CONSUMER ASSISTANCE TO RECYCLE AND SAVE PROGRAM: MOST TRANSACTIONS MET PROGRAM REQUIREMENTS, BUT PROGRAM COMPLETION ACTIVITIES CONTINUE

National Highway Traffic Safety Administration

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Memorandum

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

Subject: ACTION: Consumer Assistance to Recycle and Save Program: Most Transactions Met Program Requirements, But Program Completion Activities Continue
National Highway Traffic Safety Administration
Report No. MH-2010-054

Date: April 29, 2010

From: Joseph W. Comé
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for Surface and Maritime Program Audits

Reply to Attn. of: JA-40

To: National Highway Traffic Safety Administrator

The Consumer Assistance to Recycle and Save (CARS) Act of 2009[1] required the National Highway Traffic Safety Administration (NHTSA) to establish and administer a program that would encourage consumers to trade in their vehicles for new, more fuel-efficient vehicles. The primary objectives of the program were to stimulate the economy and promote sales of vehicles with higher fuel economy. The CARS Act established an aggressive schedule for NHTSA to implement this complex program, and 12 days into implementation, Congress tripled program funding from $1 billion to $3 billion.[2] After 1 month, dealers requested payment for over 690,000 vehicle sales, nearly exhausting program funds.

To provide oversight of this high risk program, Congress required the Government Accountability Office (GAO) and the Department of Transportation (DOT) Office of Inspector General (OIG) to review and report on the administration of the program. In August 2009, Senator Charles Grassley also expressed concerns to OIG about NHTSA's ability to ensure program integrity. In response to congressional interest, we (1) examined the effectiveness of NHTSA's controls to ensure that CARS transactions met Federal requirements; (2) identified challenges NHTSA faced in implementing the program; and (3) assessed NHTSA's progress in closing out the program, including evaluating compliance and accounting for

[1] Public Law 111-32.
[2] Public Law 111-47.

total program costs. GAO's report, also being issued today, examines the extent that the CARS program achieved its objectives, stakeholders' experiences, and other domestic and international vehicle retirement programs.[3]

To conduct our work, we interviewed NHTSA and other DOT officials and reviewed relevant agency documents. We also conducted site visits and interviews at automobile dealerships and vehicle disposal facilities[4] across the country related to a statistical sample of 393 CARS transactions as of October 9, 2009. We conducted this performance audit 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. See details on our scope and methodology in exhibit A.

RESULTS IN BRIEF

While NHTSA's controls ensured that most CARS transactions met basic program eligibility requirements—such as fuel efficiency, ownership, and insurance—controls related to trade-in vehicle disposal are less effective. Based on our statistical sample, we project that the majority of transactions, almost 97 percent, met basic eligibility requirements and 3 percent of CARS transactions lacked at least some supporting documentation. These unsupported transactions could result in improper payments to dealers totaling almost $94 million of the $2.83 billion approved for payment at the time of our audit. Some of these transactions might ultimately prove to meet program requirements with additional documentation, but did not based on information in the CARS database as of October 9, 2009.[5] NHTSA achieved this high rate of compliance by establishing transaction controls, including a two-level manual review and approval of each payment and automated checks to prevent duplicate payments. NHTSA also required dealers to certify that they would disable trade-in vehicle engines to prevent resale. However, one of the main controls related to the trade-in vehicles' final disposal—the Department of Justice's National Motor Vehicle Title Information System (NMVTIS)—cannot be relied on to confirm the final status of trade-in vehicles. Fewer than half of the states fully use the system. Further, some disposal facilities

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[3] GAO's report is available on its website: http://www.gao.gov/new.items/d10486.pdf.

[4] In this report, disposal facilities refers to salvage entities, which sell automotive parts for reuse, or scrap entities, which shred vehicles and separate the remaining materials for reuse. For the CARS program, NHTSA created a list on www.cars.gov/disposal of facilities eligible to receive trade-in vehicles for crushing or shredding.

[5] Our estimates are based on an analysis of transactions with a paid or ready-for-payment status in the CARS transaction database on October 9, 2009. We are 95 percent confident that the precision of our estimate does not exceed ±1.7 percentage points.

have not reported to NHTSA or NMVTIS on the receipt and destruction of trade-in vehicles, as required. To compensate for weaknesses in NMVTIS, NHTSA shared the CARS trade-in vehicle identification numbers (VINs) with commercial car history vendors, increasing the opportunities to alert consumers to potentially fraudulent vehicle sales.

Immediate consumer response and the infusion of additional program dollars presented significant challenges to NHTSA's implementation of the CARS program. With limited time to plan and prepare for CARS implementation, NHTSA based program decisions on certain assumptions that proved to be incorrect. For example, in determining staffing levels needed to process transactions, NHTSA assumed dealer requests for payment would occur at a constant rate of 3,000 per day. In the first 10 days, however, NHTSA received more than 224,000 requests—more than 7 times what it expected. NHTSA also assumed that most initial payment requests would have the required data for approval. Instead, most were rejected due to insufficient or inaccurate information, requiring dealers to resubmit requests with the deficiencies corrected. The high volume of requests also exposed certain weaknesses in the information technology (IT) system used to process transactions. With just 30 days to roll out a CARS IT system, NHTSA deferred completion of some standard development practices—including assessing risks, such as the need for software changes, and testing the system. Congress' tripling of CARS funding further burdened NHTSA's already overwhelmed processing capacity and IT system.

NHTSA has begun to take action to evaluate program compliance and to determine total program costs—two major activities remaining to close out the CARS program. As of February 2010, about 15 percent of the more than 2,900 transactions identified for evaluation had been initiated or closed, and 20 individual cases were being prepared for civil penalties. Also, almost $4 million had been returned as a result of these evaluations or voluntary dealer repayments. However, at the time of our audit, NHTSA did not have a comprehensive plan that identified the level of effort, scope, and timing of these and other close-out activities, including identifying total program costs. Total program costs remain unknown, in part because close-out activities—such as determining the cost of tracking trade-in vehicle disposal certificates and archiving program data—are ongoing. In addition, NHTSA is still determining the award fee on one of CARS's biggest contracts. Implementing a comprehensive plan would help NHTSA more efficiently carry out these remaining close-out activities and better inform the Secretary of Transportation and Congress of its progress and overall program performance.

We are recommending that NHTSA leverage lessons learned to further improve DOT's and the Federal Government's ability to respond to future vehicle

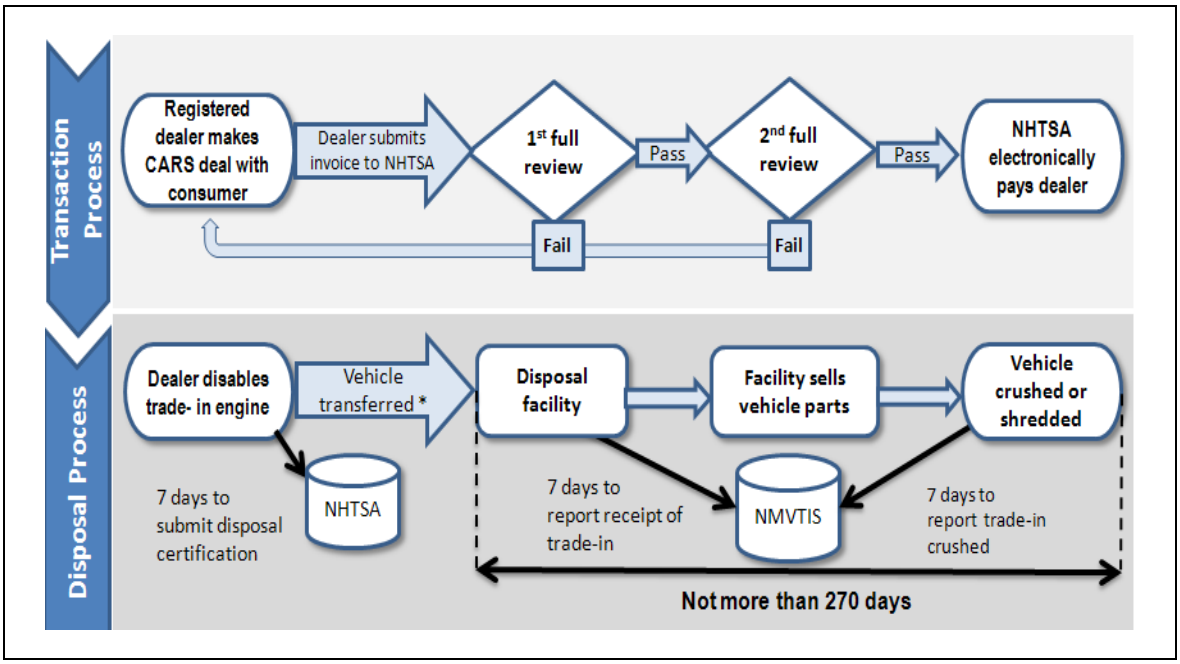
retirement or other short-term programs, and to finalize and implement a comprehensive action plan to ensure efficient close out of the CARS program. In responding to a draft of this report, NHTSA concurred with our recommendations and provided a description of the actions it took to address the many challenges in implementing the program under tight deadlines. NHTSA's response also describes actions it plans to implement to complete the program. A complete discussion of NHTSA's comments to our draft report and our response begins on page 18.

BACKGROUND

On June 24, 2009, the President signed the CARS Act to establish a $1 billion temporary program to stimulate the economy and encourage consumers to purchase fuel-efficient vehicles. The CARS Act permitted participating dealers to request payment from NHTSA for credits they extended to consumers for eligible vehicle sales that occurred between July 1, 2009, and November 1, 2009, or until all funds were expended. When consumers traded in eligible vehicles, participating dealers provided a $3,500 or $4,500 credit, depending on the increase in fuel efficiency, to help consumers buy or lease new, more fuel-efficient, eligible vehicles. Exhibit B provides details about the eligibility requirements.

The CARS Act required NHTSA to issue a final rule and begin implementing the program within 30 days of enactment. NHTSA issued the final rule on July 23, 2009, and began accepting dealer requests for payment on July 27, 2009. The rule established eligibility requirements and payment procedures. To request payment from NHTSA, dealers created invoices by submitting consumer trade-in-vehicle and new vehicle information to the CARS transaction database. They also submitted a minimum of eight supporting documents, including consumer identification and proof of ownership, insurance, and registration for the trade-in vehicle. After NHTSA paid the invoice, the dealer had to disable the trade-in vehicle engine and transfer the vehicle to an eligible disposal facility. The disposal facility then had 7 days to report receipt of the trade-in vehicle to the Department of Justice's NMVTIS. The disposal facility had up to 270 days to crush or shred the vehicle. Parts of the vehicle other than the engine block and drive train may be sold prior to disposal. Finally, the disposal facility had 7 more days to report the final destruction to NMVTIS. Figure 1 below provides a general overview of the CARS process.

Figure 1: Significant Steps in the CARS Process



* A dealer can also transfer the trade-in vehicle to a salvage auction that reports to NMVTIS within 3 days, transfers the vehicle to a disposal facility within 7 days, and submits a form to NHTSA.

Source: OIG

On August 7, 2009, Congress provided $2 billion in supplemental appropriations to continue the CARS program and increase its total funding to $3 billion. On August 25, 2009, DOT stopped accepting dealer requests for payment. By September 30, 2009, NHTSA had reviewed 99 percent of them and paid dealers a total of $2.83 billion.

MOST CARS TRANSACTIONS MET FEDERAL REQUIREMENTS, BUT CONTROLS RELATED TO TRADE-IN VEHICLE DISPOSAL ARE LESS EFFECTIVE

NHTSA program controls ensured that most transactions met the CARS eligibility and fraud prevention requirements. However, controls related to trade-in vehicle disposal are less effective, making it difficult to verify the vehicles' final destruction. NHTSA also lacked effective controls to monitor transaction activity early in the program and to ensure the integrity of transaction data. With limited visibility on the volume and pace of CARS transactions occurring at dealerships,

NHTSA risked having to deny an estimated $380 million in potentially eligible claims. (Exhibit C provides details about how we determined sample eligibility.)

Transaction Controls Were Generally Effective

NHTSA used several controls to help ensure that transactions met Federal requirements before approving dealer payment requests. First, reviewers used a standard checklist to determine whether dealers provided accurate information and supporting documentation. This review was conducted twice for each request. Further, NHTSA built edit checks into the IT system to screen for invalid transactions. For example, some controls were designed to ensure that:

- each trade-in VIN was unique to prevent more than one payment for the same VIN,
- each purchaser's identification was unique to prevent the same individual from obtaining more than one credit, and
- the purchase date of the new vehicle was July 1, 2009, or later.

Our statistical sample indicates that these controls ensured that 96.7 percent of CARS transactions met program requirements, while 3.3 percent did not. Some of these transactions might ultimately prove to meet program requirements with additional documentation, but did not based on information in the CARS database as of October 9, 2009.[6] Based on the 3.3 percent, we project that almost 22,000 transactions lacked supporting documentation, such as proof of insurance, in the CARS database at the time of our audit to meet program requirements. The total value of these transactions could equal almost $94 million of the $2.83 billion approved for payment at the time of our audit (see table 1). Under the Improper Payments Information Act,[7] permanent government programs with improper payments that exceed $10 million or 2.5 percent of program payments trigger Office of Management and Budget reporting requirements for high-risk programs. We advised NHTSA of the unsupported transactions that we found, which should help it determine whether to pursue repayments or additional documentation.

[6] We determined whether transactions had sufficient support using NHTSA's September 7, 2009, transaction review checklist, which specifies which documents are acceptable evidence.

[7] Public Law 107-300.

*Table 1: Projected Unsupported CARS Transactions Based on OIG Sample**

Document Not Provided	Projected Unsupported CARS Transactions	Projected Value
Proof of insurance for 1 year with no more than a 10-day lapse in coverage	8,448	$36,246,240
Front of Manufacturer's Certificate of Origin	6,835	$29,109,824
Proof of current registration	3,317	$14,925,706
Proof of purchaser identification	3,317	$13,265,369
Total	**21,917**	**$93,547,140**

* The precision of our estimates does not exceed +/-1.7 percent of invoices in the universe, with a confidence level of 95 percent.

Source: OIG projection based on a sample of NHTSA transaction data, as of October 9, 2009

NHTSA missed opportunities to strengthen supporting documentation requirements and further mitigate the risk of improper payments. For example, NHTSA did not consistently require processors to review the new vehicle manufacturer's certificates of origin (MCO) for all transactions. Instead, NHTSA relied on dealer-reported information to determine whether the purchased vehicle met the program requirement of being a new vehicle. In addition, NHTSA did not require dealers to submit the back of the MCO signed by the consumer, which could have provided additional assurance that a consumer did not participate in the program more than once.[8]

Some dealers had difficulty complying with the transaction controls, which resulted in repeated submissions and reviews and slower payments to dealers. For example, to ensure that consumers met CARS Act ownership provisions, NHTSA required dealers to prove that the trade-in vehicles had current registration and continuous insurance for the 12 months preceding the new vehicle purchases. According to dealers we interviewed, dealers and consumers frequently had to coordinate with insurance companies to obtain such evidence. Some dealers also noted that the NHTSA requirement to submit electronic copies of documents, such as the new vehicle sales agreement, was resource intensive and delayed some

[8] The CARS Act specifies that only one credit may be issued to a single person, and only one credit may be issued for joint registered owners of a single eligible trade-in vehicle.

payment requests. (Exhibit D provides selected dealer views about the CARS program.)

Controls Related to Trade-in Vehicle Disposal Are Less Effective

One of the main controls related to vehicle disposal—the Department of Justice's NMVTIS—is not reliable for confirming the final status of trade-in vehicles because of limited state participation. Moreover, some of the 22 disposal facilities we visited were not following CARS requirements to report to NMVTIS on the receipt and disposal of vehicles. As a result, NHTSA will have difficulty tracking final disposition of trade-in vehicles.

NMVTIS was created to prevent vehicle theft and fraud by providing motor vehicle administrators, law enforcement officials, and consumers an electronic means to verify and exchange title, brand,[9] and other data. Specifically, states can query NMVTIS on a real-time basis before issuing a title for an out-of-state vehicle, and, preferably, before every title verification regardless of its origin or reason. The Federal regulatory deadline for all states to participate fully in NMVTIS was January 1, 2010. However, as of February 2010, only 15 states (30 percent) were full participants. Of the states that are not full participants, 16 provide data but do not query the system, and 15 states are developing the capabilities either to provide data or to become full participants. The remaining states and the District of Columbia are not participating at all. The Department of Justice cannot impose penalties for non-participation in NMVTIS. However, to compensate for weaknesses in NMVTIS, NHTSA shared the CARS trade-in VINs with commercial car history vendors, increasing the opportunities to alert consumers to potentially fraudulent vehicle sales. Additionally, for a fee, consumers can search NMVTIS for vehicle histories, including previous titling states and odometer readings. NHTSA has also been coordinating with U.S. Customs and Border Protection and the National Insurance Crime Bureau to monitor vehicle exports.

We found noncompliance with trade-in vehicle controls at selected disposal facilities. Seven (32 percent) of the 22 facilities we visited did not report to NMVTIS as required by NHTSA. For example, one facility, which received 357 CARS vehicles at the time of our audit, was not aware of NMVTIS and therefore, had not reported any information on the status of those vehicles. The other facilities did not report to NMVTIS either at the time of receipt or after the vehicles had been crushed or shredded. In addition, one facility we visited did not sign or date the disposal certification forms for the 27 trade-in vehicles it handled. Without signed and dated forms, NHTSA cannot determine whether the disposal

[9] Brands are distinctive labels regarding the status of a motor vehicle, such as "junk," "salvage," and "flood" vehicles. The CARS program has its own brand in NMVTIS.

facility complied with the requirement to crush or shred the vehicles within 270 days of taking possession.

Other Transaction Controls Were Ineffective

Although NHTSA monitored the CARS database to prevent exceeding funding, NHTSA lacked controls to manage an orderly ramp down of the program once funds from the initial appropriation were spent. NHTSA used a contractor to estimate future dealer requests for payment through surveys on vehicle sales. By the time NHTSA's contractor delivered its first survey results on August 6, 2009, it estimated that dealers had already completed CARS transactions worth $1.38 billion if approved by NHTSA, which was $380 million more than the program's original appropriation. The additional $2 billion appropriated on August 7, 2009, allowed NHTSA to avoid an abrupt shut down of the program and the need to deny hundreds of millions of dollars of dealer claims. NHTSA's contractor continued to survey dealers for the remainder of the program, providing information to determine the timing of the program's ultimate ramp down.

NHTSA also lacked controls to ensure the accuracy of transaction data and compliance with some Federal and DOT policies. For example:

- NHTSA did not validate VINs before paying dealers. Our review of the transaction database revealed over 23,000 invalid trade-in and new VINs, most of which were dealer entry errors. In response to our draft report, NHTSA officials claimed they have corrected approximately 11,000 incorrect trade-in VINs, and updated NMVTIS to reflect those corrections. We have not verified or validated these corrections.

- NHTSA did not follow some Federal security procedures for updating and correcting dealer bank information, thereby creating a risk of unauthorized access or interception of this information.[10]

- NHTSA did not comply with Federal standards to secure personally identifiable information (PII). Specifically, NHTSA did not encrypt PII stored in the CARS database.

- NHTSA did not have an IT system control to prevent errors in sales dates (when transactions occurred between the dealers and consumers) and invoice dates (when dealers created an invoice in the CARS database). Consequently, NHTSA's ability to use this information to screen invalid transactions and report on program activity was limited.

[10] NHTSA collected, stored, and verified dealers' bank information to enable electronic transfer of approved payments.

- NHTSA's database contained 970 duplicate records at the time of our audit. According to our review, none resulted in duplicate payments.

- NHTSA did not verify stated fuel economy increases from trade-ins to new vehicles. Dealers were required to use *fueleconomy.gov*[11] to compare fuel efficiency ratings for each transaction. However, 29 (7 percent) of the 393 transactions in our sample had errors related to this requirement, such as selecting the wrong engine size or using a manufacturer's website instead of the required government one. We determined that these 29 transactions were eligible for the program, although one received $4,500 instead of $3,500, and another received $3,500 when it was eligible for $4,500.

Errors and omissions such as these require NHTSA to expend resources for corrections and limit its data analysis in support of compliance review activities.

Finally, some fundamental contracting oversight tools were not in place during the program, limiting NHTSA's ability to oversee contractors that supported transaction processing and the IT system. For example, NHTSA did not maintain oversight files or document oversight responsibilities assigned to its staff that was monitoring the contracts. To address these shortcomings, NHTSA conducted monitoring activities, including daily conference calls, site visits, and e-mails.[12]

RAPID SUMBISSION OF PAYMENT REQUESTS AND INCREASED FUNDING CHALLENGED NHTSA'S IMPLEMENTATION

Consumer response to CARS presented significant program implementation challenges for NHTSA. Because NHTSA assumed transactions would occur at a constant rate throughout the life of the program, it was unprepared to respond to the immediate demand. The increased volume of transactions that occurred when Congress tripled CARS funding further burdened NHTSA's already overwhelmed processing capacity and IT system.

Transaction Processing Required Additional Capacity and Modifications to Pay Dealers

With limited time to plan and prepare for CARS implementation, NHTSA based its staffing decision on certain assumptions. These assumptions did not adequately account for program risks, such as higher participation levels or transaction rejection rates, and ultimately proved to be incorrect. When NHTSA began

[11] The Environmental Protection Agency sponsors this website.
[12] We did not assess the effectiveness of these monitoring activities.

accepting dealer payment requests, its processing capacity was inadequate to accommodate the large volume of transactions.

NHTSA assumed that the initial $1 billion program funding would support 250,000 dealer credits and that dealers would submit about 3,000 correct payment requests per day throughout a 3-month program. NHTSA also assumed each transaction processor would need 30 minutes to manually review, approve, or reject each dealer request for payment. Using these assumptions, NHTSA determined it would need 200 full-time equivalents (FTE) to process transactions.[13]

When NHTSA began processing dealer requests for payment, its processing contractor, Citibank, had 38 FTEs available. At this staffing level, each FTE processor would have no more than 6 minutes per transaction to complete 3,000 transaction reviews per day.

If the transaction processing function had been fully staffed at 200 FTEs, it would have still been overwhelmed by circumstances NHTSA had not factored into its plans.

- The number of dealer payment requests in the first days of the program greatly exceeded the number NHTSA expected. On the first day that NHTSA accepted payment requests, July 27, 2009, dealers submitted nearly 4,000 requests. Within the first 10 days, dealers submitted more than 224,000 payment requests, not the 30,000 for which NHTSA planned.

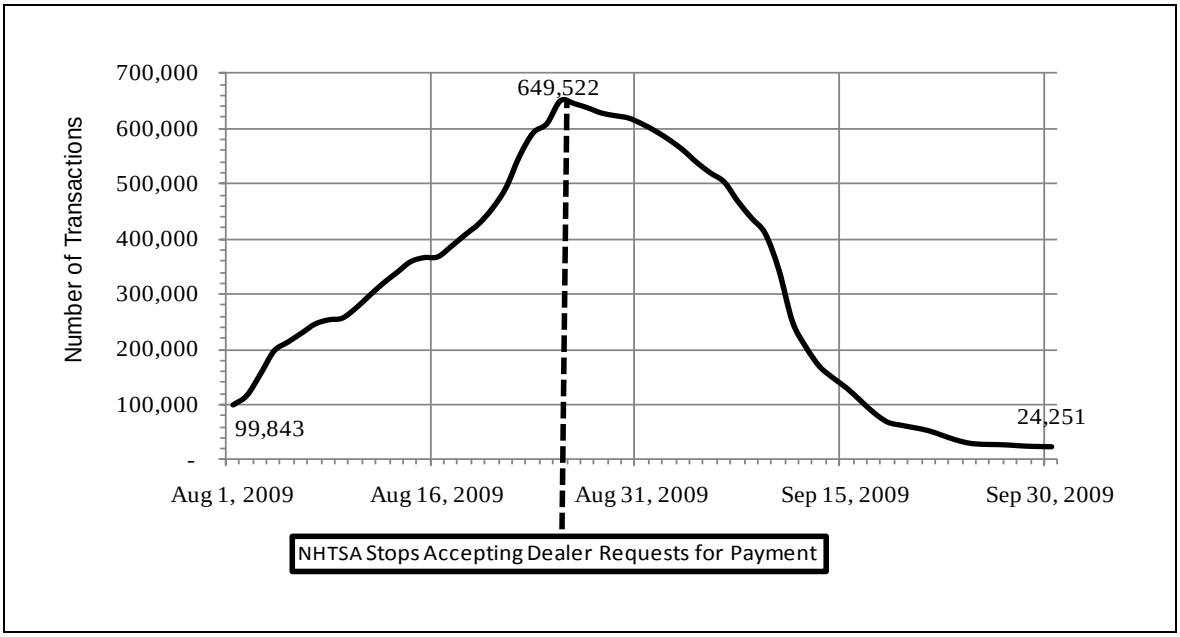
- According to the CARS Act, vehicle sales were eligible beginning July 1, 2009, 26 days before NHTSA accepted the first payment request. NHTSA's processing plans did not reflect this gap. According to dealer-provided data, NHTSA started with a backlog of over 51,000 sales.[14]

- Despite guidance on requesting CARS payments available through the CARS website and webinars, almost 92 percent of dealer payment requests in the first week included incorrect or insufficient documentation. Dealers had to resubmit requests with corrected or additional information. By the end of the program, the average transaction needed more than 3 reviews and 30 days from the dealer's first submission to payment. The average period from the dealer's last correct submission to final payment was 16.9 days, rather than the 10 days required by the CARS Act.

[13] A full-time equivalent (FTE) is the basic measure of employment for budgeting purposes—total hours to be worked divided by the number of compensable hours in the fiscal year.
[14] NHTSA found data quality issues with dealer-reported sales dates.

Moreover, the $2 billion in supplemental appropriations 12 days into the program tripled program funding and NHTSA's workload for processing transactions. As a result, NHTSA had a backlog of approximately 650,000 transactions when it stopped accepting dealer requests for payment on August 25, 2009 (see figure 2).

Figure 2: Pending Dealer Payment Requests, August 2009 and September 2009



Source: OIG analysis of NHTSA data

To help reduce the backlog, NHTSA began hiring more processors in mid-August 2009. Although Citibank assigned 550 additional FTEs to CARS by September 3, 2009, Citibank alone could not address the backlog of dealer payment requests in a timely manner. Using emergency contracting and interagency agreements, NHTSA assembled a transaction-processing workforce of more than 7,000 Federal Aviation Administration, Internal Revenue Service, and private vendor employees across the country. NHTSA also used about 100 DOT employees from other agencies for about 10 days to process transactions.

In addition, NHTSA modified its transaction review checklist 12 times. One significant change was to relax proof of registration requirements for the trade-in vehicles—instead of requiring dealers and consumers to prove registration for the previous 12 months, NHTSA required proof of registration that was current at the time of vehicle trade in and sale. NHTSA determined that a title and proof of

1 year of insurance was sufficient to demonstrate ownership and drivability. This change also reduced dealer and consumer frustration.

These actions and the closing of the payment request period allowed NHTSA to clear the backlog of transactions. By the end of August 2009, NHTSA was approving 10,000 transactions per day, and by the end of September 2009, 99 percent of the transactions had been resolved. However, some of the modifications NHTSA made to clear the backlog negatively impacted its quality assurance approach. Originally, each processing center was responsible for reviewing each dealer request twice before approving it for payment, and conducting quality assurance reviews on approved transactions. To maximize the productivity of the expanded workforce, NHTSA continuously redistributed work among the centers. As a result, a processing center might not perform both reviews on an individual transaction. Therefore, transactions reviewed at separate processing centers were not included in NHTSA's quality assurance reviews. This sharing of work limited NHTSA's ability to oversee processing functions and assess individual processing center performance.

High Volume of Transactions Exposed IT System Risks

With 30 days to develop, test, and implement an IT system to register dealers, capture transaction information, and pay dealers, NHTSA deferred completion of standard practices designed to mitigate certain performance and security risks. NHTSA finished developing the IT system 1 day prior to the program launch, not allowing time for adequate developmental testing and evaluation. NHTSA did not complete required certification and accreditation until September 23, 2009, about 60 days after program launch and several weeks after NHTSA stopped accepting dealer payment requests. According to National Institute of Standards and Technology guidance and standards, the certification and accreditation process ensures that agencies have the best information to make timely, credible, risk-based decisions about authorizing operation of Federal IT systems. Until testing and certification requirements could be completed, NHTSA granted conditional authority to operate the system. However, DOT policy does not recognize such authority.[15]

Immediately after launching dealer registration on July 24, 2009, NHTSA's IT system experienced performance problems. At times, dealers were unable to submit requests for payment and processors were unable to access the system and process transactions. Further, running management reports on the large database interfered with system performance. According to NHTSA, unplanned system outages eventually totaled 80 hours, in addition to extended periods of intermittent

[15] DOT Order 1351.6, CIOP Chapter 1351.6, *Certification, Accreditation and Security Assessments (CA) Controls, Security Accreditation (CA-6)*, May 14, 2009.

or slow service. NHTSA did not stabilize the system until August 28, 2009—3 days after NHTSA stopped accepting dealer payment requests.

The IT system NHTSA selected to manage dealer registration and the transaction database—Oracle's iSupplier—offered some advantages. According to NHTSA officials, iSupplier was comparatively low-cost, could be put into production in 30 days, had the capacity to interact with multiple dealers, and could interface with Delphi—NHTSA's electronic payment system. In addition, DOT was already considering using iSupplier to support its acquisition program, thereby reducing the time and cost of training CARS staff. Despite these advantages, iSupplier was designed as a payment application and required significant software and hardware modifications to manage the CARS transaction processing workflow at multiple processing centers. Further, according to NHTSA officials, their ability to monitor program activity was limited because the iSupplier standard queries were unclear.

NHTSA LACKS A COMPREHENSIVE PLAN TO MONITOR PROGRESS OF REMAINING PROGRAM ACTIVITIES

NHTSA has begun to take action to evaluate program compliance and to determine total program costs—two activities needed to close out the CARS program. At the time of our audit, NHTSA did not have a comprehensive plan for completing these activities. Staff availability to conduct compliance activities has been particularly problematic. Developing and implementing an action plan that identifies the level of effort, scope, and timing needed to complete these activities would help NHTSA close out the program efficiently and better inform the Secretary of Transportation and Congress of the program's progress and overall performance.

Compliance Evaluation Activities Are Under Way

NHTSA has identified more than 2,900 transactions that warrant further examination. The CARS compliance division has either closed or initiated examination of approximately 450 (about 15 percent) of these transactions, and NHTSA personnel are preparing 20 individual cases for civil penalties. By the end of February 2010, compliance activities had led to $82,000 in returned dealer payments. According to NHTSA officials, an additional $3.7 million in voluntarily returned payments could be related to compliance division requests for dealers to review their transactions. We also forwarded for NHTSA's review the unsupported transactions in our sample and three instances where it appeared that one individual participated in more than one CARS transaction.

Our statistical sample indicates that a much larger population of transactions likely requires further review and possible investigation. We estimate with 95 percent confidence that 3.3 percent of transactions lacked supporting documentation in the CARS database at the time of our audit, meaning that almost 22,000 approved transactions could lack proper evidence. (The precision of the estimate does not exceed ±1.7 percent of invoices in the universe.)

Of particular concern is the need for NHTSA to expeditiously complete compliance reviews related to trade-in vehicle disposal. NHTSA is tracking receipt of the certificates that disposal facilities are required to submit after receiving trade-in vehicles. NHTSA is also sampling VINs in NMVTIS, visiting disposal facilities, and speaking with associations and plans to conduct a webinar to promote program compliance. Once the trade-in vehicles are disposed of, physical evidence will no longer exist to verify that disposal requirements have been met. We estimate that most vehicles should be crushed or shredded by July 2010, based on when most dealers received their payments.

Figure 3: Vehicle Crusher at Participating Disposal Facility

Source: OIG

Sufficiently staffing compliance activities has been a problem for NHTSA. To fulfill immediate tasks in the first 30 days of accepting dealer payment requests, NHTSA assigned most of its compliance personnel to processing transactions, answering hotline calls, and conducting training. As a result, NHTSA has a backlog of compliance work, such as entering data from field reviews and analyzing the CARS database.

According to its draft staffing plan, NHTSA intends to staff its CARS compliance division with 27 employees. As of March 2010, 19 staff comprised the division—9 field investigators and 10 headquarters employees. According to NHTSA officials, the agency plans to hire more staff to conduct its remaining compliance work. However, an additional 8 compliance employees might not be sufficient because NHTSA did not revise its compliance staffing estimate to reflect the tripling of CARS funds. Moreover, without gauging the scope and timing of the work or identifying the level of resources it can commit, NHTSA cannot accurately estimate the resources needed to complete compliance reviews, initiate administrative actions to recover payments, and impose civil penalties, when appropriate.

Until Pending Expenses Are Finalized, Total Program Costs Will Remain Uncertain

NHTSA has resolved most dealer requests for payment but does not yet know total program costs. NHTSA continues to incur expenses as it completes program activities, such as responding to Freedom of Information Act requests, establishing program data archives, and determining the award fee related to Citibank's transaction processing contract.[16] NHTSA estimates these contingent costs will add more than $9 million to the $81 million already obligated (see table 2). We did not assess the accuracy of this estimate.

Table 2: CARS Administrative Costs

Purpose	***Dollars***	***Percent of Obligated Funds***
Transaction Processing	$39,681,962	48.75%
Information Technology Services	$33,468,612	41.12%
Staffing	$4,763,913	5.85%
Outreach and Education	$2,986,634	3.67%
Internal Controls	$397,958	0.49%
Space Rental and Infrastructure	$100,000	0.12%
Obligated Funds as of February 18, 2010	**$81,399,079**	**100.00%**
Pending Costs	$9,100,000	
Total with Pending Costs	**$90,499,079**	

Source: NHTSA data

[16] The contract provides for up to $650,000 in performance awards.

In addition, NHTSA has not determined or estimated the cost of approximately 100 DOT employees who helped process dealer payment requests over 10 days in August 2009. The employees charged their employing agencies for the time they spent processing CARS transactions. NHTSA tracked the employees' time as total FTEs each day, but did not track the hours by individual. As a result, NHTSA cannot calculate the cost to the CARS program using actual salary or hourly rates. We estimate that the salary and indirect costs for the employees' time spent processing CARS transactions is about $208,000.

CONCLUSION

Developing and implementing a multi-billion dollar program in a compressed time frame is a challenging and high-risk task. In just 30 days, NHTSA launched the CARS program; and in 2 months paid almost $3 billion to dealers and largely complied with numerous Federal requirements. In meeting this time frame, however, NHTSA did not adequately assess program risks or test the IT system it used to manage dealer registration and the transaction database. Ultimately, these shortcomings resulted in confusion, frustration, and delays. As it closes out the program, NHTSA will be challenged to address risks associated with completing compliance reviews, ensuring that trade-in vehicles are accounted for and destroyed, and determining total program costs. Careful planning would help minimize these risks.

NHTSA's experience implementing and closing the CARS program provides a unique opportunity to inform future, related programs. Efficiently completing remaining program activities and leveraging lessons learned would provide agency and other Federal officials and decision makers with valuable information to assess the CARS program and better prepare for other high-risk programs.

RECOMMENDATIONS

To ensure that NHTSA has the ability to respond to unforeseen challenges in future vehicle retirement or other programs, we recommend that the National Highway Traffic Safety Administrator:

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.

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.

To enable taxpayers and decisions makers to determine the CARS's program performance and final program cost, we recommend that the National Highway Traffic Safety Administrator:

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

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided a draft of this report to NHTSA for review and comment. NHTSA provided us formal comments and additional technical and informal comments. NHTSA's formal comments are included in their entirety as an appendix to this report. In its formal comments, NHTSA described the actions it took to address the many challenges in implementing the program under tight deadlines. NHTSA's response also describes actions it plans to implement to complete the program. Our report recognizes the challenging nature of the program and we welcome the additional insights NHTSA provided in its response. We incorporated technical comments into this report, as appropriate.

NHTSA concurred with our recommendations and provided target completion dates for recommendations 1 and 2. With regard to recommendation 3, NHTSA provided us with a close-out plan on April 14, 2010. The plan establishes a schedule to make necessary policy decisions to determine how to close out the program. NHTSA also identifies certain activities that must be completed before NHTSA can make those policy decisions, including transaction sampling and pilot studies to determine the level of effort, time frames, and costs to complete remaining program activities. Although they provided us with a plan, success will be in the implementation of close-out actions. We will monitor NHTSA's remaining program activities, including pilot studies and policy decisions, development of a comprehensive close-out plan, and implementation of close-out actions.

ACTIONS REQUIRED

We consider NHTSA's planned actions for our recommendations to be reasonable and resolved, subject to the follow-up provisions in Department of Transportation Order 8000.1C. When NHTSA completes its pilot studies, we request that NHTSA provide us target action dates for completing remaining program activities.

We appreciate the courtesies and cooperation of Department and NHTSA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Gary Middleton, Program Director, at (202) 366-0625.

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EXHIBIT A. SCOPE AND METHODOLOGY

We evaluated NHTSA's Consumer Assistance to Recycle and Save (CARS) Program to examine the effectiveness of NHTSA's controls to ensure that CARS transactions met Federal requirements; to identify challenges NHTSA faced in implementing the program; and to assess NHTSA's progress in completing the program, including evaluating compliance and accounting for total program costs. Further, at the request of Senator Charles Grassley, we focused on NHTSA's implementation of the program and its ability to ensure program integrity. This report concludes our audit work to fulfill the congressional requirement for the Department of Transportation Office of Inspector General (OIG) to review and report on the administration of the program.

To conduct this audit, we interviewed personnel from NHTSA's Office of Car Allowance Rebate System, Office of Enforcement, Office of Policy and Operations, Office of Planning, Administrative and Financial Management, and Chief Information Office to determine roles, responsibilities, and direct involvement in the management and oversight of the CARS program. In addition, we reviewed relevant laws, regulations, policies, procedures, and planning documents that established the CARS program, including the authority to operate; guidance for information technology, acquisition, transaction processing and approval, data quality, compliance, and administrative costs and quality assurance; contracts, interagency agreements, and other source selection materials.

We visited the Federal Aviation Administration's (FAA) Enterprise Service Center to gain an understanding of its role in the CARS transaction payment process. We met with officials from the American Association of Motor Vehicle Administrators, Department of Justice, and National Motor Vehicle Title Information System (NMVTIS) regarding the use of NMVTIS to track VINs and brand titles of trade-in vehicles for the CARS program.

We visited several processing centers contracted by NHTSA to review dealer submissions for the CARS program. Locations visited include Citigroup in New Castle, Delaware and Newark, Delaware; Vangent in Chester, Virginia; Internal Revenue Service in Austin, Texas; and FAA Enterprise Service Center in Oklahoma City, Oklahoma. During our visits, we interviewed managers and employees about processing operations and observed actual transaction reviews. We also visited Telesis Corporation, which operated the NHTSA CARS hotline in Beltsville, Maryland.

To project the number and amount of unsupported transactions, we selected a 3-stage probability proportional to size sample from NHTSA's 673,376 paid or ready for payment dealer submissions. For stage 1, we randomly selected 10

states with a probability proportional to a state's total invoice amount. The states selected were California, Georgia, Illinois, Indiana, Kansas, New Jersey, North Carolina, Ohio, Pennsylvania, and Texas. For stage 2, we randomly selected 4 dealerships with a probability proportional to a dealership's total invoice amount from each of the 10 states. Finally, for stage 3, we selected a simple random sample of 10 invoices from each of the 40 dealerships. One dealership had only four invoices, and one invoice was deleted from the sample. Selections were also made with replacement, meaning a state or dealership could have been selected more than once, which happened in Texas; one dealership was selected twice and two invoices were selected twice, resulting in an actual sample size of 39 dealerships and 391 unique invoices. Payment for these transactions was from funds appropriated for the CARS program to operate from July 1, 2009, through November 1, 2009.

We conducted site visits at each of the 39 dealerships and verified the eligibility of the randomly sampled dealer submissions that were approved for payment by NHTSA. Sampled items were extracted from the CARS information technology system and tested against original dealer records kept onsite at each dealership and against transaction eligibility requirements. We also verified the CARS database information against records kept onsite at selected disposal facilities. We used OIG-generated checklists and scanners to record evidence obtained from original dealership and disposal facility records. We interviewed auto dealer and disposal facility personnel to get an understanding of the process used for their participation in the CARS program, and to examine inconsistencies in auto dealer and disposal facility records for CARS transactions. We also assessed the random sample to identify errors in the transaction data and to detect noncompliance with program requirements.

Of the 22 disposal facilities we visited, 18 were randomly selected based on the transactions in our sample. The sample of disposal facilities is too small to project over the universe of transactions. However, it is an unbiased sample that provides insights into the disposal phase of the program and indicators of program performance and controls. The other four facilities include one near Washington, D.C., and three others that we visited at the start of our audit to test our methodology.

We obtained assistance from the OIG senior statistician in developing the sampling methodology, selecting the sample, and projecting the sample results.

We consulted with the OIG Office of Legal, Legislative, and External Affairs on legal and congressional issues related to the CARS program. We also coordinated with the OIG Office of Investigations Desk Officer on investigative issues and with the Director of the OIG Complaint Center to identify and acquire information on any current or recently completed investigations, including hotline complaints.

We provided the Office of Investigations with transactions that appeared to be questionable, based on the requirements of the program, for further review by the OIG Investigations and NHTSA's Office of Enforcement.

We met with GAO to share relevant audit information, to avoid duplication of effort and to coordinate audit milestones in response to the congressional request for both agencies to audit the CARS program.

Our audit was conducted from September 2009 through March 2010. We conducted this performance audit in accordance with generally accepted government auditing standards as prescribed by the Comptroller General of the United States. 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.

EXHIBIT B. CARS ELIGIBILITY REQUIREMENTS FOR TRADE-IN AND NEW VEHICLES

To meet program eligibility requirements, trade-in vehicles had to:

1. Be in drivable condition;
2. Have been continuously insured, in accordance with state law, and registered in the same owner's name for the 1 year prior to the trade-in;
3. Have been manufactured not earlier than 25 years before the date of trade-in, and, in the case of a category 3 vehicle, also be not later than model year 2001; and
4. Have a combined fuel economy of 18 miles per gallon or less for a passenger automobile, category 1 truck, or category 2 truck.

To be eligible to participate in the program, new vehicles had to be a passenger vehicle, a category 1 truck (e.g., sport utility vehicle), a category 2 truck (e.g., larger light duty pickup truck), or a category 3 truck (e.g., medium-duty pickup truck).

Table 3: CARS Eligibility and Incentives

New Vehicle		***Trade-in Vehicle***	***MPG Improvement***	***Incentive***
Type	***Combined MPG****	***Type *****		
Passenger Car	at least 22	Passenger Car	4 to 9	$3,500
		Category 1 Truck	4 to 9	$3,500
		Category 2 Truck	10 or more	$4,500
Category 1 Truck	at least 18	Passenger Car	2 to 4	$3,500
		Category 1 Truck	2 to 4	$3,500
		Category 2 Truck	5 or more	$4,500
Category 2 Truck	at least 15	Category 2 Truck	1	$3,500
		Category 2 Truck	2 or more	$4,500
		Category 3 Truck	not applicable	$3,500
Category 3 Truck	not applicable	Category 3 Truck ***	Similar in size or smaller than trade-in	$3,500

* MPG—Miles per gallon of gasoline.
** Combined MPG less than 18.
*** Model year 2001 or older.
Source: NHTSA

EXHIBIT C. PROGRAM CONTROLS REVIEWED BY OIG FOR SELECTED ELIGIBILITY REQUIREMENTS

During our visits to 39 auto dealerships, we verified the original documents that dealer locations submitted to NHTSA to support their requests for payment. We compared original documents for CARS transactions from dealer files with electronic records that dealerships provided to NHTSA's iSupplier system. Relying on NHTSA guidance and the checklist used by CARS transaction processors, we analyzed the following items to validate the eligibility of the 393 CARS transactions selected in our statistical sample.

Table 4: Selected Eligibility Requirements and Program Controls

Eligibility Requirement	*Work OIG Auditors Performed*	*Program Control*
Front of the Trade-in Vehicle Title	Auditors compared the name, address, signature, and VIN on the original title with title information in iSupplier and performed a full 17-digit VIN check. Auditors also confirmed whether the titles had "Junk cars.gov" or variations, such as "cash for clunkers" written on them.	Prevent titling and resale of trade-in vehicle.
Back of the Trade-in Vehicle Title	Auditors assessed whether "Junkcars.gov" or a variation such as "Cash for Clunkers" was written on the backs of the titles.	Prevent titling and resale of trade-in vehicle.
Current Trade-in Vehicle Registration	Auditors verified proof of current registration by examining the type of proof provided (e.g., registration card, Carfax report). The name, date of registration, and VIN number were compared with iSupplier information to confirm proof of current registration prior to sale. OIG auditors performed a full 17-digit VIN check. NHTSA transaction processors checked the last six digits.	Ensure trade-in vehicle was in use prior to program and was owned by the consumer.
Proof of Insurance for Trade-in	Auditors validated continuous 1-year proof of insurance (e.g. insurance card, letter from insurance company) for the year prior to the sales date. Auditors reviewed proof of insurance documents to compare name, make, model, year of trade-in, VIN, and dates of coverage with iSupplier information. A gap in insurance of 10 days or less was acceptable. OIG auditors performed a full 17-digit VIN check. NHTSA transaction processors checked the last six digits.	Ensure trade-in vehicle was in use prior to program.

Eligibility Requirement	*Work OIG Auditors Performed*	*Program Control*
Purchaser Identification	Auditors confirmed the identification (ID) of purchasers who participated in the CARS program by comparing the original ID (e.g., state issued driver's license) and title information with the ID and title information in iSupplier. We examined the name, address, and ID number of identification documents. In the case of co-purchasers, we examined co-purchaser name, address, and ID number, and in the case of businesses, we examined the identification and/or other pertinent documentation.	Track the participants in the program, verify they are the owners of the trade-in vehicle and purchaser of the new vehicle, ensure they only participate in the program once.
Manufacturer's Certificate of Origin (MCO)	Auditors matched the VIN, make, model, year, purchaser name, and address on the manufacturer's certificate of origin (MCO) for the new vehicle with the MCO in iSupplier. OIG auditors performed a full 17-digit VIN check. NHTSA processors also checked all 17 digits of the VIN for many transactions. For Michigan and California, an application for title or invoice could be submitted in lieu of an MCO. Purchase orders from the manufacturer were acceptable substitutes for MCOs for vehicles that had not been manufactured by the sales date.	Provides NHTSA with details of the purchased vehicle.
NHTSA Summary of Sale or Lease	Auditors verified the purchaser name and signature, dealer signature, dealership sales sheet, voucher amount, manufacturer's suggested retail price below $45,000, the trade-in make, model and year, trade-in VIN, and new vehicle VIN on the NHTSA Summary of Sale/Lease with iSupplier Sale/Lease documents. Auditors reviewed co-purchaser information where applicable.	Provides certification that the dealer and consumer have participated in the program and documents their understanding of penalties for violating Federal requirements.
Fuel Economy Comparison	Auditors validated the correct CARS incentive amount, the trade-in vehicle make, model, year and description, the new vehicle make, model year and description and the fuel economy side-by-side comparison date with iSupplier to ensure that the transaction met the miles per gallon standard based on information provided by the Environmental Protection Agency at fuel.economy.gov.	Provides documentation that the trade-in and new vehicle meet the requirements of the program and documents the incentive amount.

Exhibit C. Program Controls Reviewed by OIG for Selected Eligibility Requirements

EXHIBIT D. SELECTED DEALER VIEWS ABOUT CARS

To obtain dealer views about the program, we interviewed personnel onsite at the 39 dealerships in our statistical sample. The majority of dealerships stated that they were able to register for the program in a timely manner. However, a majority of dealers reported that they had difficulty obtaining supporting documentation from the consumers. About half of the dealers commented that they were able to determine which NHTSA payments they received were for which vehicle sales and why NHTSA rejected some requests for payments. Further, about half of the dealers had problems with the trade-in vehicle disposal process. All 39 dealerships told us they would participate in the program again. Table 5 summarizes the dealerships' responses to our questions.

*Table 5. Dealer Responses During OIG Site Visits**

Question	Yes	No
Did the dealership understand the program requirements at the beginning of the program (July 24, 2009)?	7	28
Did the registration process enable the dealership's timely participation in the program?	34	4
Did the dealership participate in a NHTSA webinar?	18	21
Did the dealership have difficulty registering its bank account information?	7	32
Did the dealership have difficulty changing its bank account information?	3	34
Did the dealership have difficulty obtaining supporting documentation from the consumers?	34	4
Did the dealership understand why NHTSA rejected some requests for payment?	19	19
Could the dealership determine which NHTSA payments were for which vehicle sales?	20	18
Did the dealership encounter problems with the trade-in vehicle disposal process?	20	19
Did the dealership require consumers to sign contingency agreements in case NHTSA did not approve the request for payment?	8	30
Did the dealership retain the new vehicle until NHTSA paid the CARS amount?	2	34
Did the dealership disable any trade-in vehicles' engines for transactions that were later found to be ineligible?	1	32
Would the dealership participate in this program again?	39	0

* Some questions have fewer than 39 responses because some dealerships did not offer opinions for all questions.
Source: OIG

EXHIBIT E. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
Gary Middleton	Lead Program Director
Kerry Barras	Program Director
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Joann K. Adam	Project Manager
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Carlton H. Hamilton	Auditor
Susan Todd	Program Analyst
Petra Swartzlander	Senior Statistician

Special thanks goes to Heather Albert, Special Investigations and Analysis, and William Owens, National Investigative Programs and Operations, and their teams for their support on matters related to investigations and hotline complaints.

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

Digitally signed by David Strickland
DN: cn=David Strickland, o=NHTSA, ou=NOA-1, email=david.strickland@dot.gov, c=US
Date: 2010.04.23 14:21:18 -04'00'

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 Stands 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.