
Office of Inspector General

Audit Report

DOT'S IMPROPER PAYMENT REPORTING GENERALLY COMPLIES WITH IPERA

Department of Transportation

Report Number: FI-2012-073

Date Issued: March 15, 2012





Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** DOT's Improper Payment Reporting
Generally Complies with IPERA
Department of Transportation
Report No. FI-2012-073

Date: March 15, 2012

From: Louis 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

The Federal Government has long been concerned about improper payments¹ made through its programs, and has intensified its efforts to eliminate payment errors. In July 2010, President Obama signed the Improper Payments Elimination and Recovery Act (IPERA),² which amends the Improper Payments Information Act of 2002,³ to encourage the elimination of payment error, waste, fraud, and abuse in Federal programs. IPERA requires improper payment rates of less than 10 percent for each Federal program. It also requires Federal agencies to annually test for improper payments in their programs, and to publish an annual Performance Accountability Report (PAR) or Agency Financial Report (AFR) that includes program risk assessments, improper payment estimates, corrective action plans, and annual improper payment reduction targets. In November 2011, the Department of Transportation (DOT) reported that the Federal Highway Administration's (FHWA) Federal-aid Highway Program had improper payments totaling an estimated \$450 million. This meets the IPERA's definition of significant improper payments. DOT based its 2011 IPERA reporting on the results of its annual improper payment testing and payment recapture audit program.⁴

¹ An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. An improper payment may also be a payment that an agency cannot determine is proper or improper due to a lack of sufficient supporting documentation.

² Public Law Number 111-204 (2010)

³ Public Law Number 107-300 (2002)

⁴ A payment recapture audit reviews and analyzes programs' accounting records and supporting documentation to identify overpayments.

Furthermore, IPERA calls for Inspectors General (IG) to review their agencies' compliance and submit reports to the head of each agency; 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 (OMB).

To meet IPERA's requirements for IGs, we reviewed DOT's fiscal year 2011 AFR to determine whether: (1) the improper payment information in the AFR was accurate; and (2) DOT complied with IPERA's requirements.

We conducted this audit in accordance with generally accepted Government auditing standards. A detailed description of our scope and methodology can be found in Exhibit A.

RESULTS IN BRIEF

In general, DOT accurately reported improper payments in its fiscal year 2011 AFR, as required by IPERA. We noted two minor errors in the reported information. First, DOT incorrectly reported that the Federal Transit Administration's (FTA) Formula Grants Program had significant improper payments when no improper payments were identified during its annual testing. Second, DOT overstated the amount of FTA's Formula Grants Program tested by about \$7 million. These inaccuracies, which were the result of insufficient review of the draft report information and the contractor's records, did not impact the DOT's overall reporting. Nonetheless, this type of undetected error reduces the accuracy of the Department's reporting on improper payments in its programs.

DOT complied with IPERA with a few exceptions. First, DOT did not report planned or actual completion dates for corrective actions taken for improper payments in the Federal Highway Administration (FHWA) and Federal Aviation Administration (FAA) programs, or the results of these actions. Second, the improper payment target rate for the FAA Program was not achieved. OMB requires agencies to set target rates for improper payments. The FAA Program's estimated improper payments of \$34.6 million exceeded the \$18 million target by \$16.6 million. Finally, DOT did not report changes to improper payment recapture program controls and business processes. DOT officials noted that it needs to enhance its procedures to address these matters. Until then, neither the Department nor OMB can achieve the full benefits of accurate reporting and a strong improper payment recapture program.

BACKGROUND

To comply with IPERA requirements, DOT engaged an accounting firm to develop nationwide sampling plans to use in testing for improper payments, test invoice payments, and extrapolate improper payment estimates for the Department's major grant programs. Annually, DOT tests four grant programs for improper payments—FHWA's Federal-aid Highway Program, the Federal Transit Administration's (FTA) Formula Grants Program and Capital Investment Grants Program, and the Federal Aviation Administration's (FAA) Airport Improvement Program. These programs have reduced improper payments from \$20.6 million in fiscal year 2009 to almost \$140,000 in fiscal year 2011 (see Table 1).

Table 1. Improper Payments Identified During DOT's Annual Testing

Program	2009 Improper Payments	2010⁵ Improper Payments	2011 Improper Payments
Federal-Aid Highways (FHWA)	16,317,015	550,740	125,962
Formula Grants Program (FTA)	269,616	3,803	0
Capital Investment Grants Program (FTA)	1,879,124	0	153
Airport Improvement Program (FAA)	2,152,202	1,312	13,814
Total	\$20,617,957	\$555,855	\$139,929

Source: DOT's Performance and Accountability Report for fiscal year 2009
DOT's Agency Financial Reports for fiscal years 2010 and 2011

In April 2011, OMB issued Circular A-123's Appendix C, Revised Parts I and II⁶ to implement IPERA. The Circular requires AFRs to include: (1) descriptions and evaluations of payment recapture audit programs;⁷ (2) amounts identified for recapture; (3) descriptions and justification of the classes of payments excluded from payment recapture audits; (4) amounts recaptured, and those outstanding and uncollectable, and (5) for programs with improper payments of \$10 million or more, discussions of improper payments' causes and corrective action plans to resolve the causes, including target reductions.

⁵ DOT-OIG, Actions Needed to Ensure Accurate Executive Order 13520, Report Number FI-2012, November 7, 2011. OIG reports can be found on our Web site at: www.oig.dot.gov.

⁶ OMB, Requirements for Implementing IPERA: Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123, April 14, 2011.

⁷ OMB Circular A-136, Financial Reporting Requirements, October 27, 2011, establishes reporting requirements for payment recapture audits.

DOT ACCURATELY REPORTED IMPROPER PAYMENTS

In general, DOT accurately reported improper payments in its fiscal year 2011 AFR, as required by IPERA. However, we noted two errors in the reported information:

- DOT inaccurately reported significant improper payments in FTA's Formula Grants Program, despite the fact that annual testing did not identify any improper payments. The final AFR included this inaccuracy because DOT inadvertently omitted language that would have clearly stated that none of this program's payments met the definition of improper payments.
- The report also overstated the invoice payment amounts tested for the Formula Grants Program by about \$7.1 million. DOT's contractor incorrectly reported testing \$47.3 million in payments. We determined that the contractor actually tested no more than \$40.1 million. Insufficient review of the contractor's records caused this error in the AFR.

While DOT officials were unaware of the errors, the Formula Grants Program's improper payment estimates and DOT's overall IPERA reporting were not impacted since no improper payments were identified for this program. However, this type of error reduces the accuracy of the Department's reporting on improper payments in its programs.

THE DEPARTMENT COMPLIED WITH IPERA'S REQUIREMENTS WITH MINOR EXCEPTIONS

DOT complied with IPERA's requirements with three exceptions. First, the Department did not include in the fiscal year 2011 AFR its planned or actual completion dates for corrective actions taken for improper payments in FHWA's Federal-Aid Highway Program and FAA's Airport Improvement Program, or the results of these actions. These omissions occurred because DOT officials were not fully aware of all reporting requirements.

Second, while DOT met the IPERA requirement to have improper payment rates of less than 10 percent for its programs, FAA did not achieve its 2011 improper payment target rate for the Airport Improvement Program. OMB requires agencies to set target percentage rates of total program payments for improper payments. DOT officials estimated the Airport Improvement Program's 2011 improper payments at \$34.6 million, or .89 percent of total Program payments--\$16.6 million over the .5 percent target rate. DOT acknowledged the risk of FAA not meeting its specific 2011 target rate.

Finally, the AFR's section on DOT's payment recapture program did not identify changes to internal controls or business processes that DOT had implemented to prevent future overpayments. Furthermore, DOT does not have a process to verify that all grant and contract payments are subject to the payment recapture audit. Specifically, during fiscal year 2011, DOT reported net costs of \$78 billion, but tested only \$26 billion in its recapture audit program, and did not explain in the AFR what types of payments it had excluded from testing.

DOT officials acknowledged deficiencies in the 2011 payment recapture program and plan to implement additional procedures to ensure the completeness of its next payment recapture audit.

CONCLUSION

OMB has designated as a top priority for all Federal agencies the reduction of improper payments. Reduction of these payments has been a significant challenge for DOT since the Department makes over \$60 billion in payments to grantees annually. In response to this challenge, DOT has taken action to produce reliable improper payment reporting and comply with IPERA requirements. While DOT has strengthened its annual improper payment testing and reporting, the procedures do not fully meet the level of accountability that IPERA and OMB Circular A-123 require to minimize the possibility of improper payments of increasingly scarce Federal funds.

RECOMMENDATIONS

We recommend that DOT's CFO enhance procedures to:

1. Ensure that the preparation and issuance of the IPERA Section of the AFR report is consistent with the results of annual improper payment testing, and in compliance with IPERA requirements, and
2. Ensure that all program payments subject to the payment recapture audit program are identified and any payments excluded from the audit are reported.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided a discussion draft report to DOT officials on March 13, 2012. We discussed the draft report with DOT officials on March 14, 2012. DOT officials generally concurred with the findings and recommendations.

ACTIONS REQUIRED

In accordance with Department of Transportation Order 8000.1C, we would appreciate receiving your written comments within 15 calendar days. If you concur with the findings and recommendations, please indicate the specific action taken or planned for each recommendation and the target date for completion. If you do not concur, please provide your rationale. You may provide alternative courses of action that you believe would resolve the issues presented 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 Earl Hedges, Program Director at (410) 962-1729.

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cc: Martin Gertel, M-1

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit from December 2011 through March 2012, 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 the Departmental Assessable Unit Risk Profiles to determine whether DOT reviewed and reported programs that may be susceptible to significant improper payments; (2) 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 (3) obtained supporting documents on the actions taken and reported in the AFR.

OIG's Senior Statistician selected a statistical sample of payments that the Department and its contractor had tested, and we retested the propriety of a total of 44 sample invoice payments totaling \$335.2 million in FHWA's Federal-Aid Highway Program, FTA's Formula Grant and Capital Investment Grant Programs, and FAA's Airport Improvement Program. The documentation included, among other documents, summary schedules, grant agreements, invoices, checks, and payment vouchers.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Earl Hedges	Program Director
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