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DEPARTMENT OF  
HOMELAND  
SECURITY

Challenges in  
Implementing the  
Improper Payments  
Information Act and  
Recovering Improper  
Payments





Highlights of [GAO-07-913](#), a report to congressional requesters

## Why GAO Did This Study

The federal government is accountable for how its agencies and grantees spend more than \$2 trillion of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) and the Recovery Auditing Act to address these issues. Fiscal year 2006 marked the third year that agencies were required to report improper payment and recovery audit information in their Performance and Accountability Reports. The Department of Homeland Security (DHS) reported limited information during these 3 years.

GAO was asked to (1) determine the extent to which DHS has implemented the requirements of IPIA, (2) identify actions DHS has under way to improve IPIA compliance and reporting, and (3) determine what efforts DHS has in place to recover improper payments. To accomplish this, GAO analyzed DHS's internal guidance and action plans, and reviewed information reported in its Performance and Accountability Reports.

## What GAO Recommends

GAO makes four recommendations to DHS to help improve its efforts to implement IPIA and recover improper payments. DHS concurred with the recommendations.

[www.gao.gov/cgi-bin/getrpt?GAO-07-913](http://www.gao.gov/cgi-bin/getrpt?GAO-07-913).

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov).

## DEPARTMENT OF HOMELAND SECURITY

# Challenges in Implementing the Improper Payments Information Act and Recovering Improper Payments

## What GAO Found

DHS has made some progress in implementing IPIA requirements, but much more work remains for the agency to become compliant with IPIA. For example, while DHS has made progress in identifying its programs, for fiscal year 2006, the agency did not perform the required first step—a risk assessment—on approximately \$13 billion of its more than \$29 billion in disbursements subject to IPIA. Until DHS fully assesses its programs, the potential magnitude of improper payments is unknown.

- For the remaining \$16 billion, DHS determined that two programs—Individuals and Households Program (IHP) assistance payments and disaster-related vendor payments—were at high risk for issuing improper payments and reported related estimates.
- For the \$13 billion for which no risk assessment was performed, DHS has encountered challenges with IPIA implementation. Of this amount, over \$6 billion relates to payments for grant programs. Developing a plan to assess risk and potentially test grant payments is important given that the DHS Office of Inspector General, GAO, and other auditors have identified weaknesses in grant programs. This will allow DHS to gain a better understanding of its risk for improper payments and potentially reduce future improper payments.

DHS has actions under way to improve IPIA reporting and compliance, but does not plan to be fully compliant in fiscal year 2007. DHS has prepared a plan to address its noncompliance with IPIA, which included updating its guidance to focus on program identification and risk assessments to build a foundation for a sustainable IPIA program. In addition, DHS has developed plans to reduce improper payments related to its two identified high-risk programs. However, until DHS fully completes the required risk assessments for all of its programs and then estimates for risk-susceptible programs, it is not known whether other programs have significant improper payments that also need to be addressed.

In addition, DHS's efforts to recover improper payments could be improved. According to DHS, four of its components meet the criteria for recovery auditing as specified in the Recovery Auditing Act. These four components make at least \$4 billion of contractor payments each fiscal year. DHS encountered problems that kept it from reporting on recovery audit efforts during fiscal year 2006 for three of the four components, and did not perform recovery auditing at the fourth component. In March 2007, DHS revised its guidance to clarify what is expected; however, ongoing oversight will be necessary to monitor the components' progress. In addition, DHS has reported limited information on its efforts to recover specific improper payments identified during its testing of high-risk programs. Although DHS is not currently required to do so, reporting this information would provide a more complete picture of the agency's actions to recover payments that it has identified as being improper.

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## Abbreviations

CBP	Customs and Border Protection
CFDA	Catalog of Federal Domestic Assistance
CFO	chief financial officer
CIS	Citizenship and Immigration Services
COTR	contracting officer technical representative
CPO	chief procurement officer
DHS	Department of Homeland Security
FAC	Federal Audit Clearinghouse
FAM	Federal Air Marshals
FEMA	Federal Emergency Management Agency
FLETC	Federal Law Enforcement Training Center
FYHSP	Future Years Homeland Security Program
GPO	Office of Grant Policy and Oversight
GT	Office of Grants and Training
ICE	Immigration and Customs Enforcement
ICOFR	Internal Controls over Financial Reporting
IFMIS	Integrated Financial Management Information System
IHP	Individuals and Households Program
IPIA	Improper Payments Information Act of 2002

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IT	information technology
NEMIS	National Emergency Management Information System
NFIP	National Flood Insurance Program
OCFO	Office of the Chief Financial Officer
OFM	Office of Financial Management
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PMA	President's Management Agenda
PMO	Program Management Office
S&T	Science and Technology
TAFS	Treasury Appropriation Fund Symbol
TSA	Transportation Security Administration
USCG	United States Coast Guard
USSS	United States Secret Service
US-VISIT	United States Visitor and Immigrant Status Indicator Technology

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United States Government Accountability Office  
Washington, DC 20548

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September 19, 2007

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan M. Collins  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Thomas R. Carper  
Chairman  
The Honorable Tom Coburn  
Ranking Member  
Subcommittee on Federal Financial Management,  
Government Information, Federal Services,  
and International Security  
Committee on Homeland Security and Governmental Affairs  
United States Senate

Over the past several years, our work has shown that improper payments continue to be a substantial problem for federal agencies. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend more than \$2 trillion of taxpayer dollars each year and is responsible for safeguarding those funds against improper payments. Fiscal year 2004 marked the first year in which agencies were required to report improper payments<sup>1</sup> information in their Performance and Accountability Reports (PAR) under the Improper Payments Information Act of 2002 (IPIA).<sup>2</sup> As a result, federal agencies reported an estimated \$46 billion in improper payments for fiscal year 2004. Although governmentwide reported amounts of estimated improper payments decreased between fiscal year 2004 and fiscal year 2006, the reported amount in fiscal year 2006 included more than \$800 million as a result of

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<sup>1</sup>Improper payments are 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 service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

<sup>2</sup>Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

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improper disaster-related payments made by the Federal Emergency Management Agency (FEMA) within the Department of Homeland Security (DHS) in response to the 2005 Gulf Coast hurricanes. Since its establishment in March 2003, DHS, whose annual budget generally tops \$30 billion, has yet to comply with IPIA. Moreover, during fiscal year 2006, its independent auditors continued to report significant internal control weaknesses such as weaknesses in financial management and oversight, and a weak control environment. A weak internal control environment increases an agency's susceptibility to improper payments.

Generally, agencies, including DHS, must perform four key steps to address the specific improper payment reporting requirements found in IPIA and related Office of Management and Budget (OMB) guidance— (1) perform a risk assessment of all programs and activities, (2) estimate improper payments for risk-susceptible programs and activities, (3) implement a plan to reduce improper payments for programs with estimates exceeding \$10 million, and (4) annually report improper payment estimates and actions to reduce them. In addition, agencies that enter into contracts with a total value exceeding \$500 million in a fiscal year are required under section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act, to have cost-effective programs for identifying errors in payments to contractors and for recovering amounts erroneously paid.<sup>3</sup>

Given the reported condition of DHS's internal controls and reported noncompliance with IPIA, you asked us to conduct a review of the department's implementation of IPIA. Specifically, our objectives were to (1) determine the extent to which DHS has implemented the requirements of IPIA, (2) identify actions DHS has under way to improve IPIA compliance and reporting, and (3) determine what efforts DHS has in place to recover improper payments. To address these objectives, we reviewed applicable improper payments legislation, OMB guidance, and agency Office of Inspector General (OIG) reports. We also reviewed improper payment information reported in DHS's PARs over the past 3 fiscal years (2004–2006). In addition, we analyzed DHS's regulations and methodology for identifying programs and activities highly susceptible to improper payments, interviewed officials from the Office of the Chief Financial Officer (OCFO), reviewed workpapers prepared by DHS's

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<sup>3</sup>Pub. L. No. 107-107, div. A, title VIII, § 831, 115 Stat. 1012, 1186 (Dec. 28, 2001) (codified at 31 U.S.C. §§ 3561-3567).

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independent auditor, and summarized the results of this review. In addition, we reviewed DHS's plans to reduce improper payments and become compliant with IPIA and the Recovery Auditing Act.

To assess the reliability of data reported in DHS's PARs related to improper payments and recovery audit efforts, we (1) reviewed existing information about the data and the system that produced them and (2) interviewed agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report. We conducted our work from October 2006 through June 2007 in accordance with generally accepted government auditing standards. See appendix I for more details on our scope and methodology.

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## Results in Brief

DHS has made some progress over the last 3 fiscal years in attempting to fully implement IPIA requirements, but much more work remains to be done. Although DHS has made progress in identifying its programs, for fiscal year 2006, DHS had not yet performed the required first step—a risk assessment—on programs with approximately \$13 billion of its more than \$29 billion in disbursements subject to IPIA. For the remaining \$16 billion in DHS disbursements subject to IPIA, DHS determined that two programs were at high risk for issuing improper payments—the Individuals and Households Program (IHP) assistance payments and disaster-related vendor payments. DHS performed statistical sample testing of these programs and estimated FEMA improper payments (step 2) from September 2005 through March 2006 of \$450 million (8.56 percent) of IHP assistance payments and \$319 million (7.44 percent) of disaster-related vendor payments.<sup>4</sup>

DHS has developed plans to reduce future improper payments for these two programs (step 3) and reported these estimates in its fiscal year 2006 PAR (step 4). However, DHS's independent auditor found that the time

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<sup>4</sup>U.S. Department of Homeland Security, *Performance and Accountability Report Fiscal Year 2006* (Washington, D.C.: Nov. 15, 2006). DHS also reported estimated improper payments for all of fiscal year 2006 for these two programs. However, DHS calculated the fiscal year 2006 estimates by applying the estimated error percentage rates from the September 2005 through March 2006 testing to the fiscal year 2006 outlay figures. The estimated error percentage rates for the September 2005 through March 2006 testing have a 90 percent confidence interval of plus or minus 2.32 percentage points for IHP assistance payments and plus or minus 2.62 percentage points for disaster-related vendor payments based on statistically valid cluster samples. See IPIA reporting details in DHS's fiscal year 2006 PAR.

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period covered for testing and reporting (i.e., September 2005 through March 2006) was not in accordance with OMB's implementing guidance, which also contributed to DHS's inability to meet the requirements of IPIA. While DHS concluded that none of its other programs that DHS subjected to a risk assessment met OMB's criteria for susceptibility to significant improper payments, the basis for this conclusion was limited in scope. For example, DHS only tested programs with disbursements greater than \$100 million and did not perform a qualitative risk assessment of all program operations such as an assessment of internal controls, oversight and monitoring activities, and results from external audits.<sup>5</sup>

For the programs with \$13 billion in payments for which no risk assessment was performed in fiscal year 2006, DHS has encountered challenges with IPIA implementation. Of this amount, over \$6 billion relates to payments for grant programs, including \$3 billion in payments made for the National Flood Insurance Program (NFIP). Performing risk assessments of grant programs and testing grant payments can be difficult because of the many layers of grant recipients, as well as the types of recipients and number of grant programs. During fiscal year 2006, DHS awarded grants to over 5 million recipients for 70 different grant programs. Developing a plan to assess risk and potentially test grant payments is important given the fact that the DHS OIG has identified weaknesses in grant programs and considers grants management to be one of DHS's major management challenges. Another challenge for DHS is that we recently added the NFIP, one of DHS's largest grant programs, to our high-risk list in March 2006.<sup>6</sup> Assessing grant programs, and if necessary, performing IPIA testing, will allow DHS to gain an understanding of its risk for improper payments and potentially reduce future improper payments.

DHS has actions under way to improve IPIA reporting and compliance, but does not plan to be compliant in fiscal year 2007 and will likely not be compliant in fiscal year 2008. Actions under way include developing plans

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<sup>5</sup>For those programs with disbursements between \$10 million and \$100 million, DHS components were instructed to complete a qualitative risk assessment—a series of questions to qualitatively ascertain whether a program is at high risk for issuing improper payments.

<sup>6</sup>GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007). We placed the National Flood Insurance Program (NFIP) on our high-risk list in March 2006 because it is unlikely that the NFIP will generate sufficient revenues to repay the billions borrowed from the Department of the Treasury to cover flood claims from the 2005 hurricanes.

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to reduce improper payments related to its two identified high-risk disaster-related programs and preparing departmentwide corrective action plans to address internal control weaknesses and noncompliance issues, including those related to IPIA. In addition, DHS recently updated its guidance for implementing IPIA and plans to focus on program identification and risk assessments to build a foundation for a sustainable IPIA program, rather than aiming for compliance during fiscal year 2007. The agency also plans to hold workshops for its components on sample testing and reporting to ensure that they have a consistent understanding of what is expected with regard to IPIA testing and reporting. While DHS's plans appear to address IPIA compliance issues, implementation will take significant time and effort as DHS has already missed some key milestones related to the identification of IPIA programs for each agency component. Solidifying its identification of IPIA programs and completing a thorough risk assessment process will be important first steps to adequately address IPIA reporting requirements.

Lastly, we identified several weaknesses in DHS's efforts to recover known improper payments and to comply with the Recovery Auditing Act. According to DHS, four of its components—Immigration and Customs Enforcement (ICE), Customs and Border Protection (CBP), U.S. Coast Guard (USCG), and FEMA—meet the criteria for recovery auditing as specified in the Recovery Auditing Act (i.e., each has over \$500 million in annual contractor payments).<sup>7</sup> DHS began recovery auditing efforts during fiscal year 2004, hiring an independent contractor who conducted recovery audit work at two major components, ICE and CBP; however, DHS was not able to report on these efforts for that year because initial findings were not available in time to be included in its annual PAR. DHS continued these efforts in fiscal year 2005 and its contractor identified more than \$2.1 million of improper payments and recovered more than \$1.2 million (over 50 percent of identified improper payments). However, when DHS attempted to expand its recovery audit efforts to USCG, it encountered problems with obtaining disbursement data. In addition, DHS reported that delays in obtaining security clearances for contract personnel severely hampered completion of recovery audit work at CBP and ICE during fiscal year 2006. As a result, DHS did not report on recovery audits during fiscal year 2006.

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<sup>7</sup>DHS as a whole meets the criteria for recovery auditing as specified in the Recovery Auditing Act, but the agency has identified specific components that individually meet the requirements and focuses its recovery auditing efforts on those components.

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In March 2007, DHS revised its guidance for recovery auditing for fiscal year 2007—noting the disbursement data and security clearance issues encountered in previous years—emphasizing timelines to help ensure that all applicable components are able to complete recovery audits and report on their efforts going forward. This guidance clarifies what is expected of components; however, ongoing oversight by the OCFO will be necessary to help ensure that the components are progressing with their recovery auditing efforts and will be able to successfully report on results at year end. In addition, DHS has not yet reported on its efforts to recover improper payments identified during its testing of FEMA’s disaster-related vendor payments and has reported limited information on its efforts to recover identified improper IHP assistance payments. DHS is currently not required to report on these efforts, but reporting this information would provide a more complete picture of the agency’s actions to recover payments that it has identified as being improper.

We are making four recommendations to DHS to help improve its efforts to implement IPIA and recover improper payments by focusing on performing risk assessments and reporting on efforts to recover improper payments.

We provided a draft of this report to DHS for comment. DHS concurred with our recommendations, and its comments, along with our evaluation, are discussed in the Agency Comments and Our Evaluation section of this report. The comments are also reprinted in their entirety in appendix II.

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## Background

Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. IPIA has increased visibility over improper payments by requiring executive branch agency heads to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Similarly, the Recovery Auditing Act provides an impetus for applicable agencies to systematically identify and recover contract overpayments. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as having mechanisms in place to recoup those funds when improper payments occur.

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## Improper Payments Information Act of 2002

IPIA was enacted in November 2002 with the major objective of enhancing the accuracy and integrity of federal payments. IPIA requires executive branch agency heads to review their programs and activities annually and identify those that may be susceptible to significant improper payments. For each program and activity agencies identify as susceptible, the act requires them to estimate the annual amount of improper payments and to submit those estimates to the Congress. The act further requires that for programs for which estimated improper payments exceed \$10 million, agencies are to report annually to the Congress on the actions they are taking to reduce those payments.

The act also requires the Director of OMB to prescribe guidance for agencies to use in implementing IPIA. OMB issued implementing guidance<sup>8</sup> which requires the use of a systematic method for the annual review and identification of programs and activities that are susceptible to significant improper payments. The guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and \$10 million annually.<sup>9</sup> It requires agencies to estimate improper payments annually using statistically valid techniques for each susceptible program or activity. For those agency programs determined to be susceptible to significant improper payments and with estimated annual improper payments greater than \$10 million, IPIA and related OMB guidance require each agency to annually report the results of its efforts to reduce improper payments. OMB has stated that having high-quality risk assessments is critical to meeting the objectives of identifying improper payments and is essential for performing corrective actions to eliminate payment errors.<sup>10</sup> Figure 1 provides an overview of the four key steps OMB requires agencies to perform in meeting the improper payment reporting requirements.

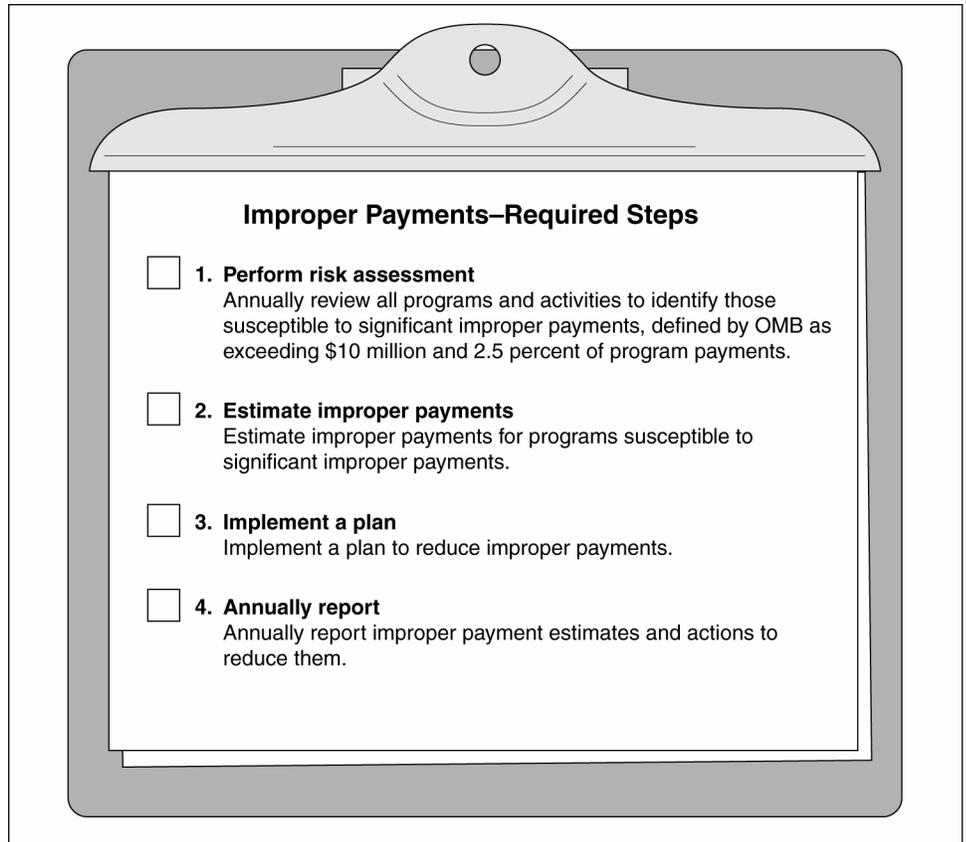
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<sup>8</sup>Appendix C to OMB Circular No. A-123 consolidates three memorandums previously issued by OMB. These memorandums are: M-03-07, "Programs to Identify and Recover Erroneous Payments to Contractors" (Jan. 16, 2003); M-03-12, "Allowability of Contingency Fee Contracts for Recovery Audits" (May 8, 2003); and M-03-13, "Improper Payments Information Act of 2002 (Public Law 107-300)" (May 21, 2003).

<sup>9</sup>IPIA does not mention the "exceeding the 2.5 percent of program payments" threshold that OMB uses for identifying and estimating improper payments.

<sup>10</sup>OMB, *Improving the Accuracy and Integrity of Federal Payments* (Washington, D.C.: Jan. 31, 2007).

**Figure 1: Required Steps to Identify, Estimate, Reduce, and Report Improper Payment Information**



Source: GAO.

## Recovery Auditing Act

In addition, under certain conditions, applicable agencies are required to report on their efforts to recover improper payments made to contractors under section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act. This legislation contains a provision that requires executive branch agencies entering into contracts with a total value exceeding \$500 million in a fiscal year to have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. The act further states that a required element of such a program is the use of recovery audits and recovery activities. The law authorizes federal agencies to retain recovered funds to cover actual administrative costs as well as to pay other contractors, such as collection agencies. Agencies that are required to undertake recovery audit programs were directed by OMB to provide

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annual reports on their recovery audit efforts, along with improper payment reporting details, in an appendix to their PARs.

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## OMB Guidance and Initiatives

In August 2006, OMB revised its IPIA implementing guidance. The revision consolidates into Appendix C of OMB Circular No. A-123, *Management's Responsibility for Internal Control*, all guidance for improper payments and recovery auditing reporting.<sup>11</sup> While inconsistent with the language in IPIA, the revised guidance allows for risk assessments to be conducted less often than annually for programs where improper payment baselines are already established, are in the process of being measured, or are scheduled to be measured by an established date. Although OMB kept its criteria for defining significant improper payments as those exceeding both 2.5 percent of program payments and \$10 million, OMB added that it may determine on a case-by-case basis that certain programs that do not meet the threshold may be subject to the annual reporting requirement. Additionally, the revised guidance allows agencies to use alternative sampling methodologies and requires agencies to report on and provide a justification for using these methodologies in their PARs.<sup>12</sup> This revised guidance is effective for agencies' fiscal year 2006 improper payment estimating and reporting in the PARs or annual reports.

Other OMB guidance states that agencies must describe their corrective actions for reducing the estimate rate and amount of improper payments.<sup>13</sup> Related to corrective actions, OMB's implementing guidance for IPIA requires that agencies implement a plan to reduce erroneous payments, including identifying the following.<sup>14</sup>

- Root causes—For all programs and activities with erroneous payments exceeding \$10 million, agencies shall identify the reasons their programs

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<sup>11</sup>OMB Circular No. A-123 provides a central reference point for guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The circular emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities. For prior improper payments guidance, see footnote 8.

<sup>12</sup>An example of an alternative sampling methodology includes developing an annual error rate for a component of the program.

<sup>13</sup>OMB Circular No. A-136, *Financial Reporting Requirements*, § II.5.7 (June 29, 2007).

<sup>14</sup>Appendix C of OMB Circular No. A-123.

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and activities are at risk of erroneous payments and put in place a corrective action plan to reduce erroneous payments.

- Reduction targets—Targets are necessary for future improper payment levels and a timeline within which the targets will be reached.
- Accountability—Ensure that their managers and accountable officers (including the agency head) are held accountable for reducing improper payments. Agencies shall assess whether they have the information systems and other infrastructure needed to reduce improper payments to minimal cost-effective levels, and identify any statutory or regulatory barriers that may limit agencies' corrective actions in reducing improper payments.

OMB has also established Eliminating Improper Payments as a program-specific initiative under the President's Management Agenda (PMA). This separate PMA program initiative began in the first quarter of fiscal year 2005. Previously, agency efforts related to improper payments were tracked along with other financial management activities as part of the Improving Financial Performance initiative of the PMA. The objective of establishing a separate initiative for improper payments was to ensure that agency managers are held accountable for meeting the goals of IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements. This program initiative establishes an accountability framework for ensuring that federal agencies initiate all necessary financial management improvements for addressing this significant and widespread problem. Specifically, agencies are to measure their improper payments annually, develop improvement targets and corrective actions, and track the results annually to ensure the corrective actions are effective.

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## DHS Has Made Some Progress in Implementing the Requirements of IPIA, but Remains Noncompliant

While DHS has taken actions over the last 3 fiscal years to implement IPIA requirements, much more work needs to be done. In each of the last 3 fiscal years, DHS was unable to perform risk assessments for all of its programs and activities—the first step of IPIA implementation. This and other issues, such as concerns about program identification and testwork performed, contributed to DHS's reported noncompliance with IPIA over the last 3 fiscal years. Until DHS is able to fully assess its programs, the potential magnitude of improper payments cannot be estimated.

For fiscal year 2006, DHS did not perform risk assessments on programs with \$13 billion of its \$29 billion of payments subject to IPIA. Over \$6 billion of this amount related to payments for grant programs. Performing risk assessments of grant programs and testing grant payments

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can be difficult because of the many layers of grant recipients, as well as the type of recipients and number of grant programs. However, developing a plan to assess risk and potentially test grant payments is important because of financial management weaknesses reported at DHS grantees and concerns about DHS's grants management process. Developing a plan will also allow DHS to gain an understanding of its risk with respect to grant payments and potentially reduce future improper payments.

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## DHS's Efforts to Meet IPFA Requirements

To comply with the requirements of IPFA and related guidance from OMB, DHS initiated a plan in fiscal year 2004 to reduce its susceptibility to issuing improper payments by having each of its organizational elements complete a risk assessment of major programs<sup>15</sup> by assigning each one an overall risk score. Based on this assessment, none of DHS's programs were found to be high risk; however, DHS's independent auditor reported that the agency was not in compliance with IPFA mainly because it had not yet instituted a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments.

In fiscal year 2005, the auditor again reported noncompliance issues regarding the adequacy of the agency's risk assessments. Based on DHS's guidance, each component selected its largest program and completed statistical testing. DHS regarded this quantitative selection as its risk assessment process and did not incorporate qualitative factors. As with fiscal year 2004, DHS reported that it did not identify any programs or activities as being susceptible to significant improper payments and its auditors again reported that DHS was not in compliance with IPFA.

The DHS OCFO worked with components during fiscal year 2006 to continue to refine the population of improper payment programs by having the components group Treasury Appropriation Fund Symbols (TAFS)<sup>16</sup> into logical, recognizable programs. After identifying the

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<sup>15</sup>OMB's implementing guidance defines a "program" as activities or sets of activities recognized as programs by the public, OMB, or the Congress, as well as those that entail program management or policy direction. This definition includes, but is not limited to, all grants, regulatory activities, research and development activities, direct federal programs, procurements including capital assets and service acquisition, and credit programs. It also includes the activities engaged in by the agency in support of its programs.

<sup>16</sup>OMB Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (revised July 2, 2007), defines TAFS as a summary account established in the Treasury for each appropriation and fund.

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population of disbursements for fiscal year 2006 IPIA testing, DHS components provided the necessary payment data to a contractor with expertise in statistical testing. The contractor constructed stratified sampling plans and samples for DHS components to perform IPIA testing for DHS's risk assessment process. This testing was expanded from fiscal year 2005 to include, based on DHS's revised guidance, all DHS programs issuing more than \$100 million of IPIA-relevant payments.<sup>17</sup> Two programs were found to be high risk. However, despite these efforts, DHS's independent auditor found that the agency was still not in compliance with IPIA as reported in its fiscal year 2006 PAR, primarily because not all programs subject to IPIA were tested, and the population of disbursements tested for some programs was not complete. Appendix III contains additional information about DHS's prior year IPIA PAR reporting and compliance issues reported by its independent auditor.

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**Required Risk Assessments Not Completed for All Programs for Fiscal Year 2006**

Although DHS made progress in identifying its programs in fiscal year 2006, the agency did not perform a risk assessment for all programs and activities—covering approximately \$13 billion of its more than \$29 billion in disbursements subject to IPIA. According to DHS, this was primarily due to a lack of resources, guidance, and experience in performing this work. This was a major factor in the independent auditors' finding that DHS was noncompliant with IPIA for fiscal year 2006. DHS performed risk assessments (step 1) for programs accounting for approximately \$16 billion of the \$29 billion in disbursements subject to IPIA review. Of this \$16 billion covered by risk assessments, approximately \$7 billion related to FEMA's disaster relief programs that were found to be at high risk for issuing significant improper payments and therefore steps 2 through 4 were completed to estimate improper payments, develop a plan to reduce improper payments, and report this information. This testing resulted in estimated improper payments issued by FEMA from September 2005 through March 2006 of \$450 million (8.56 percent) of IHP

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<sup>17</sup>DHS excluded payroll, intragovernmental, and travel payments from IPIA testing. According to DHS, these payments were excluded because of the following reasons: (1) payroll was excluded because DHS identified it as having a low level of risk due to the strong internal controls that result from payroll payments being administered by a third party, the National Finance Center; (2) intragovernmental payments were excluded as these do not result in net gains or losses to the federal government; and (3) travel payments are a small population and while they were not tested separately for IPIA purposes, they were tested as part of internal control reviews by individual components. In addition, purchase card transactions for the entire department were tested centrally by the U.S. Coast Guard (USCG) during fiscal year 2006.

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assistance payments and \$319 million (7.44 percent) of disaster-related vendor payments.<sup>18</sup> Although the necessary IPIA work—steps 1 and 2—was completed for the two DHS high-risk programs, the time period covered for testing and reporting (i.e., September 2005 through March 2006) was not in accordance with OMB’s implementing guidance, also contributing to DHS’s reported noncompliance with IPIA.<sup>19</sup> The remaining programs with disbursements totaling \$9 billion in disbursements were not found to be at risk for issuing significant improper payments and therefore DHS did not report improper payments for these programs. For some of its nondisaster programs, DHS performed statistical sample testing for those programs with disbursements greater than \$100 million, without first performing a qualitative risk assessment such as an assessment of internal controls, oversight and monitoring activities, and results from external audits. While this approach is perhaps better than not doing any assessment, DHS officials concurred that it could be considered an inefficient use of resources, if a program is not at high risk.

Table 1 shows DHS’s population of programs identified for IPIA testing and the status of DHS’s IPIA risk assessment process performed in fiscal year 2006.

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<sup>18</sup>U.S. Department of Homeland Security, *Performance and Accountability Report Fiscal Year 2006* (Washington, D.C.: Nov. 15, 2006). DHS also reported estimated improper payments for all of fiscal year 2006 for these two programs. However, DHS calculated the fiscal year 2006 estimates by applying the estimated error percentage rates from the September 2005 through March 2006 testing to the fiscal year 2006 outlay figures. The estimated error percentage rates for the September 2005 through March 2006 testing have a 90 percent confidence interval of plus or minus 2.32 percentage points for IHP assistance payments and plus or minus 2.62 percentage points for disaster-related vendor payments based on statistically valid cluster samples. See IPIA reporting details in DHS’s fiscal year 2006 PAR.

<sup>19</sup>According to DHS, the agency chose to use this time period because it was the period of greatest payment activity following the 2005 Gulf Coast hurricanes.

**Table 1: DHS Fiscal Year 2006 IPIA Programs (based on fiscal year 2005 disbursements)**

Dollars in millions			
DHS IPIA program	IPIA population <sup>b</sup>	Risk assessment for fiscal year 2006	
		Performed <sup>c</sup>	Not performed <sup>d</sup>
Customs and Border Protection (CBP) Custodial <sup>g</sup>	\$ 1,116	\$ 1,116	
Other CBP programs	1,713	1,713	
Federal Air Marshals (FAM)	318		318
Federal Emergency Management Agency (FEMA) disaster-related programs:			
Disaster Relief	7,133	7,133 <sup>e</sup>	
Cerro Grande Fire Claims	14		14
FEMA nondisaster programs	4,803		4,803
Federal Law Enforcement Training Center (FLETC) programs	139	139	
Office of Grants and Training (GT) programs	3,136		3,136
Immigration and Customs Enforcement (ICE) and ICE components: <sup>f</sup>			
Salaries & Expenses	953	953	
Technology	829	829	
Federal Protective Service	548	548	
US-VISIT	208	208	
Other programs	649		649
Transportation Security Administration (TSA):			
Original IPIA programs <sup>g</sup>	3,414		1,384 <sup>g</sup>
Revised IPIA programs:			
Grant programs		343	
Nongrant programs		1,687	
U.S. Coast Guard (USCG):			
Operating Expenses	2,741		2,741
Acquisition, Construction & Improvements (reported as Contracts)	867	867	
Other <sup>h</sup>	620	620	
U.S. Secret Service (USSS) Operating Expenses	83	83	
<b>Total IPIA program disbursements</b>	<b>\$ 29,284</b>	<b>\$ 16,239</b>	<b>\$ 13,045</b>

Sources: DHS fiscal year 2006 IPIA programs (based on fiscal year 2005 disbursement populations) and GAO analysis of information provided by and reported by DHS.

<sup>g</sup>CBP collects import duties, taxes, and fees on merchandise arriving in the United States from foreign countries, and subsequently transfers these receipts to other entities. Receipts of import duties and related refunds are presented in the statement of custodial activity in the DHS financial statements. CBP tested the custodial program as part of remediating the Custodial Revenue and Drawback material weakness. According to DHS, while this testing did not follow Appendix C to OMB Circular No. A-123, it did support the conclusion that this program is not at high risk for issuing improper payments as no significant improper payments as defined by OMB were identified.

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<sup>b</sup>These disbursement amounts represent the original amounts provided by the DHS Program Management Office to the individual DHS components. Actual amounts used by the components as they performed additional analysis and testing may differ. Also, according to DHS, the disbursement amounts were based on Standard Form (SF) 133 outlay figures, and DHS found this to be problematic. DHS will address these problems during fiscal year 2007.

<sup>c</sup>Unless otherwise noted, a risk assessment was performed for the IPIA program and the program was found to be not at high risk for issuing significant improper payments.

<sup>d</sup>A risk assessment was not performed for the IPIA program and, according to its independent auditor, this contributed to DHS's noncompliance with IPIA in fiscal year 2006.

<sup>e</sup>A risk assessment was performed for the IPIA program and the program—which includes IHP assistance and disaster-related vendor payments—was found to be at high risk for issuing significant improper payments. Additional work was completed to estimate improper payments, develop a plan to reduce improper payments, and report this information.

<sup>f</sup>ICE components include U.S. Citizenship and Immigration Services, the Management Directorate, the Science & Technology Directorate, the Office of Intelligence and Analysis, and the Border and Transportation Security Directorate, because ICE is the financial management provider for these components.

<sup>g</sup>Based on additional information provided by DHS, USCG is TSA's accounting provider. USCG staff consolidated the TSA IPIA programs into one entitywide program which was then split into grant and nongrant segments. A risk assessment was performed for these two segments and neither was found to be at risk for significant improper payments. The reason for the consolidation was concern over insufficient time to complete testing of multiple TSA programs. According to DHS, components in the future will need to provide ample justification and receive formal DHS OCFO concurrence before program definitions can be changed.

<sup>h</sup>According to USCG, once all payroll amounts are deducted, the total would be under \$100 million.

Since DHS did not perform the required first step—a risk assessment—on programs with approximately \$13 billion of its more than \$29 billion in disbursements subject to IPIA, it is unknown whether these programs are at high risk for issuing improper payments.

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## Grant Programs Continue to Present a Challenge for IPIA Implementation

DHS encountered challenges implementing IPIA for the programs with \$13 billion of disbursements for which no risk assessment or testing was performed in fiscal year 2006. Over \$6 billion of this amount related to payments for grant programs. The remaining \$7 billion related primarily to FEMA nondisaster programs and TSA programs not categorized as grant or nongrant programs, and USCG operating expenses. DHS's grant programs include the NFIP, which had disbursements of over \$3 billion that should have been included in DHS's IPIA population for review in fiscal year 2006. As we have previously reported, measuring improper payments and designing and implementing actions to reduce or eliminate them are not simple tasks, particularly for grant programs that rely on

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quality administration efforts at the state level.<sup>20</sup> DHS has an even greater challenge in the diversity of recipients for its grants which include state and local governments, individuals, and other entities. During fiscal year 2006, DHS awarded grants to over 5 million recipients<sup>21</sup> for 70 different grant programs, including state and local governments, nonprofits, and other entities and individuals. Although disbursements made related to these grants are subject to IPIA, as DHS has noted, performing risk assessments of grant programs and testing grant payments are difficult because of the many layers of grant recipients, as well as the type of recipients and number of grant programs.

Developing a plan to assess risk and potentially test grant payments is important because of noted financial management weaknesses of DHS grantees. For example, DHS's independent auditors and the DHS OIG have reported grants management weaknesses in part because the agency did not adequately follow up on audit findings pertaining to grantees' potential improper payments. In addition, the DHS OIG identified grants management as a major management challenge facing the department. We have also identified the NFIP as a high-risk program.<sup>22</sup> A list of DHS's grant programs is presented in appendix IV. Appendix IV also shows the primary types of recipients and fiscal year 2006 award information for each grant program, as well as the component that administers the program. Given the identified weaknesses and the high-dollar amount, as well as the inherent risk associated with grant programs, it is important for DHS to assess grant programs for susceptibility to significant improper payments in accordance with IPIA. Assessing and, if necessary, testing these grant programs will allow DHS to gain an understanding of its risk in this area related to improper payments and potentially reduce future improper payments.

During fiscal year 2006, DHS completed a risk assessment by performing sample testing for grants administered by the Transportation Security

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<sup>20</sup>GAO, *Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs*, [GAO-06-347](#) (Washington, D.C.: Apr. 14, 2006).

<sup>21</sup>This amount includes both individual grant recipients as well as states and other entities.

<sup>22</sup>GAO, *High-Risk Series: An Update*, [GAO-07-310](#) (Washington, D.C.: January 2007). We placed the National Flood Insurance Program (NFIP) on our high-risk list in March 2006 because the NFIP will unlikely generate sufficient revenues to repay the billions borrowed from the Department of the Treasury to cover flood claims from the 2005 hurricanes.

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Administration (TSA) with disbursements of about \$343 million; however, the department was unable to perform an assessment of its grants programs administered by the Office of Grants and Training (GT). Of the approximately \$13 billion for which DHS did not perform a risk assessment, over \$3 billion related to grant programs administered by GT.<sup>23</sup> In addition to the NFIP, FEMA also administers other grant programs which, with the exception of IHP,<sup>24</sup> were not tested during fiscal year 2006. DHS identified three IPIA programs within GT, including Domestic Preparedness, State and Local Programs, and Firefighter Assistance Grants, totaling \$3.1 billion of fiscal year 2005 disbursements for fiscal year 2006 IPIA testing; however, GT did not perform an assessment or complete statistical sample testing on these grants programs. In its fiscal year 2006 PAR, DHS reported that one complication that was not overcome was how to extend statistical sample testing to grant recipients. DHS also had difficulty testing its grant programs because of the large number of grant programs identified for testing based on DHS's guidance for fiscal year 2006 program identification and risk assessment methodology, which required that all programs with total disbursements exceeding \$100 million be selected and statistically tested. DHS reported that one of the problems with its fiscal year 2006 IPIA methodology was that its risk assessments were based on strictly quantitative factors, instead of both qualitative and quantitative factors. Although OMB has not yet provided guidance as we have previously recommended,<sup>25</sup> DHS issued internal guidance recognizing the need to consider qualitative factors.

One such qualitative factor that DHS could consider as part of its risk assessment process are the results of Single Audit Act, as amended,<sup>26</sup> reports related to its grantees. During fiscal year 2006, DHS's independent

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<sup>23</sup>During fiscal year 2007, FEMA underwent a reorganization and GT became a part of FEMA. Therefore, the grant functions for both components are now consolidated under FEMA.

<sup>24</sup>IHP payments are included in disaster assistance grants administered by FEMA.

<sup>25</sup>GAO, *Improper Payments: Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, GAO-07-92 (Washington, D.C.: Nov. 14, 2006).

<sup>26</sup>31 U.S.C. §§ 7501-7507. Under the Single Audit Act, as amended, and implementing guidance, independent auditors audit state and local governments and nonprofit organizations that expend federal awards to assess, among other things, compliance with laws, regulations, and the provisions of contracts or grant agreements material to the entities' major federal programs. Organizations are required to have single audits if they expend \$500,000 or more in federal awards.

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auditors reported that the agency was not in compliance with the Single Audit Act. According to the independent auditors' report, FEMA and TSA are required to comply with certain provisions of OMB Circular No. A-133, which requires agencies awarding grants to ensure they receive grantee reports timely and to follow-up on grantee single audit findings. Although certain procedures have been implemented to monitor grantees and their audit findings, the auditors noted that DHS did not have procedures in place to comply with these provisions in OMB Circular No. A-133 and follow up on questioned costs<sup>27</sup> and other matters identified in these reports. TSA has developed a corrective action plan to establish a new system and processes to track and review single audit reports, but FEMA has not completely developed its corrective action plans due to the previously mentioned organizational changes during fiscal year 2007. We identified 37 DHS grantees—with awards totaling \$2.1 billion—that had single audit findings related to questioned costs for fiscal year 2005. Some examples of questioned costs described in audit reports follow.

- One single audit report questioned \$353,000 in unallowable charges for salaries and benefits due to a lack of adequate documentation.
- One grantee had expenditures that did not have appropriate supporting documentation, with the questioned amount totaling almost \$80,000.
- Another grantee had costs of about \$72,000 that were improperly charged to the grant program.
- A third grantee over-claimed reimbursement amounts of about \$4,000.

The DHS OIG also conducts audits relating to the programs and operations of DHS, including grant programs. The DHS OIG reviews several factors to determine which activities to audit, including current or potential dollar magnitude, and reports or allegations of impropriety or problems in implementing the programs. The objectives of these grant program audits include determining whether the grantee accounted for and expended funds according to federal regulations and DHS guidelines. For certain grantees, the DHS OIG has found questioned costs such as excessive charges, duplicate payments, ineligible contractor costs, unsupported contractor and labor costs, and other expenditures. The following are examples of DHS OIG findings from fiscal years 2005 through 2007.

- The DHS OIG found that one particular grantee had questioned costs of more than \$1.8 million.

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<sup>27</sup>A “questioned” cost is a finding which, at the time of the audit, is not supported by adequate documentation or is unallowable.

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- The DHS OIG has also found instances where the grantee did not follow all federal procurement standards or DHS guidelines in awarding contracts, and needed improvements in procedures to make payments to subgrantees. One instance involved awarding contracts totaling more than \$14 million and another instance involved more than \$8 million in contract work.

In an effort to address the agency's noncompliance with the Single Audit Act, as amended, DHS's Office of Grant Policy and Oversight (GPO) told us that it instituted an informal oversight process for single audits during fiscal year 2007 and is in the process of developing formal procedures. According to GPO, the development of this process is an attempt to address some of the grants management concerns that have been identified at DHS by its auditors and the DHS OIG. This monitoring process will help DHS to focus on audit findings at grantees and could help DHS with performing a risk assessment over grant programs for IPIA purposes by providing qualitative criteria.

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## While DHS Has Developed Plans to Address IPIA Requirements and Reduce Improper Payments, Full Implementation Will Be Longer Term

DHS has taken steps to address IPIA requirements, but the agency does not plan to be compliant in fiscal year 2007 and will likely not be compliant in fiscal year 2008. During fiscal year 2007, DHS prepared, and continues to refine, a departmentwide corrective action plan to address internal control weaknesses and noncompliance issues, including IPIA; however, the agency continues to encounter challenges in developing a plan to fully perform a risk assessment process. DHS used this corrective action plan to update its guidance and, according to DHS officials, the agency plans to focus on program identification and risk assessments during fiscal year 2007. Although DHS does not expect to be compliant in fiscal year 2007, focusing on these areas will help the agency build a solid foundation for its IPIA program.

In addition to its overall corrective action plan to comply with IPIA, DHS, as required by IPIA and related OMB implementing guidance, has developed plans to reduce improper payments related to the two high-risk programs it has identified thus far. These plans include reducing manual processing, improving system interfaces, and clarifying roles and responsibilities. If properly executed, these plans should help reduce future improper payments in these programs by strengthening internal controls. With regard to system improvements, as we have previously

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recommended,<sup>28</sup> DHS needs to conduct effective testing to provide reasonable assurance that the system will function in a disaster recovery environment.

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### DHS Has Developed a Corrective Action Plan for Compliance with IPIA, but Implementation Challenges Remain

DHS has developed a corrective action plan to address the findings of its independent auditor,<sup>29</sup> including its noncompliance with IPIA. In its most recent audit report for fiscal year 2006, the auditor recommended that DHS follow OMB guidance<sup>30</sup> to complete the necessary susceptibility assessments, perform testwork over all material programs, and institute sampling techniques to allow for statistical projection of the results of its improper payments testing.

In its IPIA corrective action plan, DHS documented the root causes that it believes have resulted in its noncompliance, and analyzed the key success factors, key performance measures, verification and validation procedures, risks, impediments, dependencies with other corrective actions, resources required, and critical milestones needed to become compliant with IPIA; however, implementation will take significant time and effort. DHS cited its lack of resources, guidance, and experience with IPIA to execute risk assessments as root causes for its noncompliance with IPIA. The corrective action plan identified the following items related to IPIA, including root causes.

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<sup>28</sup>GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, [GAO-06-1013](#) (Washington, D.C.: Sept. 27, 2006).

<sup>29</sup>OMB Circular No. A-50, *Audit Followup* (revised Sept. 29, 1982), requires agencies to develop corrective action plans to address audit findings, stating that corrective action taken by management on audit findings and recommendations is essential to improving the effectiveness and efficiency of government operations. According to OMB's guidance, each agency is required to establish systems to assure the prompt and proper resolution and implementation of audit recommendations.

<sup>30</sup>OMB Memorandum M-03-13, along with other improper payment guidance, was consolidated into Appendix C of OMB Circular No. A-123. Appendix C was in effect for fiscal year 2006.

**Table 2: Summary of DHS's Corrective Action Plan for IPIA Compliance as of June 7, 2007**

Area	Description
Root cause	<ul style="list-style-type: none"> <li>• Lack of program-level financial reporting</li> <li>• Lack of experience and guidance with IPIA to execute risk assessments, which led to the absence of proper risk assessments</li> <li>• Difficulty in testing DHS grant programs</li> <li>• Hurricane Katrina effects that highlight internal control weaknesses over disbursements at FEMA</li> </ul>
Key success factors	<ul style="list-style-type: none"> <li>• Define IPIA compliance criteria</li> <li>• Define IPIA programs</li> <li>• Complete a rigorous risk assessment</li> <li>• Develop sample test plans and execute sample testing</li> <li>• Establish a review program to ensure that an independent party reviews preparer responses</li> <li>• Develop a corrective action plan based on test results</li> <li>• Have components update these corrective action plans periodically</li> </ul>
Key performance measures	<ul style="list-style-type: none"> <li>• 100% identification of DHS population of programs for IPIA work</li> <li>• 100% completion of risk assessments by components</li> <li>• 100% completion of IPIA sample testing by July 31, 2007, for all components' high-risk programs</li> <li>• 100% oversight of component corrective action plans for high-risk programs</li> <li>• IPIA compliance guidance for fiscal year 2007 issued by May 31, 2007</li> <li>• Completion of supplemental sample payment testing that confirms that corrective action plan targets for high-risk programs are being met or exceeded</li> <li>• Increase recoupment (recovery) for identified improper payments</li> <li>• Completion of secondary control of recovery audit for components with IPIA total disbursement populations above \$500 million</li> <li>• Submission of corrective action plans for all high-risk IPIA programs by September 15, 2007</li> </ul>
Verification and validation	<ul style="list-style-type: none"> <li>• Confirm improper payment sample test populations tie to an independent verifiable source</li> <li>• Assess the operating effectiveness of sample test results</li> <li>• Confirm claimed recovery amounts are reflected in general ledger postings</li> <li>• Review recovery audit contract reports against general ledger balances to confirm comprehensiveness of work</li> <li>• Test common high-risk factors identified by sample test results after performing a cost-benefit analysis</li> </ul>
Risks, impediments, and dependencies	<ul style="list-style-type: none"> <li>• Grant impediment: legal and political restrictions, lack of guidance</li> <li>• Budgetary and financial system impediment</li> <li>• FEMA risk: breakdown of controls and scale of disbursements for Hurricane Katrina</li> <li>• Guidance risk: clarification of requirements in Appendix C to OMB Circular No. A-123 would be helpful</li> <li>• Sample design impediment: the trial balance data used for IPIA analysis does not readily yield true IPIA disbursement population amounts</li> <li>• Recovery audit impediment: security- and staffing-related issues have hampered the ability of recovery audit contractors</li> </ul>

Area	Description
Resources required	<ul style="list-style-type: none"> <li>DHS OCFO has hired contractor support to review DHS IPIA compliance guidance, provide IPIA training, review DHS component-completed risk assessments, and develop testing sample sizes to include in DHS component-developed test plans</li> <li>DHS components will conduct the risk assessments and develop their own test plans for high-risk programs</li> <li>FEMA hired contractor support to design and implement an improper payment test plan for Hurricane Katrina-related payments for individual housing programs, contracts, mission assignments, and grants</li> <li>FEMA also hired a contractor to assist with IPIA program definitions and risk assessments for all FEMA programs</li> </ul>

Source: DHS Office of Financial Management, Improper Payments Information Act Corrective Action Plan Summary Report (as of June 7, 2007).

DHS also identified critical milestones in its corrective action plan for IPIA compliance, including due dates and status. However, these efforts remain ongoing and DHS has already missed some milestones. For example, while DHS initially planned for each component to identify its IPIA programs and disbursement populations by January 2007, this milestone was delayed until June 2007. As of July 8, 2007, according to DHS, the agency was waiting for one component to submit its list of programs, and DHS was in the process of reviewing submissions from the other components. Because of such delays, DHS does not expect to be in compliance with IPIA in fiscal year 2007 and will likely be noncompliant in fiscal year 2008. DHS's updated critical milestones as of June 7, 2007, related to fiscal year 2007 are presented in table 3.

**Table 3: Summary of Critical Milestones in DHS's Corrective Action Plan for IPIA Compliance Related to Fiscal Year 2007**

Topic	Due date	Completion status according to DHS
Guidance and training:		
Update fiscal year 2007 IPIA PAR guidance	2/1/2007	Completed—100%
Hold corrective action plan workshop on program identification and risk assessments for fiscal year 2007	5/30/2007	Completed—100%
Hold corrective action plan workshop on sample testing and reporting for fiscal year 2007	6/29/2007	Planning—25%
Program identification:		
Program identification for fiscal year 2007	6/15/2007	In progress—50%
Risk assessment:		
A-123 pilot for FEMA for fiscal year 2006 IPIA work	11/15/2007	In progress—50%

<b>Topic</b>	<b>Due date</b>	<b>Completion status according to DHS</b>
<b>Sample testing:</b>		
Develop sample test plans for fiscal year 2007 IPIA work	6/28/2007	In progress—50%
Complete sample test plans for fiscal year 2007 IPIA work	8/31/2007	Not started—0%
Generate programwide error estimates for fiscal year 2007 IPIA work	9/14/2007	Not started—0%
<b>Error analysis/corrective actions for high-risk programs:</b>		
Implement corrective action plans for fiscal year 2006 IPIA work	11/15/2007	Completed—100%
Develop corrective action plans with projected error rate improvement for fiscal year 2007 IPIA work	8/31/2007	Not started—0%
Implement corrective action plans for fiscal year 2007 IPIA work	11/15/2007	Not started—0%
<b>Recovery audit/collections:</b>		
Sign contract with recovery audit firm for fiscal year 2007	10/2/2006	Completed—100%
Receive progress updates and final report for fiscal year 2007 IPIA work	9/30/2007	In progress—50%
<b>PAR reporting:</b>		
Provide OMB with a draft fiscal year 2007 PAR and address all OMB feedback	10/19/2007	Not started—0%

Source: DHS Office of Financial Management, IPIA Corrective Action Plan Summary and Detailed Reports (as of June 7, 2007).

DHS's planning and assessment process to develop its IPIA corrective action plan enabled the agency to update its guidance for its components and, according to DHS, the agency plans to focus on program identification and risk assessments during fiscal year 2007. Strengthening risk assessments and identifying potential improper payments are also important in order for DHS to begin taking steps to reduce improper payments and ultimately improve the integrity of the payments it makes. According to DHS officials, the department has been working in close consultation with OMB, sharing guidance documents, program test plans and results, and recovery audit status reports. Regardless of whether DHS is able to fully complete these efforts in fiscal year 2007, focusing on these areas will help the agency build a solid foundation for a sustainable IPIA program.

The updated guidance was issued in May 2007 and is to be in effect for fiscal year 2007 reporting. In this revised guidance, DHS clarifies how its

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components should identify their population of programs. In addition, DHS requires its components to perform a comprehensive risk assessment in order to identify programs susceptible to significant improper payments. DHS has designed a detailed methodology to conduct the IPIA risk assessment, and this methodology is outlined in the May 2007 guidance. The methodology, which includes qualitative criteria, as we have previously discussed, involves the creation of a program risk matrix based upon specific risk elements that affect the likelihood of improper payments. Further, the guidance states that a program may be selected for testing even if it does not meet the quantitative or qualitative assessments, noting that it is entirely possible that the risk assessment process may not identify a program as high risk, but component management may believe a program is high risk due to a high-level public profile or known financial or regulatory issues (such as a high-profile contract). For those programs found to be at high risk for issuing improper payments, the guidance also provides instructions for estimating improper payments, implementing a plan to reduce improper payments, and reporting on this information. Each of these procedures outlined in the May 2007 guidance includes instructions to submit information or documentation to the Internal Controls over Financial Reporting (ICOFR) Program Management Office (PMO).<sup>31</sup>

DHS's May 2007 guidance for fiscal year 2007 also outlines possible alternative approaches for testing grants. One possible alternative is the complete documentation of the component's grant management process and the testing of internal controls. According to DHS, this approach helps the component identify specific weaknesses within the grant process, rather than sampling payments at random to determine potential errors. A second alternative is to perform a risk assessment on the program's grant portfolio. This alternative helps the program identify specific grants that may be more susceptible to improper payments. The identified grants would then be subject to improper payment sampling. If a component wishes to consider alternative approaches to grant sampling, an explanatory memorandum must be submitted to the ICOFR PMO for review and approval. If approved by the ICOFR PMO, DHS will submit the alternative approach request to OMB for review and approval. Also, OMB

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<sup>31</sup>The ICOFR PMO, as discussed in the next section of this report, is an office within the DHS OCFO.

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has reported<sup>32</sup> that the Chief Financial Officers (CFO) Council<sup>33</sup> continues to play a critical role in efforts to address and reduce improper payments through its Improper Payments Transformation Team. This group has been collaborating with nongovernmental entities to consolidate governmentwide best practices; enumerate legislative and regulatory barriers that hinder program integrity efforts; and develop forums where federal and state stakeholders from the program, audit, and financial communities work together to solve program integrity challenges. These activities could provide guidance to help DHS determine how to best test its grant programs.

DHS also plans to hold workshops for its components on statistical sample testing and reporting to ensure that they have a consistent understanding of what is expected with regard to IPIA testing and reporting. Although DHS does not expect to be in compliance with IPIA in fiscal year 2007, completing a thorough risk assessment process is an important first step.

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### DHS Has a Broader Initiative to Resolve Internal Control Weaknesses across the Department

In addition to developing the corrective action plans described, DHS has a broader initiative to resolve material internal control weaknesses and build management assurances across the department. During fiscal year 2007, DHS established the ICOFR PMO as a new office within the DHS OCFO. The ICOFR PMO is responsible for departmentwide implementation of OMB Circular No. A-123. In March 2007, DHS issued the *ICOFR Playbook*, which outlines the department's strategy and processes to resolve material weaknesses and build management assurances and incorporates the departmentwide corrective action plans, which contain more detailed information. The ICOFR PMO is responsible for the *ICOFR Playbook* and, according to DHS, the agency will update the *ICOFR Playbook* each year, establishing milestones and focus areas that will be tracked during the year. One section of the *ICOFR Playbook* relates to IPIA testing, and it discusses the actions taken by DHS in fiscal year 2006 to meet IPIA requirements. This section also states that DHS will develop policies and procedures to integrate the requirements of OMB's implementing guidance for IPIA into annual component management

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<sup>32</sup>OMB, *Improving the Accuracy and Integrity of Federal Payments* (Washington, D.C.: Jan. 31, 2007).

<sup>33</sup>The CFO Council is an organization comprised of the CFOs and Deputy CFOs of the 24 CFO Act agencies, and senior officials in OMB and the Department of the Treasury who work collaboratively to improve financial management in the U.S. government.

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assurances of compliance with significant laws and regulations, as part of DHS management's assertion on internal controls over financial reporting and in an effort to strengthen internal controls to support DHS's mission. In addition to management providing an assertion on internal controls over financial reporting, DHS is required to obtain a related auditor's opinion.<sup>34</sup> Incorporating IPIA into this guidance will increase the likelihood of successful implementation and could also strengthen related internal controls.

The *ICOFR Playbook* draws attention to the process of addressing IPIA requirements across the department. By successfully addressing the requirements of IPIA, DHS will be in a better position to take steps to reduce improper payments, as the ultimate goal of IPIA reporting is to improve the integrity of payments that the agency makes. Further, DHS has testified that to ensure the long-term effectiveness of the department's efforts to reduce improper payments, DHS requested resources in its fiscal year 2008 budget to hire additional staff so that it can enhance risk assessment procedures and conduct oversight and review of component test plans.

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### DHS Has Developed Plans to Reduce Improper Payments for FEMA's Two Disaster-Related Programs, but Effects Remain Unknown

In addition to its overall corrective action plan to comply with IPIA, DHS, as required by IPIA and related OMB implementing guidance, has developed plans to reduce improper payments related to the two high-risk programs it identified in its fiscal year 2006 testing—FEMA's IHP assistance payments and disaster-related vendor payment programs. These plans highlighted improving internal controls to prevent improper payments in each of these programs.

FEMA's testing of its two high-risk disaster-related programs identified several key internal control weaknesses, including ineffective system controls to review data for potential duplications and inconsistently applied standards for supporting evidence and documentation. To address these findings, FEMA initiated corrective action plans aimed at reducing improper payments by strengthening internal controls. These plans included validating Social Security numbers during telephone registration, increasing IT systems capabilities to handle high volume during a catastrophic disaster, and enhancing post-payment reviews. Our prior

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<sup>34</sup>31 U.S.C. 3516(f)(2).

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reporting<sup>35</sup> also identified significant internal control deficiencies in the IHP program.

To address OMB's reporting requirements on actions for reducing improper payments, DHS included in its fiscal year 2006 PAR corrective action plans for IHP assistance payments and disaster-related vendor payments. For each of the two high-risk programs, DHS prepared a schedule of corrective action plans with target completion dates. For the IHP program, DHS included corrective action plans that were already completed in addition to those in process and planned. DHS has also established critical milestones for reducing improper, disaster-related vendor payments. During fiscal year 2007, DHS updated and tracked its corrective action plan critical milestones. Details of these corrective action plan critical milestones can be found in appendix V.

Based on DHS's updated corrective action plan report for IHP, as of May 14, 2007, DHS had not completed certain critical milestones by the identified target date. These milestones included system interface improvements and certain contract awards. Missing these established critical milestones delays strengthening internal controls that are necessary to reduce future improper payments, and therefore it is important that DHS stays on track in implementing its corrective action plans.

DHS also noted that human capital is the principal requirement to execute these two corrective action plans; however, according to DHS, exact requirements are not estimable at this time. With regard to system improvements, as we have previously recommended,<sup>36</sup> DHS needs to conduct effective testing to provide reasonable assurance that the system will function in a disaster recovery environment.

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<sup>35</sup>See, for example, GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-655](#) (Washington, D.C.: June 16, 2006); *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between \$600 Million and \$1.4 Billion*, [GAO-06-844T](#) (Washington, D.C.: June 14, 2006); and *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, [GAO-06-403T](#) (Washington, D.C.: Feb. 13, 2006).

<sup>36</sup>GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, [GAO-06-1013](#) (Washington, D.C.: Sept. 27, 2006).

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## DHS's Efforts to Comply with the Recovery Auditing Act and to Recover Improper Payments Need to Be Enhanced

For the last 3 years, DHS has contracted with a recovery auditing firm to perform recovery audit work to comply with the Recovery Auditing Act; however, activities in this area could be improved. Specifically, DHS encountered problems that kept it from reporting on recovery audit efforts during fiscal year 2006. DHS was not able to report recovery audit results in fiscal year 2006 for three of the four components it identified as meeting the criteria for recovery auditing as specified in the Recovery Auditing Act (i.e., over \$500 million in contractor payments) due to problems obtaining disbursement data and delays in obtaining security clearances for contract personnel. In addition, DHS did not perform recovery auditing efforts at the fourth component identified as meeting the criteria. Further, DHS has not yet reported on its efforts to recover improper payments identified during its testing of FEMA's disaster-related vendor payments and has reported limited information on its efforts to recover identified improper IHP assistance payments.

In March 2007, DHS revised its internal guidance for recovery auditing for fiscal year 2007 to discuss the issues encountered in previous years and to emphasize timelines to help ensure that all applicable components are able to report. This guidance clarifies what is expected of applicable components, but ongoing oversight within the OCFO will be necessary to ensure that components are progressing with their recovery auditing efforts and will be able to successfully report on the results of these efforts at year end. In addition, DHS's updated guidance does not require components to report on efforts to recover improper payments identified during IPIA testing. Reporting this information in the annual PAR would provide a more complete picture of the agency's actions to recover payments that it has identified as being improper.

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## Recovery Auditing Efforts at DHS Could Be Improved

As an executive branch agency, DHS is required to perform recovery audits under certain conditions as specified by the Recovery Auditing Act. Beginning with fiscal year 2004, OMB required that applicable agencies publicly report on their recovery auditing efforts as part of their PAR reporting of improper payment information. Agencies are required to discuss any contract types excluded from review and justification for doing so. Agencies are also required to report, in table format, various amounts related to contracts subject to review and actually reviewed, contract amounts identified for recovery and actually recovered, and prior-year amounts.

DHS took steps to identify and recover improperly disbursed funds by hiring an independent contractor who conducted recovery audit work at

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two major components, ICE and CBP. DHS began recovery auditing efforts during fiscal year 2004 but was not able to report on these efforts for that year because initial findings were not available in time to be included in the annual PAR. This recovery audit work continued during fiscal year 2005 and covered all fiscal year 2004 disbursements to contractors from these two components, ultimately identifying more than \$2.1 million of improper payments and recovering more than \$1.2 million, as reported in DHS's fiscal year 2005 PAR. While DHS was able to recover about 55 percent of improper payments identified through its recovery audit efforts, based on our review of other agencies, we have previously questioned<sup>37</sup> whether agency amounts identified for recovery should have been much higher, which would thereby significantly decrease the agency-specific and overall high rate of recovery.

According to DHS's fiscal year 2006 PAR reporting, recovery audit contract work over fiscal year 2005 disbursements began in fiscal year 2005 at CBP and ICE, and DHS extended its recovery audit work to include USCG in fiscal year 2006. Delays in obtaining security clearances for contract personnel severely hampered completion of recovery audit work at CBP and ICE. Delays in supplying needed disbursement information hindered recovery audit work at USCG. As a result, DHS was not able to provide conclusive recovery audit summary results for fiscal year 2006 PAR reporting. According to DHS, four of its components—ICE, CBP, USCG, and FEMA—meet the criteria for recovery auditing as specified in the Recovery Auditing Act (i.e., each has over \$500 million in contractor payments). ICE, CBP, and USCG entered into the same recovery audit contract. FEMA's recovery audit work in fiscal year 2006 was part of a pilot study on internal controls over improper payments for IHP assistance and disaster-related vendor payments. In the aftermath of Hurricane Katrina, DHS and FEMA, with the assistance of a contractor, conducted an internal controls assessment related to improper IHP assistance and disaster-related vendor payments. Although this assessment identified improper payments, DHS has not yet reported on its efforts to recover improper payments identified during its testing of FEMA's disaster-related vendor payments and has reported limited information, such as the dollar amount of improper payments approved

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<sup>37</sup>GAO, *Improper Payments: Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, [GAO-07-92](#) (Washington, D.C.: Nov. 14, 2006).

for recovery and the amount returned to FEMA, related to its efforts to recover improper IHP payments.

Of the 3 years agencies have been required to report on recovery audits in table format, DHS was only able to report required recovery audit data in its fiscal year 2005 PAR.<sup>38</sup> Table 4 presents DHS's recovery audit efforts and results for fiscal years 2004 through 2006.

**Table 4: Recovery Audit Results for Fiscal Years 2004 through 2006**

PAR fiscal year	Agency-reported amount subject to review for fiscal year reporting	Agency-reported actual amount reviewed and reported in fiscal year	Agency-reported amount identified for recovery in fiscal year	Agency-reported amount recovered in fiscal year	Related components
2004	(not reported)	(not reported)	(not reported)	(not reported)	CBP, ICE <sup>a</sup>
2005	\$3,232,300,000	\$3,232,300,000	\$2,191,000	\$1,207,000	CBP, ICE
2006	(not reported)	(not reported)	(not reported)	(not reported)	CBP, ICE, and USCG <sup>b</sup>

Sources: DHS Performance and Accountability Reports for 2004, 2005, and 2006.

<sup>a</sup>DHS contracted for recovery audit work at CBP and ICE; however, DHS was not able to provide recovery audit results for fiscal year 2003 disbursements in its fiscal year 2004 PAR.

<sup>b</sup>DHS contracted for recovery audit work at CBP, ICE, and USCG; however, DHS was not able to provide recovery audit results for fiscal year 2005 disbursements in its fiscal year 2006 PAR.

### DHS's Internal Guidance for Recovering Improper Payments Has Been Revised but Additional Information Could Be Reported

DHS has recently revised and clarified its internal guidance related to recovery auditing for fiscal year 2007 to discuss prior issues and emphasize timelines to help ensure that all applicable components are able to complete recovery audits and report on their efforts. The new guidance requires that applicable DHS components provide the ICOFR PMO with a general description and evaluation of the steps taken to carry out a recovery auditing program. Components are required to include a discussion of any security clearance requirements and show that there is sufficient time to allow contractors to complete audit recovery work in time to meet PAR reporting deadlines. Every update should include the total amount of contracts subject to review, the actual amount of contracts reviewed, the amount identified for recovery, and the amounts actually recovered in the current year. The year-end update should include a

<sup>38</sup>Subsequent to issuing its fiscal year 2006 PAR, DHS reported recovery audit amounts to OMB for inclusion in OMB's governmentwide reporting of fiscal year 2006 recovery auditing information.

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corrective action plan to address the root causes of payment errors. A general description and evaluation of any management improvements to address flaws in a component's internal controls over contractor payments discovered during the course of implementing a recovery audit program, or other control activities over contractor payments, is also required. This guidance applies to the four DHS components—CBP, FEMA, ICE, and USCG—that meet Recovery Auditing Act criteria. In addition, according to DHS, the ICOFR PMO may expand recovery audit contracting to other components as the benefits of this work become clearer. Although DHS's guidance clarifies what is expected of components, ongoing oversight within the OCFO will be necessary to ensure that the components are progressing with their recovery auditing efforts and will be able to successfully report on results at year end.

In addition to specific recovery audit work to identify improper payments made to contractors, DHS also identifies improper payments through its IPIA testing. For example, as discussed previously, DHS's testing in fiscal year 2006 of its two high-risk programs identified improper IHP assistance payments and disaster-related vendor payments made by FEMA. However, DHS's internal guidance does not require components to include information in its annual PAR related to its efforts to recover improper payments identified during IPIA testing and, as a result, DHS has not yet reported on its efforts to recover improper disaster-related vendor payments identified and has reported limited information on its efforts to recover identified improper IHP assistance payments. Having components report this information in the annual PAR would provide a more complete picture of the agency's actions to recover payments that it has identified as being improper.

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## Conclusions

Although DHS has made some progress in implementing the requirements of IPIA, challenges remain in ensuring that all DHS programs and activities, including grant programs, have been reviewed to determine their susceptibility to significant improper payments and tested, if applicable. As DHS continues to improve its IPIA efforts and identify and test its high-risk programs, the agency should be better able to identify, and ultimately strengthen controls, to reduce improper payments.

While preventive internal controls should be maintained as the agency's front-line defense against making improper payments, recovery auditing holds promise as a cost-effective means of identifying contractor overpayments. In addition, reporting on efforts to recover any other specific improper payments identified would provide a more complete

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picture of the agency's actions to recover payments that it has identified as being improper. With the ongoing imbalance between revenues and outlays across the federal government, and the Congress's and the American public's increasing demands for accountability over taxpayer funds, identifying, reducing, and recovering improper payments become even more critical.

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## Recommendations for Executive Action

To help improve its efforts to implement IPIA and recover improper payments, we recommend that the Secretary of Homeland Security direct the Chief Financial Officer to take the following actions.

- (1) Maintain oversight and control over critical milestones identified in the DHS corrective action plan for IPIA compliance so that DHS components stay on track, specifically in regard to identifying programs and performing risk assessments and any related testing.
- (2) Require all applicable components to determine and document how they plan to assess their grant programs to determine whether they are at high risk for issuing significant improper payments, and, if necessary, test these grant programs.
- (3) Provide oversight and monitor the progress of all applicable DHS components to successfully perform and report on their recovery auditing efforts.
- (4) Similar to the required reporting on efforts to recover improper payments made to contractors under the Recovery Auditing Act, develop procedures for reporting in its annual PAR on the results of yearly efforts to recover any other known improper payments identified under IPIA, by the DHS OIG, or other external auditors.

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## Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Secretary of Homeland Security. These comments are reprinted in appendix II. DHS concurred with the recommendations in our report. DHS noted that significant actions under way include strengthening the department's financial management and oversight functions to improve the DHS control environment and implementing risk assessments to build a foundation for a sustainable IPIA program.

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As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its date. At that time, we will send copies of this report to the Secretary of Homeland Security and other interested parties. Copies will also be made available to others upon request. In addition, this report will also be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions regarding this report, please contact me at (202) 512-9095 or at [williamsm1@gao.gov](mailto:williamsm1@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 contributions to this report are listed in appendix VI.

A handwritten signature in black ink that reads "McCoy Williams". The signature is written in a cursive, flowing style.

McCoy Williams  
Director, Financial Management and Assurance

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# Appendix I: Scope and Methodology

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To determine to what extent the Department of Homeland Security (DHS) has implemented the requirements of the Improper Payments Information Act of 2002 (IPIA), we compared the IPIA legislation, and the related Office of Management and Budget (OMB) implementing guidance, with DHS improper payment risk assessment methodologies, and IPIA Performance and Accountability Report (PAR) information for fiscal years 2004 through 2006. To analyze DHS risk assessment compliance with IPIA, we obtained and reviewed documents regarding its regulations and methodology for identifying programs and activities highly susceptible to improper payments. We reviewed DHS's PARs, Office of Inspector General (OIG) semiannual reports to the Congress, and GAO reports for fiscal years 2004 through 2006 for improper payment information. We also reviewed procedures performed by DHS's independent financial statement auditor related to DHS's compliance with IPIA.

We reviewed the programs that DHS identified as its IPIA population and analyzed the risk assessments that were performed during fiscal year 2006. This allowed us to determine which components did not perform a risk assessment and which programs were not covered. During our review, we noted that the Office of Grants and Training (GT), a DHS component, did not perform an assessment or complete payment statistical sample testing on its grants programs for fiscal year 2006 as required of all DHS programs issuing more than \$100 million of IPIA relevant payments in fiscal year 2005. To analyze improper payments related to DHS grantees and highlight the importance of performing IPIA testing in this area, we obtained and reviewed fiscal year 2005 single audit reports of these entities. We used fiscal year 2005 reports because that is the most recent year for which complete audit results have been posted to the Federal Audit Clearinghouse (FAC).<sup>1</sup> We also reviewed GAO reports and DHS OIG Financial Assistance (Grants) Reports for fiscal year 2005 through fiscal year 2007 to identify weaknesses reported at DHS grantees. In addition, we reviewed DHS OIG Management Reports (audits and inspections) for fiscal year 2005 through fiscal year 2007 that were related to grants and DHS OIG semiannual reports to the Congress for fiscal years 2005 and 2006 to identify questioned costs related to DHS grantees.

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<sup>1</sup>The FAC's primary purposes are to (1) disseminate audit information to federal agencies and the public, (2) support OMB oversight and assessment of federal award audit requirements, (3) assist federal cognizant and oversight agencies in obtaining OMB Circular No. A-133 data and reporting packages, and (4) help auditors and auditees minimize the reporting burden of complying with Circular No. A-133 audit requirements.

To identify what actions DHS has under way to improve IPIA compliance and reporting, we interviewed DHS staff in the Office of the Chief Financial Officer and reviewed DHS corrective action plans and the *Internal Controls Over Financial Reporting (ICOFR) Playbook*. We also reviewed DHS's IPIA implementing guidance for fiscal year 2007—revised in March 2007 and May 2007—and determined whether it was consistent with IPIA requirements. We discussed these revisions with improper payment and financial management officials from DHS to inquire about what is currently being implemented and what will be implemented in the future to ensure compliance with DHS's revised internal guidance.

To determine what efforts DHS has in place to recover improper payments, we compared section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act, and the related OMB implementing guidance, with DHS recovery auditing procedures and PAR-reported information for fiscal year 2006. We also reviewed DHS PARs, OIG semiannual reports to the Congress, and GAO reports for fiscal years 2004 through 2006 for recovery audit information.

To assess the reliability of data reported in DHS's PARs related to improper payments and recovery audit efforts, we (1) reviewed existing information about the data and the system that produced them and (2) interviewed agency officials knowledgeable about the data. Based on these assessments, we determined that the data were sufficiently reliable for the purposes of this report. We conducted our work from October 2006 through June 2007 in accordance with generally accepted government auditing standards. We requested comments on a draft of this report from the Secretary of Homeland Security or his designee. The Director, Departmental GAO/OIG Liaison Office, provided written comments, which are presented in the Agency Comments and Our Evaluation section of this report and are reprinted in appendix II.

# Appendix II: Comments from the Department of Homeland Security

U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

August 30, 2007

Mr. McCoy Williams  
Director, Financial Management  
And Assurance  
U.S. Government Accountability Office  
Washington, DC 20548

Dear Mr. Williams:

Thank you for the opportunity to comment upon the draft GAO Report: "Department of Homeland Security Challenges in Implementing the Improper Payments Information Act and Recovering Improper Payments" GAO-07-913.

We concur with the report's four recommendations and we will implement corrective actions to address the challenges raised in the report. Highlights of significant actions currently underway include strengthening the Department's Financial Management and Oversight functions to improve the DHS control environment and implementing risk assessments to build a foundation for a sustainable IPIA program.

We also appreciate the balanced tone of the report and acknowledgement of our efforts. In closing, we look forward to continuing our efforts to enhance the accuracy and integrity of federal payments.

Sincerely,

A handwritten signature in black ink that reads "Steven J. Pecinovsky".

Steven J. Pecinovsky  
Director  
Departmental GAO/OIG Liaison Office

[www.dhs.gov](http://www.dhs.gov)

# Appendix III: Prior-Year IPIA Reporting by DHS and Its Independent Auditor

Table 5 presents information on prior-year IPIA reporting by DHS, including compliance issues reported by the independent auditor.

**Table 5: Prior-Year IPIA Reporting by DHS**

Fiscal year	Description of DHS IPIA PAR reporting	Compliance issues reported by the independent auditor
2004	<p>DHS's PAR presented a completed IPIA risk matrix for all DHS programs exceeding \$100 million in nonpayroll annual disbursements. Programs were defined using the Future Years Homeland Security Program (FYHSP) system. If a program did not reach a \$100 million nonpayroll fiscal year 2005 operating budget level, the program was judged too small to be at risk for annually issuing \$10 million in improper payments. According to DHS, payroll disbursements were excluded because of their repetitive, stable nature and the extensive internal controls they are subjected to by the National Finance Center. An overall risk score was assigned to each FYHSP by evaluating internal control, human capital, programmatic risk, and materiality of operating budget risk factors. The fiscal year 2004 risk matrix identified no high-risk IPIA programs.</p>	<p>The independent auditor reported that DHS did not comply with IPIA. Specifically, DHS did not</p> <ul style="list-style-type: none"> <li>• properly define programs and activities,</li> <li>• institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments, and</li> <li>• properly sample or compute the estimated dollar amount of improper payments.</li> </ul> <p>The auditor recommended that DHS follow the guidance provided in OMB M-03-13 in fiscal year 2005, including reexamining the definition of a program, completing the necessary susceptibility assessments, instituting sampling techniques to allow for statistical projection of the results, and providing information for proper disclosure in its PAR.</p>
2005	<p>DHS defined IPIA programs by Treasury Appropriation Fund Symbol (TAFS). This change in program definition reflected the absence of FYHSP detail and the presence of TAFS detail at the transaction level and avoided testing issues stemming from FYHSP cost allocations. Each component sample tested major payment categories for the largest TAFS provided that total disbursements exceeded \$100 million exclusive of payroll and intragovernmental payments. An exception was made for one component, FEMA, which tested a TAFS that was involved in an improper payment related to an OIG finding for the Individuals and Households Program (IHP). Fiscal year 2005 sample testing identified no high-risk IPIA programs.</p>	<p>The auditor identified the following instances of noncompliance with IPIA at DHS. Specifically, DHS did not</p> <ul style="list-style-type: none"> <li>• institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments; and</li> <li>• perform testwork to evaluate improper payments for all material programs; testing was only performed over the TAFS with the largest disbursements for each component or the largest TAFS maintained by an internal DHS accounting service provider.</li> </ul> <p>The auditor recommended that DHS follow the guidance provided in OMB M-03-13 in fiscal year 2006, including completing the necessary susceptibility assessments, performing testwork over all material programs, and instituting sampling techniques to allow for statistical projection of the results.</p>

**Appendix III: Prior-Year IPIA Reporting by  
DHS and Its Independent Auditor**

<b>Fiscal year</b>	<b>Description of DHS IPIA PAR reporting</b>	<b>Compliance issues reported by the independent auditor</b>
2006	<p>DHS defined IPIA programs by management-identified groupings of TAFS. These groupings were designed to meet the draft Appendix C definition of an IPIA program (Appendix C was issued August 10, 2006). Sample test plans were designed by a statistical team which used stratified sampling techniques. Sample sizes both in number of payments and amount of payments increased dramatically compared with previous years. Two programs were found to be at high risk for issuing improper payments—FEMA’s IHP and disaster-related vendor payments. Corrective action plans were developed for each. IPIA problems included (1) required sample testing was not completed for all programs, (2) sample test design was hampered by the use of SF-133 outlay figures during IPIA program identification, (3) risk assessments were based on strictly quantitative factors, and (4) recovery audit results were not complete enough to report in the PAR.</p>	<p>The auditor identified the following instances of noncompliance with IPIA at DHS and its components.</p> <ul style="list-style-type: none"> <li>• Not all programs subject to IPIA were tested, and the population of disbursements tested for some programs was not complete.</li> <li>• In some cases, the samples tested were not statistically derived, and thus, identified errors could not be statistically projected to the entire population of disbursements (including the untested portion).</li> <li>• In some cases, the personnel performing the testwork were not knowledgeable or trained on the purpose or procedures to be performed.</li> <li>• The time period from which disbursements were selected for testwork was not always in compliance with IPIA requirements. For example, the auditor noted that one component limited the time period of disbursement samples to October 2005 through March 2006. (Note: The actual time period also included September 2005 but the auditors did not note this as an exception).</li> <li>• Centralized monitoring was not performed over the IPIA results to ensure that IPIA testing was completed for all required programs in accordance with the department’s requirements.</li> </ul> <p>The auditor recommended that DHS follow the guidance provided in OMB M-03-13 in fiscal year 2007, including completing the necessary susceptibility assessments, performing testwork over all material programs, and instituting sampling techniques to allow for statistical projection of the results of its improper payments testing.</p>

Source: DHS Performance and Accountability Reports.

# Appendix IV: DHS Grant Programs

Table 6 provides a list of DHS grant programs, primary recipients, and award information for fiscal year 2006.

**Table 6: DHS Grant Programs and Related Information**

	DHS component	CFDA number	Program	Primary recipients	Number of awards in fiscal year 2006	Fiscal year 2006 award amount	Average award amount
1	Citizenship & Immigration Services (CIS)	97.009	Cuban/Haitian Entrant Program	Nonprofit organizations	2	\$10,292,085	\$5,146,043
2	Federal Emergency Management Agency (FEMA)—Nondisaster	97.017	Pre-Disaster Mitigation Competitive Grants	States and Indian tribal governments	74	126,245,825	1,706,025
3		97.023	Community Assistance Program State Support Services Element	States	64	7,500,000	117,188
4		97.024	Emergency Food and Shelter National Board Program	Community groups	1	151,473,765	151,473,765
5		97.025	National Urban Search and Rescue Response System	State and local governments	100	39,482,142	394,821
6		97.026	Emergency Management Institute (EMI) Training Assistance	Individuals	3,424 <sup>a</sup>	1,421,511	415
7		97.027	EMI Independent Study Program	Individuals	3,729,647 <sup>a</sup>	884,090	< 1
8		97.028	EMI Resident Educational Program	Individuals	13,605 <sup>a</sup>	3,006,705	221
9		97.029	Flood Mitigation Assistance	States and communities	83	17,473,353	210,522
10		97.041	National Dam Safety Program	States	51	3,374,476	66,166
11		97.045	Cooperating Technical Partners	States and communities	86	54,139,208	629,526
12		97.047	Pre-Disaster Mitigation	State and Indian tribal governments	178	134,880,496	757,756
13		97.070	Map Modernization Management Support	States and communities	69	9,769,657	141,589
14		97.082	Earthquake Consortium	State, local, and Indian tribal governments	3	850,000	283,333
15		97.095	Safe Kids Worldwide	Communities	1	199,480	199,480

Appendix IV: DHS Grant Programs

DHS component	CFDA number	Program	Primary recipients	Number of awards in fiscal year 2006	Fiscal year 2006 award amount	Average award amount
16	97.022	Flood Insurance	Individuals	30,995 <sup>a</sup>	848,691,742	27,382
17		Community Disaster Loans	Local governments	153	1,270,501,241	8,303,930
18		Crisis Counseling	States	26	96,148,654	3,698,025
19		Disaster Legal Services	Individuals	7 <sup>a</sup>	360,611	51,516
20		Disaster Unemployment Assistance	States	33	392,016,043	11,879,274
21		Disaster Grants—Public Assistance (also includes Emergency Assistance and Fire Suppression)	State, local, and Indian tribal governments	66,797	8,138,441,132	121,838
22		Hazard Mitigation	State, local, and Indian tribal governments	1,268	401,694,926	316,794
23		Fire Management Assistance	State and Indian tribal governments	319	68,143,552	213,616
24		Disaster Housing Assistance to Individuals and Households in Presidential Declared Disaster Zones <sup>b</sup>	Individuals	866,268 <sup>a</sup>	2,637,939,099	3,045
25		Presidential Declared Disaster Assistance—Disaster Housing Operations for Individuals and Households <sup>b</sup>	States and other entities	123	4,773,963,866	38,812,714
26	97.050	Presidential Declared Disaster Assistance to Individuals and Households—Other Needs <sup>b</sup>	Individuals	706,760 <sup>a</sup>	2,247,028,347	3,179
27	97.084	Hurricane Katrina Case Management Initiative Program	Private nonprofit entities	1	66,000,000	66,000,000
28	97.092	Repetitive Flood Claims	States, Indian tribal governments, and communities	39	9,821,659	251,837
29	97.098	Disaster Donations Management Program	State and local governments	1	950,000	950,000
30	97.040	Chemical Stockpile Emergency Preparedness Program	State, local, and Indian tribal governments	21	65,010,240	3,095,726

**Appendix IV: DHS Grant Programs**

<b>DHS component</b>	<b>CFDA number</b>	<b>Program</b>	<b>Primary recipients</b>	<b>Number of awards in fiscal year 2006</b>	<b>Fiscal year 2006 award amount</b>	<b>Average award amount</b>
31 FEMA—U.S. Fire Administration	97.001	Pilot Demonstration or Earmarked Projects	Nonfederal entities <sup>c</sup>	8	1,184,999	148,125
32	97.016	Reimbursement for Firefighting on Federal Property	Fire departments	2	1,243	622
33	97.018	National Fire Academy Training Assistance	Individuals	5,948 <sup>a</sup>	1,464,314	246
34	97.019	National Fire Academy Educational Program	Individuals	75,107 <sup>a</sup>	5,236,342	70
35	97.043	State Fire Training Systems Grants	States	48	1,344,000	28,000
36	97.093	Fire Service Hazardous Materials Preparedness and Response	Private nonprofit entities	1	50,000	50,000
37	97.094	Prevention Advocacy Resources and Data Exchange Program	State and local governments	7	21,000	3,000
38	97.097	Training Resource and Data Exchange	State and local governments	9	93,000	10,333
39 Federal Law Enforcement Training Center (FLETC)	97.081	Law Enforcement Training and Technical Assistance	Individuals	1,579 <sup>a</sup>	1,136,880	720
40 Office of Grants and Training (GT) <sup>d</sup>	97.005	State and Local Homeland Security Training Program	State and local governments	13	82,207,860	6,323,682
41	97.007	Homeland Security Preparedness Technical Assistance Program	State and local governments	4	16,692,768	4,173,192
42	97.008	Urban Areas Security Initiative <sup>e</sup>	State and local governments	0	0	0
43	97.042	Emergency Management Performance Grants	State, local, and Indian tribal governments	58	177,655,500	3,063,026
44	97.044	Assistance to Firefighters	Fire departments	4,246	270,622,058	63,736
45	97.053	Citizen Corps <sup>e</sup>	State and local governments	3	1,295,000	431,667
46	97.056	Port Security Grant Program	Seaports and terminals	99	168,052,500	1,697,500
47	97.057	Intercity Bus Security Grants	Bus systems	36	9,603,000	266,750

**Appendix IV: DHS Grant Programs**

<b>DHS component</b>	<b>CFDA number</b>	<b>Program</b>	<b>Primary recipients</b>	<b>Number of awards in fiscal year 2006</b>	<b>Fiscal year 2006 award amount</b>	<b>Average award amount</b>
48	97.059	Truck Security Program	Commercial motor carriers and national transportation community	1	4,801,500	4,801,500
49	97.067	Homeland Security Grant Program	State and local governments	56	1,670,921,920	29,837,891
50	97.068	Competitive Training Grants	State and local governments	11	28,809,000	2,619,000
51	97.071	Metropolitan Medical Response System <sup>e</sup>	Local and Indian tribal governments	0	0	0
52	97.073	State Homeland Security Program <sup>e</sup>	State and local governments	0	0	0
53	97.074	Law Enforcement Terrorism Prevention Program <sup>e</sup>	State and local governments	0	0	0
54	97.075	Rail and Transit Security Grant Program	Transportation systems	21	143,240,948	6,820,998
55	97.078	Buffer Zone Protection Plan	State and local governments	62	72,965,000	1,176,855
56	97.083	Staffing for Adequate Fire and Emergency Response	Local communities	243	99,394,888	409,032
57	97.089	Real ID Program	States and other entities	2	6,000,000	3,000,000
58	97.079	Public Alert Radios for Schools	Schools	77,035	1,828,045	24
59	97.061	Centers for Homeland Security	U.S. institutions of higher education	8	24,570,000	3,071,250
60	97.062	Scholars and Fellows	Individuals	383 <sup>a</sup>	10,436,453	27,249
61	97.069	Aviation Research Grants	U.S. institutions of higher education	36	11,824,817	328,467
62	97.077	Homeland Security Testing, Evaluation, and Demonstration of Technologies	Nonfederal entities	5	1,298,590	259,718
63	97.086	Homeland Security Outreach, Education, and Technical Assistance	Federal and nonfederal entities	10	9,626,326	962,633
64	97.091	Homeland Security Biowatch Program	State and local governments	52	45,661,986	878,115

**Appendix IV: DHS Grant Programs**

<b>DHS component</b>	<b>CFDA number</b>	<b>Program</b>	<b>Primary recipients</b>	<b>Number of awards in fiscal year 2006</b>	<b>Fiscal year 2006 award amount</b>	<b>Average award amount</b>
65 Transportation Security Administration (TSA)	97.072	National Explosives Detection Canine Team Program	Transportation systems	17	2,132,055	125,415
66	97.090	Law Enforcement Officer Reimbursement Agreement Program	State and local governments	274	67,804,209	247,461
67	97.100	Airport Checked Baggage Screening Program	State, local, or other public entities	7	240,447,289	34,349,613
68 U.S. Coast Guard (USCG)	97.012	Boating Safety Financial Assistance	States and nonprofit organizations	79	87,667,046	1,109,709
69 U.S. Secret Service (USSS)	97.015	Secret Service Training Activities	Sworn members of a law enforcement agency	n/a <sup>l</sup>	n/a	n/a
70	97.076	National Center for Missing and Exploited Children	Private nonprofit entities	1	5,445,000	5,445,000
<b>Total—all DHS components</b>				<b>5,585,670</b>	<b>\$24,849,239,441</b>	
<b>Awards to individuals<sup>a</sup></b>				<b>5,433,723</b>		
<b>Awards to others</b>				<b>151,947</b>		

Sources: Fiscal Year 2006 Funded Award Summary for DHS Grant Programs; Schedule of DHS Programs as of May 9, 2007.

<sup>a</sup>This amount reflects either individual claims, payments to individuals, or individuals that received training.

<sup>b</sup>This grant program is part of the Individuals and Households Program (IHP).

<sup>c</sup>Nonfederal entities include state, local government, private, public, profit or nonprofit organizations, Indian Tribal government, or individuals specified in a U.S. appropriation statute.

<sup>d</sup>GT was incorporated into FEMA as of March 31, 2007.

<sup>e</sup>This grant program is incorporated into the Homeland Security Grant Program.

<sup>f</sup>According to DHS, the USSS provides training as part of its routine work and does not report this information separately.

# Appendix V: Corrective Action Plans for High-Risk Programs

Table 7 describes the details of the open corrective action plan critical milestones as of May 14, 2007, as reported by DHS, for reducing improper IHP assistance payments.

**Table 7: DHS's Incomplete Critical Milestones for Its IHP Corrective Action Plan, Status as of May 14, 2007**

Topic	Target date	Completion status according to DHS
If the Office of General Counsel (OGC) approves, provide the contractor with requirements and obtain information from them regarding their ability to pre-populate insurance data in applicant files.	September 2006	0%
Improve the National Emergency Management Information System (NEMIS) accounts receivable—Integrated Financial Management Information System (IFMIS) interface.	November 2006	50%
Ensure compliance with rules and regulations is part of the annual NEMIS audit.	December 2006	50%
Explore alternate receipt posting possibilities using electronic files.	March 2007	25%
Award contract(s) for up to 6,000 call center agents to private sector business(es).	March 2007	50%
<i>Note: The previous items were past due as of May 14, 2007.</i>		
Conduct a second round of IPIA testing on Hurricane Katrina IHP payments made between March and September 2006.	June 2007	50%
Put in place a contract for data verification and pre-population of verified data.	September 2007	50%
Make appropriate updates to NEMIS to ensure maximum use of technology to reduce manual processing.	September 2007	50%
Improve communications with and messaging to disaster victims.	September 2007	50%
Clarify with OGC if FEMA can get legislative backing to allow the collection of insurance policy data.	December 2007	50%
Limit access to NEMIS to users authorized via the Integrated Security and Access Control System.	January 2008	47%
Integrate shelter tracking mechanisms into NEMIS.	January 2008	25%

Source: DHS's IPIA Corrective Action Plan Summary and Detailed Reports for FEMA's IHP as of May 14, 2007.

Based on DHS's updated corrective action plan report for IHP, as of May 14, 2007, DHS had not completed certain critical milestones by the identified target date. These milestones included system interface

improvements and certain contract awards. Missing these established critical milestones only delays strengthening internal controls that are necessary to reduce future improper payments. It is important that DHS stays on track in implementing its corrective action plans.

DHS has also established critical milestones for reducing improper disaster-related vendor payments. Table 8 describes the details of the open corrective action plan critical milestones as of May 14, 2007, as reported by DHS for reducing improper disaster-related vendor payments.

**Table 8: DHS’s Incomplete Critical Milestones for Its Disaster-Related Vendor Payments Corrective Action Plan, Status as of May 14, 2007**

<b>Topic</b>	<b>Target date</b>	<b>Completion status according to DHS</b>
Ensure roles and responsibilities with regard to invoice receipt, approval, and payment of contracting officer technical representatives (COTR), project officers, and accounting technicians are clearly defined by conducting a review of policies, procedures, and job descriptions.	May 2007	50%
Review procurement language to ensure consistency and adequacy for similar goods and services related to product substitution and pricing variances.	May 2007	50%
Formalize the process of receipt, issue, and follow-up on invoices with COTRs and project officers by finance office.	May 2007	50%
Train accounting technicians, project officers, and COTRs on the importance of an invoice review and approval process and expectations regarding supporting documentation, prompt pay, product substitution, price variances, and unsupported amounts.	June 2007	50%
Initiate a quality assurance sampling process for invoices on a periodic basis with emphasis on adherence to metrics published in the fiscal year 2006 PAR.	June 2007	50%
Enter into a contract with a recovery audit firm.	June 2007	0%
Identify vendor payments eligible for recoupment (recovery).	July 2007	50%

Source: DHS’s IPIA Corrective Action Plan Summary and Detailed Reports for FEMA’s Disaster Relief Fund Vendor Payments as of May 14, 2007.

DHS identified three primary root causes for why these two programs—IHP assistance payments and disaster-related vendor payments—are at

high risk of issuing improper payments. According to DHS, these root causes include the following.

- People—FEMA employees were not properly trained.
- Processes—The nature of FEMA’s work responding to disasters explains the reliance on people that are not trained in finance requirements and are dispersed throughout areas with limited infrastructure.
- Policies—Policies were cited as possibly inadequate for instructing employees on the proper supporting documentation. There is a need for clear policy and procedural guidelines that sets standard operating procedures for all FEMA employees, especially those outside the finance area.

DHS also noted that human capital is the principal requirement to execute these two corrective action plans; however, according to DHS, exact requirements are not estimable at this time. These plans, if properly executed, should help reduce future improper payments in these programs by strengthening internal controls. With regard to system improvements, as we have previously recommended,<sup>1</sup> DHS needs to conduct effective testing to provide reasonable assurance that the system will function in a disaster recovery environment.

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<sup>1</sup>GAO, *Hurricanes Katrina and Rita: Unprecedented Challenges Exposed the Individuals and Households Program to Fraud and Abuse; Actions Needed to Reduce Such Problems in Future*, [GAO-06-1013](#) (Washington, D.C.: Sept. 27, 2006).

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# Appendix VI: GAO Contact and Staff Acknowledgments

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## GAO Contact

McCoy Williams, (202) 512-9095 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov)

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## Staff Acknowledgments

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