Memorandum

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

Subject: INFORMATION: ARRA Advisory – Sampling of Improper Payments in Major DOT Grants Programs
Department of Transportation
Advisory No. AA-2009-002

Date: June 22, 2009

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

Attached is an ARRA Advisory on sampling of improper payments in major DOT grants programs. Consistent with ARRA and OMB guidance, Inspectors General are expected to promptly report potential management and funding risks that could impact the effective and efficient use of ARRA funds. We are not requesting a formal response to this advisory as the key issues and proposed actions included in it were briefed to cognizant Departmental officials and audit liaisons in advance of issuance.

We will post the advisory on our Web site (www.oig.dot.gov/recovery) and www.Recovery.gov. If you have any questions, please call me at (202) 366-1959 or Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

cc: Acting Assistant Secretary for Budget and Programs/Chief Financial Officer
Federal Aviation Administrator
Acting Federal Highway Administrator
Federal Transit Administrator
Martin Gertel, M-1

#
ARRA ADVISORY
American Recovery and Reinvestment Act

Sampling of Improper Payments in Major DOT Grants Programs

Key Issue
The sampling for improper payments made to grant recipients in fiscal year (FY) 2008 was not credible due to an extremely small sample size and the lack of randomness in sample selection. Consequently, the test results do not accurately represent the seriousness and extent of the Department of Transportation’s (DOT) improper payments. Taxpayers deserve assurance that Federal dollars, including new funding disbursed under the American Recovery and Reinvestment Act of 2009 (ARRA), are being spent responsibly.

Proposed Actions for Change
The Department needs to increase its oversight of the contractor’s sampling, including expanding the sample size, to develop a more reliable test for improper payments. These actions are needed now because DOT is about to award a new contract to develop the sampling and testing of FY 2009 improper payments. Such oversight is critical to mitigate potential funding risks for the Department, considering that 77 percent ($37 billion out of $48 billion) of ARRA funds will be dispensed through major grants programs.

Background
The purpose of the Improper Payments Information Act of 2002 (IPIA) was to enhance the accuracy and integrity of Federal payments. To achieve this, it provided a framework for agencies to use in testing for improper payments, identifying their causes, and implementing solutions to reducing them. Further, ARRA requires agencies to exercise stringent oversight of how their funds are used, and the Office of Management and Budget (OMB)—in its guidance on ARRA implementation—emphasizes the need for Federal agencies to implement risk-mitigation actions to minimize the incidence of improper payments.

OMB Circular A–123, Appendix C (August 2006) clarified Government-wide requirements for compliance with IPIA. Specifically, agencies must (1) review all programs and activities and identify those susceptible to significant erroneous payments, (2) obtain a statistically valid estimate of the annual amount of improper payments in programs and activities, (3) implement a plan to reduce erroneous payments, and (4) report estimates of the annual amount of improper payments in programs and activities and progress in reducing improper payments. OMB defines improper payments as those that should not have been made, including those made to an ineligible recipient, for an ineligible service, duplicate payments, those made for services not received, those in the incorrect amount, and those for which documentation to determine propriety is insufficient or lacking.

We are issuing these advisories to promptly report potential management and funding risks consistent with ARRA and OMB guidance.
Sampling of Improper Payments in Major DOT Grants Programs

The Department has determined that four of its major grants programs—the Federal-aid Highway Program, the Federal Transit Administration (FTA) Formula Grants Program, the FTA Capital Investment Grants Program, and the Federal Aviation Administration (FAA) Airport Improvement Program (AIP)—are at risk and susceptible to improper payments, and therefore need to be tested annually. These programs account for 77 percent of DOT ARRA funds.

What We Found
In developing samples for FY 2008 improper payment testing in AIP, the contractor selected an extremely small sample and failed to preserve randomness in that selection. This reduced the chances of finding improper payments, causing misleading results and likely underestimation of improper payments made.

From March 1, 2007 to February 29, 2008, FAA made about 28,000 reimbursement payments to AIP sponsors for some 5 million purchases with a total value of $4.4 billion. The contractor sampled 63 line items (with a total value of $15.4 million); these represented only 0.3 percent of FAA outlays to AIP sponsors. We likewise noticed small sample selections in other major DOT grants programs, such as the Federal-aid Highway Program: its sample had a total value of $20 million, representing just 0.06 percent of the total outlay of $32 billion. While the contractor’s small sample meets minimum OMB requirements, OMB’s own guidance calls for agencies’ using larger samples: “Agencies are encouraged to increase samples above the minimum to achieve greater precision in their estimates.” For example, the Agency for International Development sampled 31 percent of its cash outlays. DOT needs to expand the sample size to instill greater confidence in its sample projection against the universe.

Further, on several occasions, the contractor’s sample-selection for AIP ignored the essential statistical-sampling principle of preserving randomness. For example, the contractor was to select 30 invoices from 30 randomly-selected payment batches. While 30 invoices were selected, they were associated with only 27 payment batches. The contractor did not disclose this deviation to the Department and did not respond to our request for justification. The arbitrary substitution of samples marked a violation of sampling principles and resulted in a sample unrepresentative of the universe. DOT needs to increase oversight of contractor sampling work to ensure the integrity of sample selection.

Future OIG-related Activities
The Department is about to award a new contract to develop its sampling methodology for determining FY 2009 improper payments in the AIP and other high-risk departmental grants programs. To help ensure the integrity of upcoming sample testing, we plan to review the methodology for sample selection and size determination under the new contract, along with departmental actions taken in response to this advisory. Therefore, we are not issuing an audit report on last year’s methodology, or requesting a formal response. This advisory will be posted on our Web site (www.oig.dot.gov) and www.Recovery.gov.

For information on this advisory, please contact Rebecca C. Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.