

**ACTIONS NEEDED TO
STRENGTHEN THE FEDERAL
HIGHWAY ADMINISTRATION'S
NATIONAL REVIEW TEAMS**

Federal Highway Administration

Report Number: MH-2011-027

Date Issued: January 6, 2011



**U.S. Department of
Transportation**

Office of the Secretary
of Transportation
Office of Inspector General

Memorandum

Subject: **INFORMATION:** Actions Needed to
Strengthen the Federal Highway Administration's
National Review Teams
Federal Highway Administration
Report Number MH-2011-027

Date: January 6, 2011

From: Joseph W. Comé 
Assistant Inspector General
for Highway and Transit Audits

Reply to
Attn. of: JA-40

To: Federal Highway Administrator

Under the American Recovery and Reinvestment Act (ARRA) of 2009,¹ the Federal Highway Administration (FHWA) received \$27.5 billion to invest in state and local highway infrastructure projects. FHWA has funded over 12,000 ARRA projects. As with other Federal-aid highway programs, FHWA is relying on its 52 Division Offices² to provide oversight of ARRA projects. Additionally, FHWA created national review teams (NRT) to independently assess states' management of ARRA funds. Through these NRT assessments, FHWA aims to identify problems requiring corrective actions as well as national trends and potential new risks.

We initiated this audit to evaluate the NRTs' effectiveness in conducting national oversight and mitigating risks posed by the rapid infusion of ARRA dollars. Specifically, we (1) assessed FHWA's implementation of the NRTs and examined ways to maximize the effectiveness of the NRTs before more ARRA funds were expended, (2) assessed FHWA's efforts to ensure timely and effective actions were taken to correct problems identified by NRT reviews, and (3) determined whether FHWA had conducted national level analysis of data collected by the NRTs.

¹ Pub. L. No. 111-5 (2009).

² Division Offices are located in every state, Puerto Rico, and the District of Columbia.

To conduct our work, we reviewed NRT documents; visited five Division Offices and state departments of transportation (California, Georgia, Illinois, Indiana, and Kansas) to evaluate the NRT process; observed an NRT review in Texas; verified the status of corrective actions and assessed the scope of the NRT findings; obtained and analyzed the data gathered by the NRTs during their reviews; and interviewed key FHWA officials in Headquarters and the field. We conducted our work from November 2009 through October 2010 in accordance with generally accepted government auditing standards for performance audits. Additional details of our objective, scope, and methodology are in exhibit A.

RESULTS IN BRIEF

Within 3 months of ARRA's passage, FHWA had taken the necessary steps to implement the NRTs, including hiring core staff and establishing an adequate budget. Our fieldwork indicates that NRTs are conducting thorough reviews in a consistent manner—yielding useful data.

FHWA's Division Offices are working with states to implement corrective actions that address NRT findings, but based on a review of NRT data as of May 2010, we identified vulnerabilities that demonstrated the need for increased management oversight. For example:

- Approximately 12 percent of NRT observations we reviewed at that time were not included in summary reports that Division Offices use to identify instances where corrective actions are needed.
- A significant number of corrective actions were not properly recorded in FHWA's Recovery Act Database System (RADS),³ including nearly 17 percent that had no target action date recorded.

Without comprehensive summary reports and target action dates, FHWA could not be certain that all corrective actions were taken, or fully assess its ARRA risk management efforts. In addition, FHWA had not defined the critical role of its three Directors of Field Services in monitoring corrective action plans and resolving issues that could impact the prompt and effective implementation of corrective actions. Although these Directors are well positioned to provide sustained management attention, our audit showed that they viewed their roles differently and provided varying levels of oversight.

FHWA had conducted limited analysis of NRT results at the time of our audit to identify national trends and emergent risks or assess the effectiveness of ARRA

³ RADS is FHWA's system to collect information from recipients of ARRA grant funds. Data recorded by the NRTs in RADS fall into two categories: (1) yes, no, or not applicable responses to NRT checklist items and (2) text or memo observations made by team members during the review.

risk response strategies.⁴ FHWA's ability to conduct national-level analyses was limited in part by deficiencies in the way data were captured in RADS. RADS did not allow NRTs to categorize their findings in real time. In addition, RADS lacked data fields to clarify “not applicable” responses, which accounted for more than one-third of responses. Without such data fields, FHWA could not determine whether the question was not relevant or simply not answered by the NRT, limiting FHWA's ability to analyze the NRT data. FHWA officials recognize the need to improve their data analysis capabilities and have rolled out a new version of RADS with features to facilitate analyses of NRT data.

The increase in the number of active ARRA projects in 2010 challenged the NRTs' ability to complete timely reviews. Accordingly, we are making a series of recommendations intended to enable FHWA to strengthen the NRT approach during this critical period of ARRA highway construction and allow FHWA to enhance its national oversight capabilities.

BACKGROUND

ARRA designated over \$48 billion for new and existing DOT programs to address transportation infrastructure needs across the country. More than half of these funds were designated for highway and bridge projects under FHWA. The rapid disbursement of billions of dollars substantially increased the risk of fraud, waste, and abuse. To help Division Offices provide the level of accountability and transparency called for under ARRA, FHWA established the NRTs. FHWA expected NRTs to conduct quick reviews to help meet ARRA's tight time frames, including a requirement that all funds be obligated by September 30, 2010, and expended by September 30, 2015. NRT reviews assess state processes and compliance with Federal requirements in six key risk areas: (1) preliminary plans, specifications, and estimates; (2) contract administration; (3) quality assurance of construction materials; (4) local public agencies; (5) disadvantaged business enterprises; and (6) eligibility for payments. NRTs confine each review to one state and usually target one to three of the key risk areas.

The overall NRT leader reports to the Director of Field Services-West. Each Division Office Administrator reports to that region's Director of Field Services. The schedule for NRT reviews are based on risk assessments for each state, but it is subject to modification based on current conditions. Additionally, the schedule identifies when and where reviews will occur, what risk areas will be addressed, and the team composition.

⁴ FHWA acknowledged in its ARRA Risk Management Plan the importance of the NRT data in providing internal feedback on how well FHWA is managing risks and addressing emergent and changing risks.

NRTs conduct reviews using standard guides and enter results directly into RADS. As a review progresses, the NRT discusses findings with Division Office and state transportation staff. To close a review, the NRT provides a report to the Division Office that summarizes the results, provides a rating for each review area, and lists observations and recommendations. The summary report forms the basis of a corrective action plan, which the Division Office enters into RADS to track the status of each corrective action. The Directors of Field Services receive a monthly status report on each Division Office.

FHWA'S NRT PLANNING AND INITIAL IMPLEMENTATION EFFORTS WERE GENERALLY SOUND

Within 3 months of ARRA's passage FHWA had taken the necessary steps to implement the NRTs. Specifically, FHWA:

- hired core team members with significant highway experience and positioned the NRTs within FHWA to provide effective communication with Division Offices and senior FHWA management;
- established an adequate budget;
- developed a charter outlining goals, objectives, roles, and procedures;
- developed a risk-based methodology to schedule reviews; and
- developed review guides and checklists for the six key risk areas that focus on key vulnerabilities.

We found the review guides to be comprehensive, and our fieldwork in California, Georgia, Illinois, Indiana, Kansas, and Texas indicated that the NRTs conducted their reviews in a thorough and consistent manner and adhered to the standard checklists. As a result, the information collected across the states was comparable and lent itself to national-level analyses.

FHWA HAD NOT TAKEN SUFFICIENT STEPS TO ENSURE TIMELY AND EFFECTIVE IMPLEMENTATION OF CORRECTIVE ACTION PLANS

FHWA Division Offices are working with states to implement corrective actions addressing NRT findings, but several vulnerabilities could reduce the NRTs' effectiveness unless they are addressed. Specifically, we identified NRT findings that were not included in NRT review summary reports and instances where Division Offices did not correctly report corrective action plan data. Without complete and accurate data, FHWA cannot fully assess its ARRA risk management efforts. We also identified corrective actions that will take an

extended period to implement, requiring vigilant FHWA oversight to ensure that states carry out these actions. While the Directors of Field Services are well positioned to take an active role in monitoring corrective actions and resolving issues that could impact their implementation, FHWA had not defined their role. We found that the Directors viewed their individual roles differently and provided a different level of oversight at a time when they needed to sustain a proactive focus on Division Offices' implementation of corrective actions.

Some Summary Reports Were Incomplete

Division Offices use summary reports to determine when states need to take corrective actions. However, we identified a high number of observations with valid recommendations that had not been included in NRT summary reports completed by May 21, 2010. For example:

- the summary report for a review of preliminary plans, specifications, and estimates for a Florida project did not include the NRT's observation that "...an unusual requirement for the low bidder to provide a work history of successful projects of the same kind required in this contract that have been completed in the state of Florida...may result in a preference [in the award decision] that is not permitted." The report also failed to include NRT's recommendation that the Division should work with the Florida department of transportation to ensure no provisions are included in Federal-aid contracts that inhibit competition.
- the summary report for a quality assurance review in California did not include the NRT's observation that "...it was not clear project staff understood that material certifications were required for products incorporated into the work." The NRT recommendation that "...all materials incorporated into the project need to meet the material requirements, including certifications for materials not being tested" was also missing from the summary report.

According to FHWA, NRTs may roll similar observations into one observation/recommendation to avoid duplication. In other cases, recommendations were not included in summary reports because states addressed them during the review. Based on our analysis, FHWA did not include over 100 observations with valid recommendations—about 12 percent of all observations with recommendations. In addition, the NRTs did not include information in RADS on how states addressed these issues—providing less assurance that they implemented corrective actions. FHWA noted that all observations were included in individual project reports, which are available to the Division Offices. However, the individual project reports typically were not provided to Division Offices and FHWA senior management at closeout briefings, thus diminishing the potential urgency of an observation and the need to address recommendations.

Including all observations in the summary reports would help FHWA leadership understand the full scope of NRT findings.

Division Offices Did Not Always Record Complete and Accurate Action Plans

Since January 2010, Division Offices have been required to enter complete corrective action plans in RADS within 4 weeks of the start of an NRT review and update them on a monthly basis. However, of the 637 observations requiring actions in the NRT summary reports that we reviewed as of May 2010, nearly 107 observations (about 17 percent) had no target action date recorded, and over 60 (about 9 percent) had no status recorded. For example, there were no action plan elements recorded for an observation from a March 2010 District of Columbia review that addressed weaknesses in the District's process for managing contractors' test samples. The absence of complete reporting diminishes FHWA's ability to measure the effectiveness of the NRT oversight approach and ensure that states take timely corrective action.

We also identified instances where Division Offices changed target action dates in RADS because states delayed corrective actions, instead of reporting them as behind schedule. As a result, the number of actions behind schedule may be higher than RADS indicates. These data vulnerabilities could impact FHWA's ability to oversee the status of corrective actions and inhibit FHWA's efforts to measure the effectiveness of the NRT oversight approach and ensure timely corrective action.

Since we completed our audit, FHWA officials informed us that they have updated RADS to address some of these concerns. For example, the new version of RADS prevents Division Offices from changing the initial target action date once it is entered. FHWA added a new data field to allow a Division Office to enter a revised target action date, but RADS will capture the initial target date also. FHWA has also advised the NRTs to include all observations with recommendations in the summary reports. These updates to RADS and the new guidance could provide FHWA management with a more transparent view of the status of corrective actions and increase the effectiveness of the NRT oversight approach overall. However, to ensure complete reporting, FHWA should require the NRTs to include all observations with recommendations in the summary reports, not just advise them to do so.

Lack of Clear Roles Could Hinder FHWA's Efforts To Address Identified Problems

The Directors of Field Services are key to the ultimate success of the NRT approach because they are responsible for monitoring Division Offices' oversight, including ARRA-funded projects, and report directly to FHWA Headquarters. However, the NRT charter is silent on the role that Directors of Field Services should play in ensuring corrective actions are appropriate, implemented in a timely manner, and address all findings. Establishing clear roles would not only benefit ARRA implementation, but could also lead to lasting improvements in states' management of the Federal-aid highway program.

FHWA provides action plan status reports to the Directors of Field Services, but our interviews with the Directors revealed that they viewed their roles differently. For example, one Director reviewed each action plan to determine whether the state is operating in compliance with Federal requirements, discussed any significant problems with the appropriate Division Office Administrator, and monitored the action plan status to ensure timely closure. In contrast, another Director stated that the Division Offices are responsible for ensuring that action plans address NRT findings and are closed promptly. That Director's oversight was essentially limited to reviewing the action status reports.

Thorough oversight by the Directors of Field Services could increase the likelihood that states will implement effective management improvements. In particular, Division Offices indicated that some problems identified by NRTs may take a year or longer to address because corrective actions include changing state business practices. In fact, our review of NRT data identified 27 corrective actions targeted for completion in fiscal year 2011 and 1 targeted for completion in fiscal year 2012. FHWA will need to provide sustained oversight of Division Offices to ensure states implement long-term corrective actions. Active involvement by the Directors of Field Services is critical to ensuring that the Division Offices are working with the states to implement corrective actions, as required.

INSUFFICIENT DATA AND RADS LIMITATIONS IMPEDED FHWA EFFORTS TO ANALYZE NRT RESULTS AND IDENTIFY NATIONAL TRENDS AND EMERGING RISKS

Under the NRT charter, FHWA is required to analyze NRT results to identify national trends and emergent risks, and assess the effectiveness of ARRA risk

response strategies.⁵ As ARRA activity has increased in 2010, these analyses will be critical to helping FHWA identify ARRA risks and modify ineffective mitigation strategies. These analyses would also allow FHWA leadership to identify needed improvements in the Federal-aid highway program beyond ARRA. However, at the time of our audit, FHWA analysis of NRT data to date was limited—due in large part to a lack of detailed data and RADS limitations.

Lack of Detailed Data Provided Limited Basis for Analysis

For each project reviewed, the NRT provides a “yes,” “no,” or “not applicable” response to standard checklist items, with optional comments. We found that more than 17,000 or nearly 35 percent of all responses across the six ARRA risk areas we reviewed were answered “not applicable.” FHWA officials told us that a “not applicable” response could mean that a question was not applicable to a project or that the NRT did not obtain an answer, because the system default⁶ was set to “not applicable.” Further, only about 27 percent of the “not applicable” responses included explanatory comments. For example, of the 279 responses for a specific contract administration question on the checklist, 18 were marked “not applicable,” and only one “not applicable” response had an explanatory comment. We also found that “yes” or “no” responses may indicate noncompliance with Federal requirements, but again NRTs were not required to add explanatory comments.

According to FHWA, it has updated RADS to eliminate the “not applicable” default. The NRTs will be required to select either “yes,” “no,” or “not applicable.” If the NRT does not select a response, RADS will reflect that the question was not answered. While this change would identify non-responses, the extensive use of “not applicable” as a response could indicate a need for FHWA to reevaluate NRT checklists, including determining whether modifying the questions might produce answers that are more definitive. FHWA may consider replacing the not applicable response with more definitive fields in RADS, such as “does not apply” and “could not determine,” along with requiring teams to use comment fields explaining their choices. Mandating comments in these instances would enhance FHWA's ability to identify conditions that contributed to noncompliance, which would provide information on oversight vulnerabilities that is more useful to FHWA management. FHWA recently advised us that it will

⁵ FHWA has proactively issued advisories based on issues identified by the NRTs; however, these advisories were developed largely on discussions with NRTs and review of NRT summary reports rather than from analysis of the data in RADS, as was planned.

⁶ The standard checklist questions in RADS, which NRTs complete during their reviews, allowed the reviewer to select one of three answers: “yes,” “no,” or “not applicable.” According to FHWA, the answers were initially set to “not applicable,” but the NRTs change the answers to either yes or no or leave as “not applicable” after the NRT reviewer completed the questions. However, since the answers were pre-set to “not applicable,” it was not clear whether the NRT reviewer actually selected that answer, or whether the reviewer did not submit an answer or missed the question.

retain the “not applicable” selection, and has instructed the NRTs to use the comment fields in RADS to explain their “not applicable” responses. The planned upgrades to RADS could help provide additional details to clarify “not applicable” responses.

RADS Did Not Facilitate Automated Analysis of NRT Data

In setting up RADS, FHWA did not incorporate features to facilitate quick analysis of NRT data. At the time of our audit, FHWA was using a time-consuming manual process to categorize NRT observations by program area. FHWA officials stated that team members manually reviewed (about 1,000) NRT observations and slotted them into 1 of 59 categories. Because the process was subjective, similar observations may have been categorized across different risk areas—potentially distorting or obscuring trends.

Since our review of RADS data, FHWA has revised the system to include a drop-down menu to enable NRTs to categorize their findings as they conduct reviews. As a result, the NRTs will rely less on text or memo fields to capture observations or recommendations. FHWA has finalized standardized observation categories that will allow NRTs to categorize their observations from a list of “pre-loaded” observations in RADS related to FHWA program areas.

Adding other features—such as a key word field and a content analysis function⁷—could enhance RADS and FHWA's ability to analyze NRT data and identify trends or recurring issues that warrant further action. A content analysis function using relatively simple data searches of NRT text entries would enable FHWA to identify potential vulnerabilities more easily. We conducted a content analysis using “change order” to search the database and found 11 instances of insufficient documentation to support change orders, 5 instances where the change order effect on time was not considered, and 1 change order error. A content analysis of “DBE program” uncovered seven instances of state DBE programs requiring revision, five instances of noncompliant programs, and three instances of programs under revision. Using “design,” we found eight instances where designs/specifications were missing data, one instance where incorrect standards were used, three staffing issues, one instance regarding the high cost of design, and one potential conflict of interest. Increasing its data analysis capabilities would allow FHWA leadership to identify ARRA risks and modify ineffective mitigation strategies, as well as make needed improvements in the Federal-aid highway program beyond ARRA.

⁷ The Government Accountability Office defines content analysis as an approach to quantify qualitative information by systematically sorting and comparing items of information in order to summarize them.

FHWA officials acknowledged the utility of incorporating content analysis but advised us that including the standardized observation categories in the revision to RADS eliminated the need to incorporate a key word field, as the standardized categories will accomplish much the same effect. We maintain, however, that having a content analysis function would provide FHWA staff with even greater capabilities to probe NRT data and look for trends.

CONCLUSION

In the months following ARRA's passage, FHWA took extraordinary steps to stand up the NRTs quickly and roll out NRT reviews in the states. While these reviews have the potential to mitigate risks posed by ARRA, FHWA has begun further work needed to improve the NRT approach. In response to concerns raised during our audit, FHWA has made improvements to RADS including adding controls for target action dates, modifying system defaults to clarify NRT responses and mandating the use of explanatory comments, and incorporating standardized observation categories to allow the NRTs to categorize their findings in real time. However, FHWA still needs to refine the NRTs to ensure their success, including clarifying the role of the Directors of Field Services to enhance Division Office oversight and state management practices of ARRA projects as well as non-ARRA projects. Accordingly, we are making a series of recommendations to strengthen the NRT approach.

RECOMMENDATIONS

We recommend that FHWA:

1. Define the role of the Directors of Field Services to ensure proactive and consistent oversight of Division Offices' implementation of corrective action plans, including expectations for monitoring the plans and resolving issues that could impact their prompt and effective implementation.
2. Require the NRTs to include in the summary reports all observations that contain recommendations or necessitate some follow-up by a Division Office or state.
3. Improve national-level data analysis by:
 - a. using additional methods, such as content analysis, to help identify national trends and new risks;
 - b. modifying RADS to allow teams to more effectively classify observations as they conduct reviews, such as adding a drop-down menu;

- c. revising the not applicable response in RADS to distinguish between questions that do not apply to a project and those that the NRT could not determine; and
- d. requiring explanations for all RADS not applicable responses that indicate noncompliance with Federal requirements.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FHWA a draft of this report for review and comment on October 20, 2010, and received its formal written comments on December 7, 2010. FHWA's complete response is included as an appendix to this report. FHWA fully concurred with our recommendations and provided documentation demonstrating the actions it has taken. Accordingly, we consider all recommendations closed.

In response to the recommendations, FHWA formally defined the oversight role of the DFS in monitoring the implementation of corrective action plans, and required that the NRTs include all actionable observations in the summary reports they provide to the Division Offices. FHWA has also added a drop-down menu of standardized observations in RADS, related to FHWA program areas, that NRTs will use to record their observations during reviews. The addition of drop-down menus should enhance FHWA's ability to later analyze NRT data and identify national trends. FHWA has also revised its NRT protocols by requiring NRTs to add explanatory comments to clarify whether a question applies to a project or whether NRTs are unable to answer it, and when NRTs note instances of noncompliance with Federal requirements. We believe that FHWA's actions demonstrate a commitment to continuous improvement of the NRT approach, including enhancing FHWA's ability to analyze NRT data.

ACTIONS REQUIRED

Based on actions FHWA has taken and our review of the documentation it provided in response to our draft report, we consider all recommendations resolved. No further actions are required, and we are issuing this final report with all the recommendations closed.

We appreciate the courtesies and cooperation of FHWA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Thomas Yatsco, Program Director, at (202) 366-1302.

EXHIBIT A. OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to evaluate the effectiveness of the NRTs in conducting national oversight and mitigating risks posed by the rapid infusion of ARRA dollars. Specifically, we (1) assessed the planning and initial implementation of the NRTs and examined ways to maximize the effectiveness of the NRTs before more ARRA funds are expended, (2) evaluated whether FHWA has a process to ensure that timely and effective actions are being taken to correct problems identified by NRT reviews, and (3) determined whether FHWA has conducted national-level analysis of data collected by the NRTs. We conducted this performance audit from November 2009 through October 2010 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To obtain evidence on the planning and implementation of the NRTs, we interviewed FHWA officials, including members of the Program Management Improvement Team located at the FHWA Resource Center in Atlanta, Georgia; the NRTs; the Director of Field Services-West; and the RADS administrators, and obtained key documentation. Specifically, we reviewed the FHWA ARRA Risk Management Plan, the NRT charter and review guides, the RADS system requirements and user guides, review schedules, leadership reports, budgets, and documentation supporting the qualifications of NRT staff. With the help of our statistician, we reviewed the NRT scheduling methodology to determine whether it was consistently employed and based on accepted procedures. We consulted subject matter experts in the Office of Inspector General to evaluate NRT guides.

We accompanied an NRT team conducting a contract administration/quality assurance review in Texas and observed the review process. We conducted a site visit to the Illinois FHWA Division Office and the Illinois department of transportation in January 2010 to get an understanding of how the NRT teams operated during their reviews and the process used to develop and implement a corrective action plan. We judgmentally selected Illinois because the NRTs had conducted reviews in more risk areas in Illinois than any other state as of our cutoff date of November 4, 2009. During the visit, we interviewed personnel at the Division Office and the Illinois department of transportation.

We visited the FHWA Division Offices and state departments of transportation in Georgia, Kansas, California, and Indiana to review their action plan processes. To maximize our review of action plans, we identified states with the largest number of recommendations that were completed or targeted for completion by

May 1, 2010. We judgmentally selected four states with at least one state in each of the Directors of Field Services regions. During these site visits, we held discussions with the FHWA Division Office and the respective state department of transportation, and obtained documentation to support the status of the corrective actions.

We downloaded the NRT summary review reports from RADS for reviews completed as of February 5, 2010, and entered selected data from those reports into an Access database. We used the observations from these reviews to conduct key word searches to group related observations and identify potential areas of concern. We obtained the FHWA ARRA Project List as of May 21, 2010, from the FHWA Recovery Act website, and obtained NRT data in RADS as of May 21, 2010, from FHWA's Program Management Improvement Team. We conducted queries to determine the scope of reviews completed as of May 21, 2010, and developed statistical data, including the numbers and types of reviews performed and assessments made by the NRTs, the projects examined during the NRT reviews, the observations and recommendations resulting from the reviews, and NRT responses to checklist questions. We also determined the number of action plans entered by the FHWA Division Offices for reviews completed as of April 23, 2010, taking into consideration the 4-week time frame that FHWA allows for the divisions to complete action plans in RADS. An OIG technology specialist independently verified our analysis using the Statistical Package for Social Science. Our analysis provided some assurance as to the consistency and completeness of the NRT data, but we could not test the accuracy of the data because the NRTs do not maintain documentation to support their findings.

EXHIBIT B. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Thomas Yatsco	Program Director
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APPENDIX. AGENCY COMMENTS



U.S. Department
of Transportation
**Federal Highway
Administration**

Memorandum

Subject: **INFORMATION**: Federal Highway Administration (FHWA)
Response to the Office of Inspector General (OIG)
Draft Report on FHWA's National Review Team
Project No. 10U3004M000

Date: December 3, 2010

From: Victor M. Mendez
Administrator

Reply to
Attn. of: DFS-PMIT

To: Calvin L. Scovel III
Inspector General (JA-1)

The Federal Highway Administration's successful implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) is a direct result of the Agency's comprehensive, risk-based management approach used to oversee the \$27.5 billion provided by the Act. Recognizing the inherent management challenges in meeting new Recovery Act requirements, FHWA established a multi-disciplinary team of experts, the National Review Team (NRT), to lead FHWA's Recovery Act risk management efforts in a corporate and strategic manner. The NRT has conducted 152 site visits across the Nation – almost doubling our goal of 80 site visits – and has reviewed more than 1,000 projects to date. By conducting reviews of quality assurance, financial controls, data quality and integrity, and locally administered projects, among other areas, the NRT is central to FHWA's stewardship and oversight. It is also a key to ensuring these Recovery Act projects, which put thousands of Americans back to work, are prudent highway infrastructure investments.



The NRT identifies and has taken swift action to address risks related to the use of Recovery Act highway funds. For example, the NRT issued four Recovery Act Advisories to alert FHWA leadership of issues that require immediate attention. FHWA has met all of the Recovery Act's requirements and milestones. We are committed to carefully monitoring all Recovery Act projects and will build upon the NRT's work in ways that enhance FHWA's efficiency, transparency, and accountability to the American public.

We agree with the OIG's findings that the NRT is conducting thorough and consistent reviews and have found additional opportunities to fine-tune the NRT's review practices and procedures, as noted below in the responses to the draft report recommendations.

Recommendation 1: "Define the role of the Directors of Field Services to ensure proactive and consistent oversight of Division Offices' implementation of corrective action plans, including expectations for monitoring the plans and resolving issues that could impact their prompt and effective implementation."

Response: Concur. The Directors of Field Services (DFS) serve as the direct line authority to the Division Administrator in each State. Therefore, the current procedure for monitoring the implementation of NRT recommendations includes monthly status reports to each DFS describing the Division Offices' progress. The FHWA recognized the need to formally define a standard set of expectations for the DFS monitoring role. The DFSs outlined and have now executed a new standard approach that will be used by all three DFSs to ensure NRT recommendation implementation is consistently and proactively monitored. This approach was documented in a memorandum approved by the FHWA Executive Director. We consider this recommendation closed.

Recommendation 2: "Require the NRTs to include in the summary reports all observations that contain recommendations or necessitate some follow-up by a Division Office or state."

Response: Concur. When FHWA established the NRT teams in June 2009, we directed them to include all substantial observations and recommendations in a final report to be presented to the Division Office at the conclusion of the review. We expected that some observations made during the course of the review might not be deemed substantial by the team when writing the final report and in the context of the entire review experience. To account for the fact that some observations might not be presented to the Division Office in the final report, we made all the observations, comments, and checklist answers available in total to each Division Office through FHWA's Recovery Act Database System (RADS). However, to ensure that Division Offices are aware of all review information, we concur with this recommendation. On November 2, 2010, the Program Management Improvement (PMI) Team Leader, who is responsible for the overall

management of the NRT teams, issued a new set of protocols requiring the NRT team members to include all observations with a corresponding recommendation in the final report issued to the Division Office. In addition, a reminder was sent to all Division Office Recovery Act contacts reiterating that the full set of review information is available through the RADS review database system. These actions are complete and we consider this recommendation closed.

Recommendation 3:

- a. “Improve national-level data analysis by using additional methods, such as content analysis, to help identify national trends and new risks.”

Response: Concur. The PMI Team has been conducting ongoing tracking and analysis of the NRT information. This team produces several monthly status reports regarding review progress, observations, recommendations, and action tracking that are submitted to FHWA leadership. In addition, we issued four NRT Recovery Act Advisories regarding national trends identified by the NRT teams. The PMI Team also identified several improvements that were needed to the RADS review database system, and these improvements have been implemented. With these new capabilities and in anticipation of reaching upcoming milestones regarding the completion of reviews in each State for most risk areas, the PMI Team recently hired an additional program/data analyst to focus on the NRT effort. The PMI Team is now positioned to use additional methods, such as content analysis, to evaluate data and identify trends. We consider this recommendation closed.

- b. “Improve national-level data analysis by modifying RADS to allow teams to more effectively classify observations as they conduct reviews, such as adding a drop down menu.”

Response: Concur. One of the improvements to the RADS review database system that was noted in our previous response included the addition of drop down menus to categorize and classify each observation. We consider this recommendation closed.

- c. “Improve national-level data analysis by revising the ‘not applicable’ response in RADS to distinguish between questions that do not apply to a project and those that the NRT could not determine.”

Response: Concur. One of the improvements to the RADS review database system noted in our previous response was eliminating the “not applicable” default answer. To further address this recommendation, on November 2, 2010, the PMI Team Leader, who is responsible for the overall management of the NRT teams, issued a new set of protocols requiring the NRT team members to provide a comment in the comment box for each “not applicable” response to clarify whether the question does not apply to the project or

whether the NRT could not determine an answer. We consider this recommendation closed.

- d. “Improve national-level data analysis by requiring explanations for all RADS not applicable responses that indicate noncompliance with Federal requirements.”

Response: Concur. One of the improvements to the RADS review database system that was noted in our previous response included eliminating the “not applicable” default answer. To further address this recommendation, as part of the new protocols issued by the PMI Team Leader on November 2, 2010, NRT team members are now required to provide a comment in the comment box for each “Y-N-NA” response that is related to non-compliance with Federal requirements. We consider this recommendation closed.

The FHWA appreciates the OIG’s efforts and open discourse throughout the audit to further strengthen the FHWA’s National Review Team. If you have any questions or comments regarding this response, please contact Mr. Michael Graf, Program Management Improvement Team Leader, at 404-562-3578.