Office of Inspector General

Audit Report

WEAKNESSES IDENTIFIED IN VOLPE'S COST ACCOUNTING PRACTICES FOR THE V-TRIPS CONTRACT

Office of the Assistant Secretary for Research and Technology

Volpe National Transportation Systems Center

Report Number: ZA-2016-064

Date Issued: May 9, 2016

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: **ACTION:** Weaknesses Identified in Volpe's Cost Accounting Practices for the V-TRIPS Contract
Office of the Assistant Secretary for Research and Technology, Volpe National Transportation Systems Center
Report Number ZA-2016-064

Date: May 9, 2016

From: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition and Procurement Audits

Reply to Attn. of: JA-60

To: Assistant Secretary for Research and Technology

The U.S. Department of Transportation's (DOT) Volpe National Transportation Systems Center (Volpe) is a research organization staffed by Federal employees and contractors. The Center relied on Volpe's Transportation Information Project Support (V-TRIPS) contract—a 5-year, $234 million contract—to provide information technology support services to its sponsors, including the Federal Aviation Administration (FAA), Federal Highway Administration (FHWA), Federal Motor Carrier Safety Administration (FMCSA), and National Highway Traffic Safety Administration (NHTSA). Volpe operates on a fee-for-service basis and charges all work to its sponsors. Volpe does not receive direct appropriations from Congress. Instead, it operates financially by means of a separate working capital fund derived from sponsoring organizations' advances. It is therefore critical that the Center's cost accounting and financial reporting systems track costs by project and charge sponsors accurately—especially for contracts like V-TRIPS with multiple projects and sponsors.

In 2004, we reported that Volpe's treatment of indirect costs in its cost accounting system did not comply with generally accepted accounting principles.[1] In April 2015, we also reported weaknesses in the Center's practices for allocating indirect

[1] *Audit of Financial Controls for Cost Accounting and Billing Practices, Volpe National Transportation Systems Center* (OIG Report Number FI-2004-076), Aug. 4, 2004. OIG reports are available on our Web site: https://www.oig.dot.gov.

costs among its sponsors for the V-TRIPS contract.[2] Accordingly, we conducted this follow-on audit to assess the reliability of Volpe's accounting practices for administering the V-TRIPS contract.

We conducted our work in accordance with generally accepted Government auditing standards. We interviewed DOT and Volpe officials, as well as V-TRIPS contractors and several Enterprise Service Center (ESC) officials.[3] We also reviewed the V-TRIPS contract, task orders, and related documentation as well as criteria, such as the Statement of Federal Financial Accounting Standards (SFFAS)[4] and DOT policies. As part of our work, we reviewed a sample of 129 V-TRIPS transactions (totaling $28.2 million) to assess the reliability of Volpe's cost accounting practices.[5]

RESULTS IN BRIEF

Volpe's cost and general accounting practices were not always reliable or sufficiently transparent to verify that V-TRIPS funds were appropriately administered. Of the 129 transactions we tested, 36 were not properly recorded—totaling nearly $8.7 million.[6] This is because Volpe does not have formal cost accounting policies and procedures or strong internal management controls to ensure the Center follows Federal Accounting Standards[7] and DOT policies. According to the Government Accountability Office's (GAO) Federal Internal Control Standards, agency management is responsible for establishing internal controls to ensure that accounting activities are adequately documented, recorded in the correct amount, to the right account, and entered promptly.[8] However, we identified five transactions, totaling approximately $400,000, where Volpe—working with ESC—was either unable to provide support or took months to locate the records. We also identified nearly $177,000 in charges being billed to the wrong sponsor or project.[9] Finally, Volpe did not follow DOT policy or maintain transparency when collecting indirect costs from sponsors for its risk mitigation account (RMA), resulting in the Center exceeding the approved RMA cap by as much as $7.4 million in 2014. DOT has been challenged to ensure Volpe takes

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[2] *Volpe Did Not Fully Comply With Federal Requirements When Planning and Administering Its V-TRIPS Contract* (OIG Report Number ZA-2015-040), Apr. 8, 2015.
[3] ESC operates DOT's official accounting system—known as Delphi.
[4] SFFAS is the body of accounting concepts and standards for the U.S. Government established by the Federal Accounting Standards Advisory Board.
[5] Our sample was randomly selected from accounting transactions recorded in Delphi from October 2011 to April 2014. The amount of these transactions represented 8.2 percent of the total universe.
[6] Due to complexity of the transactions in our sample and time constraints, we decided not to do an overall monetary projection to the universe. Instead, we elected to focus on developing the key issues identified in our audit.
[7] Specifically, SFFAS 1: Accounting for Select Assets and Liabilities, June 2013, and SFFAS 4: Managerial Cost Accounting Standards and Concepts, Version 13, June 2014.
[8] GAO Standards for Internal Control in the Federal Government, Principles 10 and 11, GAO-14-704G, September 2014.
[9] Even though Volpe corrected the charges we identified, such errors—if not addressed—have the potential of violating the Anti-Deficiency Act which prohibits use of funds for anything other than the authorized purpose.

needed corrective actions, due largely to Volpe's complex funding arrangement[10] and shifting departmental oversight resulting from several reorganizations over the last 12 years.[11] As a result, Volpe operates relatively independently, which contributes to the lack of reliability and transparency in its practices.

We are making recommendations to improve Volpe's cost and general accounting practices to ensure greater accuracy, reliability, and transparency in its financial transactions.

BACKGROUND

Volpe was formerly a part of DOT's Research and Innovative Technology Administration (RITA). In January 2014, Congress transferred all RITA programs to the Department's Office of the Assistant Secretary for Research and Technology (OST-R) in order to provide opportunities for increased research collaboration and coordination across the Department.[12] Moreover, with this reorganization, the Office of the Secretary of Transportation (OST) Chief Financial Officer (CFO) became responsible for ensuring Volpe's financial activities and annual statements comply with Federal and departmental requirements.

Over the years, various other audit reports have raised concerns regarding the need for Volpe to improve its cost and general accounting policies and practices (see exhibit B). For example, in 2003, our office conducted an audit based on growing congressional concerns about Volpe's handling of a safety data collection project for NHTSA. In the resulting report, we cited the need for a permanent overhead account to cover cost and schedule problems at Volpe.[13] Similarly, in another report, we noted that Volpe did not have written cost accounting policies or procedures and that its treatment of indirect costs did not comply with generally accepted accounting principles.[14] Our April 2015 report of Volpe's V-TRIPS contract also found that the Center used inconsistent methods to allocate indirect costs among its sponsors. In response to this audit, OST and Volpe (in early 2015) engaged Deloitte to evaluate the Center's labor rate setting for on-site contractual services, cost recovery methods, and indirect cost reconciliations.[15] At Volpe's request, Deloitte made recommendations to improve the Center's cost accounting

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[10] Since Volpe does not receive annual appropriations, its only source of financing is advances from those sponsors using the Center's services.
[11] Since the early 1990s, the Volpe Center has been a component of the following DOT organizations: the Research and Special Programs Administration (1992-2004); Research and Innovative Technology Administration (2004-2013), and the Office of the Assistant Secretary for Research and Technology (2014-present).
[12] Public Law No. 113-76, Consolidated Appropriations Act, 2014.
[13] *Follow-Up Audit of the Office of Defects Investigation, National Highway Traffic Safety Administration* (OIG Report Number MH-2004-088), Sep. 23, 2004.
[14] We closed the related recommendations in OIG Report Number FI-2004-076 because Volpe indicated that it was planning to implement Oracle Projects, which includes detailed documentation of associated cost accounting practices.
[15] The Deloitte review was also supported by the DOT and OST Chief Financial Officers.

practices—such as the development of a detailed cost accounting policies and procedures manual. Volpe officials told us that they take these recommendations seriously and have started corrective actions.

VOLPE'S COST AND GENERAL ACCOUNTING PRACTICES FOR ADMINISTERING THE V-TRIPS CONTRACT WERE NOT ALWAYS RELIABLE OR TRANSPARENT

Volpe's cost and general accounting practices for administering the V-TRIPS contract were not always reliable or transparent. Volpe did not always record transactions correctly or ensure funds were obligated prior to beginning work. In addition, Volpe did not follow current DOT policy or maintain transparency when collecting indirect costs from sponsors for its RMA, resulting in the approved cap being exceeded by as much as $7.4 million in 2014.

Volpe Did Not Always Record Transactions Correctly or Ensure Funds Were Obligated Prior to Beginning Work

Volpe's cost and general accounting practices are not sufficiently reliable or transparent to verify that V-TRIPS funds are appropriately administered. Volpe did not properly record 36 of the 129 V-TRIPS transactions we sampled (i.e., $8.7 million of $28.2 million). This occurred because Volpe does not have formal cost accounting policies and procedures or strong internal management controls to ensure the Center follows Government Accounting Standards, DOT orders, and Volpe internal policies. Specifically,

1) support for transactions was not always available,
2) projects were incorrectly charged,
3) millions of dollars were prematurely obligated on one task order, and
4) a contractor began work without the projects being adequately funded through Delphi.

Support for V-TRIPS Transactions Was Sometimes Lacking or Difficult To Obtain

According to GAO's Standards for Internal Control in the Federal Government,[16] each agency is responsible for establishing financial systems and internal controls to ensure its accounting activities are adequately documented, recorded in the correct amount and account, and entered as they occur on a timely basis.

[16] GAO Standards for Internal Control in the Federal Government, Principles 10 and 11, GAO-14-704G, September 2014.

Moreover, agency management is responsible for evaluating the completeness, accuracy, and validity of transactions recorded.

However, in some cases Volpe—working with ESC—was unable to provide support for the amounts we tested or took months to locate the requested documents. For example, we found two transactions from 2011 totaling over $171,000 that did not have any support. In another three cases, it took several months to obtain documents supporting over $231,000. The fiscal year 2011 DOT financial statement audit also identified similar documentation problems, noting that project cost allocation activities may not be supported.[17] While the Department was notified of this finding, DOT officials told us that they relied on Volpe to correct the problem.[18] Volpe acknowledges past weaknesses in this area and, in October 2013, began updating its accounting practices to better align transactions with supporting documents. Further, Volpe noted that it is implementing DOT's automated invoice review system to ensure it properly records and documents transactions in Delphi.

Volpe Charged Funds to the Wrong Project

The V-TRIPS contract notes that "under no circumstances can funds obligated under one task be used to pay costs incurred or fee earned under another task." In addition, the SFFAS cites the need to track costs by project.[19] Moreover, if an agency's funds are used for unauthorized purposes or are augmented by another agency, the Anti-Deficiency Act (ADA) may be implicated—although any potential violation may be avoided if the erroneous charge is detected and sufficient funds exist both at the time of the error and the time of detection to correct the mischarge.

In one V-TRIPS task order, we found that 11 out of 15 invoices were incorrectly charged to the wrong sponsor or project. These errors occurred from 2012 to 2013; during this period, Volpe incorrectly billed five different projects—totaling nearly $177,000—for charges that did not match the intended purpose. For example, FAA and NHTSA funds were used to pay charges incurred by FHWA. After we brought this to Volpe's attention in 2015, it performed a review and had to make 25 accounting adjustments in order to match the payments to the proper sponsor and project. The net effect was that Volpe redistributed $18,915.51 from the FHWA project to the FAA and NHTSA projects to correct the errors. Table 1

[17] Clifton Gunderson LLP, Financial Statements of the U.S. Department of Transportation, November 30, 2011.
[18] According DOT officials, the final audit report did not include the finding relating to Volpe as it was deemed not of significant monetary value to warrant inclusion. Nevertheless, the finding was included in the related management letter to the Secretary of Transportation.
[19] SFFAS 4.

summarizes the required accounting adjustments for the three affected DOT sponsors.[20]

Table 1. Adjustments Needed To Correct Billing Errors on FAA, FHWA, and NHTSA Projects

Project	Sponsor	Amount Overbilled	Amount Under Billed	No. of Required Adjustments	Overall Net Adjustments
1	FAA	$78,965.45	($73,107.80)	10	$5,857.65
2	FAA	$1,676.54	$0.00	1	$1,676.54
3	NHTSA	$12,182.00	($10,041.81)	3	$2,140.19
4	NHTSA	$79,578.81	($70,337.68)	7	$9,241.13
5	FHWA	$4,596.46	($23,511.97)	4	($18,915.51)
	Total	$176,999.26	($176,999.26)	25	$0.00

OIG summary of Volpe's adjustments

There were several factors leading up to these errors. We found that Volpe's project accounting practices are not sufficient to prevent or detect errors and Volpe's internal management controls do not ensure sponsor funds are only spent for their intended purpose. In particular, we found that Volpe officials approved invoices containing insufficient accounting information and did not ensure that payments were made from the correct funding source. Volpe officials told us that they take this issue seriously as illustrated by the 25 accounting adjustments.

While no ADA violations occurred as a result of these errors, these examples demonstrate that there is the risk for potential ADA violations, particularly if errors go undetected. Volpe recognizes the potential for violations if corrections are not made in a timely manner. For example, four out of the five projects had funds with fixed periods of availability, after which corrections may not be possible. According to Volpe, contract funds review is completed and excess funds are deobligated as part of contract closeout reconciliation. This process may be insufficient to detect or correct potential ADA violations as closeout normally does not begin until several years after the contract ends. Further, Volpe internal management controls lack sufficient details to identify potential billing errors. Volpe has agreed to strengthen its internal management controls and provide more detailed accounting information on vendor invoices. While these are positive steps, consistent departmental oversight is necessary to ensure that Volpe complies with DOT and Federal accounting standards.

[20] See exhibit C for a complete listing of Volpe's accounting adjustments.

Volpe Prematurely Obligated Millions of Dollars to One Task Order

V-TRIPS is an incrementally funded task order type contract. Under such contracts, the FAR requires the inclusion of a "limitation of funds" clause, which directs the contractor to ensure that charges against the approved task order do not exceed authorized funding levels and to issue notification when 75 percent of the funds have been expended. Further, a schedule should be developed that specifies the amount presently available, the items covered, and how long the funding will last.[21] However, when estimating funding needs for a task order, Volpe did not always consider the remaining funds available before obligating additional funds.

For example, we found that in March 2012, the contractor notified Volpe that the task order was approaching the authorized incremental funding level. In August 2012, Volpe added an additional $7.5 million on the task order to cover remaining contractor work for the rest of fiscal year 2012. However, in doing so, Volpe did not take into account the remaining funds available during that fiscal year. As a result, less than $21,000 of the $7.5 million was actually needed. Likewise, on October 1, 2012, Volpe incrementally funded an additional $26.7 million to cover fiscal year 2013 contractor work—but again did not take into account the funding still available on the task order—such as the excess $7.5 million carried over from the prior fiscal year. As a result, approximately $11 million of these funds were not needed until fiscal year 2014. In fact none of the annual incremental funding estimates we examined considered the remaining funds available. Volpe officials acknowledge that they could have done a better job in estimating the funding needs for this task order.

Volpe Allowed a Contractor To Continue Work on Several Projects Without Adequate Funding

According to SFFAS 1,[22] when a purchase order is placed, an obligation is recorded to ensure budgetary control. Further, under DOT policy, should funds be exhausted, all work will stop until additional funds are obligated.[23] While Volpe had obligated sufficient funds on a task order via its working capital fund, we found instances where sponsor funding for specific project subtasks in Delphi were delayed for weeks or months after the work was performed.[24] Lapses in recording obligations of sponsor funds in Delphi were in some cases chronic. For instance, as shown in table 2, Volpe authorized work to begin on six V-TRIPS subtasks weeks or months before sufficient sponsor funds were obtained and

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[21] FAR.52.232.22

[22] SFFAS 1.

[23] DOT Order 2300.8A, Financing Activities at the Department of Transportation/Research and Innovative Technology Administration's Volpe National Transportation Systems Center, Sept. 22, 2008.

[24] Funding for this task order—which totaled approximately $110 million—was used to support multiple subtasks.

recorded in Delphi. On one FMCSA subtask, we found obligations chronically delayed in 3 different fiscal years (2011, 2013, and 2014).

Table 2. Significant Funding Delays in FMCSA and FAA Project Subtasks

Subtasks	Sponsor	Year	Weeks	Amount Underfunded or Delays in Processing Paperwork[25]
1	FMCSA	2011	10	($315,836.55)
		2013	10	($208,537.70)
		2014	34	($567,221.90)
2	FMCSA	2012	26	($543,677.50)
3	FMCSA	2012	30	($174,967.60)
4	FMCSA	2014	35	($613,767.64)
5	FMCSA	2011	8	($69,827.26)
6	FAA	2013	5	($171,882.90)
			Total	($2,665,719.05)

OIG analysis of Volpe supplied data

In 2011 and 2013, the V-TRIPS contractor worked for 10 weeks (totaling about $316,000 and $208,000, respectively) on the FMCSA subtasks before Volpe obligated the necessary FMCSA funding to cover these costs. In 2014, this trend worsened, with the contractor working for 16 straight weeks (totaling $113,514) with insufficient obligations. Three weeks later the subtask was underfunded again, this time for 18 weeks, totaling $453,708. Combined, these two periods added up to 34 weeks of being underfunded by $567,222. Overall, the contractor expended about $2.7 million on the six FMCSA and FAA subtasks prior to Volpe obligating sufficient funds from the sponsors or processing the necessary paperwork in Delphi.[26]

The weaknesses we identified in Volpe's accounting practices are due in part to non-compliance with existing DOT policy, which requires Volpe to stop work until sufficient funds are obligated in Delphi. Volpe officials stated that the FAA interagency agreement had sufficient funding at all times. Delays occurred in processing the necessary paperwork[27] to obligate the funds to the specific subtask in Delphi. For the FMCSA subtasks, this was not always the case. In one instance the delay was due—as with FAA—to funds not being obligated to the specific subtask in Delphi.[28] In the other cases, Volpe acknowledged that there were delays

[25] Table 2 captures the sum total of those subtasks which were underfunded for 5 consecutive weeks or more. Dollar amounts reflect the balance under recorded on the last week of each series of underfunding.
[26] At the end of each fiscal year, Volpe did obligate sufficient funds to cover the amount of work performed by the contractor.
[27] Volpe uses Form A as the source document for obligating sponsor funds.
[28] Specifically, this involved subtask 5 in table 2.

in obtaining needed sponsor funding for the interagency agreement. Since all of the FMCSA projects support the operation and maintenance of a critical IT safety mission system,[29] Volpe decided to continue funding the subtasks via its working capital fund. This decision was based on the mission-critical nature of the work and the impact that work stoppages may have had on maintaining FMCSA system operations and availability. Nonetheless, continuing work without promptly recording transactions in Delphi or ensuring sufficient sponsor funds are available is contrary to Government accounting standards and DOT policy and puts Volpe at risk of not being reimbursed by the sponsor.

Volpe Did Not Follow DOT Policy for Its RMA Costs, Resulting in Excessive Overhead Charges

Volpe is a fee-for-service agency and operates using a working capital fund, with operating funds derived from advances made to the fund from sponsoring DOT and other Federal agencies, as well as state and local governments. As such, Volpe charges sponsors on a full recovery basis for both its indirect and direct costs. The Center's approved indirect cost policies—DOT Order 2300.6E[30]—requires that costs such as Government-provided office space, computers, and telecommunications be allocated on a fair and equitable basis, with each sponsor charged a proportionate share in relation to the benefits received. Volpe is also allowed to retain up to $2.5 million collected through the billing of indirect costs in its RMA to correct management and/or oversight deficiencies with regard to a project and where it would be improper to charge such costs to the project's sponsor. We identified several areas where Volpe was not complying with this policy.

In particular, the DOT Order also requires Volpe to adjust the indirect rates billed during the fiscal year to maintain a close relationship between planned and actual expenses. Further, to the extent practicable, cost distributions should be adjusted at fiscal year-end to agree with the actual costs incurred. By adjusting its rates and redistributing costs at year-end, the Center should not be collecting more than is allowed. However, we found that Volpe did not periodically adjust its indirect rates throughout the year or redistribute costs to sponsors at year-end. Volpe maintains two different rates to recover its indirect costs—a labor rate and an acquisition rate.[31] However, instead of adjusting both rates throughout the year, Volpe only adjusted its labor rate annually and did not adjust its acquisition rate from fiscal year 2010 through 2014. During our audit, Volpe reduced its acquisition rate from 4.25 to 2.0 percent—which took effect in fiscal year 2015.

[29] This project supported mission critical registration, inspection, compliance, and enforcement activities.
[30] DOT Order 2300.6E, Volpe National Transportation Systems Center Indirect Cost Policies, dated Aug. 7, 2003.
[31] The labor rate recovers the costs of facilities, internal IT, human resources, and a manager's time not charged directly to a project. Similarly the acquisition rate recovers the costs associated with Volpe contracts from the initiation of a procurement request to contract close-out.

Despite these reductions, Volpe continued to collect and retain more than was needed to cover its actual labor and acquisition indirect costs and far exceeded the approved $2.5 million RMA cap provided for under the DOT Order.

Because Volpe did not sufficiently adjust its rates, the RMA increased significantly—from the cap maximum of $2.5 million to nearly $9.9 million between 2012 and 2014. When we brought these concerns to Volpe's attention, the Center began adjusting its rates and anticipates that by the end of fiscal year 2016, the RMA balance will be in line with the current approved DOT Order (see table 3).

Table 3. Increases in the RMA Account, 2011 to 2014

Fiscal Year	Labor Overhead Ending Balance	Acquisition Overhead Ending Balance	RMA Ending Balance	Amount Over The Approved Cap
2010	$75,252	$53,139	$128,391	
2011	$153,432	$440,134	$593,566	
2012	$899,672	$1,656,108	$2,555,780	$55,780
2013	$1,818,024	$3,669,849	$5,487,872	$2,987,872
2014	$2,861,062	$6,994,830	$9,855,891	$7,355,891
2015	$2,753,865	$4,706,300	$7,460,165	$4,960,165
2016*	$1,207,865	$1,026,300	$2,234,165	

OIG analysis of Volpe provided RMA reconciliations (contains some rounding differences)
*Volpe estimated

Volpe officials stated that they exceeded the $2.5 million RMA cap because the Center began operating under an unapproved draft revision to the DOT Order in 2012—which proposes a variable cap of 2 percent of total obligations[32] rather than a flat $2.5 million cap and expands the uses of the RMA fund. Their reason for exceeding the cap was to mitigate the risks the Center may face. Volpe's unapproved draft order expands the use of the RMA to "fund labor for staff who do not have specific project assignments due to unexpected sponsor budget cuts or other unforeseen circumstances," cover "unexpected expenses that cannot be mitigated through indirect cost reductions," and "offset the subsequent fiscal year's indirect costs." In April 2014, Volpe circulated the draft order within the Department, but it was never approved—due in large part to a non-concurrence by the DOT's Office of General Counsel.[33]

[32] For example, using fiscal year 2014 total new obligations of just over $330 million, 2 percent would translate into an RMA cap of $6.6 million, or $4.1 million higher than the current approved DOT Order.
[33] Volpe officials told us that coordination of the draft order was delayed for some time by the Center's merger into the newly established Office of the Assistant Secretary of Transportation for Research and Technology in 2014.

By operating under an unapproved draft order, Volpe exceeded the Department's approved RMA cap of $2.5 million and expanded the uses for the fund to items not covered by the current DOT Order. Moreover, rather than adjust cost distributions at fiscal year-end, Volpe elected to apply some of the excess funds collected in one fiscal year to cover the next fiscal year costs. From 2012 to 2014 nearly $5.4 million in indirect cost recoveries were applied to cover some of Volpe's next year costs. These issues are also noted in a 2015 Deloitte draft audit report, commissioned by Volpe. Specifically, the report recommends that Volpe could increase transparency by following an approved RMA policy that defines the maximum size of the RMA, the intended use and purpose of the funds, and identifies the oversight authority and approval process. DOT has been challenged to ensure appropriate oversight due to the Center's complex funding arrangement and shifting departmental oversight responsibilities resulting from a series of reorganizations over the last 12 years. However, based on Volpe's overall management of the RMA, we are concerned that departmental oversight did not prevent Volpe from implementing a draft order or ensure that departmental sponsors were not overcharged for Volpe services.

CONCLUSION

Despite multiple audits and recommendations over the last 12 years, Volpe continues to have weaknesses in its cost and general accounting practices. Improvements are needed to ensure that Volpe's accounting of its use of customers' funds is transparent and reliable and that responsible officials are held accountable for expenditures. While Volpe and DOT have started to take a number of positive actions in response to audit reports, more is needed to ensure cost and general accounting practices meet Federal and departmental requirements. Given the issues identified in this report, it is critical that DOT provides the oversight needed to ensure the Center follows through with all corrective actions.

RECOMMENDATIONS

We recommend that the Office of the Assistant Secretary of Transportation for Research and Technology, in coordination with OST's Chief Financial Officer:

1. Require Volpe to implement written cost accounting policies and procedures that comply with Federal accounting standards and DOT policies.

2. Work with Volpe to identify those recommendations deemed appropriate from the 2015 draft Deloitte report and take action to implement them.

3. Require Volpe to comply with the RMA limits specified in DOT Order 2300.6E, provide an annual accounting of the RMA, and work with the Office

of General Counsel to establish a legally appropriate plan to resolve the excess $5 million in the RMA as of 2015.

4. Improve Volpe's internal management controls—including timely reconciliations (e.g., invoices to appropriate funding sources)—to prevent, detect, and correct billing errors, such as those identified in this report.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided OST-R with a draft of this report on March 24, 2016, and received its response on April 18, 2016, which is included as an appendix to this report. OST-R concurred with all four of our recommendations and proposed appropriate completion dates. Accordingly, we consider all recommendations resolved but open pending completion of the planned actions.

In addition to concurring with our recommendations, OST-R provided additional comments on our report findings, one of which we would like to clarify. OST-R's response states that "since 2009 Volpe has continually lowered the labor rate from 66 percent to 57.5 percent and the acquisition overhead rate from 4.25 percent to 3.0 percent to ensure that anticipated costs align with actual costs incurred." However, our audit results—which are based on data Volpe provided—support that the acquisition overhead rate remained constant at 4.25 percent from 2010 through 2014, was then lowered to 2 percent in 2015, and is estimated to be 3 percent in 2016. For this reason, we disagree with OST-R's statement that the acquisition overhead rate has been "continually lowered" since 2009.

We appreciate the courtesies and cooperation of OST-R, Volpe, and other departmental representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5225, or Darren Murphy, Program Director, at (206) 255-1929.

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cc: Volpe Director (V-100)
Volpe Audit Liaison (V-140)
OST-R Audit Liaison (RTC-1)
DOT Audit Liaison (M-1)

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from December 2014 through March 2016 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To conduct our work, we interviewed the Volpe Director of Acquisitions, Chief Financial Officer, Chief Budget Officer, Chief Accounting Officer, V-TRIPS contracting officers and CORs, and representatives from the two contractors performing almost all of the V-TRIPS work (SGT Inc. and CSC). We also interviewed the DOT Senior Procurement Executive (current and former), the Associate Director of Policy, Oversight and Business Strategies under the DOT Office of the Senior Procurement Executive, the Associate Director for Financial Reporting and CFO Audits under the DOT Office of Financial Management at OST, and the Assistant Secretary of OST-R. Additionally, we reviewed the V-TRIPS contract files and related documentation, Delphi data, and relevant criteria, such as Federal accounting standards, DOT Orders, and financial management policies.

To assess the reliability of Volpe's cost accounting practices for administering the V-TRIPS contract, we reviewed a sample of 129 transactions (totaling $28.2 million). To validate the transactions tested we reviewed supporting documentation and determined whether the transactions were in the correct amount, recorded to the proper account/project funds, and were in accordance with Federal accounting standards, DOT Orders, and financial management policies. We could not test for completeness because Volpe did not provide a listing of all the V-TRIPS transactions. Further, subsequent to pulling the sample it became apparent that our universe did not include some payment data. Even though the universe was not complete, we deemed it sufficiently reliable for the purposes of this audit.

To assess the amount of supported transactions and line items, we selected a 2-stage stratified statistical sample with probability proportional to the amount of a transaction or line item with replacement from a universe of 12,929 transactions. We sampled a total of 129 transactions and line items which covered $28,173,052.01 or 8.2 percent of the $342,656,009.94 in our universe. Due to complexity of the transactions in our sample and time constraints, we decided not to do an overall monetary projection to the universe. Instead, we elected to focus on developing the key issues identified in our audit.

EXHIBIT B. OTHER AUDITS OF VOLPE

Table B-1 illustrates five previous OIG and DOT audits of Volpe accounting processes that highlighted similar issues as discussed in this report.

Table B-1. Previous OIG and DOT Audits

Date	Summary of Accounting Issues Identified
8/04/2004	*Audit of Financial Controls for Cost Accounting and Billing Practices, Volpe National Transportation Systems Center, Research and Special Programs Administration* (OIG Report Number FI-2004-076): Treatment of indirect costs did not comply with generally accepted accounting principles. Actual overhead costs were lower than amounts charged to customers. Volpe assigned future overhead costs to service contracts as current year costs. Overhead rates should be adjusted during the year when the actual rate is lower than the budget rate. Volpe had not developed formal cost accounting policies and procedures.
9/23/2004	*Follow-Up Audit of the Office of Defects Investigation, National Highway Traffic Safety Administration* (OIG Report Number MH-2004-088): Volpe did not use generally accepted cost estimating techniques when developing estimates for the NHTSA ARTEMIS project. Due to cost and schedule overruns NHTSA lacked sufficient funding to continue the project. Volpe established a risk mitigation account in 2003 to hold Volpe accountable for the cost and schedule problems. Volpe provided $2.3 million from its risk mitigation account to fund ARTEMIS.
9/30/2011	Clifton Gunderson, LLP Management letter to the Secretary and Inspector General, Department of Transportation: Volpe was unable to provide sufficient detail to support management’s cost allocation methodology. Volpe was directed to review and update their accounting and financial management policies and procedures, including the accounting treatments used for their allocation methodologies. Volpe was also directed to consider other best practices, including the use of an inventory or project management system for managerial cost accounting or project costing. In compliance with Federal accounting standards the transaction codes used should be consistent with those used by the financial system.

2/2014	*Final Summary Report on the OMB Circular A-123, Appendix A Assessment Internal Control over Financial Reporting for Fiscal Year 2013, Department of Transportation* (Office of Financial Management B-30): Volpe did not provide documentation supporting 3 of 45 transactions placing funds on interagency agreements and related projects. Without this documentation, Volpe lacked evidence that the Division Chief concurred with these transactions.
4/08/2015	*Volpe Did Not Fully Comply With Federal Requirements When Planning and Administering Its V-TRIPS Contract, Office of the Assistant Secretary for Research and Technology, Volpe National Transportation Systems Center*, (OIG Report Number ZA-2015-040): Volpe does not comply with Federal accounting standards for consistency in how it allocates resource costs.

EXHIBIT C. VOLPE'S ACCOUNTING ADJUSTMENTS

PAYMENTS (PER DELPHI) - BEFORE						
	FAA (Project Tracking No. CS1201)		NHTSA (Project Tracking No. CS1202			Total
	FA3PC5 KT583	FA3PC6 LME72	HS1AA1 KL820	HS1BA1 KT964	HW4VA1 LJ299	
Base	$2,500.00					$2,500.00
Mod 0001	$120,192.00		$12,182.00			$132,374.00
Invoice 001R	-$26,861.22					-$26,861.22
Invoice 002	-$63,989.81					-$63,989.81
Mod 0003	$200,970.00					$200,970.00
Mod 0004				$159,628.00		$159,628.00
Invoice 003	-$31,791.95		-$12,182.00			-$43,973.95
Invoice 004	-$65,427.88					-$65,427.88
Invoice 006	-$70,422.82					-$70,422.82
Invoice 007	-$62,668.32			-$29,101.24		-$91,769.56
Invoice 008				-$71,919.74		-$71,919.74
Mod 0008					$76,299.00	$76,299.00
Invoice 009				-$39,635.47		-$39,635.47
Invoice 010				-$18,971.55	-$44,581.04	-$63,552.59
Mod 0012					$157,622.00	$157,622.00
Invoice 011					-$44,068.52	-$44,068.52
Invoice 012R					-$59,992.80	-$59,992.80
Invoice 014					-$53,836.18	-$53,836.18
Mod 0013		$130,020.00				$130,020.00
Invoice 015		-$17,772.89			-$31,442.46	-$49,215.35
Invoice 016		-$68,043.16				-$68,043.16
Invoice 017		-$44,203.95			-$39,143.14	-$83,347.09
Mod 0015					$198,591.00	$198,591.00
Invoice 018					-$32,020.09	-$32,020.09
Invoice 019					-$19.17	-$19.17
Invoice 020		-$25,276.60			-$17,797.17	-$43,073.77
Mod 0016					-$50,957.00	-$50,957.00
Mod 0017					$82,219.00	$82,219.00
Mod 0019		$25,648.00				$25,648.00
Invoice 021		-$23,548.74			-$42,750.10	-$66,298.84
Invoice 022		-$8,126.52			-$35,609.22	-$43,735.74
5113309RECLASS - 11/5/2013		$16,377.90			$28,475.42	$0.00
5113309RECLASS - 11/5/2013		-$2,039.06			$2,039.06	$0.00
5113309RECLASS - 11/5/2013		-$28,475.42			-$12,963.36	$0.00
5113309RECLASS - 11/5/2013					-$3,414.54	$0.00
5113309RECLASS - 11/5/2013		-$266.18			$266.18	$0.00
5113309RECLASS - 11/5/2013		$47,996.31			-$47,996.31	$0.00
Total Obligations	**$323,662.00**	**$155,668.00**	**$12,182.00**	**$159,628.00**	**$463,774.00**	**$1,114,914.00**
Total Payments	**-$321,162.00**	**-$153,378.31**	**-$12,182.00**	**-$159,628.00**	**-$434,853.44**	**-$1,081,203.75**
Balance:	**$2,500.00**	**$2,289.69**	**$0.00**	**$0.00**	**$28,920.56**	**$33,710.25**
					Total Amount Obligated	**$1,114,914.00**
					Amount Paid	**$1,081,203.75**
					Balance	**$33,710.25**

Exhibit C. Volpe Accounting Adjustments

INVOICES (CORRECTED VERSION) - AFTER						
	FAA (Project Tracking No. CS1201)		NHTSA (Project Tracking No. CS1202			Total
	FA3PC5 KT583	FA3PC6 LME72	HS1AA1 KL820	HS1BA1 KT964	HW4VA1 LJ299	
Base	$2,500.00					$2,500.00
Mod 0001	$120,192.00		$12,182.00			$132,374.00
Invoice 001R	-$22,652.85		-$4,208.37			-$26,861.22
Invoice 002	-$58,156.37		-$5,833.44			-$63,989.81
Mod 0003	$200,970.00					$200,970.00
Mod 0004				$159,628.00		$159,628.00
Invoice 003	-$42,559.91			-$1,414.04		-$43,973.95
Invoice 004	-$44,245.58			-$21,182.30		-$65,427.88
Invoice 006	-$35,548.55			-$34,874.27		-$70,422.82
Invoice 007	-$49,801.25			-$41,968.31		-$91,769.56
Invoice 008	-$36,218.64			-$35,701.10		-$71,919.74
Mod 0008					$76,299.00	$76,299.00
Invoice 009	-$2,553.19			-$15,246.85	-$21,835.43	-$39,635.47
Invoice 010	-$23,548.84				-$40,003.75	-$63,552.59
Mod 0012					$157,622.00	$157,622.00
Invoice 011					-$44,068.52	-$44,068.52
Invoice 012R (Partial Pay)					-$59,992.80	-$59,992.80
Invoice 014		-$2,039.06			-$51,797.12	-$53,836.18
Mod 0013		$130,020.00				$130,020.00
Invoice 015		-$18,039.07			-$31,176.28	-$49,215.35
Invoice 016		-$20,046.85			-$47,996.31	-$68,043.16
Invoice 017		-$27,826.05			-$55,521.04	-$83,347.09
Mod 0015					$198,591.00	$198,591.00
Invoice 018		-$28,475.42			-$3,544.67	-$32,020.09
Invoice 019	-$19.17					-$19.17
Invoice 020		-$25,276.60			-$17,797.17	-$43,073.77
Mod 0016					-$50,957.00	-$50,957.00
Mod 0017					$82,219.00	$82,219.00
Mod 0019		$25,648.00				$25,648.00
Invoice 021		-$23,548.74			-$42,750.10	-$66,298.84
Invoice 022		-$6,449.98			-$37,285.76	-$43,735.74
Total Obligations	**$323,662.00**	**$155,668.00**	**$12,182.00**	**$159,628.00**	**$463,774.00**	**$1,114,914.00**
Total Payments	**-$315,304.35**	**-$151,701.77**	**-$10,041.81**	**-$150,386.87**	**-$453,768.95**	**-$1,081,203.75**
Balance:	**$8,357.65**	**$3,966.23**	**$2,140.19**	**$9,241.13**	**$10,005.05**	**$33,710.25**
					Total Amount Obligated	**$1,114,914.00**
					Amount Paid	**$1,081,203.75**
					Balance	**$33,710.25**

Exhibit C. Volpe Accounting Adjustments

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
Darren Murphy	Program Director
Chuck Ward	Project Manager
Susan Zimmerman	Senior Auditor
Teri Vogliardo	Analyst
Andrea Nossaman	Senior Writer-Editor
Christina Lee	Writer-Editor
Amy Berks	Senior Counsel
Petra Swartzlander	Senior Statistician

APPENDIX. AGENCY COMMENTS

U.S. Department of Transportation

Office of the Secretary of Transportation

Assistant Secretary for Research and Technology

1200 New Jersey Avenue, S.E. Washington, DC 20590

MEMORANDUM

Subject: INFORMATION: Management Response

Office of Inspector General (OIG) Draft Report-Weaknesses Identified in Volpe's Cost Accounting Practices for the V-TRIPS Contract

From: Gregory D. Winfree, Assistant Secretary for Research and Technology

To: Mary K Langan-Feirson, Assistant Inspector General for Acquisition and Procurement Audits

Date: April 18, 2016

The U.S. Department of Transportation's (DOT) Office of the Assistant Secretary for Research and Technology (OST-R) and the Volpe National Transportation Systems Center (Volpe) remain fully committed to effectively administering sponsor and contract funds, maintaining reliable and transparent accounting practices, and strengthening internal management controls to ensure compliance with Government Accounting Standards and DOT policies. We take seriously the OIG findings and recommendations. We have implemented the recommendations from prior audits cited in the OIG draft report and several of the issues raised by the OIG during the current audit have already been addressed. For example, Volpe engaged Deloitte & Touche LLP (Deloitte) to evaluate its indirect cost accounting practices and co-created a working group with the Office of the Secretary of Transportation (OST) to finalize its Indirect Cost Policies Order. Further, efforts to create detailed cost accounting policies and procedures manual are underway.

OST-R has reviewed OIG's draft report and provides the following comments on the findings and recommendations:

- Volpe strives to accurately assess indirect costs and project funding needs prospectively. While this estimate inherently involves judgment, Volpe has informed sponsors of the overhead rates to maintain transparency. Since 2009, Volpe has continually lowered the labor rate from 66 percent to 57.5 percent and the acquisition overhead rate from 4.25 percent to 3.0 percent to ensure that anticipated costs align with the actual costs incurred. All DOT Operating Administrations concurred with the proposed revision of our Indirect Cost policies and efforts are underway to realign the risk mitigation account balance with the DOT Order.

- Volpe works diligently to track costs by project, charge sponsors accurately, and ensure that funds are spent only for their intended purpose. In addition to coordinating with Deloitte and the DOT Chief Financial Officer to improve project cost accounting practices, Volpe is following DOT guidelines and implementing other Departmental Procurement Platform (DP2) best practices. Volpe now requires more detailed accounting information on vendor invoices to facilitate cost reconciliation. While project funds were never externally charged to the wrong sponsor, the goal of these efforts is to avoid inconsistencies in internal accounting.

- Volpe aims to ensure realistic estimates for project funding when initiating procurement actions. It did not misspend funds in the project and associated task order cited in the draft report, and sufficient funds were obligated in the vendor contract to support the work.

Based on our review of the draft report, we concur with the four recommendations as written. Volpe plans to complete actions to implement Recommendations 2 and 3 by September 30, 2016 and Recommendations 1 and 4 by December 31, 2016.

We appreciate this opportunity to comment on OIG's draft report. Please contact William Henrikson, Volpe Chief Financial Officer, at (617) 494-2284 with any questions.