



Memorandum

**U.S. Department of
Transportation**

National Highway Traffic
Safety Administration

INFORMATION: Response to Office of Inspector General (OIG) Draft Report, “Consumer Assistance to Recycle and Save (CARS) Program: Most Transactions Met Federal Program Requirements, But Program Completion Activities Continue.”

Subject:

Date: April 22, 2010

From:

David L. Strickland
Administrator

Reply to
Attn. of:

To: Calvin L. Scovel III
Inspector General

The CARS program implementation by the National Highway Traffic Safety Administration (NHTSA) was a remarkable success story and an example of exemplary service provided by the Federal Government to the American people in times of crisis. NHTSA staff and management, with assistance from the Office of the Secretary of Transportation (OST) and elsewhere in the executive branch, accomplished what had heretofore been impossible – implementing a complex subsidy program, complete with regulatory requirements, systems and strong internal controls, in 30 days. Within 30 days of the CARS Act enactment, NHTSA issued final rules for the program and automobile dealers were able to begin submitting transactions for approval 4 days later. Given the economic uncertainty during this period, the agency was unsure of public response to the program. We quickly realized the public response exceeded all expectations, outstripping the initial tranche of funding in about a week, and the subsequent \$2 billion within less than 30 days.

The program was highly successful in accomplishing its primary goals of stimulating the economy and aiding the environment. Additional detailed information on program implementation and accomplishments is available in NHTSA’s report to Congress, “Consumer Assistance to Recycle and Save Act of 2009,” available online at <http://www.cars.gov/files/official-information/CARS-Report-to-Congress.pdf>. With over 18,908 dealers participating in the program throughout the Nation and its territories, 690,114 voucher applications were filed, and reviewed by NHTSA’s multi-tiered system of internal controls, to ensure the transactions were legitimate, appropriate, and in compliance with statutory and regulatory requirements. NHTSA denied or dealers retracted 12,272 applications. Ultimately, NHTSA approved 677,842 transactions valued at \$2.85 billion. We estimate that this resulted in a \$3.8 to \$6.8 billion increase in GDP and over 60,000 jobs created or saved. The new vehicles obtained under this program were 58 percent more fuel

efficient than the vehicles they replaced, with an average combined EPA rating of 24.9 miles per gallon (MPG), versus 15.8 MPG for the vehicles they replaced, reducing fuel consumption by 33 million gallons per year with concomitant reductions in green house gases and other pollutants.

NHTSA Implemented Strong, Multi-tiered Transaction Approval Controls to Ensure Compliance

NHTSA developed a formidable system of transaction controls with multiple levels of review to ensure that transaction applications were complete, legitimate, and in compliance with applicable requirements. The agency carefully trained the reviewers to ensure that their actions would be complete, thorough, and accurate. Upon completion of the program, NHTSA immediately conducted an internal audit of 1,200 transactions that initially found 97.5 percent of transactions were fully supported at the time of approval, and that documentation was available to fully support 99.96 percent of the transactions approved.¹ This is an impressive accomplishment by any measure, but particularly when one considers the 30 day timeframe for program development and implementation.

The OIG report demonstrates a similar success rate for transaction approval. While the OIG's analysis is based on a smaller sample of 393 approved transactions, OIG found that 97 percent of transactions were accompanied with complete documentation demonstrating compliance with program requirements. For the 13 transactions that OIG did not identify complete documentation in the files at the time of its review, OIG referred those files to NHTSA for subsequent review.

Based on NHTSA's review of these files, it determined that all 13 of the questioned transactions are fully supported by available documentation. This includes three files that NHTSA determined OIG, using its review criteria, could have determined were fully documented.² As for the remaining 10 files, NHTSA's subsequent detailed review determined the transactions were acceptable; however, the files lacked sufficient documentation at the time of OIG's review. NHTSA has now supplemented those files with the documentation that had been missing. In total, NHTSA determined that 100 percent of the transactions in OIG's sample were fully supported and appropriate.

Economic and Customer Response Uncertainty Complicated Planning

The dire economic conditions at the time of the CARS statute was signed made it difficult to anticipate consumer response. Because of the serious economic downturn prior to CARS implementation, there were concerns about being able to obtain sufficient participation in the program and NHTSA had contingency plans available to draw attention to the program in an

¹ A summary of NHTSA's audit and other program details can be found in its report to Congress cited earlier.

² The OIG auditors limited their review to the NHTSA checklist and did not consider other training aids developed to educate reviewers on alternate forms of supporting documentation. Two of the transactions contained an alternative for the MCO/MSO for vehicles that were not in inventory at the time of sale. One transaction contained proof of registration in the form of a vehicle history report and title with an issue date at least one year prior to the date of sale.

effort to increase participation. Congress shared these concerns as indicated by the CARS Act provision calling for a public awareness campaign to attract buyers. Further, NHTSA consulted knowledgeable industry sources prior to the program's launch that also were unable to foresee the overwhelming response, further validating programmatic assumptions.

In retrospect, the opposite occurred, and the program drew unprecedented levels of participation. During the program's first 7 days, dealers entered more than 100,000 transactions into the system, and on 1 day alone, entered as many as 42,000 transactions. As a result, OIG's conclusion that NHTSA made incorrect assumptions in planning program staffing and systems does not fully accommodate the context of uncertainty surrounding the public response. Although those assumptions proved inaccurate, the data on which to base better assumptions were not apparent. The strength in NHTSA's implementation was not only the advance planning, but also careful monitoring of near real time program conditions, its flexibility in implementing alternative approaches, and its unrelenting determination to achieve excellence in completing the program.

NHTSA Quickly Ramped up Program Resources and Proved Resilient Addressing Program Demand Surge

While no logical programmatic assumptions indicated that the program would exhaust \$1 billion in funding in a week, and \$3 billion in under a month, NHTSA responded quickly and effectively to the high volume response. With regard to staffing, NHTSA's actions proved both thoughtful and creative. By identifying an initial contractor accustomed to contending with high volumes of transactions, NHTSA thought it would be well equipped to handle program transactions. However, the level of transactions quickly proved overwhelming and NHTSA obtained additional assistance from staff elsewhere in DOT as well as resources from the Internal Revenue Service and additional contractors. In this way it was able to rapidly increase the number of people processing transaction applications to a maximum that exceeded 7,000 by early September 2009. It should be noted that equally important, to minimize program costs, that peak was short lived, as NHTSA constantly monitored workload, and very quickly shed workforce, maintaining only what was needed to process the remaining transactions.

Information technology resources dedicated to the program were also subject to the strain of the unprecedented demand for participation in the program. Under the direction of the DOT Office of the Chief Information Officer (OCIO), NHTSA was granted a *conditional* authority to operate the CARS IT System. This authority allowed for production deployment within the timeframe to meet the 30 day legislative mandate. This authority also required NHTSA to complete certification and accreditation within 60 days. The review and subsequent accreditation was successfully completed within the required timeframe. It should be noted that the CARS system authority *was not* an interim authority to operate (IATO) the CARS system. A conditional authority to operate is referred to within National Institute of Standards and Technology guidance and is part of the U.S. Department of Transportation policy; as such DOT does recognize such authority for system implementation.

While OIG is correct that the dedicated processing capability was quickly overwhelmed by the surge in demand, NHTSA weathered the storm by providing innovative, cutting edge approaches, that could be quickly implemented while providing the protections necessary for personally identifiable information (PII) and from outside attacks on system resources. Furthermore, NHTSA was careful to ensure appropriate protection of PII, consistent with Federal and Departmental requirements. These security requirements were embodied in an infrastructure-related contractual agreement with the primary IT contractor for the program, and a related interconnection security agreement. Due to the extraordinary nature of the program, NHTSA had to complete systems development within incredibly tight time constraints; however, it completed functional, systems and user acceptance testing, and additional security testing including secure access control in advance of system deployment. While it would have been useful to perform more robust stress testing, it was not possible due to the extremely tight deadlines established by the statute.

Throughout the program NHTSA worked with dealers to provide training and information on how to submit proper claims. Because there were only 4 days between the issuance of the final rule and program implementation, there was not time to do much advance training. As the program was implemented, NHTSA focused on providing frequent updates to its website and a series of webinars that provided detailed instructions for completing the vouchers. NHTSA conducted 10 dealer webinars beginning on the first day of the program reaching thousands of automobile dealers. NHTSA also worked extensively with vehicle dealers calling its hotline and a special helpdesk. The combination of rapidly increasing staff, training, IT resources, and improving dealer training enabled NHTSA to complete review of 99 percent of dealer submissions by late September, handling three times as many transactions as initially planned. In all, the average time from receipt of a fully documented voucher to payment was just over 2 weeks.

NHTSA Protected Sensitive Financial Information

The OIG report questions NHTSA's adherence to Federal security procedures governing updates and corrections to dealer bank account information. OIG staff recently provided the specific procedures it believes were not followed. My staff reviewed these procedures and has forwarded its technical comments directly to your program director. As indicated in our comments, NHTSA believes that its safeguards accomplished the requirements of the procedures cited by OIG and effectively controlled any risk of unauthorized access or interception of sensitive financial information.

NHTSA Implementing Robust Vehicle Disposal Controls

While the primary focus of NHTSA's initial activities was necessarily on the front end program transactions, NHTSA has transitioned its focus to ensuring that vehicles are disposed of in compliance with program requirements. NHTSA is conducting outreach and program compliance activities intended to ensure that CARS trade-in vehicles are disposed of in a manner in full compliance with program requirements. We appreciate the OIG's recognition of the value of making CARS trade-in VINs available to commercial vehicle history report providers. It should be noted that, in addition to consumers, State motor

vehicle administrations make use of these services, further reducing the risk of fraud. NHTSA has also developed computer software to identify CARS trade-in VINs for which we have not received a properly completed disposal form and/or National Motor Vehicle Title Information System (NMVTIS) entry. This tool will be leveraged to develop the sample populations in our close-out plan. To reduce risk and increase visibility into potential exportation of CARS trade-in vehicles, NHTSA partnered with Customs & Border Patrol (CBP) and the National Insurance Crime Bureau (NICB) whose monitoring of vehicle exports has already proven to be effective.

NHTSA Has Completed a Program Close-Out Plan

NHTSA has completed a program close-out plan that lays out the continuing challenges and choices NHTSA faces in completing program activities. While we recognize that the plan was completed too recently to be included in the OIG report, the plan provides a comprehensive approach for identifying and addressing remaining programmatic issues. The plan highlights NHTSA's approach to key aspects of the program including data integrity, interim and ultimate disposition of data gathered during the program, actions to ensure compliance for initial transactions as well as ultimate vehicle disposal, final resource needs, and civil and criminal implications for any potential enforcement actions.

NHTSA's close-out compliance activities include pilot samplings of suspect transactions identified through data analysis and of trade-in vehicles for which disposal forms or NMVTIS entries are missing. By the end of FY2010, NHTSA expects to have made all of the decisions necessary to determine exactly how the CARS program will be closed out. At that time, NHTSA will make any necessary organizational changes to effectuate the final tasks.

Recommendations and Response

Recommendation 1: Leverage CARS lessons learned to develop new program design guidelines that incorporate risk mitigation and contingency plans for transaction processing, IT systems, and activity monitoring and reporting.

Response: Concur. In December 2009, NHTSA completed and reported to the Congress on the results of the CARS program. This effort was useful to begin collecting information on lessons learned. As NHTSA continues to conduct program closeout activities, it is collecting and compiling feedback from key program participants in the Department, industry, systems developers, transaction reviewers, automobile dealers and other stakeholders. It is important to recognize that the circumstances surrounding the implementation of the CARS program were unique and it is not clear the extent to which many lessons learned from the program may enjoy more general applicability in the form of new program design guidelines. Nonetheless, NHTSA anticipates that there is substantial useful information that can be garnered by compiling and analyzing lessons learned from the program and anticipates completing this effort by June 2011.

Recommendation 2: Report these guidelines to the Secretary of Transportation and Congress so that knowledge gained from the CARS program can inform other agencies facing similar challenges.

Response: Concur. As indicated in response to recommendation 1, NHTSA will compile information on lessons learned from the program, and analyze the information to assess its potential for more general applicability. NHTSA will report its results to the Secretary by June 2011.

Recommendation 3: Finalize and implement an action plan for completing remaining program activities, including evaluation of compliance and accounting for all program costs.

Response: Concur. On April 14, 2010, NHTSA issued an action plan for the CARS program. NHTSA is implementing the plan and, in accordance with the plan, anticipates making the decisions necessary to determine specifically how and when the program will be closed out by September 30, 2010.

* * *

In summary, we are pleased that the CARS program achieved the objectives set out by Congress to increase automotive sales and aid the environment. In just a few short weeks of sales, nearly 680,000 older vehicles were replaced by new, more fuel-efficient vehicles. The Nation's economy benefited immediately from this stimulus program, which caused a distinct upward movement in GDP and created or saved tens of thousands of jobs at a very critical time in the recovery process. Because of the unanticipated strength of consumer response, the program led to a sharp decline in dealer inventories and caused several major automakers to increase production schedules through the end of 2009, leading to an increase in employment and GDP in the fourth quarter as well. The environment will benefit over the longer term because operation of the new vehicles in place of the trade-ins will reduce oil consumption and emissions of carbon dioxide and related greenhouse gases over the next 25 years.

We greatly appreciate the courtesy shown by OIG audit staff and the full cooperation of the OIG investigations staff in webinars and training for dealers and disposal entities. Please contact Daniel C. Smith, Associate Administrator for Enforcement, if there are any questions or if we may be of further assistance.