

GAO

Report to the Subcommittee on  
Government Efficiency and Financial  
Management, Committee on Government  
Reform, House of Representatives

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October 2003

# FINANCIAL MANAGEMENT

## Status of the Governmentwide Efforts to Address Improper Payment Problems





Highlights of [GAO-04-99](#), a report to the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

## Why GAO Did This Study

Improper payments are a longstanding, widespread, and significant problem in the federal government. This past April, the Office of Management and Budget (OMB) estimated these payments to be about \$35 billion annually for major federal benefit programs. Importantly, this estimate does not account for all federal programs and activities and considers less than half of the \$2.3 trillion net cost of the federal government for fiscal year 2002.

Because of its continued interest and concerns regarding financial management in the federal government, the Subcommittee asked GAO to follow-up on the implementation of the recommendations contained in our August 2002 report ([GAO-02-749](#)).

Our 2002 report recommended that Chief Financial Officers Act (CFO Act) agencies take actions to minimize improper payments in their programs and activities and for OMB to assist agencies in developing methods to identify and implement those actions.

OMB described our report as largely fair and accurate. It characterized the administration's current efforts to reduce erroneous payments as the most comprehensive assessment of the government's payment processes in history.

[www.gao.gov/cgi-bin/getrpt?GAO-04-99](http://www.gao.gov/cgi-bin/getrpt?GAO-04-99)

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov).

## FINANCIAL MANAGEMENT

# Status of the Governmentwide Efforts to Address Improper Payment Problems

## What GAO Found

The ultimate success of the governmentwide effort to reduce improper payments hinges on each federal agency's diligence and commitment to identify, estimate, determine the causes of, take corrective actions on, measure, and report progress in reducing all improper payments.

While each of the 23 CFO Act agencies has assigned responsibility for the improper payment program to a senior official, GAO's discussions with officials at these agencies revealed a wide disparity in the progress made in implementing actions to perform risk assessments, identify and take actions to address internal control problems identified during the risk assessments, and publicly report the results of actions to reduce improper payments. Generally, the 14 CFO Act agencies that OMB Circular A-11 required to report erroneous payment information in their initial budget submissions were more active in conducting risk assessments, implementing corrective actions, and reporting on improper payments than the 9 CFO Act agencies not cited in the circular.

Officials at the 14 agencies noted that their agencies had completed risk assessments for 15 of the 44 programs cited in the circular. Of the 9 CFO Act agencies not cited in the circular, officials at only one agency stated that they had completed risk assessments of all of the agency's programs.

Not all agencies have implemented control activities to address internal control weaknesses identified through risk assessments designed to identify improper payments. While officials generally acknowledged that they had not fully assessed all of their programs and activities to identify program risks of improper payments, some stated that they had considered those risks when designing or modernizing their program's general internal control systems. Specifically, officials stated that their agencies were relying on general internal control activities already in place to manage improper payments.

Officials at each of the 23 CFO Act agencies stated that their agency would meet the reporting requirements in OMB's guidance on the implementation of the Improper Payments Information Act of 2002. This guidance calls for agencies to report significant amounts of improper payment information in their annual Performance and Accountability Reports. Depending on the agency and program, this reporting can begin as early as the fiscal year 2003 report but not later than the fiscal year 2004 report.

OMB has taken actions to address each of our recommendations. It has met with officials from each of the CFO Act agencies to provide assistance and has issued guidance for agencies' use in implementing their improper payment program including the performance of risk assessments, the identification of the causes of improper payments, and the issuance of reports on the results of the actions taken to reduce these payments.

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### Abbreviations

CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CFOC	Chief Financial Officers Council
COO	Chief Operating Officer
DCI	Data Collection Instrument
IG	Inspector General
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
PMA	President's Management Agenda

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

October 17, 2003

The Honorable Todd R. Platts  
Chairman  
The Honorable Edolphus Towns  
Ranking Minority Member  
Subcommittee on Government Efficiency and Financial Management  
Committee on Government Reform  
House of Representatives

Improper payments are a longstanding, widespread, and significant problem in the federal government and few would argue that the goal of reducing them is not a worthy one. This past April, the Office of Management and Budget (OMB) estimated these payments to be about \$35 billion annually for major federal benefit programs. Importantly, this estimate does not account for all federal programs and activities and considers less than half of the \$2.3 trillion net cost of the federal government for fiscal year 2002. In addition to these annual costs, the risk of improper payments and the government's ability to prevent them has important long-term implications. As the baby boom generation leaves the workforce, spending pressures will grow rapidly due to increased costs of programs such as Medicare, Medicaid, and Social Security. Other federal expenditures are also likely to increase.

Improper payments include amounts that should not have been made or were made for incorrect amounts. Specifically, they include inadvertent errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or rendered to ineligible beneficiaries; and payments resulting from fraud and abuse. Measuring improper payments and designing and implementing actions to reduce or eliminate them will not be easy. Agencies can have success in this area, but that success will be dependent on the design, development, and implementation of better internal controls. This will require strong support and active involvement from agency management, the administration, and the Congress. Once committed to a plan of action, all parties must remain involved and committed to the end goals and their support must be transparent to all.

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Our August 2002 report<sup>1</sup> called for a coordinated approach to address the governmentwide improper payment problem and recommended actions to be taken by federal agencies and OMB. Specifically, we recommended that the heads of all Chief Financial Officers Act (CFO Act) agencies assign responsibility for managing improper payments to a senior official, such as the Chief Financial Officer (CFO) or the Chief Operating Officer (COO), and that those responsibilities include

- establishing policies and procedures for assessing agency and program risks of improper payments;
- taking actions to reduce those payments; and
- reporting the results of the agency actions to agency management for oversight, and other actions, as deemed appropriate.

We also recommended that the Director of OMB

- develop information on improper payments and issue specific guidance to agencies that provides a comprehensive approach to reducing improper payments, including providing the transparency in reporting that is crucial to addressing the problem;
- work with agency officials to provide reasonable assistance in implementing corrective action plans developed to reduce improper payments;
- work with agency officials and the Congress to identify and help eliminate or reduce the barriers that restrict agency actions to reduce improper payments; and
- require agencies to report improper payment information in a specific, publicly available document.

Because of your continued interest and concerns regarding financial management in the federal government, you asked us to follow-up on the implementation of the recommendations contained in our 2002 report.

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<sup>1</sup>U.S. General Accounting Office, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, GAO-02-749 (Washington, D.C.: Aug. 9, 2002).

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Specifically, you requested that we determine the actions taken by the CFO Act agencies and OMB in designing and implementing programs to address our recommendations, including

- assigning responsibility for agency improper payment activities to a senior official,
- developing detailed action plans to determine the nature and extent of possible improper payments,
- identifying and implementing cost-effective control activities to address identified risk areas, and
- publicly reporting the results of their efforts.

Based on the results of our initial meetings with CFO Act agency officials, it became clear that many agencies were in the initial stages of designing and implementing actions to address the recommendations. Therefore, we limited our efforts to interviewing agency officials and obtaining documentation, when available, that identified and discussed agency actions on the recommendations. Again, because of the early stages of many of the agency actions, we did not assess the effectiveness of the agencies' efforts or independently validate the data they provided. We plan to concentrate on specific agency actions in future improper payments-related assignments. We also interviewed key OMB officials to determine the status of their actions to address the recommendations and the improper payment-related guidance that OMB issued in May 2003.<sup>2</sup> Appendix I contains further details on our scope and methodology.

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<sup>2</sup>OMB Memorandum M-03-13, *Improper Payments Information Act of 2002* (Public Law 107-300), May 21, 2003.

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## Results in Brief

The ultimate success of the governmentwide effort to reduce improper payments hinges on each federal agency's diligence and commitment to identify, estimate, determine the causes of, take corrective actions, and measure progress in reducing all improper payments. Our 2002 report recognized the significance of the governmentwide improper payment problem and addressed recommendations to the 23 CFO Act agencies<sup>3</sup> and OMB to focus attention on and take actions to reduce the problem. Subsequent to the issuance of our report, the Improper Payments Information Act of 2002<sup>4</sup> (Improper Payments Act) was enacted. This legislation required many of the same actions that we previously recommended to federal agencies and OMB and that you asked us to address in this report.

We recommended that each CFO Act agency assign responsibility for managing improper payments to a senior official and noted that this individual should be responsible for establishing policies and procedures for assessing risks of improper payments, taking actions to reduce improper payments, and publicly reporting the results of the actions taken. Based on discussions with officials at each of the 23 CFO Act agencies, a senior official, either the COO or the CFO, is now responsible for improper payment activities at each agency. The communication of the delegation of this responsibility varied by agency with 14 agencies issuing some type of agencywide announcement and 9 agencies assigning responsibility but making no official announcement of the action.

While officials at each of the 23 CFO Act agencies told us that they had assigned improper payment program responsibilities to a senior official, our discussions revealed a wide disparity in the progress made in performing risk assessments, identifying and taking actions to address internal control problems identified during the risk assessments, and publicly reporting on the results of actions taken to reduce improper payments. The 2002 version of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, section 57, *Information on*

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<sup>3</sup>We originally made recommendations to 24 CFO Act agencies. We subsequently omitted the Federal Emergency Management Agency, a CFO Act agency that became part of the Department of Homeland Security in March 2003.

<sup>4</sup>Pub. L. No. 107-300, 116 Stat. 2350 (2002).



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*Erroneous Payments*, required 14 CFO Act agencies<sup>5</sup> to report erroneous payment information in their initial budget submissions to OMB for 44 programs beginning with their fiscal year 2003 budget submissions. (GAO considers the terms “improper payments” and “erroneous payments” to be synonymous.) In general, these 14 agencies were more active in conducting risk assessments, implementing corrective actions, and reporting on improper payments than the 9 CFO Act agencies that were not cited in the circular. Despite this, discussions with officials at the 14 agencies revealed that the agencies had completed risk assessments for only 15 of the 44 programs cited in the circular. Further, these officials provided us with supporting documentation of these risk assessments for only 7 of the 15 programs. Of the 9 CFO Act agencies that were not cited in the circular, officials at only one agency stated that they had completed a risk assessment of the agency’s programs.

Another activity the agency improper payment designee should oversee is the identification and implementation of actions to address the internal control deficiencies identified by risk assessments. Not all agencies have implemented control activities to address internal control weaknesses identified through risk assessments designed to identify improper payments. Officials at the 14 agencies cited in OMB Circular A-11 told us that they have developed and implemented some internal control activities, such as data-matching and recovery auditing, based on the risk assessment results for 15 of the 44 programs cited in the circular.

While officials generally acknowledged that they had not fully assessed all of their programs and activities to identify program risks of improper payments, some stated that they had considered those risks when initially designing or modernizing their general program internal control systems. Specifically, officials stated that their agencies rely on general internal control activities already in place, and that they will make appropriate modifications to their control systems once risk assessments are completed.

Our earlier review of agency fiscal year 2002 Performance and Accountability Reports showed that the type and amount of improper payment information reported were inconsistent across federal agencies. Public reporting of this information is critical to change and, under OMB’s

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<sup>5</sup> The circular required certain improper payment-related actions by 15 federal agencies—14 CFO Act agencies and the Railroad Retirement Board.

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guidance for implementing the Improper Payments Act, agencies are to publicly report the results of their actions to reduce improper payments. This guidance calls for agencies with significant amounts of improper payments to report improper payment-related information in their annual Performance and Accountability Reports. Depending on the agency and program, this reporting can begin as early as the fiscal year 2003 report but not later than the fiscal year 2004 report. Officials at each of the 23 CFO Act agencies stated that their agencies will meet the reporting requirements.

OMB has taken several actions to address our recommendations. It has issued guidance for agencies' use in implementing their improper payment programs including the performance of risk assessments, determining the causes of improper payments, and reporting on the results of the actions taken to reduce improper payments. In addition, OMB officials stated that they have met with officials from each CFO Act agency to provide improper payment-related assistance and to ensure that agencies (1) understand the requirements set forth in the guidance implementing the Improper Payments Act, (2) have started to inventory their programs and activities to identify those at significant risk of improper payments, (3) understand the risk assessment process, and (4) understand the reporting requirements.

OMB officials also noted that they are working with agency officials and the Congress to identify and eliminate barriers that restrict agency actions to reduce improper payments, such as restricted access to data for eligibility verification and limited funding for the costs of eligibility reviews and other stewardship integrity activities. They further told us that, based on these discussions, they have initiated several actions, such as proposing legislation designed to improve certification of eligibility and allocating funds in the federal budget, to help measure, reduce, and recover improper payments.

In commenting on this report, OMB stated that the report provided an assessment of the administration's initiative to reduce erroneous payments that is largely fair and accurate. The response further noted that the administration's initiative to reduce improper payments is the most comprehensive assessment of the government's payment processes in its history. It further suggested changes to the report to reflect the progress made, or the benefits that have been, or will be, achieved when the administration's initiative is fully implemented.

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## Background

As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of dollars and is responsible for safeguarding those funds against improper payments. Our work over the past several years has demonstrated that improper payments are a significant and widespread problem in federal agencies. In addition, reports such as the Senate Committee on Governmental Affairs' *Government at the Brink*,<sup>6</sup> the administration's *President's Management Agenda, Fiscal Year 2002*<sup>7</sup> (PMA), and the House Committee on Government Reform's *The Federal Government's Continuing Efforts to Improve Financial Management*<sup>8</sup> highlight the impact of improper payments on federal programs and the need for actions to strengthen the system of internal control over areas where improper payments occur.

Our past reports have shown that relatively few agencies report improper payments in their financial statements, even though our audits and those of agency offices of the Inspector General (IG) continue to identify serious improper payment problems and related internal control issues. Federal agency financial statements for fiscal years 2000, 2001, and 2002 reported improper payments of about \$20 billion each year. In April 2003, OMB estimated that improper payments amount to about \$35 billion annually for major federal benefit programs. Importantly, this estimate does not account for all federal programs and activities and considers less than half of the \$2.3 trillion net cost of the federal government for fiscal year 2002.

The PMA includes five governmentwide initiatives—one of which is improved financial management. This initiative calls for the administration to establish a baseline on the extent of erroneous payments. Under it, agencies were to include, in their 2003 budget submissions to OMB, information on improper payment rates, including actual and target rates, where available, for benefit and assistance programs over \$2 billion. The PMA also notes that, using this information, OMB will work with agencies

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<sup>6</sup>Senator Fred Thompson, Committee on Governmental Affairs, United States Senate, *Government at the Brink, Volume I, Urgent Federal Government Management Problems Facing the Bush Administration* (Washington, D.C.: June 2001).

<sup>7</sup>Executive Office of the President, Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

<sup>8</sup>Dan Burton, Committee on Government Reform, United States House of Representatives, *The Federal Government's Continuing Efforts to Improve Financial Management* (Washington, D.C.: Oct. 2002).

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to establish goals to reduce improper payments identified in their programs.

In July 2001, as part of its efforts to advance the PMA initiative, OMB revised Circular A-11 to require 16 federal agencies (15 CFO Act agencies and the Railroad Retirement Board) to submit erroneous payment data, assessments, and action plans for about 50 programs to OMB with their initial budget submissions. Specifically, the circular required that agencies submit information including estimated erroneous payment rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets or goals established. In addition, agencies were to provide a description and assessment of the current methods for measuring the rate of erroneous payments and the quality of data resulting from these methods. Based on an August 2001 memorandum from the Deputy Controller, OMB, to the CFOs and budget officers of executive departments and agencies, agencies were to first include this erroneous payment information in their initial fiscal year 2003 budget submissions. A June 2002 revision to the circular reduced the number of CFO Act agencies required to submit erroneous payment data to 14 (OMB removed the Agency for International Development from the list) and reduced the number of programs for which improper payment information was required to 44. (Appendix II lists the agencies and programs.) In July 2003, OMB revised the circular by eliminating the requirement for information on improper payments. Despite this action, OMB officials have stated that they will require the agencies cited in the earlier version of the circular to report their efforts to reduce improper payments in the programs previously identified in the circular.

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## Recent Legislation Targets Improper Payments

In November 2002, the Congress passed the Improper Payments Act. The requirements of the act correspond to the recommendations in our 2002 report. Specifically, it requires agency heads to annually review all programs and activities that they administer and identify those that may be susceptible to significant improper payments. Once agencies identify their susceptible programs, the act requires them to estimate the annual amount of improper payments in those programs and activities. For programs for which estimated improper payments exceed \$10 million, agencies are to report to the Congress on the actions they are taking to reduce those payments. The report is also to include a discussion of the causes of the improper payments identified, actions taken to correct those causes, and the results of the actions taken to address those causes. It further requires

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OMB to prescribe guidance for federal agency use in implementing the act. OMB issued this guidance in May 2003.

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## Executive Agency Actions to Implement Recommendations

While all 23 CFO Act agencies have assigned responsibility for improper payment activities to a senior official, we found limited progress in the performance of risk assessments, the design and implementation of actions to address improper payment problems identified, and public reporting of improper payment amounts. Of the 23 CFO Act agencies, OMB Circular A-11 (2002)<sup>9</sup> required 14 agencies to report improper payment information in their initial budget submissions to OMB beginning with their fiscal year 2003 submissions. However, even though the requirements have existed for two years, the applicable agencies have only conducted risk assessments for 15 of the 44 programs listed in the circular. In addition, these agencies had implemented more of our recommendations than the 9 CFO Act agencies not cited in the circular.

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## Assign Responsibility to a Senior Official

Officials at each of the 23 CFO Act agencies told us that a senior official now has responsibility for managing improper payments. The communication of that responsibility varied by agency with 14 agencies issuing some type of announcement of the designation and 9 agencies making no formal announcement of the assignment.

**Recommendation:** The head of each CFO Act agency should assign responsibility to a senior official, such as the COO or the CFO, for establishing policies and procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate.

By focusing their attention on and communicating their intent to reduce improper payments throughout an organization and to all affected organizational units and individuals, top-level officials set the stage for change. They instill a culture of accountability by adopting a positive and supportive attitude toward improvement and the achievement of established program outcomes. They also establish a transparent environment in which their expectations for program improvement are

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<sup>9</sup>Unless noted otherwise, when referring to OMB Circular A-11 in this report, we are referring to the circular as revised in June 2002.

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clearly defined and accountability for achieving these improvements is set. The actions of these officials should include setting and maintaining the ethical tone, delegating roles and responsibilities, and implementing human capital initiatives clearly communicating the need for change.

Based on our discussions with officials at the 23 CFO Act agencies and review of documents that they provided, 21 agencies have assigned responsibility for managing improper payments to the agency CFO and 2 have assigned the responsibility to the COO. This assignment of responsibility was communicated to agency personnel by various means. Fourteen of the agencies made either oral or written announcements of the designation and 9 made no formal announcement. Specifically, agency officials described the communication of the assignment as follows.

- Nine agencies communicated the assignment by issuing written communications or sending e-mail to bureau CFOs or office directors.
- Four agency officials told us that the agency had communicated this assignment agencywide through staff meetings.
- One agency communicated the assignment orally through high-level meetings held with executive management or department CFOs.
- Officials at five agencies told us that, while the role was assigned to an agency official, there was no official communication or documentation of the assignments.
- Officials at four agencies informed us that job descriptions in the agency personnel manual, agency policies, directives, and delegations of authority—which usually give a broad range of financial management responsibility to the CFO/COO but do not specifically mention improper payments—sufficiently covered the assignment and the agencies did not issue any formal or official communication to agency staff regarding the designated agency official’s improper payment responsibilities.

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Regardless of the method used to delegate improper payment responsibilities and communicate that delegation, successful implementation of an improper payment program depends on the ability of the individual given the responsibility to set the tone that the organization regards improper payments as unacceptable. This may require a change in organizational culture for some agencies and programs. In the organizations we studied in our executive guide,<sup>10</sup> the pressures for change applied by top management were instrumental as change agents. These officials not only defined and communicated a need for improved program operations but, most important, they redefined the organizational culture. Further, by being transparent in redefining the culture, top management set expectations and obtained buy-in on the need for and importance of change from individuals throughout the organizations. This culture of accountability was essential to begin the critical next step in managing improper payments—the risk assessment process.

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### Status of Actions to Determine the Nature and Extent of Improper Payments

Based on our discussions with officials at the 23 CFO Act agencies, 9 of the 14 CFO Act agencies cited in OMB Circular A-11 had not yet developed action plans to conduct or had conducted risk assessments for all of their programs and activities cited in the circular. Officials at 8 of the 9 CFO Act agencies not cited in the circular stated that their agencies were in the initial stages of developing action plans to perform risk assessments. Officials at the other agency stated that the risk assessments have been completed.

**Recommendation:** Develop detailed action plans to determine the nature and extent of possible improper payments for all agency programs and/or activities spending federal funds.

Agencies demonstrate a strong control environment and interest in addressing improper payment issues by taking appropriate actions to address risks. An essential element of developing an action plan is the completion of a risk assessment, which can be used to prioritize time and resources and set error rate reduction targets. A risk assessment is a key step in gaining assurance that programs are operating as intended and are achieving their expected outcomes. It entails a comprehensive review and

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<sup>10</sup>U.S. General Accounting Office, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: Oct. 2001).

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analysis of program operations to determine where risks exist, what those risks are, and the potential or actual impact of those risks on program operations. The specific risk assessment methodology used can vary by organization because of differences in missions and the methods used in assigning risk levels. The information developed during a risk assessment forms the foundation or basis upon which management can determine the nature and type of corrective actions needed. It also gives management baseline information for measuring progress in reducing improper payments.

The performance of risk assessments will make information on the causes and extent of improper payments available to agency officials, program managers, and others with oversight and monitoring responsibilities. While no requirement to perform assessments to identify the risk of improper payments for all agency programs and activities existed prior to the Improper Payments Act, OMB Circular A-11 required that 14 CFO Act agencies perform these assessments for 44 selected programs. Specifically, the circular required the agencies to

- determine program-wide estimates for each listed program for which erroneous payments are currently being estimated,
- provide the implementation status of action plans to perform risk assessments or develop baseline estimates for programs that are not currently estimating erroneous payments,
- provide the status of action plans for preventing and/or reducing erroneous payments for all programs cited in the circular, and
- report the results of these assessments in agency initial budget submissions to OMB.

The Improper Payments Act and the related OMB guidance to implement the act extended the improper payment requirements to programs and activities beyond those cited in OMB Circular A-11. The act requires all agencies

- to review all programs and activities and identify those that are susceptible to significant improper payments;



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- to identify programs where the risk of improper payments is significant, estimate the annual amount of improper payments, and submit those estimates to the Congress;
  - that identify programs with estimates of improper payments that exceed \$10 million, to include, with the improper payment estimates, a report discussing the causes, actions taken, and results of actions taken to address those causes. The report should also include a statement regarding the capability of the agencies' information systems and infrastructure to reduce improper payments or a description of the related resources needed to do so, as well as a description of the steps the agency has taken to ensure that agency managers are held accountable for reducing improper payments.

Although the act did not quantify “significant improper payments,” OMB’s May 2003 guidance on implementing the act—which we will discuss later in this report—defined the term as “annual erroneous payments in the program exceeding both 2.5 percent of program payments and \$10 million.”

As a result of OMB Circular A-11, improper payment-related identification and reporting requirements existed at 14 of the CFO Act agencies before such requirements existed at the remaining 9 CFO Act agencies. Because of this earlier requirement, we will summarize and present the results of our interviews and documentation reviews for the 14 agencies cited in the circular separately from the 9 CFO Act agencies not cited.

We found that, according to agency officials, 9 of the 14 CFO Act agencies cited in OMB Circular A-11 had not yet developed action plans to conduct or had conducted risk assessments for all of their programs and activities cited in the circular.

- While the agencies identified in OMB Circular A-11 are responsible for additional programs and activities other than those identified in the circular, agency officials told us that the focus at those agencies has been on the programs cited in the circular. They further stated that their primary attention was on programs of higher risk or those constituting larger dollar amounts.
- Agency officials told us that they had completed risk assessments for 15 of 44 programs cited in the circular. Officials could provide us with supporting documentation of these risk assessments for only 7 of the 15 programs.

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- We found that three of the agencies that had not completed comprehensive risk assessments of a circular program had estimated and reported improper payment amounts in those programs in their annual Performance and Accountability Reports. Another agency was able to report improper payment estimates because, according to agency officials, it had assessed a portion of its programs listed in the circular. However, they further told us that they were still assessing other aspects of their programs for the risk of improper payments and would consider additional controls and revise their estimate based on the assessment results.
  - Officials at five of the agencies stated that the significance of the risk of improper payments in their programs—including some of the OMB Circular A-11 programs—that were not yet assessed was unknown. Officials at two CFO Act agencies identified in the circular told us that they believed the risk of improper payments in the programs not yet assessed was insignificant, but acknowledged that they had not performed detailed risk assessments to confirm that view.

Prior to the passage of the Improper Payments Act, the nine CFO Act agencies not cited in the circular had no requirement to perform the improper payment-related activities called for in the legislation. In general, we found that most of these agencies were in the initial stages of developing action plans to perform risk assessments, as indicated below.

- Seven agencies were in the process of planning and developing action plans for conducting risk assessments of their programs and activities.
- One agency had completed its risk assessments and provided us with supporting documentation. The agency requires department managers to submit quarterly reports on improper payments and then, based on a review of those reports, may require corrective actions such as automating a previous manual process or providing training to individuals processing payments. According to agency officials, these detailed reports allow agency leaders to continually monitor payment performance.
- One agency had no plans to conduct a risk assessment because the agency only made administrative payments, such as payroll and commercial and travel payments, and did not consider those payments to be susceptible to improper payments.

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While we found that most improper payment-related risk assessments conducted focused on the OMB Circular A-11 programs, under the requirements of the Improper Payments Act, all agencies are now required to annually assess all of their programs and activities for improper payments. OMB's guidance for agency implementation of the Improper Payments Act states that agencies are required to annually review all programs, identify those susceptible to significant erroneous payments, and maintain documentation to support the review and the results.

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### Agency Actions to Identify and Implement Control Activities to Reduce Improper Payments

By identifying programs and activities with improper payments and the causes of these payments, risk assessments set the stage for the identification, design, and implementation of control activities to address the causes of the problems. We found that, although most agencies acknowledged that they had not fully assessed all of their programs and activities to identify the magnitude of improper payments, if any, some stated that they had addressed those risks when initially designing or modernizing their general program internal control systems. Specifically, the agency officials we interviewed said that they rely on general internal control activities already in place to minimize improper payments. These general internal control activities include data-sharing, computer-editing techniques, on-site visits, manual claims reviews, prepayment accuracy reviews, inspector general reviews, and postpayment recovery audits. Further, some agency officials indicated that, with the diverse missions of their programs and the different processes used in the administration of those programs, developing an agencywide methodology for assessing risk and accumulating the resulting data might take considerable time. Rather than waiting for comprehensive risk assessments to be completed, some agency officials told us that they had begun to implement additional pre- and postpayment controls designed to help identify and reduce improper payments resulting from duplicate payments, split purchases, and miscalculations. They noted that, as additional data become available from the risk assessments, control system weakness can be remedied.

**Recommendation:** Identify cost-effective control activities to address identified risk areas.

Control activities are the policies, procedures, techniques, and other mechanisms designed to help ensure that management's decisions and plans are carried out and program objectives are met. The control activities used by organizations to address improper payments vary

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according to the specific risks incurred. As noted in our executive guide, the types of payment activities identified as presenting the most significant risk of improper payments and the kinds of data and other resources available dictate the specific changes in internal control systems needed to adequately guard against improper payments.

Not all agencies have implemented control activities to address internal control weaknesses identified through risk assessments designed to identify improper payments. Officials of programs already required by OMB Circular A-11 to report improper payment information in their initial budget submissions to OMB told us that they understand some of the causes of their improper payments and have begun implementing actions, as demonstrated below.

- According to officials at 6 of the 14 agencies, their control activities include monitoring and reviewing the results of Single Audit Act<sup>11</sup> and IG audits and reviews for questionable costs or other potential improper payment activity.

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<sup>11</sup>The Single Audit Act, as amended, requires nonfederal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in federal awards to have a single or program-specific audit conducted for that year and provide a copy of the audit report to the Federal Audit Clearinghouse. The Clearinghouse will forward a copy of the report to the awarding agency when the report discloses audit findings relating to that agency's programs.

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- Officials at three agencies reported that they are analyzing payment data for potential improper payments and are using data-mining techniques as a postpayment procedure to review and analyze diverse data for relationships that have not previously been discovered.<sup>12</sup>
  - Officials at five agencies stated that they perform data-sharing or data-matching with other government agencies to compare information from different sources to verify that accurate eligibility information is reported to help ensure that payments are appropriate before they are made.
  - Officials at four agencies mentioned their use of recovery auditing—the examination of agency payments to identify duplicate payments, errors on invoices, payments for items not received, errors in determining payment amounts and executing payments, and the failure to account for credits for applicable discounts or returned merchandise.

Officials at most of the 9 agencies not cited in OMB Circular A-11 stated that they are generally still assessing their programs for risks and have not identified cost-effective controls designed to target improper payment activities. They rely on their general internal control procedures already in place to ensure payments are correct. However, like the 14 CFO Act agencies that were cited in the circular, some plan to implement, have begun to implement, or have implemented pre- and postpayment controls designed to help identify and reduce improper payments resulting from duplicate payments, split purchases, and miscalculations.

- Officials at one agency told us that they have initiated recovery auditing programs, as required by legislation, to identify errors made in paying contractors and to recover amounts erroneously paid to contractors.
- Officials at two agencies cited plans to begin a recovery auditing program. Officials at one of these agencies stated that the agency has

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<sup>12</sup> The central repository of data commonly used to perform data-mining is called a data warehouse. Data warehouses store historical and current data and consist of tables of information that are logically grouped together. The data warehouse allows program and financial data from different nonintegrated systems throughout an organization to be captured and placed in a single database where users can query the system for information. The information can then be “mined” or searched according to specific criteria to identify associations, sequences, patterns, and clusters between different pieces of information—relationships that are often hidden in separate databases.

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begun a recovery auditing pilot program while the other agency was still meeting with outside auditors to discuss contracting the effort.

- Officials at two agencies mentioned that a portion of their funds were cross-serviced by another federal government agency. For these funds, they are relying exclusively on the internal controls of the agency service provider in detecting and preventing improper payments.

Although comprehensive risk assessments and action plans to perform them may not be completed, some agency officials reported that they are developing and performing risk assessments and, at the same time, are beginning to develop additional control activities to reduce improper payment activity in their programs. As further risk assessments are completed and potential improper payments are identified, additional controls can be developed and implemented to target these problem areas.

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## Public Reporting on Improper Payments and Progress in Reducing Them

Improper payments are a significant problem and information on federal actions and the results of those actions is a critical element in the overall process of reducing those payments. Currently, few agencies publicly report the amounts of their improper payments or other information such as barriers to identifying and/or reducing improper payments, targets and goals set for improvement, and progress in identifying, minimizing, and recovering improper payments. For example, for fiscal years 2000 through 2002, agencies reported improper payment information in their annual Performance and Accountability Reports totaling about \$20 billion each year. However, the type and amount of information reported was inconsistent across federal agencies. Some agencies estimated amounts for one or some of their programs but not others, while others acknowledged making improper payments but did not report specific improper payment amounts. Some agencies reported amounts in their Performance and Accountability Reports one year but not the next. One agency did not update its annual estimate one year and reported the same estimated amount from the prior year.

**Recommendation:** Agencies should periodically report, through publicly available documents, to the agency head, OMB, and the Congress on the progress made in achieving improper payment reduction targets and future action plans for controlling improper payments.

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Minimizing improper payments often requires the exchange of relevant, reliable, and timely information between individuals and units within an organization and with external entities with oversight and monitoring responsibilities or interests. As we reported in our executive guide, it is important that the results of the actions taken be openly communicated or available not only to the Congress and agency management but also to the general public. This transparency demonstrates the importance that the government places on the need for change and openly communicates performance results. It also acts as an incentive for agencies to be ever vigilant in their efforts to address the wasteful spending that results from lapses in controls that lead to improper payments.

An August 2001 memorandum from the Deputy Controller, OMB, to the CFOs and budget officers of executive departments and agencies noted that “Public reporting of progress in meeting goals for minimizing erroneous payments enhances accountability and we expect agencies to do so.” OMB strengthened its position on the importance of public reporting when, in May 2003, it issued guidance on implementing the Improper Payments Act and required agencies to report improper payment information in their annual Performance and Accountability Reports. Depending on the agency and program, this reporting can begin as early as the fiscal year 2003 report but not later than the fiscal year 2004 report.

To determine the extent that agencies were already reporting improper payment information publicly, we reviewed agency fiscal year 2002 Performance and Accountability Reports. Of the 14 CFO Act agencies that were required to report improper payment rates, estimates, and other information for 44 programs in their initial budget submissions to OMB, 4 reported improper payment estimates for all required programs in their fiscal year 2002 financial statements. (Financial statements are an integral component of the annual Performance and Accountability Reports.) Another 3 agencies reported partial estimates for some of their programs. The remaining 7 agencies—accounting for 20 of the 44 programs—did not report current estimates of improper payments in their fiscal year 2002 Performance and Accountability Reports.

In our discussions with agency officials about public reporting, officials at one agency reported that the agency makes improper overpayment and underpayment rate information available for one of its programs, but that it does not report annual dollar estimates. An official at another agency told us that when required to do so, the agency will publicly report all improper

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payment information; however, it feels that this is sensitive information and is concerned that the information may be used inappropriately.

Further, officials at some agencies stated that they consider disclosure of improper payment information in public hearings or in federal budget documents submitted to OMB to be public reporting. In making our recommendation, we envisioned a more transparent medium such as agency annual Performance and Accountability Reports where not only the Congress but the public and others with oversight and monitoring interests could obtain and use the information to hold agencies accountable for achieving target rates or otherwise implementing specifically planned actions to reduce improper payments.

Eventually, agencies will provide public reporting since current OMB guidance, which resulted from the Improper Payments Act, calls for agencies to report significant amounts of improper payment-related information in their annual Performance and Accountability Reports. This reporting can begin as early as the fiscal year 2003 report but not later than the fiscal year 2004 report. Officials at each of the 23 CFO Act agencies stated that their agency will meet the reporting requirements.

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## OMB's Actions to Implement Recommendations

As the President's agent for managing and implementing policy, OMB issues guidance and oversees the administrative organization and operations of federal agencies. Its role in managing, implementing, and overseeing governmentwide administrative policy, its interagency perspective, and its leadership role on interagency councils make it a key player in the government's effort to reduce improper payments. OMB, which has shown leadership in the improper payments area, has issued guidance to federal agencies on the design and implementation of improper payment programs and has initiated contact and is working with agency officials to address improper payment-related issues. OMB Circular A-11's improper payment-related requirements, the OMB guidance issued for implementing the Improper Payments Act, and OMB contacts with agency and congressional officials have fulfilled the intent of the majority of our OMB-related recommendations. It is important to remember, however, that the effectiveness of the governmentwide effort to reduce improper payments is largely dependent on individual agency assessments of the extent of their improper payment problems, the causes of those problems, and the implementation of actions to reduce their problems.



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## Issue Specific Guidance on an Approach to Reduce Improper Payments

OMB has issued two key guidance documents that, in addition to addressing our recommendations, have provided agencies with instructions for identifying, measuring, and reporting their improper payments.

**Recommendation:** Issue specific guidance to agencies that provides a comprehensive approach to reducing improper payments.

The PMA established priorities for five crosscutting initiatives to improve the management and performance of the federal government. One of the initiatives, to improve financial performance, focuses special attention on addressing improper payments. To assist agencies in implementing the PMA initiatives, in June 2001 OMB revised Circular A-11, adding Section 57, *Information on Erroneous Payments*, which provided some degree of guidance to agencies by

- defining the term “erroneous payments,”
- establishing a formula for determining error rates and amount estimates, and
- setting the format for agency reporting.

While this guidance was a good first start, the circular was not applicable to all agencies or all programs and activities and the required reporting was limited to the agency’s initial budget submissions to OMB. Since these submissions are not publicly disclosed, the improper payment information contained in them is not routinely or consistently available for congressional or public review and analysis, or for holding federal agencies accountable for improvement. OMB updated the guidance in June 2002 and required a more in-depth analysis of improper payment information from agencies, but the reporting mechanism continued to be the initial budget submissions.

In May 2003, OMB included a requirement for public reporting in its guidance on implementing the Improper Payments Act. This guidance defines key terms used in the law, addresses the specific reporting requirements provided by the act, and lays out the steps necessary for agencies to meet those requirements. For example, it

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- defines annual improper payments to include both over-and underpayments;
  - defines the term “programs and activities” to include “activities or sets of activities recognized as programs by the public, OMB, or Congress as well as those that entail program management or policy direction;”
  - defines “significant erroneous payments” as annual erroneous payments in the program exceeding both 2.5 percent of program payments and \$10 million,
  - denotes that “grants” include competitive and block/formula grant programs, regulatory activities, research and development activities, direct federal programs, all procurements including capital assets and service acquisition, credit programs, and agency activities that support its programs;
  - sets statistical sampling confidence and precision levels for estimating improper payments; and
  - requires agencies with estimated improper payments exceeding \$10 million in any program or activity to include, along with the estimated amount, a discussion of the amount of actual improper payments the agency expects to recover and how it will go about recovering them in the management discussion and analysis section of their annual Performance and Accountability Report.

The guidance provides information for agency use that had not previously been available. However, as with any legislation or implementing guidance, the ultimate success or failure of the Improper Payments Act hinges on each agency’s diligence and its commitment to identify, estimate, determine the causes of, take corrective actions on, measure, and report progress in reducing all improper payments.

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## Work With Agencies to Reduce Improper Payments

According to officials at OMB, they have been working with agency officials and interagency councils to provide assistance to agencies as they begin to address their improper payment problems.

**Recommendation:** Work together with agency officials to provide reasonable assistance in implementing corrective action plans developed to reduce improper payments.

As part of the PMA initiative to improve financial performance, officials at OMB told us they have met with officials from all relevant agencies to provide assistance and to ensure that agencies (1) understand the requirements set forth in the guidance implementing the Improper Payments Act, (2) have started to inventory their programs and activities for significant risk of improper payments, (3) understand the risk assessment process, and (4) understand the reporting requirements under the Improper Payments Act.

OMB officials also told us that they have been working with a joint work group of members of the Chief Financial Officers Council (CFOC) and the President's Council on Integrity and Efficiency (PCIE)<sup>13</sup> to address improper and erroneous payments. The work group periodically convenes to discuss and develop best practices and other methods to reduce or eliminate, where possible, improper and erroneous payments made by federal government agencies. It has issued reports and other outputs to the CFOC/PCIE, reflecting work group deliberations and determinations. For example, the following guidance documents are available through the website [www.ignet.gov/pande/audit.html#sub](http://www.ignet.gov/pande/audit.html#sub).

- Report on improper payment indicators—lists events or conditions that either demonstrate that an erroneous payment has been made or suggest that erroneous payments are likely to occur. The report includes a list of methods used to identify erroneous payments, possible indicators of erroneous payments, and limitations or obstacles to agencies' use of indicators to identify and prevent improper payments.

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<sup>13</sup>The PCIE is an interagency council comprising principally the Presidentially appointed and Senate-confirmed IGs, which were established by Executive Order No. 12301 in 1981 to coordinate and enhance the work of the IGs.

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- Report on benchmarks—discusses the process of continually measuring performance and comparing against the best performing organizations to gain information on best practices that will help organizations improve performance.
  - Critique on the effectiveness of the differing processes used to determine improper payment rates—identifies and discusses the effectiveness of the methodologies used by 9 federal agencies and 17 different programs, ranging from entitlement programs to grant and credit programs, to determine improper payment rates.

The work group is considering further best practices guidance to assist agencies in implementing the Improper Payments Act.

In July 2003, OMB and the joint CFOC/PCIE Erroneous and Improper Payments Working Group hosted an Improper Payments Act kick-off meeting. This meeting provided agencies with information on the legislation and the guidance and presented information on various ways agencies could begin to address their improper payment problems.

OMB officials also told us that the meetings with agency officials, along with meetings of the joint CFOC/PCIE Erroneous and Improper Payments Working Group, have provided OMB with the opportunity to explicitly encourage information sharing across agencies, offer assistance to agencies in measuring their improper payments and developing action plans, and discuss actions to reduce or eliminate barriers that restrict agency actions to reduce improper payments.

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## Work With Agencies to Address Barriers to Reducing Improper Payments

OMB and agency officials told us that they have jointly identified and discussed barriers that restrict agency actions to better manage their improper payments. OMB further told us that, based on these discussions, it has initiated several actions, such as proposing legislation designed to improve certification of eligibility and allocating funds in the *Budget of the United States Government, Fiscal Year 2004*, to help measure, reduce, and recover improper payments.

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**Recommendation:** Work with agency officials and the Congress to identify and help eliminate or reduce, to the extent practicable, the barriers that restrict agency actions to reduce improper payments.

Examples of agency barriers that OMB stated it has begun to contend with include restricted access to data for verification of benefit eligibility and the lack of agency funding to perform analysis of payment accuracy and/or implement corrective actions. To address these barriers, OMB stated that it has proposed data-sharing legislation to the Congress to address restricted agency access to needed data and has acted as an advocate for agencies' needs in requesting funding for improper payment-related efforts to implement the PMA's call for actions to better manage improper payments.

For example, the *Budget of the United States Government, Fiscal Year 2004*, includes the following improper payment-related provisions.

- A proposal allows the Internal Revenue Service (IRS) to match income data reported in the Department of Education's student aid applications with the applicant's tax data to ensure that students do not receive awards in excess of the amount for which they are eligible. The proposal is projected to save \$638 million in Pell Grant costs over 2003-2004.
- Allocate \$20 million in Health Care Fraud and Abuse Control funding to help finance an initiative for the Health and Human Services agency to develop a methodology to measure Medicaid and State Children's Health Insurance Program improper payments, including producing error rates.
- Increase the IRS budget by \$100 million to lower erroneous earned income tax credit payments.

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## Transparency in Reporting

OMB has set a requirement for the 14 CFO Act agencies identified in OMB Circular A-11 to begin annual reporting of improper payment information in their fiscal year 2003 Performance and Accountability Reports and for all other agencies to begin annual reporting in their fiscal year 2004 Performance and Accountability Reports.

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**Recommendation:** Require all federal agencies to report the information called for by OMB Circular A-11 on improper payments in a specific, publicly available document.

In May 2003, OMB issued guidance implementing the Improper Payments Act that states that information on the results of improper payment-related efforts must be reported in agency Performance and Accountability Reports for fiscal years ending on or after September 30, 2004. (These reports should be available in November 2004.) Moreover, the guidance requires the 14 CFO Act agencies already required by OMB Circular A-11 to report improper payment information in their initial budget submissions to OMB to also include that improper payment information in their fiscal year 2003 Performance and Accountability Reports. This should result in publicly available information on improper payments for about 44 major federal programs, such as Medicare and Food Stamps, about one year earlier than the reporting date for all other federal programs and activities. These actions will help ensure transparency in reporting for those agencies with programs and activities with significant risks for improper payments.

While OMB has shown progress in developing the framework and issuing guidance to agencies to implement the requirements of the Improper Payments Act, additional or supplemental guidance may be necessary to ensure consistency in measuring and reporting among agencies. Importantly, commitment from the CFO Act agencies and OMB's continued leadership and support will be needed as agencies begin to scrutinize their programs and activities for improper payments and design and implement actions to address the causes of the improper payments identified.

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## Conclusions

The governmentwide effort to identify and assess the magnitude of improper payments, to take actions to reduce those payments, and to publicly report the results of those efforts is generally in its infancy stages. All CFO Act agencies have assigned improper payment evaluation and reduction responsibilities to a senior level official. However, while some agencies have taken significant actions to identify improper payments in selected programs, officials at only one of these agencies indicated that they have completed assessments of all agency programs and activities to determine if improper payments are occurring, their magnitude, and the need for actions to address the problems identified. Further, although OMB Circular A-11 has required 14 CFO Act agencies to report selected improper payment information on 44 programs to OMB beginning with their fiscal year 2003 budget submissions, those agencies have completed

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risk assessments for only 15 of the programs. Based on discussions with officials at the 23 CFO Act agencies, risk assessments have either not begun or are in progress for the other programs cited in the circular and all other agency programs and activities.

By legislatively requiring assessment of significant improper payments, corrective action, and reporting responsibilities, the Improper Payments Act could result in a focused governmentwide approach to clearly defining the magnitude of the improper payment problem and to actions to reduce or eliminate the problem. However, as we stated in our 2002 report, measuring improper payments and designing and implementing actions to reduce or eliminate them are not simple tasks. They will require strong support and active involvement from agency top management, the administration, and the Congress. As important as this OMB and congressional involvement is, however, the ultimate success of the governmentwide effort to reduce improper payments hinges on each federal agency's diligence and commitment to identify, estimate, determine the causes of, take correction actions on, measure, report progress on, and hold officials accountable for reducing all improper payments.

The public reporting of improper payment information called for in the Improper Payments Act will begin with the fiscal year 2003 Performance and Accountability Reports for selected agencies and programs and for all other agencies beginning no later than their fiscal year 2004 Performance and Accountability Reports. Review and evaluation of the information in these reports should help clarify the actual magnitude of the governmentwide improper payments problem, the actions taken to address them, and future planned efforts in this area. The reports will also provide a clearer picture of the level of effort and importance that each agency has placed on the identification and reduction of improper payments within their programs and activities. As such, they will provide useful information for continuing coordination and communications among the agencies, the administration, and the Congress.

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## OMB's Comments and Our Evaluation

We received written comments from OMB on a draft of this report, which are reprinted in appendix IV. In its response, OMB stated that the report provided an assessment of the administration's initiative to reduce erroneous payments that is largely fair and accurate. The response further noted that the administration's initiative to reduce improper payments is the most comprehensive assessment of the government's payment processes in its history. It further suggested changes to the report to reflect

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the progress made, or the benefits that have been, or will be, achieved when the administration's initiative is fully implemented.

We recognize that OMB has shown leadership in the improper payments area, however, as we stated in our report, the ultimate success of the governmentwide effort to reduce improper payments is largely dependent on the specific actions taken by each of the agencies. Until the administration's initiative is fully or significantly implemented and the results of agency actions to address improper payments are made public, it would be premature to assess the achievement of actual or potential benefits. We considered all of OMB's comments and made changes to the report as appropriate.

We are sending copies of this report to the Chairman and Ranking Minority Members of the Senate Committee on Governmental Affairs, the House Committee on Government Reform, the Senate Committee on the Budget, the House Committee on the Budget, and other appropriate congressional committees. We will also be sending copies to the Director of the Office of Management and Budget and the heads of the CFO Act agencies. Copies will also be made available to others upon request. In addition, the report will be available at no cost on the GAO Web site at <http://www.gao.gov>.

This report was prepared under the direction of McCoy Williams, Director, Financial Management and Assurance, who may be reached at (202) 512-6906 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov) if you or your staff have any questions. Staff contacts and other key contributors to this report are listed in appendix V.



McCoy Williams  
Director  
Financial Management and Assurance



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# Scope and Methodology

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The Government Management Reform Act of 1994 expanded the requirements of the Chief Financial Officers Act of 1990 by requiring, among other things, the annual preparation and audit of organizationwide financial statements of 24 executive departments and agencies. Since March 2003, when the Federal Emergency Management Agency was incorporated into the Department of Homeland Security, 23 agencies are subject to this act.

To obtain information on the status of agency actions on the recommendations contained in our 2002 report, we developed a data collection instrument (DCI) that contained a standardized set of questions for each recommendation. Using this instrument, we interviewed officials at each of the 23 CFO Act agencies and OMB to obtain information on the status of their implementation of the recommendations and to discuss implementation of the Improper Payments Information Act of 2002 and the related OMB implementation guidance. A list of the CFO Act agencies, which accounted for about 89 percent of the government's net cost in fiscal years 2001 and 2002, is presented in appendix III. We also requested that the agency officials provide all available documentation to support their statements about the status of agency actions to implement the recommendations. At one agency's request, we conducted the interview by telephone. In addition, we reviewed relevant agency documents including strategic plans, agency performance plans and reports, and reports from agency program partners.<sup>1</sup>

We completed DCIs for all 23 CFO Act agencies and OMB. We reviewed the completed DCIs and all accompanying documentation. To facilitate our analysis, we developed a database to sort agency responses and categorize them across several dimensions. Where necessary, we contacted agencies to clarify responses, request additional information, and update the initial responses. Because the agencies are generally in the initial stages of their implementation efforts, we did not determine the validity of representations made or the documentation provided.

We performed our work in Washington, D.C. between January and September 2003 in accordance with generally accepted government auditing standards. We requested written comments on a draft of this

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<sup>1</sup>Program partners can include other agencies or intermediaries responsible for carrying out different aspects of the program and might include federal agencies, states or localities, grant recipients, participating financial institutions, regulated bodies, and contractors.

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**Appendix I**  
**Scope and Methodology**

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report from the Director of the Office of Management and Budget. The comments are discussed in the section entitled OMB Comments and Our Evaluation and are reprinted in appendix IV. We considered all of OMB's comments and made changes to the report as appropriate.

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# CFO Act Agencies and Related Programs for Which OMB Circular A-11 Requires Erroneous Payment Information

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## 1. Department of Agriculture

- 1 Food Stamps
- 2 Commodity Loan Program
- 3 National School Lunch and Breakfast
- 4 Women, Infants, and Children

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## 2. Department of Defense

- 5 Military Retirement
- 6 Military Health Benefits

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## 3. Department of Education

- 7 Student Financial Assistance
- 8 Title I

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## 4. Department of Health and Human Services

- 9 Head Start
- 10 Medicare
- 11 Medicaid
- 12 TANF
- 13 Foster Care – Title IV-E
- 14 State Children’s Insurance Program
- 15 Child Care and Development Fund

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## 5. Department of Housing and Urban Development

- 16 Low Income Public Housing
- 17 Section 8 Tenant Based
- 18 Section 8 Project Based
- 19 Community Development Block Grants (Entitlement Grants, States/Small Cities)

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## 6. Department of Labor

- 20 Unemployment Insurance
- 21 Federal Employee Compensation Act
- 22 Workforce Investment Act

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## 7. Department of the Treasury

- 23 Earned Income Tax Credit

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## 8. Department of Transportation

- 24 Airport Improvement Program
- 25 Highway Planning and Construction
- 26 Federal Transit – Capital Investment Grants
- 27 Federal Transit – Formula Grants

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## 9. Department of Veterans Affairs

- 28 Compensation
  - 29 Dependency and Indemnity Compensation
  - 30 Pension
  - 31 Insurance Programs
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**Appendix II**  
**CFO Act Agencies and Related Programs for**  
**Which OMB Circular A-11 Requires**  
**Erroneous Payment Information**

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*(Continued From Previous Page)*

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**10. Environmental Protection Agency**

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- 32 Clean Water State Revolving Funds
  - 33 Drinking Water State Revolving Funds
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**11. National Science Foundation**

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- 34 Research and Education Grants and Cooperative Agreements
- 

**12. Office of Personnel Management**

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- 35 Retirement Program (Civil Service Retirement System and Federal Employees' Retirement System)
  - 36 Federal Employees Health Benefits Program
  - 37 Federal Employees' Group Life Insurance
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**13. Small Business Administration**

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- 38 7(a) Business Loan Program
  - 39 504 Certified Development Companies
  - 40 Disaster Assistance
  - 41 Small Business Investment Companies
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**14. Social Security Administration**

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- 42 Old Age and Survivors' Insurance
  - 43 Disability Insurance
  - 44 Supplemental Security Income Program
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Source: GAO.



# Comments from the Office of Management and Budget



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

THE CONTROLLER

OCT 15 2003

Mr. McCoy Williams  
Director  
Financial Management and Assurance  
U.S. General Accounting Office  
Washington, D.C. 20548

Dear Mr. Williams:

Thank you for the opportunity to comment on the draft report, "Financial Management: Status of the Governmentwide Efforts to Address Improper Payments." The report provides an assessment of the Administration's initiative to reduce erroneous payments that is largely fair and accurate. I want to emphasize several points, however, that could be missed by someone reading your report.

First, the Administration's Reducing Erroneous Payments initiative is the most comprehensive assessment of the government's payment processes in its history. When agency efforts are fully implemented, virtually every dollar the government spends will be subject to some level of scrutiny to assess the appropriateness of the payment.

Second, agencies are publishing statistically valid error rates more regularly today than ever before. And beginning with FY 2003, more agencies will be reporting those error rates in their annual Performance and Accountability Reports.

Third, we have met individually with every agency's Chief Financial Officer and Inspector General to ensure that: each agency has identified the individual responsible for managing the initiative to reduce erroneous payments, agency management understands the requirements of the initiative, and agency management is implementing those requirements comprehensively and aggressively.

I believe your report should be modified to more appropriately reflect the progress we have made or the benefits we have, and will have, achieved when the Administration's initiative is fully implemented.

Thank you, again, for the opportunity to provide the views of the Office of Management and Budget.

Sincerely,

Linda M. Springer  
Controller

# GAO Contacts and Staff Acknowledgments

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## GAO Contacts

Tom Broderick, (202) 512-8705  
Bonnie McEwan, (202) 512-4668

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## Acknowledgments

In addition to those named above, Donell Ries made important contributions to this report.

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