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# *Office of Inspector General*

# *Audit Report*

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## **DOT'S FY 2012 IMPROPER PAYMENT REPORTING GENERALLY COMPLIES WITH IPERA**

*Department of Transportation*

*Report Number: FI-2013-053*

*Date Issued: March 14, 2013*





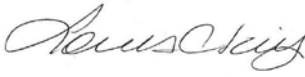
# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** DOT's FY 2012 Improper Payment  
Reporting Generally Complies with IPERA  
Department of Transportation  
Report No. FI-2013-053

Date: March 14, 2013

From: Louis C. King   
Assistant Inspector General for Financial and  
Information Technology Audits

Reply to  
Attn. of: JA-20

To: Acting Assistant Secretary for Budget and Programs/  
Chief Financial Officer

The Federal Government has longstanding concerns over improper payments<sup>1</sup> made through its programs, and has intensified its efforts to eliminate payment errors. In July 2010, President Obama signed the Improper Payments Elimination and Recovery Act (IPERA)<sup>2</sup>—which amended the Improper Payments Information Act of 2002<sup>3</sup>—to encourage the elimination of payment error, waste, fraud, and abuse in Federal programs. IPERA requires improper payment rates of less than 10 percent at Federal programs. It also requires Federal agencies to test annually for improper payments in their programs and to publish reports on their findings in their Annual Financial Reports (AFR). The Act calls for inspectors general (IG) to review their agencies' compliance with IPERA and to submit reports to the heads of their agencies.<sup>4</sup>

To meet IPERA's requirements for IGs, we reviewed the Department of Transportation's (DOT) fiscal year 2012 report on its improper payment testing to determine whether: (1) the improper payment information in the report was accurate; and (2) DOT complied with IPERA's requirements. As part of this audit, we reviewed DOT's contractor's methodology to select the sample of 463

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<sup>1</sup> An improper payment is any payment that: should not have been made; was made in an incorrect amount; or that an agency cannot determine is proper or improper due to a lack of sufficient supporting documentation.

<sup>2</sup> P.L. 111-204.

<sup>3</sup> P.L. 107-300.

<sup>4</sup> The IGs also submit their reports to the Senate Committee on Homeland Security and Governmental Affairs, the House of Representatives Committee on Oversight and Governmental Reform; the Comptroller General; and the Controller of Office of Management and Budget (OMB).

payments it reviewed to determine if improper payments were adequately reported. We also randomly selected and retested 51 of 450<sup>5</sup> of the payments selected by the contractor. We conducted this audit in accordance with generally accepted Government auditing standards. A detailed description of our scope and methodology can be found in Exhibit A.

## RESULTS IN BRIEF

In general, DOT accurately reported improper payments in its fiscal year 2012 AFR. However, we noted a minor error in the reported information. DOT overstated the amount of payments tested in the five grant programs reported in the AFR by about \$99 million. In addition, DOT's contractor did not perform sufficient work on 2 of the 51 payments we retested and yet determined these payments to be proper. Because of an insufficient audit trail for these payments, we were unable to reach a conclusion as to whether or not they were improper. While these issues did not impact the overall reporting, undetected errors and insufficient testing diminish the accuracy and reliability of DOT's improper payment reporting.

DOT complied with IPERA with three exceptions. First, DOT did not report planned or actual completion dates for corrective actions taken for improper payments—identified in its 2012 AFR—in the Federal Highway Administration's (FHWA) and the Federal Transit Administration's (FTA) Formula Grants programs, or the results of these actions. Second, the improper payment target rate goal for FTA's Formula Grants Program was not achieved. OMB requires agencies to set target rate goals for improper payments. The FTA's Formula Grants programs' estimated improper payments of \$38.1 million exceeded the \$23.7 million target by \$14.4 million. Finally, DOT could not provide complete information to support that the risk assessments performed to determine which programs required improper payment testing conformed to OMB requirements. DOT officials plan to strengthen procedures to address these matters.

## BACKGROUND

IPERA requires agencies' reports on annual improper payment testing to include program risk assessments, improper payment estimates, corrective action plans, and annual improper payment reduction targets. In April 2011, OMB revised its Circular A-123, Appendix C,<sup>6</sup> (Circular) to enhance the implementation of

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<sup>5</sup> We selected our sample from 450 transactions which DOT determined to be proper. We did not test the 13 that DOT already concluded were improper.

<sup>6</sup> OMB M-11-16, Requirements for Implementing IPERA: Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, April 14, 2011.

IPERA. The Circular requires agencies' reports on improper payment testing to include: (1) descriptions and evaluations of payment recapture audit programs;<sup>7</sup> (2) amounts identified for recapture; (3) descriptions and justification of the classes of payments excluded from payment recapture audits; (4) amounts recaptured, and those outstanding and uncollectable, and (5) for programs with improper payments of \$10 million or more, discussions of improper payments' causes and corrective action plans to resolve the causes, including target reductions.

To comply with IPERA, DOT engaged an outside contractor to develop sampling plans to use in testing for improper payments, test selected<sup>8</sup> invoice payments to determine if they were proper, and project improper payment estimates for the Department's major grant programs. Annually, DOT tests four grant programs for improper payments—FHWA's Federal-aid Highway Program, FTA's Formula Grants and Capital Investment Grants Programs, and the Federal Aviation Administration's (FAA) Airport Improvement Program. For its 2012 testing, the contractor included an additional program, the Federal Railroad Administration's (FRA) High-Speed Intercity Passenger Rail Program, in the testing because the program had obligated a significant portion of DOT's grant funds. The Department had identified the program as having a high level of internal control risk.

## **IN GENERAL, DOT ACCURATELY REPORTED ON IMPROPER PAYMENTS**

In general, DOT accurately reported on improper payments in fiscal year 2012, as required by IPERA. However, we noted a minor error in the reported information. Specifically, in its report, the Department overstated the amount of payments tested in the five grant programs by about \$99 million. For example, DOT tested \$104.6 million in payments for the Federal-aid Highway Program, but it reported testing \$184.7 million—an overstatement of about \$80 million. DOT also reported testing 463 payments when in fact it had tested no more than 451—an overstatement of at least 12 transactions. DOT officials did not detect or correct these errors. While the errors did not impact DOT's conclusions on its improper payment testing, they are not an accurate depiction of the Department's improper payment reporting.

DOT's contractor could not readily provide us with sufficient documentation to support its conclusions on two of the 51 payments we retested in order to

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<sup>7</sup> A payment recapture audit reviews and analyzes programs' accounting records and supporting documentation to identify overpayments. OMB Circular A-136, Financial Reporting Requirements, October 27, 2011, establishes reporting requirements for payment recapture audits.

<sup>8</sup> Certain transactions were tested by internal DOT staff.

determine if these transactions were improper. For one payment tested, DOT's contractor provided an invoice for about \$972,000, but did not provide evidence that the work described in the invoice was authorized by the grant agreement and the amounts charged were accurate. In another instance, the contractor and the grantee who received the payment did not agree on the correct Federal participation rate. Based on the contractor's work, we were unable to conclude whether or not the correct participation rate was applied or if the payment was in fact proper. While the overall accuracy of the Department's report was not affected since we did not identify any additional improper payments, these issues—which DOT did not detect—reduce the reliability of DOT's improper payment reporting.

## **DOT COMPLIED WITH IPERA'S REQUIREMENTS WITH MINOR EXCEPTIONS**

DOT generally complied with IPERA's other requirements with three following exceptions:

- DOT did not report planned or actual completion dates for corrective actions taken for improper payments in FHWA's and FTA's Formula Grants programs, or the results of these actions.
- While DOT's programs met IPERA's required improper payment rate of less than 10 percent, FTA's Formula Grants Program did not achieve its 2012 improper payment target reduction rate goal. OMB requires agencies to set target percentage rate goals of total program payments for improper payments. For the Formula Grants Program, DOT officials estimated they had actual improper payments at \$38.1 million or 0.44 percent of total Program payments. This exceeded the target rate goal of 0.25 percent by \$14.4 million. DOT acknowledged the risk created by FTA's not meeting its specific target rate goal.
- The section in the 2012 report on the Department's risk assessment process may not be complete because DOT did not provide documentation needed to support the conclusions in the report.

DOT plans to strengthen its procedures to ensure the completeness of its reporting. While these deficiencies did not result in noncompliance with IPERA, they reduce the reliability of the Department's improper payment testing and reporting.

## **CONCLUSION**

OMB has designated the reduction of improper payments as a top priority for all Federal agencies. DOT makes approximately \$58 billion in payments to grantees annually and reduction of improper payments has been a significant challenge. In response, DOT has taken action to produce reliable reports on its programs' improper payments and to comply with IPERA's requirements. While DOT has strengthened its annual improper payment testing and reporting, its procedures do not fully meet the level of accountability that IPERA and OMB's Circular A-123 require to minimize the possibility of improper payments of increasingly scarce Federal funds.

## **RECOMMENDATIONS**

We recommend that DOT:

1. Provide specific documentation requirements and greater oversight and review of contractors that perform improper payment testing to ensure that the work has an audit trail and is accurate.
2. Implement procedures that identify all the elements required for IPERA reporting, including the documentation needed to support these elements.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided notices of findings to DOT officials on March 1, 2013 and a discussion draft report on March 12, 2013. We met with DOT officials on March 13, 2013 to obtain oral comments to our discussion draft and incorporated these comments as appropriate. DOT agreed to provide a written response after receiving our final report.

## **ACTIONS REQUIRED**

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your written comments within 30 calendar days. If you concur with the findings and recommendations, please indicate the specific action taken or planned for each recommendation and the target date for completion. If you do not concur, please provide your rationale. You may provide alternative courses of action that you believe would resolve the issues presented in this report.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1407, or George Banks, Program Director at (410) 962-1729.

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cc: FHWA Audit Liaison, HAIM-13  
OST Audit Liaison, M-1

## **EXHIBIT A. SCOPE AND METHODOLOGY**

We conducted this audit from December 2012 through March 2013, 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 address our audit objectives, we reviewed applicable laws and regulations. We interviewed DOT personnel and contractors responsible for IPERA's implementation. To assess the Department's compliance with IPERA requirements we: (1) reviewed the Departmental Assessable Unit Risk Profiles to determine whether DOT reviewed and reported programs that may be susceptible to significant improper payments; (2) reviewed statistical sampling plans, and improper payment projections and amounts to verify all programs susceptible to significant improper payments were tested and accurately reported; and (3) obtained supporting documents on the actions taken and reported in the AFR.

OIG's Senior Statistician selected a statistical sample of payments that the Department and its contractor had tested, and we retested the propriety of a total of 51 sample invoice payments totaling \$211.5 million in FHWA's Federal-Aid Highway Program, FTA's Formula Grant and Capital Investment Grant Programs, FRA's High-Speed Intercity Passenger Rail Program, and FAA's Airport Improvement Program. The documentation included, among other documents, summary schedules, grant agreements, invoices, checks, and payment vouchers.



**EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT**

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