U.S. DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

DOT Needs To Strengthen Its Oversight of IAAs With Volpe

OST

Report No. ZA2019087

September 30, 2019

DOT Needs To Strengthen Its Oversight of IAAs With Volpe

Self-Initiated.

Office of the Secretary | ZA2019087 | September 30, 2019

What We Looked At

The John A. Volpe National Transportation Systems Center—a component within the Department of Transportation's (DOT) Office of the Assistant Secretary for Research and Technology—serves as an internal resource for research, development, testing, evaluation, analysis, and related activities. Between fiscal years 2015 and 2017, the Department's Office of the Secretary of Transportation and its Operating Administrations (OAs) obtained services from Volpe through 901 intra-agency agreements totaling $865.8 million. In 2010, DOT noted inconsistencies among all of the Department's IAAs and reiterated its existing policy for the proper form and content of the agreements. Accordingly, we initiated this audit to assess DOT's and its OAs' policies and procedures for (1) entering into IAAs with Volpe and (2) overseeing the deliverables and expenditure of funds for those IAAs.

What We Found

DOT's Office of the Secretary of Transportation (OST) and its Operating Administrations have limited documentation to show how they plan their use of IAAs with Volpe; and some Operating Administrations have adopted practices for executing Volpe IAAs that do not meet departmental requirements. We also found that neither OST nor the OAs have established specific guidance for evaluating Volpe's performance on IAA projects or sharing that information among the OAs. In addition, we found that OST and the OAs do not consistently comply with departmental requirements for overseeing IAA funds, such as reconciling financial records and promptly deobligating unused funds.

Our Recommendations

We made eight recommendations to the Assistant Secretary for Budget and Programs and one recommendation to the Assistant Secretary for Research and Technology on ways to improve planning, financial management, and sharing of performance information on Volpe IAAs, including a recommendation to determine whether nearly $6 million could be deobligated. When projected across our audit universe, implementing this recommendation could potentially put up to $33.3 million in funds to better use. In response to our nine recommendations, OST concurred with recommendations 1, 2, 3, 4, 6, 7, 8, and 9 and partially concurred with recommendation 5. For the partial concurrence, OST agrees to take the recommended action but does not agree with the amount of funds we identified that could potentially be put to better use.

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U.S. DEPARTMENT OF TRANSPORTATION
OFFICE OF INSPECTOR GENERAL

Memorandum

Date: September 30, 2019

Subject: ACTION: DOT Needs To Strengthen Its Oversight of IAAs With Volpe
Report No. ZA2019087

From: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition and Procurement Audit

To: Assistant Secretary for Budget and Programs
Assistant Secretary for Research and Technology
DOT Senior Procurement Executive

The John A. Volpe National Transportation Systems Center (Volpe)—a component within the Department of Transportation's (DOT) Office of the Assistant Secretary for Research and Technology—serves as an internal resource for research, development, testing, evaluation, analysis, and related activities. Volpe also provides expertise to other Federal agencies, State and local governments, private organizations, and foreign countries. Between fiscal years 2015 and 2017, the Department's Office of the Secretary of Transportation (OST) and its Operating Administrations (OA) obtained services from Volpe through 901 intra-agency agreements[1] (IAA) totaling $865.8 million. See exhibit D for a breakdown by OA.[2]

From 2006 to 2008, DOT issued policies and guidance for establishing and funding all IAAs, which included a suggested checklist for processing IAAs with

[1] According to DOT's Financial Management Policies Manual, an OA can use an intra-agency agreement to obtain or provide supplies or services, from, to, or through another OA in exchange for payment or reimbursement from available funds. An IAA serves as the bilateral agreement that obligates customer funds and describes work to be performed. All intra-agency agreements must be authorized by law.

[2] The Department has nine OAs: Federal Aviation Administration (FAA), Federal Highway Administration (FHWA), Federal Motor Carrier Safety Administration (FMCSA), Federal Railroad Administration (FRA), Federal Transit Administration (FTA), Maritime Administration (MARAD), National Highway Traffic Safety Administration (NHTSA), Pipeline and Hazardous Materials Safety Administration (PHMSA), and Saint Lawrence Seaway Development Corporation (SLSDC). Although the Office of the Secretary of Transportation (OST) is a Secretarial Office, for the purposes of this report, we are using the collective term OAs to refer to OST and the nine OAs.

Volpe.[3] In 2010, DOT noted inconsistencies among all of the Department's IAAs and reiterated its existing policy for the proper form and content of the agreements.[4] Accordingly, we initiated this audit to assess DOT's and its OAs' policies and procedures for (1) entering into IAAs with Volpe and (2) overseeing the deliverables and expenditure of funds for those IAAs.

We conducted this audit in accordance with generally accepted Government auditing standards. This is a departmentwide audit that encompasses all IAAs with Volpe established by the OAs that were (1) open between fiscal years 2015 and 2017 and (2) whose periods of performance ended between fiscal years 2015 and 2017.

To perform this audit, we reviewed policies and guidance at the Department and OA levels, and interviewed officials from DOT and each OA, including chief financial officers (CFO) and program officials. In addition, we conducted tests for compliance with departmental requirements for executing IAAs and managing IAA funds. As part of this audit, we also selected a statistical sample of 63 out of 854 IAAs whose period of performance had ended, which allowed us to project the total amount of funds that could be put to better use. Finally, we surveyed OA Program Office representatives about their satisfaction with Volpe IAAs. Exhibit A provides more details on our scope and methodology. Exhibit B lists the entities we visited or contacted, and exhibit C is a list of acronyms. Exhibits D and E outline the funds the Department obligated and the types of services it obtained through IAAs with Volpe in fiscal years 2015 to 2017. Also, during the course of our audit, in July 2018, the Department's Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs[5] issued DOT Order 1200.9, "DOT Inter and Intra Agency Agreements Order," which canceled and replaced the policy documents that were the applicable criteria for the Volpe IAAs we reviewed. This change in policy did not affect our audit findings or resulting recommendations. Exhibits F, G, and H show comparisons of DOT's prior and existing policies and guidance for planning and executing IAAs and for managing IAA funds.[6]

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[3] DOT, Financial Management Policies Manual, section 9, "Financial Management Policies Governing Funded Interagency and Intra-Agency Agreements," October 24, 2006; DOT, Acquisition Policy Letter (APL)-2008-02, "Contract File Checklist and Interagency and Intra-agency Checklists for Economy Act and Non-Economic Act Agreement," March 5, 2008; DOT Order 2300.8A, "Financing Activities at the Department of Transportation/Research and Innovative Technology Administration's Volpe National Transportation Systems Center," September 22, 2008 (replaced DOT Order 2300.8).

[4] DOT, CFO-2011-001, "Guidance for Executing Departmental Intra-Agency Agreements," November 23, 2010.

[5] This office is part of OST.

[6] Section 9 of the Financial Management Policies Manual and DOT Order 2300.8A are the applicable criteria for the scope of our audit. DOT Order 1200.9, "DOT Inter and Intra Agency Agreements Order," replaced both policies in July 2018.

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) 366-5225 or Darren Murphy, Program Director, at (206) 255-1929.

cc: The Secretary
DOT Audit Liaison, M-1

Results in Brief

Weaknesses exist in DOT's practices for entering into IAAs with Volpe.

The OAs have limited documentation to show how they plan their use of IAAs with Volpe. As such, the OAs do not always have evidence to support (1) why they used an IAA with Volpe rather than another approach, such as a direct contract or an interagency agreement with a different Federal entity,[7] and (2) how they determined when and how much funding was needed. For example, only 5 of the 10 OAs we reviewed have elected to document their justifications for using IAAs with Volpe. In addition, all 10 OAs reported using annual spend plans to document their IAA funding strategies. However, only 19 of the 43 open Volpe IAAs we reviewed—representing $78.5 million of $162.2 million obligated—were included on those plans. Finally, some DOT policies for executing IAAs with Volpe are unclear, and the OAs have adopted practices that do not meet departmental requirements. For example, 25 of the 43 open IAAs with Volpe we reviewed were executed without required data or on unauthorized forms.[8] Inaccurate or missing IAA data could potentially create problems, such as staff making unauthorized commitments, obligating erroneous funding amounts, or charging funds to the wrong accounts.

DOT lacks guidance on how its OAs should evaluate Volpe's performance on IAAs and does not fully enforce its own financial management requirements.

The OAs monitor project status via Volpe progress reports and quarterly program reviews, as well as regular meetings and phone calls. However, neither the Department nor its OAs have specific guidance for evaluating Volpe's performance on IAA-funded projects. While nearly 80 percent of the OA program office representatives we surveyed rated Volpe's work on IAAs as excellent or good, documenting information about Volpe's performance could help the Department as a whole identify and share information about (1) lessons learned and (2) where improvements can be made for OAs planning future Volpe IAA projects. We also found that DOT and the OAs do not consistently comply with

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[7] Per the Financial Management Policies Manual, an OA may use an interagency agreement to obtain or provide needed supplies or services from, to, or through, another Federal agency in exchange for payment or reimbursement from available funds.

[8] Financial Management Policies Manual, § 9.5.3b, the applicable criteria for the IAAs we reviewed, stipulated that "for intra-agency agreements, DOT Form 2300.1a must be used to execute all agreements." DOT Order 1200.9, "DOT Inter and Intra Agency Agreements Order," which replaced section 9 of the manual in July 2018, now requires IAAs to be executed on the Department of the Treasury's Forms 7600 A and 7600 B.

departmental requirements for overseeing IAA funds,[9] such as reconciling financial records and promptly deobligating unused funds. This lack of compliance occurs largely because DOT does not fully enforce some of its IAA-specific financial management requirements. For example, most OAs do not always ensure the financial completion of Volpe IAAs or return unused funds within 90 days after the end of the performance period.[10] In the records associated with our sample of 63 Volpe IAAs whose periods of performance had ended, we identified 57 agreements that had not undergone the required financial completion process. Thirty-nine of those 57 agreements had been expired for more than 15 months at the time of our review, and 50 had nearly $6 million in remaining funds.[11] These funds, which we project to be as much as $33.3 million for our entire universe of IAAs,[12] could potentially be deobligated and put to better use. Volpe officials, however, told us that they were unable to generate retroactive data to use for comparison—citing limitations in Delphi. Instead, they provided records as of September 30, 2018, which indicated that the initial $6 million had been reduced to $3.3 million. While we recognize that Volpe officials may have taken steps to address some of the overdue deobligations we reported to them, the OAs will need to reconcile their records with Volpe's amounts to validate the funds remaining on the full universe of IAAs.

We are making recommendations to improve the Department's oversight of its IAAs with Volpe and its management of IAA funds.

Background

Volpe's mission is to improve transportation by anticipating and addressing emerging issues and advancing technical, operational, and institutional innovations across all modes. Volpe's activities are financed through a working capital fund governed by Title 49, U.S. Code (U.S.C.), section 328,[13] which gives Federal agencies specific statutory authority to enter into agreements with Volpe.

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[9] Financial Management Policies Manual, §§ 9.6.1, 9.7.6, and 9.7.7. DOT Order 1200.9 also contains these requirements.

[10] Financial completion is the point at which the seller has completed all applicable administrative and financial actions associated with an agreement and the buyer has completed the final processing of funds. The Financial Management Policies Manual, § 9.7.7 states that IAAs should go through the financial completion process within 90 days after the period of performance has ended, and unused funds must be returned (to the OA) and final bills sent within 90 days.

[11] This is according to the OAs' accounting records in Delphi—DOT's official accounting system—as of February 28, 2018.

[12] Our $33.3 million projection has 90-percent confidence limits ranging from $15.7 million to $50.9 million, which equates to a precision of +/-1.7 percent of the universe amount.

[13] 49 U.S.C. § 328. The Volpe Working Capital Fund (WCF) is a fee-for-service, self-sustaining, intra-governmental revolving fund. With a few exceptions, WCF funds are available without regard to fiscal year. However, an IAA's period of performance, including all modifications, cannot exceed 5 years.

According to the Department, Volpe also provides services to other entities such as State and local government agencies.

The audit scope for our sample of Volpe IAAs covered fiscal years 2015 through 2017. We applied the following departmental policies, which were active during those fiscal years, to our sample of Volpe IAAs:

- Section 9 of the Department's Financial Management Policies Manual, "Financial Management Policies Governing Funded Interagency and Intra-Agency Agreements," October 24, 2006;
- DOT Order 2300.8A, "Financing Activities at the Department of Transportation/Research and Innovative Technology Administration's Volpe National Transportation Systems Center," September 22, 2008; and
- CFO-2011-001, "Guidance for Executing Departmental Intra-Agency Agreements," November 23, 2010.

During the course of our audit, in July 2018, the Department's Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs issued DOT Order 1200.9, "DOT Inter and Intra Agency Agreements Order," which canceled and replaced the policy documents listed above that were applicable to the Volpe IAAs we reviewed. The new policy, DOT Order 1200.9, did not affect our audit findings or resulting recommendations. See exhibits F, G, and H for comparisons of DOT's prior and existing policies and guidance for planning and executing IAAs, and managing IAA funds.

Weaknesses Exist in DOT's Practices for Entering into IAAs with Volpe

The OAs have limited evidence to show how they plan for and document their decisions to use IAAs with Volpe and determine when funding will be needed. In addition, some DOT policies for executing agreements with Volpe are unclear, and some OAs do not always follow departmental policy in completing required forms for IAAs.

DOT Has Limited Evidence To Support Its Planning Efforts for Volpe IAAs

The OAs have limited documentation to show (1) why they elected to obtain services by using an IAA with Volpe rather than another approach, such as a direct contract or an interagency agreement with a non-DOT entity, and (2) how they determined when and how much funding was needed.

Documenting Rationales for Using IAAs With Volpe

DOT does not require its OAs to document their rationales for using IAAs with Volpe to obtain services. As such, the OAs use various practices for planning IAA work with Volpe, which leads to inconsistencies in how they evaluate whether an IAA with Volpe represents the best business decision. For example, five OAs said they document their rationales for using IAAs with Volpe by developing business cases, analyzing alternative options, or implementing Determinations and Findings (D&F) statements.[14] In contrast, three other OAs[15] stated that, since Volpe is an in-house service provider, they determine the need through internal discussions but do not document those conversations. In light of these varying practices, adding some consistency to the OAs' planning processes for Volpe IAAs could prove beneficial.

To that point, the Department has taken steps to gather information on IAAs and improve consistency. For example, starting in May 2018, the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs began reviewing all Volpe agreements for financial soundness and to ensure that an OA's funding aligns with the IAA's period of performance. In addition, under the new DOT Order 1200.9 issued in July 2018, IAAs that are used to purchase or fund information technology goods and services must be reviewed and approved by the Office of the Chief Information Officer before funds are obligated or payments are processed.

Moreover, in September 2017, the Department launched an initiative that requires OAs to obtain approval from the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs for new research and development (R&D) projects—including work with Volpe. To implement its R&D project approval initiative, the Department developed a questionnaire that collects OA information on R&D goals, anticipated outcomes, timelines, and funding levels. It also asks why R&D projects should be funded by the Government and not the private sector. Such efforts by the Department and some OAs reflect positive steps toward documenting their decisions to work with Volpe. However, developing a more consistent approach for planning and documenting decisions to use Volpe IAAs—among all the OAs—could help reassure the Department that it is ensuring the best use of Federal funds.

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[14] FAA, FHWA, FMCSA, MARAD, and PHMSA.
[15] FTA, FRA, and OST.

Planning IAA Work and Associated Funding Needs

DOT's former IAA policy, DOT 2300.8A, included an important planning element to help OAs determine when they would need the IAA work and funding. That tool, the customer annual business plan (CABP), had a dual purpose: OAs could use it to (1) document business planning for IAAs with Volpe and (2) describe their anticipated requirements for the coming fiscal year. Per DOT 2300.8A, CABPs helped ensure that projects were consistent with the OA's mission and had an appropriate level of oversight; they also included the following suggested details:

- for each *existing* project: project number, title, DOT customer organization code, size, and description; and
- for each *new or potential* project: estimated size, desired outcomes, potential risks, and any other identifying information.

The OAs could also use CABPs to determine future funding needs. However, largely due to a lack of awareness, none of the OAs implemented these plans, and the Department removed the suggestion to use the CABP when it revised its IAA policy in July 2018.[16]

In lieu of CABPs, the OAs told us that they use annual spend plans to document future programmatic expenditures, including those involving IAAs. However, our review found that only 19 of the 43 (44 percent) open IAAs with Volpe in our sample—representing $78.5 million of $162.2 million (48 percent) obligated—were included on the OAs' spend plans. In addition, the spend plans sometimes lacked descriptions of the IAA projects themselves, the expected outcomes, or current and future funding needs.

Without complete and documented justifications and spending plans, it is unclear how much money DOT intends to spend on future IAA work with Volpe or whether the Department is funding duplicate efforts. Furthermore, inadequately defined project needs, performance objectives, and expenditure plans suggest that at times an OA may obligate funds to Volpe IAAs without a full understanding of the project's needs.

For example, in September 2012, one OA added $49 million to an $800,000 Volpe IAA in our sample without increasing the scope of work or deliverables. Congress had appropriated the funds 3 years earlier, and they were set to expire in 2 weeks. However, the OA was unable to provide a cost estimate or documentation to demonstrate that its IAA with Volpe needed all of the funds at the time the money was obligated. Officials at the OA also told us that the statement of work for the agreement noted that "additional activities will be

[16] See exhibit F for a comparison of DOT's prior and existing policy and guidance for planning and executing IAAs.

funded through future modifications. The total estimated costs will be based on Volpe's Technical Approach Document (TAD) and associated cost estimate, [the OA's] assessment of the proposed approach, and cost and funding availability and priorities." However, the TAD did not contain cost estimates to justify an increase of $49 million, and a memo signed by Volpe stated that the IAA could have been fully funded for $20 million. The OA has acknowledged that it cannot provide more detailed support for the $49 million increase.

In response to our finding, Department officials told us that they view this example as an anomaly and not representative of a typical IAA. According to those officials, the OA used the IAA with Volpe to set up a monitoring and technical assistance program within a short timeframe to address a congressional mandate. In addition to the significant funding amount, per the Department, the program faced several extenuating circumstances and challenges, including a statutorily imposed obligation deadline, highly complex projects, and grantees unfamiliar with Federal funding requirements. Nevertheless, there was a lack of supporting documentation in the OA's decision-making process for this IAA.

In a second IAA in our sample, in September 2011, an OA awarded $1.5 million to an existing Volpe project.[17] As in the earlier example, the OA had received the appropriated funds 3 years earlier, and the funds were set to expire in 1 week. In this case, the OA lacked supporting documentation to show that it had established a cost estimate or delivery dates for the IAA tasks. According to Agency officials, the work was mission-focused, but the delivery dates were not well described, and they could not find support for the cost estimate.

We identified a similar issue regarding a lack of sufficient supporting documentation in a third IAA in our sample—but this one had a different outcome. In April 2017, an OA wanted to add $2 million to an existing Volpe IAA but lacked a well-defined statement of work for the modification. Volpe raised concerns and wanted to return the funding until the OA better defined the scope. Due to Volpe's intervention, the OA ultimately updated the statement of work.

The weaknesses we've identified in DOT's current practices for planning Volpe IAA work and related funding needs place potential limits on the Department's ability to effectively manage the Federal dollars spent on those IAAs. As such, having better visibility into how OAs intend to use Volpe IAAs, and the associated costs, could help assure the Department that Federal funds are being spent on projects with immediate and clearly defined requirements.

[17] The original period of performance (September 2011 to March 2014) was extended to December 2015.

DOT Does Not Ensure That OA Processes for Executing IAAs Fully Meet Departmental Requirements

Although DOT does not require them to do so, 8 of the 10 OAs[18] have established their own internal policies and procedures for inter- or intra-agency agreements. While the prior DOT Order 2300.8A is silent on the matter, the current DOT Order 1200.9 directs the OAs to submit their internal IAA procedures to the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs. According to Department officials, this is to "ensure that everyone moves in a standard direction and to confirm reasonableness." However, neither the previous nor the current policies require that Office to review or approve these OA-specific procedures.[19] For instance, Department officials told us that under DOT Order 2300.8A, they did not review any IAA procedures established by the OAs. Moreover, while the new DOT Order 1200.9 does require the OAs to submit their internal IAA procedures, the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs has not explained how it will provide the necessary oversight to ensure overall IAA policy consistency and reasonableness.

The need for such oversight is supported by several instances, involving 7 of the 10 OAs, where OA-specific IAA procedures or practices did not comply with departmental policies. For example, procedures for one OA's policy stated that staff were to enter into IAAs using a different form than the mandatory DOT Form 2300.1a. This conflicted with section 9 of the previous Financial Management Policies Manual,[20] which directed OAs to use DOT Form 2300.1a for intra-agency agreements, without exception.[21] Another OA—which lacks written internal procedures for executing IAAs—also elected to use a different IAA form. Based on our file reviews, those 2 OAs used unauthorized forms[22] for 11 of the 43 open Volpe IAAs in our sample.[23] Using the wrong forms could lead to such problems as the omission of required data fields, as we discuss later in this section.

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[18] FAA, FHWA, FMCSA, FTA, MARAD, NHTSA, OST, and PHMSA (draft policy as of January 2018).
[19] See exhibit F for a comparison of DOT's prior and existing policies and guidance for planning and executing IAAs.
[20] In effect at that time; DOT Order 1200.9 replaced section 9 of the Financial Management Policies Manual in 2018.
[21] Financial Management Policies Manual, § 9.5.3b: "For intra-agency agreements, DOT Form 2300.1a must be used to execute all agreements." Beginning in July 2018, under DOT Order 1200.9, the Department adopted the Treasury's Forms 7600 A and 7600 B as the official forms for executing IAAs. See exhibit F.
[22] The OAs used interagency agreement forms generated by PRISM, which is a purchasing management system that tracks all procurement phases—requisition, award, and close out.
[23] Represents $23.4 million of $162.2 million in obligated funds.

We also identified instances where IAA forms were not completed correctly. According to departmental guidance,[24] the CFO in each OA is responsible for ensuring that IAAs are awarded in accordance with section 9 of the Financial Management Policies Manual. Specifically, the manual stated that a fully executed IAA must include such key elements as:

- Buyer obligation numbers and corresponding seller agreement numbers;
- Lines of accounting (funding) to be charged;
- Treasury Appropriation Fund Symbol (TAFS) of both the buyer and seller agencies;[25] and
- Authorized signatures.

DOT's current policy, DOT Order 1200.9, also requires these elements. However, 21 of the 43 (49 percent) open Volpe IAAs we reviewed—representing $109.6 million of $162.2 million (68 percent) in obligated funds—did not always include some of the manual's required elements.[26] For example, one OA lacked accounting codes for nine IAAs. In response, OA officials explained that the buyers' accounting codes were included in the purchase request packet, which we confirmed. However, the manual requires buyers to include the codes on the official IAA form. In addition, for two other OAs, we found three IAAs where the sellers' TAF symbol was either omitted when an incorrect IAA form was used or was overlooked. We also noted that 11 of the 21 IAAs had signatures and dates that were so illegible a reader could not tell who approved the document or when it was signed.

In 2008, the Department's Office of the Senior Procurement Executive[27] developed a checklist[28] that OAs could use when executing IAAs with Volpe. The checklist—which reiterated the mandatory use of DOT Form 2300.1a—was created to establish consistency among the OAs and foster compliance with the Financial Management Policies Manual, but only three OAs reported using it. However, the checklist and its related guidance were canceled in May 2019.

Because the Department does not provide adequate oversight to promote consistent procedures, it lacks assurance that OA practices for IAAs with Volpe comply with its own policy. It also runs the risk that such agreements will be executed improperly—as demonstrated by the 21 IAAs that lacked required

[24] CFO-2011-001, "Guidance for Executing Departmental Intra-Agency Agreements," November 23, 2010.
[25] These fund account symbols represent individual appropriations and other fund accounts.
[26] There are 16 required IAA elements in the Financial Management Policies Manual, which was the applicable criteria for the scope of our audit.
[27] This office is part of OST.
[28] APL-2008-02.

elements and the 11 IAAs that were completed on the wrong form. Finally, inaccurate or missing IAA data could create problems such as unauthorized commitments, erroneous funding amounts, or funds charged to the wrong accounts.

DOT Can Strengthen Its Practices for Evaluating and Sharing Data on Volpe's Performance and Enforcing Its Financial Management Requirements

While the Department has updated its IAA policies, it has not provided guidance on evaluating performance on Volpe IAA projects to its OAs. In addition, due to a lack of departmental enforcement, the OAs do not consistently comply with several key DOT requirements for managing IAA funds.

DOT Lacks Specific Guidance on Evaluating Volpe's Performance and Sharing That Information Across OAs

Neither the OAs nor the Department have established specific guidance for evaluating Volpe's performance on IAA projects or sharing that information among the OAs. In the absence of such guidance, the OAs monitor progress on Volpe IAA projects through regular status reports, daily or weekly phone calls, regular meetings, and quarterly program reviews. According to Volpe, performance evaluation should be left to the sponsor (in this case, the OA) funding the work. OA Program Offices we surveyed provided feedback identifying positive aspects and areas for improvement on both Volpe's IAA performance and their OAs' monitoring efforts. However, the lack of specific guidance on documenting and sharing performance data impedes efforts to identify areas for improvement and promote best practices.

While Volpe is not one of the Department's contractors, it serves a similar role in that both contractors and Volpe provide DOT with federally funded supplies and services. To that end, Federal acquisition guidelines regarding contractor performance could serve as a model for evaluating IAA projects with Volpe. For example, the Federal Acquisition Regulation (FAR) addresses contractor surveillance (monitoring) by directing agencies to review and analyze the contractor's actual performance.[29] As part of this activity, the FAR calls for agencies to document their reviews of information regarding performance under previous contracts or orders and use it to decide whether the contractor should receive additional work. For example, this information can include the contractor's record of:

1. Conforming to requirements and to standards of good workmanship;
2. Forecasting and controlling costs;
3. Adherence to schedules, including the administrative aspects of performance; and
4. Reasonable and cooperative behavior and commitment to customer satisfaction.

The OAs' current oversight practices for monitoring IAAs with Volpe generally do not include documenting and evaluating Volpe's performance on many of these elements. Yet incorporating these activities in their guidance could help the OAs make more informed, efficient, and effective decisions as they plan future business with Volpe. It could also help the Department as a whole to identify and share information about what Volpe is doing well, as well as specific areas for improvement. While not required for Volpe IAAs, the Contractor Performance Assessment Reporting System is a comparative model for sharing information about performance that Federal agencies review before they make award decisions. Implementing a similar repository or sharing mechanism within DOT could provide valuable information for OA decision makers planning to use Volpe IAAs.

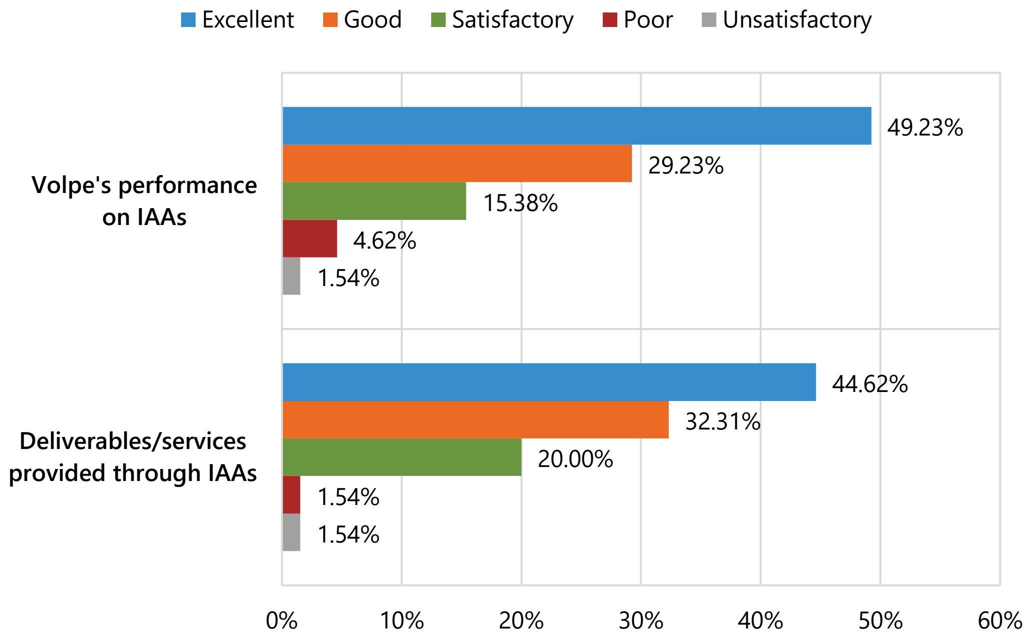
During our audit, we surveyed 106 Program Office representatives[30] about their satisfaction with Volpe's performance on IAAs, and received 65 responses—a 61-percent response rate.[31] Specifically, we asked, (1) has your office found the deliverables/services provided through this IAA to be excellent, good, satisfactory, poor, or unacceptable; (2) has your office found Volpe's performance on this IAA to be excellent, good, satisfactory, poor, or unacceptable; and (3) have all deliverables/services provided through the IAA been submitted per agreed upon milestones/dates.

Overall, 78 percent of the 65 survey respondents rated Volpe's performance as excellent or good for the IAAs in our audit sample, and 77 percent rated Volpe's

[29] Per FAR Part 42, surveillance also involves the review and analysis of contractor performance plans, schedules, and controls.
[30] Our selection of Program Office representatives was based on the 43 open and 63 expired IAAs included in our sample.
[31] Responses were provided by individual Program Office personnel and do not represent their OAs' views as a whole.

deliverables or services as excellent or good (see the figure below). In addition, 90 percent of those respondents reported that the deliverables or services were submitted per agreed-upon milestones/dates.

Figure. Summary of 65 OA Program Office Responses to OIG Survey on Volpe IAAs



Source: OA Program Office personnel responses to questions 1 and 2 as described above.

In addition to indicating their level of satisfaction in response to these questions, 58 of the 65 survey respondents also provided written comments regarding their satisfaction with Volpe's performance as well as the timeliness of their work products.[32] Some of these comments included:

- "Volpe has been critical to the success of our program office. Their expertise and flexibility have allowed our organization to respond to evolving business requirements in an effective and efficient manner."
- "The Volpe management team has provided superior technical services to our program offices."
- "Volpe has the ability to provide [a] high level of expertise in many technical areas that would not otherwise be available to the Agency. That expertise, coupled with the programmatic knowledge of the Volpe team,

[32] Fifty-eight of the 65 survey participants provided 105 comments to express additional feedback.

> and close coordination…has led to the development of products that surpass the Agency's expectations."

Our survey also asked respondents for suggestions on how their Program Offices and Volpe could improve in their respective IAA roles. Specifically we asked, what improvements, if any, could (1) Volpe make in its performance on this IAA; (2) your Office make in monitoring Volpe's performance on this IAA; and (3) your Office make in monitoring the deliverables/services provided through this IAA.[33] Examples of survey participants' feedback are included in tables 1 and 2 below.

Table 1. Examples of OA Program Office Personnel Suggestions for Improving Performance on Volpe IAAs

Suggestions for Volpe included:
• Complete transparency related to the expenditure and resource plan. We are working with Volpe on these improvements.
• Better communication.
• Volpe could have been up front [about] problems they were having meeting scope and schedule requirements.
• Better documentation, retention and filing.
• Provide more details with funds utilization.
• More timely monthly progress reports from Volpe. Progress reports are a month behind and, by the time monthly progress reports are delivered…the dollar amounts for each acquisition are no longer correct.

Source: OA Program Office personnel responses to question 1 (described above)

[33] Forty-six of the 65 survey participants provided 101 write-in responses to these open-ended questions.

Table 2. Examples of OA Program Office Personnel Suggestions for Improving Oversight of Volpe IAAs

Suggestions for the OAs included:
• A deliverable table. The table should include what needs to be delivered, when it needs to be done, and who is responsible to deliver.
• Increased periodic review of performance.
• Better job of setting schedules…for our own staff to take actions needed for Volpe to proceed with their next steps.
• Better clarification of the deliverable requirements in the original scope of work.
• PM [program manager] should be able to review and approve invoices.
• Clear[er] and more specific statements of work.
• Budgeting office could do a better job informing the program offices of the billing/invoice process.

Source: OA Program Office personnel responses to questions 2 and 3 (described above)

In response to our survey results, DOT officials pointed out that Volpe has undertaken a number of quality assurance and quality control (QA/QC) initiatives over the past year, including conducting best practice interviews with external organizations on QA/QC practices; interviewing Volpe division chiefs to gather information on internal QA/QC best practices and the types of resources that could support those practices; and forming a working group of division chiefs and project managers to suggest ideas for strengthening QA/QC. These efforts by Volpe to identify best practices can help strengthen its internal quality assurance and control processes. In turn, the OAs could achieve similar benefits for Volpe IAAs by establishing their own oversight processes to document and share what went well, areas for improvement, and other lessons learned.

The Department and Its OAs Do Not Always Comply With Financial Oversight Requirements for IAAs With Volpe

The Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs has established financial management procedures for overseeing IAA funds. However, the Department and its OAs do not consistently comply with these requirements, which include reconciling IAA financial records and deobligating unused funds in a timely manner.[34]

The Department and its Operating Administrations do not reconcile IAA financial records, as departmental policy requires.

To ensure that the Department has proper internal controls for managing IAAs, DOT's IAA policy requires the buyer, seller, and the Office of Financial Management[35] to review and reconcile IAA activity. However, we found that neither DOT nor its OAs comply with this financial management requirement—incorporated in both the former and current policies—for reconciling IAA funds. In addition, the Financial Management Policies Manual does not (1) offer guidance on how to document the required IAA monthly and quarterly reconciliations and year-end reviews or (2) clearly state how the Department enforces the requirements for conducting those activities. We note that the Department's new policy, DOT Order 1200.9, also does not address these matters.

For instance, according to section 9 of the Financial Management Policies Manual, each OA (the buyer) and Volpe (the seller) "must reconcile intra-agency activity balances with their trading partners every month and resolve reporting differences for revenue/expense, receivables/payables, and advances/pre-payments balances."[36] However, the Department has not provided a standardized template or other instructions on how to conduct the required monthly reconciliations. Instead, Department officials told us that the Enterprise Service Center (ESC), DOT's accounting service provider, is in the best position to conduct monthly reconciliations for all the OAs and that ESC reconciles intra-agency activity on a monthly basis via its Common Reimbursable Account Number (CRAN) report. However, neither the former nor the current policy lists

[34] Section 9 of the DOT Financial Management Policies Manual was applicable to the Volpe IAAs we reviewed. DOT Order 1200.9 replaced the manual in July 2018 but retained most of the manual's financial management requirements for inter- and intra-agency agreements. See exhibits G and H for our comparison of DOT's financial management guidance for IAAs under the former and current policies.
[35] This office is part of the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs.
[36] This requirement was retained in DOT Order 1200.9.

the CRAN report as a substitute for buyer and seller reconciliations. Furthermore, both the former and current policy are clear in assigning IAA reconciliation responsibility to the buyers (the OAs) and the seller (Volpe)—not to ESC.

In addition to the monthly reconciliations, the Financial Management Policies Manual required the Office of Financial Management to conduct quarterly reviews of IAA activities, but did not elaborate on how to do so.[37] DOT officials told us that on a quarterly basis, the Office of Financial Management reviews all intradepartmental general ledger balances between DOT OAs, including IAA activity, to determine which amounts to reconcile. However, the Department's supporting documentation indicates that the quarterly intradepartmental balance reviews are done at a high level and do not reconcile balances among individual IAAs.

DOT's former and current policies also require Volpe, as the seller, to conduct year-end reviews of all outstanding orders[38] and accounts receivable.[39] Volpe officials told us they do not have a separate process for year-end reviews. Instead they provide monthly project status reports, which include summaries of how much money was spent and how much remains. However, Volpe did not provide documentation to show how it uses the reports to execute the year-end review accounting actions described in DOT's policies. For example, the monthly status reports do not indicate that Volpe, as the seller, has determined whether an IAA has expired funds that have not been fully committed[40] or expended. As such, it is unclear how Volpe's monthly project status reports qualify as the seller's year-end reviews of outstanding orders and accounts receivable.

Finally, when we asked DOT officials about overseeing the Department's financial management requirements for reconciling and reviewing IAA activity, they told us that they rely on attestation statements from the OAs' Chief Financial Officers. However, those attestations are summarized broadly and do not specifically address compliance with DOT's requirements for monthly and quarterly IAA reconciliations and year-end reviews.

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[37] This requirement was retained in DOT Order 1200.9.

[38] Per the Financial Management Policies Manual, an order is an accrued obligation for services performed by employees, contractors, vendors, carriers, and grantees, as well as goods and tangible property received. This requirement was also retained in DOT Order 1200.9.

[39] Per the Financial Management Policies Manual, accounts receivable consist of amounts other entities owe to the Department. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectable.

[40] Per DOT's Financial Guidance Manual, § 9.5.2, if the funds on an IAA are set to expire, Volpe must either obligate, invoice, or return the money.

The Department and its Operating Administrations frequently did not conduct IAA financial completion procedures or deobligate remaining funds in a timely manner.

The Department's former and current IAA policies hold both the buyer and seller responsible for conducting IAA financial completion procedures[41] and deobligating any remaining funds. Specifically, as the buyer, an OA is directed to monitor the activity and age of an IAA order and assess the lack of activity on obligation balances older than 180 days. As the seller, Volpe is directed to initiate financial completion procedures, which include submitting a final invoice and conducting a funds review.[42] The buyer uses these procedures to complete final processing of the funds.

According to the Financial Management Policies Manual, the IAA financial completion process must occur no more than 90 days after an IAA's period of performance ends, and unused funds must be deobligated. However, based on our review of the OAs' IAA records, we found that, as of February 2018, 9 of the 10 OAs did not meet the manual's 90-day requirement for the financial completion process. Moreover, it is worth noting the number of IAAs whose periods of performance had ended without being financially completed and the time that had elapsed since their expiration. For example, we found that 57 of the 63 Volpe IAAs whose periods of performance ended between fiscal years 2015 and 2017 had been expired for more than 90 days—with some as long as a year or more without financial completion (see table 3 below).

[41] Financial completion is the point at which the seller has completed all applicable administrative and financial actions associated with an agreement. See exhibits G and H for our comparison of DOT's financial management guidance for IAAs under the former and current policies.
[42] According to OST, this review validates the status of the buyer's funding by verifying that the advance received covered all costs and all work completed by the seller.

Table 3. IAAs With Expired Performance Periods

Operating Administration	91–181 Days Overdue	182–272 Days Overdue	273–363 Days Overdue	364–454 Days Overdue	455–1,000 Days Overdue	1,000+ Days Overdue	Amount of Remaining Funds
FAA	5	1	1	1	19	7	$3,984,420.29
FHWA	0	1	0	0	4	0	$397,536.84
FMCSA	0	0	0	0	2	0	$1,386,979.15
FRA	0	0	1	0	0	0	$29,031.27
FTA	0	0	0	0	0	0	$0.00
MARAD	0	0	0	0	2	0	$936.56
NHTSA	1	0	2	0	3	0	$139,843.26
OST	1	1	0	1	1	0	$28,185.84
PHMSA	0	1	0	0	1	0	$0.00
SLSDC	0	1	0	0	0	0	$0.00
Total Count= 57 IAAs	**7**	**5**	**4**	**2**	**32**	**7**	
Total Dollar Value	**$1,439,918.70**	**$408,651.54**	**$263,009.91**	**$13,367.99**	**$3,728,042.54**	**$113,942.53**	**$5,966,933.21**

Source: OIG analysis of OA-provided accounting data from Delphi, as of February 28, 2018.

As shown above in table 3, we identified approximately $5.9 million in remaining funds on those IAAs, according to the OAs' own records.[43] As a result, we project that, taking the entire universe into account, these remaining funds could total as much as $33.3 million,[44] which potentially could be deobligated and put to better use. Acknowledging that the funds identified in table 3 could be deobligated, the OAs told us that they did not do so for a variety of reasons. For example, two OAs indicated they were waiting for Volpe to complete billing or close out UDOs. Another OA pointed to delays due to underlying contracts[45] that were still open or awaiting audit.

Our findings in table 3 are based on OA-provided data from the Delphi accounting system as of February 28, 2018. After we shared our results with

[43] Based on the OAs' accounting records in Delphi, as of February 28, 2018.

[44] Our $33.3 million projection has 90-percent confidence limits ranging from $15.7 million to $50.9 million. Our projection is based on (1) OA-provided accounting data from Delphi, as of February 28, 2018, for our sample of 63 Volpe IAAs whose periods of performance ended between fiscal years 2015 and 2017 and (2) the universe of Volpe IAAs extracted from Delphi and provided to us by OST on November 30, 2017.

[45] For the purposes of this report, we are defining underlying contracts as contracts in which Volpe uses IAA funds to retain a private source to help provide services to an OA.

Volpe officials, they told us that, due to limitations within Delphi, they could not give us retroactive data to use for comparison. Instead, they gave us their records (current at that time) as of September 30, 2018. Based on this information, Volpe officials said that approximately $3.3 million remained on the IAAs represented in table 3. Department officials also told us that Volpe's records indicate that "92 percent (or $3.02 million) of the IAA balance represented is engaged with a contract reconciliation/closeout." We recognize that Volpe may have taken action to address the unobligated balances for the IAAs shown in table 3 after we reported them to the Agency. However, it is unclear if those actions were coordinated with the OAs to ensure both parties' IAA records were properly reconciled and verified. The OAs will need to reconcile their records with Volpe's amounts to validate the funds remaining on the full universe of IAAs.

We also note that DOT's former policy[46] was not clear about the timeframe for the IAA financial completion process when underlying contracts are involved.[47] Specifically while it stated that underlying contracts should adhere to an IAA's period of performance,[48] the policy did not explain how to proceed if the IAA's period of performance ended before the contract was closed out.[49] For example, the FAR allows a physically completed contract to remain open for a variety of reasons, such as a pending claim from a third party or because an audit is in process.[50] However, unlike the prior policy, the new DOT Order 1200.9 recognizes the underlying contract issue and requires an IAA to go through the financial completion process within 90 days as long as the work has been completed *and* the IAA period of performance or the underlying contract has expired—whichever is later.

Compounding the problem of untimely closure and deobligation of funds were the significant differences among the OA, Volpe, and ESC records regarding the amount of funds remaining on the expired IAAs in our sample. For example, ESC's records for a Volpe IAA list FMCSA's balance at $1.38 million and Volpe's at $18,107. In comparison, FMCSA's accounting records reflect a total balance of $1.38 million for the same IAA, while Volpe's own records show a balance of $9,453. According to a FMCSA official, "the IAA was not closed out due to outstanding billing discrepancies. On several occasions, Volpe claimed that it was out of funding, despite the fact that Delphi consistently showed ample available funding. In addition, there were discrepancies in the Delphi balances for the IAA

[46] Financial Management Policies Manual, § 9.7.7; applicable for the scope of this audit.
[47] Underlying contracts are subject to Federal contract closeout requirements—which is a separate activity from DOT's IAA financial completion process.
[48] Financial Management Policies Manual, § 9.5.2.
[49] Per FAR 4.804-1, contracts should be closed within 6 to 36 months after the contracting officer receives evidence of physical completion.
[50] FAR 42.705.

shown in FMCSA and Volpe's systems." Had FMCSA and Volpe conducted timely reconciliations, they might have resolved this matter earlier.

Similarly, PHMSA's records showed a $0 balance for an IAA with Volpe because the funds had been returned to the Treasury. However, Volpe's records for the same agreement showed a balance of $195,272—which, according to the Department, was to be returned to PHMSA. Officials at PHMSA were not aware of this until we brought it to their attention. Department officials acknowledged that the Volpe records should have been identical to the PHMSA records.

Per DOT's former Financial Management Policies Manual, the Office of Financial Management was supposed to coordinate with the OAs to reconcile intra-agency agreements and act as a mediator to resolve differences. When differences seemed irreconcilable, each OA was to provide a written explanation to help that Office determine the best course of action. However, the new DOT Order does not assign this responsibility to any office in the Department.

The Department faces several challenges in ensuring the timely closure and deobligation of funds remaining on expired Volpe IAAs. However, it is important to note that the OAs have taken a number of positive steps. For example, FHWA said that between fiscal years 2015 and 2018, it had decreased UDO balances for IAAs from $35.2 million to $5.8 million and also closed 232 IAAs during this timeframe. In addition, after we presented our findings for table 3 to MARAD officials, they told us—and we confirmed—that the Agency prioritized the closeout of expired IAAs with Volpe and closed 17 of the agreements. As a result, Volpe subsequently returned over $87,000 in unused funds to MARAD. Furthermore, since October 2017, NHTSA Program Office personnel have received biweekly emailed reminders about IAAs that should be reviewed for closeout.

Nevertheless, without better reconciliation, year-end review, and financial completion practices in place, the Department may continue to experience accounting discrepancies on Volpe IAAs like those we identified during the course of our review. These weaknesses may also hamper the Department's ability to effectively manage Volpe IAA funds that could be deobligated and put to better use.

Conclusion

Each year, DOT expends millions of dollars on IAAs with Volpe to fulfill a variety of programmatic activities, ranging from research to testing to project management. While the OAs report that deliverables and services typically arrive as anticipated, gaps in departmental oversight and inconsistent OA practices limit DOT's ability to effectively manage Volpe IAAs. More complete and consistent guidance on planning IAAs would help the Department and its OAs better target where and how Federal funds are spent. Furthermore, increased oversight of Volpe's performance, coupled with stronger adherence to departmental financial management requirements, could enhance DOT's ability to manage its IAAs with Volpe.

Recommendations

We recommend that the Assistant Secretary for Budget and Programs direct the appropriate Operating Administrations (OA) officials to:

1. Implement requirements for documenting the rationale for entering into intra-agency agreements (IAA) with the John A. Volpe National Transportation Systems Center (Volpe), including why the proposed agreement is in the OA's best interest.
2. Implement a process to ensure OAs' spend plans, or an alternative mechanism, include descriptions of current and planned Volpe IAA projects, as well as the projects' current and future funding needs.
3. Implement oversight procedures in compliance with section 1.4.3 of DOT Order 1200.9 to verify use of required forms and the inclusion of required elements when executing Volpe IAAs, including but not limited to buyer obligation numbers, lines of accounting to be charged, and Treasury Appropriation Fund Symbols.
4. Implement procedures to verify compliance with departmental requirements for conducting IAA financial completion processes and returning unused funds after the period of performance ends.
5. Comply with DOT Order 1200.9's financial completion and IAA closeout process requirements for the IAAs identified in table 3 of this report, and determine whether to close them and deobligate the appropriate portions of the $5,966,933 we identified. Implementing this recommendation

across the 854 IAAs in our audit universe could potentially put up to $33.3 million in funds to better use.

We recommend that the Assistant Secretary for Budget and Programs, working with the appropriate OA officials:

6. Develop and implement procedures to communicate with and train relevant OA staff (e.g., Program Office, Acquisitions/Procurement Office, and Budget/Finance Office staff) about DOT's current IAA-related requirements and guidance.

7. Develop and implement procedures for reviewing current and future OA-issued IAA guidance to confirm alignment with DOT policy.

8. Develop and implement procedures to verify OA compliance with departmental requirements for financially managing IAAs with Volpe, including conducting and documenting monthly and quarterly reconciliations, and year-end reviews.

We recommend that the Assistant Secretary for Research and Technology, working with the Office of the Senior Procurement Executive, direct the appropriate OA officials to:

9. Develop and implement a mechanism for the OAs to document and share their performance evaluation data regarding Volpe IAAs.

Agency Comments and OIG Response

We provided OST with our draft report on August 20, 2018, and received its response on September 18, 2019, which is included as an appendix to this report.

OST concurred with recommendations 1, 2, 3, 4, 6, 7, 8, and 9 as written and provided appropriate actions and completion dates.

OST partially concurred with recommendation 5. In its written response, OST states, "While we agree to close or de-obligate the relevant portions of funds, we do not agree with the amount of funding OIG identified as funds that could be put to better use." OST also states that most of the funds identified by the OIG have been deobligated or returned to the sponsors. While we recognize that the Department may have taken action to address the unobligated balances for the IAAs shown in table 3 after we reported them to the Agency, our findings are based on OA provided data as of February 28, 2018. As such, we stand by our monetary finding.

Despite its partial concurrence with recommendation 5, OST agrees with our recommended action to close out or deobligate the relevant portions of funds in table 3. Therefore, we consider all nine recommendations resolved but open pending completion of the planned actions.

Actions Required

We consider recommendations 1 through 9 resolved but open pending completion of planned actions.

Exhibit A. Scope and Methodology

We conducted this performance audit between November 2017 and August 2019 in accordance with generally accepted Government auditing standards as prescribed by the Comptroller General of the United States. 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.

Our objective was to assess DOT's and its OAs' policies and procedures for (1) entering into IAAs with Volpe and (2) overseeing the deliverables and expenditure of funds for those IAAs.

Our review of DOT's oversight of IAAs with Volpe included the Office of the Secretary of Transportation (OST) and the nine OAs: Federal Aviation Administration, Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Railroad Administration, Federal Transit Administration, Maritime Administration, National Highway Traffic Safety Administration, Pipeline and Hazardous Materials Safety Administration, and Saint Lawrence Seaway Development Corporation.

To conduct this audit, we obtained a listing from OST and Volpe with 1,453 IAAs that were open and active between fiscal years 2015 and 2017. We aggregated this listing by Customer Agreement Award Number, selected a statistical sample of 73 of 901 open IAAs, and conducted file reviews to test for compliance with departmental requirements for executing IAAs. Three IAAs were selected twice due to our "with replacement" sampling methodology, which reduced the actual sample size from 73 to 70. We completed checklist reviews and follow-up interviews for 43 of the sampled IAAs and decided not to review the remaining 27 as we did not expect to identify findings other than those we had already seen. See exhibit E for a summary of the services DOT obtained from these 43 IAAs.

To assess DOT's and its OAs' policies and procedures overseeing the deliverables and expenditure of funds for those IAAs, we obtained a file from OST and Volpe with 1,935 IAA transactions whose periods of performance ended between fiscal years 2015 and 2017. We aggregated the 1,935 transactions by Customer Agreement Award Number so that our universe consisted of 857 IAAs. Next, we stratified this universe, by OA, into 11 strata.[51] We then computed sample sizes approximately proportional to the number of IAAs in a stratum to allow for

[51] Representing DOT's nine Operating Administrations, the Office of the Inspector General, and the Office of the Secretary of Transportation.

projections with a precision no greater than +/-10 percent at the 90-percent confidence level. We selected a stratified sample of 67 IAAs with probability proportional to size with replacement where size was the maximum potential value of an IAA within a stratum. Two IAAs were selected twice due to our "with replacement" sampling methodology, which reduced the actual sample size from 67 to 65. We selected this methodology because it is well known, widely used, and allows for transparent calculations without specialized software. We also excluded three IAAs between Volpe and OIG from the universe and two from the sample as they were for lease/occupancy agreements—which are not typical supply/service type IAAs, according to Volpe. As such, we excluded those IAAs from our review as our audit scope focused on services Volpe provides to the OAs. This changed our universe to 854 IAAs grouped by OAs into 10 strata (9 OAs and OST) from which we selected a sample of 63 with a total maximum potential value of $293.9 million or 28.4 percent of the $1.03 billion in the universe. Based on our findings we were able to achieve a precision of +/-1.7 percent of the universe amount at the 90-percent confidence level.

To test the completeness of the IAA universes we obtained from OST and Volpe, our IT Specialist obtained a raw transaction file from Volpe, applied Volpe's selection criteria, and then compared it to the listings we received. We evaluated all discrepancies and accepted Volpe's explanations for the differences. We also used our sample to validate the accuracy of the listings. Based on our validation we determined that the listings were sufficiently reliable for purposes of this audit.

To assess DOT's and its OAs' policies and procedures for entering into IAAs with Volpe, we reviewed relevant DOT criteria and interviewed Department and OA officials to gain an understanding of their responsibilities and practices. In addition, we developed a standardized checklist of departmental criteria for executing IAAs and used it to test DOT's and the OAs' internal oversight controls for executed Volpe IAAs. We did this by conducting file reviews and evaluating our sample of open IAAs for compliance with DOT requirements for executing IAAs. To verify our findings, we conducted follow-up interviews with representatives from OA Program Offices.

To assess DOT's and its OAs' policies and procedures for overseeing the deliverables and expenditure of funds for those IAAs, we reviewed relevant DOT criteria and interviewed Department and OA officials. We also surveyed 106 OA Program Office representatives from our sample of 43 open and 63 closed IAAs to determine their satisfaction with Volpe IAAs. We received 65 responses, a response rate of 61 percent. In addition, we tested DOT's and the OAs' internal oversight controls for Volpe IAA funds by conducting interviews and requesting supporting documentation that demonstrated compliance with financial management requirements. Further, we analyzed the Delphi accounting records for our sample of 63 Volpe IAAs whose periods of performance had ended to identify IAAs with remaining funds.

Exhibit B. Organizations Visited or Contacted

Department of Transportation

Office of the Assistant Secretary for Research and Technology

Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs

Office of Financial Management

Office of the Senior Procurement Executive

DOT Operating Administrations

Federal Aviation Administration

Federal Highway Administration

Federal Motor Carrier Safety Administration

Federal Railroad Administration

Federal Transit Administration

Maritime Administration

National Highway Traffic Safety Administration

Pipeline and Hazardous Materials Safety Administration

Saint Lawrence Seaway Development Corporation

Exhibit C. List of Acronyms

CABP	customer annual business plan
CFO	Chief Financial Officer
CRAN	Common Reimbursable Account Number
D&F	Determination and Findings statement
DOT	Department of Transportation
ESC	Enterprise Service Center
FAA	Federal Aviation Administration
FAR	Federal Acquisition Regulation
FHWA	Federal Highway Administration
FMCSA	Federal Motor Carrier Safety Administration
FRA	Federal Railroad Administration
FTA	Federal Transit Administration
FY	fiscal year
IAA	intra-agency agreement
MARAD	Maritime Administration
NHTSA	National Highway Traffic Safety Administration
OA	Operating Administration
OST	Office of the Secretary of Transportation
PHMSA	Pipeline and Hazardous Materials Safety Administration
QA/QC	quality assurance and quality control
R&D	research and development
SLSDC	Saint Lawrence Seaway Development Corporation
TAD	Technical Approach Document
TAFS	Treasury Appropriation Fund Symbol
UDO	undelivered order
U.S.C.	U.S. Code
VOLPE	The John A. Volpe National Transportation Systems Center
WCF	Working Capital Fund

Exhibit D. DOT's Obligated Funds for Open IAAs With Volpe, FY 2015–FY 2017

Operating Administration	FY 2015	FY 2016	FY 2017	Total
Federal Aviation Administration	$182,486,160.58	$169,907,507.22	$193,715,937.70	$546,109,605.50
Federal Highway Administration	$26,470,911.94	$23,467,426.69	$25,048,288.75	$74,986,627.38
Federal Motor Carrier Safety Administration	$24,346,205.66	$25,500,535.40	$19,507,212.63	$69,353,953.69
National Highway Traffic Safety Administration	$16,607,316.00	$18,304,642.00	$33,560,083.82	$68,472,041.82
Federal Railroad Administration	$14,989,553.00	$13,020,300.00	$29,419,830.00	$57,429,683.00
Federal Transit Administration	$3,039,000.00	$7,078,359.00	$9,613,300.00	$19,730,659.00
Office of the Secretary of Transportation*	$2,231,271.97	$10,241,280.30	$4,863,348.52	$17,335,900.79
Pipeline and Hazardous Material Safety	$2,520,000.00	$3,813,155.00	$2,251,019.00	$8,584,174.00
Maritime Administration	$1,001,000.00	$1,029,000.00	$1,795,326.00	$3,825,326.00
Saint Lawrence Seaway Development Corporation	$0.00	$0.00	$15,414.94	$15,414.94
Total	**$273,691,419.15**	**$272,362,205.61**	**$319,789,761.36**	**$865,843,386.12**

*This includes the following Secretarial Offices: the Office of the Secretary, Bureau of Transportation Statistics, and Office of the Assistant Secretary for Research and Technology.

Source: OST data provided to OIG on October 20, 2017. [52]

[52] After receiving our audit results, the Department responded that NHTSA's records differed from the data OST provided to the OIG on October 20, 2017. While we acknowledge there may be differences between OST's and NHTSA's numbers, for the purposes of establishing an audit universe, we determined that the data provided by OST was a reliable source of information because we validated its accuracy and completeness through independent analysis as described in the Scope and Methodology discussed in exhibit A.

Exhibit E. Types of Services Obtained by DOT Via IAAs With Volpe, FY 2015–FY 2017

Category	Number of IAAs
Program/Technical Support and Assistance	20
Project Management/Monitoring	9
Research	6
Program Development	8
Total IAAs With Volpe	**43**

Source: OIG analysis of 43 sampled IAAs

Exhibit F. DOT's Prior and Current IAA Policies

Guidance Topic	Financial Management Policies Manual, section 9	DOT Order 2300.8A	DOT Order 1200.9
	October 24, 2006 – July 23, 2018	**September 22, 2008 – July 23, 2018**	**July 23, 2018 – present**
IAA Planning	The manual focuses on executing IAAs and does not address planning for future IAA work.	An OA that expects to work with Volpe has the option of preparing a CABP, which summarizes current and anticipated project descriptions, sizes, desired outcomes, and potential risks. Volpe and its customers meet to discuss potential work and to define the scope and content of the IAA.	The order does not address CABPs or planning for future IAA work.
Supplemental IAA Guidance	Each OA is encouraged to develop and implement more detailed policies and desk procedures consistent with departmental policies. The Office of Financial Management will periodically issue detailed procedures and reporting requirements for reconciling IAAs agreements.	The Head of an OA or OST office (or a designee) is responsible for establishing internal procedures for reviewing and approving IAAs.	Each OA is encouraged to develop and implement more detailed policies and standard operating procedures and send them to the CFO/Assistant Secretary for Budget and Programs.
IAA Form	DOT Form 2300.1a must be used to execute all intra-agency agreements, which must contain the required elements described in section 9.5.3c of the manual.	Once the OA and Volpe have defined and agreed upon the requirements, scope, and budget, IAAs to fund the work are prepared. IAA packages will include the required elements on DOT Form 2300.1a.	Treasury Forms 7600A and 7600B must be used to execute all intra-agency agreements, which must include the required elements described in section 1.4.3c of the Order.

Source: OIG summaries of DOT policies

Exhibit G. DOT's Prior and Current IAA Reconciliation Requirements

Requirements	Financial Management Policies Manual, section 9	DOT Order 1200.9
	October 24, 2006– July 23, 2018	**July 23, 2018–present**
Monthly Buyer–Seller Reconciliations of IAA Activity	OAs are required to perform monthly reconciliations of intra-agency activity and quarterly reconciliations of interagency activity to eliminate interagency/intra-agency differences for year-end reporting. Both buyers and sellers must reconcile intra-agency activity balances with their trading partners every month and resolve reporting differences for revenue/expense, receivables/payables, and advances/pre-payments balances. The Office of Financial Management coordinates with the OAs to facilitate the reconciliation and act as a mediator to resolve differences—each OA must explain those differences in writing. The Office of Financial Management will issue detailed procedures and reporting requirements for these reconciliations on a periodic basis.	OAs are required to perform quarterly reconciliations of intra-agency activity and interagency activity to eliminate interagency/intra-agency differences for year-end financial reporting. Both buyers and sellers must reconcile intra-agency activity balances with their trading partners every month and resolve reporting differences for revenue/expense, receivables/payables, and advances/pre-payments balances. The Order does not discuss the Office of Financial Management's role as facilitator and mediator for IAA reconciliations.
Quarterly Office of Financial Management Reviews	The monthly reconciliations of intra-agency activity will be supplemented with quarterly reviews by the Office of Financial Management.	The Office of Financial Management will conduct quarterly reviews of intra-agency activity balances before the Department completes its consolidated financial statements.
Annual Reviews by the Seller	The seller shall review all outstanding orders at year-end. If an IAA's appropriated amount is set to expire and was not fully obligated, the seller must offset that amount by funding obligations against the agreement. The seller shall review all outstanding accounts receivable at year-end. If the seller determines that an accounts receivable cannot be collected, it must be written off.	The seller shall review all outstanding orders at fiscal year-end. If an IAA's appropriated amount is set to expire and was not fully obligated, the seller must offset that amount by funding obligations or expenses against the agreement. The seller shall review all outstanding accounts receivable at year-end and should consult the Office of the Chief Financial Officer and Assistant Secretary for Budget and Programs if it determines that an accounts receivable cannot be collected.

Note: For the purposes of this report, the buyer is the OA; the seller is Volpe.

Source: OIG summaries of DOT policies

Exhibit H. DOT's Prior and Current IAA Financial Completion and Closeout Guidance

Requirements	Financial Management Policies Manual, section 9	DOT Order 1200.9
	October 24, 2006–July 23, 2018	**July 23, 2018–present**
Financial Completion	The financial completion process is initiated by the seller and requires the submission of a final invoice and funds review. An IAA must go through the financial completion process when the period of performance has expired, when performance has been completed, or when the agreement has been terminated. Unused funds must be returned and final bills must be sent within 90 days. The buyer should monitor the activity and age of an order. For obligation/payable balances older than 180 days, the buyer shall determine the reason for the lack of activity on the order. After the buyer determines that an order has been completed, they will inform the seller that the order will be terminated. However, if the seller provides proof of continuing or unbilled work, an order's unliquidated obligation/payable balances shall remain recorded in Delphi.	The financial completion process is initiated by the seller and requires the submission of a final invoice and funds review. An IAA must go through a financial completion process within 90 days once the following conditions have been met: (1) performance has been completed; and (2) the period of performance has expired or when an underlying contract has expired, whichever is later, or; (3) the agreement has been terminated. Unused funds must be returned to the buyer, and final bills must be sent within 90 days. The buyer should monitor the activity and age of an IAA. For obligation/payable balances older than 180 days, the buyer shall determine the reason for the lack of activity. After the buyer determines an order has been completed, they will inform the seller that the order will be terminated. However, if the seller provides proof of continuing or unbilled work, an IAA's unliquidated obligation/payable balances shall remain recorded in Delphi.
IAA Closeout	The manual does not include a section on this topic.	At the end of the period of performance, IAAs shall generally be closed within 12 months in the OA's procurement and/or financial tracking system. If there are extenuating circumstances preventing IAA closeout in the required timeframe, the OA shall document the reasons why in monthly UDO reports. This process includes a final, bilateral modification executed by the buyer and seller to deobligate any excess funds. Generally, this requires both seller and buyer approval via signature or electronic approval (e.g., approval by email).

Note: For the purposes of this report, the buyer is the OA; the seller is Volpe.

Source: OIG summaries of DOT policies

Exhibit I. Major Contributors to This Report

DARREN MURPHY	PROGRAM DIRECTOR
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Appendix. Agency Comments

U.S. Department
of Transportation

Office of the Secretary
of Transportation

1200 New Jersey Avenue, SE
Washington, DC 20590

09/18/19

Subject: **INFORMATION:** Management Response to the Office of Inspector General (OIG) Draft Report on the Oversight of Interagency Agreements (IAAs) with Volpe

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

From: JFunk for

To: Mary Kay Langan-Feirson
Assistant Inspector General for Acquisition and Procurement Audits

The Department of Transportation (Department or DOT) is a decentralized agency where each Operating Administration (OA) has delegated responsibility to meet the necessary financial management requirements. The executing of IAAs with the John A. Volpe Transportation Systems Center (Volpe) and other agencies is vital for executing program goals throughout the Department and ensuring the priorities of the Secretary are met. The Office of the Secretary (OST), Office of Budget and Financial Management, is committed to providing effective financial policy and guidance to the OAs to ensure the accuracy and integrity of the Inter/Intra- agency agreement (IAA) process within DOT.

Since May 2018, the Department has taken several actions to improve the IAA process with Volpe to include the following:

- updated the Department's IAA policy, DOT Order 1200.9 that modernized the policy of executing of IAAs,
- updated internal acquisition procedures through a change to the Transportation Acquisition Manual to cancel outdated policies and procedures and ensure consistency with DOT Order 1200.9.
- integrated Volpe's Budget and Finance team into OST's Office of Budget and Financial Management to improve and standardize financial management across Volpe and OST because of the elevation of the Assistant Secretary for Research & Technology into OST; and,
- reviewed all Volpe IAAs for accuracy and completeness of all required data elements.

Based on our review of the draft report, we concur with recommendations 1, 2, 3, 4, 6, 7, 8, and 9, as written. We plan to complete actions to implement these recommendations by July 31, 2020. We partially concur with recommendation 5 to close out the IAAs in table 3 of the draft report. While we agree to close or de-obligate the relevant portions of funds, we do not agree with the amount of funding OIG identified as funds that could be put to better use. For over 40 percent of the projects in the OIG sample, Volpe has returned the unobligated balances to the sponsor and/or has closed the project. The remaining 60 percent of the projects have less than

$500,000 to return to the sponsors and/or have undelivered order balances that are currently in the process of being de-obligated. We plan to complete the close-out and de-obligation process for the remaining funds by September 30, 2021.

We appreciate this opportunity to provide comments on the OIG draft report. Please contact Jennifer Funk, Deputy Chief Financial Officer, at (202) 366-5628 with any questions.

U.S. DOT OIG

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Our Mission

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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