Evaluation

In commenting on a draft of this report, OMB agreed that efforts to reduce improper payments require continued attention. OMB said it plans to issue guidance shortly that provides an overall framework for agencies to assess the risk of improper payments in their programs, take action to reduce the risk by strengthening controls where needed, and measure and report on progress.

As OMB observed, issuing guidance is one step in a long-term process to minimize improper payments. OMB also mentioned its concerns that legislative requirements, competing priorities, and program structure tend to limit agencies' ability to estimate and reduce the level of improper payments. In this regard, until agencies begin to comprehensively estimate and report improper payments, they will lack essential baseline information on which to develop and refine their strategies for minimizing improper payments. Sustained progress in achieving the requisite accountability over federal resources will require reliable information on the nature and extent of improper payments, detailed analysis to discern underlying causes, and continual efforts to strengthen internal controls. Data sharing and removing or mitigating the effect of any impediments are fundamental efforts that should be part of an ongoing initiative to enhance program integrity.

OMB further stated that, in its opinion, our report discussed deficiencies in agencies' efforts to minimize improper payments even though this was not a stated objective. OMB further expressed its belief that our report did not sufficiently balance criticism of agencies with information on agency efforts to deal with the problem of overpayments. We agree with OMB that it was not the specific intent of this report to identify deficiencies in agency efforts to minimize improper payments. We do offer data for key decisionmakers on the nature and extent of this problem, including characterizing the causes of improper payments, which have been extensively reported on in the past. Further, our report acknowledges that certain agencies have made proactive efforts to quantify improper payments and include this information in their financial statement reports. We specifically mentioned USDA's Food Stamp program and others. We are encouraged by DOL's use of its benefit accuracy measurement tool in its Unemployment Insurance programs and have added a reference to that effort in this report. Including the results of such useful and relevant information in the DOL's financial statements could be valuable to the users of those statements.

OMB's comments are reprinted in appendix V. OMB also provided informal technical comments, which we have incorporated as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we will not distribute this report until 30 days from its date. At that time, we will send copies of this report to Senator Joseph I. Lieberman, Ranking Minority Member, Senate Committee on Governmental Affairs; Representative Dan Burton, Chairman, and Representative Henry A. Waxman, Ranking Minority Member, House Committee on Government Reform; Senator Pete V. Domenici, Chairman, and Senator Frank R. Lautenberg, Ranking Minority Member, Senate Committee on the Budget; Representative John R. Kasich, Chairman, and Representative John M. Spratt, Jr., Ranking Minority Member, House Committee on the Budget. We will also send copies to the Honorable Jacob J. Lew, Director of the Office of Management and Budget, and the heads of the 24 CFO agencies and their respective agency CFOs and Inspectors General. Copies will also be made available to others upon request.

This report was prepared under the direction of Gloria L. Jarmon, Director, who may be reached at (202) 512-4476 or by e-mail at *jarmong.aimd@gao.gov* if you or your staff have any questions. Staff contacts and other key contributors to this report are listed in appendix VI.

Sincerely yours,

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

Executive Departments and Agencies Covered by the CFO Act

Department of Agriculture

Department of Commerce

Department of Defense

Department of Education

Department of Energy

Department of Health and Human Services

Department of Housing and Urban Development

Department of the Interior

Department of Justice

Department of Labor

Department of State

Department of Transportation

Department of the Treasury

Department of Veterans Affairs

Agency for International Development

Environmental Protection Agency

Federal Emergency Management Agency

General Services Administration

National Aeronautics and Space Administration

National Science Foundation

Nuclear Regulatory Commission

Office of Personnel Management

Small Business Administration

Social Security Administration

Agencies and Programs With Reported Improper Payments Included in the Agencies' Fiscal Year 1999 Financial Statements

Department of Agriculture

Commodity Credit Corporation

The Commodity Credit Corporation (CCC), a federal agency, was established by Executive Order in October 1933 and transferred to the Department of Agriculture (USDA) under the President's Reorganization Plan of 1939. CCC stabilizes, supports, and protects farm income and prices; assists with maintaining a balanced and adequate supply of agricultural commodities; and facilitates the distribution of these commodities. In fiscal year 1999, CCC's net cost of operations totaled approximately $24 billion.

Federal Crop Insurance Corporation

The Federal Crop Insurance Program was established in 1938 by the Federal Crop Insurance Act to protect crop farmers from unavoidable risks associated with adverse weather, plant diseases, and insect infestations. The USDA Risk Management Agency administers the Federal Crop Insurance Program through the Federal Crop Insurance Corporation (FCIC), a government-owned corporation. The federal government retains a portion of the insurance risk for all policies and pays private insurance companies a fee that is intended to reimburse them for the reasonable costs associated with selling and servicing crop insurance to farmers. In fiscal year 1999, FCIC had nearly 1.3 million crop insurance policies in force, with total premiums of $2.3 billion.

Food Stamp Program

The Food Stamp Program (FSP), enacted by the Food Stamp Act of 1964, is the nation's principal food assistance program. FSP enables low-income households to obtain a more nutritious diet by issuing monthly allotments of coupons or electronic benefits redeemable for food at retail stores. Eligibility and allotment amounts are based on household size and income as well as on assets, housing costs, work requirements, and other factors. In fiscal year 1999, 18.2 million individuals per month were provided food stamps for total annual program costs of $19.1 billion.

Department of Defense

Military Retirement Fund

The Military Retirement Fund (the Fund) was established by the Department of Defense (DOD) Authorization Act, 1984, for the accumulation of funds to finance the liabilities of DOD under military retirement and survivor benefit programs. The military retirement system administered by DOD applies to members of the Army, Navy, Marine Corps, and Air Force and is a funded, noncontributory defined benefit plan that provides nondisability retired pay, disability retired pay, retired pay for reserve service, and survivor annuity programs to military retirees and survivors. During fiscal year 1999, the Fund paid out approximately $32 billion in benefits to military retirees and survivors.

Department of Energy

The Department of Energy (DOE) was created by Congress in 1977 under the Department of Energy Organization Act, which consolidated the major federal energy functions into one cabinet-level department. DOE promotes secure, competitive, and environmentally responsible energy systems that serve the needs of the public. The agency manages a variety of energy programs through business lines that encompass energy resources, national security, environmental quality, science and technology, and corporate management. In fiscal year 1999, DOE incurred net costs of over $32 billion.

Department of Health and Human Services—Health Care Financing Administration

Medicaid

Medicaid, established in 1965 by Title XIX of the Social Security Act, is a federal-state matching entitlement program that pays for medical assistance for certain vulnerable and needy individuals and families with low incomes and resources. In fiscal year 1999, it provided health care assistance to an estimated 41.9 million persons, at a cost of about $109 billion dollars to the federal government. The Health Care Financing

Administration (HCFA) is responsible for the overall management of Medicaid; however, each state is responsible for managing its own program. Within broad federal statutory and regulatory guidelines, each state (1) establishes its own eligibility standards, (2) determines the types and range of services, (3) sets the rate of payment for services, and (4) administers its own program.

Medicare Fee-for-Service

Authorized by Title XVIII of the Social Security Act in 1965, Medicare is the nation's largest health insurance program, covering an estimated 40 million elderly and disabled at a cost of about $201 billion annually. The Medicare Program is administered by HCFA. While some beneficiaries participate in Medicare's $37 billion Medicare+Choice, its managed care program, most receive their health care from the $164 billion Fee-for-Service portion of Medicare. HCFA contracts with over 50 insurance companies to process fee-for-service claims; however, HCFA is responsible for overseeing these contractors and for ensuring that claims are paid accurately and efficiently.

Department of Housing and Urban Development

Housing Subsidy Programs

The Department of Housing and Urban Development's (HUD) Public Housing and Section 8 programs were established by the U.S. Housing Act of 1937 and the Housing and Community Development Act of 1974 (revising Section 8 of the U.S. Housing Act of 1937), respectively. These programs help eligible low-income families obtain decent, safe, and sanitary housing by paying a portion of their rent.

HUD's Public Housing Program is operated by approximately 3,200 public housing authorities (PHA), which operate under state and local laws and are funded by HUD. Public housing provides affordable shelter for low-income families consisting of citizens or eligible immigrants. Through the operating subsidy program, HUD provides an annual subsidy to help PHAs pay some of the cost of operating and maintaining public housing units. In fiscal year 1999, approximately 1.3 million public housing units were under management, with a net cost of about $2.9 billion.

The Section 8 programs assist low-income families. Residents in subsidized units generally pay 30 percent of their income for rent, and HUD pays the balance. Section 8 has two assistance programs: tenant-based and project-based assistance. Tenant-based assistance is linked to specific individuals; the project-based assistance is linked to housing units. In fiscal year 1999, the Section 8 programs assisted approximately 1.4 million households and had net costs of $15.7 billion.

Federal Housing Administration

Established under the National Housing Act enacted in 1934, the Federal Housing Administration (FHA) was merged into HUD when HUD was created in 1965. FHA administers a wide range of activities to make mortgage financing more accessible to the home-buying public and insures private lenders against loss on mortgages that finance single family homes, multifamily housing projects, health care facilities, property improvements, and manufactured homes. FHA's mortgage insurance program had approximately $551 billion in outstanding unamortized loan guarantees as of the end of fiscal year 1999.

Department of Justice

Federal Bureau of Investigation

Established in 1908 by the Attorney General, who directed that Department of Justice (DOJ) investigations be handled by its own staff, the Federal Bureau of Investigation (FBI) is the principal investigative arm of DOJ. The FBI's mission is to investigate violations of federal criminal law; to protect the United States from foreign intelligence and terrorist activities; and to provide leadership and law enforcement assistance to federal, state, local, and international agencies. Net program costs for fiscal year 1999 were approximately $3 billion.

Department of Labor

Federal Employees' Compensation Act

Enacted in 1916, the Federal Employees' Compensation Act (FECA) provides workers' compensation coverage to federal employees for work-related injuries or disease. FECA, administered by the Department of Labor (DOL), authorizes the government to compensate federal employees when they are temporarily or permanently disabled due to injury or disease sustained while performing their duties. In fiscal year 1999, DOL received over 166,000 federal injury reports and issued benefit payments of more than $2.5 billion.

Unemployment Insurance

Unemployment Insurance, enacted by Title IX of the Social Security Act of 1935, as amended, is the nation's response to the adverse effects of unemployment. The program's mission is to provide unemployed workers with temporary income support and to facilitate reemployment. By doing so, the program helps stabilize the economy. In fiscal year 1999, 7.1 million unemployed workers received approximately $ 20.5 billion from the program.

The program is administered by the states through a network of local claims offices and central offices in each state. These offices also are responsible for the collection of taxes from all subject employers. The program is financed through collections of taxes from employers by both the federal and state governments. In addition, each state is responsible for determining eligibility requirements and levels of compensation, including the length of time benefits are paid.

Office of Personnel Management

Federal Employees' Health Benefits Program

The Federal Employees' Health Benefits Program (FEHBP) was established by the Federal Employees Health Benefits Act of 1959 for the purpose of making basic hospital and medical protection available to active federal employees, annuitants, and their families through plans offered by carriers participating in FEHBP. In fiscal year 1999, there were 2.3 million federal civilian employees and 1.8 million annuitants enrolled in FEHBP. In total, FEHBP covers about 9 million individuals. The Office of Personnel Management's (OPM) fee-for-service and health maintenance organization program costs for fiscal year 1999 were approximately $17.6 billion.

Federal Employees' Group Life Insurance Program

The Federal Employees' Group Life Insurance (FEGLI) Program was established in 1954 by the Federal Employees' Group Life Insurance Act to provide federal employees and annuitants with group term life insurance. The program is administered pursuant to a contract with a life insurance company. In fiscal year 1999, FEGLI covered 90 percent of eligible employees and annuitants, as well as many of their family members, and paid claims in excess of $1.6 billion.

Retirement Program

The Retirement Program is a defined benefit retirement plan and includes two components: (1) the Civil Service Retirement System (CSRS), created in 1920 by the Civil Service Retirement Act, and (2) the Federal Employees' Retirement System (FERS), established in 1986 by the Federal Employees' Retirement System Act. CSRS is a stand-alone retirement plan intended to pay benefits for long-service federal employees and their survivors. CSRS covers most federal employees hired before 1984 and is closed to new members. FERS covers most employees first hired after December 31, 1983, and provides benefits to FERS annuitants and their survivors. Using Social Security as a base, FERS provides an additional defined benefit and a voluntary thrift savings plan. OPM administers only the defined benefit component of FERS. In fiscal year 1999, OPM had almost $44 billion in outlays, with over 2.3 million annuitants in CSRS, and approximately 109,000 in FERS.

Social Security Administration

Old Age and Survivors Insurance

In 1935, the Social Security Act established a program to help protect aged Americans against the loss of income due to retirement. The 1939 amendments added protection for survivors of deceased retirees by creating the Old Age and Survivors Insurance (OASI) Program. Employee and employer payroll tax contributions under the Federal Insurance Contributions Act (FICA) and the Self-Employment Contributions Act (SECA) finance this program. Administration of the program lies with the Social Security Administration (SSA). In fiscal year 1999, SSA directly disbursed $332.4 billion to 38 million beneficiaries under this program.

Disability Insurance

In 1956, the Social Security Act was amended to protect disabled workers against loss of income due to disability through creation of the Disability

Insurance (DI) Program. In 1958, amendments to the act expanded benefits to include dependents of disabled workers. As a result, the DI Program provides a continuing income base for eligible workers who have qualifying disabilities and for eligible members of their families before those workers reach retirement age. As authorized by the act, workers are considered disabled if they have severe physical or mental conditions that prevent them from engaging in substantial gainful activity. The condition must be expected to last for a continuous period of at least 12 months or to result in death. Once DI beneficiaries reach age 65, they and their families are converted to the OASI Program. The DI Program is financed by employee and employer payroll tax contributions under FICA and SECA. SSA, using assistance from 54 state Disability Determination Services to make required medical and vocational decisions, is responsible for administering the DI Program. In fiscal year 1999, SSA disbursed approximately $50.4 billion in monthly cash payments to 6.5 million beneficiaries.

Supplemental Security Income

In 1972, amendments to the Social Security Act established the Supplemental Security Income (SSI) Program. SSI provides cash assistance to financially needy individuals who are aged, blind, or disabled. General tax revenues finance this program. Many states supplement the federal SSI payment, choosing either to have SSA administer the supplement or to pay it directly. In fiscal year 1999, SSA disbursed approximately $28.1 billion in federal SSI payments to 6.6 million recipients. SSA also disbursed approximately $3.2 billion in state supplemental payments during fiscal year 1999.

Department of State

Foreign Service Retirement and Disability Fund

The Department of State was established in 1789 to advise the President on the formulation and execution of foreign affairs. It is the lead agency for the conduct of American diplomacy and is responsible for carrying out U.S. foreign policy at home and abroad. The Foreign Service Retirement and Disability Fund (FSRDF) is a State Department-administered trust fund that provides pensions to retired and disabled members of the Foreign Service. In fiscal year 1999, FSRDF disbursed over $500 million in benefits to annuitants.

Department of the Treasury

Customs Drawbacks/Refunds

Refunds are payments made to importers/exporters for overpayments or duplicate payments of duties, taxes, and fees when goods are originally imported into the United States. A drawback is a refund of duties and/or excise taxes already paid to Customs on imported goods which were either (1) never entered into the commerce of the United States because they were either exported or destroyed under Customs' supervision or (2) used (or substituted) in a process to manufacture articles which were exported from the United States or destroyed under Customs' supervision without being used.

Congress initially passed legislation authorizing drawbacks in 1789, citing the need to facilitate American commerce and manufacturing. Drawback privileges are provided by the Tariff Act of 1930. The rationale for drawbacks has always been to encourage American commerce or manufacturing, or both. It permits the American manufacturer to compete in foreign markets without the handicap of including in the costs, and consequently in the sales price, the duty paid on imported merchandise. Drawbacks are generally processed in Customs' port offices across the nation. In fiscal year 1999, payments related to drawbacks and refunds were over $1.1 billion.

Department of Veterans Affairs

In 1930, Congress consolidated and coordinated various veterans' programs with the establishment of the Veterans Administration. The Department of Veterans Affairs (VA) was established as a Cabinet-level department in March 1989. VA's mission is to administer the laws providing benefits and other services to veterans and their dependents and the beneficiaries of veterans. The Veterans Benefits Administration (VBA) administers VA's nonmedical programs, which provide financial and other assistance to veterans, their dependents, and survivors. The compensation and pension (C&P) program is VBA's largest, and in fiscal year 1999 VA paid approximately $21 billion in C&P benefits to more than 3.3 million veterans and their survivors.

Assessment of Financial Management Plans and Performance Plans for Those Agencies Reporting Improper Payments

Department or agency	Program/component	Degree to which fiscal year 1999 financial management plan addressed improper payments	Degree to which fiscal year 2001 performance plan addressed improper payments
Department of Agriculture	Commodity Credit Corporation	None	None
	Federal Crop Insurance Corporation	None	Moderate
	Food Stamp Program	Moderate	Moderate
Department of Defense	Military Retirement Fund	None	None
Department of Energy	Not specifically identified	None	None
Department of Health and Human Services	Medicare Fee-for-Service	Comprehensive[a]	Comprehensive
	Medicaid	Cursory	Moderate
Department of Housing and Urban Development	Housing subsidy programs	Moderate	Moderate
	Federal Housing Administration	None	None
Department of Justice	Federal Bureau of Investigation	None	Not Applicable
Department of Labor	Federal Employees' Compensation Act	Moderate[a]	Moderate
	Unemployment Insurance	Cursory[a]	Cursory
Office of Personnel Management	Federal Employees' Group Life Insurance	Comprehensive[b]	Comprehensive[b]
	Federal Employees' Health Benefits	None	None
	Retirement	Moderate	Moderate
Social Security Administration	Disability Insurance	Moderate	Moderate
	Old Age and Survivors Insurance	Comprehensive[b]	Comprehensive[b]
	Supplemental Security Income	Moderate	Moderate
Department of State	Foreign Service Retirement and Disability Fund	None	Not Applicable
Department of the Treasury – Customs	Drawbacks and refunds	None	None
Department of Veterans Affairs	Veterans Benefits	Moderate	Comprehensive

Legend:

None: Agency plan does not address the issue of improper payments for this program.

Cursory: Agency plan addresses the need to minimize improper payments but does not provide any substantive goals or strategies to minimize improper payments in this program.

Moderate: Agency plan has either goals to address improper payments or strategies to minimize improper payments in this program, but not both, or lacks a comprehensive approach.

Comprehensive: Agency plan has goals and strategies that address key internal controls to minimize improper payments in this program.

[a]The financial management plan addressed improper payments by including a pointer to the performance plan. Therefore, our assessment for the financial management plan was supplemented by our review of the performance plan.

[b]Although the agency plans did not include strategies for these programs, we assessed them as comprehensive because the related payment accuracy rates were over 99 percent for both the Old Age and Survivors Insurance and Life Insurance programs. Therefore, it may not be cost beneficial for these agencies to design and implement additional strategies to mitigate improper payments.

Source: GAO analysis based on a review of agencies' fiscal year 1999 financial management plans and fiscal year 2001 agency performance plans.

Assessment of Performance Reports for Those Agencies Reporting Improper Payments

Department or agency	Program/component	Discussion of improper payments included in most recent annual performance report
Department of Agriculture	Commodity Credit Corporation	No
	Federal Crop Insurance Corporation	Yes
	Food Stamp Program	Yes
Department of Defense	Military Retirement Fund	No
Department of Energy	Not specifically identified	No
Department of Health and Human Services	Medicare Fee-for-Service	Yes
	Medicaid	Yes
Department of Housing and Urban Development	Housing subsidy programs	No
	Federal Housing Administration	No
Department of Labor	Federal Employees' Compensation Act	Yes
	Unemployment Insurance	Yes
Office of Personnel Management	Federal Employees' Group Life Insurance	Yes
	Federal Employees' Health Benefits	No
	Retirement	Yes
Social Security Administration	Disability Insurance	Yes
	Old Age and Survivors Insurance	Yes
	Supplemental Security Income	Yes
Department of the Treasury – Customs	Drawbacks and refunds	No
Department of Veterans Affairs	Veterans Benefits	Yes

Source: GAO analysis based on a review of agencies' fiscal year 1999 performance reports.

Comments From the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

DEPUTY DIRECTOR
FOR MANAGEMENT

October 17, 2000

Mr. Jeffrey C. Steinhoff
Assistant Comptroller General
General Accounting Office
Washington, DC 20548

Dear Mr. Steinhoff:

Thank you for the opportunity to review the draft report, "Financial Management: Billions in Improper Payments Continue to Require Attention." We offer the following comments.

As you know, we all agree that efforts to reduce improper payments *do* require continued attention. As you mention in your report, one of OMB's Priority Management Objectives (PMO) included in the President's FY 2001 Budget is designed to help agencies "verify that the right person is getting the right benefit." Our PMO sets forth a multifaceted approach to the broader issue of preventing, controlling, and minimizing improper payments. To achieve significant and long-lasting improvements, we need to go beyond just estimating improper payments. We will issue guidance shortly that provides an overall framework for agencies to assess the risk of improper payments in their programs, take action to reduce the risk by strengthening controls where needed, and measure and report on progress.

We view this guidance as a step in a long-term process to minimize improper payments. For many programs, legislative requirements, competing priorities, and program structure limit agencies' ability to estimate and, more importantly, to reduce the level of improper payments. For example, data-matching among Federal agencies (and grantees administering Federal programs) can be an effective preventative control for minimizing improper payments, and a necessary tool for measuring improper payments; however, it is not legally available for some programs. There are also privacy concerns that must be addressed when considering data-matching and data-sharing techniques to prevent improper payments. Programs operated on a decentralized basis or by state governments or other grantees also present logistical challenges to effective controls. While our guidance will address these issues, agencies will need to develop strategies to minimize improper payments on a program-by-program basis, which will take time. As agencies work through these issues, we envision that we will be supplementing and refining our initial guidance.

Although identifying deficiencies in agencies' efforts to minimize improper payments (vs. quantifying the amount of improper payments reported in agency Fiscal Year 1999 financial statements) was not a stated objective of this report (draft report, page 3), the report nonetheless criticizes many agency efforts in this area. We are disappointed that the criticism is not balanced by acknowledging the good work already underway by agencies to deal with this problem. Two are particularly noteworthy. The Department of Agriculture's Food Stamp program, which operates as a Federal-State partnership, incorporates a strong quality control component into its operations to ensure that program benefits are properly delivered to eligible low-income households. The Department of Labor's Unemployment Insurance programs use a benefit accuracy measurement tool to reconstruct the claims process for samples of weekly payments using data verified by trained investigators.

We appreciate the opportunity to review this draft report. We have separately provided your staff with a number of program-specific comments and editorial suggestions. If you have any questions, please contact George Rippey on 395-5699.

Sincerely,

Sally Katzen

Sally Katzen

GAO Contact and Staff Acknowledgments

GAO Contact

Debra Sebastian, (202) 512-9385

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Related GAO Products

The following lists prior GAO products that were issued after October 29, 1999, and deal with improper, excess, erroneous, or overpayments. Related GAO products issued before October 29, 1999, can be found in *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments* (GAO/AIMD-00-10, October 29, 1999).

Financial Management: Financial Management Challenges Remain at the Department of Education (GAO-T-AIMD-00-323, September 19, 2000).

Medicare Improper Payments: While Enhancements Hold Promise for Measuring Potential Fraud and Abuse, Challenges Remain (GAO/AIMD/OSI-00-281, September 15, 2000).

Medicare: HCFA Could Do More to Identify and Collect Overpayments (GAO/HEHS/AIMD-00-304, September 7, 2000).

Medicaid: State Financing Schemes Again Drive Up Federal Payments (GAO-T-HEHS-00-193, September 6, 2000).

Health Care Fraud: Schemes to Defraud Medicare, Medicaid, and Private Health Care Insurers (GAO/T-OSI-00-15, July 25, 2000).

Department of Defense: Implications of Financial Management Issues (GAO/T-AIMD/NSIAD-00-264, July 20, 2000).

Medicare: Refinements Should Continue to Improve Appropriateness of Provider Payments (GAO/T-HEHS-00-160, July 19, 2000).

Medicaid: HCFA and States Could Work Together to Better Ensure the Integrity of Providers (GAO/T-HEHS-00-159, July 18, 2000).

Federal Health Care: Comments on H.R. 4401, the Health Care Infrastructure Investment Act of 2000 (GAO/T-AIMD-00-240, July 11, 2000).

Medicare Payments: Use of Revised "Inherent Reasonableness" Process Generally Appropriate (GAO/HEHS-00-79, July 5, 2000).

Defense Health Care: Opportunities to Reduce TRICARE Claims Processing and Other Costs (GAO/T-HEHS-00-138, June 22, 2000).

IRS' 2000 Tax Filing Season: IRS Measures Show Tax Processing Systems Performed Slightly Better Than in 1999 (GAO/GGD-00-146, June 16, 2000).

Debt Collection: Treasury Faces Challenges in Implementing Its Cross-Servicing Initiative (GAO/T-AIMD-00-213, June 8, 2000).

Contract Management: DOD's Use of Recovery Auditing (GAO/NSIAD-00-134, June 5, 2000).

NIH Research: Improvements Needed in Monitoring Extramural Grants (GAO/HEHS/AIMD-00-139, May 31, 2000).

Financial Management: Education's Financial Management Problems Persist (GAO/T-AIMD-00-180, May 24, 2000).

Social Security: Government and Other Uses of the Social Security Number Are Widespread (GAO/T-HEHS-00-120, May 18, 2000).

Department of Defense: Progress in Financial Management Reform (GAO/T-AIMD/NSIAD-00-163, May 9, 2000).

Medicare Home Health Care: Prospective Payment System Will Need Refinement as Data Become Available (GAO/HEHS-00-9, April 7, 2000).

Natural Resources Conservation Service: Additional Actions Needed to Strengthen Program and Financial Accountability (GAO/RCED-00-83, April 7, 2000).

Office of Management and Budget: Future Challenges to Management (GAO/T-GGD/AIMD-00-141, April 7, 2000).

Medicare: Improper Third-Party Billing of Medicare by Behavioral Medical Systems, Inc. (GAO/T-OSI-00-9, April 6, 2000).

Medicare: Concerns About HCFA's Efforts to Prevent Fraud by Third-Party Billers (GAO/T-HEHS-00-93, April 6, 2000).

Medicaid in Schools: Improper Payments Demand Improvements in HCFA Oversight (GAO/HEHS/OSI-00-69, April 5, 2000).

Medicaid in Schools: Poor Oversight and Improper Payments Compromise Potential Benefit (GAO/T-HEHS/OSI-00-87, April 5, 2000).

Auditing the Nation's Finances: Fiscal Year 1999 Results Continue to Highlight Major Issues Needing Resolution (GAO/T-AIMD-00-137, March 31, 2000).

Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2001 (GAO/OCG-00-8, March 31, 2000).

Medicare: Improper Third-Party Billing of Medicare by Behavioral Medical Systems, Inc. (GAO/OSI-00-5R, March 30, 2000).

Health Care Financing Administration: Three Largest Medicare Overpayment Settlements Were Improper (GAO/T-OSI-00-7, March 28, 2000).

Managing for Results: Using GPRA to Help Congressional Decisionmaking and Strengthen Oversight (GAO/T-GGD-00-95, March 22, 2000).

Medicare: HCFA Faces Challenges to Control Improper Payments (GAO/T-HEHS-00-74, March 9, 2000).

Food Stamp Program: Better Use of Electronic Data Could Result in Disqualifying More Recipients Who Traffic Benefits (GAO/RCED-00-61, March 7, 2000).

Financial Management: Education Faces Challenges in Achieving Financial Management Reform (GAO/T-AIMD-00-106, March 1, 2000).

Internal Revenue Service: Results of Fiscal Year 1999 Financial Statement Audit (GAO/T-AIMD-00-104, February 29, 2000).

HCFA: Three Largest Medicare Overpayment Settlements Were Improper (GAO/OSI-00-4, February 25, 2000).

Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance (GAO/T-AIMD-00-96, February 17, 2000).

Medicare: Methodology to Identify and Measure Improper Payments in the Medicare Program Does Not Include All Fraud (GAO/AIMD-00-69R, February 4, 2000).

Medicare: Lessons Learned from HCFA's Implementation of Changes to Benefits (GAO/HEHS-00-31, January 25, 2000).

Tax Administration: IRS' 1999 Tax Filing Season (GAO/GGD-00-37, December 15, 1999).

Skilled Nursing Facilities: Medicare Payment Changes Require Provider Adjustments But Maintain Access (GAO/HEHS-00-23, December 14, 1999).

Financial Management: Financial Management Weaknesses at the Department of Education (GAO/T-AIMD-00-50, December 6, 1999).

Food Assistance: Efforts to Control Fraud and Abuse in the Child and Adult Care Food Program Should Be Strengthened (GAO/RCED-00-12, November 29, 1999).

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