



U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

**DOT's Fiscal Year 2017
IPERA Compliance Review**

OST

Report No. FI2018055

May 14, 2018





DOT's Fiscal Year 2017 IPERA Compliance Review

Mandated by the Improper Payments Elimination and Recovery Act of 2010

Department of Transportation | FI2018055 | May 14, 2018

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 (FY) 2017, the Department of Transportation (DOT) reported approximately \$46.6 billion in payments in programs or activities susceptible to significant improper payments. DOT estimated \$141.4 million of those payments were improper payments. We reviewed DOT's improper payment testing results for FY 2017 to determine whether DOT complied with IPERA's requirements as implemented by OMB.

What We Found

While DOT completed most of its FY 2017 requirements, it did not meet two reduction targets, and thus did not comply with IPERA. Specifically, the Federal Transit Administration's (FTA) Emergency Relief Program–Disaster Relief Appropriations Act (ERP-DRAA) did not achieve its goal to reduce improper payments to 0.27 percent. The Office of Inspector General (OIG)-DRAA also did not achieve its goal to reduce improper payments to 0.41 percent. The Department did comply with the remaining IPERA requirements; for example, it appropriately designed sampling plans for the four programs it tested. However, we found that OIG-DRAA was improperly billed approximately \$1,177 in travel expenses—in part because the travel guidance lacked instructions on how employees on DRAA-related travel should allocate their costs. Until the Department reduces its improper payment rate and improves the accuracy of its cost-allocation process, it will remain noncompliant with IPERA.

Our Recommendations

DOT concurred with all three of our recommendations to help the Department achieve full compliance with IPERA and proposed appropriate completion dates. Accordingly, we consider all recommendations as resolved but open pending completion of the planned actions.

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Memorandum

Date: May 14, 2018

Subject: DOT's Fiscal Year 2017 IPERA Compliance Review | Report No. FI2018055

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

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

In July 2010, Congress enacted the Improper Payments Elimination and Recovery Act¹ (IPERA)—amending the Improper Payments Information Act (IPIA) of 2002²—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, by issuing the Improper Payments Elimination and Recovery Improvement Act (IPERIA)³ of 2012.

IPERA requires Federal agencies to report improper payment estimates for all programs identified as susceptible to significant improper payments.⁴ It 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.⁵ Finally, agencies must comply with regulations the Office of Management and Budget (OMB) has developed to implement the act.

For fiscal year (FY) 2017, the Department of Transportation (DOT) reported approximately \$46.6 billion in payments in programs or activities susceptible to significant improper payments. In addition, DOT estimated \$141.4 million of those payments were improper payments. We reviewed DOT's improper payment

¹ Public Law 111-204.

² Public Law 107-300.

³ Public Law 112-248.

⁴ OMB defines significant as improper payments in the program exceeding 1.5 percent of program outlays and \$10 million or \$100 million regardless of the error rate.

⁵ 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.

testing results, published in the AFR, for FY 2017 to determine whether DOT complied with IPERA's requirements as implemented by OMB. We 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, Program Director, at (202) 366-1518.

cc: The Secretary
DOT Audit Liaison, M-1

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. The definition of payment was later amended by IPERIA to include payments to Federal employees (including salary, locality pay, travel pay, and purchase card use) as well.

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 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 in programs and activities.

In January 2013, Congress enacted the Disaster Relief Appropriations Act (DRAA),⁶ which provides aid for Hurricane Sandy victims and their communities. DRAA's implementing guidance, OMB M-13-07,⁷ 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-123,⁸ appendix C, guides agencies in the implementation of IPIA, IPERA, and IPERIA requirements. This guidance allows agencies to request relief when a program reduces its improper payment estimates below the statutory threshold for 2 consecutive years. For FY 2017, DOT requested and received OMB approval for relief from annual improper payment reporting for the following four programs:

- Federal Aviation Administration (FAA) Facilities and Equipment—DRAA

⁶ Public Law 113-2. Disaster Relief Appropriations Act.

⁷ OMB M-13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act.

⁸ OMB Circular A-123, appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, October 20, 2014.

- Federal Railroad Administration (FRA) Grants to the National Railroad Passenger Corporation (Amtrak) program
- Federal Transit Administration (FTA) Formula Grants and Passenger Rail Investment and Improvement Act program
- Maritime Administration (MARAD) Electronic Invoicing System Ship Manager Payment process

OMB Circular A-136, revised,⁹ 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.

For FY 2017, DOT tested four programs for improper payments:

- Federal Highway Administration's (FHWA) Highway Planning and Construction (HPC) Program
- FRA's High-Speed Intercity Passenger Rail (HSIPR) Program
- FTA's Emergency Relief Program (ERP)—DRAA Program
- Office of Inspector General (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 the FHWA, FRA, and FTA programs. It also tested selected invoice payments for these programs, with the exception of FHWA's HPC payments.¹⁰ The results of the tests were documented in a workbook prepared by the Contractor and presented to each Operating Administration's (OA) management team, who then determined whether the payments were improper. With guidance from the OAs, the Contractor projected improper payment estimates for the programs.

OIG used its internal resources from the Office of Audit Operations and Special Reviews (OIG-JA-2) to test the payments. OIG management decided to conduct a census of OIG-DRAA payments instead of a statistical sample due to the small size of the population. We conducted a separate statistical sample review independently from OIG-JA-2's review.

⁹ OMB Circular A-136, revised, Financial Reporting Requirements, August 15, 2017.

¹⁰ FHWA employees tested the Agency's payments.

Results in Brief

While DOT completed most of its FY 2017 requirements, it did not meet two reduction targets, and thus did not comply with IPERA.

Two of the four programs DOT tested—FTA’s ERP-DRAA program and OIG’s DRAA activity—did not meet their target reduction goals. Specifically, FTA’s ERP-DRAA did not achieve its FY 2017 goal to reduce improper payments to 0.27 percent because 5 of 59 transactions tested, totaling \$849, were improper. FTA projected the total amount of improper payments to be \$4.65 million or 0.84 percent of the program’s total amount. OIG identified 4 of 18 DRAA-related transactions as improper payments, totaling \$2,658.90 or 2.52 percent of all DRAA payments. As a result, OIG-DRAA did not achieve its FY 2017 goal to reduce improper payments to 0.41 percent. The Department did comply with the remaining IPERA requirements. For example, DOT appropriately designed sampling plans for the four programs it tested; however, we found an additional improper payment under the OIG-DRAA activity. In that case, OIG-DRAA was improperly billed approximately \$1,177 in travel expenses—due in part to its travel guidance lacking instructions on how to allocate DRAA-related costs when the employee works on non-DRAA activities while on travel, as well as administrative errors. Furthermore, DOT conducted risk assessments, included accurate reports in the AFR, performed a payment recapture audit, and published corrective actions for FHWA’s HPC program in the AFR. However, until the Department takes action to reduce its improper payment rate and improves the accuracy of its cost-allocation process, it will remain noncompliant with IPERA.

We made three recommendations to improve DOT’s ability to meet payment reduction targets in FTA’s ERP-DRAA and OIG-DRAA, and to ensure the correct allocation of travel expenses in OIG-DRAA. See exhibit D for a list of open recommendations from our prior IPERA audits.

DOT Is Not Compliant With IPERA Requirements

While two¹¹ of the four programs DOT tested complied with IPERA requirements, two others did not. Specifically, FTA’s ERP-DRAA program and OIG’s DRAA activity did not meet their target reduction goals. As a result, DOT did not comply with IPERA for FY 2017. DOT did publish improper payment estimates for the four tested programs, although we found an additional improper payment under the

¹¹ The two programs in compliance are FHWA-HPC and FRA-HSIPR.

OIG-DRAA activity. In addition, DOT conducted risk assessments, included accurate reports in the AFR, performed a payment recapture audit, and published corrective actions for FHWA’s HPC in the AFR. Table 1 summarizes DOT’s compliance with IPERA by program.

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

Program	Overall assessment	Published in AFR	Conducted risk assessment ^a	Published IP ^b estimates	Published CAPs ^c	Published and met reduction goals	Reported IP rate below 10%
FY 2017 DOT Overall Results	Non-Compliant	Yes	Yes	Yes	Yes	No	Yes
FHWA HPC	Compliant	Yes	N/A	Yes	Yes	Yes	Yes
FRA HSIPR	Compliant	Yes	N/A	Yes	N/A	Yes	Yes
FTA ERP-DRAA	Non-compliant	Yes	N/A	Yes	N/A	No	Yes
OIG-DRAA	Non-compliant	Yes	N/A	Yes	N/A	No	Yes

^a 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.

^b IP is improper payments.

^c 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. The other programs are shown as “N/A” for this requirement. CAPs are corrective action plans.

Source: OIG analysis

Two DOT Programs Did Not Meet Their IPERA Reduction Targets

DOT met most of the IPERA requirements, and two of the four programs tested were fully compliant. However, two DOT programs did not reach their target reduction rates, which means the Department overall did not comply with IPERA. OMB policy states that an agency is noncompliant if it does not meet one or more of its requirements.

FTA's ERP-DRAA Program Did Not Achieve Its Reduction Goals

FTA determined that 5 of the 59 ERP-DRAA transactions tested by the Contractor were improper, and for this reason it did not achieve the Agency's FY 2017 goal to reduce improper payments to 0.27 percent. The program reported an improper payment rate of 0.84 percent. The five transactions totaled \$849. Four resulted from an administrative or process error made by an FTA grantee (e.g., allocating internal employee labor to an incorrect job code). The fifth improper payment resulted from insufficient documentation; specifically, the grantee could not provide contract documents to support a fee charged on a vendor invoice.

As a result, FTA's ERP-DRAA program did not meet its target reduction rate for FY 2017¹² and risks generating future improper payments in excess of its target rates. FTA projected the total amount of improper payments to be \$4.65 million or 0.84 percent of the program's total amount.

OIG Did Not Achieve Its Reduction Goals for Its DRAA Activity

In its report to DOT, OIG's Office of Audit Operations and Special Reviews (OIG-JA-2) identified 4 of 18 tested DRAA-related transactions¹³ as improper payments totaling \$2,658.90 or 2.52 percent of all DRAA payments totaling \$105,360.84. As a result, OIG-DRAA did not achieve its FY 2017 target to reduce improper payments to 0.41 percent.¹⁴

OIG JA-2 reported the improper payments were the result of administrative or process errors related to employee travel. For example, for two transactions, an employee selected the wrong project code when tracking a travel expense; in another transaction, a voucher listed an incorrect amount. In all three cases, the approving officials did not review the travel vouchers sufficiently before payment was completed. In a different case, a portion of the travel costs was allocated directly to the DRAA accounting code although the employee did not conduct any DRAA-related work.

As a result, OIG did not meet its target reduction rate for its FY 2017 DRAA activity and is at risk of generating future improper payments.

¹² This is the first year that FTA ERP-DRAA program reports noncompliance with IPERA.

¹³ The four transactions applied to three travel vouchers.

¹⁴ This is the first year that OIG-DRAA reports noncompliance with IPERA.

DOT's Risk-Assessment Process Was in Compliance With OMB

The Department conducted 43 risk assessments for its programs during FY 2017 and did not identify any programs as susceptible to significant improper payments. The last time DOT performed a risk assessment for each program was in FY 2015. OMB requires each agency to (1) conduct a risk assessment of all its programs at least once every 3 years and (2) include nine specific risk factors.¹⁵

DOT included the nine risk factors in all the assessments conducted within the 3-year period required by OMB. It distributed guidance to help each OA complete the assessments, which included both a quantitative and a qualitative systematic method. We consider DOT in compliance with OMB requirements for risk assessments. An adequate risk assessment process increases the likelihood that resources will be devoted to programs that are more susceptible to improper payments.

DOT Appropriately Designed Sampling Plans but During Our Retesting We Found an Additional Improper Payment

DOT developed appropriate samples for its FY 2017 IPERA review and identified improper payments in the four tested programs. In addition, during our review we found that some travel expenses related to OIG's DRAA activity were incorrectly allocated.

DOT's FY 2017 Sampling Plans for Estimating Improper Payments Were Appropriate

For each of the four programs tested for FY 2017—FHWA's HPC, FRA's HSIPR, FTA's ERP-DRAA, and OIG-DRAA—DOT certified and submitted to OMB three statistical sampling plans and a census plan for estimating and reporting improper payments. OMB establishes that inspectors general can evaluate the agency's quality of the improper payment estimates. OIG's statisticians independently validated the population for all programs, writing their own programs and formulas to validate and replicate the sample design. In addition, our statisticians verified and recalculated the results. We noted no exceptions.¹⁶

¹⁵ See Exhibit A. Scope and Methodology for the list of nine risk factors.

¹⁶ An exception is a departure from laws, regulations, and the provisions of contracts or grant agreements being tested.

Some Travel Expenses Were Incorrectly Charged to OIG-DRAA

We generated a statistically representative sample of transactions of payments deemed as proper in each program to verify if these results were accurate. We did not find any improper payments for FHWA's HPC, FRA's HSIPR, and FTA's ERP-DRAA.

However, based on our review, we found an improper payment in OIG's DRAA activity because travel expenses were incorrectly charged to a DRAA project code. This occurred because an employee did not properly allocate direct and indirect travel expenses but instead charged the total amount for a trip (\$1,630.02) to the OIG-DRAA project code, although the individual had worked on other activities as well. According to the supporting documentation, the purpose of the trip was to attend a DRAA-related meeting at OIG Headquarters (HQ). While the employee spent 2 full days (18 hours) at OIG HQ (see table 2), only 5 hours were spent on DRAA-related work. The rest of the time—most of the trip—was spent on other direct and indirect activities (e.g., administrative duties and training). An improper payment includes payments that should not have been made under administrative requirements. OIG travel guidance¹⁷ requires travelers to charge travel costs pertaining to indirect activities to indirect codes. Moreover, OMB M-13-07 states that agencies must ensure that the funds appropriated under DRAA are used for their intended purposes. However, the entire cost of the trip was charged to DRAA. The supporting documentation did not indicate why OIG determined that the entire amount was a DRAA cost.

Using the hours the employee worked at HQ each day as a reasonable basis, we estimated that only \$453 (5/18 hours) of the total cost should have been charged to a DRAA code. The remaining \$1,177 (13/18 hours) should have been charged to indirect codes; this amount represents our estimated improper payment.

¹⁷ OIG, Travel Accounting Codes for Fiscal Year 2016. Examples of indirect travel include training, conference attendance, giving a speech, and travel to address issues related to staff or multiple projects.

Table 2. Time Associated With an OIG Employee’s Travel for DRAA-Related Activities

Projects	Hours spent on travel	Hours spent at HQ	Hours spent at HQ	Hours spent on travel
	Tuesday	Wednesday	Thursday	Friday
Sandy	4.5	0	5	3
Other project(s)	2	1.25	2.5	4
Admin. Duties	0	3.25	2	1.25
Training	4	4	0	0
Total	10.5	8.5	9.5	8.25

Source: OIG analysis using data from OIG’s time-and-expense allocation system

Agency officials disagreed with our assessment; they noted that administrative duties are part of every project and that the training taken by the employee was applicable to the success of every project. However, this response only confirmed that most of the costs were indirect.¹⁸ Another Agency official also stated that the intent of OIG’s travel guidance was to charge travel costs per the purpose of the trip, regardless of activities performed by the employee during the trip. However, using this approach in DRAA-related travel does not fully ensure a higher degree of accountability or that funds are used for their intended purpose as required by OMB.

OIG’s travel guidance lacks instructions on how to allocate costs when an employee’s travel purpose is DRAA-related but he or she works on non-DRAA activities while on travel. The E-2 Travel system¹⁹ allows accounting codes to be modified between the obligation and the actual payment of the trip. Therefore, the system provides the option of adjusting the accounting codes to accurately reflect direct and indirect costs as required by OIG’s internal guidance.

Due to insufficient instructions for allocating DRAA travel expenses, which are thus subject to interpretation, the OIG-DRAA project code was improperly billed approximately \$1,177. This increased the total amount of improper payments reported in the AFR from \$2,658.90 (or 2.52 percent)²⁰ to \$3,835.90 (or

¹⁸ Indirect costs are costs of resources that are jointly or commonly used to produce two or more types of outputs but are not specifically identifiable with any of the outputs, while direct costs are the costs of resources directly consumed by an activity. Statement of Federal Financial Accounting Standards (SFFAS 4).

¹⁹ E-2, a web-based, end-to-end, travel-and-expense management tool, is DOT’s travel management system.

²⁰ DOT, Agency Financial Report, Fiscal Year 2017.

3.64 percent). When costs are charged to the wrong codes, funds may not be available for their intended purpose.

The Payment Integrity Information in the AFR Was Complete and Accurate

DOT met OMB's Payment Integrity reporting requirements, listed in Circular A-136, by including all the required elements in the AFR. As required by OMB, DOT informed readers that additional information could be found on the Payment Accuracy website²¹ and included the link. In addition, the tables in the Payment Integrity section presented accurate data; we traced each figure to its sources and did not find any discrepancies. Furthermore, officials from the Office of the Secretary of Transportation (OST) provided sufficient documentation of their established procedures in this section of the AFR to demonstrate adequate internal controls for payment integrity.

OST's Recapture Audit Results Were Fairly Reported

For FY 2017, DOT reported payment recaptures of \$13.7 million; \$11.54 million resulted from OIG reviews, and \$2.16 million resulted from departmental efforts, including an audit conducted by OST's Office of Financial Management (OFM).

OFM officials provided sufficient guidance—including a 12-step procedure—to show that DOT has in place a process to perform the payment recapture audit.²² To verify that the recapture audit results were fairly reported, we reviewed six of the recaptures totaling \$693,596. We noted no exceptions.

Conclusion

In FY 2017, DOT made approximately \$46.6 billion in payments for programs or activities susceptible to significant improper payments. Of this amount, the Department estimates there was \$141.4 million in improper payments. Although DOT consistently maintained improper payment rates significantly below the 10-percent threshold established by IPERA, it continues to miss improper

²¹ <https://paymentaccuracy.gov>.

²² Payment Recapture Audit is a review of an agency's accounting and financial records, designed to identify overpayments. It is not an audit in the traditional sense or covered by Government Auditing Standards.

payment reduction targets for some of its programs. DOT also reported improvement in the accuracy of its payments; however, OIG did not properly allocate some travel expenses to its DRAA activity. Until additional actions are taken to address these issues, DOT will remain noncompliant with IPERA.

Recommendations

To help the Department of Transportation achieve full compliance with the Improper Payments Elimination and Recovery Act (IPERA), we recommend that the Assistant Secretary for Budget and Programs/Chief Financial Officer take the following actions in addition to closing the open recommendations from prior IPERA reports:

1. Implement procedures to ensure the Federal Transit Administration (FTA) distributes guidance to grant recipients regarding the importance of accurate submission and proper review of timesheets to improve allocation of labor efforts and identify and retain required documentation to support a payment as proper in the Emergency Relief Program–Disaster Relief Appropriations Act (DRAA) Program.
2. 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 in OIG-DRAA fund activity.
3. 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.

Agency Comments and OIG Response

We provided DOT with our draft report on April 25, 2018, and received its formal response, dated May 4, 2018, which is included as an appendix to this report. DOT fully concurred with all three of our recommendations and proposed appropriate target action dates.

DOT did not agree with our assessment that the OIG-DRAA accounting code was improperly billed approximately \$1,177. In the attached response, the Agency argues that the failure to have adequate guidance on how to allocate or split travel costs means that it did not violate any existing administrative requirement when making the payment. However, as we noted in the report, OMB M-13-07

states that Federal agencies must ensure that funds appropriated under DRAA are used for their intended purposes. Additionally, disaster-relief funding often carries additional risk, and OMB requires an extra layer of oversight for these funds, which we did not identify during our review process. While we were told the travel's purpose was DRAA-related and the traveler accomplished the mission, the supporting documentation revealed that the majority of the time was spent on activities unrelated to DRAA. Furthermore, during the second day of the trip the traveler did not allocate any time to a DRAA project, although the purpose of the trip was to attend DRAA meetings. We appreciate DOT's concurrence with recommendation 3 and acknowledgement that OIG's travel cost allocation procedures do not adequately address how to split travel expenses—the cause for the finding. Thus, despite the disagreement, we believe our concerns will be addressed.

Actions Required

DOT concurred with all three of our recommendations and proposed appropriate completion dates. Accordingly, we consider all recommendations as resolved but open pending completion of the planned actions.

Exhibit A. Scope and Methodology

We conducted this performance audit between September 2017 and April 2018 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 also 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. As it pertains to OIG transactions, we do not meet the independence requirements defined by GAGAS.

We reviewed applicable laws and regulations, and interviewed DOT personnel responsible for IPERA's implementation. To assess the Department's compliance with IPERA's requirements, we (1) reviewed statistical sampling plans and improper payment projections to determine whether programs susceptible to significant improper payments were tested and accurately reported and (2) obtained supporting documents on the actions taken and reported in the AFR.

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

1. Publish 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;
2. Conduct a program-specific risk assessment for each program or activity that conforms with 31 U.S.C. § 3321 (if required);
3. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment;
4. Publish programmatic corrective action plans in an AFR or PAR;
5. Publish and meet annual reduction targets for each program assessed to be at risk and estimated for improper payments; and

6. Report 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.

In addition, OMB Circular A-123, appendix C, states that at a minimum agencies shall take into account the following risk factors when conducting risk assessments: (1) whether the program or activity reviewed is new to the agency; (2) the complexity of the program; (3) the volume of payments made annually; (4) whether payments decisions are made outside of the agency; (5) recent major changes in program funding; (6) the experience and quality of training for personnel making program determinations; (7) inherent risks of improper payments; (8) significant deficiencies in the audit reports of the agency, including those from the agency's inspector general or the Government Accountability Office; and (9) results from prior improper payment work. OIG's Statistician selected a stratified simple random sample of 13 out of 43 program assessments so we could verify whether DOT included these 9 risk factors. In addition, we conducted interviews with DOT officials for the three programs that reported the highest risk scores to evaluate the process used to determine those ratings.

In August 2017, OMB revised its Circular A-136, which establishes the Payment Integrity section, requiring agencies to disclose payments that were processed correctly and those that were improper. In addition, agencies had to include a link to the Payment Accuracy website and inform readers that it contained more detailed information on improper payments and all of the information previously reported in the AFR.

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 59 of 348 transactions, totaling \$194.9 million of \$438.3 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) FRA's HSIPR, (3) FTA's ERP-DRAA, and (4) OIG-DRAA. The supporting documentation included summary schedules, grant agreements, invoices, checks, and payment vouchers, among other documents.

Additionally, as a part of our review of DOT's compliance with OMB Circular A-136 requirements, we checked the status of FY 2016 corrective action plans (CAP) and evaluated DOT's FY 2017 corrective action plans (CAP) to determine if they are linked to the root cause they are addressing. OMB requires corrective actions for all programs with improper payments exceeding the statutory threshold.

In 2016, FHWA HPC reported four CAPs in the AFR. In our FY 2016 IPERA audit report,²³ we stated that FHWA CAPs were (1) robust and focused on the appropriate root causes of improper payments, (2) effectively implemented with target completion dates, and (3) prioritized within the Agency to allow it to meet its reduction targets. According to FHWA, two of the four CAPs has been completed while the other two CAPs—which include a financial system process training—are in progress with target dates of April 2018 and June 2018.

For FY 2017, FHWA's HPC program reported an estimated improper payment amount of \$132.65 million, which is over the statutory threshold of \$100 million. As a result, three additional corrective actions were included in DOT's FY 2017 AFR. In April 2018, FHWA reported that as a result of its efforts to address the CAPs, it has recovered four overpayments made by four State agencies. According to FHWA, the three corrective actions are in progress, one to be completed by April 2018 and the other two by July 2018. We determined that the CAPs are linked to root causes.

²³ DOT's *Fiscal Year 2016 Improper Payment Reporting Does Not Comply with IPERA Requirements* (OIG Report Number FI2017048), May 10, 2017.

Exhibit B. Organizations Visited or Contacted

Department of Transportation Facilities

Federal Transit Administration Headquarters

Office of Inspector General

Office of the Secretary

Exhibit C. List of Acronyms

AFR	Agency Financial Report
CAP	Corrective Action Plan
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
FY	Fiscal Year
HPC	Highway Planning and Construction
HSIPR	High-Speed Intercity Passenger Rail
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
MARAD	Maritime Administration
OA	Operating Administration
OFM	Office of Financial Management
OIG	Office of Inspector General
OIG-JA-2	Office of Audit Operations and Special Reviews
OMB	Office of Management and Budget
OST	Office of the Secretary

Exhibit D. Prior Year Open Recommendations

Report Number	Fiscal Year	Recommendation	Target Action Date
FI2013053	2012	Provide specific documentation requirements and greater oversight and review of contractors that perform improper payment testing to ensure that the work has an audit trail and is accurate	June 30, 2018
FI2014037	2013	Provide specific documentation requirements and greater oversight of contractors who perform improper payment testing to ensure that the work performed tests actual payments and verifies that each transaction has an audit trail and proper support	June 30, 2018
FI2015043	2014	Develop a process to provide greater oversight and review of contractors and employees that perform improper payment testing to ensure that the work has an audit trail and is accurate	June 30, 2018

Source: OIG Recommendation Tracking System

Exhibit E. Major Contributors to This Report

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Appendix. Agency Comments



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

Memorandum

Subject: Management Response to the Fiscal Year 2017 IPERA Compliance Review

From: 
Lana Hurdle
Acting Chief Financial Officer and
Assistant Secretary for Budget and Programs

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

MAY 04 2018

The Department of Transportation (DOT), as a steward of taxpayer dollars, exercises rigorous management and oversight over its program expenditures. DOT prioritizes reducing the frequency of improper payments through robust internal control programs and by establishing aggressive goals. We are proud that our payment accuracy rate improved to 99.70% in Fiscal Year (FY) 2017 from 99.63% in FY 2016. These results demonstrate that DOT maintains effective controls over its payment processes. Consequently, DOT is generally compliant with the improper payment reporting requirements, consistent with the Improper Payment Elimination and Recovery Act (IPERA).

We concur with Recommendations 1 and 2, as written. The Department is currently implementing actions related to these recommendations and plans to complete these actions and request closure by June 30, 2018.

We concur with Recommendation 3, with following clarification. As noted in the report, we disagree with the Office of Inspector General's (OIG) finding that OIG incorrectly charged a travel payment to the accounting code due to improper allocation of direct/ indirect travel expenses paid under the OIG-Disaster Relief Appropriation Act (OIG-DRAA) activity. Such activity is funded from the Sandy Supplemental Appropriations Act. The OIG's travel guidance does not require or provide a basis for allocating direct and indirect costs on a travel voucher, and nor do OIG administrative requirements require such allocation of travel costs. In fact, the crux of Recommendation 3 is to expand such administrative requirements within the OIG's travel guidance. But 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. Thus, such payments do not constitute improper payments under IPERA.

In addition to the fact that the OIG travel payment in question does not constitute an improper payment under IPERA because it was consistent with law and administrative guidance, our management review concluded the OIG travel payment in question was appropriate under the Federal Travel Regulation because the traveler accomplished their mission, which was to attend a DRAA-related meeting, and the traveler did so in an economical and effective manner.

While we disagree with the OIG's specific finding that the OIG travel payment in question was an improper payment under IPERA because it did not violate law or existing administrative guidance, we agree that OIG's travel cost allocation procedures do not adequately address how to allocate or split travel expenses to appropriate accounting codes. Therefore, we agree with the recommendation as written and plan to ensure OIG updates its travel guidance and provide instruction to its personnel by September 30, 2018.

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.

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OIG conducts audits and investigations on behalf of the American public to improve the performance and integrity of DOT's programs to ensure a safe, efficient, and effective national transportation system.

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