



Memorandum

**U.S. Department of
Transportation**

Office of the Secretary
Of Transportation

Office of Inspector General

Subject: INFORMATION: Status of Audit Report on the
2004 Central Artery/Tunnel Project Finance Plan

Date: February 16, 2005

From: Kenneth M. Mead
Inspector General

Reply to JA-40
Attn of:

To: Federal Highway Administrator

As required by the Department of Transportation and Related Agencies Appropriations Act for Fiscal Year 2001, on August 12, 2004, we initiated a review of the Massachusetts Turnpike Authority's (Authority) 2004 Finance Plan for the Central Artery/Tunnel Project. The release of the remaining \$81 million in Federal Highway Administration funds available to the Authority is contingent upon our opinion that project costs, schedule, and funding included in the Finance Plan are reasonable.

On December 2, 2004, we reported in testimony before the Joint Committee on Transportation of the Commonwealth of Massachusetts¹ that the Authority had reported 700 water leaks in the I-93 tunnel and as of February 5, 2005, there are 438 water leaks remaining. In addition, there are approximately 40,000 points in the I-93 tunnels that the Authority is in the process of inspecting to determine whether there are more leaks than those reported. As a result, it is not yet known how many leaks there are, their severity, and the associated costs to repair them.

Until these unknowns are substantially resolved, we do not have a credible basis on which to conclude that the Finance Plan contains a cost estimate that is based on all known and reasonably expected costs, identifies appropriate and available funding sources sufficient to meet the total estimated costs, or provides a project construction schedule that is based on all known and reasonably anticipated delays.

¹ OIG Testimony on "Water Leaks Within the I-93 Tunnels of the Central Artery," before the Joint Committee on Transportation, 183rd General Court of the Commonwealth of Massachusetts, December 2, 2004.

To determine the project impacts of the tunnel leaks, in January 2005, the Authority retained Deloitte & Touche to perform an audit of related costs and payments. We reviewed the statement of work for this audit to ensure it would generate the information on the tunnel leaks needed to complete our assessment of the project's Finance Plan. The audit is expected to be completed by June 2005, and will provide the following information:

- past and current costs associated with the leaks by contract.
- contract requirements regarding contractual liability and limits on that liability for all relevant parties.
- payments made for leak-related costs and amounts recovered to date.
- whether the project's \$14.625 billion budget, including contingencies and reserves, is sufficient to cover current leak-related expenses.
- future maintenance costs that can reasonably be expected as a result of the roof leaks.

We plan on performing a quality assurance review of Deloitte & Touche's work to ensure that it is adequate in scope and conducted in a manner that meets applicable auditing standards. Deloitte & Touche's audit findings also will significantly assist the Attorney General of the Commonwealth of Massachusetts, who was recently designated to manage the project's cost recovery efforts.

We intend to meet with Deloitte & Touche on an interim basis during the course of their audit work. Since the completion of their work affects the cost estimate and Finance Plan, and consequently our certification of the Finance Plan's reasonableness, it is important for Deloitte & Touche to complete its work in a timely manner.

If I can answer any questions or be of assistance, please feel free to contact me or Kurt Hyde, Deputy Assistant Inspector General for Surface and Maritime Programs, at (202) 366-6238.

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cc: Assistant Secretary for Budget
and Programs/Chief Financial Officer