

---

# *Office of Inspector General*

# *Audit Report*

---

## **ACTIONS NEEDED TO ENSURE ACCURATE EXECUTIVE ORDER 13520 REPORTING**

*Department of Transportation*

*Report Number: FI-2012-004*

*Date Issued: November 7, 2011*





# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** Actions Needed To Ensure  
Accurate Executive Order 13520 Reporting  
Department of Transportation  
Report No. FI-2012-004

Date: November 7, 2011

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 payments<sup>1</sup> made through its programs and has intensified efforts to eliminate payment errors. In March 2010, the Office of Management and Budget (OMB) designated the Department of Transportation's (DOT) Federal Highway Administration (FHWA) Federal-Aid Highway Program a high-priority program—one that makes the highest dollar value<sup>2</sup> improper payments. OMB based its designation on DOT's projection that the Federal-Aid Highway Program had made an estimated \$1.4 billion in improper payments, or 3.5 percent of its total payments tested for fiscal year 2009.

Executive Order (EO) 13520, "Reducing Improper Payments," requires each Department to submit a onetime report on its high-priority programs, and quarterly reports on individual high-dollar improper payments. The EO also requires Inspectors General (IG) to review their agencies' reports and provide recommendations to agency heads for improvements to the programs and their internal controls.

DOT based its EO 13520 high-priority and high-dollar improper payment reports on the results of its annual improper payments testing. To meet our requirements

---

<sup>1</sup> 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.

<sup>2</sup> For fiscal year 2010, OMB designated \$750 million in improper payments as the threshold for designation as a high-priority program, and designated 14 programs. The majority of improper payments occur in these Federal programs.

under EO 13520, we reviewed the DOT reports to determine: (1) whether the improper payment amounts reported were accurate and consistent with the annual improper payments testing, and (2) whether DOT complied with EO 13520's reporting requirements for high-priority programs and high-dollar overpayments.<sup>3</sup>

We conducted this audit in accordance with generally accepted Government auditing standards, and included tests we considered necessary to detect fraud, waste, and abuse. A detailed description of our scope and methodology can be found in Exhibit A.

## RESULTS IN BRIEF

DOT's September 2010 report to the Office of Inspector General (OIG) did not accurately account for high-dollar overpayments and recoveries. While DOT intended to ensure transparency, it reported amounts that did not need to be reported as they were under the threshold and understated actual payments recovered. Furthermore, the report did not agree with the results of the annual improper payments testing. For example, the report overstated overpayments at one location by almost \$2 million. Both the September 2010 annual report and the January 2011 quarterly report included high-dollar improper payment amounts that did not meet OMB's reporting requirements. For example, the annual report contained payments that did not meet OMB's minimum reporting threshold of \$25,000. We did not identify any high-dollar overpayments that should have been reported and actual payment recoveries were understated in the report. While we recognize DOT's conservative approach and its efforts to increase transparency, it is incumbent upon DOT to accurately estimate improper payments in its programs in order to better evaluate the effectiveness of its improper payment remediation efforts.

DOT did not meet a number of reporting requirements for high-priority programs and high-dollar overpayments. For example, neither of DOT's annual or quarterly reports met OMB's requirement for reporting of a strategy for the prevention and recovery of high-dollar improper payments. Also, the Department submitted its September 2010 report<sup>4</sup> to OIG more than 3 months after the submission deadline specified in EO 13520. As a result, neither the Department nor OMB can measure the effectiveness or timeliness of DOT's actions to reduce improper payments.

---

<sup>3</sup> A high-dollar overpayment is an improper payment to an entity that exceeds the correct amount by \$25,000 or more, in a single payment or in cumulative payments throughout a quarter.

<sup>4</sup> In May and July 2010, DOT submitted draft versions to OIG of its first reports on high priority programs and high dollar improper payments.

On March 28, 2011, OMB removed the Federal-Aid Highway Program's designation as a high-priority program. However, the requirement for DOT to report quarterly on high-dollar improper payments continues. Accordingly, we are making a recommendation to assist the Department in its preparation of quarterly reports on high-dollar improper payments.

## BACKGROUND

The Improper Payments Information Act of 2002<sup>5</sup> (the Act) requires Federal agencies to: (1) review and identify programs susceptible to significant improper payments; (2) report to Congress the amount and cause of improper payments; and (3) develop approaches for the reduction of improper payments. To meet the Act's requirements, DOT annually tests four programs for improper payments—FHWA's Federal-Aid Highway Program, the Federal Transit Administration's (FTA) Formula Grants Program, FTA's Capital Investment Grants Program, and the Federal Aviation Administration's (FAA) Airport Improvement Program (AIP). In its fiscal year 2009 Performance and Accountability Report (PAR) and fiscal year 2010 Agency Financial Report (AFR), DOT reported these four programs had more than \$21 million in improper payments (see Table 1).

**Table 1. Improper Payments Identified During Annual Sample Testing**

Program	2009 Improper Payments	2010 Improper Payments	Total
Federal-Aid Highways (FHWA)	\$16,317,015	\$550,740	\$16,867,755
Formula Grants Program (FTA)	\$269,616	\$3,803	\$273,419
Capital Investment Grants Program (FTA)	\$1,879,124	0	\$1,879,124
Airport Improvement Program (FAA)	\$2,152,202	\$1,312	\$2,153,514
Total	\$20,617,957	\$555,855	\$21,173,812

Source: US DOT Performance and Accountability Report for Fiscal Year 2009  
US DOT Agency Financial Report Fiscal Year 2010

In November 2009, President Obama signed EO 13520 which encourages the elimination of payment error, waste, fraud, and abuse in Government-administered programs. The EO requires agencies with high-dollar overpayments to describe

<sup>5</sup> Public Law Number 107-300 (2002).

the actions taken or planned to recover improper payments and the actions they will take to prevent improper payments in the future.

In March 2010, OMB issued Circular A-123 Appendix C, Part III<sup>6</sup> to implement EO 13520. The Circular prescribes additional requirements for the high-priority program and quarterly high-dollar improper payments reports. It specifies improper payment reporting thresholds, and requires agencies to list the program responsible for each high-dollar overpayment error and the location where each payment was made. DOT Office of Financial Management officials indicated that to meet the EO and Circular's reporting requirements, they will report the improper payments identified during their annual improper payments testing.

In September 2010, DOT's Assistant Secretary for Budget and Programs and Chief Financial Officer (CFO) submitted to OIG a single report, "Department of Transportation High Dollar Improper Payments" (Appendix I) for fiscal year 2009, to meet the EO's requirement for quarterly reporting on high-dollar improper payments and the Circular's requirement for annual reporting on high-priority programs. The CFO based this report on the results of DOT's annual improper payment testing during fiscal year 2009. In January 2011, DOT submitted its report, "Department of Transportation High Dollar Improper Payments for the Quarter Ending December 31, 2010" (Appendix II) to OMB to meet the EO's quarterly reporting requirement.

## **DOT REPORTED HIGH-DOLLAR OVERPAYMENTS AND RECOVERIES INACCURATELY**

The September 2010 report to OIG incorrectly cited overpayment amounts and recoveries and did not agree with the results of annual testing. The report included improper payment amounts that should not have been reported. We did not identify any high-dollar overpayments that should have been reported and actual payment recoveries were understated in the report. DOT overstated the amounts of high-dollar improper payments because it relied on inaccurate summary schedules. Specifically, the results of the 2009 improper payments testing were incorrectly summarized into improper payment schedules used for the preparation of the PAR and the high-dollar improper payments report. Additionally, DOT incorrectly applied OMB criteria for reports on high-dollar overpayments. For example, the September 2010 report:

- Listed a \$13.6 million payment to the State of New York as a high-dollar overpayment, even though it consisted of three overpayments as well as three

---

<sup>6</sup> Requirements for Implementing Executive Order 13520: Reducing Improper Payments, March 22, 2010.

underpayments which reduced the total amount of the overpayment to \$11.7 million;

- Contained two incorrect overpayment amounts and locations;
- Understated improper payment recoveries; it identified five recoveries, totaling \$2,172,905, instead of ten recoveries totaling \$2,965,547; and
- Listed eight payments that did not meet the overpayment reporting thresholds<sup>7</sup>—four payments that were not in excess of 50 percent of the correct payment amount, and four payments that were each less than \$25,000.

The January 2011 report also included improper payment amounts that did not meet OMB's reporting requirements. For example, two of the six payments did not exceed 50 percent of the correct payment amounts and therefore should not have been reported.

## **THE DEPARTMENT DID NOT COMPLY WITH THE EO AND CIRCULAR'S REPORTING REQUIREMENTS**

DOT did not meet all reporting requirements established in EO 13520 and OMB Circular A-123. The EO and OMB circular contain reporting requirements on the actions taken to prevent or recover high-dollar overpayments. In addition, the OMB circular requires agencies to list the program responsible for each high-dollar overpayment error and the location where each payment was made. The EO required agencies to submit their reports within 180 days of the EO's issuance, or by May 24, 2010. DOT officials were not fully aware of these reporting requirements. As a result, DOT did not do the following, as required by the EO or the Circular:

- Describe a strategy or actions taken to prevent high-dollar improper payments;
- Accurately identify in its September 2010 report<sup>8</sup> the locations of ten grantees that received improper payments;
- Meet reporting deadlines; the September report was 113 days late;<sup>9</sup>

---

<sup>7</sup> To require reporting, overpayments must both exceed \$25,000 and be in excess of 50 percent more than the correct payment amount (OMB Circular A-123, Appendix C, Part III).

<sup>8</sup> The report should describe the city or county and state where the grantee is located.

<sup>9</sup> OIG received the Department's finalized report on September 14, 2010. The EO required agencies to submit their reports on high-dollar programs to their IGs within 180 days of the EO's issuance. The Department's report was 113 days late since it was due by May 24, 2010.

- Consistently report payments in its September 2010 report; it reported six individual payments to the State of New York as one payment when all other locations listed individual payments;
- List in its September 2010 report the FTA program that made each high-dollar overpayment; and
- Describe the actions taken to recover improper payments.

Furthermore, DOT did not determine recoverability in a timely manner. More than 11 months after it completed its program testing for fiscal year 2009, the Department had not determined the recoverability of 3 of the 29 payments contained in the report. Still, DOT has indicated that current payment procedures effectively prevent improper payments. It attributed improper payments identified in the Federal-Aid Highway program to non-systemic administrative, clerical and documentation errors. While DOT discussed the strategy to reduce improper payments in its 2009 PAR and 2010 AFR and developed a Best Practices Guide for grantees to use to reduce improper payments, this strategy was not discussed in either the September 2010 or January 2011 reports. Without fully compliant improper payment reporting, neither the Department nor OMB can measure the effectiveness or timeliness of DOT's actions or strategy to reduce improper payments.

## **CONCLUSION**

Reducing improper payments has been designated by OMB as a top priority for all Federal agencies. Reducing improper payments at DOT is a significant challenge as the Department makes over \$60 billion in payments to grantees annually. While DOT has taken actions to strengthen its annual improper payment testing and adopted a conservative approach, DOT needs to take further action to ensure accurate EO 13520 reporting. Proper action will enable DOT to improve its controls and minimize the possibility of improper payments, as well as heighten its vigilance over increasingly scarce Federal funds.

## **RECOMMENDATION**

We recommend that the CFO develop procedures for preparation and issuance of the quarterly reports on high-dollar improper payments that ensure reporting is

consistent with the results of annual improper payment testing, issued in a timely manner, and in compliance with key reporting requirements.

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

We provided the Department a draft of this report on August 24, 2011, and received its written comments on September 20, 2011. DOT's complete response is included as Appendix III to this report. DOT concurred with our recommendation and provided appropriate planned actions and timeframes. Accordingly, we consider our recommendation resolved but open pending completion of the planned actions.

## **ACTIONS REQUIRED**

DOT's planned action for the recommendation is responsive, and its target action date is appropriate. Subject to the follow-up provisions in Department of Transportation Order 8000.1C, we request that DOT provide information demonstrating completion of its planned action within 10 days after the action has been taken.

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.

#

cc: Martin Gertel, M-1

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

We conducted this audit from December 2010 through July 2011, 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 also interviewed departmental personnel and contractors responsible for the implementation of the Improper Payments Information Act of 2002. Using OMB's reporting thresholds, we determined whether the reports accurately presented the highest-dollar improper payment amounts identified during the annual improper payment testing for fiscal years 2009 and 2010 that DOT and contractors performed. We also assessed the Department's compliance with the reporting requirements for high-priority programs and high-dollar overpayments. We obtained supporting documents on the amounts reported and actions taken as described in the Department's reports. The documentation included, but was not limited to; grant agreements, invoices, checks, and payment vouchers. We did not re-test the propriety of sample items that the Department determined to be proper payments.

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

<b><u>Name</u></b>	<b><u>Title</u></b>
Earl Hedges	Program Director
Mark Rielly	Project Manager
Lakarla Lindsay	Senior Auditor
Susan Neill	Writer-Editor
Sharon Ayers	Referencer

## APPENDIX I. DOT SEPTEMBER 14, 2010 (ANNUAL) EO REPORT MEMORANDUM



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Assistant Secretary  
for Budget and Programs  
and Chief Financial Officer

1200 New Jersey Avenue, SE  
Washington, DC 20590

SEP 14 2010

MEMORANDUM TO: Calvin L. Scovel, III  
Inspector General 

FROM: Christopher P. Bertram

SUBJECT: Department of Transportation Fiscal Year 2009  
High Dollar Improper Payments

This memorandum serves to report the U.S. Department of Transportation's (DOT) Fiscal Year (FY) 2009 High Dollar Improper Payments as required by Executive Order 13520, *Reducing Improper Payments*, and in accordance with OMB Circular A-123, Appendix C, Part III.

For FY 2010, the Office of Management and Budget (OMB) defines a "high priority" program to be any program with a FY 2009 improper payment estimate that exceeds \$1 billion, as reported in the overseeing agency's Performance and Accountability Report (PAR). Subsequently, OMB identified the Federal Highway Administration's (FHWA) Federal-Aid Highway Program, with a \$1.4 billion improper payment estimate, or 3.5 percent, as a high priority program.

Separately, no other "risk-susceptible" DOT programs, which include the Federal Aviation Administration's (FAA) Airport Improvement Program and the Federal Transit Administration's (FTA) Formula and Capital Investment Grant Programs, reported "significant" improper payments as defined by OMB Circular A-123, Appendix C.

### **Improper Payment Reduction Targets**

With an increased focus on improper payments via supplemental billing reviews, DOT and FHWA confidently establish a FY 2010 Federal-Aid Highway Program improper payment estimate reduction target of 2.4 percent, down from a reported 3.5 percent in FY 2009.

Subsequently, an examination of documentation submitted after the FY 2009 PAR deadline indicates that the Federal-Aid Highway Program's FY 2009 improper payment estimate, in actuality, falls significantly below the reported 3.5 percent and reflects historical programmatic improper payment rates. With this fact in mind, FHWA anticipates no major obstacles in achieving a reduced 2.4 percent programmatic improper payment estimate. Additionally, a 2.4 percent improper payment estimate for the Federal-Aid Highway Program will not only fall below the Improper Payment Information Act's definition of "significant" improper payments,

but will also equate to a nominal improper payment estimate which falls below OMB's FY 2009 \$1 billion threshold for high priority programs.

### **Agency's Methodology for Identifying and Measuring Improper Payments**

DOT measures and identifies FHWA's Federal-Aid Highway Program Improper Payment estimate through the statistical sampling of federal disbursements and comprehensive testing of line item transactions, in accordance with the Improper Payment Information Act (IPIA) of FY 2002 and OMB Circular A-123, Appendix C.

For FY 2009, the IPIA sampling methodology involved a multi-staged statistical approach that included the selection of 160 Federal disbursements totaling \$553,887,169, and 320 line items, from supporting invoices, totaling \$220,709,656. As in FY 2008, the Department designed the FY 2009 sample to extrapolate a nationwide estimate of improper payments and this sample does not support an estimate for individual grantees. Additionally, FHWA subjects grantees not selected as part of the IPIA sample to a similar testing process under FHWA's annual Financial Integrity Review and Evaluation (FIRE) program.

DOT's Associate Director of Internal Controls within the Office of the Assistant Secretary for Budget and Programs/CFO maintains detailed FY 2009 sampling and testing methodologies.

### **Agency's Plan for Meeting Improper Payment Reduction Targets**

OMB Circular A-123, Appendix C states that:

“Supplemental measures should focus on higher risk areas within the high-priority program and report on root causes of errors that agencies can resolve through corrective actions. In addition, the measures should use available and accessible information for the current year”

FHWA's FY 2009 Improper Payment review, performed in compliance with IPIA, reported 26 improper payments within the random sample totaling \$16,317,015. The cited improper payments resulted from a myriad of root causes including, but not limited to, insufficient documentation, clerical/calculation errors, administrative/procedural errors, and dated financial systems. DOT concluded that none of the 26 improper payments resulted from larger systemic problems affecting the Federal-Aid Highway Program as a whole. Furthermore, the Department determined virtually all of the improper payments to be what OMB defines as “low-impact” problems, where improper payments consisted of either low nominal values or did not ultimately alter program outlays.

As a result of these conclusions and determinations, FHWA Division Offices instituted corrective actions on a payment by payment basis, as opposed to using a systemic approach. Reiterating the fact that virtually all of the payments deemed improper, using the statutory definition of improper payment, were non-recoverable and did not affect program outlays, DOT is unable to effectively calculate the return on the investment of individualized non-systemic corrective actions.

In response to Executive Order 13520, and in an effort to “leverage available and accessible information” and processes, FHWA will utilize its existing Financial Integrity Review and Evaluation (FIRE) Program to develop semi-annual reporting measures in regards to Federal-Aid Highway Program improper payments. The FIRE Program requires Federal-Aid division offices to review various financial practices and processes using a risk based approach. Division offices report to FHWA headquarters quarterly on a myriad of issues including, but not limited to, inactive project reviews, administrative reviews, single audit reviews, and improper payment reviews (generally as part of the Department’s annual IPIA review).

In regards to developing new reporting measures to comply with supplemental reporting requirements associated with high priority programs, and in keeping with OMB’s recommendation to “focus on higher risk areas within the high priority program,” FHWA proposes additional billing reviews in the 2<sup>nd</sup> and 4<sup>th</sup> quarters of a fiscal year for six states receiving large Federal-Aid dollar amounts. The two additional billing reviews will be in addition to DOT’s annual IPIA review.

#### Supplemental Review Timeline

I	Oct	–	Nov	–	Dec	I	Jan	–	Feb	–	Mar	I	Apr	–	May	–	Jun	I	Jul	–	Aug	–	Sep	I	
							2 <sup>nd</sup> Quarter:						3 <sup>rd</sup> Quarter:						4 <sup>th</sup> Quarter:						
							Supplemental Executive Order Billing Review						Annual IPIA Review						Supplemental Executive Order Billing Review						

The billing reviews will consist of reviewing two large dollar transactions from one major project (highway projects exceeding \$500 million) per state. Both FHWA headquarters and individual division offices will cooperatively determine which highway projects and transactions will be subject to supplemental review based upon existing project risk profiles.

Supplemental review testing procedures will be virtually identical to annual IPIA testing procedures in all aspects, except for instances where transactions require technical specification reviews. In instances where selected transactions require the expertise of engineering staff to verify specifications, and in an effort not to strain limited engineering resources, FHWA and division offices will assume initial technical specification clearances performed at the time of the transaction to be correct.

The six states selected for supplemental review in FY 2010, which represent the largest recipients of Federal-Aid program dollars, are as follows:

#### Estimated FY 2010 Formula Apportionments to States Selected for Supplemental Review

State	Estimated Federal-Aid Highway Program Dollars
Virginia	\$735,792,052
Pennsylvania	\$1,075,953,980
New York	\$1,480,894,727
Florida	\$1,395,569,870
Texas	\$2,248,539,857

California	\$3,015,239,268
<b>Total</b>	<b>\$9,951,989,754</b>
Percent of Federal-Aid Highway Program	33%

These supplemental review measures will provide both DOT and FHWA further insight into programmatic areas of improper payment risk. Because FHWA will implement supplemental reporting measure procedures as an incremental part of its pre-existing FIRE program, the Department is confident that these improper payment initiatives will not “unduly burden program access and participation by eligible beneficiaries.” Supplemental testing will ultimately be performed by FHWA Division Offices and will not prevent grantees, in this case individual states and territories, from participating in this Federal formula grant program.

The following tables lists all high dollar improper payments identified within the IPIA samples for DOT’s risk-susceptible Programs in FY 2009. DOT disbursed all payments to entities and not individuals.

It is vital to note that payments deemed “Non-Recoverable” within the tables of High Dollar Improper Payments are “low-impact errors” as defined within Part III of OMB Circular A-123, Appendix C. DOT determined that the majority of these low-impact errors are in fact non-recoverable as the impropriety of these payments stem from documentation/administrative errors, have no bearing on the outlay of program funds, and do not affect the missions of the individual grant programs.

**FY 2009 FHWA Federal-Aid Highway Program High Dollar Improper Payments**

Amount	Location	Root Cause	Agency Actions
\$173,750	Washington State	Documentation/Administrative	Non-Recoverable
\$18,750	Washington State	Documentation/Administrative	Non-Recoverable
\$947,232	Washington State	Documentation/Administrative	Recovered
\$763,548	Washington State	Documentation/Administrative	Recovered
\$77,818	Washington State	Documentation/Administrative	Non-Recoverable
\$101,163	Washington State	Documentation/Administrative	Non-Recoverable
\$5,768	Washington State	Documentation/Administrative	Non-Recoverable
\$27,830	California	Documentation/Administrative	Non-Recoverable
\$256,060	Texas	Documentation/Administrative	Recovered
\$19,636	Alabama	Documentation/Administrative	Non-Recoverable
\$87,099	Alabama	Documentation/Administrative	Non-Recoverable
\$188,258	Kentucky	Documentation/Administrative	Recovered
\$32,077	Virginia	Documentation/Administrative	TBD
\$17,807	North Carolina	Documentation/Administrative	Recovered
\$13,597,230	New York	Documentation/Administrative	Non-Recoverable

**FY 2009 FTA Formula and Capital Investment Grant Program High Dollar Improper Payments**

Amount	Location	Root Cause	Agency Actions
\$293,161	New York	Documentation/Administrative	Non-Recoverable
\$366,722	New York	Documentation/Administrative	Non-Recoverable
\$233,980	District of Columbia	Documentation/Administrative	Non-Recoverable

\$233,980	District of Columbia	Documentation/Administrative	Non-Recoverable
\$375,388	California	Documentation/Administrative	Non-Recoverable
\$124,596	Florida	Documentation/Administrative	Non-Recoverable
\$32,593	Ohio	Documentation/Administrative	Non-Recoverable
\$112,427	Ohio	Documentation/Administrative	Non-Recoverable

**FY 2009 FAA Airport Improvement Program High Dollar Improper Payments**

<b>Amount</b>	<b>Location</b>	<b>Root Cause</b>	<b>Agency Actions</b>
\$57,000	New Jersey	Unallowable Cost	TBD
\$1,001,453	Pennsylvania	Documentation/Administrative	Non-Recoverable
\$116,323	North Carolina	Documentation/Administrative	Non-Recoverable
\$159,992	California	Documentation/Administrative	Non-Recoverable
\$154,174	California	Documentation/Administrative	Non-Recoverable
\$662,000	Texas	Documentation/Administrative	TBD

If your staff has any questions, they may contact Andrew Julian, x65623.

B30:RChao:mv:8-3-10

MEMOTOC Sovell FY 2009 HighDollarImproperPayments RobertChao Aug3 2010

## APPENDIX II. DOT JANUARY 20, 2011 QUARTERLY EO REPORT MEMORANDUM



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Assistant Secretary  
for Budget and Programs  
and Chief Financial Officer

1200 New Jersey Avenue, SE  
Washington, DC 20590

JAN 20 2011

MEMORANDUM TO: Danny Werfel  
Controller  
Office of Federal Financial Management  
Office of Management and Budget

FROM: Christopher P. Bertram 

SUBJECT: Department of Transportation High Dollar Improper Payments  
For the Quarter Ending December 31, 2010

This memorandum serves to report the U.S. Department of Transportation's (DOT) High Dollar Improper Payments for the quarter ending December 31, 2010, as required by Executive Order 13520, *Reducing Improper Payments*, and in accordance with the Office of Management and Budget (OMB) Circular A-123, Appendix C, Part III.

For the quarter ending December 31, DOT identified the following High Dollar Improper Payments:

### FY 2010 FHWA Federal-Aid Highway Program High Dollar Improper Payments

Amount	Location	Root Cause	Agency Actions
\$28,000	Ohio	Documentation/Administrative	Non-Recoverable
\$151,913	Ohio	Documentation/Administrative	TBD
\$106,897	Arkansas	Documentation/Administrative	Non-Recoverable
\$98,503	Colorado	Documentation/Administrative	TBD
\$82,790	Oregon	Documentation/Administrative	Non-Recoverable
\$77,883	Alabama	Documentation/Administrative	TBD

DOT did not identify any High Dollar Improper Payments within the Federal Aviation Administration's (FAA) Airport Improvement Program, Federal Transit Administration's (FTA) Capital Investment Grants Program, or FTA's Formula and Bus Grants Program.

DOT relies on its annual Improper Payment review, in compliance with the Improper Payments Information Act (IPIA) of 2002, to identify High Dollar Improper Payments. Historically, DOT's largest grant programs, which include the Federal Highway Administration (FHWA) Federal-Aid Highway Construction and Planning Program, the FTA's Formula Grants and Capital Investment Grants, and the FAA's Airport Improvement Program, have all reported estimated programmatic improper payment rates that do not meet OMB's definition of

“significant” improper payments. The same is true for FY 2010, as none of DOT’s major grant programs reported significant improper payment rates.

Furthermore, virtually all improper payments identified by the annual IPIA review qualify as “low-impact errors” as defined within Part III of OMB Circular A-123, Appendix C. DOT determined that the majority of these low-impact errors are in fact non-recoverable, as the impropriety of these payments stem from documentation/administrative errors, have little bearing on the outlay of program funds, and do not affect the missions of the individual grant programs.

If your staff has any questions, they may contact Andrew Julian, (202) 366-5623.

cc: Calvin Scovel, Inspector General

## APPENDIX III. AGENCY COMMENTS



**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation

Assistant Secretary  
for Budget and Programs  
and Chief Financial Officer

1200 New Jersey Avenue, SE  
Washington, DC 20590

SEP 20 2011

MEMORANDUM TO: Calvin L. Scovel  
Inspector General

FROM: Christopher P. Bertram 

SUBJECT: Management Response to OIG Draft Report,  
"Actions Needed to Improve Executive Order 13520 Reporting"

DOT conducts comprehensive oversight activities to assess the controls in place to ensure that payments made pursuant to its programs are accurate, based on sound documentation and timely. Significant actions have been taken by the Department over a period of years with measurable positive results to reduce improper payments consistent with Federal requirements.<sup>1</sup> The scope and quality of these efforts was reaffirmed by the Office of Management and Budget (OMB) in March, as it discontinued the "high-priority" designation from the one DOT program included on this governmentwide listing.<sup>2</sup> While the Department has no programs now designated as high-priority with regard to improper payments, it will continue to be vigilant in maintaining this enviable record.

### **DOT Improper Payments Oversight Exceeds Requirements**

While cited in the OIG draft report for issues relating to DOT's compliance with the relatively newly established OMB requirements under EO 13520, it should be clear that the Department relied upon and reported the most conservative information available. Specifically, DOT over reported potential "improper" payments by including payment amounts below the dollar reporting threshold. Further, the Department under-reported potential improper payment recoveries in the interest of providing the most accurate information available. This is an important distinction, which merits further clarification in the OIG report's results and conclusionary statements, as together these actions provided a level of transparency exceeding requirements.

<sup>1</sup> The Improper Payment Information Act (IPIA) of 2002 and more recently the objectives of Executive Order 13520 of November 23, 2009, and Office of Management and Budget (OMB) implementing guidance of March 22, 2010.

<sup>2</sup> OMB Circular A-123 defines "high-priority program" for FY 2010 as a program with \$750 million (or more) in improper payments.

### **Action to Further Strengthen Improper Payment Reporting**

The Department has actions completed and underway that are intended to strengthen improper payment oversight, including enhanced communication across the organization and better training. Recognizing that documentation issues had been a key factor in payments being considered “improper,” the Department has emphasized the importance of ensuring that documentation in support of payments made was available for review. This step heightened attention by grantees and other stakeholders to the importance of maintaining adequate supporting documentation at the time payments are made, as well as the need for ready access to the support by those conducting oversight activities. These actions significantly reduced the number and amount of payments classified as “improper.” Additional training has also been established to strengthen oversight. For example, FHWA incorporated IPIA training as a dedicated session during its multi-day *Financial Management Discipline Seminar*. As a result of these and other actions, FHWA was able to achieve an improper payment rate in FY 2010 that was significantly less than reported one year earlier. As efforts continue, we anticipate that the Department’s overall improper payment rate will further decrease in FY 2011 from the rate reported for FY 2010.

Despite the considerable success achieved to date, the Department continues its efforts to identify the core causes of improper payments and implement timely and effective actions to address the risks. DOT is using every opportunity to examine its payment oversight processes to ensure staff is well trained and actions taken are comprehensive and effective at ensuring every dollar spent on each program is well supported and applied properly.

### **Recommendation and Response**

**OIG Recommendation:** The Chief Financial Officer (CFO) should develop procedures for preparation and issuance of the quarterly reports on high-dollar improper payments.

**Management Response:** Concur. The CFO will improve the documentation of its procedures with regard to the content and timing of future reports to OMB under EO 13520. This action will be completed before December 31, 2011.

-- -- -- --

We appreciate the opportunity to review and provide comment on the draft. If you have any questions regarding our response, please contact David Rivait, Deputy Chief Financial Officer at 202-366-9192.