



U.S. DEPARTMENT OF TRANSPORTATION  
**OFFICE OF INSPECTOR GENERAL**

**DOT's Fiscal Year 2018  
IPERA Compliance Review**

**OST**

Report No. FI2019054

June 3, 2019





## DOT's Fiscal Year 2018 IPERA Compliance Review

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*Mandated by the Improper Payments Elimination and Recovery Act of 2010*

Department of Transportation | FI2019054 | June 3, 2019

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### What We Looked At

The Improper Payments Elimination and Recovery Act (IPERA) requires Federal agencies to report improper payment estimates for all programs identified as susceptible to significant improper payments. It requires agencies to limit improper payments to less than 10 percent of their total program payments, publish their results in the Agency Financial Report (AFR), and comply with regulations the Office of Management and Budget (OMB) developed to implement the act. IPERA also requires inspectors general to submit reports on IPERA compliance to their agency heads. For fiscal year 2018, the Department of Transportation (DOT) reported approximately \$46 billion in payments in programs or activities susceptible to significant improper payments. In addition, DOT estimated that about \$1 billion of those payments were improper payments. We reviewed DOT's improper payment testing results for FY 2018 to determine whether DOT complied with IPERA's requirements as implemented by OMB.

### What We Found

While DOT completed most of its FY 2018 requirements, it did not meet one reduction target, and thus did not comply with IPERA. Specifically, the Federal Highway Administration's (FHWA) Highway Planning and Construction (HPC) program did not meet its reduction target. FHWA projected the amount of HPC improper payments to be approximately \$997 million, or 2.22 percent—1.72 percent higher than FHWA's reduction target of 0.5 percent. The Department did comply with the remaining IPERA requirements; for example, it published an AFR that included improper payment estimates for all programs and activities identified as susceptible to significant improper payments, as well as programmatic corrective action plans. Overall, DOT has taken steps and implemented internal controls to prevent, reduce, and recapture improper payments, and the payment integrity information in DOT's AFR was accurate and complete.

### Our Recommendations

DOT concurred with our recommendation and provided an appropriate action and completion date. Accordingly, we consider the recommendation resolved but open pending completion of the planned action.

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## Memorandum

Date: June 3, 2019

Subject: ACTION: DOT's Fiscal Year 2018 IPERA Compliance Review  
Report No. FI2019054

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

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

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In July 2010, Congress enacted the Improper Payments Elimination and Recovery Act<sup>1</sup> (IPERA)—amending the Improper Payments Information Act (IPIA) of 2002<sup>2</sup>—to prevent the loss of billions in taxpayer dollars. Congress intensified its efforts to identify, prevent, and recover improper payments made from Federal program funds with enactment of the Improper Payments Elimination and Recovery Improvement Act<sup>3</sup> (IPERIA) of 2012.

IPERA requires Federal agencies to report improper payment estimates for all programs identified as susceptible to significant improper payments.<sup>4</sup> It also requires agencies to publish their results in the Agency Financial Report (AFR) and to limit improper payments to less than 10 percent of their total program payments. The act also calls for inspectors general to review their agencies' compliance with IPERA and submit reports to their agency heads.<sup>5</sup> Finally, agencies must also comply with the regulations that the Office of Management and Budget (OMB) has developed to implement the act.

For fiscal year 2018, the Department of Transportation (DOT) reported approximately \$46 billion in payments in programs or activities susceptible to significant improper payments. In addition, DOT estimated that about \$1 billion of those payments were improper payments. We reviewed DOT's improper payment testing results published in the AFR for fiscal year 2018 to determine whether DOT complied with IPERA's requirements as implemented by OMB. We

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<sup>1</sup> Pub. L. No. 111-204.

<sup>2</sup> Pub. L. No. 107-300.

<sup>3</sup> Pub. L. No. 112-248.

<sup>4</sup> OMB defines significant improper payments as improper payments in a program that exceed 1.5 percent of the program's outlays and \$10 million or \$100 million, regardless of the error rate.

<sup>5</sup> Inspectors general also submit their reports to the Senate Committee on Homeland Security and Governmental Affairs, the House of Representatives Committee on Oversight and Government Reform, the Comptroller General, and the Controller of the Office of Management and Budget.

conducted this audit in accordance with generally accepted Government auditing standards except as noted in exhibit A, which details our scope and methodology.

We appreciate the courtesies and cooperation of Department of Transportation representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1407, or Kevin Dorsey, Project Director, at (202) 366-1518.

cc: The Secretary  
DOT Audit Liaison, M-1

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## Background

IPERA defines a payment as any transfer or commitment for future transfer of Federal funds—including cash, securities, loans, loan guarantees, and insurance subsidies—to a non-Federal person or entity, made by a Federal agency, Federal contractor, Federal grantee, or a governmental or other organization administering a Federal program or activity. This definition was amended by IPERIA to include payments to Federal employees, including salary, locality pay, travel pay, purchase card use and other employee payments.

IPERA defines an improper payment as one that should not have been made, or that has an incorrect amount, based on statutory, contractual, administrative, or other legally applicable requirements. This definition includes any payment made to an ineligible recipient, for an ineligible good or service, for goods or services that were not received, or that does not account for applicable discounts. In addition, OMB instructed agencies that are unable, due to insufficient or nonexistent documentation, to determine whether a payment is proper, to consider it to be improper. Improper payments and estimates of improper payments do not necessarily indicate fraud or monetary loss in programs and activities.

In January 2013, Congress enacted the Disaster Relief Appropriations Act (DRAA)<sup>6</sup> which provides aid for Hurricane Sandy victims and their communities. OMB's guidance<sup>7</sup> implementing DRAA states that programs receiving funds under the act are automatically considered susceptible to significant improper payments and are required to calculate and report improper payment estimates.

OMB Circular A-123<sup>8</sup> guides agencies in the implementation of IPIA, IPERA, and IPERIA requirements. The Circular allows agencies to request relief from annual improper payment reporting when a program reduces its improper payment estimates below the statutory threshold for 2 consecutive years. For fiscal year 2018, DOT requested and received OMB approval for relief for the Federal Railroad Administration's (FRA) High Speed Intercity Passenger Rail Program.

OMB Circular A-136, revised,<sup>9</sup> includes the AFR financial reporting requirements that Federal agencies must follow. The Payment Integrity section includes requirements for reporting elements, such as (1) payment reporting, (2) recapture of improper payments, and (3) sampling and estimation.

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<sup>6</sup> Pub. L. No. 113-2.

<sup>7</sup> OMB M-13-07, *Accountability for Funds Provided by the Disaster Relief Appropriations Act (2013)*.

<sup>8</sup> OMB M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement (2018)*.

<sup>9</sup> OMB Circular A-136, revised, *Financial Reporting Requirements (July 30, 2018)*.

For fiscal year 2018, DOT tested three programs for improper payments:

- Federal Highway Administration’s (FHWA) Highway Planning and Construction (HPC) program
- Federal Transit Administration’s (FTA) Emergency Relief Program—Disaster Relief Appropriations Act (ERP-DRAA)
- Office of Inspector General’s (OIG) DRAA Activity

The Department hired a consulting firm (Contractor) to support the implementation of IPERA’s annual estimation requirements. The Contractor developed sampling plans for testing improper payments for FHWA’s and FTA’s programs. It also tested selected invoice payments for FTA’s program.<sup>10</sup> The test results were documented in workbooks. Each Operating Administration’s (OA) management team used these workbooks to determine whether the payments were improper. With guidance from the OAs, the Contractor projected improper payment estimates for these two programs. OIG management decided to conduct a census of its DRAA payments instead of a statistical sample due to the small size of the population. Based on these results, DOT did not have any high-priority programs.<sup>11</sup>

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## Results in Brief

**While DOT’s 2018 AFR accurately reflects and includes all required reporting elements, the Department did not meet one reduction target and thus did not comply with IPERA**

One of the three programs that DOT tested—FHWA HPC—did not meet its fiscal year 2018 reduction target. FHWA determined that 16 of 220 FHWA HPC invoice line items it tested contributed to 11 improper payments totaling \$106,217. FHWA projected the amount of improper payments to be approximately \$997 million, or 2.22 percent—1.72 percent higher than its reduction target of 0.5 percent. These improper payments occurred due to administrative or process errors made by a State or local agency and insufficient documentation. Until the FHWA HPC meets its target reduction rate, the Department will remain noncompliant with IPERA.

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<sup>10</sup> FHWA employees tested their own invoice payments. Also, while the department’s contractor reviewed OIG’s invoice payments, an OIG internal resource from the Office of Budget and Finance (JM-30) assisted by testing OIG payments made to that contractor. This process was conducted with DOT oversight.

<sup>11</sup> For 2018, a high-priority program is defined as a program that exceeds the OMB threshold of \$2 billion in estimated improper payments.

However, DOT complied with the remaining IPERA requirements. For example, DOT published an AFR that included improper payment estimates for all programs and activities identified as susceptible to significant improper payments, as well as programmatic corrective action plans. Additionally, DOT reported a gross improper payment rate of less than 10 percent for each program and activity for which improper payment estimates were obtained. Further, we found that the Department has begun implementation of its corrective action plan, which focuses on root causes of improper payments. Overall, DOT has taken steps and implemented internal controls to prevent, reduce, and recapture improper payments, and the payment integrity information in DOT's AFR was accurate and complete.

We are making one recommendation to help DOT improve its ability to meet the payment reduction target for FHWA HPC and comply with OMB requirements. See exhibit D for the status of prior year recommendations.

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## DOT Did Not Comply With IPERA Requirements

We found that DOT did not comply with IPERA requirements for 2018. While two<sup>12</sup> of the three programs DOT tested complied with IPERA requirements, one program did not. Specifically, the FHWA HPC program did not meet its target reduction goal.<sup>13</sup> Although FHWA HPC did not meet its reduction target resulting in overall non-compliance with IPERA, we found that DOT complied with the remaining requirements including publishing and posting an AFR, conducting program specific risk assessments, publishing improper payment estimates for all programs susceptible to significant improper payments, and reporting a gross improper payment rate of less than 10 percent. Still, OMB states that an agency is non-compliant if it does not meet one or more requirements. Table 1 below summarizes DOT's compliance with IPERA by program.

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<sup>12</sup> The two programs in compliance are FTA's ERP-DRAA and OIG's DRAA Activity.

<sup>13</sup> OIG's Senior Statistician evaluated the quality of DOT's improper payment estimates and methodology and concurred with DOT's sampling methodology and extrapolation results.

Table 1. DOT’s Compliance With Improper Payment (IP) Criteria by Program

	Program	Overall Assessment	Published in AFR	Conducted Risk Assessment <sup>a</sup>	Published IP Estimates	Published CAPs <sup>b</sup>	Published and Met Reduction Goals	Reported IP Rate Below 10%
<b>FY 2018 DOT Overall Results</b>	-	<b>Non-Compliant</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>Yes</b>	<b>No</b>	<b>Yes</b>
FY 2018 Results by Program	FHWA HPC	Non-compliant	Yes	N/A	Yes	Yes	No	Yes
	FTA ERP-DRAA	Compliant	Yes	N/A	Yes	N/A	Yes	Yes
	OIG-DRAA	Compliant	Yes	N/A	Yes	N/A	Yes	Yes

<sup>a</sup> OMB Circular A-123, appendix C, establishes that programs already reporting an improper payments estimate do not have to perform additional risk assessments. These programs are shown as “N/A” for this requirement.

<sup>b</sup> CAPs are corrective action plans. OMB Circular A-123, appendix C, requires corrective actions for all programs with improper payments exceeding the statutory thresholds (1.5 percent of program outlays and \$10 million or \$100 million regardless of the error rate). FHWA’s HPC was the only program that exceeded the statutory threshold.

Source: OIG analysis

## FHWA HPC Did Not Meet Its 2018 IPERA Reduction Target

FHWA HPC did not reach its target reduction rate, which means the Department did not achieve overall compliance. DOT met most of the IPERA requirements, and two of the three programs tested were fully compliant. However, OMB states that an agency is considered non-compliant if it does not meet one or more IPERA requirements.

Specifically, FHWA HPC did not achieve the fiscal year 2018 target to reduce improper payments to 0.5 percent of overall program expenditures. FHWA determined that 16 of 220 FHWA HPC invoice line items tested contributed to 11 improper payments totaling \$106,217—resulting in estimated total improper payments of about \$997 million.<sup>14</sup> The reported rate of improper payments for

<sup>14</sup> According to DOT, one finding’s extrapolation accounted for over \$850 million of this estimate due to the statistical calculations. The other 15 accounted for approximately \$150 million, which is more consistent with prior year testing.

fiscal year 2018 was 2.22 percent, which is 1.72 percent greater than the established reduction target. The two major causes for these 11 improper payments were administrative or process errors made by a State or local agency and insufficient documentation. More specifically, an estimated total of \$978,036,499 resulted from administrative or process errors and \$18,962,428 were made due to insufficient documentation.

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## **DOT's Corrective Action Plan for FHWA HPC Focuses on Root Causes of Improper Payments**

DOT included three corrective actions in the fiscal year 2018 AFR to address the FHWA HPC's lack of success in meeting its improper payment reduction target. According to OMB, programs and activities susceptible to significant improper payments—exceeding 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported—must have a corrective action plan to prevent and reduce the improper payment amount. For fiscal year 2018, FHWA HPC reported an estimated improper payment amount of \$997 million, which is over this statutory threshold for reporting corrective actions.

The root causes for these improper payments were administrative or process errors made by a State or local agency and insufficient documentation provided by a State or local agency. As a result, FHWA planned to implement the following corrective actions:

- Advise select grant recipients of the root cause for their improper payments and coordinate issue-specific corrective actions with those grantees.
- Conduct additional transaction testing in fiscal year 2019 in addition to IPIA testing to continue to assess potential risk areas for improper payments in State-administered processes.
- Reemphasize the guidance produced in 2018 to division offices highlighting the need to ensure State processes include adequate record retention.

According to DOT's Office of the Secretary (OST) and FHWA, these corrective actions are in progress, and should be completed by early fiscal year 2020. For example, FHWA is currently coordinating with its grantees on how to proceed with recovering outstanding improper payments identified during testing, updating performance standards to include additional payment reviews, and designing training on how to implement internal controls for proper record retention.

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## The Payment Integrity Information in the AFR Was Accurate and Complete

DOT met OMB's payment integrity reporting requirements, listed in circular A-136, by including all the required elements in the AFR. For example, we performed testing and verified that the improper payment data that DOT presented in the AFR were accurate and appropriately presented. Additionally, in the Payment Integrity section, DOT informed readers that additional detailed information on improper payments can be found on the payment accuracy website<sup>15</sup> and included a link. DOT also demonstrated adequate payment integrity controls. We also found that DOT uses checklists aligning to IPERA reporting requirements to adhere to planned timelines. Moreover, DOT provided documentation to support its completion of OMB required reporting elements and designation of appropriate resources. Further, according to DOT officials, OST collaborated with multiple OA financial and program officials to obtain specific information on improper payment reporting.

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## DOT Has Taken Steps To Reduce and Recapture Improper Payments

As required by OMB, DOT continues to take steps to reduce and recapture improper payments. We found that DOT's overall efforts can be summarized within four categories: (1) risk assessments, (2) improper payment estimating, (3) payment recapture and (4) a Do Not Pay Initiative (DNP).<sup>16</sup> As a result of the risk assessment, when a program is identified as susceptible to significant improper payments and improper payment estimates are calculated, programmatic weaknesses are identified and addressed either by corrective actions, system changes, or training. To assist with this effort, DOT has established an internal controls working group that includes representatives from all OAs. Payment recapture audits are performed and collection actions are pursued, when applicable. Specifically, for fiscal year 2018, DOT reported payment recaptures of \$28.95 million. We reviewed the three highest improper payments identified—totaling \$3,065,221—and found that the Department had recovered these funds. Lastly, DOT performs online searches and screens payments as part of its DNP efforts.

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<sup>15</sup> <https://paymentaccuracy.gov>

<sup>16</sup> Available through the Department of Treasury, Do Not Pay is an analytics tool that helps Federal agencies detect and prevent improper payments made to vendors, grantees, loan recipients, and beneficiaries.

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## Conclusion

In fiscal year 2018, DOT reported approximately \$46 billion in payments for programs susceptible to significant improper payments. While DOT strives to meet OMB's reporting requirements, an estimated \$1 billion in improper payments were reported in fiscal year 2018, mostly attributable to the FHWA HPC program. Since FHWA HPC is by far DOT's largest grant program and accounts for the majority of these improper payments, DOT and FHWA must continue to work with grantees to address and correct the underlying causes for improper payments. Otherwise, achieving full compliance with IPERA will continue to be a challenge for DOT.

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## Recommendations

To help the Department of Transportation improve its processes for conducting IPERA testing and to better assist the Department in achieving full compliance with IPERA, we recommend that DOT's Assistant Secretary for Budget and Programs/Chief Financial Officer:

1. Implement procedures to ensure FHWA provides additional guidance to State and local agencies that receive Highway Planning and Construction funds on the importance of eliminating administrative or process errors and maintaining adequate documentation to support payments requests.

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## Agency Comments and OIG Response

We provided DOT with our draft report on May 16, 2019, and received its response on May 24, 2019, which is included as an appendix to this report. DOT concurred with our recommendation and provided an appropriate action and completion date. Accordingly, we consider this recommendation resolved but open pending completion of the planned action.

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## Actions Required

DOT concurred with our recommendation and provided an appropriate action and completion date. Accordingly, we consider this recommendation resolved but open pending completion of DOT's planned action.

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## Exhibit A. Scope and Methodology

We conducted this performance audit between November 2018 and May 2019 in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States, except as noted below. 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.

Generally accepted Government auditing standards require us to disclose impairments of independence or any appearance thereof. OMB requires all Federal programs or activities receiving funds under DRAA to calculate and report improper payment estimates. OIG received funds under this act and reported improper payments. Because OIG-DRAA is a small component of the Department—based on the amount of outlays—any testing pertaining to OIG-DRAA did not impair our ability to reach overall conclusions pertaining to DOT.

We reviewed applicable laws and regulations, and interviewed DOT personnel responsible for IPERA's implementation. To further assess the Department's compliance with OMB requirements, we: (1) evaluated the accuracy and completeness of agency reporting, and reducing and recapturing improper payments; (2) reviewed statistical sampling plans and improper payment rate estimates to determine whether the sampling and estimation plan used is appropriate given program characteristics; (3) evaluated corrective action plans to determine whether the corrective actions are focused on the true root cause; and (4) reviewed internal controls to prevent and reduce improper payments. We evaluated whether DOT complied with OMB Circular A-136 requirements and reviewed documentation which supports the amounts from the largest three overpayment recoveries.

OMB's appendix C to Circular A-123 requires reports from inspectors general to include summaries on their agencies' compliance. Specifically, inspectors general must report on whether their agencies:

- Published an AFR or Performance Accountability Report (PAR) for the most recent fiscal year and any accompanying materials required by OMB on the agency's website;
- Conducted a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. § 3321 (if required);
- Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;

- Published programmatic corrective action plans in an AFR or PAR;
- Published and met annual reduction targets for each program assessed to be at risk and estimated for improper payments; and
- Reported in an AFR or PAR a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained.

We also evaluated DOT's assessment of the level of risk associated with its programs, and determined the Department performed an assessment for most programs during fiscal year 2017; therefore, a Departmentwide assessment was not required. Moreover, we reviewed DOT's policies and procedures for identifying when a program that is on a 3-year risk assessment cycle needs to be reassessed within the cycle based upon legislative changes, new programs, and significant funding increases.

OIG's Senior Statistician evaluated the quality of the improper payment estimates and methodology and concurred with DOT's sampling methodology and extrapolation results. The Senior Statistician's team also selected a stratified random attribute sample of 57 of 311 invoice line items or 2.3 million of 29.3 million that the Department and its Contractor had tested and found to be proper. The sample design would have allowed us to estimate the number of transactions that should have been classified as improper with 90 percent confidence and a precision no greater than +/-10 percent. We retested the propriety of those conclusions in (1) FHWA's HPC, (2) FTA's ERP-DRAA, and (3) OIG-DRAA. The supporting documentation included summary schedules, grant agreements, invoices, checks, and payment vouchers, among other documents. We found no additional improper payments upon testing these samples.

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## **Exhibit B.** Organizations Visited or Contacted

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### **Department of Transportation Facilities**

Office of the Secretary

Federal Highway Administration

Office of Inspector General

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## Exhibit C. List of Acronyms

AFR	Agency Financial Report
CAP	Corrective Action Plan
DNP	Do Not Pay
DOT	Department of Transportation
DRAA	Disaster Relief Appropriations Act
ERP	Emergency Relief Program
FHWA	Federal Highway Administration
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
HPC	Highway Planning and Construction
IP	Improper Payments
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
JM-30	Office of Budget and Finance
OA	Operating Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
OST	Office of the Secretary

## Exhibit D. Status of Prior Year Recommendations

Report Number	Fiscal Year	Recommendation	Closure Date
FI2018055	2017	Implement procedures to ensure the Federal Transit Administration distributes guidance to selected grant recipients on the importance of accurate submission and proper review of timesheets to improve proper allocation of labor efforts and the identification and retention of required documentation to support a payment as proper in the Emergency Relief Program–Disaster Relief Appropriations Act program.	May 31, 2018
FI2018055	2017	Work with the Office of Inspector General (OIG) to ensure it provides additional, clear and precise travel guidance to employees and approving officials on the preparation and proper review of travel vouchers to improve the allocation of travel expenses OIG-DRAA fund activity.	May 31, 2018
FI2018055	2017	Work with OIG to ensure it updates its travel guidance to add instructions on how to split or allocate DRAA-related travel expenses to the appropriate accounting codes including codes for indirect costs and trains employees how to use this guidance.	November 2, 2018

Source: OIG Recommendation Tracking System

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## Exhibit E. Major Contributors to This Report

KEVIN DORSEY	PROGRAM DIRECTOR
BRIAN FRIST	PROJECT MANAGER
MARTHA MORROBEL	SENIOR IT SPECIALIST
ZACHARY SCOTT	SENIOR AUDITOR
CHRISTINA BURGESS	ANALYST
GEORGE ZIPF	SUPERVISORY MATHEMATICAL STATISTICIAN
PETRA SWARTZLANDER	SENIOR STATISTICIAN
MAKESI ORMOND	STATISTICIAN
SUSAN CROOK-WILSON	WRITER-EDITOR

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## Appendix. Agency Comments



U.S. Department of  
Transportation

Office of the Secretary  
of Transportation

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## Memorandum

MAY 23 2019

**Subject:** INFORMATION: Management Response to the Office of Inspector General (OIG) Draft Report on the Fiscal Year 2018 IPERA Compliance Review

**From:** Jennifer Funk  
Deputy Chief Financial Officer

**To:** Louis King  
Assistant Inspector General for Financial and Information Technology Audits

The Department of Transportation (DOT), as steward of taxpayer dollars, exercises rigorous management and oversight over its program expenditures. DOT prioritizes reducing improper payments through robust internal control programs and by establishing aggressive goals.

Based on our review of the draft report, we concur with the recommendation to help DOT improve its ability to meet the payment reduction target for Federal Highway Administration's Highway Planning and Construction Program. The Department plans to complete actions related to the recommendation and request closure by June 1, 2020.

We appreciate the opportunity to respond to the OIG's draft report. Please contact Daniel King, Associate Director, Financial Reporting and Internal Controls, at (202) 366-5381 with any questions.

# U.S. DOT IG Fraud & Safety Hotline

[hotline@oig.dot.gov](mailto:hotline@oig.dot.gov) | (800) 424-9071

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U.S. Department of Transportation  
1200 New Jersey Ave SE  
Washington, DC 20590



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