Office of Inspector General

Audit Report

Duplicate Payments

Federal Highway Administration

Report Number: FE-2000-053
Date Issued: February 14, 2000

Memorandum

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

Subject: INFORMATION: Report on Duplicate Payments, FHWA FE-2000-053

Date: February 14, 2000

Reply To Attn Of: Meche:x61496

From: John L. Meche
Deputy Assistant Inspector General
for Financial and Information Technology

To Federal Highway Administrator

This report presents the results of our audit of the Federal Highway Administration (FHWA) payments to the states of Virginia, California, New York, Pennsylvania, and Georgia during Fiscal Year (FY) 1999. Our audit objective was to determine whether reimbursement payments to the five states for highway maintenance and construction costs were valid and supported. This audit was performed in conjunction with our audit of the FY 1999 Highway Trust Fund Financial Statements as required by the Chief Financial Officers Act of 1990.

RESULTS IN BRIEF

We reviewed the validity of FY 1999 Federal-aid highway reimbursements to five states which accounted for about 20 percent of the highway maintenance and construction costs. We found highway maintenance and construction costs were valid and supported by vendor invoices, receiving reports, or inspection reports for 109 of the 110 transactions reviewed. The remaining transaction included a duplicate payment made to the State of Georgia Department of Transportation (State of Georgia).

During FY 1999, the State of Georgia received about $619 million from the Highway Trust Fund for reimbursement of highway maintenance and construction costs. We reviewed the validity of those costs and identified a duplicate payment of $775,534, which prompted us to expand our audit work. In a joint effort with State of Georgia officials, we identified 42 duplicate payments totaling $1.6 million that were made between July 12 and November 23, 1999.

The duplicate payments resulted from a programming problem with a new accounting system, which was installed in July 1999 to replace a system that was not Year-2000 compliant, and weaknesses in controls over the FHWA billing process. FHWA and State of Georgia officials agreed the duplicate payments occurred, and are taking corrective actions to determine whether any more were made and to prevent additional duplicate payments.

BACKGROUND

Congress established the Highway Trust Fund in 1956 to pay the Federal share of Interstate and other Federal-aid highway costs. The Federal gasoline tax (18.4 cents per gallon) is the primary source of revenue for the Highway Trust Fund. For approved Federal-aid highway projects, states perform the highway maintenance and construction work, and request reimbursement from FHWA. The Federal share of approved highway projects is usually between 80 and 90 percent of the total cost.

SCOPE AND METHODOLOGY

This audit was performed in conjunction with our audit of the FY 1999 Highway Trust Fund Financial Statements as of September 30, 1999. To test the validity of Federal-aid highway maintenance and construction costs reported at about $23 billion in the FY 1999 Statement of Net Cost, we judgmentally selected a total of 110 individual expenses totaling $292 million within five states (Virginia, California, New York, Pennsylvania, and Georgia). These expenses were over $100,000 or possibly belonged to prior fiscal years. The five states received about 20 percent of the reimbursements from the Highway Trust Fund in FY 1999. To determine the validity of reimbursements, we interviewed state accounting personnel and reviewed supporting documentation such as vendor invoices, receiving reports, and state inspection reports.

We conducted the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States. This audit was conducted from October to December 1999 at FHWA Division and state Department of Transportation offices in Richmond, Virginia; Sacramento, California; Albany, New York; Harrisburg, Pennsylvania; and Atlanta, Georgia.

ANALYSES AND RECOMMENDATIONS

FHWA reimbursed the five states about $4.9 billion during FY 1999 for highway maintenance and construction costs. Our review of 110 individual expenses showed that highway maintenance and construction costs were valid and properly

supported by vendor invoices, receiving reports, or inspection reports for 109 of the 110 transactions. We identified one payment of $775,534 that was duplicated in the $22.8 million request submitted by the State of Georgia to FHWA on September 23, 1999. We expanded our audit tests, and in a joint effort with State of Georgia officials, a total of 42 duplicate payments totaling $1.6 million were identified that were made between July 12 and November 23, 1999.

State of Georgia procedures require monthly reconciliations of FHWA reimbursement payments with contractor payments. The FY 1997 Single Audit for the State of Georgia did not identify any duplicate payments, but reported inadequate reconciliation procedures in the state Department of Transportation. In responding to the Single Audit Report, State of Georgia officials stated all deficiencies were corrected and reconciliations were completed. However, the duplicate payments we identified had not been detected because reconciliations were not performed after a new accounting system was implemented in July 1999. The Georgia FHWA Division Financial Manager also approved reimbursements to the State of Georgia without detecting any duplicate payments.

The duplicate payments resulted from a programming problem with a new, commercially available accounting system and weaknesses in controls over the FHWA billing process. This new system was purchased to replace an existing system, which was not Year-2000 compliant. According to State of Georgia officials, the new accounting system was implemented in half the expected time, was not sufficiently tested, and was put in use on July 12, 1999, immediately after the State of Georgia opened its FY 2000 books.

State officials explained that, in the new accounting system, requests for payment were incorrectly duplicated if the Federal-aid highway contract had been modified. Since this was a new accounting system, the Georgia FHWA Division Financial Manager should have reviewed the effectiveness of the new system before processing requests for reimbursement. State of Georgia officials agreed the duplicate payments occurred and were reprogramming the new accounting system to prevent additional duplicate payments.

State of Georgia officials told us that other states also had purchased new accounting systems to replace systems that were not Year-2000 compliant. Specifically, of the other four states we visited, only Virginia had purchased a new accounting system to replace an existing system that was not Year-2000 compliant. However, Virginia took about 3 years to obtain and implement the new accounting system, hired a consultant to assist in the implementation, and operated the new system concurrently with the old system. We saw no evidence of duplicate payments in Virginia.

Recommendations

We recommend that the Federal Highway Administrator:

1. Require the Georgia Division Administrator to:

    a. Determine whether additional duplicate payments occurred in the State of Georgia, and recover at least $1.6 million.

    b. Verify that the State of Georgia has reprogrammed the new accounting system to prevent additional duplicate payments.

    c. Review all reimbursements to the State of Georgia until the state demonstrates that controls over the billing process are effective and reimbursement requests are adequately supported.

2. Alert all FHWA Division Financial Managers to identify new accounting systems purchased to replace noncompliant Year-2000 systems, review reimbursements to those states, determine whether controls exist to prevent duplicate payments, and recover any duplicate payments identified.

MANAGEMENT RESPONSE

A draft of this report was provided to the FHWA Administrator on February 2, 2000. FHWA agreed with the finding and recommendations. Corrective actions already have been taken on Recommendation 1. Concerning Recommendation 2, FHWA will notify Division Administrators by February 29, 2000, to review new or changed systems to determine whether system edits are functioning properly to prevent duplicate payments. The complete text of management comments is the Appendix to this report.

OFFICE OF INSPECTOR GENERAL COMMENTS

Actions taken and planned by FHWA are reasonable. No further response to this report is necessary.

We appreciate the courtesies and cooperation of FHWA and state officials. If you have questions, please call Earl Hedges or me at (202) 366-1496.

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APPENDIX
(2 pages)

U.S. Department of Transportation
Federal Highway Administration

Memorandum

Subject: **INFORMATION:** Office of Inspector General Draft Report on Duplicate Payments, FHWA Project Number: 00F3009F000

Date: FEB 10 2000

From: Mr. Frederick G. Wright
Director, Office of Budget and Finance

Reply to: HABF-20

To: Mr. John L. Meche
Deputy Assistant Inspector General
for Financial and Information Technology

We have completed our review of the Office of Inspector General (OIG) draft report on duplicate payments on FHWA project number, 00F3009F000 in the State of Georgia.

In the draft report, the OIG concluded that although the FHWA's FY 1999 maintenance and construction costs for Virginia, California, New York, Pennsylvania, and Georgia were valid and properly supported by source documents, a total of $1.6 million in duplicate payments were identified in the State of Georgia. These duplicate payments were the result of a programming problem with a new accounting system and a weakness in controls over the FHWA billing process in the state. The OIG made two recommendations designed to recover duplicate payments, strengthen the FHWA's controls over new accounting systems and to prevent duplicate payments.

The following comments are offered in response to the report's recommendations.

Recommendations and Responses

The OIG recommends that the Federal Highway Administrator do the following:

Recommendation 1a: Require the Georgia Division Administrator to determine whether additional duplicate payments occurred in the State of Georgia, and recover at least $1.6 million.

Response: Concur. The FHWA Georgia Division and the Georgia Department of Transportation (GDOT) reviewed and identified additional projects with overpayments in the State's new accounting system. All duplicate payments identified have been repaid. These credits were applied on the State's Federal-aid Current Billing in December 1999.

Recommendation 1b: Require the Georgia Division Administrator to verify that the State of Georgia has reprogrammed the new accounting system to prevent additional duplicate payments.

Response: Concur. GDOT has already made the necessary programming change to correct the problem associated with these overpayments and continues to perform queries and analysis of the system to detect similar problems. In addition, the FHWA Georgia Division will develop a Quality Financial Management Improvement Project (QFMIP) for the purpose of reviewing the GDOT billing process for Federal-aid claims. This project will determine the accuracy of the billings and test the system edits that validate the GDOT claims prior to billing the FHWA.

Recommendation 1c: Require the Georgia Division Administrator to review all reimbursements to the State of Georgia until the state demonstrates that controls over the billing process are effective and reimbursement requests are adequately supported.

Response: Concur. The FHWA Georgia Division's financial management staff is now conducting a more aggressive review and assessment of internal controls over the billing system. In addition, FHWA Headquarters, recently, established a new process for validating state claims. The claims are now edited against unpaid obligations on projects prior to payment through our system. These additional edits will help to stop claims that may contain duplicate charges.

Recommendation 2: Alert all FHWA Division Financial Managers to identify new accounting systems purchased to replace noncompliant Year-2000 systems, review reimbursements to those states, determine whether controls exist to prevent duplicate payments, and recover any duplicate payments identified.

Response: Concur. FHWA's Office of Budget and Finance, will issue, by February 29, 2000, a memorandum to the FHWA Division Administrator's (DA) pointing out the audit issues identified at the GDOT and advising the (DA) to review new or changed systems to determine if the system edits are functioning properly to prevent duplicate payments.

We appreciate the opportunity to comment on this draft report on duplicate payments on