

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

March 11, 2010

Via Electronic Transmission

The Honorable Raymond H. LaHood
Secretary
U.S. Department of Transportation
1200 New Jersey Ave, SE
Washington, DC 20590

Dear Secretary LaHood:

Thank you so much for your prompt and comprehensive response to my January 5, 2010 letter regarding, among other things, administrative costs and information technology problems with the Cash for Clunkers (CARS) program. I appreciate your taking time to address the questions and concerns raised in my letter.

Throughout my career, I have believed that as a member of Congress I have an obligation to conduct oversight into how our government conducts the people's business and spends their money. I have and continue to work to fulfill this obligation through both Republican and Democratic administrations. While I appreciate the considerable time and effort the Department of Transportation (DOT/ Department) and the National Highway Traffic Safety Administration (NHTSA) have put into implementing the CARS program, I remain concerned with a number of the responses that I received. (attached)

A. Economic Impact

Your letter states that the CARS program had “...**facilitated the purchase of more than 677,000 new, more fuel efficient vehicles:...created or saved over 60,000 jobs; and increased the gross domestic product by approximately \$3.8 to \$6.8 billion (p. 1).**” (emphasis added) It seems to me that the Department's determination may overstate the impact of the CARS program in at least two respects.

First, the 677,000 figure reflects the total number of vehicles potentially eligible to receive a voucher. Numerous studies show this figure includes many vehicles that would have been sold anyway and therefore does not reflect the net effect of the CARS program. For example; auto industry analyst, Edmunds.com, calculated that only 125,000 of the vehicle sales were incremental, stating that the rest would have happened anyway. Edmunds then goes on to say U.S. taxpayers spent about \$24,000 for each net new vehicle sold.¹ I am not in a position to judge the veracity of the Edmunds' analysis,

¹ Jeannine Fallon and Chintan Talati; “Cash for Clunkers Results Finally In: Taxpayers Paid \$24,000 per Vehicle Sold, Reports Edmunds.com”; <http://www.edmunds.com/help/about/press/159446/article.html>; accessed February/March 2010.

however I am interested in how the Department's figures were calculated. Accordingly, please:

- 1) Provide the Department's estimate of the net effect of the CARS program on the total number of vehicles sold and the taxpayers' cost per net new vehicle sold. Your estimate should include source data and an explanation of the methodology.

Next, Congress appropriated \$3 billion for the CARS program. Your estimate of the 60,000 jobs created or saved and the \$3.8 to \$6.8 billion increase in GDP assumes a "multiplier effect" whereby each \$1 of government spending results in \$1.27 ($3.8/3$) to \$2.27 ($6.8/3$) of additional economic activity. Again, it seems to me that such estimates ignore the fact that the government must get its money from somewhere. Those who gave the government \$3 billion – either through taxes or purchasing U.S. securities – no longer have their money, so they cannot spend it. Therefore, the jobs and GDP they would have created is redistributed to the CARS program. The net effect on an economy-wide basis is likely to be zero at best, or negative if governmental intervention causes inefficiencies. Accordingly, please:

- 2) Provide the Department's estimate of the net effect of the CARS program on jobs and GDP for the entire economy. Your estimate should include source data and an explanation of the methodology.

In addition, unemployment figures from the Department of Labor show that unemployment rates rose in July, August and September from 9.4 percent to 9.7 percent to 9.8 percent respectively.² The automobile industry also reported that September auto sales fell 41 percent following the end of the CARS program.³ So, again you can see why I am having a great deal of difficulty understanding the actual impact of the CARS program on unemployment rates in the United States. Accordingly, I would appreciate receiving a response to the following question:

- 3) Given that funding for the CARS program lasted just one month instead of the four months originally projected, please document how many of the 60,000 jobs allegedly created and/or saved still exist today?

B. Contractors and Award Fees

Your response provided a list of 32 companies and governmental entities that received federal contracts or executed inter-agency agreements to administer the CARS program. I would appreciate receiving the following information based on the information already provided:

² U.S. Department of Labor, Bureau of Labor Statistics; "Labor Force Statistics from the Current Population Survey"; http://data.bls.gov/PDQ/servlet/SurveyOutputServlet?series_id=LNS14000000; accessed March 2010.

³ Kevin Krolicki, David Bailey and Taiga Uranaka; "U.S. September auto sales plunge; GM, Chrysler hit hard"; <http://www.reuters.com/article/idUSTRE59066D20091002>; accessed March 2010.

- 1) Copies of all contracts and interagency agreements, including modifications, for each of the entities listed in the Department's response.

It is my understanding that one of the companies used by the Department was Stefani Solutions, LLC. Our research indicates that Alexis Stefani previously served as Assistant Secretary for Budget and Programs and Assistant Inspector General for Auditing and Evaluation at the Department. In light of this connection, please provide the following:

- 2) The amount paid and remaining to be paid to Stefani Solutions, LLC.
- 3) Specific information regarding the services Stefani Solutions, LLC provided as an internal control consultant including a description of the contracts that Stefani Solutions, LLC received **before** Congress passed the CARS Program legislation.

The footnote on the bottom of page 10 in your letter referred to a consultant, but only identified the consultant by previous positions held in the Administration. Accordingly please:

- 4) Identify the consultant by name and previous positions held by the individual in the Administration.
- 5) Identify the specific services the consultant provided and the amount of money paid to this individual/company.

In my previous correspondence I requested information regarding bonuses paid to companies providing services to the CARS program. I was informed that no bonuses were paid, but that two companies, Oracle and Citibank, were eligible for award fees. Therefore, I am requesting the following information regarding award fees:

- 6) The amount of award fees paid and yet to be paid to all entities either contracted or otherwise eligible to receive the award fees.
- 7) The performance measures used to determine the amount of award fees.
- 8) Documentation that the performance measures established were fully met.

The Department's response also stated that, "NHTSA conducted market research to determine the best contractor to support transaction processing (p. 5)." In light of this please:

- 9) Provide the market research materials received and a description of how it was used in the selection process.

Again, thank you for your assistance with this and the previous request for information. Please provide the requested information electronically in PDF format to Brian_Downey@finance-rep.senate.gov by March 25, 2010. Should you have any questions, please contact Janet Drew or Brian Downey of my staff at (202) 224-4515.

Sincerely,



Charles E. Grassley
Ranking Member

cc: The Honorable Calvin L. Scovel, III
Inspector General
U.S. Department of Transportation
1200 New Jersey Avenue, SE
Washington, DC 20590

Attachment



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

January 25, 2010

The Honorable Charles E. Grassley
United States Senate
Washington, DC 20510

Dear Senator Grassley:

Thank you for your letter dated January 5, concerning the Car Allowance Rebate System (CARS) program. The National Highway Traffic Safety Administration (NHTSA) administered this program under the authority of the Consumer Assistance to Recycle and Save Act of 2009 (CARS Act).

Your staff recently discussed this program with the Office of the Inspector General (OIG) of the U.S. Department of Transportation (DOT), which is conducting an audit of NHTSA's implementation of the program. You have asked several specific questions on various aspects of the program and enclosed is our response. As you have requested, we also will provide this response electronically to Mr. Brian Downey, Investigative Assistant on the Committee on Finance.

The NHTSA, with the active support of DOT's other agencies, did a commendable job administering the CARS program under very complex circumstances. For a complete description of the program and its results, I refer you to the *Consumer Assistance to Recycle and Save Act of 2009; Report to the House Committee on Energy and Commerce; the Senate Committee on Commerce, Science, and Transportation; and the House and Senate Committees on Appropriations, December 2009* (CARS Report to Congress) available at www.cars.gov.

This report describes the substantial challenges NHTSA faced in designing and launching this unprecedented program within 30 days of the statute's enactment and in managing the tripling of the program's size just 12 days after it began.

The CARS program facilitated the purchase of more than 677,000 new, more fuel-efficient vehicles; removed an equal number of older, less fuel-efficient vehicles from the Nation's roads; created or saved over 60,000 jobs; and increased the gross domestic product by approximately \$3.8 to \$6.8 billion.

Over the next 25 years, the program is anticipated to reduce fuel consumption by 824 million gallons and reduce emissions of carbon dioxide and related greenhouse gases by 9 million metric tons. The report also notes that NHTSA has remaining tasks under the program, such as ensuring program data integrity and availability, and conducting compliance activities that will require additional expenditure of CARS funds.

Page 2

The Honorable Charles E. Grassley

I hope you will agree, after reading our enclosed, detailed response and the report to Congress, that NHTSA made extensive and effective efforts—despite the enormous time pressures it faced—to be fully accountable with taxpayer money and to avoid conditions conducive to fraud, waste, and abuse.

If I can provide further information or assistance, please feel free to call me.

Sincerely yours,



Ray LaHood

Enclosures

A. CONTRACTING

Question 1: Please confirm that the list above [the original letter listed five companies and agencies] is complete and if not, please provide a complete list of the contractors and executive branch agencies that received funds to assist in the implementation of the Cash for Clunkers program.

Your letter listed the five organizations [Citibank, Affiliated Computer Services, Vangent, the U.S. Internal Revenue Service (IRS), and the U.S. Federal Aviation Administration (FAA)], that received CARS funds for processing dealer applications for credits, but your question asked for a complete list of all entities that received funds to assist in the implementation of the program. NHTSA needed contractor services in many areas in addition to transaction processing, such as website development, scanning and imaging vehicle disposal forms, and running the hotline. We have listed below each of the entities with which NHTSA has, as of this date, entered into a contract or interagency agreement to assist in implementing the CARS program. (For the function that each contractor has performed, see the chart under Question 3.)

Entities with CARS Contracts or Interagency Agreements

Affiliated Computer Services	Federal Technology Solutions, Inc.	Phase One Consulting Group
CDW Government, Inc.	U.S. General Services Administration	Phoenix Systems
Charles Tombras Advertising	ImmexTechnology, Inc.	Stefani Solutions, LLC
Citibank, N.A	U.S. Internal Revenue Service	Telesis Corporation
Carahsoft Technology Corporation	Komplete Systems Integrators, Inc.	Terremark Federal Group, Inc.
Dell Marketing, LLP	Layer 7 Technologies, Inc.	The American Association of Motor Vehicles Administration
Deloitte, LLP	Lyris Technologies, Inc.	ToxServices, LLC
U.S. Department of Treasury	National Appraisal Guides, Inc.	Vangent
Design Engineering Services, Inc.	Neustar, Inc.	Volpe National Transportation System Center
DLT Solutions	DOT Office of the Secretary of Transportation	Westat, Inc.
U.S. Federal Aviation Administration Enterprise Service Center	Oracle USA, Inc.	

Question 2: Please set forth how much each of these contractors received to date and the anticipated total that they will receive once the books are closed on CARS.

The chart below shows the amounts paid to date to each contractor¹ and the potential remaining balance on the current contracts. The amounts shown as balances are estimates and may change upon continued review of vouchered costs. There is no certainty that the contractor will receive that amount. Further, it may be necessary to enter into new contracts or add tasks to existing contracts with these or other contractors to cover additional expenditures, such as enhancing NHTSA's ability to ensure compliance with the disposal provisions of its rule and to ensure data integrity and cost-efficient data storage.

Contractor	Total Amount Paid to Date (as of 01/21/10)	Potential Remaining Balance to be Paid
Affiliated Computer Services	\$3,284,817.21	\$57,157.52
CDW Government, Inc.	\$219,414.00	\$0.00
Charles Tombras Advertising	\$768,500.05	\$249,791.00
Citibank, N.A	\$5,997,219.83	\$644,759.00
Carahsoft Technology Corporation	\$565,000.99	\$2,002.34
Dell Marketing, LLP	\$199,776.30	\$0.00
Deloitte, LLP	\$194,323.53	\$92,189.09
U.S. Department of Treasury	\$0.00	\$9,647.00
Design Engineering Services, Inc.	\$66,298.00	\$0.00
DLT Solutions	\$7,521,820.29	\$11,076,882.46
FAA Enterprise Service Center	\$8,469,056.63	\$6,413,312.83
Federal Technology Solutions, Inc.	\$0.00	\$5,407.00
GSA	\$0.00	\$41,000.00
ImmexTechnology, Inc.	\$42,269.10	\$45,915.34
IRS	\$3,272,062.36	\$0.00
Komplete Systems Integrators, Inc.	\$451,459.73	\$1,896,749.36
Layer 7 Technologies, Inc.	\$43,070.00	\$0.00
Lyris Technologies, Inc.	\$15,667.88	\$856.12
National Appraisal Guides, Inc.	\$9,787.88	\$0.00
Neustar, Inc.	\$18,000	\$0.00
DOT Office of the Secretary of Transportation	\$0.00	\$100,000.00
Oracle USA, Inc.	\$5,426,304.76	\$1,021,063.90
Phase One Consulting Group	\$146,278.95	\$21,455.98
Phoenix Systems	\$0.00	\$262,913.50

¹ The NHTSA maintains an ongoing interagency agreement with the DOT OIG for the purpose of financial audits. The annual amount is nominally \$3,000 per year. However, due to the significant increase in NHTSA's budget as a result of CARS, the agency's share increased by \$35,000 and will be paid from CARS administrative funds.

Telesis Corporation	\$1,877,656.26	\$1,095,588.83
Terremark Federal Group, Inc.	\$175,887.07	\$307,984.02
The American Association of Motor Vehicles Administration	\$180,000.00	\$120,000.00
ToxServices, LLC	\$3,000.00	\$0.00
Vangent	\$9,172,314.23	\$0.00
Volpe National Transportation Systems Center	\$0.00	\$350,000.00
Westat, Inc.	\$108,073.86	\$0.00

Question 3: What type of contracts did the contractors receive? (e.g. time and materials contracts, fixed price contracts, cost and cost-plus contracts, and all other contracts)

The chart below shows, for each contract, the type of contract and the work performed under it.

Contractor	Contract Type	Work Performed To Support CARS
Affiliated Computer Services	Time and Materials	Transaction processing support for Level 1/Level 2 approvals.
CDW Government, Inc.	Fixed Price	Hardware requirements for distributed network to processing centers and backup/secondary server located outside of primary hosting facility.
Charles Tombras Advertising	Time and Materials	Web development and content management work related to the web.cars.gov Web site.
Citibank, N.A	Time and Materials (Fixed Fee and Award Fee)	Transaction processing support for Level 1/Level 2 approvals and storage of CARS Checklist.
Carahsoft Technology Corporation	Fixed Price	Software and system setup for data as a result of CARS disposal and salvage auction forms sent in through the disposal@cars.gov email following digitization of bulk of forms.
Dell Marketing, LLP	Fixed Price	Desktop hardware for processing centers to improve operational efficiency (i.e., dual monitors, keyboards, mice). Hardware for secondary servers to function as a cold backup for enforcement period.
Deloitte, LLP	Time and Materials	Certification and Accreditation for the CARS environment during the transactional processing period.
Department of Treasury	Interagency Agreement	Providing 7-day coverage for Electronic Funds Transfer processing.
Design Engineering Services, Inc.	Fixed Price	Project management support to include review/auditing of invoices from contractors to ensure costs are within government cost estimates and contractual agreements.

DLT Solutions	Fixed Price	Hosting charges and support services for CARS system components at the Oracle On-Demand facility and costs associated for system software and software support (i.e. patch maintenance).
Federal Aviation Administration Enterprise Service Center	Interagency Agreement	Transaction processing support for Level 1/Level 2 approvals, Dealer Technical Hotline, and development/system engineering support for transactional system connection to DOT finance system (Delphi).
Federal Technology Solutions, Inc.	Fixed Price	Increase of our current license limits by an additional 20 million page views in order to accommodate the increased usage from our CARS website.
General Services Administration	Interagency Agreement	Short-Term Vehicle Lease Program.
ImmexTechnology, Inc.	Fixed Price	Webcast Services to Dealers.
IRS	Interagency Agreement	Transaction processing support for Level 1/Level 2 approvals.
Komplete Systems Integrators, Inc.	Fixed Price	Digitization of handwritten and typed disposal and salvage auction forms in order to convert images of data used in "end of life" validation process.
Layer 7 Technologies, Inc.	Fixed Price	Load balancing technology for cars.gov website to ensure connectivity of main site was not disrupted during peak use.
Lyrus Technologies, Inc.	Fixed Price	Hosting services of cars.gov website during program initiation to ensure public had basic information on CARS.
National Appraisal Guides, Inc.	Fixed Price	Purchase National Automobile Dealers Association (NADA) guides for companies involved in transactional processing of CARS payment vouchers.
Neustar, Inc.	Fixed Price	Purchase domain names (20), DNS Query Records (25 million records per month), Resource Records (200 per month), and SiteBacker (5 reports per month).
Office of the Secretary of Transportation (OST), Department of Transportation	Interagency Agreement	Lease of temporary space within DOT for employees working on the CARS program.
Oracle USA, Inc.	Time and Materials (Award Fee)	Development and maintenance support services for the CARS transactional system and data warehouse.
Phase One Consulting Group	Fixed Price	Independent verification and validation support for CARS architecture, documentation support services, and change management control.
Phoenix Systems, Inc.	Time and Materials	Contractors for additional acquisition support for CARS.
Stefani Solutions, LLC	Fixed Price	Internal control consultant to support CARS.
Telesis Corporation	Fixed Price	Hotline support for CARS; principal hotline for public, salvage, and non-technical dealer inquiries.

Terremark Federal Group, Inc.	Fixed Price	Hosting services for failover servers for cars.gov in case primary servers were not available for an extended period.
The American Association of Motor Vehicles Administration	Fixed Price	Data support for vehicle identification number validation and tracking of CARS trade-in vehicles within the National Motor Vehicle Title Information System for the disposal process.
Tox Services, LLC	Fixed Price	Environmental analysis of the chemical used in immobilizing engines on clunkers.
Vangent	Cost Plus Fixed Fee	Transaction processing support for Level 1/Level 2 approvals.
Volpe National Trans System Center	Interagency Agreement	Setup and management of Terremark environment and CARS backup servers.
Westat, Inc.	Time and Materials	Daily surveys with dealers to get an accurate count of the number of incoming transactions.

Question 4: Please explain whether or not other types of contracting vehicles were considered and what was the reasoning for choosing one type of contract over another.

All contract types were considered and used for the CARS program. In determining the use of one contract type over another, NHTSA based its decision on the following: 1) contracts the contractor had with other Federal agencies for similar work, 2) the type of requirements needed for CARS, and 3) how clearly the requirements could be defined in the available time.

Question 5: Please explain in detail the process used to select the corporations/agencies identified in the response to Question 1 above.

Prior to the enactment of the CARS Act, NHTSA communicated with other Federal agencies and commercial organizations in determining the best approach for successful implementation of the program. The FAA, through its Enterprise Service Center, handles processing and payment of contractor invoices for the entire DOT and had recently purchased an Oracle product called I-Supplier for this purpose. The processing and payment of dealer claims for credits would be a major element of the CARS program, and development of a completely new system to serve that purpose would take far longer than the time available. Therefore, NHTSA concluded that modifying the I-Supplier system to meet the CARS program's needs was the best available option. The NHTSA subsequently contracted with Oracle USA, Inc., to do the necessary modifications to implement the program and purchased the required licenses from Oracle's designated supplier, DLT Solutions, to expand the use of I-Supplier for CARS.

Because of the unusual and compelling urgency resulting from the very short lead time mandated by Congress, NHTSA used methods other than full and open competition procedures to award contracts in the CARS program. Prior to the enactment, NHTSA conducted market research to determine the best contractor to support transaction processing. Specifically, the Agency created a task force of individuals knowledgeable in both programmatic and technical requirements with responsibility for program oversight. The NHTSA market research included reviewing material provided by vendors, researching industry best practices and similar operations, meeting with

potential vendors on their capabilities in relation to CARS requirements, and reviewing possible cost points for functionality and services performed in the past by vendors on related work.

In addition to dealer registration and transaction processing, another major task facing NHTSA was the creation of a Web site to provide program information to dealers and the general public. To ensure NHTSA would be able to meet the 30-day time frame for the implementation of CARS, NHTSA used its existing contract with Tombras to develop the Web site. Upon completion of its research, NHTSA evaluated six companies and made an award to Citibank for processing CARS transactions.

The program quickly became such an overwhelming success that the need for additional transaction processing capacity became clear. Within the first several days, dealers submitted enough transactions to nearly exhaust the initial appropriation. On the 12th day, Congress added an additional \$2 billion in appropriations, effectively tripling the anticipated volume of transactions to be processed. As quickly as possible, while observing all necessary program requirements, NHTSA entered into additional processing contracts or interagency agreements with other entities including FAA, IRS, Vangent, and ACS. Awards were made based on recommendations from other Federal agencies supported by those contractors. For all other program requirements, NHTSA made the contract award either using an existing contract or conducting market research for available sources to fulfill the requirement.

Question 6: What, if any, bonuses were (are being) paid to the contractors upon completion of their respective contracts?

The NHTSA did not provide bonuses to contractors or their employees under the CARS program. Two firms, Oracle and Citibank, have contracts under the program that allow these companies to earn an award fee.

B. Vulnerabilities to the CARS IT System

Question 1: What was the overall effect of the IT disruptions on the implementation of the program?

The CARS IT system, using the modified I-Supplier software, experienced a number of disruptions during the month (July 27 - August 25, 2009) the system was open to receive new dealer transactions. The IT disruptions created significant dissatisfaction among dealers and slowdowns during periods of extremely heavy workload, increasing the time it took dealers to enter transactions. The disruptions also caused a few system outages that added to the time NHTSA and its contractors needed to process the transactions. Although these disruptions were frustrating to dealers, NHTSA and its transaction processing contractors were able to receive more than 691,000 transactions in slightly more than 4 weeks.

Nearly all dealers were ultimately able to enter their transactions on a timely basis. The few who were not, due to system problems, were given an additional opportunity through an exceptions process after the program closed on August 25. The NHTSA and its contractors were able to review and approve dealer submissions in an average of 16.9 days (measured from the submission of a fully documented transaction). Most importantly, the primary objectives

established by Congress—increasing sales of fuel-efficient vehicles and reducing consumption of fuel and emissions of greenhouse gases—were achieved by the CARS program despite these disruptions.

Background on System's Development and Explanation of System Disruptions

The NHTSA faced the unprecedented challenge of deploying a secure, computerized, nationwide transactional system within 30 calendar days starting from the enactment of the CARS Act (June 24, 2009) through the official launch of dealer registration (July 24, 2009) and transaction processing (July 27, 2009). The system was designed based on policymakers' expectations that the program would process up to 250,000 transactions between July 1 - November 1, 2009. The 250,000 figure was viewed to be too optimistic by some who predicted that the program would not be nearly as popular as it proved to be. The bottom line is that no one—including policy makers, legislators, automotive manufacturers and dealer associations—predicted what actually happened. The public's response to the CARS program was overwhelmingly positive, and, on the 12th day, Congress moved to triple the program's size to keep up with consumer demand.

The unexpected and thus unplanned demand significantly contributed to the instability of the CARS system. In response, NHTSA quickly ramped up its contingent of back-end processors to over 7,000 staff to expedite transaction processing.² These processors were located at over 14 separate sites and were associated with several vendors (Citibank, Vangent, Affiliated Computer Services, FAA and IRS).³ This ramp up increased the number of processors accessing the system well beyond what was originally planned, which further strained the IT system. In order to distribute the workload in an optimal fashion and uniquely track productivity of each vendor and associated processing sites, the CARS software was further tailored to establish processing queues to track individual vendor/site productivity.

Within the context of the business challenges cited above, NHTSA encountered technical issues with the tailored software and capacity-related deficiencies within the hosting infrastructure environment. These technical issues and unexpected business challenges resulted in unplanned outages to the CARS system. The NHTSA instituted change and configuration management processes in accordance with industry best practices to track, prioritize, and implement solutions to these technical deficiencies. The NHTSA also worked diligently with Oracle, the developer of the CARS software application and host provider of the associated infrastructure, to quickly resolve these issues.

The impact of dealer performance on program efficiency cannot be overlooked. Of the approximately 691,000 invoices received, the vast majority required multiple reviews by NHTSA processors due to missing information or failure to follow procedures. From the first day of transaction processing, NHTSA made training guides, reject codes, and a checklist available via its website at www.cars.gov/dealersupport. The NHTSA also conducted 10 dealer webinars to provide additional details and answers to online questions. Despite these outreach

² CARS Report to Congress, page 2. Available at: <http://www.cars.gov/files/official-information/CARS-Report-to-Congress.pdf>

³ Ibid, page 13.

efforts, up to 90 percent of invoices received early in the program had to be rejected due to incomplete or illegible content. While this percentage did decrease over time, NHTSA conducted nearly two-million transaction reviews in order to approve 677,000 for payment.

Question 2: Please provide documentation of the DOT's IT vulnerability and testing recommendations.

The NHTSA had 30 days to determine system requirements, retain a software development contractor, then develop, test and implement the CARS system. Despite the challenges of determining business requirements and building the IT system in parallel, NHTSA proceeded with the necessary security vulnerability and functional testing to the system. Functional testing included ensuring that:

- The dealer submitting a transaction was registered in the CARS system;
- The dealer's business and bank information were valid;
- Two levels of review were achieved per transaction prior to final approval for payment;
- Dealer transactions submitted with no attachments (e.g., Title, Proof of Insurance) would be automatically rejected;
- The dollar reimbursement was correct for the trade-in/new vehicle combination;
- The system would prevent dealers from submitting transactions unless minimum completion standards were met;
- No individuals were participating more than once;
- The transaction date was within the program's statutory date range; and
- The system prevented duplicate trade-in Vehicle Identification Numbers (VIN) from being entered in order to avoid fraudulent transactions.

The NHTSA tested the above functionality and determined that the associated workflow performed properly in the CARS system prior to launch. The NHTSA evaluated the CARS IT system in accordance with existing government standards and best practices including the National Institute of Standards and Technology (NIST) 800 series, which provides guidance to Federal agencies for securing information systems. The system was also Certified and Accredited (C&A) in accordance with the Federal Information Security Management Act. We are pleased to note that throughout the duration of the program, the CARS IT system did not suffer any external security breaches or unauthorized access/release of personally identifiable information.

The CARS IT system was hosted in a secure computing environment compliant with existing government standards, which ensured that the information contained within was protected from misuse. As part of the C&A process, a system security plan was developed and a security test and evaluation conducted that included an automated vulnerability scan on the IT system. This scan uncovered a potential vulnerability associated with managing backup routines that was subsequently investigated and determined to be a false positive. No other applicable vulnerabilities were identified.

During the C&A process, other system risks were examined including contingency and disaster recovery plans. It was determined that the CARS system lacked these plans due to the aggressive time frame to deploy the operational system. These findings are included in the enclosed documents for your review: CARS Security Gap Analysis prepared by an independent C&A contractor, and CARS System-Level Security Plan of Action and Milestones (POA&Ms), which NHTSA is executing relative to overall cost, risk, and program impact. The NHTSA is also working to finalize planning requirements related to the action items within the POA&Ms in accordance to the continuous risk management process implemented within the Agency. The action items are currently being evaluated based on the current program status and the technical and non-technical requirements of CARS' remaining business needs.

At present, NHTSA will continue to operate the system within the current environment to maintain consistency in service and technology, and has implemented provisions for reconstituting the CARS system in the event of an unplanned outage. Following conclusion of the POA&M risk analysis and related cost benefit study currently being conducted to compare alternatives to the existing environment, NHTSA will update the appropriate documentation for CARS with any changes to contingency and disaster recovery requirements.

Question 3: Please describe in detail the criteria the DOT used to determine allowed costs versus disallowed costs for the IT system.

CARS IT system costs were reviewed and recommended for approval/disapproval by relevant Agency officials in accordance with the Federal Acquisition Regulation. Labor costs invoiced to the government were compared with staffing plans provided during the project. Hardware was leased and software licenses were purchased at the GSA scheduled prices, or lower. In terms of IT system development and associated costs, NHTSA tracked its own direct enhancements to the system versus those the Agency's vendor undertook to maintain a stable functional system. Due to this level of scrutiny, NHTSA held several discussions with the vendor to ensure that the Agency received significant reductions in cost for IT system disruptions that required the vendor to take action.

C. OIG Recommendations and Related Implementation

In introducing this line of questioning, you stated, "[I]t is my understanding that the OIG made a number of recommendations and pointed out many additional program vulnerabilities." You asked for "clarification of the role the OIG played and the actions taken by the DOT to respond to those recommendations."

The OIG has played a helpful role in the CARS program but has not actually provided recommendations. In NHTSA's early contacts with OIG about the CARS program prior to and immediately after enactment of the CARS Act, OIG made clear that it could provide observations on potential risks and on controls that the program planners might be considering. However, to preserve the necessary independence of the OIG, which is auditing NHTSA's implementation of the program, OIG indicated it could not participate in designing the program,

selecting information systems, making decisions about internal controls and operating systems, or having an active dialogue on program design and policy formation.⁴

The OIG provided three briefing papers (enclosed) on “Implementation Risks and Challenges” and discussed those with NHTSA staff. OIG also provided a binder labeled “Program Observations of Cars: Supplemental Documents,” which contained previous reports by a House committee, another department’s OIG, and GAO on subjects such as the Hurricane Katrina response, disaster recovery, contingency contracting in Iraq and Afghanistan, financial management and contract management, as well as four reports concerning a Texas program involving purchase or repair of vehicles that had failed a State emissions test. In meetings with OIG audit staff, NHTSA staff explained how it believed it was and would continue to address system vulnerabilities.

Not only did NHTSA address all areas of vulnerability identified by OIG in developing and implementing the CARS program, NHTSA also addressed several areas of vulnerability on its own initiative. For example, one of the most serious risks of fraud in the program was the possibility of putting the trade-in vehicles back in operation in this country or elsewhere. NHTSA concluded that an effective measure against such fraud would be to render the vehicle’s engine inoperable before it left the dealer’s premises. The Agency challenged its automotive engineers to find a safe, effective, inexpensive, and environmentally sound method for killing the clunkers’ engines. The NHTSA identified, tested, and verified the use of a sodium silicate solution for this purpose and subsequently required dealers to take this step, which we believe significantly reduced the potential of fraud related to vehicle trade-ins.

At NHTSA’s request, OIG staff attended many meetings that NHTSA held, both internally and externally, during the development of the program in June and July of 2009. Also at NHTSA’s request, OIG investigative staff participated with NHTSA in webinars provided for dealers and disposal facilities and in making contacts with law enforcement agencies. In addition, the OIG reviewed the draft regulations and provided comments on definitional issues, clarification of terms, and other issues as deemed appropriate by the OIG.

Question 1: What vulnerabilities were identified for the DOT by the OIG?

In its briefing papers, OIG identified general vulnerabilities and concerns in several areas:

- Internal control vulnerabilities in budgeting, procurement, and financial management systems.
- NHTSA staffing and resources: background checks on employees and contractors; program-specific training.
- Controls over information systems: level of security needed; security management program; steps NHTSA will take to expedite the certification and accreditation process.

⁴ Because OIG could not provide recommendations to NHTSA, which had no experience designing and implementing a program like CARS, NHTSA obtained the services of a consultant who had formerly served as a senior official in DOT’s OIG as well as DOT’s Deputy Assistant Secretary for Budget and Programs.

- Controls over transactions to ensure completeness, accuracy, authorization, and validity of all transactions.
- Reliance on NMVTIS (National Motor Vehicle Title Information System): ensuring accuracy of data in the system and States' use of the data.
- Inspection and monitoring of dealers and disposal facilities.
- Identifying and tracking end-of-life, salvage, and auction entities.
- Ensuring dealer lists, franchise numbers, and dealer registration information are accurate.
- Ensuring accurate miles per gallon and vehicle information from the Environmental Protection Agency (EPA).
- Security policies and requirements to prevent fraud and waste, particularly by processing contractors.
- Contract management: oversight, cost controls, security risks, personal information.
- Ability to reimburse dealers within 10 days.
- Environmental impacts of engine disablement procedure.
- Response to hotline complaints.
- Validation of VINs.
- Status of administrative costs.

Question 2: At what point in the process did the DOT ask for this information from the OIG and how was it requested?

A senior NHTSA official contacted a senior OIG official by phone and email in late May 2009, noting the requirement in what were then pending bills to consult OIG in establishing and providing for enforcement of measures to prevent and penalize fraud. The NHTSA requested OIG's input in constructing a program to deter fraud and, if necessary, track it down. Several days later, senior DOT officials contacted OIG to discuss these issues. During the week that the CARS Act was enacted, OIG indicated the nature of the role it intended to play, as explained above.

Question 3: How were the OIG concerns and recommendations incorporated into the Cash for Clunkers program as it was being implemented? Please be specific.

Here is how NHTSA addressed the areas of vulnerability identified by OIG:

- *Internal control vulnerabilities in budgeting, procurement, and financial management systems*

The NHTSA employed accepted control techniques in each of these areas. Budgetary expenditures were closely tracked and NHTSA employed a contractor to conduct dealer surveys to ensure the program ended before deals exceeding budgeted funds were completed. The procurement processes NHTSA followed were described above. With regard to financial management systems, NHTSA relied on DOT's Enterprise Service Center, and used its I-Supplier software, to ensure that the hundreds of thousands of transactions under the program were completed using accepted practices.

- *NHTSA staffing and resources: background checks on employees and contractors; program-specific training*

The NHTSA identified the skills it would need, recruited through advertisements for internal details and external temporary personnel, and trained people as they joined the program. NHTSA obtained Office of Personnel Management approval to rehire retired Federal employees with expertise in compliance under a special authority. NHTSA had a field force, consisting primarily of detailees from NHTSA regional offices, ready by the time transactions began. Federal employees were all subject to the normal employment background checks. Contractors involved in processing transactions could not gain access to the CARS system until they had signed a Rules of Behavior form certifying their compliance with DOT IT security policies. NHTSA received updated lists weekly of dealers directly from Original Equipment Manufacturers (OEMs) for franchised businesses and businesses that were recently dropped as authorized dealers. This information was used to control account management based on the OEMs being an authoritative source of dealers that worked for them.

- *Controls over information systems: level of security needed; security management program; steps NHTSA will take to expedite the certification and accreditation process*

We have explained above the steps NHTSA has taken to address IT security and C&A issues. In addition, NHTSA designed the program with access control as a major consideration. To ensure against use of the system by entities posing as dealers, NHTSA worked with manufacturer and dealer organizations to obtain complete lists of authorized and licensed dealers. These lists were used to limit access to the system.

- *Controls over transactions to ensure completeness, accuracy, authorization, and validity of all transactions*

The NHTSA's CARS rule required dealers to submit specific information in a computerized form as well as supporting documents. NHTSA's transaction processing contractors followed a detailed checklist (which evolved based on daily experience with the fast-paced program) to ensure completeness, accuracy, and validity of all transactions. NHTSA required a two-level review for any approved payment.

Daily meetings were held with our 14 national processing centers and training staff to discuss throughput, schedule, quality and lessons learned, including dealer feedback. The CARS leadership team developed requirements for numerous management reports that were very effective in identifying areas of risk or inefficiencies. NHTSA was in daily contact with all the processing centers, sent personnel to assist with training and field questions, and conducted its own audits of thousands of transactions. These audits uncovered a small percentage of incorrect payments that have subsequently been recovered. NHTSA continues to search for evidence of improper payments.

- *Reliance on NMVTIS: ensuring accuracy of data in the system and States' use of the data*

The CARS Act required that NHTSA provide the trade-in VINs to the National Motor Vehicle Title Information System (NMVTIS), which is intended to provide States and individuals

information on a vehicle's registration history and title status to help avoid purchases of vehicles with questionable histories. The Department of Justice has established NMVTIS and, as of January 1, 2010, all States are required to be fully compliant with the Anti-Car Theft Act. This is important to prevent CARS trade-in vehicles from being re-titled. State motor vehicle administrations are now required to conduct title verification in NMVTIS before issuing a new certificate of title for a motor vehicle.

The NHTSA has submitted all of the trade-in VINs to NMVTIS and, when those VINs were made public in October 2009, they were also captured by the commercial services that make such information available. The NHTSA is aware that a small percentage of VINS were apparently incorrectly entered by dealers. The NHTSA has a data quality plan to ensure accuracy of the VINs and has already initiated a process to correct VINs that were incorrectly entered by the dealer.

- *Inspection and monitoring of dealers and disposal facilities*

The NHTSA assembled a field force in time for the start of the CARS program. Field personnel immediately began visiting dealers and disposal facilities and conducted over 1,000 inspections in the program's first month. NHTSA continues to conduct field inspections and to analyze data looking for signs of incorrect payments, continued use of trade-ins, or other violations.

- *Identifying and tracking end-of-life, salvage, and auction entities*

In its rule, NHTSA defined disposal facilities by reference to the End-of-Life Vehicle Solutions listing of entities that participate in a program for proper disposal of mercury switches. EPA had identified this list identifying responsible disposal entities. Salvage auctions were also defined in the rule. Both auctions and disposal facilities have various reporting responsibilities under the rule. Unfortunately, the time available for developing the CARS system did not permit computerization of the disposal and salvage auction certification forms, which are currently being digitized. The NHTSA is aware that a small portion of forms has not yet been submitted. To account for all CARS trade-in vehicles, NHTSA is currently identifying dealers and salvage entities that have failed to properly submit disposal forms or update NMVTIS. Where appropriate, NHTSA will exercise its civil penalty authority.

- *Ensuring dealer lists, franchise numbers, and dealer registration information are accurate*

This task proved to be very challenging, primarily because automotive dealerships were in such a state of flux at the time of program implementation and also because some did not follow proper directions for registration. The NHTSA took a number of steps to ensure accuracy in the dealer registration process. Internal meetings were held to discuss and document all program risks including those relevant to dealer registration. Then NHTSA held meetings with representatives from automotive manufacturers and dealer associations outlining its plans, including the use of manufacturers as an authoritative source of currently franchised new dealerships and their unique identifiers. Throughout the program, NHTSA received weekly updates from Original Equipment Manufacturers (OEMs) to add newly franchised dealerships, remove dealerships that had gone out of business, or were no longer franchised to sell new vehicles.

- *Ensuring accurate miles per gallon and vehicle information from the Environmental Protection Agency (EPA)*

Despite the best efforts of NHTSA and EPA staff, this also proved quite challenging. EPA's vehicle-specific MPG database had to be substantially revised within 30 days to include the vehicle categories and credit parameters required by the CARS Act. Throughout the program, occasional anomalies would appear, but the transaction review process involved looking at all relevant information on a vehicle to resolve any discrepancies. NHTSA is much indebted to EPA for its tireless efforts to support the program.

- *Security policies and requirements to prevent fraud and waste, particularly by processing contractors*

The entire transaction review process was designed to prevent the disbursement of any funds for ineligible transactions and to deter fraud. The system had checks for duplicate VINs, duplicate purchasers, improper transaction dates or amounts, etc. The system recorded the actions of processing contractors using a two-layer review process to ensure no one person could approve a transaction without another processor's approval. The records were marked by location-specific user identification, which became a part of the permanent workflow records of the CARS IT system.

As previously mentioned, all contractor personnel also had to sign a Rules of Behavior form prior to gaining access to the system. Lastly, NHTSA has reviewed thousands of paid transactions from each contractor and has found no evidence of contractor fraud to date.

- *Contract management: oversight, cost controls, security risks, personal information*

Contract management issues were addressed above.

- *Ability to reimburse dealers within 10 days*

The CARS Act required NHTSA to reimburse dealers within 10 days of the submission of a fully supported, valid transaction meeting all requirements of the rule. This requirement bore no relationship to normal business practices, where the standard is to pay valid claims within 30 days, or the practice within the auto industry for payments to dealers by manufacturers for rebate programs, which take 60 to 90 days. Nevertheless, despite the unanticipated exhaustion of the initial appropriation in the program's first few days and the subsequent tripling of the anticipated workload by an additional \$2 billion of program funding, NHTSA came very close to meeting the aggressive requirement by making payments within an average of 16.9 days.

- *Environmental impacts of engine disablement procedures*

The NHTSA hired a consultant to evaluate the engine disablement procedures and received a full and unqualified endorsement of the safety and environmental soundness of the process. The NHTSA also consulted EPA, which had no objection to the procedure.

- *Response to hotline complaints*

The popularity of the program and the fast pace of events put significant strains on hotline resources. The volume at one time hit 50,000 calls per day. The NHTSA's legal and program personnel trained hotline staff on the most common questions. Within a few short weeks, the hotline provided helpful responses to nearly 900,000 inquiries. Few of the inquiries contained actual allegations of illegal behavior. The NHTSA is currently investigating these and other allegations that it receives.

- *Validation of VINs (vehicle identification numbers)*

The NHTSA would have preferred to incorporate into its CARS system a mechanism that would validate VINs in a way that would check the EPA fuel efficiency rating for the vehicle. However, contractors had only partial systems available at the time, and incorporating any such system into the already complex I-Supplier proved unfeasible. The NHTSA does have access to VIN validation software and, along with the contractor that operates the NMVTIS system, the Agency is working to ensure the validity of all VINs in the CARS database.

- *Status of administrative costs*

We have documented the status of the program's largest costs, which cover the many contracts and interagency agreements NHTSA found necessary to implement the CARS program. Additional expenditures have been and will continue to be necessary for salary and travel costs for CARS personnel and other related requirements. As noted above, we expect to make additional expenditures to accomplish such objectives as ensuring the integrity and availability of the CARS database and to facilitate compliance activities. In the CARS Report to Congress (pages 55-56), we indicated that, including these various contingencies, we anticipate spending no more than \$100 million to administer the program, and that our defined requirements at that time were less than \$80 million. We will endeavor as we wind down the program to minimize administrative costs, as we have throughout the program.

The Department trusts that the information we have presented here eases any concerns you had concerning administration, accountability and oversight of the CARS program. Under very complex circumstances, NHTSA developed and implemented the nationwide CARS program in just 30 days, working diligently to abide by all relevant requirements and addressing all apparent vulnerabilities. Within 30 days after closure, NHTSA had paid more than 99 percent of all dealer transactions. By all accounts, the program achieved the economic stimulus and environmental purposes set forth by Congress.

National Highway traffic Safety Administration

Car Allowance Rebate System (CARS)

1/21/2010

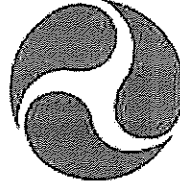
System-Level Security Plan of Action and Milestones

Weakness	POC	Resources Required	Scheduled Completion Date	Actual Completion Date	M #	Milestones	Milestone Scheduled Completion Date	Milestone Actual Completion Date	Change to Milestone or Current Status	Identified Source	Milestone Status	Ref. Number	Closed Milestone Been Verified?	Name of Validating Official	Finding Comment
CP-2 CONTINGENCY PLAN	ADMINISTRATOR	2 FTEs, 2 Contractors, Facility & Equip	03/01/2010	TBD	1	A comprehensive OR Plan will be developed that takes into account the feasibility and need for a Hot Site capability that ensures availability of both the CARS Application and the safety of the data.	03/01/2010	TBD	Analysis of hosting and storage requirements is currently underway to determine which option is required to support the remaining program needs. Since the program has entered a phase with a lower user base and a low priority to availability in the case of an outage requirements for a "hot swap" or "cold server" may not be necessary. Once the review of options is complete the current CP will be updated to reflect the selected environment along with planning and operational requirements for the system.		Ongoing				
CP-3 CONTINGENCY TRAINING	ADMINISTRATOR	1 FTE	03/01/2010	TBD	1	A comprehensive Contingency Training plan will be developed that takes into account current Program Office staffing levels.	03/01/2010	TBD	Analysis of the operational requirements for CARS is currently underway. Contingency training elements are dependant upon the outcome of the disposition of the hosting environment, which is subject to the results of the cost / benefit study and the requirements for the program for availability of the system if an outage were to occur. The current contingency training requirements will be included within the updated Contingency Plan (CP) following completion of this work.		Ongoing				
CP-4 CONTINGENCY PLAN TESTING AND EXERCISES	ADMINISTRATOR	TBD	03/01/2010	TBD	1	A Contingency Plan Testing protocol will be developed that allows testing of both the primary and back-up capability of the CARS system.	03/01/2010	TBD	CARS system is currently being re-evaluated for environment requirements due to low user level and a low priority to system availability if an outage were to occur. Upon completion of the analysis period for hosting environments teh CP and testing protocols will be updated from their current level to ensure processes are up-to-date with requirements.		Ongoing				
CP-6 ALTERNATE STORAGE SITE	ADMINISTRATOR	1 FTE	03/01/2010	TBD	1	An Alternate Storage Site is being considered using the Cloud computing capability of Terremark.	03/01/2010	TBD	Analysis of existing storage and hosting requirements is currently being conducted due to a new phase of program requirements focusing on enforcement, which has a lower user base and low requirement for availability if an outage were to occur. Upon completion of this analysis, which is based on costs benefit factors, a determination of the appropriate option of an alternative site will be made. Once this determination is made the Contingency Plan will be updated accordingly to ensure training and implementation is up-to-date.		Ongoing				

CP-7 ALTERNATE PROCESSING SITE	ADMINISTRATOR	1 FTE	03/01/2010	TBD	1	An Alternate Processing Site is being considered as an option using a potential Cloud computing Architecture	03/01/2010	TBD	<p>Update to FO&M. Study to determine availability requirements for existing program underway. Includes an options analysis.</p> <p>Initial analysis. Remaining users are less than 100 and availability requirements are low if an outage were to occur. As such, movement may not require a full alternative site if reconstitution can happen.</p>	Ongoing
CP-3 TELECOMMUNICATIONS SERVICES	ADMINISTRATOR	1 FTE	03/01/2010	TBD	1	Identify necessary Telecomm Agreements to support the bandwidth requirements for the expected data load.	03/01/2010	TBD	<p>Bandwidth requirements for CP and DR will be determined based on business and technical requirements as a result of the cost/benefit analysis currently being conducted. At present reconstitution will suffice the business needs, as such there are no required changes to the CP and DR. Changes will be implemented based upon completion of the analysis period.</p>	Ongoing

CARS Program: Implementation Risks and Challenges

U.S. DOT Office of Inspector General
Program Observations
August 13, 2009





Agenda

- **OIG Role**
- **Continuing OIG Concerns with CARS**
- **CARS Challenges**
- **Concerns with Specific CARS Requirements**
- **Observations, August Update**
- **OIG Next Steps**

OIG Role

- The purpose of our research is to provide information on risks and controls in the CARS program, while preserving our overarching independence. The results of our research are intended to bring attention to risks in critical areas in this rapidly evolving program.
- We are currently planning an audit to respond to the requirement in the supplemental appropriations.

Continuing OIG Concerns with CARS



- In our July 17, 2009, briefing to NHTSA staff, OIG noted the following challenges to program implementation and execution. These challenges remain as the program proceeds.
 - Internal control vulnerabilities in budgeting, procurement, and financial management systems.
 - State participation in NMVTIS and how NHTSA will ensure that CARS trade-in vehicles' title information is appropriately disseminated.
 - NHTSA staffing and resources considerations.
 - Establishing controls to ensure the completeness, accuracy, authorization, and validity of all transactions.

CARS Challenges:

Information Technology Management

- CARS' success is largely dependent on information technology (IT) systems. Due to the compressed timeframe for this program, NHTSA activated systems before standard reviews and risk assessments were complete.
- CARS just started its IT systems certification and accreditation process (C&A), even though transactions began on July 27, 2009. C&A is the primary tool to identify critical weaknesses in information systems.
 - What steps is NHTSA taking to expedite C&A? The program ends on November 1, 2009.
 - Is moderate risk the right level for CARS IT considering the size and economic impact of the program?

CARS Challenges: Information Technology Management

- NHTSA is still resolving data issues with program partners. Data accuracy and reliability are essential to CARS functioning as intended.
 - Identifying and tracking end of life cycle, salvage, and salvage auction entities.
 - Ensuring dealer lists, franchise numbers, and dealer registration information are accurate.
 - Coordinating with the Environmental Protection Agency to ensure accurate vehicle lists, including miles per gallon information.

CARS Challenges: Information Technology Management



- Are security policies and requirements in place to prevent fraud and waste in the program?
 - Is there a plan for overseeing Citigroup operations and staff? Is the connection between Citigroup and the Enterprise Service Center properly secured?
 - Is the documentation supporting each transaction properly encrypted when sent by email?
 - Has NHTSA finalized agreements and coordinated with DOT's Cyber Security Management Center to monitor the Terremark server farm, including the installation of sensors?

CARS Challenges: Contract Management

- Contractors are an integral part of CARS execution, but are operating with limited authority and funding. Will NHTSA award contracts before limited-authority funds expire to prevent disruption of program operations?
- Without awarded contracts in place, how will NHTSA
 - Perform proper oversight and control costs?
 - Mitigate security risks?
- Will contracts include
 - Appropriate security provisions for background checks, certifications, and monitoring for contract staff involved in financial transactions?
 - Provisions to protect personally identifiable information?
 - Reporting requirements on personnel and staff changes?

CARS Challenges: Related Reports on Contract Management

■ Hurricane Katrina Contracts

- Insufficient planning and preparation, insufficient numbers and inadequate deployment of personnel for effective contractor oversight. (GAO-06-622T)
- Full and open competition is the exception, not the rule, contract mismanagement is widespread, and costs to taxpayers are enormous. (House Committee on Government Reform, August 2006)

■ Contingency Contracting

- Lack of defined management and oversight challenges of contingency operations, limited agency planning efforts, increased costs, and introduced unnecessary risks. (GAO-09-538T)

■ Contract Management

- Failure to adequately plan for use of contractors, poorly defined or changing requirements, and lack of deployable contracting personnel with contingency contracting experience. (GAO-09-114R)

OIG Concerns with Specific CARS Requirements

- What will happen if NHTSA does not reimburse dealers within the required 10 days? Will the government owe interest on late payments? What potential remedies are available to dealers who receive late reimbursements?
- Does NHTSA's staff have adequate authority and skill to monitor dealers? Can NHTSA request the records of a commercial entity?
- Were environmental impacts studied during development of the engine disablement requirement for sodium silicate? Is the government liable for environmental impacts of sodium silicate?

CARS Challenges: Observations Update

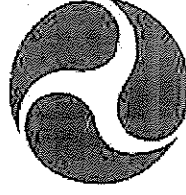
- Is NHTSA receiving sufficient information to oversee the program?
 - Is NHTSA organizing compliance audits of dealers and disposal facilities? How many have occurred?
 - Are VIN numbers being validated with Experian? NMVTIS status?
 - Is NHTSA receiving the right information to track and monitor transactions?
- Has the additional \$2 billion impacted contractor relationships? What is the status of funds for administrative costs?
- How has NHTSA responded to hotline complaints and problems discovered since program start? Has NHTSA implemented course corrections?



in audit to respond to the
ental appropriations.

CARS Program: Implementation Risks and Challenges

U.S. DOT Office of Inspector General
Initial Observations
July 16, 2009



Agenda

- **OIG Role**
- **OIG Audit of NHTSA Research and Demonstration Projects**
- **CARS Challenges**
- **Oversight of Similar Programs**
- **Review of Draft Regulation**
- **OIG Next Steps**

OIG Role



- Consumer Assistance to Recycle and Save (CARS) Act requires NHTSA to “consult with . . . the Inspector General of the Department of Transportation.”
- Inspector General Scovel agreed that we could provide information on risks and program controls while preserving our overarching requirement to maintain independence.
- Program requirements and systems are rapidly evolving.

OIG Audit of NHTSA Research and Demonstration Projects



- OIG has concerns about internal control vulnerabilities in budgeting, procurement, and financial management systems related to research programs.
- Similar concerns noted in OMB A-123 and internal reviews.
- NHTSA's implementation plan to address internal controls might take at least 5 years.
- Legislative debate included concerns about tracking of available funding and vouchers used.
- Will CARS processes and procedures avoid similar internal control vulnerabilities?

CARS Challenges:

NHTSA Staffing and Resources



- CARS is larger than NHTSA's annual budget. Is the proposed organizational structure appropriate for the compressed timeframe, large infusion of funds, and complexity of operations?
- Considerations include:
 - Determining the necessary knowledge, skills, and abilities needed to support the program. Has NHTSA analyzed the demand for field personnel to ensure program compliance?
 - What are the strategies for acquiring staff with the needed skills (e.g., will NHTSA hire auditors with a standard position description?)
 - Will appropriate background checks on employees and contractors be completed timely?
 - What program-specific training will be available to NHTSA employees and contractors?

CARS Challenges: Controls Over Information Systems



- Legislative debate included concerns about fraudulent online activity.
- How has NHTSA determined what information technology capabilities are needed?
- How has NHTSA determined what level of security is needed? Does NHTSA have an agency-wide security management program and is CARS program compliant?

CARS Challenges: Controls Over Information Systems



- Does NHTSA's software development program have access and change control? Is software thoroughly tested and approved?
- How is NHTSA ensuring user access control? Is user access formally established and monitored?
- Are duties segregated?
- Is there a continuity of service plan?

CARS Challenges: Controls Over Transactions



- Are controls established to ensure the completeness, accuracy, authorization, and validity of all transactions?
 - Does NHTSA have authorization control?
 - Are there controls for the completeness of data and data verification?
 - Is there accuracy control? Does NHTSA identify erroneous data? Are output reports monitored?
 - Is there control over the integrity of processing and data files?
 - Are transactions promptly recorded in the appropriate format?
 - Is there proper documentation of controls?

CARS Challenges: Reliance on NMVTIS



- CARS requires NHTSA and the Attorney General to ensure NMVTIS reflects the disposal of vehicles and status of titles.
 - State participation and data reliability of NMVTIS was a concern raised in legislative debate.
 - Effectiveness of NMVTIS is dependent on state participation. Currently only 14 states fully participate.
 - NMVTIS final rule requires full compliance by January 2010.
 - Some states have stated concerns with the timeliness, accuracy, and reliability of data in NMVTIS.
 - How will NHTSA ensure that states accurately determine whether a vehicle was brought to a dealer under the CARS program before issuing a title?

Oversight of Similar Programs



- GAO found improper payments government-wide. CARS needs to focus attention on the payment process to avoid improper payments.
- Student Aid Applications, Department of Education
 - Processing system lacked supervisory review and had inadequate audit trails and computer systems' application controls, which led to improper payments. (GAO-01-997T)
- Digital Broadcast Television Transition
 - Challenges included determining eligibility and ensuring recipients understand program details. (GAO-05-623T)

Oversight of Similar Programs



Texas Drive a Clean Machine Program

- A large number of transactions at program start overwhelmed the Texas program's capability to process transactions.
- Inspection and monitoring of dealers and dismantlers critical to program success.

■ Federal Disaster Assistance Programs, Department of Housing and Urban Development

- HUD OIG determined that quick dispersion of disaster relief funds complicates fraud detection.

Review of Draft Regulation

Clarification needed to reduce risk:

- Program reporting requirements.
 - Is the program capturing the necessary information—economic and environmental—to meet post-program reporting requirements?
 - Congress expressed concerns over the program’s impact on the new and used vehicle markets.
- Maintaining an up-to-date, accurate list of registered dealers.
- How to handle scrap and disposal of vehicles.
 - List of registered disposal entities.
 - Calculating the scrap vehicle scrap value beyond \$50 for dealer.
 - Tracking salvage auctions?

Review of Draft Regulation



Clarification needed to reduce risk:

- Additional explanation for the term *purchaser* to fend off challenges.
- Include suspension and debarment from Federal procurement in enforcement section.
- Change *willful* misstatements to *knowing* misstatements.
- Better define the role of IC3 in preamble so they receive the appropriate complaints.
- Clarification of hearing procedures and requirements.

Review of Draft Regulation



Clarification needed to reduce risk:

- Further explain one-year insurance requirement of trade-in vehicle “irrespective of the identity of the individual holding the insurance policy”.
- How will the agency track whether a dealer is convicted of any fraud or financial State or Federal law?
- Need to better define drivable condition? How to verify?
- Does the method used to disable the engine impact the ability to recycle the metal in the engine?
- What is the process for recouping rebate funds?

OIG Next Steps

- Stay engaged in observing program development.
- Continue dialogue with NHTSA to assist in program implementation.

