



OST

Report FS2022030
June 27, 2022

DOT's Fiscal Year 2021 Payment Integrity Information Act
Compliance Review



DOT's Fiscal Year 2021 Payment Integrity Information Act Compliance Review

Required by the Payment Integrity Information Act of 2019

Department of Transportation | FS2022030 | June 27, 2022

What We Looked At

The Payment Integrity Information Act of 2019 (PIIA) requires agencies to identify, report, and reduce improper payments in programs susceptible to significant improper payments. For fiscal year 2021, the Department of Transportation (DOT) tested three programs with total expenditures over \$49 billion and estimated that about 1.41 percent were improper payments. PIIA also requires inspectors general to report annually on their agencies' compliance. Accordingly, our audit objective was to determine whether DOT complied in 2021 with PIIA's requirements.

What We Found

DOT is in compliance with PIIA requirements. For fiscal year 2021, DOT reported improper payment estimates for three susceptible programs. The payment integrity information in DOT's 2021 Agency Financial Report and data posted to the Payment Accuracy website were accurate and complete. A clerical error related to payment recapture data for two programs occurred but did not impact DOT's compliance with PIIA. DOT conducted four risk assessments for programs and reported one program, the Federal Transit Administration's (FTA) Coronavirus Aid, Relief, and Economic Security Act program, susceptible to significant improper payments. DOT published improper and unknown payment amounts and estimated future rates on the Payment Accuracy website. However, we found issues with the universe population identification procedures for the Federal Aviation Administration's and FTA's Bipartisan Budget Act of 2018 activities. The Federal Highway Administration's (FHWA) Highway Planning and Construction Program did not meet its reduction target of .80 percent and reported estimated improper payments about \$697 million. The total estimate did not impact FHWA's compliance with PIIA. For fiscal year 2021, DOT reported an improper and unknown payment estimate of less than 10 percent. FHWA improved its corrective action plan by focusing on root causes of improper and unknown payments and prioritized these actions.

Our Recommendations

We are making three recommendations to help DOT improve its reporting processes for improper payments.

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Memorandum

Date: June 27, 2022

Subject: INFORMATION: DOT's Fiscal Year 2021 Payment Integrity Information Act Compliance Review | Report No. FS2022030

From: Dormayne "Dory" Dillard-Christian *D. Dillard-Christian*
Assistant Inspector General for Financial Audits

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

The Payment Integrity Information Act of 2019 (PIIA)¹ requires agencies to identify, report, and reduce improper payments in programs determined to be susceptible to significant improper payments.² It also requires agencies to publish any applicable payment integrity information required in the accompanying materials to the annual financial statements in accordance with applicable guidance. For fiscal year 2021, the Department of Transportation (DOT) performed sampling and testing procedures on three programs with total expenditures of more than \$49 billion and estimated that about \$697 million (1.41 percent) of those were improper payments.

PIIA also requires inspectors general to report annually on their agencies' compliance. Accordingly, our audit objective was to determine whether DOT complied in 2021 with PIIA's requirements as prescribed by the Office of Management and Budget (OMB).

We conducted this audit in accordance with generally accepted Government auditing standards. Exhibit A details our scope and methodology. Exhibit B lists the organizations we visited or contacted and exhibit C contains a list of acronyms used in this report. Exhibit D presents the status of our PIIA related recommendations to the Department from previous years.

¹ Pub. L. No. 116-117. To improve efforts to identify and reduce improper payments, PIIA reorganizes and revises prior improper payment legislation: Improper Payments Information Act of 2002 (IPIA), Pub. L. No. 107-300; the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Pub. L. No. 111-204; and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), Pub. L. No. 112-248.

² OMB defines "significant improper payments" as improper payments that exceed 1.5 percent of a program's outlays and \$10 million or \$100 million, regardless of the error rate.

We appreciate the courtesies and cooperation of DOT representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-8543 or Lisa Williams, Program Director, at (202) 754-4539.

Background

The Improper Payments Elimination and Recovery Act of 2010 (IPERA)³ amended the Improper Payments Information Act of 2002⁴ (IPIA) and required agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments. Congress strengthened IPERA with the Improper Payments Elimination and Recovery Improvement Act of 2012⁵ (IPERIA). In 2020, PIIA repealed all prior improper payment acts.⁶

PIIA requires inspectors general to review their agencies' compliance with PIIA and submit reports to their agency heads.⁷ The act maintains certain provisions from the previous laws and introduces new ones. It also includes additional reporting requirements for inspectors general, including an evaluation of agency efforts to prevent and reduce improper payments.

PIIA 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 governmental or other organization administering a Federal program or activity.

PIIA defines an improper payment as one that should not have been made, or that was made in an incorrect amount, including an overpayment or underpayment, 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 credit for applicable discounts. Duplicate payments are also considered improper. OMB instructs agencies that are unable—due to insufficient or nonexistent documentation—to determine whether a payment is proper to consider it as improper. Improper payments and estimates of improper payments do not necessarily indicate fraud or monetary loss in programs and activities.

PIIA requires the head of each executive agency to periodically review all the agency's programs and activities and identify programs and activities with outlays exceeding the statutory improper payment threshold, \$10 million of reported program or activity payments made during the fiscal year and 1.5 percent of

³ Pub. L. No. 111-204.

⁴ Pub. L. No. 107-300.

⁵ Pub. L. No. 112-248.

⁶ IPIA, IPERA, IPERIA, and the Fraud Reduction and Data Analytics Act of 2015.

⁷ PIIA also requires inspectors general to submit their reports to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Reform, the Comptroller General, and OMB.

program outlays, or \$100 million, that may be susceptible to significant improper payments.

OMB Circular A-123, revised in 2021,⁸ provides guidance to agencies on implementing PIIA. The guidance is intended to allow agencies to spend less time complying with low-value activities and more time researching causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments. The circular also requires programs and activities reporting improper payment estimates that exceed the statutory threshold to have corrective action plans to prevent and reduce improper payments. It also requires high-priority programs⁹ to publish information on improper payments quarterly, on the Payment Integrity Scorecard at paymentaccuracy.gov.¹⁰

OMB Circular A-136, as revised, includes the Agency Financial Report (AFR), financial reporting requirements that Federal agencies must follow. The AFR's Payment Integrity section should include elements, such as actions taken to address auditor recovery recommendations.

For fiscal year 2021, DOT reported the following programs or activities susceptible to significant improper payments and subject to PIIA reporting requirements:

- **Federal Aviation Administration's (FAA) Bipartisan Budget Act of 2018 Activities (BBAA).** This activity supports hurricane relief efforts in Puerto Rico, the United States Virgin Islands, Florida, and Texas and nationwide coronavirus mitigation efforts.
- **Federal Highway Administration's (FHWA) Highway Planning and Construction (HPC) Program.** This program supports State and local governments in the design, construction, and maintenance of the Nation's highway system. Additionally, the program includes emergency relief funds for the repair or reconstruction of highways and roads which have suffered serious damage because of natural disasters or catastrophic failures from external causes.

⁸ OMB M-21-19, transmittal of appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement* (March 2021).

⁹ High-priority programs are programs with improper payments resulting in monetary loss that exceed \$100,000,000 annually. OMB may determine that a program is high-priority for reasons other than exceeding the dollar threshold.

¹⁰ A website established to create a centralized location to publish information about improper and unknown payments.

- **Federal Transit Administration’s (FTA) BBAA.** This activity supports hurricane relief efforts in Puerto Rico, the United States Virgin Islands, Florida, and Texas.

DOT hired consulting firms (contractors) to support the implementation of PIIA’s annual estimation requirements. The contractor developed sampling plans for testing payments for FAA’s, and FTA’s activities and FHWA’s program. 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 contractors projected improper payment estimates for the two activities and a program. Based on these results, DOT has one high-priority program—FHWA’s HPC.

Results in Brief

DOT was in compliance with PIIA requirements for fiscal year 2021.

For fiscal year 2021, DOT reported improper payment estimates for three programs that it had identified in fiscal year 2020 as susceptible to significant improper payments. Generally, the payment integrity information in DOT’s 2021 AFR and data posted to the Payment Accuracy website were accurate and complete. We did note a clerical error related to payment recapture data reported for two departmental programs but the error did not impact DOT’s compliance with PIIA. In addition, as required, DOT conducted four risk assessments for programs likely to make improper payments and unknown payments¹¹ above or below the statutory threshold. DOT reported that one program, FTA’s Coronavirus Aid, Relief, and Economic Security Act¹² (CARES) program, is susceptible to significant improper payments, and accordingly, will be reviewed during DOT’s fiscal year 2022 improper payment review. Furthermore, DOT published improper and unknown payment amounts and estimated future improper and unknown payment rates on the Payment Accuracy website in the accompanying materials to the financial statements. However, we found issues with the universe population identification procedures for FAA and FTA BBAA activities. FHWA’s HPC did not meet its reduction target of .80 percent and reported estimated improper payments of 1.41 percent or about \$697 million; however, the total estimate resided within the statistically accepted range and therefore did not impact FHWA’s compliance with PIIA. DOT reported an

¹¹ An unknown payment is one that could be either proper or improper but the agency is unable to discern whether it was proper or improper due to insufficient or no documentation.

¹² The Coronavirus Aid, Relief, and Economic Security Act of March 2020 (Pub. L. No. 116-136) includes \$36.1 billion in overall transportation funding to provide relief from the COVID-19 pandemic.

improper and unknown payment estimate of less than 10 percent for all programs reporting improper payments in fiscal year 2021. For example, FAA's and FTA's BBAs reached a tolerable improper and unknown payment rate with less than 1 percent of improper payments found during testing. FHWA improved its corrective action plan by focusing on true root causes of improper and unknown payments and prioritized these actions within DOT.

We are making recommendations to help DOT improve its reporting processes for improper payments. See exhibit D for the status of prior year recommendations.

DOT Was in Compliance With PIIA Requirements for Fiscal Year 2021

DOT complied with PIIA requirements. Specifically, with the exception of a minor error in its reporting of payment recapture data, the Department published accurate and complete payment integrity information in its AFR and to the Payment Accuracy website. DOT conducted improper payment risk assessments with a qualitative or quantitative¹³ approach and published a corrective action plan for FHWA HPC that demonstrated improvement. DOT reported an improper and unknown payment estimate of less than 10 percent for the programs or activities reviewed during fiscal year 2021.

DOT Complied With PIIA's Program-Specific Requirements

DOT complied with PIIA's requirements for the three programs identified as susceptible to significant improper payments. According to OMB, an agency is in compliance with PIIA's requirements when it meets the following requirements:

- Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement of the agency for the most recent fiscal year in accordance with OMB guidance;

¹³ A qualitative improper payment risk assessment is a technique used to quantify risk associated with improper and unknown payments. It prioritizes identified improper and unknown payment-related risks using a pre-defined rating scale. A quantitative improper risk assessment focuses on the measurable and often pre-defined data such as improper and unknown payment amounts. It also provides numerical improper payment amounts and assesses the probability of occurrence.

- Posted the annual financial statement and accompany materials required under guidance of OMB on the agency website;
- Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 and 1.5 percent of program outlays or \$100 million at least once in the last 3 years;
- Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold;
- Published improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the annual financial statement;
- Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
- Published an improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
- Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate;
- Developed a plan to meet the improper and unknown payment reduction target; and
- Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.

See table 1 for a summary of DOT's compliance.

Table 1. DOT’s Fiscal Year 2021 Compliance With Improper and Unknown Payment Criteria, by Program

	Program	Overall Assessment	Published in AFR	Posted on Agency Website	Conducted IP Risk Assessment ^a	Concluded program likely to make IPs and UPs	Published IP and UP Estimates	Published CAPs ^b	Published Reduction Target	Demonstrated Improvement ^c	Develop a Plan	Reported IP and UP Below 10%
Fiscal Year 2021 DOT Overall Results	-	Compliant	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fiscal Year 2021 Results by Program	FAA BBAA	Yes	Yes	Yes	N/A	N/A	Yes	N/A	Yes	Yes	Yes	Yes
	FHWA HPC	Yes	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	Yes
	FTA BBAA	Yes	Yes	Yes	N/A	N/A	Yes	N/A	Yes	Yes	Yes	Yes

^a In fiscal year 2021, DOT conducted four risk assessments. FAA BBAA, FHWA’s HPC and FTA BBAA programs are shown as “N/A” for this requirement since the Department is already reporting an improper payment estimate

^b OMB Circular A-123, appendix C, requires corrective action plans (CAP) for all programs with improper payments exceeding the statutory threshold of 1.5 percent of program outlays and \$10 million or \$100 million regardless of the error rate. Only FHWA’s HPC exceeded the threshold.

^c FAA and FTA did not have to demonstrate improvement since this was their first year of reporting. These programs reached the tolerable improper (IP) and unknown payment (UP) rate.

Source: OIG Analysis

Payment Integrity Information in DOT’s AFR and Data Posted to the Payment Accuracy Website Were Accurate and Complete, With One Clerical Error

DOT met the reporting requirements established in OMB’s Circular A-136 for payment integrity information, by publishing the required information with the annual financial statement and posting data in the accompanying materials information on the Payment Accuracy website.¹⁴ Overall, except for a minor

¹⁴ <https://paymentaccuracy.gov>

discrepancy we identified, the payment integrity information the Department reported was accurate and complete.

Specifically, we found that DOT met reporting requirements to include in its fiscal year 2021 annual financial statement for payment accuracy results, estimated amounts and percentages properly and improperly paid for the FAA BBAA, FHWA HPC, and FTA BBAA programs. Also, the payment accuracy website link was included in the annual financial statement as required by OMB. The payment integrity information posted on the Payment Accuracy website included DOT’s improper payment risk assessments conducted, actions to reduce improper payments, future reduction targets, a corrective action plan for FHWA HPC, root causes of improper payments, and recapturing overpayments for DOT’s programs.

However, we noted a clerical error that did not impact DOT’s overall compliance. Specifically, for two programs, FHWA HPC and the Office of the Secretary of Transportation (OST) Grant Programs, the amount of improper payments identified and the amount recovered were reported under the heading “Overpayments recaptured outside payment recapture audits.” Instead, they should have been reported under “Overpayments recaptured through payment recapture audits.” We verified that the amounts reported for these programs were correct and the figures were simply recorded under the incorrect heading. See table 2 for the correct representation of this data.

Table 2. Payment Recaptures Data, as Corrected

Program	Overpayments Recaptured Outside Payment Recapture Audits		Overpayments Recaptured Through Payment Recapture Audits	
	Amount Identified	Amount Recovered	Amount Identified	Amount Recovered
-				
FHWA HPC	-	-	\$625,000	\$171,000
OST Grant Programs	-	-	\$1,500,000	\$388,000

Source: OIG analysis

DOT’s Risk Assessment Process Complied With OMB and PIIA Requirements

Circular A-123 requires agencies to conduct an improper payment risk assessment of all programs with annual outlays greater than \$10 million and 1.5 percent of program outlays or \$100 million at least once in the last 3 years. In fiscal year 2021, DOT complied with this requirement and conducted improper payment risk assessments for four programs—FAA CARES Act, Federal Railroad

Administration CARES Act, FTA CARES Act, and FTA Emergency Relief. DOT used risk factors that included but were not limited to: (1) the complexity of the program reviewed; (2) the volume of payments made through the program reviewed; (3) whether payments or payment eligibility decisions are made outside of the agency, such as by a State or local government; (4) recent major changes in program funding, authorities, practices, or procedures; and (5) significant deficiencies in the audit report or other relevant management findings of the agency that might hinder accurate payment certification.

OMB guidance¹⁵ states that when conducting a risk assessment, the agency should ensure that the assessment supports whether the program is or is not susceptible to significant improper payments. Agencies can use a quantitative or qualitative approach. DOT used a quantitative risk approach to conduct the FAA CARES Act risk assessment, which included statistical sampling and estimation planning of improper payments, to determine susceptibility and risk. Based on the results of its risk assessments, the Department adequately concluded that three programs are likely to make improper payments below the statutory threshold, and one program, the FTA CARES Act Program, is susceptible to significant improper payments. As a result, the Department plans to report an improper payment estimate for the FTA CARES Act Program with its fiscal year 2022 reporting.

DOT Published One Corrective Action Plan for FHWA HPC

During fiscal year 2021, DOT was required to publish a corrective action plan for FHWA HPC because the program was deemed at risk of significant improper payments. DOT did not publish corrective action plans for FAA BBAA and FTA BBAA because these programs reported improper payments below the statutory threshold.¹⁶

The Department reported that it developed a corrective action plan for FHWA HPC to address improper payments caused by a failure to access data/information, or statutory requirements of program were not met. Overall, the focus of the corrective action is on 20 improper payments made by State and/or local grant recipients during the fiscal year 2021 testing period.

¹⁵ OMB M-21-19, transmittal of appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement*, March 2021.

¹⁶ The statutory threshold represents (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the fiscal year reported or (2) \$100 million.

DOT's plan states that FHWA will work with grant recipients to improve project documentation and/or payment processes or address training deficiencies, as applicable for each improper payment. Underpayments will be evaluated with the grant recipient for appropriate compensation.

FHWA officials stated that Division offices reported completion of corrective actions on 9 of 15 improper payments identified during fiscal year 2020 testing, and the remaining actions are nearly complete. The original intent of the corrective action continues to achieve its intended purpose and result.

Based on our analysis, FHWA demonstrated improvement through enhancements to its corrective action plan, and the current plan appropriately focuses on the true causes of improper and unknown payments. The plan is also prioritized within DOT. For example, FHWA plans to evaluate a sample of projects that met similar criteria to the project for which the improper payments were discovered and recommend new procedures to address identified weaknesses. Lastly, FHWA will recover overpayments from the grant recipient.

FAA and FTA BBAs Reached Tolerable Rates While FHWA's HPC Improper Payment Estimate Increased

FAA and FTA BBAs achieved their tolerable improper and unknown payment rates during fiscal year 2021. FAA BBA achieved an estimated rate of .02 percent and FTA BBA achieved an estimated rate of .01 percent. Both activities' estimated improper and unknown payment rates will now represent the tolerable rate for fiscal year 2022 testing.¹⁷

However, FHWA's HPC did not achieve its fiscal year 2021 improper payment reduction target of .80 percent. FHWA's reported rate was 1.41 percent. This rate did not impact the Department's compliance with PIIA because, based on the HPC program sampling and estimation extrapolation results, the reported improper payment rate of 1.41 percent is within the upper (2.84 percent) and lower (0.00 percent) bound estimate.

See table 3 for a summary of the improper and unknown payment rates for the three programs.

¹⁷ A tolerable rate is defined as the improper and unknown payment estimate achieved with a balance of payment integrity risk and controls.

Table 3. Fiscal Year 2021 Payment Accuracy Results, by Program

Program Name	Estimated IP and UP Amount	Estimated IP and UP Rate	Planned IP and UP Target Rate	Estimated Future IP and UP Target Rate
FAA BBAA	\$3,546	0.02%	N/A	0.02%
FHWA HPC	\$696,665,943	1.41%	.80%	1.00%
FTA BBAA	\$1,081.06	0.01%	N/A	0.01%

Source: OIG analysis

In fiscal year 2022, FHWA intends to evaluate and consider establishing a tolerable rate and anticipates that a reasonable tolerable rate will be within the range of 1 percent to 1.5 percent. In addition to the PIIA-related sampling and testing, FHWA conducts additional transaction testing of States and territories for improper payments under its Financial Integrity Review and Evaluation (FIRE) Program. FHWA, through the FIRE program and other risk-based oversight, incorporates additional reviews, including focus areas such as inactive projects, grant administration, and procurement under the administration of State DOTs using Federal funds.

Instructions for Generating PIIA Testing Universes Lacked Sufficient Detail

As part of the annual PIIA compliance review, inspectors general must determine whether their agencies' sampling plans and estimation methodology plans are appropriate given program characteristics. Our statisticians evaluated and concurred with DOT contractors' sampling and estimation plans for the three programs or activities under review. We validated the reported improper payment estimates and standard errors for the three programs based on the data provided to us.

However, we were unable to validate the sampling universes¹⁸ for FAA BBAA and FTA BBAA, based on incomplete population identification instructions provided by FAA and FTA. Initially, this raised questions on the validity of the sampling universes used for improper payment testing in these two programs. However, through subsequent evaluation of universe logs and discussions with the Department and its contractors, we were able to recreate the sampling universes.

¹⁸ An OIG statistician validated the transactions' counts and amounts by the absolute value of credits and debits at each stage provided, based on instructions provided to define each stage in the document.

In addition, we identified an additional issue with a single transaction in the FAA BBAA universe. Specifically, a transaction valued at \$36,174.36 remained in the testing universe prior to sampling when it should have been excluded based upon the instructions provided. We do not believe that this oversight impacted the validity of the universe.

DOT Has Taken Steps To Recapture Improper and Unknown Payments

DOT reported payment recaptures of \$27.79 million for fiscal year 2021. To perform a payment recapture audit, the Department completes an analysis of credit memos, conducts additional payment reviews, and pursues collection actions, when applicable. We reviewed the three highest improper payments identified—totaling \$24.9 million—and verified that the Department recovered these funds.

However, DOT reported improper payment estimates of about \$172 million in fiscal year 2020, and approximately \$697 million for fiscal year 2021—an increase of approximately \$525 million. A significant portion of these improper payments was from FHWA’s HPC, which reported an estimated actual monetary loss of \$429 million of the \$697 million in fiscal year 2021. Per OMB, HPC is therefore a high-priority program and must provide information for the Payment Integrity Scorecard posted on the Payment Accuracy website on a quarterly basis until the program reports an annual monetary loss improper payment estimate that is less than \$100 million.

DOT considers all overpayments identified through the fiscal year 2021 audit to be recoverable.

Conclusion

While DOT achieved compliance with PIIA in fiscal year 2021, the accountability and responsibility for maintaining payment integrity must remain a priority across the Department. The significant increase in the number of grants and total disbursement dollars due to the CARES Act and other recent COVID relief appropriations increases the importance of improper payment testing, identification, and recapture. To ensure future PIIA compliance, the Department must be persistent in identifying the root causes of improper payments and continue to focus on the implementation of corrective actions.

Recommendations

To help DOT improve its processes for PIIA reporting and develop additional transparency regarding its PIIA payment universes for testing purposes, we recommend that DOT's Assistant Secretary for Budget and Programs and Chief Financial Officer:

1. Design and implement controls to confirm that its annual PIIA reporting to the Payment Accuracy website is accurate.
2. Develop and implement a process to verify that population identification procedures used to create the universe for the statistical sampling of improper payments include adequate information, with detailed instructions to reproduce the same results.
3. Implement a quality assurance process to verify that population identification procedures are followed.

Agency Comments and OIG Response

We provided the Department with our draft report on June 1, 2022 and received its response on June 15, 2022. The response is included as an appendix to this report. The Department concurred with our three recommendations and provided appropriate actions and completion dates.

Actions Required

We consider our three recommendations resolved but open pending completion of the planned actions.

Exhibit A. Scope and Methodology

This performance audit was conducted between November 2021 and June 2022. We conducted this 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 objective.

Our audit objective was to determine whether DOT complied in 2021 with PIIA's requirements as prescribed by OMB.

We reviewed applicable laws and regulations and interviewed DOT personnel responsible for PIIA's implementation. To assess the Department's compliance with OMB requirements, we: (1) analyzed the source data to ensure accuracy and completeness of payment integrity information in the AFR and accompanying materials posted to <https://paymentaccuracy.gov>, and DOT's efforts in reducing and recapturing improper payments; (2) reviewed statistical sampling plans and improper and unknown 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's requirements and reviewed documentation that supports the amounts from the largest three overpayment recoveries. In addition, we evaluated the Department's efforts to prevent and reduce improper payments.

We reviewed an assessment of DOT's financial system, Delphi, conducted by KPMG for fiscal year 2021. Also, we requested information regarding any ongoing legal issues and active investigations for payment integrity. We reviewed information on the Payment Integrity Scorecard for one high-priority program, FHWA HPC, to determine compliance. Additionally, our fieldwork included an assessment of the programs or activities oversight and financial controls, whether an agency demonstrated improvements or reached a tolerable improper payment and unknown payment, and whether corrective actions are prioritized within an agency.

PIIA and OMB's appendix C to Circular A-123 require reports from inspectors general to include summaries on agencies' compliance. Each inspector general must report on whether the agency:

- Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial

statement of the agency for the most recent fiscal year in accordance with OMB guidance;

- Posted the annual financial statement and accompany materials required under guidance of OMB on the agency website;
- Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 and 1.5 percent of program outlays or \$100 million at least once in the last 3 years;
- Adequately concluded whether the program is likely to make improper payments and unknown payments above or below the statutory threshold;
- Published improper and unknown payment estimates for programs susceptible to significant improper and unknown payments in the accompanying materials to the annual financial statement;
- Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
- Published an improper and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
- Demonstrated improvements to payment integrity or reached a tolerable improper and unknown payment rate;
- Developed a plan to meet the improper and unknown payment reduction target; and
- Reported an improper and unknown payment estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.

We also evaluated DOT's assessment of the level of risk associated with the four programs or activities reviewed during fiscal year 2021. Specifically, we selected four programs risk assessments to determine whether DOT included the risk factors prescribed by OMB. We confirmed that the assessments included risk factors in accordance with PIIA and OMB guidance, adequate documentation was provided for its analysis and evaluated the risk scores for each program.

OIG statisticians evaluated the quality of the improper payment estimates and methodology, and concurred with DOT's sampling methodology and extrapolation results. Our senior statistician selected a simple random attribute

sample of 60 (15.1 percent) of 398 for FAA, FHWA and FTA invoice line items, totaling \$5.5 million out of \$123 million, that the Department and its contractors had tested and found to be proper. The sample design would have allowed us to estimate the number of invoice line items that should have been classified as improper with 90 percent confidence and a precision no greater than +/-10 percent. We evaluated supporting documentation including summary schedules, grant agreements, invoices, checks, and payment vouchers, among other documents, to retest the propriety of the DOT contractor's conclusions and found no additional improper payments upon testing the samples.

Exhibit B. Organizations Visited or Contacted

Department of Transportation Facilities

Office of the Secretary of Transportation

Federal Aviation Administration

Federal Highway Administration

Federal Transit Administration

Exhibit C. List of Acronyms

AFR	Agency Financial Report
BBAA	Bipartisan Budget Act of 2018 activity
CARES	Coronavirus Aid, Relief, and Economic Security Act
CIGIE	Council of Inspectors General on Integrity and Efficiency
DOT	Department of Transportation
FAA	Federal Aviation Administration
FHWA	Federal Highway Administration
FIRE	Financial Integrity Review and Evaluation Program
FTA	Federal Transit Administration
HPC	Highway Planning and Construction Program
IP	improper payment
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
OA	Operating Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
UP	unknown payment

Exhibit D. Status of Prior OIG Recommendations

OIG Report Number	Fiscal Year of Review	Recommendation	Target Action Date
FS2020029	2019	Implement procedures to require FHWA to review about \$28,000 identified as improper payments and recover as appropriate.	August 1, 2022
FS2020029	2019	Implement procedures to require that FHWA develop a process to: <ul style="list-style-type: none"> a. detect grantees that have not reduced improper payments for 3 consecutive years or over the 3-year risk assessment cycle, and b. review those grantees' root causes to implement robust/individual corrective actions. Implementation of this recommendation could put approximately \$169 million in funds to better use. 	August 1, 2022

Exhibit E. Major Contributors to This Report

LISA WILLIAMS	PROGRAM DIRECTOR
BRIAN FRIST	PROJECT MANAGER
ZACHARY SCOTT, JR	SENIOR AUDITOR
CHRISTINA BURGESS	SENIOR ANALYST
PATRICK CONLEY	AUDITOR
CELESTE VERCHOTA	ATTORNEY ADVISOR
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AUDRE AZUOLES	SUPERVISORY SENIOR WRITER- EDITOR
SUSAN NEILL	WRITER-EDITOR

Appendix. Agency Comments



U.S. Department of
Transportation

Office of the Secretary
of Transportation

Memorandum

June 15, 2022

Subject: Management Response to the Fiscal Year (FY) 2021 Payment Integrity Information Act (PIIA) Compliance Review

From: Jennifer Funk
Deputy Chief Financial Officer

**JENNIFER
SANCHEZ FUNK**

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Date: 2022.06.15 11:24:14
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To: Dory Dillard-Christian
Assistant Inspector General for Financial Audits

The Office of Inspector General (OIG)'s draft report found that the U.S. Department of Transportation (DOT or Department) complied with PIIA requirements. This demonstrates that the Department recognizes the importance of maintaining effective internal controls to ensure proper payments. DOT's use of standard best practices is necessary for prudently awarding, managing, and reporting on contracts, grants, loans, and other forms of financial assistance and aids in ensuring the integrity of DOT's program expenditures. The Department prioritizes preventing and reducing improper payments through robust internal control programs and by establishing aggressive goals and proactively reducing improper payment risks.

We concur with the three OIG recommendations, as written, and are currently implementing actions related to these recommendations. We plan to complete these actions and request closure by March 31, 2023.

We appreciate the opportunity to review the OIG draft report. You may direct questions to Dan King, Director, Office of Financial Management, at (202) 366-5381.

U.S. Department of Transportation
Office of Inspector General

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