August 31, 2000

The Honorable Stephen Horn
Chairman, Subcommittee on Government
Management, Information, and Technology
House Committee on Government Reform
United States House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

We are pleased to respond to your request regarding recent matters of fraud, waste, and abuse within the Department of Transportation.

We have identified several items in the attached enclosure. Should you or your staff need any further information, please feel free to contact me at (202) 366-1959, or my Acting Deputy, Todd Zinser, at (202) 366-6767.

Sincerely,

Kenneth M. Mead
Inspector General

Enclosure
RECENT INSTANCES OF FRAUD, WASTE, AND MISMANAGEMENT

Office of the Inspector General
United States Department of Transportation

August 30, 2000

FHWA: Central Artery/Ted Williams Tunnel Project Highlights Need for Effective Federal Oversight; Report No. TR-2000-088, June 7, 2000

The Central Artery project is the largest transportation infrastructure project in the nation replacing Boston's deteriorating, elevated Central Artery with a modern underground expressway. Continuing construction cost overruns have raised the expected cost of the Project to as much as $13.6 billion. We found that a lack of guidance from FHWA allowed Central Artery project managers to avoid disclosing cost overruns in their 1998 and 1999 Finance Plans. The project managers also changed the reporting methodology to avoid disclosing the Project's cost problems. As a result, the Project's finance plan understated construction cost by at least $942 million. Project managers were able to manipulate the cost data reported in the finance plans because FHWA's guidance on finance plans is woefully inadequate to ensure complete and accurate financial reporting. The Secretary of Transportation directed the FHWA to implement our recommendation that they issue comprehensive guidance specifying minimum reporting requirements for finance plans.

We also found that the Central Artery managers used its owner-controlled insurance program to draw down unneeded Federal funds for investment purposes. We reported that the Project overpaid workers compensation and general liability insurance premiums by approximately $129.8 million dollars from 1992 to 1997. The overpayments were deposited into the Project's insurance trust accounts as collateral against future claims. Although expected claims did not materialize, excess funds were not removed as required by Federal regulations. Instead, the funds were kept and invested in a diverse portfolio of securities (e.g., Walt Disney, Wal Mart, General Electric, and US Treasure notes). FHWA agreed with our recommendation to require project managers to recover the $129 million in overpayments, plus interest earned, and use the money for current Project costs.

FAA’s Wide Area Augmentation System (WAAS) for augmenting the Department of Defense’s Global Positioning System for civil aviation uses is now several years behind schedule and $700 million over initial cost estimates. In the past year, WAAS experienced a number of technical problems that have yet to be resolved and concerns have been raised about the system’s safety. We have recommended that FAA reduce contract expenditures (about $4 million a month) until solutions are identified, and task the Defense Contract Audit Agency to conduct a series of audits on incurred costs and labor charges in the WAAS contract.

**MARAD: Employee Theft of Government Property and Lax Administration of Ship Managers' Contracts**

In January, 2000, we were alerted to allegations that copper wire, brass, and scrap metal parts were being sold to scrap dealers by defense Ready Reserve Fleet employees of the Maritime Administration (MARAD) in Beaumont, Texas. It turned out that over 16 tons of copper wire, brass fittings, and other metals had been stolen and sold by employees in the past few years, not to mention other property such as refrigerators and commercial icemakers taken from MARAD ships. Five employees have pled guilty in Federal court to misdemeanor theft of government property charges, and four have been sentenced to one year of probation and fines ranging from $250 to $1000. Seven additional MARAD employees entered into Pretrial Diversion Agreements with the United States Attorney's Office in Beaumont and placed on six months of supervision by the Department of Justice. Administrative action by MARAD is pending against all current employees involved in these thefts.

As a result of the investigation, we initiated an audit of MARAD's administration of the Ship Managers' Contracts. We reported (MA-2000-096; May 12, 2000) that MARAD had not adhered to established procedures and practices for administering the ship managers' contracts and general agency agreements. For example, we found MARAD was not following existing procedures to ensure that payments to general agents and ship managers were for actual costs incurred, related to cited work orders, and did not duplicate previously paid invoices. Also, MARAD was not ensuring that ship managers justified the award of non-competitive subcontracts. The control weaknesses we identified contribute to an environment where there is an increased risk of fraud. MARAD agreed to strengthen its procedures and practices for administering ship managers' contracts and general agency agreements by implementing our recommendations.
FAA: Technical Support Services Contract; On-going Review

FAA has not exercised effective management oversight or followed its own guidelines on the $875 million Technical Support Service Contract (TSSC). The TSSC provides FAA supplemental technical support for implementation of the National Airspace System in areas such as, site selection, site preparation, environmental impact, and installation. FAA does not control the costs of TSSC projects by developing reliable cost estimates for proposed projects or analyzing significant variances between its estimates and contractor’s proposed estimates. FAA also does not close out completed work releases, assess inactive projects for idle funds, and follow correct procedures for obligating and deobligating funds to ensure that funds are used efficiently and effectively. Lastly, FAA does not evaluate the TSSC contractor’s work performance throughout the life of the project or upon completion, and ensure that contractor personnel meet education and experience requirements specified in the contract. As a result, FAA is at substantial risk for over-inflated and overpriced contract services.

NTSB: Rapidraft Payment System; April 13, 2000 Statement by Inspector General Kenneth M. Mead

Although independent from DOT, we were asked by the Chairman of the National Transportation Safety Board (NTSB) to audit NTSB's Rapidraft Payment System (a third-party check writing program). We found that the System had been seriously mismanaged, used extensively for purposes other than intended, and subjected to embezzlement. Two former NTSB employees embezzled nearly $100,000 using the Rapidraft Payment System.

Basic internal controls designed for the System were not followed, leaving the System vulnerable to fraud, waste, and abuse. For example, check stocks were not protected from unauthorized use, checks were paid without the required signature or authorization number, and 37 of the 177 employees’ signatures were forged. These findings were significant because during Fiscal Years 1997 through 1999, NTSB issued 26,097 Rapidrafts totaling $12.9 million. Our recommendation that NTSB immediately discontinue using Rapidrafts was implemented before we completed audit work. NTSB also replaced its Chief Financial Officer and contracted with a public accounting firm to review all of its financial systems. The two former employees were indicted and pleaded guilty to embezzlement.