



May 2018

IMPROPER PAYMENTS

Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes

Accessible Version

GAO Highlights

Highlights of [GAO-18-377](#), a report to congressional addressees

Why GAO Did This Study

Improper payments—which include payments that should not have been made or were made in an incorrect amount—are a long-standing, significant problem in the federal government, estimated at almost \$141 billion for fiscal year 2017. Executive branch agencies are required to annually estimate improper payments for certain programs. Estimation of improper payments is key to understanding the extent of the problem and to developing effective corrective actions. Relevant laws and guidance provide agencies flexibility in developing estimates.

This report describes agencies' processes to estimate improper payments in selected programs for fiscal year 2017 and the extent to which certain differences in these processes can affect the usefulness of the resulting estimates. GAO selected 10 programs across six agencies with the largest reported program outlays in fiscal years 2015 and 2016. For these programs, GAO reviewed relevant laws and guidance, analyzed agencies' policies and procedures, and interviewed officials at relevant agencies and OMB staff.

What GAO Recommends

GAO recommends that OMB develop guidance on treatment of nonresponse cases and testing to identify improper payments, that DOD and OPM assess their estimation processes, and that IRS revise its methodology to not exclude recovered payments from its estimate. All of the agencies either agreed or partially agreed with the specific recommendations to them. GAO believes that the actions are warranted, as discussed in the report.

View [GAO-18-377](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

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What GAO Found

The six agencies GAO reviewed reported taking various approaches related to key components of estimating improper payments—shown in the figure below—for 10 selected programs, which collectively reported outlays of over \$2.5 trillion for fiscal year 2017.

Key Components in the Development of Improper Payment Estimates



Source: GAO analysis. | GAO-18-377

Sample selection. Eight of the 10 programs GAO reviewed reported using statistically valid approaches, and the remaining 2 reported using alternative methodologies approved by the Office of Management and Budget (OMB). The sampled data elements varied, including payments, medical claims, and tax returns. The age of the data used to develop fiscal year 2017 improper payment estimates also varied, ranging from calendar year 2013 to fiscal year 2017.

Identification of improper payments. Some of the six agencies reported using processes designed specifically to estimate improper payments, whereas others reported leveraging existing reviews. These agencies' policies and procedures include a review of aspects of eligibility, except for those related to the Department of Defense's (DOD) Military Pay and the Office of Personnel Management's (OPM) Retirement overpayments. DOD and OPM have not fully assessed whether their estimation processes effectively consider key program risks. OMB guidance does not specifically address how agencies are to test to identify improper payments, such as using a risk-based approach to help ensure that key risks of improper payments are addressed.

The six agencies also varied in the treatment of insufficient documentation, both in identifying and in reporting the root causes of improper payments. For the agencies that contact entities outside the agency to estimate improper payments, the treatment of nonresponse differed, with one agency including nonresponses as improper payments and another generally excluding the nonresponse cases from review. Although OMB guidance states that agencies should treat cases of insufficient documentation as improper payments, it does not specifically address the treatment of nonresponse cases.

Calculation of the improper payment estimate. The six agencies generally reported using law and OMB guidance to calculate improper payment estimates for the selected programs, except for the Earned Income Tax Credit (EITC). The Internal Revenue Service (IRS) removed overpayments that were recovered when developing its estimate. OMB guidance requires agencies to include recovered amounts in their estimates. Removing these overpayments understates the EITC improper payment estimate and may limit IRS's ability to develop corrective actions to prevent improper payments.

Contents

Letter		1
	Background	4
	Agency Processes to Estimate Improper Payments Varied, and Some Differences May Hinder the Usefulness of the Resulting Estimates	8
	Conclusions	20
	Recommendations for Executive Action	21
	Agency Comments and Our Evaluation	22
<hr/>		
Appendix I: Reported Improper Payment Estimates by Agency and Program for Fiscal Year 2017		26
Appendix II: Comments from the Office of Personnel Management		30
Appendix III: Comments from the Department of Defense		32
Appendix IV: Comments from the Internal Revenue Service		34
Appendix V: GAO Contact and Staff Acknowledgments		37
Appendix VI: Accessible Data		38
	Agency Comment Letter	38
<hr/>		
Tables		
	Table 1: List of 10 Programs GAO Reviewed for Improper Payment Estimation Methodologies	3
	Table 2: Summary of the 10 Programs That GAO Reviewed	7
	Table 3: Improper Payment Sampling Approaches Used by Six Selected Agencies for 10 Programs That GAO Reviewed	8
	Table 4: Examples of Population Subsets Excluded from Improper Payment Sampling at Selected Agencies	10
	Table 5: Testing Processes Used to Estimate Improper Payments at Six Selected Agencies	13
	Table 6: The Department of Health and Human Services Reported Improper Payments Related to Insufficient Documentation	

in Fiscal Years 2016 and 2017 for Four Programs GAO Reviewed	18
Table 7: Reported Improper Payment Estimates by Agency and Program for Fiscal Year 2017	26

Figures

Figure 1: Key Steps Related to Analyzing Improper Payments and Major Components in Developing an Improper Payment Estimate	5
Figure 2: Range of Data Used by Six Agencies to Develop Improper Payment Estimates Reported in Fiscal Year 2017 Agency Financial Reports for Selected Programs	11

Abbreviations

AFR	agency financial report
CERT	Comprehensive Error Rate Testing
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
Education	Department of Education
EITC	Earned Income Tax Credit
FSA	Federal Student Aid
HHS	Department of Health and Human Services
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
NRP	National Research Program
OASDI	Old-Age, Survivors, and Disability Insurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PEPV	Payment Error related to Prescription Drug Event Data Validation
PERM	Payment Error Rate Measurement
QA	Quality Assurance
RADV	Risk Adjustment Data Validation
SSA	Social Security Administration
SNAP	Supplemental Nutrition Assistance Program
SOP	Standard Operating Procedure
USDA	Department of Agriculture

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May 31, 2018

Congressional Addressees

Improper payments are a long-standing, significant problem in the federal government.¹ In fiscal year 2017 alone, estimates of improper payments totaled almost \$141 billion government-wide.² The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires executive branch agencies to annually estimate improper payments for programs they determine to be susceptible to significant improper payments, among other things.³

Although agencies report improper payment estimates annually, in our report on the *Fiscal Year 2017 Financial Report of the U.S. Government* we continued to report a material weakness in internal control related to

¹Under the Improper Payments Information Act of 2002, as amended, an improper payment is statutorily defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. See 31 U.S.C. § 3321 Note. Office of Management and Budget guidance also provides that when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

²The almost \$141 billion in estimated improper payments is attributable to 90 programs across 21 agencies, as reported in agencies' financial reports. See app. I for more information on reported improper payment estimates by program. The *Fiscal Year 2017 Financial Report of the United States Government* did not include a government-wide improper payment estimate or error rate. Since fiscal year 2003, a government-wide estimate and error rate had been reported in financial reports based on the programs and activities that reported estimates. OMB no longer reports a government-wide estimate or error rate because OMB analyzed program-by-program improper payment data and concluded that the improper payment rate at the programmatic level was more useful and transparent than aggregate improper payment data. Reported error rates (i.e., improper payment rates) reflect the estimated improper payments as a percentage of total program outlays.

³IPIA, as amended, defines significant improper payments as gross annual improper payments that may have exceeded (1) both 1.5 percent of program outlays and \$10 million or (2) \$100 million (regardless of percentage of program outlays).

improper payments because the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.⁴ In addition, some inspectors general have reported issues related to agencies' improper payment estimates, including methodologies that may not produce reliable estimates.

Estimation of improper payments is key to understanding the extent of the problem and to developing effective corrective actions to address it. Relevant laws and guidance provide agencies flexibility in developing improper payment estimates, and agencies use a variety of processes to develop their improper payment estimates.

We prepared this report under the authority of the Comptroller General to conduct evaluations on his own initiative and support congressional oversight of issues of national importance.⁵ This report describes agencies' processes to estimate improper payments in selected programs for fiscal year 2017 and the extent to which certain differences in these processes can affect the usefulness of the resulting estimates.

To select programs for review, we first identified those programs that reported improper payment estimates and had the largest program outlays for either fiscal year 2015 or 2016. This yielded a nongeneralizable sample of 11 programs at seven agencies. For these programs, we reviewed the processes to estimate improper payments for fiscal year 2017 (i.e., the improper payment estimates reported in agencies' fiscal year 2017 agency financial reports). Although the Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP) met the criteria to be included in our review (based on program outlays in fiscal year 2015 and reporting an improper payment estimate in fiscal year 2015), the agency ultimately did not report an improper payment estimate for the program in its fiscal year 2017 agency

⁴GAO, *Financial Audit: Fiscal Years 2017 and 2016 Consolidated Financial Statements of the U.S. Government*, [GAO-18-316R](#) (Washington, D.C.: Feb. 15, 2018). For fiscal year 2017, some agencies did not report improper payment estimates for certain risk-susceptible programs, including the Department of Housing and Urban Development's Rental Housing Assistance programs, the Department of Health and Human Services' Advance Premium Tax Credit, and the Department of the Treasury's Premium Tax Credit, each of which have reported program outlays over \$25 billion.

⁵31 U.S.C. § 717(b).

financial report (AFR).⁶ According to its fiscal year 2017 AFR, the state-reported data for SNAP did not allow for a determination of state error rates, which have been used in prior years to calculate a national SNAP improper payment estimate. Therefore, we did not include SNAP in our review of improper payment estimation methodologies. Consequently, we reviewed the 10 programs at six agencies listed in table 1. Collectively, reported program outlays for these programs totaled over \$2.5 trillion for fiscal year 2017.

Table 1: List of 10 Programs GAO Reviewed for Improper Payment Estimation Methodologies

Per fiscal year 2017 agency financial report

Agency	Program	Office of Management and Budget high-priority program?	Program outlays (dollars in millions)	Improper payment estimate (dollars in millions)
			259,165.2	0.9
	Military Pay	No	96,777.3	182.5
Department of Education	Direct Loan	Yes	95,389.3	3,863.3
Department of Health and Human Services	Medicare Fee-for-Service	Yes	380,762.0	36,208.0
	Medicare Advantage (Part C)	Yes	172,768.1	14,351.7
	Medicare Prescription Drug (Part D)	Yes	77,450.3	1,295.6
	Medicaid	Yes	363,839.4	36,731.1
Department of the Treasury	Earned Income Tax Credit	Yes	67,992.5	16,231.6
Office of Personnel Management	Retirement	No	82,913.0	313.8
Social Security Administration	Old-Age, Survivors, and Disability Insurance	Yes	911,200.3	2,578.4
Total			2,508,257.4	111,756.9

Source: GAO analysis of agencies' improper payment estimates for fiscal years 2015 through 2017. | GAO-18-377

Note: According to the Office of Management and Budget's paymentaccuracy.gov, high-priority programs are those programs that either (1) report \$750 million or more in improper payments in a given year, (2) did not report an improper payment estimate in the current reporting year but previously reported an improper payment estimate over the threshold, or (3) have not yet established a program error rate and have measured components that were above the threshold. Reported error rates (i.e., improper payment rates) reflect the estimated improper payments as a percentage of total program outlays.

⁶USDA reported an improper payment estimate of \$2.6 billion and program outlays of \$70 billion in its fiscal year 2015 AFR, the most recent year for which an estimate was reported.

To address our objective, we reviewed agencies' policies and procedures for estimating improper payments for these 10 programs, as well as the information reported in agencies' fiscal years 2016 and 2017 AFRs regarding improper payments and their reported root causes. Further, we interviewed relevant agency officials to obtain additional information about the processes agencies use to estimate improper payments, as well as Office of Management and Budget (OMB) staff to understand OMB's role in providing guidance and oversight to the agencies. We analyzed similarities and differences between agencies' processes and also reviewed relevant laws, guidance, and internal control standards.⁷ We focused our review on gaining an understanding of the processes agencies use to estimate improper payments, and not on evaluating whether these processes were properly designed or the extent to which they were properly implemented.

We conducted this performance audit from November 2016 to May 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Estimation of Improper Payments

Executive branch agencies are required to take various steps regarding improper payments under IPIA, as amended by IPERA and IPERIA, and related OMB guidance. The steps include the following:

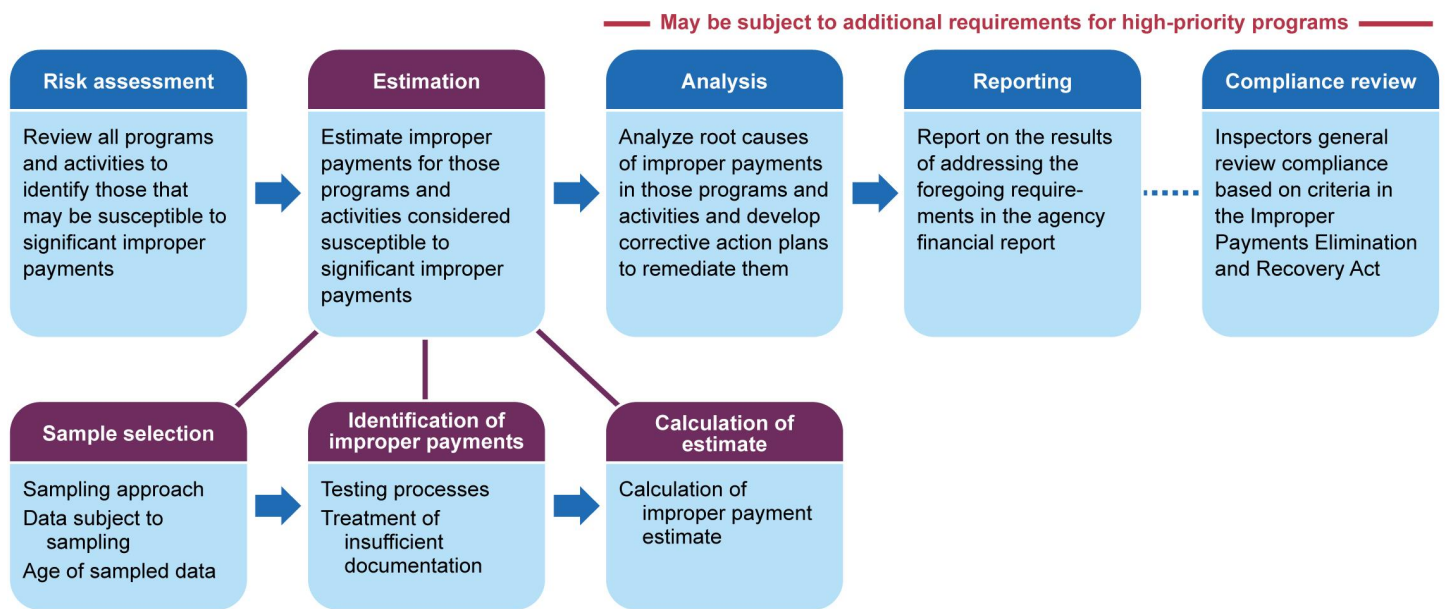
1. reviewing all programs and activities and identifying those that may be susceptible to significant improper payments (commonly referred to as a risk assessment),
2. developing improper payment estimates for those programs and activities that the agency identified as being susceptible to significant improper payments,

⁷GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

3. analyzing the root causes of improper payments and developing corrective actions to reduce them for those programs and activities that the agency identified as being susceptible to significant improper payments, and
4. reporting on the results of addressing the foregoing requirements.

Figure 1 lays out these steps, as well as the major components of developing an improper payment estimate. IPERA also directs executive branch agencies' inspectors general to annually determine and report on whether their respective agencies complied with six criteria listed in the law.⁸

Figure 1: Key Steps Related to Analyzing Improper Payments and Major Components in Developing an Improper Payment Estimate



Source: GAO analysis of relevant laws and guidance. | GAO-18-377

Note: According to the Office of Management and Budget's paymentaccuracy.gov, high-priority programs are those programs that either (1) report \$750 million or more in improper payments in a

⁸See GAO, *Improper Payments: Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General*, [GAO-17-484](https://www.gao.gov/products/GAO-17-484) (Washington, D.C.: May 31, 2017). Among other things, the compliance criteria listed in IPERA include reporting improper payment estimates for all programs and activities deemed susceptible to significant improper payments, publishing and meeting reduction targets for these programs, and reporting an improper payment rate of less than 10 percent for these programs and activities.

given year, (2) did not report an improper payment estimate in the current reporting year but previously reported an improper payment estimate over the threshold, or (3) have not yet established a program error rate and have measured components that were above the threshold. Reported error rates (i.e., improper payment rates) reflect the estimated improper payments as a percentage of total program outlays.

On an annual basis, agencies are required to develop improper payment estimates for programs that they consider susceptible to significant improper payments. This generally involves selecting a sample of program payments (or other items, such as invoices) and reviewing them in order to determine whether the relevant payments were proper. OMB guidance for developing improper payment estimates focuses on the statistical nature of the estimates and provides agencies with flexibility in developing their estimates. IPFA, as amended, provides the definition of “improper payment” with IPERIA further instructing OMB to issue guidance requiring agencies to include in the estimate all improper payments, regardless of whether those payments have been or are being recovered. OMB incorporated this requirement into Appendix C to Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. In accordance with these relevant laws and OMB guidance, agencies must apply “improper payment” in the context of their programs when developing improper payment estimates.

Characteristics of Programs Reviewed

The 10 programs we reviewed serve a variety of purposes and are administered by various agencies across the federal government. Table 2 summarizes each of these programs.

Table 2: Summary of the 10 Programs That GAO Reviewed

Agency	Program	Program description
Department of Defense	Defense Finance and Accounting Service Commercial Pay	Pays vendors and contractors for goods and services
	Military Pay	Pays active and reserve/guard servicemembers' salary, benefits, and other compensation
Department of Education	Direct Loan	Makes loans through participating schools to eligible undergraduate students and their parents, as well as graduate students
Department of Health and Human Services	Medicare Fee-for-Service	Provides health insurance for people age 65 or older, people younger than age 65 with certain disabilities, and people of all ages with end-stage renal disease
	Medicare Advantage (Part C)	Provides health insurance that allows beneficiaries to receive Medicare benefits through a private health plan
	Medicare Prescription Drug (Part D)	Provides an outpatient prescription drug benefit to Medicare beneficiaries
	Medicaid	Provides health insurance—administered jointly by the federal government and states—to qualifying low-income individuals
Department of the Treasury	Earned Income Tax Credit	Provides a refundable federal tax credit that offsets income taxes owed by low-income workers who qualify and provides a refund if the credit exceeds the amount of taxes owed
Office of Personnel Management	Retirement	Pays retirement benefits to retirees, survivors, representative payees, and families under the Civil Service Retirement System and the Federal Employees Retirement System
Social Security Administration	Old-Age, Survivors, and Disability Insurance	Provides retirement and survivors benefits to qualified workers and their family members, and provides benefits for workers who become disabled and their families

Source: GAO summary of agency financial reports and prior GAO reports. | GAO-18-377

Agency Processes to Estimate Improper Payments Varied, and Some Differences May Hinder the Usefulness of the Resulting Estimates

Aspects of Sample Selection, Including Sampling Approach and Age of Data, Varied

Sampling Approach

IPIA, as amended, requires agencies to develop statistically valid improper payment estimates or estimates that are otherwise appropriate using a methodology approved by the Director of OMB.⁹ The six agencies we reviewed reported using either statistically valid or alternative sampling approaches for the 10 selected programs, and some agencies reported additionally incorporating actual improper payment amounts into their estimates, as shown in table 3.

Table 3: Improper Payment Sampling Approaches Used by Six Selected Agencies for 10 Programs That GAO Reviewed

Agency	Program	Statistical	Alternative
Department of Defense	Defense Finance and Accounting Service Commercial Pay	Checkmark	No Checkmark
	Military Pay	Checkmark ^(a)	No Checkmark
Department of Education	Direct Loan	No Checkmark	Checkmark
Department of Health and Human Services	Medicare Fee-for-Service	Checkmark	No Checkmark
	Medicare Advantage (Part C)	Checkmark	No Checkmark
	Medicare Prescription Drug (Part D)	Checkmark	No Checkmark
	Medicaid	No Checkmark	Checkmark ^(b)
Department of the Treasury	Earned Income Tax Credit	Checkmark	No Checkmark
Office of Personnel Management	Retirement	Checkmark ^(a)	No Checkmark
Social Security Administration	Old-Age, Survivors, and Disability Insurance	Checkmark	No Checkmark

Source: GAO analysis of agency documentation and interviews with agency officials. | GAO-18-377

⁹According to OMB guidance, an agency using a statistically valid approach should yield an estimate of improper payments with a (1) 90 percent confidence interval of plus or minus 2.5 percent of the total amount of all payments for the program around the estimate of dollars of improper payments or (2) 95 percent confidence interval of plus or minus 3 percent around the estimate of the dollar amount of improper payments.

^aIn addition to the statistical sampling approach, actual improper payment amounts were also incorporated into the estimate for this program.

^bMedicaid's sampling approach is considered alternative because it reviews states on a three-year cycle, instead of reviewing all states every year. However, the sampling of each state's Medicaid payments is done using a statistical approach.

If an agency is unable to produce a statistically valid improper payment estimate, it can use an alternative approach if approved by OMB. For example, the Department of Education (Education) reported using an alternative methodology for the Direct Loan program after conducting a cost-benefit analysis comparing use of a statistical and an alternative methodology. Similarly, the Department of Health and Human Services (HHS) reported using an alternative methodology for Medicaid to better manage resources needed to conduct the required reviews.

In addition to their statistical approaches, two agencies reported incorporating actual improper payment amounts into the estimates for 2 of the programs we reviewed. Officials at the Department of Defense (DOD) stated that the agency calculates its Military Pay improper payment estimate by adding the amount of debts due to DOD entered into its financial system based on overpayments (i.e., debts due to DOD by a recipient of an overpayment) identified during the fiscal year to a projected estimate of improper payments. Officials at the Office of Personnel Management (OPM) stated that the agency calculates its Retirement program improper payment estimate by adding the amount of debts due to OPM entered into its financial system based on overpayments (i.e., debts due to OPM by a recipient of an overpayment) identified during the fiscal year to a projected estimate of underpayments.¹⁰

Data Subject to Sampling

To implement their sampling approaches, agencies select a sample of data to test from a larger, specified population of data. For the six agencies we reviewed, data sampled varied by program and include payments, claims, tax returns, and pay accounts. For example, according to their policies and procedures

- DOD samples invoices related to payments made from 12 financial systems for Defense Finance and Accounting Service Commercial Pay,

¹⁰As noted later in this report, OPM does not develop a statistical estimate of overpayments in its Retirement program.

- HHS samples medical claims for Medicare Fee-for-Service, and
- DOD samples pay accounts for Military Pay.

Agencies subject specific data populations to sampling, which may not include all payments made for a program. Reasons for sampling exclusions varied across programs, as shown by the examples in table 4.

Table 4: Examples of Population Subsets Excluded from Improper Payment Sampling at Selected Agencies

Agency	Program	Type of payment not included	Agency rationale
Department of Defense	Defense Finance and Accounting Service (DFAS) Commercial Pay	Classified payments	DFAS is not authorized to access data and supporting documentation to review classified payments
Department of Health and Human Services	Medicare Fee-for-Service	Payments not made from the Medicare Trust Fund	These may include services processed under an agreement with the Department of Veterans Affairs or services paid for by a primary insurer.
	Medicare Advantage (Part C)	Payments to beneficiaries who switched contracts during the data collection year	The sampling methodology is designed to measure error in risk adjusted payments to continuously enrolled beneficiaries only.
	Medicaid	State-only payments	The improper payment reviews focus on federal improper payments. Some Medicaid payments, known as state-only payments, are not matched with federal funds.
		Administrative payments	The improper payment reviews focus on claims and payments representing services rendered to individual beneficiaries or payments made on behalf of individual beneficiaries.
Department of the Treasury	Earned Income Tax Credit	Returns with a Puerto Rico or international filing location	Overseas taxpayer returns are excluded because of the practical limitations of auditing these returns.

Source: GAO analysis of agency documentation and interviews of agency officials. | GAO-18-377

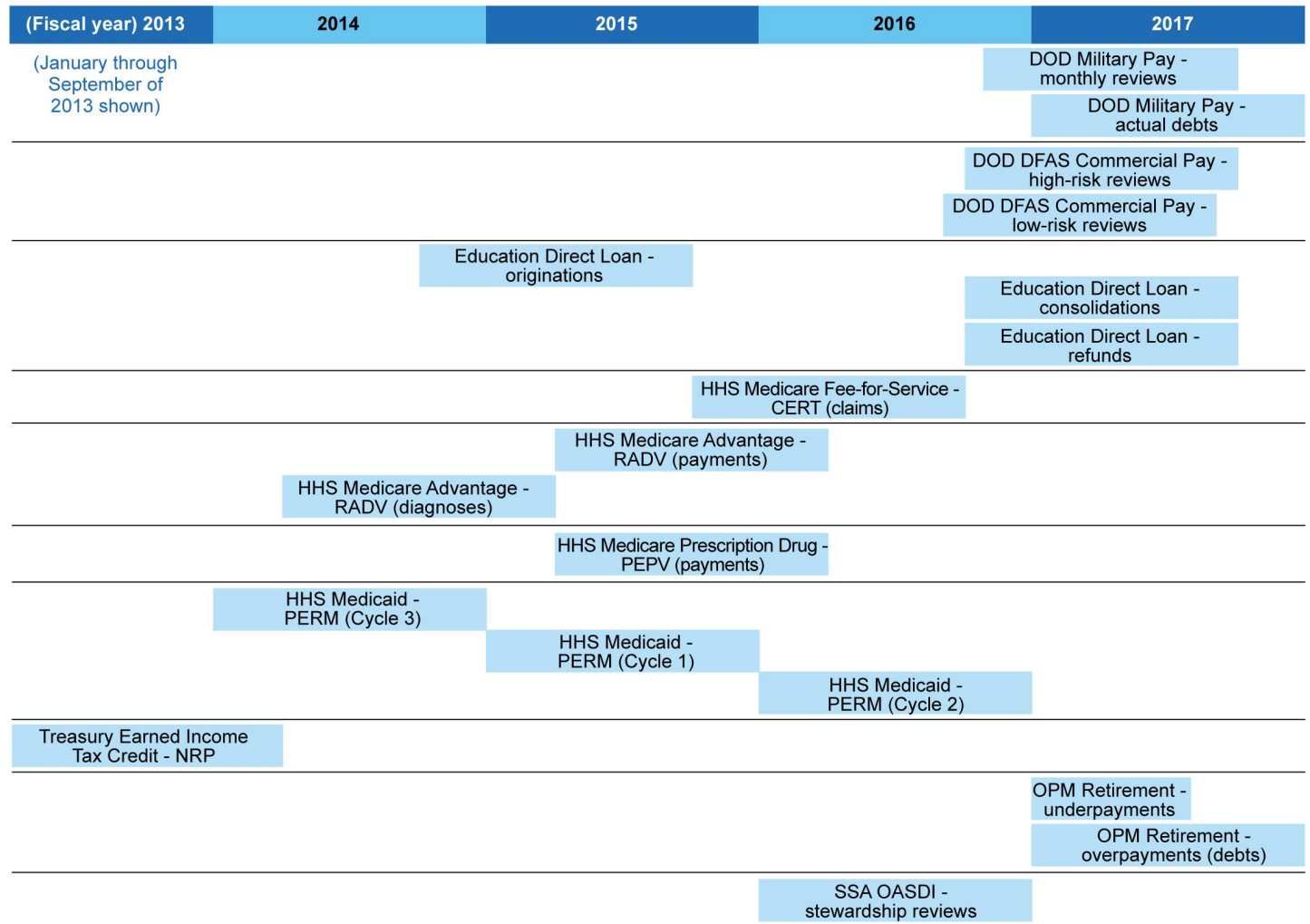
Some of the selected agencies reported sampling multiple sets of data. For example, for its Direct Loan improper payment estimate, Education officials stated that the agency reviews Program Review Reports to identify improper payments in originations and also samples loan consolidation and refund payments. According to agency officials, Direct Loan origination, consolidation, and refund transactions carry different risks of improper payment.

Age of Data

To estimate improper payments for fiscal year 2017, the six agencies we reviewed reported sampling and testing data that varied in age from

calendar year 2013 to fiscal year 2017. Figure 2 shows the range of data used.

Figure 2: Range of Data Used by Six Agencies to Develop Improper Payment Estimates Reported in Fiscal Year 2017 Agency Financial Reports for Selected Programs



Legend:

CERT - Comprehensive Error Rate Testing DFAS - Defense Finance and Accounting Service DOD - Department of Defense Education - Department of Education
 HHS - Department of Health and Human Services NRP – National Research Program OASDI - Old-Age, Survivors, and Disability Insurance
 OPM - Office of Personnel Management PEPV - Payment Error related to Prescription Drug Event Data Validation PERM - Payment Error Rate Measurement
 RADV - Risk Adjustment Data Validation SSA - Social Security Administration

Source: GAO analysis of agencies' policies and procedures and interviews with agency officials. | GAO-18-377

OMB guidance states that to the extent possible, data used for estimating improper payments should coincide with the fiscal year being reported, but agencies may use a different 12-month reporting period with approval

from OMB. OMB staff acknowledged there are costs and benefits to sampling newer or older data. OMB staff stated that although they review agencies' sampling and estimation plans, they defer to the agencies regarding the appropriateness of the age of data used to estimate improper payments. OMB staff stated that they approve the timeframe of the data used in alternative methodologies as part of the approval of the methodology overall, whereas OMB silence provides tacit approval (i.e., no communication to the agency) for statistically valid methodologies.

Processes for Identifying Improper Payments Varied by Program, Including Consideration of Eligibility and Treatment of Nonresponses

Testing Processes

After agencies determine what subsets of data and types of transactions to review, they generally test the data and calculate their improper payment estimates. Testing processes varied among the 10 programs, with some of the six agencies using processes designed specifically to estimate improper payments and others leveraging existing processes designed for other purposes.

Some of the selected agencies reported using multiple testing processes and combining the results to develop a program's improper payment estimate. For example, according to their policies and procedures

- the Direct Loan estimate comprises three component estimates for loan originations, consolidations, and refunds and
- the Medicaid estimate includes fee-for-service, managed care, and eligibility components.

Table 5 summarizes the processes used by the six agencies we reviewed.

Table 5: Testing Processes Used to Estimate Improper Payments at Six Selected Agencies

Programs that leverage existing quality assurance or other processes

Agency	Program	Existing process	Objective of existing process
Department of Education	Direct Loan (originations)	Federal Student Aid (FSA) program reviews	FSA routinely conducts program reviews to confirm that a school meets FSA requirements for institutional eligibility, financial responsibility, and administrative capability.
Department of the Treasury	Earned Income Tax Credit	National Research Program (NRP)	The role of NRP is to collect data on reporting compliance that supports strategic decisions about the placement and type of resources necessary to effectively address the needs of taxpayers.
Office of Personnel Management	Retirement	Quality Assurance reviews	Quality Assurance staff select monthly samples of new annuities to verify their accuracy for quality assurance purposes.
Social Security Administration	Old-Age, Survivors, and Disability Insurance (OASDI)	Stewardship reviews	The Office of Quality Review performs Stewardship Reviews to examine the nonmedical elements of OASDI programs relating to payment accuracy and entitlement as well as eligibility for benefit payments made during a sample period on a selected Social Security number.

Programs that use processes designed specifically to estimate improper payments

Agency	Program
Department of Defense	Defense Finance and Accounting Service Commercial Pay
	Military Pay
Department of Education	Direct Loan (refunds)
	Direct Loan (consolidations)
Department of Health and Human Services	Medicare Fee-for-Service
	Medicare Advantage (Part C)
	Medicare Prescription Drug (Part D)
	Medicaid

Source: GAO analysis of agency documentation and interviews of agency officials. | GAO-18-377

Although agencies' testing processes varied, most included steps to address aspects of eligibility of beneficiaries, goods, or services—a key component of determining the appropriateness of a payment—in their programs.¹¹ For example, according to their policies and procedures

- for Medicare Fee-for-Service, reviewers examine the medical necessity, compliance with documentation requirements, and coding of services provided, among other things;
- for the Earned Income Tax Credit (EITC), auditors examine whether the taxpayer properly reported income and whether the taxpayer meets eligibility criteria, including income and qualifying child requirements, and auditors examine, among other things, whether the taxpayer is subject to a disallowance period on receiving EITC;
- for Medicaid, reviewers examine fee-for-service claims and managed care payments to determine the eligibility status of the beneficiary and the provider, as well as support for the medical necessity of fee-for-service claims, among other things;
- for Old-Age, Survivors, and Disability Insurance (OASDI), reviewers examine factors to support the beneficiary's eligibility, including, among other things, citizenship, relationship (in the case of survivor benefits), and receipt of other government benefits; and
- although Education's Direct Loan program reviews can vary in scope, they may include, among other things, steps to verify educational institution eligibility (such as licensing and accreditation) and student eligibility (such as enrollment status and satisfactory academic progress).

In contrast, per their policies and procedures, eligibility is not tested for DOD's Military Pay or the overpayment component of OPM's Retirement estimate.

DOD Military Pay. DOD reported using the results of monthly payment reviews to calculate a projected improper payment amount for Military Pay. However, DOD's policies and procedures do not require a review of servicemember eligibility for special pay or allowances as part of these monthly reviews. DOD's Standard Operating Procedures (SOP) direct

¹¹We did not conduct a comprehensive review of agencies' testing processes to ensure that they review all aspects of program eligibility when estimating improper payments. As such, there may be elements of eligibility related to these programs that are not tested in these processes. Further, we did not evaluate implementation of these processes.

reviewers to recalculate payments to servicemembers solely based on the pay account data included in DOD systems (i.e., to verify that components of servicemember pay were calculated appropriately).

DOD's SOP does not direct reviewers to verify that servicemembers were eligible for special pay or allowances by verifying the information included in the pay account (such as pay grade) with supporting documentation. According to DOD officials, reviewers may investigate potential inconsistencies in pay account data identified during their reviews—which may include eligibility issues—but this process is not consistently performed or documented. According to DOD officials, an example of a potential inconsistency is when a servicemember receives jump pay (a hazard pay for parachute jumps) but is located at a site where no jump activity occurred.

According to DOD officials, to help compensate for the limitations of its monthly reviews, DOD calculates the final reported Military Pay improper payment estimate by adding actual debts due to DOD (related to overpayments) identified during the year to the projected estimate of the monthly reviews. DOD identifies the actual overpayments through various methods, including other postpayment reviews and servicemember self-reporting.

Standards for Internal Control in the Federal Government states that management should identify, analyze, and respond to risks related to achieving the defined objectives.¹² DOD has acknowledged internal control deficiencies related to the Military Pay program, which—if addressed in improper payment testing—could have an impact on the program's improper payment rate.¹³ However, these deficiencies were identified through other internal control reviews not related to estimating improper payments. For the purposes of estimating improper payments, DOD has not fully assessed the risks in its Military Pay program and evaluated whether its approach for estimating improper payments effectively addresses these risks. As a result, DOD's process for estimating Military Pay improper payments may not reflect significant

¹²[GAO-14-704G](#).

¹³In its 2017 agency financial report, DOD management identified multiple material weaknesses in internal control over financial reporting related to Military Pay. These include ineffective processes and controls to record military pay transactions and personnel actions in a timely, complete, and accurate manner, as well as unreliable and missing supporting documentation for personnel actions.

risks of improper payment in the program, specifically whether servicemembers are eligible for the special pay or allowances they receive, calling into question the improper payment estimate and its usefulness for developing effective corrective actions.

OPM Retirement. OPM relies on its existing Quality Assurance (QA) process to estimate Retirement underpayments. The QA process is designed to determine whether new Retirement claims (i.e., claims paid for the first time) have been adjudicated correctly. Therefore, only new Retirement claims are sampled and tested for accuracy. OPM applies historical results of QA testing to older claims; however, these historical results do not reflect any different risks of underpayment that the older claims may face.¹⁴

Although OPM's QA process also produces an estimate of overpayments, the agency's policies and procedures instead use actual debts due to OPM (related to overpayments) that were identified during the fiscal year as its overpayment amount (i.e., the overpayment amount does not reflect any testing of Retirement payments to verify eligibility or accuracy). These actual overpayments represent amounts that have been identified through various means, such as inspector general fraud referrals. OPM officials stated that the agency uses actual amounts because the QA estimate may overstate overpayments. However, the fiscal year 2016 QA overpayment estimate was lower than the actual amount of debts identified as due to OPM.

Standards for Internal Control in the Federal Government states that management should identify, analyze, and respond to risks related to achieving the defined objectives.¹⁵ OPM has not fully assessed the risks of improper payments in its Retirement program—particularly related to the risk of underpayments in older claims and the risk of overpayments—and evaluated whether its approach for estimating improper payments effectively addresses these risks. As a result, OPM's processes for estimating Retirement improper payments may not reflect significant risks of improper payment in the program, calling into question the improper payment estimate and its usefulness for developing effective corrective actions.

¹⁴These risks may include life events—such as divorce from or the death of a spouse for which the retiree elected a survivor benefit—that may increase the retiree's annuity.

¹⁵[GAO-14-704G](#).

OMB guidance. OMB issues guidance for agencies to implement various requirements of the improper payment laws. Specifically, OMB is required by IPERIA to issue guidance to set standards for agencies to follow in determining the underlying validity of sampled payments to ensure that amounts being billed, paid, or obligated for payment are proper. Although existing OMB guidance addresses requirements for sampling, it does not address how agencies test to identify improper payments, such as using a risk-based approach to help ensure that key risks of improper payments, like eligibility, are addressed through testing processes. Without such guidance, there is increased risk that agencies' processes may not address key risks of improper payments in their programs—for example, the cases of DOD Military Pay and OPM Retirement described above—calling into question the improper payment estimates for such programs and their usefulness for developing effective corrective actions.

Treatment of Insufficient Documentation

According to OMB guidance, when an agency's review is unable to determine whether a payment was proper because of insufficient or lack of documentation, the payment must be considered an improper payment. Among the six agencies and 10 programs we reviewed, treatment of insufficient documentation varied by program, as did the classification of these issues for root cause reporting in the AFRs.¹⁶

HHS's programs were the only ones we reviewed that reported improper payments in the insufficient documentation root cause category for fiscal years 2016 or 2017, as shown in table 6.

¹⁶OMB guidance requires agencies to report the root causes of their improper payments using specific categories, including a category for cases in which there was insufficient documentation to determine whether the payment was proper.

Table 6: The Department of Health and Human Services Reported Improper Payments Related to Insufficient Documentation in Fiscal Years 2016 and 2017 for Four Programs GAO Reviewed

Reported improper payments related to insufficient documentation

Program	Fiscal year 2016 (dollars in billions)	Fiscal year 2017 (dollars in billions)
Medicare Fee-for-Service	27.3	23.8
Medicare Part C	11.5	9.3
Medicare Part D	1.7	0.5
Medicaid	2.4	3.2

Source: GAO analysis of agency financial reports for fiscal years 2016 and 2017. | GAO-18-377

Some agencies stated that they report insufficient documentation in other root cause categories that they consider more appropriate. For example, Education officials stated that for the Direct Loan program, payments that lack sufficient supporting documentation may be placed in the “Administrative or Process Error Made by Other Party” root cause category. In these cases, a third party—such as a loan servicer—is unable to provide sufficient documentation supporting that the sampled payment was proper. OMB guidance states that in cases where the agency believes that more than one root cause category might be suitable, the agency should determine which category it believes to be the most appropriate.

Additionally, some agencies stated that the “insufficient documentation” category was not always relevant when they recreated sampled cases to estimate a program’s improper payments. For example, according to officials, to complete an OASDI stewardship review of a sampled case, a Social Security Administration (SSA) quality reviewer reviews the documentation related to the original determination and then independently re-develops all factors of the payment and interviews the associated beneficiary. According to agency officials, insufficient documentation would not apply as all improper payments identified in the stewardship sample are supported by documentation and payment has been verified in all reviewed cases.

As noted previously, the processes for estimating DOD Military Pay and OPM Retirement improper payments were limited, and these limitations may have an impact on the agencies’ ability to identify improper payments related to insufficient documentation.

Treatment of cases of nonresponse. Some agencies contact outside entities—such as payees or beneficiaries—as part of their improper payment testing processes. Among the six agencies we reviewed, treatment of cases of nonresponse differed.¹⁷ For example:

- SSA officials stated that in cases where quality reviewers do not receive responses from OASDI beneficiaries they contact, they exclude the cases from review (unless the reviewer identifies an improper payment in the initial review that is completed prior to reaching out to the beneficiary).¹⁸
- For EITC improper payment estimation purposes, the Internal Revenue Service (IRS) stated that the agency does not consider the sampled payment associated with a nonresponse case to be proper or improper. It sets the sampling weight of nonresponse cases to zero and adjusts the sampling weights of respondents upward to account for the nonresponse cases.¹⁹ IRS's methodology assumes nonresponse and response cases have an equal likelihood of improper payment.
- For Medicare Fee-for-Service and Medicaid, HHS's policies and procedures consider payments associated with nonresponse cases to be improper.

OMB guidance states that when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must be considered an improper payment. However, it does not specifically address the appropriate treatment of nonresponse cases for improper payment estimation purposes. As a result, without clearer guidance there is increased risk that agencies' improper payment estimates may be understated and that estimates for similar programs may not be comparable.

¹⁷Some agencies take multiple steps to contact such entities and collect the necessary information before classifying a situation as a nonresponse case.

¹⁸According to SSA, quality reviewers make all reasonable efforts to locate each beneficiary in a sampled case. The quality reviewers thoroughly exhaust all sources identified in SSA's records, as well as third party sources, prior to excluding a case from review. If the quality reviewer cannot locate the beneficiary, the case is referred to the servicing field office for further contact and development.

¹⁹IRS's treatment of nonresponse cases differs for operational purposes in that these EITC claims are disallowed and IRS attempts to recover related overpayments.

Except for IRS, Selected Agencies Generally Reported Using Law and OMB Guidance to Calculate Improper Payment Estimates

Calculation of Improper Payment Estimates

When agencies identify improper payments, they must determine the amount of the payment that was improperly made. The six agencies we reviewed generally reported using the definition of improper payment in relevant laws and OMB guidance to determine the amount of improper payments identified. OMB guidance provides agencies with instructions on how to calculate the amount of improper payments.

However, when developing its improper payment estimate for EITC, IRS subtracted overpayments that were paid out and later recovered.²⁰ By subtracting recovered overpayments, IRS excluded them from the EITC improper payment estimate. For 2013—the tax year used to produce the fiscal year 2017 improper payment estimate—IRS estimated that \$1.2 billion in EITC overpayments would be recovered.

IPERIA directed OMB to provide guidance that requires agencies to include all improper payments in their improper payment estimates, regardless of whether they have been or are being recovered. Although the OMB guidance was revised in October 2014 to implement this requirement, IRS has not updated its estimation methodology for EITC. By not updating its guidance and continuing to remove EITC overpayments that may be subsequently recovered, IRS is understating its improper payment estimate and potentially limits its ability to address these types of improper payments before they occur.

Conclusions

Improper payments are a long-standing, significant problem in the federal government. Estimation of improper payments is key to understanding the extent of the problem and to developing effective corrective actions to address it. Among the six agencies we reviewed, processes to estimate

²⁰IRS—a bureau of the Department of the Treasury—conducts the National Research Program, the results of which are used to estimate EITC improper payments. The Department of the Treasury reports the EITC improper payment estimate in its AFR.

improper payments in their programs varied, and certain differences in these processes may affect the quality of the resulting estimates and consequently these agencies' efforts to reduce improper payments. Specifically, policies and procedures for DOD's Military Pay and OPM's Retirement programs' improper payment estimation methodologies do not address certain key risks, like eligibility, in part because these agencies have not fully assessed their processes. Further, although OMB guidance addresses requirements for sampling, it does not address how agencies test to identify improper payments. Without such assessments and guidance, there is increased risk that agencies' processes may not address key risks of improper payments in their programs, calling into question the improper payment estimates for such programs and their usefulness for developing effective corrective actions.

Additionally, for agencies we reviewed that contact outside entities as part of their improper payment estimation processes, the treatment of cases of nonresponse varied. OMB guidance does not specifically address the appropriate treatment of nonresponse cases for improper payment estimation purposes. Without clearer guidance there is increased risk that agencies' improper payment estimates may be understated and that estimates for similar programs may not be comparable.

Finally, although IPERIA directed OMB to provide guidance that requires agencies to include all improper payments in their improper payment estimates, regardless of whether they have been or are being recovered, IRS has not updated its processes to reflect the change. By not updating its guidance and continuing to remove EITC overpayments that may be subsequently recovered, IRS is understating its improper payment estimate and potentially limits its ability to address these types of improper payments before they occur.

Recommendations for Executive Action

We are making two recommendations to the Director of OMB that have government-wide implications and specific recommendations to DOD, OPM, and IRS regarding their programs included in this review.

The Director of OMB should develop guidance on how agencies test to identify improper payments, such as using a risk-based approach to help ensure that key risks of improper payments, such as eligibility, are addressed through testing processes. (Recommendation 1)

The Director of OMB should develop guidance clarifying the appropriate treatment of nonresponse cases during improper payment testing. (Recommendation 2)

The Under Secretary of Defense (Comptroller) should assess the processes for estimating Military Pay improper payments to determine whether they effectively address key risks of improper payments—including eligibility for different types of pay and allowances—and take steps to update the processes to incorporate key risks that are not currently addressed. (Recommendation 3)

The Director of OPM should assess the processes to estimate Retirement improper payments to determine whether they effectively address key risks of improper payments—including eligibility and whether older claims face different risks of improper payments than new claims—and take steps to update the processes to incorporate key risks that are not currently addressed. (Recommendation 4)

The Commissioner of IRS should update IRS's improper payment estimation methodology to not exclude recovered overpayments from its EITC improper payment estimate. (Recommendation 5)

Agency Comments and Our Evaluation

We provided a draft of this report for comment to OMB, DOD, Education, HHS, Treasury, OPM, SSA, and USDA. OMB provided oral comments, which are summarized below. OPM, DOD, and IRS provided written comments, which are reproduced in appendixes II through IV, respectively. Education, HHS, SSA, and USDA did not provide written comments on the draft report. In addition, HHS, IRS, OMB, OPM, and SSA provided technical comments, which we have incorporated, as appropriate.

In oral comments provided on April 30, 2018, a Senior Policy Advisor in OMB's Office of Federal Financial Management stated that OMB partially agreed with our first recommendation and agreed with our second recommendation.

- Regarding the first recommendation, the Senior Policy Advisor stated that OMB should not have to develop more specific guidance as each program and activity has its own risks. Instead, inspectors general are better equipped and positioned to review the sampling and estimation

plans as part of their annual IPERA compliance audits and that agencies, their statisticians, and inspectors general should work out the best testing procedures for their agencies. OMB could provide suggestions during OMB's annual town hall meeting related to improper payments for areas that inspectors general may consider. Although we agree that programs and activities may face different risks of improper payment, we continue to believe that guidance from OMB on how agencies test to identify improper payments—such as directing agencies to take a risk-based approach in developing their testing procedures—could help ensure that agencies address the specific risks they identify when developing improper payment estimates. Further, such guidance could also help ensure that testing processes are designed to address an agency's identified risks before the estimate is developed, whereas an inspector general's review—as well as related recommendations for improvement—would generally occur after the agency's improper payment estimate had been developed and reported.

- Regarding the second recommendation, the Senior Policy Advisor noted that OMB plans to update its guidance to direct agencies to treat nonresponse cases as improper payments and to include a new category for tracking such cases.

In its written comments, OPM partially concurred with our recommendation to assess the processes to estimate Retirement improper payments to determine whether they effectively address the key risks of improper payments. OPM agreed to conduct an audit of older claims to determine if they face different risks than new claims. However, OPM did not agree with the part of the recommendation to assess the risk of improper payments related to eligibility in the estimation process. OPM stated that eligibility is determined before annuity or survivor benefits are fully adjudicated. However, the objective of an improper payment estimate is to determine whether payments were made properly. To do so, an agency should determine whether the payee was eligible for the payment that was made, among other things. As such, we continue to believe that the recommendation—including the assessment of the risk of improper payments related to eligibility—is warranted.

In their written comments, DOD and IRS both agreed with our recommendations directed to them and described the steps they plan to take to implement them.

We are sending copies of this report to the appropriate congressional committees; the Secretaries of Agriculture, Defense, Education, Health

and Human Services, and the Treasury; the Director of the Office of Personnel Management; the Administrator of the Social Security Administration; the Director of the Office of Management and Budget; and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-2623 or davisbh@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix V.



Beryl H. Davis
Director
Financial Management and Assurance

List of Addressees

The Honorable Trey Gowdy
Chairman
Committee on Oversight and Government Reform
House of Representatives

The Honorable Mark Meadows
Chairman
Subcommittee on Government Operations
Committee on Oversight and Government Reform
House of Representatives

The Honorable Gary J. Palmer
Chairman
Subcommittee on Intergovernmental Affairs
Committee on Oversight and Government Reform
House of Representatives

Appendix I: Reported Improper Payment Estimates by Agency and Program for Fiscal Year 2017

Table 7 lists the fiscal year 2017 improper payment estimates by agency and program, as reported by agencies in their fiscal year 2017 agency financial reports and compiled on the Office of Management and Budget's payment integrity website, paymentaccuracy.gov.

Table 7: Reported Improper Payment Estimates by Agency and Program for Fiscal Year 2017

Reported for fiscal year 2017

Agency/program	Program outlays (millions of dollars)	Improper payment estimate (millions of dollars)	Improper payment rate (percentage)
Broadcasting Board of Governors	218.4	0.4	—
Domestic Payroll	218.4	0.4	0.2
Corporation for National and Community Service	404.5	49.5	—
AmeriCorps	247.2	26.8	10.8
Foster Grandparents Program	82.5	14.1	17.1
Retired and Senior Volunteer Program	41.1	3.0	7.4
Senior Companion Program	33.8	5.7	16.8
Department of Agriculture	33,499.9	3,270.2	—
National School Lunch Program	12,258.1	1,875.5	15.3
School Breakfast Program	4,212.6	958.4	22.8
Special Supplemental Nutrition Program for Women, Infants, and Children	3,949.4	197.1	5.0
Child and Adult Care Food Program – Family Day Care Homes – Tiering Decisions	844.6	4.6	0.5
Loan Deficiency Payments	171.7	2.9	1.7
Livestock Forage Disaster Program	457.3	14.3	3.1
Noninsured Crop Disaster Assistance Program	139.6	11.9	8.5
Farm Security and Rural Investment Act Programs	2,304.3	25.8	1.1

**Appendix I: Reported Improper Payment
Estimates by Agency and Program for Fiscal
Year 2017**

Agency/program	Program outlays (millions of dollars)	Improper payment estimate (millions of dollars)	Improper payment rate (percentage)
Federal Crop Insurance Corporation Program Fund	9,162.3	179.8	2.0
Department of Commerce	56.5	0.1	—
Funds Received by National Oceanic and Atmospheric Administration under Disaster Relief Appropriations Act (DRAA)	56.5	0.1	0.0
Department of Defense	516,980.7	957.3	—
Military Health Benefits	23,883.3	150.2	0.6
Military Pay	96,777.3	182.5	0.2
Civilian Pay	61,811.2	68.1	0.1
Military Retirement	60,353.9	127.6	0.2
Travel Pay	5,278.7	263.3	5.0
Defense Finance and Accounting Service Commercial Pay	259,165.2	0.9	0.0
U.S. Army Corps of Engineers (USACE) Commercial Pay	8,945.1	163.2	1.8
USACE Travel Pay	196.0	1.6	0.8
Navy Commercial Bill Pay Office – Naples	570.1	0.0	0.0
Department of Education	122,304.1	6,073.0	—
Pell Grants	26,914.7	2,209.7	8.2
Direct Loan	95,389.3	3,863.3	4.1
Department of Health and Human Services	1,015,684.6	90,113.1	—
Medicare Fee-for-Service (Parts A and B)	380,762.0	36,208.0	9.5
Medicare Advantage (Part C)	172,768.1	14,351.7	8.3
Medicare Prescription Drug Benefit (Part D)	77,450.3	1,295.6	1.7
Medicaid	363,839.4	36,731.1	10.1
Children’s Health Insurance Program	14,305.1	1,236.1	8.6
Foster Care	747.0	53.3	7.1
Disaster Relief – Head Start	2.9	0.0	0.0
Disaster Relief – Social Services Block Grant	63.6	0.0	0.0
Child Care	5,746.3	237.3	4.1
Department of Homeland Security	12,219.4	108.9	—
Customs and Border Protection – Refund and Drawback	1,875.0	14.8	0.8
Federal Emergency Management Agency (FEMA) – Assistant to Firefighters Grants	299.2	0.3	0.1
FEMA – Flood Risk Map and Risk Analysis	132.0	4.3	3.3
FEMA – Homeland Security Grant Program	1,280.2	4.9	0.4
FEMA – National Flood Insurance Program	2,339.8	0.3	0.0

**Appendix I: Reported Improper Payment
Estimates by Agency and Program for Fiscal
Year 2017**

Agency/program	Program outlays (millions of dollars)	Improper payment estimate (millions of dollars)	Improper payment rate (percentage)
FEMA – Public Assistance	3,410.7	34.1	1.0
FEMA – Vendor Pay	974.1	43.0	4.4
Immigration and Customs Enforcement – Enforcement and Removal Operations	1,828.2	6.0	0.3
Science and Technology – Sandy	0.7	0.0	0.0
U.S. Coast Guard – Sandy	79.5	1.1	1.4
Department of Housing and Urban Development	9,637.2	102.8	—
Office of Public and Indian Housing – Tenant-Based Rental Assistance	7,544.7	102.8	1.4
Community Development and Planning – DRAA	2,092.4	0.0	0.0
Department of Justice	1.9	0.0	—
Law Enforcement	1.9	0.0	0.0
Prisons and Detention	0.0	0.0	0.0
Department of Labor	35,310.1	4,123.1	—
Unemployment Insurance	32,530.0	4,065.9	12.5
Federal Employees Compensation Act	2,780.1	57.2	2.1
Department of Transportation	46,564.2	141.4	—
Highway Planning and Construction	43,909.4	132.6	0.3
High-Speed Intercity Passenger Rail	2,102.9	4.1	0.2
Federal Transit Administration Emergency Relief Program – DRAA	551.8	4.7	0.8
Office of the Inspector General - DRAA	0.1	0.0	2.5
Department of the Treasury	67,992.5	16,231.6	—
Earned Income Tax Credit	67,992.5	16,231.6	23.9
Department of Veterans Affairs (VA)	103,203.5	10,663.8	—
Beneficiary Travel	889.9	223.8	25.1
Civilian Health and Medical Program of the VA	1,247.5	70.0	5.6
VA Community Care	5,628.9	5,257.6	93.4
Purchased Long-Term Services and Support	1,890.5	1,890.5	100.0
State Home Per Diem Grants	1,188.8	15.6	1.3
Supplies and Materials	2,556.9	479.8	18.8
Prosthetics	2,415.9	1,448.3	59.9
Medical Care Contracts and Agreements	947.3	157.3	16.6
Communications, Utilities, and Other Rent	1,444.2	352.7	24.4
Compensation	67,696.7	456.2	0.7
Pension	5,542.5	145.9	2.6
Education – Chapter 33	11,719.6	166.2	1.4

**Appendix I: Reported Improper Payment
Estimates by Agency and Program for Fiscal
Year 2017**

Agency/program	Program outlays (millions of dollars)	Improper payment estimate (millions of dollars)	Improper payment rate (percentage)
Disaster Relief Act – Hurricane Sandy	34.8	0.0	0.1
Environmental Protection Agency	4,356.6	15.8	—
Clean Water State Revolving Fund	1,431.4	2.6	0.2
Drinking Water State Revolving Fund	1,183.9	0.8	0.1
Grants	1,726.9	12.4	0.7
Hurricane Sandy Disaster Relief Fund	14.3	0.0	0.3
Federal Communications Commission	9,649.0	442.4	—
Universal Service Fund (USF) – High Cost	4,652.0	2.5	0.1
USF – Schools and Libraries	2,388.0	103.5	4.3
USF – Lifeline	1,534.0	336.4	21.9
Interstate Telecommunications Relay Services	1,075.0	0.0	0.0
General Services Administration	5,515.0	109.1	—
Rental of Space	5,486.4	107.8	2.0
Purchase Cards	28.6	1.3	4.5
Office of Personnel Management	133,191.0	341.4	—
Retirement	82,913.0	313.8	0.4
Federal Employee Health Benefit	50,278.0	27.6	0.1
Railroad Retirement Board	12,517.8	78.7	—
Retirement and Survivors Benefits	12,362.0	74.7	0.6
Railroad Unemployment Insurance Act	155.8	4.0	2.5
Small Business Administration	24,733.2	450.3	—
7(a) Guaranty Purchases	655.6	28.4	4.3
7(a) Guaranty Approvals	18,116.0	233.9	1.3
504 Certified Development Company Guaranty Approvals	4,947.6	59.2	1.2
Disaster Loan Disbursements	903.9	123.4	13.7
Disbursements for Goods and Services	110.2	5.5	5.0
Social Security Administration	967,954.4	7,598.3	—
Old-Age, Survivors, and Disability Insurance	911,200.3	2,578.4	0.3
Supplemental Security Income	56,754.1	5,019.9	8.8

Source: GAO analysis of agencies' fiscal year 2017 agency financial reports and Office of Management and Budget data on paymentaccuracy.gov. | GAO-18-377

Notes: Numbers may not add up to totals because of rounding. For programs using statistically valid estimation methodologies, improper payment estimates that comply with Office of Management and Budget guidance have a margin of error associated with them that is no greater than plus or minus 3 percent of the total amount of all payments for the program at the 95 percent level of confidence.

Appendix II: Comments from the Office of Personnel Management



Chief Financial
Officer

UNITED STATES OFFICE OF PERSONNEL MANAGEMENT
Washington, DC 20415

MAY 03 2018

Beryl H. Davis, Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Davis:

Thank you for providing us the opportunity to respond to the Government Accountability Office (GAO) draft report, *Improper Payments – Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes*. (GAO-18-377)

Responses to your recommendations are provided below.

Recommendation:

The Director of OPM should assess the processes to estimate Retirement improper payments to determine whether they effectively address key risks of improper payments – including eligibility and whether older claims face different risks of improper payments than new claims – and take steps to update the processes to incorporate key risks that are not currently addressed.

Management Response:

We partially concur. Prior to 2006, the improper payment estimate sampling methodology used by the Office of Personnel Management (OPM) included both new and old adjudicated claims. After analyzing several years of data using this methodology, OPM found that including older claims in the sample could result in claimant's records being sampled multiple times. In addition, we also found that the variance in the number of errors detected in new claims versus old claims was very low. OPM also looked at the resources used in performing the audit of old and new claims and based on these factors, management determined that it was not an efficient use of the resources to include both old and new claims in the review.

The methodology was updated to make the process more efficient. By using new claims only, we were able to provide feedback to program managers more timely. As a result, management can address issues negatively impacting the improper payment rate and prevent improper payments promptly.

**Appendix II: Comments from the Office of
Personnel Management**

We agree with the intent of this recommendation; however, we do not agree with your recommendation regarding a risk assessment on eligibility. Eligibility is determined before annuity/survivor benefits are fully adjudicated. As part of our corrective action plan, we will conduct an audit of older claims to determine if there are different risks to new claims.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact Sandra Mitchell at 202-606-5968 or Sandra.mitchell@opm.gov.

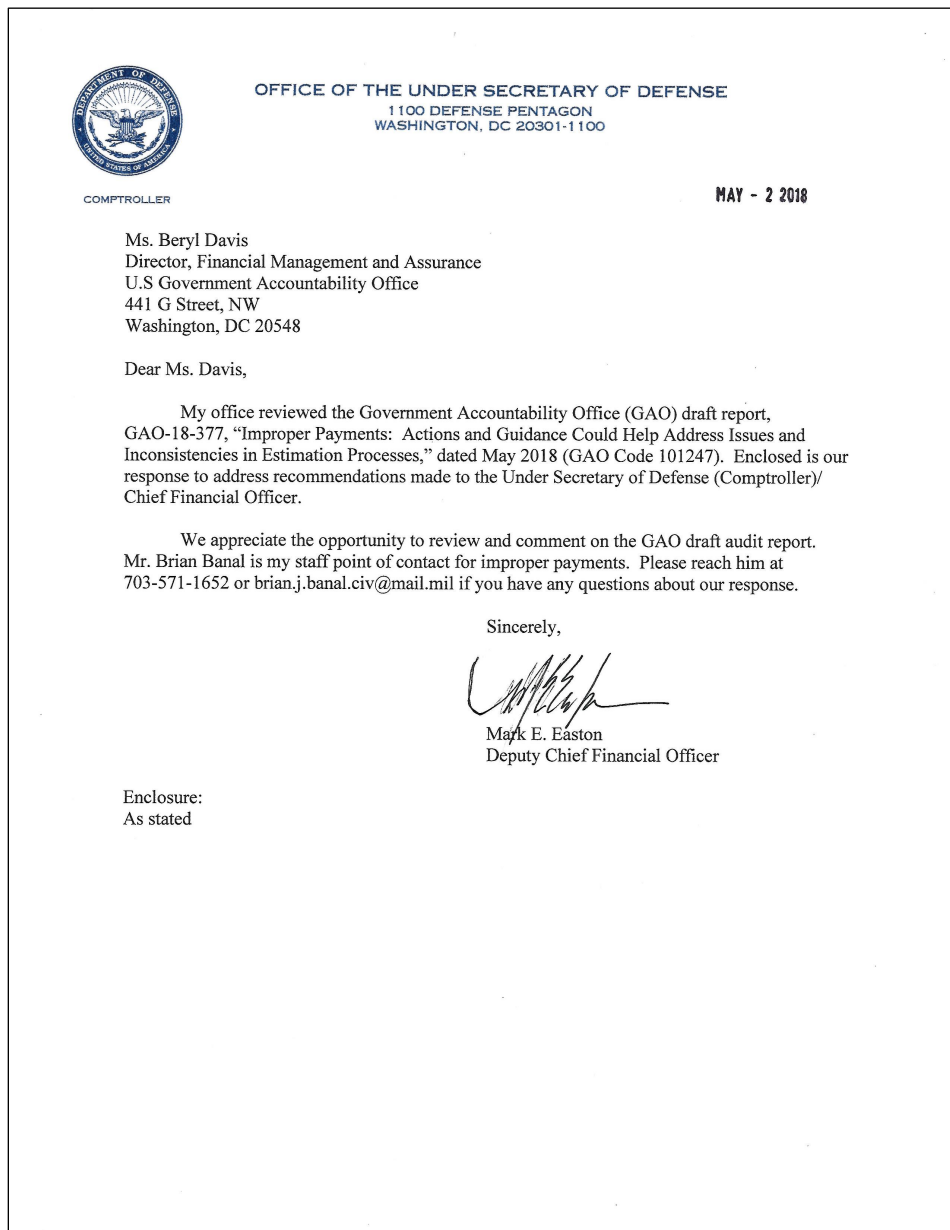
Sincerely,



Dennis D. Coleman
Chief Financial Officer

Attachment: Technical Comments

Appendix III: Comments from the Department of Defense



GAO DRAFT REPORT DATED MAY 2018
GAO-18-377 (GAO CODE 101247)

“IMPROPER PAYMENTS: ACTIONS AND GUIDANCE COULD HELP ADDRESS
ISSUES AND INCONSISTENCIES IN ESTIMATION PROCESSES”

DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION

RECOMMENDATION 1: The GAO recommends that the Undersecretary of Defense (Comptroller) should assess the processes to estimate Military Pay improper payments to determine whether they effectively address key risks of improper payments-including eligibility for different types of pay and allowances-and take steps to update the processes to incorporate key risks that are not currently addressed.

OUSDC(C) RESPONSE: Concur. The Office of the Under Secretary of Defense (Comptroller) will coordinate with the Military Services and the Defense Finance and Accounting Service to update the standard operating procedure (SOP) for post-payment reviews of Military Pay accounts. The updated SOP will require reviewers to verify that Service members are eligible for special pay and allowances by validating the information included in pay accounts with supporting documentation. This level of review will enable the Department to fully assess the risks in its Military Pay program and develop more effective corrective actions. The estimated completion date is August 31, 2018.

Enclosure

Appendix IV: Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

May 3, 2018

Ms. Beryl H. Davis
Director, Financial Management and Assurance
U. S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Davis:

Thank you for the opportunity to review and comment on your draft audit report entitled, *Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes* (GAO-18-377). After reviewing your report, we agree that you have correctly described the processes we use to analyze and report on overclaims of the Earned Income Tax Credit (EITC). Administering EITC is a significant challenge for the IRS due to its nature and the lack of information necessary for complete verification of taxpayer eligibility and claims at the time a return is filed. The rules for claiming EITC require taxpayers to sort through complicated family relationships and residency arrangements to determine eligibility, and this complexity contributes to the relatively high overclaim rates for these credits. We also lack certain third-party information that could be used to verify eligibility for EITC since the information needed may not be available when returns are processed, may be unreliable or may not exist. As a result, we are limited in our ability to verify or block claims before refunds are paid, meaning that overclaims must be pursued through IRS examination and compliance processes.

One of the uses of our National Research Program (NRP) is to analyze the sources of EITC overclaims. For example, we reported in the FY 2017 Department of the Treasury Agency Financial Report (AFR) that 94 percent of EITC overclaims result from our inability to authenticate eligibility information such as qualifying child requirements, residency, filing status and other issues. Another six percent result from program design limitations such as missing third-party verification information. We use this information to improve our filters and compliance programs each year, update our detection tools to improve accuracy and reduce taxpayer burden, and reject erroneous or potentially fraudulent EITC-claiming returns for reasons such as incorrect or missing social security numbers.

Despite these measures, the IRS will need help to reduce EITC overclaims. The IRS lacks the resources to pursue compliance actions on every potential EITC overclaim; therefore, we believe the most effective approach to addressing overclaims requires

2

statutory changes. We appreciate the initial steps Congress has taken with the *Protecting Americans from Tax Hikes (PATH) Act of 2015*, but it is premature to measure the full effect of this legislation on compliance. In addition, we believe that additional third-party reporting requirements and correctible error authority are essential to reducing overclaims.

Treasury has submitted legislative proposals each year in its annual budget that would modify tax administration processes or the IRS's authority, helping us address these problems. The proposals submitted with the FY 2019 President's Budget included an expansion of the IRS's correctible error authority in cases where (1) the information provided by the taxpayer does not match the information contained in government databases, (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit or (3) the taxpayer has failed to include with his or her return certain documentation required by statute. A second proposal would grant the IRS the authority to require minimum standards for an estimated 400,000 paid tax return preparers currently without credentials, helping to reduce the number of incompetent and dishonest preparers filing erroneous and fraudulent returns.

In the meantime, the IRS remains committed to working with its stakeholders to reduce EITC overclaims where possible, using existing authorities and tools. We provided our specific comments on your draft audit report to your staff separately. The enclosure contains our response to your recommendation directed to the IRS.

If you have any questions, please contact me, or a member of your staff may contact John Pekarik, Associate Chief Financial Officer for Internal Controls, at 202-803-9151.

Sincerely,



David J. Kautter
Acting Commissioner

Enclosure

Enclosure

GAO Recommendation

The Commissioner of the IRS should update IRS's improper payment estimation methodology to not exclude recovered overpayments from its EITC improper payment estimate.

IRS Response

The IRS agrees with this recommendation. Prior to October 2014, Office of Management and Budget (OMB) guidance allowed agencies to reflect recoveries in improper payment estimates. When the guidance was changed, the IRS sought and received an exemption from OMB because the tax system differs from spending programs in that much of the verification and compliance activity for potentially erroneous tax returns takes place after refunds have been issued. The exemption was intended to be temporary until the IRS and OMB could address outstanding questions related to the appropriate representation of EITC and other refundable tax credit overclaims. However, since none of the discussions with OMB have resulted in any decisions to date, the IRS will update its reporting so that recoveries are no longer included in our estimates. The change will be reflected in the FY 2018 Treasury Agency Financial Report.

Planned Implementation Date

November 15, 2018

Appendix V: GAO Contact and Staff Acknowledgments

GAO Contact

Beryl H. Davis, (202) 512-2623 or davisbh@gao.gov

Staff Acknowledgments

In addition to the contact named above, Phillip McIntyre (Assistant Director), James M. Healy (Auditor in Charge), Daniel Flavin, and Fabiola Torres made key contributions to this report.

Appendix VI: Accessible Data

Agency Comment Letter

Text of Appendix II: Comments from the Office of
Personnel Management

Page 1

Dear Ms. Davis:

Thank you for providing us the opportunity to respond to the Government Accountability Office (GAO) draft report, *Improper Payments - Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes*. (GAO-18-377)

Responses to your recommendations are provided below.

Recommendation:

The Director of OPM should assess the processes to estimate Retirement improper payments to determine whether they effectively address key risks of improper payments - including eligibility and whether older claims face different risks of improper payments than new claims - and take steps to update the processes to incorporate key risks that are not currently addressed.

Management Response:

We partially concur. Prior to 2006, the improper payment estimate sampling methodology used by the Office of Personnel Management (OPM) included both new and old adjudicated claims. After analyzing several years of data using this methodology, OPM found that including older claims in the sample could result in claimant's records being sampled multiple times. In addition, we also found that the variance in the number of errors detected in new claims versus old claims was very low. OPM also looked at the resources used in performing the audit of old and new claims and based on these factors, management determined that it was not an efficient use of the resources to include both old and new claims in the review.

The methodology was updated to make the process more efficient. By using new claims only, we were able to provide feedback to program managers more timely. As a result, management can address issues negatively impacting the improper payment rate and prevent improper payments promptly.

Page 2

We agree with the intent of this recommendation; however, we do not agree with your recommendation regarding a risk assessment on eligibility. Eligibility is determined before annuity/survivor benefits are fully adjudicated. As part of our corrective action plan, we will conduct an audit of older claims to determine-if there are different risks to new-claims.

I appreciate the opportunity to respond to this draft report. If you have any questions regarding our response, please contact Sandra Mitchell at 202-606-5968 or Sandra.mitchell@opm.gov.

Sincerely,

Dennis D. Coleman
Chief Financial Officer

Attachment: Technical Comments

Text of Appendix III: Comments from the Department of Defense

Page 1

Dear Ms. Davis,

My office reviewed the Government Accountability Office (GAO) draft report, GAO-18-377, "Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes," dated May 2018 (GAO Code 101247). Enclosed is our response to address recommendations made to the Under Secretary of Defense (Comptroller)/ Chief Financial Officer.

We appreciate the opportunity to review and comment on the GAO draft audit report.

Mr. Brian Banal is my staff point of contact for improper payments. Please reach him at 703-571-1652 or brian.j.banal.civ@mail.mil if you have any questions about our response.

Sincerely,

Mark E. Easton
Deputy Chief Financial Officer

Enclosure:
As stated

Page 2

**GAO Draft Report Dated May 2018 GAO-18-377 (GAO Code 101247)
"Improper Payments: Actions and Guidance Could Help Address
Issues and Inconsistencies in Estimation Processes"
Department of Defense Comments to the GAO Recommendation**

RECOMMENDATION 1:

The GAO recommends that the Undersecretary of Defense (Comptroller) should assess the processes to estimate Military Pay improper payments to determine whether they effectively address key risks of improper payments-including eligibility for different types of pay and allowances-and take steps to update the processes to incorporate key risks that are not currently addressed.

OUSD(C) RESPONSE:

Concur. The Office of the Under Secretary of Defense (Comptroller) will coordinate with the Military Services and the Defense Finance and Accounting Service to update the standard operating procedure (SOP) for post-payment reviews of Military Pay accounts. The updated SOP will require reviewers to verify that Service members are eligible for special pay and allowances by validating the information included in pay accounts with supporting documentation. This level of review will enable the Department to fully assess the risks in its Military Pay program and develop more effective corrective actions. The estimated completion date is August 31, 2018.

Enclosure

Text of Appendix IV: Comments from the Internal Revenue Service

Page 1

Dear Ms. Davis:

Thank you for the opportunity to review and comment on your draft audit report entitled, *Improper Payments: Actions and Guidance Could Help Address Issues and Inconsistencies in Estimation Processes* (GAO-18-377). After reviewing your report, we agree that you have correctly described the processes we use to analyze and report on overclaims of the Earned Income Tax Credit (EITC). Administering EITC is a significant challenge for the IRS due to its nature and the lack of information necessary for complete verification of taxpayer eligibility and claims at the time a return is filed. The rules for claiming EITC require taxpayers to sort through complicated family relationships and residency arrangements to determine eligibility, and this complexity contributes to the relatively high overclaim rates for these credits. We also lack certain third-party information that could be used to verify eligibility for EITC since the information needed may not be available when returns are processed, may be unreliable or may not exist. As a result, we are limited in our ability to verify or block claims before refunds are paid, meaning that overclaims must be pursued through IRS examination and compliance processes.

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Page 2

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Planned Implementation Date

November 15, 2018

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