



Highlights of [GAO-12-573T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

Over the past decade, GAO has issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies. Fiscal year 2011 marked the eighth year of implementation of the Improper Payments Information Act of 2002 (IPIA), as well as the first year of implementation for the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPIA requires executive branch agencies to annually identify programs and activities susceptible to significant improper payments, estimate the amount of improper payments for such programs and activities, and report these estimates along with actions taken to reduce them. IPERA amended IPIA and expanded requirements for recovering overpayments across a broad range of federal programs.

This testimony addresses (1) federal agencies' reported progress in estimating and reducing improper payments; (2) challenges in meeting current requirements to estimate and evaluate improper payments, including the results of GAO's case study of the estimation methodology and corrective actions for the Foster Care program; and (3) possible strategies that can be taken to move forward in reducing improper payments. This testimony is primarily based on prior GAO reports, including the report released today on improper payment estimates in the Foster Care program. It also includes unaudited improper payment information recently presented in federal entities' fiscal year 2011 performance and accountability reports and agency financial reports.

View [GAO-12-573T](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

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IMPROPER PAYMENTS

Remaining Challenges and Strategies for Governmentwide Reduction Efforts

What GAO Found

Federal agencies reported an estimated \$115.3 billion in improper payments in fiscal year 2011, a decrease of \$5.3 billion from the prior year reported estimate of \$120.6 billion. According to the Office of Management and Budget (OMB), the \$115.3 billion estimate was attributable to 79 programs spread among 17 agencies. Ten programs accounted for about \$107 billion or 93 percent of the total estimated improper payments agencies reported. The reported decrease in fiscal year 2011 was primarily related to 3 programs—decreases in program outlays for the Unemployment Insurance program, and decreases in reported error rates for the Earned Income Tax Credit program and the Medicare Advantage program. Further, OMB reported that agencies recaptured \$1.25 billion in improper payments to contractors and vendors.

The federal government continues to face challenges in determining the full extent of improper payments. Some agencies have not reported estimates for all risk-susceptible programs, while other agencies' estimation methodologies were found to be not statistically valid. For example, GAO's recently completed study of Foster Care improper payments found that the Administration for Children and Families (ACF) had established a process to calculate a national improper payment estimate for the Foster Care program, which totaled about \$73 million for fiscal year 2010, the year covered by GAO's review. However, the estimate was not based on a statistically valid methodology and consequently did not provide a reasonably accurate estimate of the extent of Foster Care improper payments. Further, GAO found that ACF could not reliably assess the extent to which corrective actions reduced Foster Care improper payments.

A number of strategies are under way across government to help advance improper payment reduction goals. For example,

- Additional information and analysis on the root causes of improper payment estimates will assist agencies in targeting effective corrective actions and implementing preventive measures. Although agencies were required to report the root causes of improper payments in three categories beginning in fiscal year 2011, of the 79 programs with improper payment estimates that year, 42 programs reported the root cause information using the required categories.
- Implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as up-front validation of eligibility using data sharing, predictive analytic technologies, and training programs. Further, addressing program design issues, such as complex eligibility requirements, may also warrant further consideration.
- Effective detection techniques to quickly identify and recover improper payments are also important to a successful reduction strategy. Detection activities include data mining and recovery auditing. Another area for further exploration is the broader use of incentives to encourage states in efforts to implement effective detective controls.

Continuing work to implement and enhance these strategies will be needed to effectively reduce federal government improper payments.