



## IPIA Reporting Details

- I. Describe your agency’s risk assessment(s), performed subsequent to compiling your full program inventory. List the risk-susceptible programs (i.e., programs that have a significant risk of improper payments based on OMB guidance thresholds) identified through your risk assessments. Be sure to include the programs previously identified in the former Section 57 of OMB Circular A-11.

The Department of Transportation (DOT) engaged AOC Solutions, Inc to review its programs and activities and identify those that may be susceptible to significant improper payments. DOT identified ten programs with the highest potential for improper payments based on the highest 2004 fiscal year expenditures, which comprised the majority of FY 2004 DOT expenditures.

The following programs were identified as most susceptible to improper payments based on DOT’s assessment of their full program inventory. These programs have the greatest potential risk for significant improper payments.

Operating Administration	Program
Federal Highway Administration	Federal Aid Highway Program - State Project * Federal Lands Highway Program - Contracts
Federal Aviation Administration	Operations Facilities and Equipment Airport Improvement Program *
Federal Transit Administration	Capital Investment Grants * Formula Grants *
Office of the Secretary of Transportation	Working Capital Fund DOT Payroll**
Federal Railroad Administration	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

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 statistical improper payment review based on the OMB guidelines.

- II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

AOC Solutions performed a risk analysis of each of the ten programs in order to determine the appropriate sample size of payments to review based on the program’s relative risk rating. Each criteria factor was scaled from high to low and had a numerical score assigned to each level. Programs were assessed on each criteria factor and scores were summed to achieve a total risk



score. The table below shows the final risk ratings of each of the ten programs reviewed, along with the risk rating of each program from the FY 2003 review for comparison.

OA	Program	FY 2003 Risk Rating	FY 2004 Risk Rating
DOT	Payroll	Moderate	Moderate
OST	Working Capital Fund	Moderate	Low
FRA	Grants	Low	Low
FHWA	Federal Aid Grants	Moderate	Moderate
FHWA	Federal Lands	Moderate	Moderate
FTA	Formula Grants	Moderate	Low
FTA	Capital Investment Grants	Moderate	Low
FAA	Airport Improvement Program (Grants)	Moderate	Moderate
FAA	Operations (excluding Payroll)	High	Moderate
FAA	Facilities and Equipment	High	Moderate

Program risk ratings for FY 2004 either improved or remained the same as FY 2003 ratings. Improvements were noted in Working Capital Fund, FTA Formula Grants and Capital Investment Grants, and FAA Operations and Facilities and Equipment programs due to improvements in established controls and program oversight.

Most notably, FAA converted from DAFIS to the Delphi financial system, which provides increased system controls over payments. In addition, FAA initialized the formation of an internal control division to direct the activities related to internal controls and compliance with OMB Circular A-123, *Management's Responsibility for Internal Control*. This division provides oversight and leads development, implementation and operation of internal control activities.

A stratified sampling design which took into account payment amounts as well as the assessed risk of each program was used in the review. The sampling plan was designed with a 90% confidence level, which indicates a 90% likelihood that the true population value is within the results of the sample value.

Once the system extracts were received, payments per program were rank ordered and placed into bounded strata from lowest to highest dollar value. Once the program's population of payments was stratified, the number of samples to be selected were distributed among the strata, with proportionally more samples assigned to higher dollar value strata, following the *Probability Proportional to Size* (PPS) selection technique.

**III. Describe the Corrective Action Plans for:**

- A. Reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause(s) of errors and the corresponding steps necessary to prevent future occurrences. If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.**

AOC Solutions did not identify any improper payments exceeding both 2.5% of program payments and \$10 million during the FY 2005 review. The results of this study match those of the review done in FY 2004 by KPMG. Concurrently, our recovery audit work has shown there to be no chronic areas of weakness. With these results to date, no corrective actions have been necessary.

If a significant or chronic improper payment problems is discovered the Department will develop a corrective action plan and reduction targets.



**B. Grant-making agencies with risk susceptible grant programs, discuss what your agency has accomplished in the area of funds stewardship past the primary recipient. Include the status on projects and results of any reviews.**

The test procedures applied during the reviews covered payments made by DOT to grantee entities under the Federal Highway Administration Federal Aid Program; the Federal Aviation Administration Airport Improvement Program; the Federal Railroad Administration Grant Program; and the Federal Transit Administration Formula Grant and Capital Investment Grant Programs. However, test procedures did not address subsequent flow down payments made by grantees to vendors. States and other non-Federal entities administer these grant programs and, accordingly, much of the activity subject to testing for improper payments is accounted for at these entities. DOT does not have records of grantee-level payment activities available for testing. Therefore, test procedures used for this review did not cover these activities.

To address the foregoing limitation, DOT devised an innovative research and development (R&D) strategy that was implemented at the Federal Highway Administration's Highway and Construction (Federal Aid) grant program. This strategy involved using a proof of concept research project to develop and test a methodology to satisfy the testing, estimation, and remediation requirements of IPIA for grant programs, particularly those involving construction projects.

DOT completed the project successfully in the summer of 2005. The result of this study as noted above is a methodology and testing procedures that will be used at the grantee level. The Department is now in the process of extending the methodology nationwide.

- IV. **The table below is required for each reporting agency. Please note the following changes from prior year reporting: (1) all risk susceptible programs must be listed in this chart whether or not an error measurement is being reported; (2) where no measurement is provided, agency should indicate the date by which a measurement is expected; (3) if the Current Year (CY) is the baseline measurement year, indicate by either footnote or by "n/a" in the Prior Year (PY) column; (4) if any of the dollar amount(s) included in the estimate correspond to newly established measurement components in addition to previously established measurement components, separate the two amounts to the extent possible; (5) include outlay estimates for CY +1, +2, and +3; and (6) agencies are expected to report on CY activity, and if not feasible, then PY activity is acceptable.**

\* Future year outlay estimates (CY+1, +2 and +3) should match the outlay estimates for those years as reported in the most recent President's Budget.



**Improper Payment Reduction Outlook**

OA	Program	2003 Outlays <sup>(2)</sup>	2003 Percentage	2003 Dollar Amount <sup>(3)</sup>	2004 Outlays <sup>(2)</sup>	2004 Percentage	2004 Dollar Amount <sup>(3)</sup>	2005 Outlays <sup>(2)</sup>	2005 Percentage	2005 Dollar Amount <sup>(3)</sup>	2006 Outlays <sup>(2)</sup>	2006 Percentage	2006 Dollar Amount <sup>(3)</sup>	2007 Outlays <sup>(2)</sup>	2007 Percentage	2007 Dollar Amount <sup>(3)</sup>
Federal Aviation Administration	Airport Improvement Program <sup>(1)</sup>	\$2,641	0.00%	(903)	\$2,917	0.00%	\$0	\$2,996	0.00%	\$0	\$3,215	0.00%	\$0	\$3,215	0.00%	\$0
	Facilities & Equipment	\$2,520	Not Reported	\$2 (\$2,491)	\$2,481	0.00%	\$0	\$2,701	0.00%	\$0	\$2,376	0.00%	\$0	\$2,376	0.00%	\$0
	Operations	\$3,270	Not Reported	\$22,000 (\$5,831)	\$2,805	1.60%	\$7,309	\$3,278	0.00%	\$0	\$3,539	0.00%	\$0	\$3,539	0.00%	\$0
Federal Transit Administration	Formula Grants <sup>(4)</sup>	\$4,394	0.00%	\$0	\$4,724	0.00%	\$0	\$4,521	0.00%	\$0	\$2,328	0.00%	\$0	\$2,328	0.00%	\$0
	Capital Investment Grants <sup>(1)</sup>	\$2,635	0.00%	\$0	\$2,788	0.00%	\$0	\$3,375	0.00%	\$0	\$2,512	0.00%	\$0	\$2,512	0.00%	\$0
Federal Highway Administration	Federal Aid <sup>(1)</sup>	\$29,585	0.00%	\$0	\$29,514	0.00%	\$0	\$31,217	0.00%	\$0	\$33,922	0.00%	\$0	\$33,922	0.00%	\$0
	Federal Lands	\$631	Not Reported	\$150 (\$12)	\$653	0.00%	\$0	\$750	0.00%	\$0	\$959	0.00%	\$0	\$959	0.00%	\$0
Federal Railroad Administration	Grants	\$1,021	Not Reported	\$556	\$1,302	0.00%	\$0	\$1,296	0.00%	\$0	\$375	0.00%	\$0	\$375	0.00%	\$0
Office of the Secretary DOT	Working Capital Fund	\$439	Not Reported	\$751 (\$20,290)	\$365	0.00%	\$0	\$332	0.00%	\$0	\$392	0.00%	\$0	\$392	0.00%	\$0
	Payroll	\$5,380 <sup>(4)</sup>	Not Reported	\$0	\$6,903	0.00%	\$0	\$6,641	0.00%	\$0	\$6,376	0.00%	\$0	\$6,376	0.00%	\$0

(1) Identified as a Section 57 Program

(2) Outlays are in Millions

(3) Improper Payment Dollar amount is Actual

(4) FAA Payroll only



V. **Discuss your agency’s recovery auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business process changes and internal controls instituted and/or strengthened to prevent further occurrences. In addition, complete the table below.**

In 2002, the Department of Transportation engaged PRG-Schultz to provide Recovery Audit services. Since that time, PRG has been working with the Department to identify overpayments and areas of weakness. The recovery auditor has access to our financial system to review payment records and has seamlessly been integrated into our business process with minimal cost to the government.

To date, the recovery audit has found no chronic problems within DOT’s processes and procedures. The chart below describes the findings for DOT’s recovery audit.

<b>Department of Transportation                      Recovery Audit Program                      Summary Results 2000 - 2004</b>				
Agency	Estimated Amount to Audit	Amount Reviewed	Amount Identified and Recovered	Error Rate
FHWA	\$ 693,000,000.00	\$ 561,330,000.00	\$ 55,952.40	0.010%
FAA	\$ 1,925,000,000.00	\$ 1,655,500,000.00	\$ 2,424,616.23	0.146%
FTA	\$ 171,875,000.00	\$ 154,000,000.00	\$ 68,155.00	0.044%
NHTSA	\$ 71,500,000.00	\$ 54,340,000.00	\$ 0	0.000%
OIG	\$ 6,875,000.00	\$ 5,500,000.00	\$ 0	0.000%
FMCSA	\$ 6,187,500.00	\$ 4,752,000.00	\$ 0	0.000%
VOLPE	\$ 5,500,000.00	\$ 4,400,000.00	\$ 0	0.000%
OST-WCF	\$ 103,125,000.00	\$ 82,500,000.00	\$ 14,224.00	0.017%
FRA	\$ 71,500,000.00	\$ 57,200,000.00	\$ 8,341.36	0.015%
RSPA	\$ 4,812,500.00	\$ 3,850,000.00	\$ 0	0.000%
MARAD	\$ 3,437,500.00	\$ 2,750,000.00	\$ 0	0.000%
OST	\$ 1,375,000.00	\$ 1,100,000.00	\$ 0	0.000%
BTS	\$ 687,500.00	\$ 550,000.00	\$ 92,695.21	16.854%
<b>Totals</b>	<b>\$ 3,064,875,000.00</b>	<b>\$ 2,587,772,000.00</b>	<b>\$ 2,663,984.20</b>	<b>0.10%</b>



**VI. Describe the steps the agency has taken and plans to take to ensure that agency managers are held accountable for reducing and recovering improper payments.**

DOT management has taken a strong role in ensuring that agency managers are held accountable for reducing and recovery 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 Department outlining the work of the recovery audits.

To date there have been no significant amount of 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.

**VII.**

**A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**

The Department of Transportation currently has all of the information systems and infrastructure needed to ensure the propriety of payments at the Federal level. This is shown through the results of our improper payment review of our top ten programs as well as our recovery audit work that has been completed.

**B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.**

As noted earlier, the Department devised and executed a research and development strategy for effectively addressing the grants program review limitations. While the research project is complete, the Department is now trying to determine the infrastructure needed to take this strategy nationwide. As the plan nationwide plan is devised the project may require additional infrastructures.

**VIII. Describe any 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.**

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To address the limitations in non-construction programs, DOT is currently working with the Federal Transit Administration and the Federal Aviation Administration to expand existing oversight programs to meet IPIA requirements. DOT anticipates completing this process in FY 2006 for full implementation in FY 2007.

**IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges identified, as a result of IPIA implementation.**

In the aftermath of Hurricanes Katrina and Rita, the Department of Transportation (DOT) has been spending millions of dollars on relief efforts. Depending on supplemental appropriations, DOT expects to spend billions of dollars to rebuild the transportation infrastructure in Alabama, Louisiana, Texas and Mississippi. With this concentrated and accelerated spending, there is an inherently higher risk of erroneous payments. To help eliminate or reduce the level of erroneous payments and to enhance internal controls for future relief efforts, DOT has decided to concentrate FY 2006 testing in the hurricane regions. The Department's four largest grant programs; Federal Highways - Highway Planning and Construction Program; Federal Transit Administration - Capital Grants and Investment Grants; and Federal Aviation Administration - Airport Improvement Program.

Testing will take place on a partially "real-time" basis. As funds are expended, we will ensure that projects are meeting their contractual obligations. This will aid the Department in preventing improper payments funded with the hurricane relief money. It would also allow the Department to test established controls and would assist us in enhancing or developing additional controls to prevent or detect identified problems.

As an outcome of this testing, DOT will issue an interim report for our FY 2006 Performance and Accountability Report (PAR) which will include (1) the amounts and causes of improper payments for each grant program, and (2) control procedures that can be used to prevent or detect improper payments in National emergency situations such as hurricanes, terrorist attacks, etc.

In addition to improper payment testing in the hurricane affected regions, DOT will also take the following actions to expand our overall Improper Payments Information Act (IPIA) program in FY 2006:

1. Actively seek participants to implement our IPIA research project in FHWA's Highway Planning and Construction Program. We hope to get a significant number of State DOTs to volunteer to implement our IPIA methodology.



2. Develop long term plans for incorporating IPIA testing into FHWA, FTA and FAA grants management programs. To save time and money, it will be most beneficial to all parties involved if the IPIA program is incorporated into existing programs. Our goal is that beginning in FY 2007 we will have IPIA requirements integrated with other grants management and oversight programs.