Attached is an American Recovery and Reinvestment Act (ARRA) advisory on the Federal Aviation Administration’s (FAA) process for awarding ARRA Airport Improvement Program (AIP) grants. Consistent with ARRA and Office of Management and Budget guidance, inspectors general are expected to promptly report potential management and funding risks that could impact the effective and efficient use of ARRA funds. We are not requesting a formal response to this advisory as the key issues and proposed actions discussed were provided to cognizant FAA officials and audit liaisons in advance of issuance. We plan to follow the information in this advisory with a full audit.

We will post the advisory on our website (www.oig.dot.gov/recovery) and www.recovery.gov. If you have any questions, please call me at (202) 366-1959 or Lou E. Dixon, Assistant Inspector General for Aviation and Special Program Audits, at (202) 366-0500.

Attachment

cc: Federal Aviation Administrator
    Associate Administrator for Airports
    Anthony Williams, Audit Liaison
    Martin Gertel, M-1
FAA’s Process for Awarding ARRA Airport Improvement Program Grants

Key Issue
FAA’s process for awarding ARRA grants for airport projects did not address all factors necessary to ensure ARRA requirements were met. Specifically, the economic merit of some FAA-approved projects may be subject to question and some projects may involve recipients with histories of grant management problems. In addition, FAA guidance to regional officials for selecting airport projects did not adequately reconcile national ARRA goals with its National Priority Rating (NPR) process. Consequently, these grants may not fully comply with ARRA requirements calling for transparent, merit-based selections and effective administration of funds.

Proposed Actions for Change
To ensure only the highest priority projects receive ARRA funds, FAA needs to fully reconcile its guidance with ARRA requirements and establish a selection process that considers economic merit and is transparent. Until FAA can demonstrate economic merit, it should not award additional grants for lower-ranked NPR projects. For those ARRA grants already awarded for lower-ranked projects with no funds expended, FAA needs to show economic merit or consider withdrawing the grant. Finally, FAA needs to enhance its risk-based approach to ensure new ARRA grant recipients that historically have not administered AIP funds effectively receive increased oversight.

Background
On February 17, 2009, the President signed ARRA into law, designating $1.1 billion for AIP projects. These funds are intended for transportation infrastructure projects that will provide long-term economic benefits, preserve and create jobs, and promote economic recovery. ARRA also established tight timeframes for distributing and expending funds and expressed preference for projects that could be completed in 2 years. In addition, on March 20, 2009, the President directed that Executive departments and agencies “…develop transparent, merit-based selection criteria that will guide their available discretion in committing, obligating, or expending funds under the Recovery Act…” The President also precluded agencies from approving “…any project that is imprudent or that does not further job creation, economic recovery, and other purposes of the Act.” In addition, OMB made clear that in awarding funds, agencies must take steps to ensure that the potential for fraud, waste, error, and abuse is mitigated.

In responding to ARRA requirements, FAA established guidance for regional selecting officials. FAA’s guidance relies on its NPR system for selecting airport projects and awarding grants, and emphasizes the need to meet ARRA timeframes. The NPR system assigns a value between 0 and 100 to candidate projects based on their potential contribution to increase safety and security, enhance capacity, and mitigate environmental

We are issuing these advisories to promptly report potential management and funding risks consistent with ARRA and OMB guidance.
effects. Traditionally, AIP projects have met a minimum threshold of 40 to 42 to be approved. Acknowledging that ARRA grants are held to a higher standard, FAA set a threshold of 62 or higher. According to FAA, this higher threshold would ensure that ARRA funding benefited the highest priority needs. FAA officials pointed out that the 62 threshold does not preclude selection of some lower-ranked projects and noted that they sought to achieve widespread geographic distribution of funds with each State receiving at least one ARRA grant. As of August 3, 2009, FAA has awarded 263 AIP grants with obligations totaling $873,927,744 and disbursements totaling $38,738,516.

What We Found
On our ongoing assessment of ARRA implementation, we identified two key concerns regarding FAA’s funding of AIP projects. First, FAA selected more than 50 projects falling below its NPR threshold of 62, raising concerns about whether the agency’s process resulted in funding the highest priority ARRA projects. Moreover, based on our preliminary review of FAA project justifications and other information, we identified six low scoring projects for which the economic merit—a key ARRA requirement—may be questionable. Second, past audit findings highlight the need for increased FAA oversight of some ARRA grant recipients.

• **Lower-Ranked NPR Projects with Questionable Economic Merit**: FAA awarded Akiachak and Ouzinkie, Alaska, $13.9 million and $14.7 million, respectively, to replace their airports. Each project had an NPR score of 40. Akiachak, which has about 659 residents, has a seaplane base, an airfield with a gravel runway, and is within 7 miles of two other airfields. Akiachak is also 14 nautical miles from Bethel, which has the State’s fourth busiest airport. In summer, residents travel the river to Bethel by boat; in winter, the frozen river becomes a highway. Ouzinkie has about 167 residents. In addition to Ouzinkie’s gravel airstrip, the village has a float plane landing area at Ouzinkie Harbor. Barges provide cargo delivery from Kodiak, 10 miles away. Akiachak’s airport averages 57 flights a week; Ouzinkie’s averages 42 flights a month.

The other four airports do not provide commercial passenger service, have limited flight operations, and received NPR scores ranging from 43 to 50. These projects include $4.8 million for a new taxiway at Findlay Airport, Ohio; $2.2 million for a runway extension at Wilbur Airport, Washington; $2 million for an apron at Warrensburg-Skyhaven Airport, Missouri; and $909,806 to design (not construct) a new runway at an airpark near Dover, Delaware. According to FAA, the Dover project was chosen because it was the State’s only project that was “ready to go.”

• **Prior Grant Management Problems**: At least four ARRA grant recipients have multi-year histories of grant management problems, raising doubts about their ability to ensure ARRA funds are effectively administered. These four grantees—Guam International Airport Authority; Owensboro-Daviess County, Kentucky; Pitkin County, Colorado; and Puerto Rico Port Authority—collectively received about $15 million in ARRA grants although auditors identified longstanding problems in such areas as cash management, procurement and suspensions and debarments, and allowable costs. For example, Kentucky’s Owensboro-Daviess County received a $658,730 ARRA grant, despite reports citing poor administration of AIP funds for 10 of the past 11 years.

FAA officials cited three main reasons why low scoring projects were selected for ARRA grants: (1) projects were ready to go, (2) projects could be completed within the 2-year ARRA timeframe, and (3) projects would help ensure widespread geographic distribution of funds. The third, however, is not an ARRA requirement.
FAA’s Process for Awarding ARRA AIP Grants

While FAA incorporated geography in its selections, we found no evidence in FAA’s project justification documents that Agency officials considered the long-term economic merits for these six lower-ranked NPR projects. To better ensure only projects of the highest priority and economic merit are funded, FAA needs to reconcile its guidance with ARRA requirements and make its process transparent.

FAA officials note that their risk-based approach for overseeing AIP grant recipients—with those rated as “elevated” or “moderate” risk requiring additional oversight—mitigates our concerns. However, this approach does not alleviate our concerns because 95 percent of all AIP grant recipients—including the four with grant management problems—are rated as “nominal” and receive only limited oversight.

Future OIG-Related Activities
Based on the information in this advisory, we will soon announce an audit to further assess FAA’s process for awarding ARRA grants for AIP projects, regardless of NPR ranking. We are not requesting a formal response to this advisory. The advisory will be posted on our website (www.oig.dot.gov) and at www.recovery.gov.

For information on this advisory, contact Lou E. Dixon, Assistant Inspector General for Aviation and Special Program Audits, at (202) 366-0500.