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# *Office of Inspector General*

# *Audit Report*

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## **ACCURACY AND RELIABILITY OF DOT'S IMPROPER PAYMENT REPORTING CAN BE IMPROVED**

*Department of Transportation*

*Report Number: FI-2014-037*

*Date Issued: April 15, 2014*





# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Accuracy and Reliability of DOT's  
Improper Payment Reporting Can Be Improved  
Department of Transportation  
Report Number FI-2014-037

Date: April 15, 2014

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

Reply to  
Attn. of: JA-20

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

In recent years, the Federal Government has intensified efforts to eliminate incorrect payments made from Federal program funds, including wrong amounts, duplicate payments, or payments with insufficient documentation. In July 2010, President Obama signed the Improper Payments Elimination and Recovery Act (IPERA),<sup>1</sup> which amended the Improper Payments Information Act of 2002,<sup>2</sup> to encourage the elimination of payment error, waste, fraud, and abuse in Federal programs. IPERA requires Federal agencies to have improper payments of less than 10 percent within their programs. It also requires agencies to test annually for improper payments in their programs and to publish the results in their Annual Financial Reports (AFR). The act calls for inspectors general to review their agencies' compliance with IPERA and to submit reports to the heads of their agencies.<sup>3</sup>

To meet IPERA's requirements, we reviewed the Department of Transportation's (DOT) improper payment testing results in the fiscal year 2013 AFR to determine whether (1) DOT complied with IPERA's reporting requirements as implemented by the Office of Management and Budget (OMB), (2) the improper payment information in the AFR was accurate, and (3) the tested programs met IPERA's

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<sup>1</sup> Public Law 111-204 (2010).

<sup>2</sup> Public Law 107-300 (2002).

<sup>3</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 Governmental Reform, the Comptroller General, and the Controller of the Office of Management and Budget.

10-percent or less rate for improper payments as well as their own improper payment reduction targets for 2013.

DOT hired a consulting firm (the Contractor) to assist in its implementation of IPERA's annual requirements. To conduct our work, we reviewed the methodology that the Contractor used to select the sample of 606 payments tested to determine if they were improper. We retested a statistical sample of 50 of the 583 payments that the Contractor or DOT's employees had tested and found to be not improper. We conducted this audit in accordance with generally accepted Government auditing standards. Exhibit A details our scope and methodology.

## **RESULTS IN BRIEF**

DOT's AFR included all of OMB's required reporting elements. Specifically, DOT reported on its assessments of programs' risk for significant improper payments; improper payment estimates; corrective action plans for the Federal Aviation Administration (FAA), Federal Highway Administration (FHWA), and Federal Transit Administration (FTA) to reduce future improper payments; and annual improper payment reduction targets for the five tested programs. DOT also included a description and evaluation of its recapture audit programs and identified amounts for recapture, amounts recaptured, and those outstanding and uncollectable.

Although DOT reported improvements in its improper payments program (e.g., FHWA's Federal-Aid Highway program's improper payment estimate dropped below IPERA's threshold for "significant risk"), its 2013 AFR contained some inaccurate information on improper payments. Five of the 50 transactions we retested did not meet IPERA's definition of a payment but were reported as payments by both the Contractor and DOT. DOT and the Contractor should have substituted these transactions with actual payments and used the substitutes to complete their testing. By not doing so, DOT increases the risk that its IPERA test results may not be accurate. DOT also inaccurately listed its 2012 improper payment estimates for two grant programs—which are included to note progress or lack thereof in improper payment reductions. It also incorrectly reported that it paid \$0 in fees for its recapture audit when it actually paid \$40,000 in fees. Furthermore, FTA reported recovering a \$24,357 duplicate payment but could not provide evidence in the accounting system that it actually recovered it. DOT officials acknowledged that its AFR includes these inaccuracies and attributed them to poor screening of data files and administrative oversight errors.

According to DOT, its programs met IPERA's requirement that less than 10 percent of total payments be improper. While DOT reported its programs met the requirement, one of FTA's tested programs—the Formula Grant Program—did

not achieve its own target to reduce improper payments to 0.25 percent or less for fiscal year 2013 as set by OMB guidelines. Unmet target reduction rates create a risk that DOT's operating administrations will not progress in reducing their improper payments. However, as DOT reported in the AFR, FTA did develop a corrective action plan to address its improper payments.

We made three recommendations to improve the accuracy and reliability of DOT's improper payment reporting.

## **BACKGROUND**

IPERA defines a payment<sup>4</sup> as any transfer or commitment for future transfer of Federal funds, including cash, securities, loans, loan guarantees, and insurance subsidies, to any non-Federal person or entity, that is made by a Federal agency, Federal contractor, Federal grantee, or a governmental or other organization administering a Federal program or activity.

In April 2011, OMB revised its Circular A-123, Appendix C<sup>5</sup> (Circular) to enhance IPERA implementation. The Circular defines improper payments as the following:

- Payments to ineligible recipients,
- Duplicate payments,
- Payments in incorrect amounts,
- Payments for ineligible services and services not received, and
- Payments with insufficient documentation.

OMB Circular A-136<sup>6</sup> requires agencies' reports on annual improper payment testing to include program risk assessments, estimates of improper payment dollar amounts made during both the current year and the prior year, corrective action plans, and annual improper payment reduction targets. OMB Circular A-136 also requires agencies' reports to include (1) descriptions and evaluations of payment recapture audit programs, which review and analyze programs' accounting records and supporting documentation to identify and recover overpayments; (2) amounts identified for recapture; (3) descriptions of and justifications for the classes of payments excluded from payment recapture audits; and (4) amounts recaptured

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<sup>4</sup> Public Law 111-204 (2010).

<sup>5</sup> OMB M-11-16, Requirements for Implementing IPERA: Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, April 14, 2011.

<sup>6</sup> OMB Circular A-136, Financial Reporting Requirements (2013) establishes reporting requirements for payment recapture audits.

and those outstanding and uncollectable. Annually, DOT tests five grant programs for improper payments:

- FHWA’s Federal-Aid Highway Program
- FTA’s Formula Grants Program
- FTA’s Capital Investment Grants Program
- FAA’s Airport Improvement Program
- the Federal Railroad Administration’s (FRA) High-Speed Intercity Passenger Rail Program

DOT and its Contractor developed the sampling plans for the testing for improper payments, tested selected<sup>7</sup> invoice payments to determine if they were improper, and projected improper payment estimates for these major grant programs. It is important to note that improper payments and estimates of improper payments are not intended to indicate fraud in Federal agencies’ programs and activities.

### **DOT’S AFR INCLUDED THE OMB’S REQUIRED ELEMENTS**

The Department met OMB requirements by including the following in its AFR: assessments of programs’ risk of significant improper payments; improper payment estimates; corrective action plans for FAA, FHWA, and FTA to reduce future improper payments; and annual improper payment reduction targets for the five tested programs. DOT also included a description and evaluation of its recapture audit programs and identified amounts for recapture, amounts recaptured, and those outstanding and uncollectable.

### **DOT REPORTED IMPROVEMENTS WITH IMPROPER PAYMENTS BUT ALSO INCLUDED SOME INACCURATE INFORMATION IN ITS AFR**

DOT reported improvements in its improper payments program. For example, DOT reported that FHWA’s Federal-Aid Highway program’s estimate of improper payments was \$91.4 million—less than IPERA’s \$100 million threshold for “significant risk.” However, its 2013 AFR did include some inaccurate information on the number of payments tested, improper payment estimates for 2012, and costs of the payment recapture audit. Specifically:

- DOT incorrectly reported the number of payments that the Contractor tested. Five of 50 sample item payment transactions we retested did not meet IPERA’s

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<sup>7</sup> FHWA tested its own payments.

definition of a payment. Consequently, the Contractor should have excluded them from the sample and substituted other payments for testing. Instead, it incorrectly included the transactions in its calculation of the FTA, FRA, and FAA programs' improper payment estimates. By not testing substitutes, DOT increased the risk that its IPERA test results may not be accurate.

- DOT inaccurately reported 2012 improper payment estimates for FHWA's Federal-Aid Program and FTA's Formula Grant Program. These prior year estimates are included in annual reporting to make year-to-year comparisons of agencies' progress or lack thereof in reducing improper payments. Because it reported lower estimates than the programs actually achieved, DOT slightly understated the programs' progress.
- DOT incorrectly reported the costs of its payment recapture program. The Department reported \$0 in fees but actually paid \$40,000 to the contractor that conducted its recapture audit.

DOT officials acknowledged that they did not detect these inaccuracies in the AFR and stated that the inaccuracies occurred because of screening and administrative oversight errors by both DOT and the Contractor. Insufficient testing and undetected reporting errors diminish the accuracy and reliability of DOT's reporting on improper payments.

While FTA reported to DOT that it recovered a total of \$521,062 in duplicate payments, we found that one of these payments had not been recovered. FTA reported recovering \$24,357 for a duplicate payment but could not provide evidence from the accounting system or on any invoices that it actually recovered this amount from the vendor or offset the amount on a subsequent invoice. Federal internal control standards require supporting documentation and audit trails for all transactions. In addition, DOT requires Operating Administrations to record all recovered payments in the Department's accounting system to ensure accuracy in improper payment reporting. Without use of the proper accounting system and an audit trail, there is greater risk that recorded transactions are not accurate or approved.

## **ONE OF FTA'S TESTED PROGRAMS DID NOT MEET ITS 2013 IMPROPER PAYMENT REDUCTION TARGET**

According to DOT, its programs met IPERA's requirement that less than 10 percent of total payments be improper. However, one of FTA's tested programs—the Formula Grant Program—did not achieve its own target to reduce improper payments to 0.25 percent or less for fiscal year 2013 as set by OMB guidelines. DOT officials estimated the Formula Grant Program's 2013 improper

payments were \$62.6 million, or 0.73 percent of total Program payments. Therefore, the amount of improper payments exceeded FTA's target amount (\$23.1 million) by \$39.5 million and the target reduction rate (0.25 percent) by 0.48 percent.

The Contractor reported to DOT that 4 of the 30 FTA Formula Grant Program grantees that it tested made at least 1 of the following types of improper payments:

- Payment for ineligible goods and services,
- Payment of an incorrectly calculated Federal share,
- Payment of an incorrect amount, or
- Payment made with insufficient supporting documentation.

However, as DOT reported in the AFR, FTA did develop a corrective action plan to address these types of improper payments. DOT acknowledged that unmet target reduction rates create a risk that DOT's operating administrations will not progress in reducing their improper payments.

## **CONCLUSION**

OMB has designated the reduction of improper payments as a top priority for all Federal agencies. DOT made over \$60 billion in payments to grantees during the reporting period, and reduction of improper payments has been a significant challenge. While DOT is making important efforts to reduce improper payments—such as reducing a program's improper payments below the "significant risk" threshold—increasing the level of accountability and oversight from both contractors and program officials will help to ensure that its testing and reporting procedures are reliable and fully meet IPERA and OMB standards.

## **RECOMMENDATIONS**

We recommend that DOT's Assistant Secretary for Budget and Programs/  
Chief Financial Officer:

1. 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.
2. Implement procedures that ensure that all the elements required for IPERA reporting are accurate and supported by documentation.

3. Reinforce DOT policy that the recovery of duplicate payments must be recorded in DOT's accounting system.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided a discussion draft report to DOT officials and discussed our results on April 10, 2014. DOT officials concurred with our findings and recommendations.

## **ACTIONS REQUIRED**

In accordance with DOT Order 8000.1C we request that DOT provide our office, within 30 days of this report, with target action dates for the recommendations included in this report.

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 George Banks, Program Director, at (410) 962-1729.

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cc: DOT Audit Liaison, M-1

## **EXHIBIT A. SCOPE AND METHODOLOGY**

We conducted this audit from December 2013 through April 2014 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 objectives.

To address our audit objectives, we reviewed applicable laws and regulations. We interviewed DOT personnel and contractors responsible for IPERA's implementation. To assess the Department's compliance with IPERA requirements we (1) reviewed statistical sampling plans and improper payment projections and amounts to verify all 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.

OIG's Senior Statistician selected a statistical sample of 50 out of 583 transactions with an amount of \$121.4 million out of \$511.7 million that the Department and its Contractor had tested and found not to be improper. We retested the propriety of those conclusions in FHWA's Federal-Aid Highway Program, FTA's Formula Grant and Capital Investment Grant Programs, FRA's High-Speed Intercity Passenger Rail Program, and FAA's Airport Improvement Program. The supporting documentation included, among other documents, summary schedules, grant agreements, invoices, checks, and payment vouchers.

We obtained supporting schedules used to summarize the \$1,199,046 of duplicate payments DOT reported it recovered during the reporting period and identified 14 transactions, valued at \$228,494.45 that included notes indicating the amounts may not have been recovered. We selected all 14 of these transactions and compared the reported recovery amounts to invoices and collections in DOT's accounting system to determine if these amounts were recovered.

**EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT**

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