



IPIA REPORTING DETAILS

1. Improper Payment Program Risk Assessment Description

In prior years, the Department identified the following ten programs as being susceptible to significant improper payments. At that time, the ten programs in the table below were identified as having the highest potential for improper payments.

Operating Administration	Program
Federal Highway Administration	<ul style="list-style-type: none"> • Federal-aid Highway Program – State Project* • Federal Lands Highway Program – Contracts*
Federal Aviation Administration	<ul style="list-style-type: none"> • Operations • Facilities and Equipment • Airport Improvement Program*
Federal Transit Administration	<ul style="list-style-type: none"> • Capital Investment Grants* • Formula Grants*
Office of the Secretary of Transportation	<ul style="list-style-type: none"> • Working Capital Fund • DOT Payroll**
Federal Railroad Administration	<ul style="list-style-type: none"> • Grants

*Identified in the former Section 57 of OMB Circular A-11

**For administrative purposes, payroll was reviewed as a single program for all of DOT

Bolded programs were included in the FY 2006 IPIA review

In accordance with IPIA requirements and OMB guidelines, during FY 2004 and 2005 the Programs reflected in the Table above were subject to a risk assessment and an in-depth improper payment review, including a review of payments by the Department to grantees. No improper payments exceeding both 2.5 percent of program payments and \$10 million were found. The ten identified programs were subject to a risk assessment based on the following criteria: Gross Expended Amount, Complexity of Payments, Established Internal Controls and Oversight, Type of Program Recipient, Number of Program Recipients, Volume of Payments, Probability of Growth, and Changes in the Program from the previous year. The risk criterion was used to determine the sampling size for each program. From that, each program underwent an in depth statistically based improper payment review.

Based on these reviews, which spanned two fiscal years, the Department concluded that all but four programs were not susceptible to significant improper payments as defined by the OMB. For these four programs, because of the significance of grantee payments and the fact that such payments were not tested under previous efforts due to a lack of data at the Federal level required for testing, additional testing was required. The four programs are the Federal Highway Administration Federal-aid Highway Program, Federal Aviation Administration Airport Improvement Program, and Federal Transit Administration Formula Grants Program and Capital Investment Grant Program. Because of program



and funding changes, the Department is assessing the extent of testing required for the FTA Capital Investment Grant Program.

In Fiscal Year 2006, to address payments by grantees, the Department developed and tested a model for estimating the amount of improper payments in the Federal Highway Administration's (FHWA) Federal-aid Highway Program and committed to developing and testing a model for estimating the amount of improper payments in the Federal Transit Administration's (FTA) Formula Grants Program and the Federal Aviation Administration's (FAA) Airport Improvement Program. These Programs were designated in former Section 57 of OMB Circular A-11 as programs susceptible to significant improper payment.

In FY 2006, the Department re-engaged AOC Solutions, Inc. to execute the model developed for the Federal-aid Highway Program nationwide and to develop and test the models for FTA Formula Grant Program and FAA Airport Improvement Program. The results of the testing process for each of these programs are described below.

- **FHWA, Federal-aid Highway Program** – Improper payments totaling \$125,508.56 were found in the sample of 928 tested items. The projection of this result to the population of Program payments for the five month period results in an improper payment estimate of \$30.15 million +/- \$35.04 million. This projection does not meet OMB's definition of significant improper payments (\$10 million and 2.5 percent of total program payments).
- **FTA, Formula Grants Program** – This review, which was designed solely to test the sufficiency of the model, covered Federal payments to grantees during the period October 1, 2005 through June 30, 2006 and related payments by these grantees. For the first grantee, the review found administrative and contractual compliance as addressed in the test model and no improper payments. For the second grantee, improper payments totaling \$11,664.08 were found in the sample of tested payments. The projection of this result to the population of payments under the Program by the grantee is an improper payment estimate of \$252,000.00.
- **FAA, Airport Improvement Program** – This review, which also was designed solely to test the sufficiency of the model, covered federal payments to a single grantee during the period October 1, 2005 through June 30, 2006 and related payments by this grantee. The review found administrative and contractual compliance as addressed in the test model and no improper payments.

The Department will execute the test models nationwide covering a 12 month period for these programs in FY 2007, and at the conclusion of the testing process is able to provide a full assessment of their risk to substantial improper payments.

2. Statistical Sampling Process Used for Estimating the Improper Payment Rate

Federal-aid Highway Program

For the FHWA Federal-aid Highway Program, the statistical sampling process used a three-stage approach designed with a 90 percent confidence level, which indicates a 90



percent likelihood that the true population is within the results of the sample value, with a 2.5 percent margin of error. Stage One involved selecting federal payments to states. In order to obtain a sample that included invoices from each of the 52 states, the population of federal payments from October 1, 2005 through February 28, 2006 was segregated by state and territory and then further divided into high or low strata. For each state and territory, two payments were randomly selected from the high stratum and one payment was randomly selected from the low stratum. In this manner, each state except Puerto Rico contributed three payments to the Stage One sample. Puerto Rico contributed two payments to the Stage One sample. (Puerto Rico contained just one payment in the high stratum, so it was included in the sample along with a randomly selected payment from the low stratum—for a total of two.) A Stage One sample of 155 federal payments was selected using this stratification scheme.

Stage Two involved selecting state payments associated with a selected Federal payment. For each of the federal payments selected in the Stage One sample, the state grantee provided lists showing the supporting state level payments to contractors or lists showing internal state documents capturing internal charges. A stratified random sample from each list of state payments was selected by first stratifying the list into two groups, those state payments that met or exceeded the 90th percentile of the dollar distribution in the panel (i.e. the high strata), and those state payments below the 90th percentile (i.e. the low strata). After the lists were stratified, three state payments from each stratum were randomly selected. Using this method, at most six state payments (three from the high strata and three from the low strata) were selected for each federal payment under review.

Stage Three involved selecting line items from contractor invoices and internal state documents for testing. The ultimate test unit was the line item on the contractor invoice or state internal document. For each of the state payments selected in the Stage Two sample, the state grantee provided the actual contractor invoices and/or internal documents showing various materials and services delivered on an approved project. Detailed line item expenditure pools were created from the state's backup. These expenditure pools represented the universe of test units associated with the state payment. After the line items expenditure pools were identified, simple random sampling was used to identify the testable units. For each state payment, three line items were selected. During testing, a payment line item was categorized as proper if all applicable test model questions were answered in the affirmative.

FTA Formula Grants Program and FAA Airport Improvement Grant Program

For the FTA Formula Grants Program and the FAA Airport Improvement Program, a multi-staged statistical sampling approach designed with a 90 percent confidence level was also used. The Formula Grants Program review sampling frame started with the universe of federal payments to two grantees from October 1, 2005 through June 30, 2006. All grantee payments to contractors supporting these federal payments were identified and the first stage sample was drawn from this list. For the first grantee, the largest 12 payments and for the second grantee, the largest 14 payments were identified as the "certainty stratum." All of these payments were selected. Probability proportional to size was used to select the remaining payments. When nested invoices were found,



sub-sampling with probability proportional to size continued. Within the selected invoices, the second stage sample was drawn using probability proportional to size. In this manner, 100 line items for the first grantee and 18 line items for the second grantee were selected for testing. During testing, a line item was categorized as proper if all applicable test model questions were answered in the affirmative. For the first grantee, the review found administrative and contractual compliance as addressed in the test model and no improper payments. For the second grantee, improper payments totaling \$11,664.08 were found in the sample of tested payments. The sample size was 18 payments selected from a population of 100 payments. The projection of this result to the population of payments under the Program by the grantee is an improper payment estimate of \$252,000.00.

The Airports Improvement Program review sampling frame started with a universe of federal payments to one sponsor from October 1, 2005 through June 30, 2006. All sponsor payments to contractors supporting these federal payments were identified and the first stage sample was drawn from this list. All invoices with total amounts above the certainty cut-off amount of \$600,000 were automatically included in the sample. Smaller invoices were sampled with their probability of selection proportional to their size. Within the selected invoices, the second stage sample was drawn. All line items above the certainty cut-off amount of \$50,000 were automatically included. Smaller invoices were sampled with their probability of selection proportional to their size. In this manner, 234 line items were selected for testing. For federal payments categorized as reimbursements for a percentage of allowable costs, a payment was considered proper if the sponsor had, at the time of drawdown, incurred allowable costs meeting or exceeding the federal grant.

3. Corrective Action Plans for Reducing the Estimated Rate of Improper Payments.

FHWA Federal-aid Highway Program

FHWA Division Offices listed the following reasons for the improper payments identified as a result of the IPIA review: Data entry errors, missing approvals, incorrect cost allocations, payments for missing field office equipment, unallowable charges, materials received not in accordance with contract terms, and source documentation not supporting payment amounts.

The Department and the FHWA will implement fully the Financial Integrity Review and Evaluation Program in FY 2007 to monitor State and Territory payments and provide a mechanism for assisting these entities with addressing effectively operational issues that result or could result in improper payments. The Department believes that this proactive approach will establish internal control mechanisms for both preventing and detecting improper payments through effective oversight and outreach, the latter being intended to assist grantees in improving program management.

FTA Formula Grants Program and FAA Airport Improvement Program

Since the effort to date has been on IPIA model development and testing, the Department, FTA, and the FAA have no statistics on the amount and rate of improper payments for



these programs. The Department, FTA, and the FAA developed and tested a model for testing grantee payments under these Programs. The objectives of the FY 2006 effort were to develop the model and field test it to assist the FTA and FAA in incorporating the test procedures into their respective grants management oversight policies and procedures. The FY 2006 model development and testing effort was not designed to provide a nationwide or program-wide estimate of improper payments. However, in FY 2007, this test model will be executed nationwide for these programs.

4. Department Accomplishments in Grant Programs

The Department completed the development and testing of models for determining the amount and rate of improper payments in its major grant programs. The FHWA review of the Federal-aid Highway Program represented nationwide application of an innovative research and develop strategy implemented in FY 2005 and updated in FY 2006. This methodology successfully resolved a limitation of prior year efforts examining federal outlays to primary recipients. As discussed above, methodology models that reached grantee level data in the FTA and FAA programs were developed and field tested in FY 2006. These models will be rolled out nationwide in 2007.



5. Improper Payment Estimated Error Rates, Dollar Estimates, and Outlook

Program	PY		CY ¹		CY +1		CY +2		CY +3	
	IP %	IP \$	IP %	IP \$	IP %	IP \$	IP %	IP \$	IP %	IP \$
FHWA: Federal-aid Highway Program	NA	NA	.247%	\$30.15 million	NA	NA	NA	NA	NA	NA
FTA: Formula Grants Program	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
FAA: Airport Improvement Program	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

¹ CY percentages are for only a 5 month period. FY 2007 will be the first year in which an entire 12 month period will be tested for improper payments.



6. Recovery Audit Results

Starting in FY 2002, the Department engaged PRG-Shultz to provide recovery audit services. In FY 2005, this contract was re-competed and awarded to Horn and Associates. Since award of this new contract, staff from Horn has been working to identify overpayments and other areas of weakness. The recovery auditor has been granted access to our financial system to review payment records and has been tightly integrated into our existing business processes with minimal disruption or cost to the government.

To date, the recovery auditor has not uncovered any chronic problems with DOT's business processes and procedures. They are currently in the process of reviewing contracts, vendor statements, and real estate leases. The chart below depicts their findings to date:

Agency Component	Amount Subject to Review for CY Reporting	Amounts Identified for Recovery	Amounts Identified/Amounts Reviewed	Amounts Recovered CY	Amounts Recovered PY
OST	\$ 2,846,512,015	\$ 65,751,781	\$ 68,961	\$ 0	\$ 0
FAA	9,528,068,552	150,219,554	4,739,975	45,109	0
FHWA	2,343,398,062	218,995,827	340,622	0	0
FMCSA	182,705,574	5,740,338	97,273	0	0
FRA	5,815,740,923	922,035,393	72,384	0	0
FTA	327,017,797	10,908,847	563,769	0	0
MARAD	2,014,025,448	48,528,867	568,010	0	0
NHTSA	1,857,952,895	5,920,159	0	0	0
OIG	42,465,487	415,809	0	0	0
PHMSA	28,261,569	4,021	0	0	0
RITA	19,823,586	13,337	0	0	0
STB	1,259,489	10,832	0	0	0
TOTAL	\$25,007,231,396	\$1,428,544,765	\$6,450,993	\$45,109	\$0

7. Department Plans for Ensuring Managers are Held Accountable for Reducing and Recovering Improper Payments

Department management continues to take a strong role in ensuring that agency managers are held accountable for reducing and recovering improper payments. The Deputy CFO has taken the lead in initiative and is heavily involved in the daily decisions of the program. Additionally, the Department's CFO has taken a role in advocating the program. During the year our CFO spoke at an American Association of State Highway Transportation Officials meeting on the initiative.



Monthly, the Department's chief financial officers and agency financial managers are briefed at the CFO Council and Financial Management Committee meetings on the status of improper payment initiatives. Additionally, monthly reports are distributed to all levels of the Department outlining the work of the recovery audits.

To date there have been no significant improper payments identified that are necessary to reduce and recover. If improper payments are found, the Office of the Secretary/Office of Financial Management will work with the organization to ensure that reduction targets and recovery rates are established.

8. Information Systems and Infrastructure Requirements to Reduce Improper Payments

The Department is completing full implementation of the IPIA and at this point has not identified a need for any additional systems and infrastructure requirements.

9. Describe the statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

The Department has not identified any statutory or regulatory barriers that limit its corrective action efforts.