



November 2017

IMPROPER PAYMENTS

Most Selected
Agencies Improved
Procedures to Help
Ensure Risk
Assessments of All
Programs and
Activities

GAO Highlights

Highlights of [GAO-18-36](#), a report to congressional requesters

Why GAO Did This Study

Reported improper payment estimates totaled over \$1.2 trillion government-wide from fiscal years 2003 through 2016. Agencies are statutorily required to perform improper payment risk assessments to identify programs and activities that may be susceptible to significant improper payments and are required to report an improper payment estimate for ones that are susceptible to significant improper payments.

GAO was asked to review federal agencies' improper payment risk assessments. This report examines the extent to which (1) the 24 CFO Act agencies followed OMB guidance for reporting on improper payment risk assessments and (2) selected CFO Act agencies properly designed control activities to include all of their programs and activities in an improper payment risk assessment at least once every 3 years, as statutorily required. GAO analyzed the 24 CFO Act agencies' AFRs and PARs and reviewed the procedures at 9 selected agencies. GAO selected 9 agencies that did not report improper payment estimates in fiscal year 2015, except for those estimates that were mandated to be reported pursuant to the Disaster Relief Appropriations Act, 2013. For this review, GAO did not evaluate the quality of improper payment risk assessments completed.

What GAO Recommends

GAO recommends that NASA revise its procedures to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years. NASA concurred with the recommendation.

View [GAO-18-36](#). For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

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IMPROPER PAYMENTS

Most Selected Agencies Improved Procedures to Help Ensure Risk Assessments of All Programs and Activities

What GAO Found

GAO's review of the 24 Chief Financial Officers Act of 1990 (CFO Act) agencies' fiscal years 2014 through 2016 agency financial reports (AFR) and performance and accountability reports (PAR) found that these agencies generally adhered to the Office of Management and Budget's (OMB) improper payment risk assessment reporting directives. However, GAO found instances of nonadherence, including the following:

- There were two instances of nonadherence to OMB's directive for agencies to report the basis for how they grouped programs and activities, both of which occurred in fiscal year 2014. All agencies that completed risk assessments adhered to this directive for fiscal years 2015 and 2016.
- The Improper Payments Information Act of 2002, as amended, identifies seven risk factors and OMB guidance includes two additional risk factors that agencies are to consider when conducting risk assessments. For fiscal years 2015 and 2016 reporting, OMB directed agencies to report the risk factors considered in their risk assessments. However, GAO found six agencies that did not report one or more of the nine risk factors in their AFRs or PARs.

OMB's revised guidance for fiscal year 2017 no longer directs agencies to report on their risk assessments. OMB staff stated that their primary motivation for removing such reporting was to reduce the administrative burden. After GAO notified OMB of the importance of certain data, OMB staff plan to direct agencies to provide additional data, including a listing of risk assessed programs and activities, on www.paymentaccuracy.gov for reporting beginning in fiscal year 2017. OMB staff also plan to revise the guidance for fiscal year 2018 for agencies to report the other risk assessment information in their AFRs or PARs.

GAO also found that three of the nine selected agencies (the Departments of Energy and Justice and the U.S. Agency for International Development) that it reviewed had designed and documented control activities to help ensure that all programs and activities were assessed every 3 years. For the remaining six agencies, GAO found that the agencies did not properly design control activities for this purpose. Specifically, GAO found the following:

- Three agencies—the Department of Commerce, the National Science Foundation, and the Nuclear Regulatory Commission—did not have documented procedures for conducting risk assessments during fiscal years 2014 through 2016 but subsequently documented them.
- Three agencies—the Departments of the Interior (Interior) and State (State) and the National Aeronautics and Space Administration (NASA)—documented procedures for conducting risk assessments but did not include all programs and activities in their risk assessments. Interior later drafted revisions to its procedures and State updated its procedures to include them.

Without properly designed and documented control activities, there is a risk that an agency may not identify all programs and activities that require a risk assessment, which could result in the agency failing to develop and report improper payment estimates for programs and activities that should have been identified as susceptible to significant improper payments.

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Abbreviations

AFR	agency financial report
CFO Act	Chief Financial Officers Act of 1990
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Commerce	Department of Commerce
DFAS	Defense Finance and Accounting Service
DOD	Department of Defense
Education	Department of Education
Energy	Department of Energy
FSA	Federal Student Aid
HUD	Department of Housing and Urban Development
IG	inspector general
Interior	Department of the Interior
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
Labor	Department of Labor
NASA	National Aeronautics and Space Administration
NRC	Nuclear Regulatory Commission
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel and Management
PAR	performance and accountability report
SSA	Social Security Administration
State	Department of State
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture

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November 16, 2017

Congressional Requesters:

As the steward of taxpayer dollars, the federal government is accountable for how it spends hundreds of billions of taxpayer dollars annually. However, improper payments—payments that should not have been made or were made in incorrect amounts—remain a significant and pervasive government-wide issue.¹ Specifically, from fiscal years 2003 through 2016, improper payments have been estimated to total over \$1.2 trillion government-wide. The most recent government-wide improper payment estimate reported for fiscal year 2016 was \$144.3 billion, an increase of approximately \$7.6 billion from the \$136.7 billion estimate reported for fiscal year 2015.² It is important to note that these estimates themselves may not be accurate, reliable, or complete, as we have reported that the federal government is unable to determine the full extent of improper payments and to reasonably assure that actions are taken to reduce them.³ In addition, certain inspectors general (IG) have reported issues with agencies' reported improper payment estimates because agencies used inappropriate sampling

¹An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible 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 (OMB) guidance also instructs agencies to report as improper payments any payment for which insufficient or no documentation was found.

²The improper payment estimates for fiscal years 2015 and 2016 exclude the Department of Defense's Defense Finance and Accounting Service (DFAS) Commercial Pay program. Although OMB included this program in its government-wide improper payment estimate for both years, because of our continuing concerns based on audit findings in a 2013 report regarding the reliability of its improper payment estimate, we have excluded the DFAS Commercial Pay estimate from our calculations. See GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, [GAO-13-227](#) (Washington, D.C.: May 13, 2013).

³GAO, *Financial Audit: Fiscal Years 2016 and 2015 Consolidated Financial Statements of the U.S. Government*, [GAO-17-283R](#) (Washington, D.C.: Jan. 12, 2017).

methods and inadequate estimation methodologies to calculate and report these estimates.⁴

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, among other things, that each federal agency review all programs and activities that the agency head administers and identify those that may be susceptible to significant improper payments—a process commonly referred to as an improper payment risk assessment. Specifically, IPIA, as amended,⁵ (hereafter referred to as IPIA) requires agencies to conduct improper payment risk assessments for all federal programs and activities in fiscal year 2011 and at least once every 3 years thereafter. Office of Management and Budget (OMB) guidance provides that programs that have been determined to be susceptible to significant improper payments and that are already reporting an estimate—or in the process of establishing an estimate—do not have to perform additional risk assessments.⁶ IPIA defines significant improper payments as gross annual improper payments—the total amount of payments that should not have been made or that were made in an incorrect amount—that may have exceeded (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

You requested that we review federal agencies' improper payment risk assessments. This report examines the extent to which (1) the 24 agencies subject to the Chief Financial Officers Act of 1990 (CFO Act) followed OMB guidance for reporting on improper payment risk assessments and (2) selected CFO Act agencies designed control activities to include all of their programs and activities in an improper payment risk assessment at least once during a 3-year period, as

⁴GAO, *Improper Payments: Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General*, [GAO-17-484](#) (Washington, D.C.: May 31, 2017).

⁵IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), amended by IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), and IPERIA, Pub. L. 112-248, 126 Stat. 2390 (Jan. 10, 2013), *codified as amended at* 31 U.S.C. § 3321 note.

⁶Office of Management and Budget, *Appendix C to OMB Circular A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, OMB Memorandum M-15-02 (Washington, D.C.: Oct. 20, 2014).

required by IPIA.⁷ At the time of our review, the most recent 3-year period was fiscal years 2014 through 2016.

To address our first objective, we reviewed the improper payment risk assessment requirements in IPIA, as well as reviewed the related guidance in OMB Circular A-136, Financial Reporting Requirements, including the OMB directives for agencies' risk assessment reporting, and OMB M-15-02.⁸ To determine if the agencies adhered to OMB reporting directives, we analyzed the agency financial reports (AFR) or the performance and accountability reports (PAR) of the 24 CFO Act agencies for fiscal years 2014 through 2016. Our review focused on whether the agencies reported the risk assessment information in their AFRs or PARs but did not include an evaluation of the quality of these agencies' improper payment risk assessments. For agencies that did not adhere to the reporting directives, we interviewed appropriate agency officials to determine the reason(s) they did not.

To address our second objective, we reviewed IPIA, the related OMB guidance, and relevant internal control standards to determine the relevant control activities needed to help ensure that agencies conduct improper payment risk assessments for all programs and activities at least once every 3 years.⁹ Although the control activities are relevant for all of the 24 CFO Act agencies, we selected those agencies that have not identified any programs or activities that were susceptible to significant improper payments. Specifically, we focused on those 9 agencies that did not report improper payment estimates in fiscal year 2015, except for those estimates that were mandated to be reported pursuant to the Disaster Relief Appropriations Act, 2013.¹⁰ These 9 agencies were the

⁷The CFO Act, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), established, among other things, chief financial officers to oversee financial management activities at 23 major executive departments and agencies. The list now includes 24 entities, which are often referred to collectively as CFO Act agencies, and is codified, as amended, in section 901 of Title 31, United States Code. The CFO Act agencies accounted for over 99 percent of the government-wide improper payment estimate in fiscal year 2015.

⁸IPIA does not have requirements related to the reporting of risk assessments.

⁹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). [GAO/AIMD-00-21.3.1](#) was effective through the end of fiscal year 2015 (Sept. 30, 2015). The revised version of *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014), became effective the first day of fiscal year 2016 (Oct. 1, 2015). Both versions were applicable to this review.

¹⁰Pub. L. No. 113-2, div. A, title IX, § 904(b), 127 Stat. 4, 17 (Jan. 29, 2013).

Departments of Commerce, Energy, the Interior, Justice, and State; the National Aeronautics and Space Administration; the National Science Foundation; the Nuclear Regulatory Commission; and the U.S. Agency for International Development. Specifically, for these 9 agencies (hereafter referred to as selected agencies), we reviewed the agencies' procedures for conducting improper payment risk assessments and interviewed agency officials to determine whether the agencies properly designed and documented control activities to review all programs and activities at least once every 3 years. Appendix I provides further details on our scope and methodology.

While our second objective focused on certain key control activities related to the selected agencies' inclusion of programs and activities in their improper payment risk assessments at least once during fiscal years 2014 through 2016, we did not evaluate all control activities and other components of internal control. If we had done so, additional deficiencies may or may not have been identified that could impair the effectiveness of the control activities evaluated as part of this audit. Appendix II provides additional details on standards for internal control in the federal government.

We conducted this performance audit from June 2016 to November 2017 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

IPIA requires agencies to conduct a risk assessment for all programs and activities at least once every 3 years, and OMB guidance implementing IPIA also directs agencies to report on the assessment in either the agencies' AFRs or PARs. Each agency must institute a systematic method of performing the improper payment risk assessment, which may take the form of either a quantitative analysis based on a statistical sample or qualitative evaluation (e.g., a risk assessment questionnaire).

IPIA identifies seven risk factors and OMB guidance includes two additional risk factors that agencies are to consider when conducting

improper payment risk assessments.¹¹ According to OMB M-15-02, agencies' risk assessments (either quantitative or qualitative) should consider all of the following nine risk factors that are likely to contribute to significant improper payments:

1. whether the program or activity reviewed is new to the agency;
2. the complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
3. the volume of payments made annually;
4. whether payments or payment eligibility decisions are made outside of the agency, for example, by a state or local government or a regional federal office;
5. recent major changes in program funding, authorities, practices, or procedures;
6. the level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
7. inherent risks of improper payments because of the nature of agency programs or operations;
8. significant deficiencies in the agency's audit reports, including but not limited to the agency IG or GAO audit findings or other relevant management findings that might hinder accurate payment certification; and
9. results from prior improper payment work.

OMB guidance describes these nine risk factors as the minimum factors that agencies should consider and notes that additional risk factors, such as those specific to the program or activity being assessed, should also be considered, as appropriate.

If an agency's improper payment risk assessment finds that a program is susceptible to significant improper payments, the agency is required by IPIA to estimate the annual amount of improper payments for the program, publish corrective action plans, set reduction targets, and

¹¹The two additional risk factors that OMB M-15-02 directs agencies to consider when conducting improper payment risk assessments are (1) inherent risks of improper payments because of the nature of agency programs or operations and (2) results from prior improper payment work.

annually report on the results of addressing these requirements for that program. IPFA states that each agency is required to publish the improper payment information in an annual report in the form and content required by OMB—typically an AFR or a PAR—for the most recent fiscal year, and post that report on the agency’s website.

OMB Circular A-136 and OMB M-15-02 provide guidance for agencies on preparing their AFRs or PARs, including the reporting of improper payment information. Specifically, this OMB guidance directs agencies to disclose the following in their AFRs or PARs: (1) the basis for grouping programs and activities for improper payment risk assessments;¹² (2) the risk factors considered during their risk assessment; and (3) a listing of all programs that were assessed for a given year, regardless of whether a program or activity was deemed susceptible to significant improper payments. Given that OMB guidance is updated periodically, some reporting directives may differ for each fiscal year. As shown in table 1, the directive to disclose the basis for grouping programs and activities was applicable for all 3 years included in the scope of our review (i.e., fiscal years 2014 through 2016). However, the directives to disclose all the risk factors considered and include a listing of all programs and activities assessed were only applicable for fiscal years 2015 and 2016.

Table 1: Office of Management and Budget (OMB) Improper Payment Risk Assessment Reporting Directives for Fiscal Years 2014 through 2016

OMB reporting directive	Fiscal year		
	2014	2015	2016
1. Report the basis for grouping programs and activities	✓	✓	✓
2. Report a listing of all programs and activities assessed during the agency’s risk assessment	N/A	✓	✓
3. Describe the risk factors considered during the agency’s risk assessment	N/A	✓	✓

Legend:

✓ : OMB reporting directive was applicable in this fiscal year.

N/A: OMB reporting directive was not applicable in this fiscal year.

Source: GAO analysis of OMB guidance related to agencies’ improper payment reporting directives. | GAO-18-36

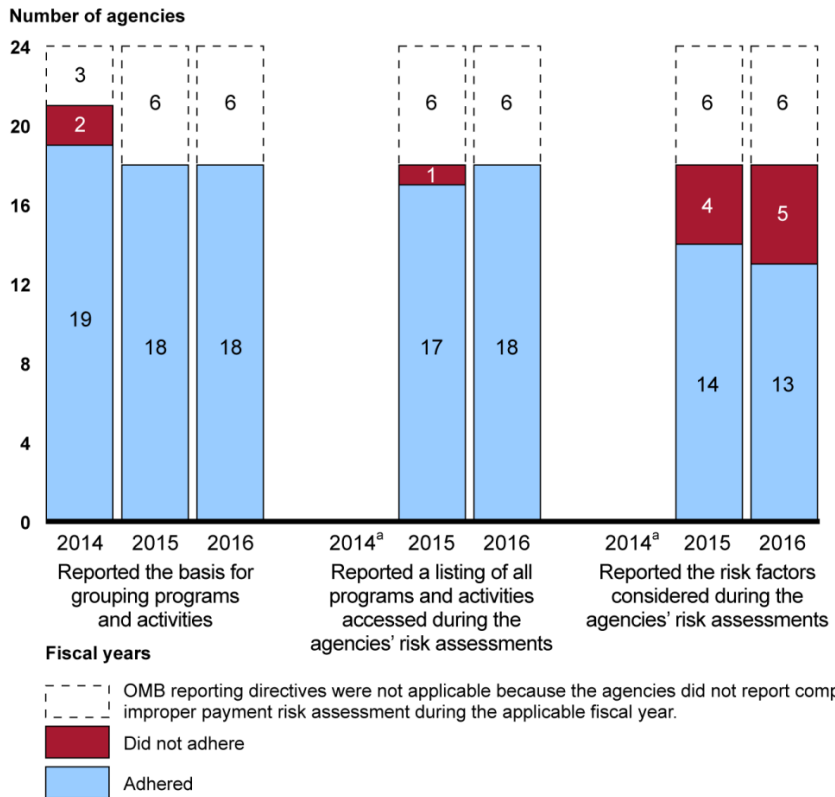
¹²Unless otherwise specified in OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, OMB M-15-02 authorizes each agency, after consultation with OMB, to determine the grouping of programs that most clearly identifies and reports improper payments for the agency. However, OMB M-15-02 also states that agencies must not put programs or activities into groupings that may mask significant improper payment rates by the large size or scope of a group.

CFO Act Agencies Generally Adhered to Improper Payment Reporting Directives for Risk Assessments

During fiscal years 2014 through 2016, the 24 CFO Act agencies, excluding the Department of Defense (DOD),¹³ reported in their AFRs or PARs that they completed at least one risk assessment on at least one program or activity in one or more of those years. For the agencies that reported that they completed an improper payment risk assessment, we found that most generally adhered to the reporting directives that were applicable for fiscal years 2014 through 2016. For example, for fiscal year 2014, 21 of the 24 CFO Act agencies reported completing a risk assessment, and for those 21 agencies, we found that 19 agencies adhered to OMB guidance for reporting the basis of groupings of programs and activities and 2 did not. (See fig. 1.) For fiscal years 2015 and 2016, all 18 CFO Act agencies that reported completing a risk assessment adhered to OMB guidance for this directive. Appendix III provides additional details regarding the agencies' reporting of completing an improper payment risk assessment each year and adherence to the OMB improper payment risk assessment reporting directives. Further details on each of these reporting directives are provided below.

¹³According to DOD officials, each of DOD's programs that make payments has reported improper payment estimates; as a result, DOD officials told us that DOD did not have to perform risk assessments during the review period (fiscal years 2014 through 2016) to assess the susceptibility to improper payments in accordance with OMB guidance.

Figure 1: Agencies' Adherence to Office of Management and Budget (OMB) Improper Payment Risk Assessment Reporting Directives for Fiscal Years 2014 through 2016



Source: GAO analysis of 24 Chief Financial Officers Act of 1990 agencies' fiscal years 2014 through 2016 agency financial reports or performance and accountability reports. | GAO-18-36

^aOMB reporting directive was not applicable in this fiscal year.

Reporting the basis for grouping programs and activities. During the 3-year period from fiscal years 2014 through 2016, we found two instances where the agencies—the Departments of Commerce (Commerce) and Energy (Energy)—did not adhere to the reporting directive for agencies to report the basis of grouping programs and activities. Although these two agencies did not adhere to this reporting directive in fiscal year 2014, Commerce adhered to this directive in fiscal year 2015 and fiscal year 2016. Energy adhered to this directive in fiscal year 2015, and this reporting directive was not applicable for fiscal year 2016 because Energy did not report completing any risk assessments that year. All other applicable agencies were in full adherence to this OMB directive in fiscal years 2015 and 2016.

Reporting a listing of all programs and activities assessed during the agencies' improper payment risk assessments. During fiscal years 2015 through 2016, the applicable CFO Act agencies, except for the U.S. Agency for International Development (USAID), adhered to the reporting directive for listing all programs and activities assessed during the agencies' improper payment risk assessments. USAID did not adhere to this reporting directive in fiscal year 2015; however, in fiscal year 2016, USAID did list all programs and activities. USAID officials provided us an OMB e-mail indicating, among other things, that USAID could be on a 3-year cycle of performing risk assessments starting in fiscal year 2015. Notwithstanding that e-mail, USAID continued to perform improper payment risk assessments annually, according to USAID officials, to maintain audit readiness and expertise. These officials further stated that this OMB e-mail served as support for not adhering to the OMB directive for reporting risk assessments. However, we did not find upon our review that the e-mail explicitly provided such support.

Reporting the risk factors considered during the agencies' risk assessments. As directed by OMB guidance, agencies are to report the risk factors considered during improper payment risk assessments in their AFRs or PARs. Given that IPIA identifies seven risk factors that agencies are to consider and OMB guidance includes two additional risk factors, agencies are directed by OMB to consider a minimum of nine risk factors. Therefore, the AFRs and PARs adhering to OMB guidance are to include a discussion regarding the agencies' consideration of these nine factors as well as any other factors considered. In our analysis, we found that six

agencies failed to adhere to OMB reporting directives either in fiscal year 2015, fiscal year 2016, or both.¹⁴ Specifically, we found the following:

- The Office of Personnel Management (OPM) did not adhere to the improper payment risk assessment reporting directives in fiscal year 2015. However, OPM subsequently corrected the reporting issue in fiscal year 2016.
- Three agencies—USAID, the U.S. Department of Agriculture (USDA), and the Social Security Administration (SSA)—did not adhere to the improper payment risk assessment reporting directives in fiscal years 2015 and 2016. In their fiscal years 2015 and 2016 AFRs, USAID did not report its consideration of any of the nine risk factors, USDA reported that it considered four of the nine risk factors, and SSA reported that it considered six of the nine risk factors.
- Two agencies, the Department of Education (Education) and the Department of Labor (Labor), did not adhere to the improper payment risk assessment reporting directive in fiscal year 2016. In their fiscal year 2016 AFRs, neither Education nor Labor provided a detailed description of all the risk factors that were considered in their risk assessments. Education stated that its risk assessment analysis “included a quantitative review of questioned costs from Single Audit

¹⁴Our review focused on whether the agencies reported the risk assessment information in their AFRs or PARs in accordance with OMB guidance and did not include evaluating the quality of the improper payment risk assessments completed. However, the quality of Energy’s and the Department of Housing and Urban Development’s (HUD) risk assessments was examined in a prior GAO report and HUD Office of Inspector General (OIG) report, respectively. Specifically, in a 2014 GAO report, we recommended that Energy take steps to improve its improper payment risk assessments, including revising guidance on how its programs are to address OMB’s risk factors and providing examples of other risk factors likely to contribute to improper payments and directing its programs to consider those factors. Energy concurred with our recommendations. Subsequent to our 2014 report, Energy took certain actions to address our recommendations. For example, Energy made revisions to its guidance to improve its improper payment risk assessments. We are continuing to monitor Energy’s efforts to ensure that it implements this new guidance. See GAO, *Improper Payments: DOE’s Risk Assessments Should Be Strengthened*, [GAO-15-36](#) (Washington, D.C.: Dec. 23, 2014). Additionally, the HUD OIG reported that certain HUD program improper payment risk assessments for fiscal year 2015 were not completed in accordance with OMB guidance. Specifically, HUD did not consider all of the nine risk factors for certain programs. HUD OIG recommended that HUD revise its risk assessment process to ensure that consideration of all of the risk factors is clearly documented. As noted in the OIG’s latest report on HUD’s compliance with IPERA, which was issued in May 2017, the recommendation was still open. Department of Housing and Urban Development, Office of Inspector General, *Compliance with the Improper Payments Elimination and Recovery Act*, 2016-FO-0005 (Washington, D.C.: May 13, 2016).

findings versus total program expenditures, as well as a qualitative review of other risk factors including changes in legislation or regulations and history of audit findings.” Labor did not list the risk factors considered in its improper payment risk assessments but instead provided a hyperlink to IPIA.

As noted above, officials from USAID stated that an OMB e-mail served as support for not adhering to the OMB directive for reporting risk assessments, including the risk factors. However, we found upon our review that the e-mail did not explicitly provide such support.

Officials from USDA, Labor, and SSA, three of the five agencies that did not adhere to the reporting directive in fiscal year 2016, informed us that they considered the nine risk factors but were not aware that they had to specifically list the nine risk factors in their AFRs or PARs. In addition, Labor officials stated that they included a link to IPIA instead of mentioning the nine risk factors to help simplify the reporting. However, OMB Circular A-136 specifically directs the agencies to include a description of the risk factors considered in their improper payment risk assessments in their AFRs or PARs. Although Labor officials stated that they considered all nine risk factors, Labor’s link to IPIA only includes seven required risk factors and not the two additional risk factors that are referenced in OMB guidance. After we brought these concerns to their attention, officials from these three agencies indicated that they plan to report the risk factors considered, as directed by OMB, which should include consideration of all nine risk factors. By adhering to the OMB directive for reporting risk factors, the agencies will improve the transparency of the risk assessments reported in their AFRs or PARs.

An Education official stated that the department did not consider all nine risk factors for its non-Federal Student Aid programs during fiscal year 2016 because Education’s analysis was quantitative in nature.¹⁵ However, OMB guidance states that all nine risk factors must be considered in both qualitative and quantitative improper payment risk assessments. In May 2017, the Inspector General for Education recommended that Education ensure that improper payment risk assessments conform with IPIA and OMB guidance when determining whether programs may be susceptible to significant improper payments

¹⁵For improper payment risk assessment purposes, Education separates its programs into those managed by its Office of Federal Student Aid (FSA) and non-FSA-managed programs. In regard to the FSA-managed programs, Education’s AFRs for fiscal years 2015 and 2016 properly reported that the agency considered the nine risk factors.

and identify all programs that may be susceptible to significant improper payments.¹⁶ In response to the recommendation in the Office of Inspector General (OIG) audit report, Education stated that it will align its improper payment risk assessments with the nine risk factors beginning in fiscal year 2017.

A revised version of OMB Circular A-136 that was issued in August 2017 no longer directs agencies to report improper payment risk assessment information in the agencies' fiscal year 2017 AFRs and PARs. Specifically, agencies will no longer have to report in their AFRs or PARs for a given year (1) the basis for grouping programs and activities for improper payment risk assessments, (2) a listing of all programs and activities assessed during their risk assessments, and (3) the risk factors considered during their risk assessments. OMB staff stated that their primary motivation for eliminating the risk assessment reporting directives from OMB guidance was to reduce the administrative burden on agencies.¹⁷ Although OMB guidance will not direct agencies to report the three items noted above, agencies are still required to complete the risk assessments, as required by IPIA and directed in OMB guidance. Further, OMB staff stated that they rely on each agency's OIG to review the quality of each agency's risk assessment, which should include assessing the three items noted above; therefore, these reporting directives are not necessary.¹⁸

While we recognize the importance of reducing administrative burden, we also have previously reported on the importance of risk assessments for managing improper payments. We believe that the requirement for agencies to publicly report the improper payment risk assessment information has helped hold agencies accountable and provided additional transparency to the agencies' improper payment processes, as well as assisted Congress and others in their oversight of government-wide improper payments. However, if OMB is going to rely on each agency's OIG to ensure quality risk assessments, it is important that

¹⁶Department of Education, Office of Inspector General, *U.S. Department of Education's Compliance with Improper Payment Reporting Requirements for Fiscal Year 2016*, ED-OIG/A04-Q0011 (Washington, D.C.: May 12, 2017).

¹⁷IPIA does not require agencies to report risk assessment information. OMB guidance directed agencies to report on their risk assessments.

¹⁸Although IPIA does not require the reporting of risk assessments, IPIA does require agencies to conduct a risk assessment for all programs and activities at least once every 3 years and to consider specific risk factors in their risk assessments.

these reviews are performed consistently throughout the federal government. In our May 2017 report,¹⁹ we found that OIGs inconsistently reported agencies' compliance with the IPERA criterion for conducting program-specific risk assessments. For example, certain OIGs reported agencies as noncompliant when agencies did not consider all nine risk factors, as outlined in IPIA, OMB guidance, or both, during program-specific risk assessments, whereas other OIGs reported agencies as compliant with this IPERA criterion, despite also finding issues with the agencies' consideration of the nine risk factors. To help ensure that government-wide compliance under IPERA is consistently determined and reported, we recommended in May 2017 that the Director of OMB coordinate with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) to develop and issue guidance, either jointly or independently, to specify what procedures should be conducted as part of the OIGs' IPERA compliance determinations.²⁰ OMB did not provide any comments on our recommendation, and as of August 2017, OMB had not yet issued such guidance. CIGIE stated that it would coordinate with OMB as needed and provide feedback on any draft OMB guidance.

Subsequent to the issuance in August 2017 of a revised version of OMB Circular A-136 and after we notified OMB of our views on the importance of certain data, OMB staff stated that they plan to direct agencies to report additional risk assessment data. Specifically, in September 2017, OMB staff told us that they plan to direct agencies to provide a listing of all programs and activities assessed during their risk assessments on www.paymentaccuracy.gov for fiscal year 2017 reporting, and that they plan to continue to direct agencies to report this listing for subsequent fiscal years.²¹ In addition, although the basis for grouping programs and activities for improper payment risk assessments and the risk factors considered during the risk assessments will not be required to be reported in fiscal year 2017 AFRs and PARs, OMB staff stated that they

¹⁹[GAO-17-484](#).

²⁰CIGIE was statutorily established as an independent entity within the executive branch by the Inspector General Reform Act of 2008 to (1) address integrity, economy, and effectiveness issues that transcend individual government agencies and (2) increase the professionalism and effectiveness of personnel by developing policies, standards, and approaches to aid in establishing well-trained and highly skilled workforces in the OIGs.

²¹An official website of the United States government managed by OMB, www.paymentaccuracy.gov contains information about current and historical rates and amounts of improper payments, why improper payments occur, and what agencies are doing to reduce and recover improper payments.

plan to revise the guidance for fiscal year 2018 so that agencies report such information in their AFRs and PARs.

Six Selected CFO Act Agencies Did Not Have Properly Designed Control Activities That Included All Programs and Activities in Their Improper Payment Risk Assessments

We found that three of the nine selected CFO Act agencies that we reviewed, Energy, the Department of Justice, and USAID, had documented procedures for performing the required improper payment risk assessments and these procedures included the design of control activities necessary to help ensure that all programs and activities were assessed at least once every 3 years. However, the remaining six agencies did not properly design control activities for this purpose. Specifically, three of these six selected agencies did not have documented procedures for performing the required improper payment risk assessments. The remaining three agencies improperly excluded specific programs and activities from the improper payment risk assessment process. Appendix IV provides more detail on our analysis of these selected agencies' procedures for performing improper payment risk assessments.

We did not evaluate whether all control activities related to conducting improper payment risk assessments were properly designed or evaluate other internal control components, such as the control environment. If we had done so, additional deficiencies may or may not have been identified that could impair the overall effectiveness of the control activities evaluated as part of this audit.

Three Selected CFO Act Agencies Did Not Have Documented Procedures for Conducting Their Improper Payment Risk Assessments but Have Now Documented Them

Three of the nine selected CFO Act agencies—Commerce, the National Science Foundation (NSF), and the Nuclear Regulatory Commission (NRC)—did not have documented procedures for conducting improper payment risk assessments for fiscal years 2014 through 2016. Although two of these three agencies (Commerce and NSF) had developed processes to help ensure that all programs and activities were assessed for susceptibility to significant improper payments at least once every 3 years, these processes were not documented in written procedures.²² By

²²NRC officials stated that NRC relies on its accounting firm's expertise to properly complete these improper payment risk assessments. In addition, NRC officials stated that NRC improper payment information in its PAR served as the relevant documented procedures for performing the required risk assessment every 3 years. However, we believe that the PAR is a method for reporting financial and performance information and is not a procedural document that agencies follow.

the end of our review, the three agencies subsequently established documented procedures during fiscal year 2017. We reviewed the procedures for Commerce, NRC, and NSF and found that they included control activities designed to help ensure that all programs and activities are included in the agencies' improper payment risk assessments at least once every 3 years, as required by IPIA.²³

Three Selected CFO Act Agencies Did Not Properly Design Control Activities to Help Ensure That All Programs and Activities Were Assessed

Although the Departments of the Interior and State and the National Aeronautics and Space Administration (NASA) had documented procedures for conducting improper payment risk assessments,²⁴ we found that these agencies did not have properly designed control activities to help ensure that all programs and activities were assessed for susceptibility to improper payments. These three agencies specifically excluded certain programs and activities from the improper payment risk assessment process, as follows.

- **Department of the Interior (Interior).** In our review of Interior's design of control activities, we found that Interior did not include payments made by the department for certain programs. When asked why the programs associated with these payments were not assessed, Interior officials told us that the list that the department used to ensure that all programs and activities for which the department made payments were properly assessed excluded those payments from Interior's program population. Subsequent to our inquiry, Interior officials told us that Interior will update its procedures to ensure that they capture all programs in Interior's assessments. In addition, Interior officials provided us a draft of Interior's updated procedures, and we found that these draft procedures included control activities designed to help ensure that all programs and activities are included in the department's improper payment risk assessments at least once every 3 years, as required by IPIA.

²³Commerce and NRC subsequently documented their procedures after we brought this to their attention. NSF documented its procedures in response to a recommendation from the NSF OIG.

²⁴Our review focused on the design of control activities to help ensure that all programs and activities were assessed at least once every 3 years and did not include an evaluation of the quality of the improper payment risk assessments completed. We and the OIGs have previously reported on deficiencies in the quality of improper payment risk assessments completed at certain federal agencies. See [GAO-17-484](#).

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- **Department of State (State).** In our review of State’s design of control activities, we found that State excluded certain programs and activities from the improper payment risk assessment based on threshold limitations on outlay data. Specifically, State only included programs and activities in the improper payment risk assessments if the outlays were greater than (1) \$100 million or (2) \$85 million and a 50 percent increase from the prior year.²⁵ Programs and activities that fell below these thresholds were not assessed for susceptibility to significant improper payments. State officials told us that they believed the \$100 million threshold limitation was reasonable because State predicted that it was improbable one of its programs would have an improper payment estimate of at least 10 percent in order to meet the IPIA threshold of \$10 million.²⁶ According to State officials, State’s justification for its assessment threshold was based on many factors, including sampling of expenditures, past external audits, and internal OMB Circular A-123 reviews. However, IPIA requires that improper payment risk assessments be performed for each program and activity that the agency head administers. In commenting on our draft report, State officials informed us that State had updated its documented procedures to lower the assessment threshold to the \$10 million threshold identified in IPIA. State officials provided us a copy of the updated procedures, and we found that the procedures included control activities designed to help ensure that all programs and activities are included in the department’s improper payment risk assessments at least once every 3 years, as required by IPIA.
 - **NASA.** In our review of NASA’s design of control activities, we found that NASA has documented procedures for conducting improper payment risk assessments; however, the procedures used for

²⁵In its fiscal year 2015 report on State’s compliance with IPERA, State OIG recommended that the agency expand its improper payment risk assessment process to identify programs with significant funding changes to consider, at a minimum, the percentage increase of the change. See Department of State, Office of Inspector General, *Audit of Department of State FY 2015 Compliance With Improper Payments Requirements*, AUD-FM-16-38 (Arlington, Va.: May 2016). According to State officials, the recommendation is now closed because the fiscal year 2016 procedures keep the threshold for programs to undergo an improper payment risk assessment at \$100 million in outlays, but expanded the category to also include programs with \$85 million in outlays that have experienced a 50 percent increase in outlays from the prior year.

²⁶As mentioned earlier, IPIA defines “significant” improper payments as gross annual improper payments (i.e., the total amount of overpayments and underpayments) that may have exceeded (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

improper payment risk assessments conducted for fiscal years 2014 through 2016 were outdated. Specifically, the documented procedures, dated 2012, did not account for changes to IPIA in 2013 or updates to OMB's guidance issued in fiscal year 2014.²⁷ In June 2017, NASA subsequently updated its procedures for improper payment risk assessments to properly address OMB's current improper payments guidance. The updated procedures also included a description of key control activities designed to help ensure that all NASA programs and activities, other than OIG activities, have undergone an improper payment risk assessment.

According to NASA officials, NASA's improper payment risk assessment process specifically excluded OIG activities because its OIG receives its own appropriation, and therefore, OIG activities are not considered part of NASA's programs or activities for improper payment risk assessments. In addition, NASA officials stated that NASA OIG activities are excluded from the improper payment risk assessments because of concerns regarding NASA OIG's independence as NASA OIG conducts the agency's annual IPERA compliance audit. NASA could not provide us with any guidance or documentation that specifically addresses the exclusion of OIG activities.

The NASA OIG is part of NASA, and IPIA requires that improper payment risk assessments be performed for each program and activity that the agency head administers. To the extent that the potential threat to OIG independence prevents NASA from conducting a risk assessment of payments made by the OIG's programs and activities, the NASA Administrator may transfer this responsibility to the OIG. By not making an assessment, NASA has not determined whether OIG programs and activities are susceptible to significant improper payments.

Standards for Internal Control in the Federal Government states that management should develop control activities to achieve objectives and respond to risks and implement control activities through policies.²⁸ When an agency does not have properly designed policies and procedures to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years, there is an increased risk that the agency may not always identify all risk-susceptible

²⁷IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013).

²⁸[GAO-14-704G](#).

programs and activities, resulting in incomplete improper payment estimates.

Conclusions

Performing improper payment risk assessments and reporting on such assessments are key to identifying programs and activities that may be susceptible to significant improper payments. Agencies' nonadherence to the OMB guidance to report on the results of their risk assessments may result in Congress not having the information necessary to monitor and take prompt action to address problematic programs. Most of the nine selected agencies did not properly design control activities to include all programs and activities in their improper payment risk assessments at least once every 3 years during fiscal year 2014 through fiscal year 2016, the time period of our review. Subsequent to fiscal year 2016, with the exception of NASA, which did not include its OIG's activities, the federal agencies that were identified as lacking properly designed control activities drafted or updated their procedures to help ensure that all programs and activities were assessed for susceptibility to significant improper payments. Without proper control activities, NASA may not be identifying all programs and activities that should be included in its improper payment risk assessments. If a program or activity is not assessed for risk, then an agency could be at risk of noncompliance with IPIA or nonadherence to OMB guidance as the risk assessment process is a crucial step in determining programs and activities that are susceptible to significant improper payments and thus subject to additional reporting and monitoring requirements.

Recommendation for Executive Action

We are making the following recommendation to NASA:

The Administrator of NASA should take steps to revise the agency's procedures for conducting improper payment risk assessments to include the activities of its OIG in its risk assessment process to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years as required by IPIA. (Recommendation 1)

Agency Comments and Our Evaluation

We provided a draft of this report to the 24 CFO Act agencies and OMB for comment. We received written comments from 4 agencies—NASA, State, SSA, and USAID, which are reproduced in appendixes V through VIII. We also received technical comments from Energy, OMB, State, and

USAID, which we incorporated in the report as appropriate. All of the other agencies notified us that they had no comments.

The following discusses the written comments we received from the four agencies noted above.

- In its comments, NASA concurred with our recommendation and stated that the agency will revise its procedures for conducting improper payment risk assessments to include OIG programs and activities by September 2018.
- In the draft report provided to State for comment, we had recommended that State reevaluate the agency's use of dollar thresholds for excluding programs and activities from its risk assessment process and revise its procedures for conducting improper payment risk assessments to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years as required by IPIA. In its comments, State questioned the practicality of our proposed recommendation; however, State stated that it updated its procedures to lower the assessment threshold to the minimum dollar threshold of \$10 million. We noted that this threshold aligns with the IPIA threshold of \$10 million.²⁹ We reviewed State's updated procedures and confirmed that State had revised its dollar threshold for conducting risk assessments, which effectively addressed our preliminary findings. Therefore, we have removed the recommendation from our report.
- In its comments, SSA stated that it believed that its risk assessment reporting fully complied with OMB guidance. SSA stated that it considered the nine required risk factors but only reported on the risk factors that were applicable to the agency. However, given that SSA reported that it considered six risk factors and did not indicate in its AFRs that the other factors were not applicable to SSA, we continue to believe that SSA did not report, as directed by OMB guidance, on

²⁹As mentioned earlier, IPIA defines "significant" improper payments as gross annual improper payments (i.e., the total amount of overpayments and underpayments) that may have exceeded (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

all the risk factors considered in its improper payment risk assessments for fiscal years 2015 and 2016.

- In its comments, USAID stated that our draft report was inaccurate in stating that USAID did not adhere to OMB reporting directives. USAID stated that an e-mail from OMB provided USAID relief from improper payment reporting. However, OMB's e-mail did not explicitly provide USAID a waiver from the OMB risk assessment reporting directives. Moreover, USAID reported in its AFRs for fiscal years 2014 through 2016 that it conducted annual risk assessments for the time period covered in this audit. As stated in appendix III, USAID did properly report the basis for grouping programs and activities for fiscal years 2014 through 2016, and the agency also properly reported a listing of all programs and activities that were assessed for fiscal year 2016. Accordingly, we believe that USAID also should have followed all OMB risk assessment reporting directives for the time period covered for our audit, and we believe that our report accurately characterizes this issue.

We are sending copies of this report to the appropriate congressional committees, the heads of the 24 CFO Act agencies, 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 IX.



Beryl H. Davis
Director
Financial Management and Assurance

List of Congressional Requestors

The Honorable Claire McCaskill
Ranking Member
Committee on Homeland Security and Governmental Affairs
United States Senate

The Honorable Thomas R. Carper
Ranking Member
Permanent Subcommittee on Investigations
Committee on Homeland Security and Governmental Affairs
United States Senate

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: Objectives, Scope, and Methodology

This report examines the extent to which (1) the 24 agencies subject to the Chief Financial Officers Act of 1990 (CFO Act) followed Office of Management and Budget (OMB) guidance for reporting on improper payment risk assessments in their agency financial reports (AFR) or performance and accountability reports (PAR) for fiscal years 2014 through 2016 and (2) selected CFO Act agencies have designed control activities to include all of their programs and activities in an improper payment risk assessment at least once during a 3-year period, as required by the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012. At the time of our review, the latest 3-year period was fiscal years 2014 through 2016.

To address our first objective, we reviewed improper payment risk assessment requirements in IPIA, as amended, and the related guidance in OMB Circular A-136, Financial Reporting Requirements, including the OMB directives for agencies' risk assessment reporting, and OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (OMB M-15-02). We analyzed these statutes and guidance to identify key criteria that agencies must meet for reporting on improper payment risk assessments. IPIA, as amended, identifies seven risk factors and OMB guidance includes two additional risk factors that agencies are to consider in their improper payment risk assessment to determine susceptibility to significant improper payments. Additionally, for fiscal years 2014 through 2016, OMB M-15-02 directed agencies that conducted improper payment risk assessments to disclose in their AFRs or PARs the basis for grouping programs and activities for improper payment risk assessments. For fiscal years 2015 and 2016, OMB Circular A-136 directed agencies to report (1) a listing of programs and activities that were assessed for susceptibility to significant improper payments in a given year, regardless of whether a program or activity was deemed risk-susceptible, and (2) the risk factors considered during their improper payment risk assessments. We analyzed the AFRs or PARs of the 24 CFO Act agencies for fiscal years 2014 through 2016 to determine whether each agency met the key OMB reporting criteria described above. For our review, we focused on whether the agencies reported the risk assessment information in their AFRs or PARs and did not evaluate the quality of improper payment risk assessments completed.

For any agencies that did not meet the reporting directives outlined in OMB guidance for their improper payment risk assessments, we interviewed appropriate agency officials to determine why those agencies

did not meet these key criteria. For fiscal year 2017, a revised version of OMB Circular A-136 that was issued in August 2017 no longer directs agencies to report improper payment risk assessment information in the agencies' fiscal year 2017 AFRs and PARs. Subsequent to the issuance in August 2017 of a revised version of OMB Circular A-136 and after we notified OMB of our views on the importance of certain data, OMB staff stated that they plan to direct agencies to report additional risk assessment data. Specifically, in September 2017, OMB staff told us that they plan to direct agencies to provide a listing of all programs and activities assessed during their risk assessments on www.paymentaccuracy.gov for fiscal year 2017 reporting, and that they plan to continue to direct agencies to report this listing for subsequent fiscal years. In addition, although the basis for grouping programs and activities for improper payment risk assessments and the risk factors considered during the risk assessments will not be required to be reported in fiscal year 2017 AFRs and PARs, OMB staff stated that they plan to revise the guidance for fiscal year 2018 so that agencies report such information in their AFRs and PARs.

To address our second objective, we reviewed IPIA, as amended; the related OMB guidance; and relevant internal control standards to determine the relevant control activities needed to help ensure that agencies conduct improper payment risk assessments for all programs and activities at least once every 3 years.¹ For this objective, we selected nine CFO Act agencies that did not report improper payment estimates for any programs or activities in fiscal year 2015 or 2016 except those estimates that were required to be reported pursuant to the Disaster Relief Appropriations Act, 2013.² These nine agencies were the Departments of Commerce, Energy, the Interior, Justice, and State; the National Aeronautics and Space Administration; the National Science Foundation; the Nuclear Regulatory Commission; and the U.S. Agency for International Development. We reviewed these agencies' procedures for conducting improper payment risk assessments and interviewed agency officials to determine whether the agencies designed and

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999). [GAO/AIMD-00-21.3.1](#) was effective through the end of fiscal year 2015 (Sept. 30, 2015). The revised version of *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014) became effective the first day of fiscal year 2016 (Oct. 1, 2015). Both versions were applicable to our engagement.

²Pub. L. No. 113-2, div. A, title IX, § 904(b), 127 Stat. 4, 17 (Jan. 29, 2013).

documented control activities to include all programs and activities in an improper payment risk assessment at least once every 3 years. To verify each agency's assertions that all programs and activities are reviewed at least once every 3 years, we compared the line item for gross outlays contained in each agency's Statement of Budgetary Resources for the relevant period to outlay data provided by each agency for each program and activity covered by improper payment risk assessments for fiscal years 2014 through 2016. When we identified differences between the two data sources, we interviewed agency officials to understand the cause for the differences and obtained any supporting documentation to ensure that all significant programs and activities were properly assessed.

While our second objective focused on certain significant control activities related to the selected agencies' inclusion of programs and activities in their improper payment risk assessments at least once during fiscal years 2014 through 2016, we did not evaluate all control activities and other components of internal control. If we had done so, additional deficiencies may or may not have been identified that could impair the effectiveness of the control activities evaluated as part of this audit.

We conducted this performance audit from June 2016 to November 2017 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.

Appendix II: Standards for Internal Control in the Federal Government

Standards for Internal Control in the Federal Government provides the overall framework for establishing and maintaining internal control.¹ Internal control should be designed, implemented, and operating effectively to provide reasonable assurance that the operations, reporting, and compliance objectives of an entity will be achieved. The five components of internal control are as follows:

- Control environment - The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.
- Risk assessment - Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.
- Control activities - The actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.
- Information and communication - The quality information management and personnel communicate and use to support the internal control system.
- Monitoring - Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

An effective internal control system has each of the five components of internal control effectively designed, implemented, and operating and the five components operating together in an integrated manner. In this audit, we focused on certain significant control activities related to the selected agencies' inclusion of programs and activities in their improper payment risk assessments at least once during fiscal years 2014 through 2016.

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

Appendix III: Agency Adherence to Office of Management and Budget Reporting Directives for Risk Assessments

As noted in our report, the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012, requires agencies to conduct improper payment risk assessments for all federal programs and activities in fiscal year 2011 and at least once every 3 years thereafter. During fiscal years 2014 through 2016, the 24 agencies subject to the Chief Financial Officers Act of 1990 (CFO Act), excluding the Department of Defense, reported in their agency financial reports (AFR) or performance and accountability reports (PAR) that they completed at least one risk assessment on at least one program or activity in one or more of those years. For each agency that reported completing an improper payment risk assessment in a given year, we evaluated whether the agency adhered to certain Office of Management and Budget (OMB) reporting directives. It is important to note that our audit scope did not include evaluating whether the agencies completed the required risk assessment for all programs and activities.

We evaluated the 24 CFO Act agencies' fiscal years 2014 through 2016 AFRs and PARs to determine if agencies adhered to OMB guidance for reporting on improper payment risk assessments. Table 2 summarizes agencies' adherence to the OMB guidance to report a basis for grouping programs and activities in the AFRs or PARs for fiscal years 2014 through 2016.

Table 2: Chief Financial Officers Act of 1990 (CFO Act) Agencies' Adherence to Office of Management and Budget Guidance to Report a Basis for Grouping Programs and Activities

CFO Act agencies	Reported a basis for grouping programs and activities		
	Fiscal year 2014	Fiscal year 2015	Fiscal year 2016
Department of Agriculture	✓	✓	✓
Department of Commerce ^a	X	✓	✓
Department of Defense ^b	NA	NA	NA
Department of Education	✓	✓	✓
Department of Energy ^c	X	✓	NA
Department of Health and Human Services	✓	✓	✓
Department of Homeland Security	✓	✓	✓
Department of Housing and Urban Development	✓	✓	✓
Department of the Interior ^d	NA	NA	✓

Appendix III: Agency Adherence to Office of Management and Budget Reporting Directives for Risk Assessments

CFO Act agencies	Reported a basis for grouping programs and activities		
	Fiscal year 2014	Fiscal year 2015	Fiscal year 2016
Department of Justice	✓	✓	✓
Department of Labor	✓	NA	✓
Department of State	✓	✓	✓
Department of Transportation	✓	✓	NA
Department of the Treasury	✓	✓	✓
Department of Veterans Affairs	✓	✓	✓
Environmental Protection Agency	✓	✓	✓
General Services Administration	✓	✓	NA
National Aeronautics and Space Administration	✓	✓	✓
National Science Foundation	✓	NA	✓
Nuclear Regulatory Commission	✓	NA	NA
Office of Personnel Management	NA	✓	✓
Small Business Administration	✓	NA	NA
Social Security Administration	✓	✓	✓
U.S. Agency for International Development	✓	✓	✓
Total number of agencies that adhered to OMB guidance	19	18	18
Total number of agencies that did not adhere to OMB guidance	2	0	0
Total number of agencies whose adherence to OMB guidance was not applicable because agencies did not report completing a risk assessment	3	6	6
Total number of agencies	24	24	24

Legend:

✓ : Agency adhered to Office of Management and Budget (OMB) reporting directive in the applicable agency financial report (AFR) or performance and accountability report (PAR) for the applicable fiscal year.

X : Agency did not adhere to OMB reporting directive for the completed risk assessments in the AFR or PAR for the applicable fiscal year.

NA: Not applicable. The agency did not report that it completed an improper payment risk assessment during the applicable fiscal year, and therefore, the OMB reporting directive was not applicable.

Source: GAO analysis of agencies' fiscal year 2014 through 2016 AFRs or PARs reporting on improper payment risk assessments. | GAO-18-36

^aThe Department of Commerce (Commerce) did not explicitly report its basis for grouping programs and activities. However, in fiscal years 2015 and 2016 reporting, Commerce included a listing of all the programs and activities that were assessed for susceptibility to significant improper payments, and we concluded, and Commerce agreed, that the programs and activities were grouped by major program within each bureau.

Appendix III: Agency Adherence to Office of Management and Budget Reporting Directives for Risk Assessments

^bEach of the Department of Defense's (DOD) programs that make payments have reported improper payment estimates; as a result, DOD officials told us that DOD did not have to perform risk assessments during the review period (fiscal years 2014 through 2016) to assess the susceptibility to improper payments in accordance with OMB guidance.

^cAccording to Department of Energy (Energy) officials, based on OMB approval received in 2011, Energy was considered to have one program with multiple payment types for improper payment risk assessment purposes. As such, Energy did not report the basis of its groupings in the AFR prior to fiscal year 2015. However, based on an OMB request received during the fiscal year 2015 AFR review process, Energy included the basis of its groupings in the fiscal year 2015 AFR.

^dThe Department of the Interior (Interior) completed a risk assessment in fiscal year 2012 and deemed that its programs and activities were not susceptible to significant improper payments. Therefore, Interior was required, by the Improper Payments Information Act of 2002, as amended, to complete an improper payment risk assessment at least once during fiscal years 2013 through 2015. However, Interior did not perform the required risk assessment until fiscal year 2016, which was 1 year past the required due date.

Table 3 summarizes agencies' adherence to the OMB directive to list all of the programs and activities that were assessed for susceptibility to significant improper payments and describe the risk factors considered during their assessments for fiscal years 2015 and 2016. There was no directive to report this information for fiscal year 2014.

Table 3: Chief Financial Officers Act of 1990 (CFO Act) Agencies' Adherence to Office of Management and Budget Guidance to Report a Listing of All Programs and Activities Assessed for Risk and Report Consideration of Risk Factors

CFO Act agencies	Reported a listing of all programs and activities that were assessed		Reported consideration of all nine risk factors	
	Fiscal year 2015	Fiscal year 2016	Fiscal year 2015	Fiscal year 2016
Department of Agriculture	✓	✓	x	x
Department of Commerce	✓	✓	✓	✓
Department of Defense ^a	NA	NA	NA	NA
Department of Education	✓	✓	✓	x
Department of Energy	✓	NA	✓	NA
Department of Health and Human Services	✓	✓	✓	✓
Department of Homeland Security	✓	✓	✓	✓
Department of Housing and Urban Development	✓	✓	✓	✓
Department of the Interior ^b	NA	✓	NA	✓
Department of Justice	✓	✓	✓	✓
Department of Labor	NA	✓	NA	x
Department of State	✓	✓	✓	✓

Appendix III: Agency Adherence to Office of Management and Budget Reporting Directives for Risk Assessments

CFO Act agencies	Reported a listing of all programs and activities that were assessed		Reported consideration of all nine risk factors	
	Fiscal year 2015	Fiscal year 2016	Fiscal year 2015	Fiscal year 2016
Department of Transportation	✓	NA	✓	NA
Department of the Treasury	✓	✓	✓	✓
Department of Veterans Affairs	✓	✓	✓	✓
Environmental Protection Agency	✓	✓	✓	✓
General Services Administration	✓	NA	✓	NA
National Aeronautics and Space Administration	✓	✓	✓	✓
National Science Foundation	NA	✓	NA	✓
Nuclear Regulatory Commission ^a	NA	NA	NA	NA
Office of Personnel Management	✓	✓	X	✓
Small Business Administration ^a	NA	NA	NA	NA
Social Security Administration	✓	✓	X	X
U.S. Agency for International Development	X	✓	X	X
Total number of agencies that adhered to OMB guidance	17	18	14	13
Total number of agencies that did not adhere to OMB guidance	1	0	4	5
Total number of agencies that adherence to OMB guidance was not applicable because agencies did not report completing a risk assessment	6	6	6	6
Total number of agencies	24	24	24	24

Legend:

✓ : Agency adhered to the Office of Management and Budget (OMB) guidance in its agency financial report (AFR) or performance and accountability report (PAR) for the applicable fiscal year.

X : Agency did not adhere to the OMB guidance in its AFR or PAR for the applicable fiscal year.

NA: Not applicable. The agency did not report that it completed an improper payment risk assessment during the applicable fiscal year, and therefore, the OMB reporting directive was not applicable.

Source: GAO analysis of agencies' fiscal years 2015 and 2016 AFRs or PARs reporting on improper payment risk assessments. | GAO-18-36

Note: The directive to list programs and activities assessed for susceptibility to significant improper payments and describe the risk factors used in the assessments in AFRs or PARs was effective for fiscal years 2015 and 2016. Therefore, agencies were not directed to list all programs and activities that were assessed for improper payment risk for fiscal year 2014, and as a result, this table does not include any information regarding that year.

^aThree agencies were not required to complete an improper payment risk assessment in either fiscal year 2015 or 2016. Specifically, the Nuclear Regulatory Commission and the Small Business Administration completed the required improper payment risk assessments in fiscal year 2014 and,

Appendix III: Agency Adherence to Office of Management and Budget Reporting Directives for Risk Assessments

as a result, were not required to complete an improper payment risk assessment in either fiscal year 2015 or 2016. Each of the Department of Defense's (DOD) programs that make payments have reported improper payment estimates; as a result, DOD officials told us that DOD did not have to perform risk assessments during the review period (fiscal years 2014 through 2016) to assess the susceptibility to improper payments in accordance with OMB guidance.

^bThe Department of the Interior (Interior) completed a risk assessment in fiscal year 2012 and deemed that its programs and activities were not susceptible to significant improper payments. Therefore, Interior was required, by the Improper Payments Information Act of 2002, as amended, to complete an improper payment risk assessment at least once during fiscal years 2013 through 2015. However, Interior did not perform the required risk assessment until fiscal year 2016, which was 1 year past the required due date.

Appendix IV: Summary of Agencies' Procedures for Performing Improper Payment Risk Assessments

Table 4 summarizes our analysis of the selected agencies' procedures for performing improper payment risk assessments to help ensure that all programs and activities were properly reviewed once every 3 years.

Table 4: Summary of Selected Agencies' Fiscal Years 2014 through 2016 Procedures for Performing Improper Payment Risk Assessments

Agency	Agency had documented procedures for conducting improper payment risk assessments	Agency's procedures contained specific control activities to help ensure that all programs and activities were properly reviewed once every 3 years
Department of Commerce (Commerce) ^a	X	N/A
Department of Energy	✓	✓
Department of Justice	✓	✓
Department of the Interior (Interior) ^b	✓	X
Department of State (State) ^b	✓	X
National Aeronautics and Space Administration	✓	X
National Science Foundation (NSF) ^a	X	N/A
Nuclear Regulatory Commission (NRC) ^a	X	N/A
U.S. Agency for International Development	✓	✓
Total agencies that had documented procedures	6	
Total agencies that lacked documented procedures	3	
Total agencies that had procedures but lacked specific control activities		3

Legend:

✓: Agency had documented procedures.

X: Agency did not have documented procedures or agency's documented procedures lacked specific control activities.

N/A: Not applicable as the agency did not have documented procedures to evaluate.

Source: GAO analysis of agency procedures for improper payment risk assessments during fiscal years 2014 through 2016. | GAO-18-36

^aAlthough the agencies' procedures for fiscal year 2017 were not within the scope of our review, we found that Commerce, NRC, and NSF documented procedures during fiscal year 2017 that included control activities to help ensure that all programs and activities are assessed at least once every 3 years.

**Appendix IV: Summary of Agencies'
Procedures for Performing Improper Payment
Risk Assessments**

^bSubsequent to fiscal year 2016, we found that Interior drafted updated procedures and State updated its procedures for future improper payment risk assessments, and that in both cases these procedures included control activities designed to help ensure that all programs and activities are assessed at least once every 3 years.

Appendix V: Comments from the National Aeronautics and Space Administration

National Aeronautics and Space Administration
Headquarters
Washington, DC 20546-0001



October 20, 2017

Reply to Attn of: Office of the Chief Financial Officer

Ms. Beryl H. Davis
Director
Financial Management and Assurance
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Davis:

The National Aeronautics and Space Administration (NASA) appreciates the opportunity to review and comment on the Government Accountability Office (GAO) draft report entitled, "Improper Payments: Improvements Needed to Help Ensure Selected Agencies Perform Risk Assessments of All Programs and Activities" (GAO-18-36), dated September 25, 2017.

In the draft report, GAO makes the following recommendation to NASA:

Recommendation 1: The Administrator of NASA should take steps to revise the agency's procedures for conducting improper payment risk assessments to include the programs and activities of its Office of Inspector General in its risk assessment process to help ensure that all programs and activities are assessed for susceptibility to significant improper payments at least once every 3 years as required by the Improper Payments Information Act (IPIA).

Management's Response: NASA concurs with GAO's recommendation regarding inclusion of the Office of the Inspector General (OIG) in the Agency's procedures for conducting the improper payment risk assessment. The Agency will revise the procedures for conducting improper payment risk assessments to include OIG programs and activities to ensure all programs are assessed for susceptibility to significant improper payments at least once every 3 years as required by the Improper Payments Information Act (IPIA).

Estimated Completion Date: September 2018

**Appendix V: Comments from the National
Aeronautics and Space Administration**

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Once again, thank you for the opportunity to review and comment on the subject draft report. If you have any questions or require additional information, please contact Jamell Sharpe on (202) 358-1643.

Sincerely,



Andrew J. Hunter
Chief Financial Officer (Acting)

Appendix VI: Comments from the Social Security Administration



SOCIAL SECURITY
Office of the Commissioner

October 13, 2017

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

Dear Ms. Davis:

Thank you for the opportunity to review the draft report, "IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected Agencies Perform Risk Assessments of All Programs and Activities" (GAO-18-36). We have the following comments regarding the assessment of the nine risk factors.

Although you do not identify any recommended actions for our agency, the GAO report does include a finding that we did not discuss all risk factors considered in the improper payment risk assessments in our Agency Financial Report (AFR) for fiscal years (FY) 2015 and 2016. Both the FY 2015 and FY 2016 OMB Circular A-136 state, "Agencies should briefly describe all of the risk assessment(s) performed in the fiscal year (the risk factors examined should be included in the description)." Further, as required by OMB Circular A-123, Appendix C, we consider all risk factors as part of our program and administrative payment risk assessment. In our FY 2015 and FY 2016 AFR, we reported only on the risk factors that were applicable to our agency. Therefore, we believe that our risk assessment reporting fully complied with OMB guidance.

If you have any questions, please contact me at (410) 965-9704. Your staff may contact Gary S. Hatcher, Senior Advisor for the Audit Liaison Staff, at (410) 965-0680.

Sincerely,

A handwritten signature in blue ink that reads "Stephanie Hall".

Stephanie Hall
Acting Deputy Chief of Staff

SOCIAL SECURITY ADMINISTRATION BALTIMORE, MD 21235-0001

Appendix VII: Comments from the Department of State



United States Department of
State

Comptroller
Washington, DC 20520

Charles M. Johnson, Jr.
Managing Director
International Affairs and Trade
Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548-0001

OCT 18 2017

Dear Mr. Johnson:

We appreciate the opportunity to review your draft report, "IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected Agencies Perform Risk Assessments of All Programs and Activities" GAO Job Code 100978.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Carole Clay, Director, Office of Management Controls, Bureau of Comptroller and Global Financial Services at (202) 663-2084.

Sincerely,

Christopher H. Flaggs

Enclosure:
As stated

cc: GAO – Beryl H. Davis
State/OIG - Norman Brown

Department of State Comments to GAO Draft Report

**IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected
Agencies Perform Risk Assessments of All Programs and Activities**
(GAO-18-36, GAO Code 100978)

Thank you for the opportunity to comment on the GAO draft report
*“Improper Payments: Improvements Needed to Help Ensure Selected Agencies
Perform risk Assessments of All Programs and Activities.”*

The Department has made significant efforts to comply with all requirements and guidance for the Improper Payments Information Act of 2002 (IPIA), Improper Payments Elimination and Recovery Act in 2010 (IPERA), and Improper Payments Elimination and Recovery Improvement Act in 2012 (IPERIA), collectively referred to as IPIA, amended. We strive to do so in a manner that also promotes the good stewardship of government funds and ensures our internal control and compliance efforts are cost-effective.

Keeping cost-effectiveness in mind, the Department developed policies and procedures using a risk-based assessment threshold of \$100 million. Our justification and support for our calculation of this assessment threshold was based on many factors, including sampling of expenditures in fiscal years 2010-2016, external audits and internal OMB Circular A-123 Appendix A reviews, results from past recapture audits, internal reviews in addition to recapture audits, the additional controls built into the Department’s payment process, and the absence of entitlement program payments. In addition, because all payments are processed through our one Department-wide financial management system, all payments (regardless of the program that generated the payment) use consistent and highly standardized procedures. Our single system processes are effectively streamlined for efficiency and further contribute to a low risk payment environment.

Although the Department questions the practicality of the recommendation to risk assess all programs over \$10 million given the depth of support for our risk based approach to using a threshold, nonetheless, immediately following the exit conference regarding the GAO review of Improper Payments, the Department took steps to update its standard operating procedures by lowering the assessment threshold to \$10 million. Because the objective of performing risk assessments in accordance with IPIA, as amended, is to identify programs that have an estimated minimum error of \$10 million, it is not necessary to review programs with less than \$10 million per year. Accordingly, we are performing risk assessments for

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programs with outlays between \$10 million to \$100 million. To date, we have not identified any significant improper payments from lowering the assessment threshold.

We recognize that the IPIA, as amended, and related guidance has raised the bar on transparently accounting for and preventing improper payments for all Agencies, including the Department. We are committed to meeting these compliance requirements in a reasoned manner. We appreciate GAO's input to improve our Improper Payments review program.

Technical comments regarding the Draft Report have been communicated separately, as well as our updated Standard Operating Procedures for conducting Risk Assessments under IPIA, as amended.

Appendix VIII: Comments from the U.S. Agency for International Development



OCT 24 2017

Ms. Beryl H. Davis
Director, International Affairs and Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Re: IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected Agencies Perform Risk Assessments of All Programs and Activities (GAO-18-36)

Dear Ms. Davis:

I am pleased to provide the United States Agency for International Development's (USAID) formal response to the U. S. Government Accountability Office (GAO) draft report entitled "*IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected Agencies Perform Risk Assessments of All Programs and Activities*" (GAO-18-36).

This letter and the enclosed USAID comments are provided for incorporation as an appendix to the final report. Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff while conducting this GAO engagement.

Sincerely,



Angelique M. Crumbly
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

- 2 -

**USAID COMMENTS ON GAO DRAFT REPORT entitled
“IMPROPER PAYMENTS: Improvements Needed to Help Ensure Selected Agencies
Perform Risk Assessments of All Programs and Activities” (GAO-18-36)**

USAID appreciates the opportunity to comment on GAO’s draft report. The report has no recommendations for USAID. We agree with its finding related to GAO’s second objective—i.e., that USAID was one of 3 agencies out of the 9 selected that had designed and documented control activities to help ensure that all programs and activities were assessed every 3 years.

With respect to the findings related to GAO’s first objective, however, we believe GAO’s draft report misinterprets OMB’s March 2015 email entitled “Relief from Reporting Improper Payments for 27 USAID Programs.” In that email, OMB states the following statutory and OMB criteria for its approval of USAID’s request for relief from annual improper payments reporting requirements:

According to the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and OMB’s IPERA implementing guidance (OMB memorandum M-15-02), if a program has been reporting improper payment estimates, but has documented a minimum of two consecutive years of improper payments that are below the thresholds set by IPERA, the agency may request relief from the annual reporting requirements for this program. This request must include an assertion from the agency’s Office of Inspector General (OIG) that it concurs with the agency’s request for relief.

In January 2015, USAID’s Office of Inspector General concurred that the 27 USAID programs listed in OMB’s email met requirements for relief from annual improper payments reporting. OMB’s March 2015 email states: “In its written request, USAID adequately demonstrated that the programs all had at least two consecutive years of improper payments reporting below the IPERA thresholds. In addition, the request included the requisite assertion from the agency’s OIG that it concurs with the agency’s request for relief. OMB has reviewed and approves the request.”

As stated in OMB’s email, its approval of USAID’s request for relief from improper payments reporting placed the 27 listed programs on a cycle of risk assessment every three years, “contingent upon no significant legislative or programmatic changes occurring, as well as no significant funding increases and/or any change that would result in substantial program impact.” As a prudent measure to monitor whether any such contingencies occurred and to maintain payment vigilance, USAID continued to perform some internal risk assessments in FYs 2015 and 2016, the same years for which OMB had approved relief from improper payments reporting. However, to conclude that by doing so USAID somehow invalidated the relief from improper payments reporting OMB had approved in March 2015 seems unwarranted and unreasonable.

But GAO’s draft report appears to reach that conclusion, stating on pages 8 and 9 that “USAID did not adhere” to OMB’s reporting directives and-- in reference to OMB’s March 2015 email USAID provided as support for not having to report improper payments for FYs 2015 and 2016-- “However, we did not find upon our review that the e-mail explicitly provided such support.”

We believe those findings are incorrect. USAID followed the statutory and regulatory criteria excerpted above from OMB’s March 2015 email, which explicitly approved USAID’s request for relief from OMB reporting directives. Therefore, we believe the draft report is inaccurate in stating that USAID did not adhere to OMB reporting directives.

Appendix IX: 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, Matt Valenta (Assistant Director), Michelle Philpott (Assistant Director), Laura Bednar (Auditor-in-Charge), Stephanie Adams, Youssef Amrani, Francine DeIVecchio, and Kailey Schoenholtz made key contributions to this report.

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