MEMORANDUM TO: THE INSPECTOR GENERAL

FROM: John Porcario

SUBJECT: DOT Actions to Ensure Effective Oversight of Grant Payments Under the American Recovery and Reinvestment Act (ARRA)

The Department has taken proactive, effective, and meaningful actions to ensure that payments made to grant recipients, particularly under ARRA, are appropriate. The first level of defense against improper payments includes ensuring that necessary internal controls are in place and conducting risk assessments to evaluate the efficacy of these controls.

The DOT has implemented an unprecedented series of measures to assess the adequacy of financial management controls for programs associated with ARRA funding. These controls, developed by DOT, have been widely lauded and adopted by the Office of Management and Budget (OMB) as the government standard. These measures include the development and implementation of a four-step risk assessment process for all programs that provide ARRA funding, the expansion of sampling and testing in the Department’s OMB A-123, Appendix A, and Federal Managers Financial Integrity Act (FMFIA) programs, and internal controls training for key program personnel.

The Improper Payments Information Act (IPIA) of 2002 was designed as a secondary, or post occurrence method of verifying the effectiveness of financial internal controls, by conducting detailed verification of a sample of completed transactions. As such, ARRA transactions will not be extensively captured by IPIA testing until fiscal year (FY) 2010 since the testing period is retrospective (FY 09 IPIA sampling will include payment from April 1, 2008 to June 30, 2009), and comparatively little of this funding would be captured in IPIA random sampling during this first year. This lag further emphasizes the importance of preventative measures that could minimize the occurrence of improper payments.

Testing under IPIA is extremely detailed, requires voluminous information, relating all the way back to the source transaction for each of the tests required. The Department conducted its IPIA reviews using state-of-the-art statistical sampling techniques. We appreciate the Office of Inspector General’s (OIG) recognition in the Advisory that the
statistical sample met OMB requirements, but are concerned by the seemingly contradictory assertion in the Advisory’s key issue statement, which questions the credibility of the sampling.

In recognition of the transactional complexities associated with IPIA testing, DOT will continue to work with OIG to obtain clear guidance in regards to what constitutes due diligence, beyond the letter of the law, on the part of DOT when determining appropriate IPIA sample sizes. Furthermore, given the interpretive nature of both OMB Circular A-123, Appendix C, and the Improper Payments Information Act itself, DOT also will continue to work with OIG to reach a consensus among all concerned parties regarding the working definition of “improper payment,” required documentation for proper payments, and the process by which parties determine a payment to be improper. Nonetheless, DOT is moving forward to ensure that future IPIA testing produces unequivocally valid results.

Since the previous IPIA contract expired at the end of its term, we are now in the competitive process of selecting a contractor. Within the framework of that competition, we have enumerated clear expectations to ensure that testing fully complies with all OMB guidance and best practices. In addition, in light of the challenges posed by ARRA implementation, we also modified guidance to prospective contractors, specifying additional testing for ARRA funding. This will ensure that actual ARRA disbursements are surveyed. We also are evaluating the potential for increasing sample sizes and testing scopes.

In summary, DOT recognizes the importance of the IPIA and its associated retrospective testing, and is implementing specific measures to address ARRA funding through numerous existing oversight programs. The Department also has emphasized the importance of financial management risk assessment to prevent improper payments from occurring in the first place. These measures are now in place.

We appreciate OIG’s use of the ARRA Advisory to convey information on important issues identified during the course of its work. We believe that an environment of effective interaction and information sharing between OIG and management represents a positive direction for effecting change as a result of issues identified during the course of OIG’s efforts. Please contact Martin Gertel, Director of Audit Relations on (202) 366-5145 with any questions or if we can be of assistance.