

**REMARKS OF DEPARTMENT OF TRANSPORTATION  
INSPECTOR GENERAL KENNETH M. MEAD  
AS DELIVERED MAY 14, 2002  
“2<sup>nd</sup> NATIONAL CONFERENCE ON FRAUD IN  
HIGHWAY CONSTRUCTION AND PUBLIC  
TRANSPORTATION”**

Thank you all for coming to St. Louis. We want to extend our appreciation to the State of Missouri and to our co-sponsors (The American Association of State Highway and Transportation Officials, the American Public Transit Administration, the Federal Highway Administration, the Federal Transit Administration and the Department of Labor. Over 300 Federal and State officials, representing 46 states are here.

We welcome those of you who are here for the first time. I also know many are here who attended our first Conference in Atlanta back in October 2000. This is indeed a great mix of professionals from the highway, transit, and law enforcement and audit communities.

Since the tragic events of September 11 and what that showed about the vulnerabilities of our transportation

system, all levels of government are placing enormous emphasis on security. We all are stakeholders in that effort.

This conference is about a different subject, but all of us are stakeholders in ensuring that transportation projects are delivered to the taxpayers and traveling public approximately on budget, on schedule, and free from fraud and other irregularities. We have reported this as one of the top 10 challenges facing the U.S. Department of Transportation, and I believe that to be true also for State governments too.

What makes it so important? Well, for one--there is an enormous, unprecedented amount of money involved. Wherever there is that kind of money, the watchword is be vigilant--be on the outlook for fraud and abuse. The Transportation Enhancement Act for the 21<sup>st</sup> Century (TEA-21) provided record levels of funding for highways and transit, with the annual investment nearly doubling from \$22 billion in 1995 to almost \$40 billion this year. That's a lot of money to be infused into one area. This

does not include the billions of dollars provided by State and local sectors. Now, we are on the eve of another reauthorization--after the Intermodal Surface Transportation Efficiency Act (ISTEA) and TEA-21, I don't know what variety of TEA they will call this one.

Second, some projects, such as Utah's I-15, California's Alameda Corridor, New Jersey's Hudson-Bergen transit project have been delivered as promised and close to budget. But there are others—I know you are familiar with some of them, where that clearly is not so and there have been very serious problems. Important lessons can be learned from projects in both categories and, together, we can convert those lessons learned into constructive change.

Third, we have seen marked increases in our fraud caseload and fraud of diverse types, including in the several years, several of the biggest frauds in the highway/transit program history. We do not see anything to suggest abuse on a scale of that experienced in the late 1950s and 1960s when the Interstate was being constructed. The caseload numbers do

show, unambiguously, a need for increased vigilance to prevent, detect, and redress fraud.

And this brings me to the fourth and perhaps most compelling reason for this conference. We can achieve all these objectives--protect the taxpayers' investment, deliver the projects, prevent and attack fraud--much more effectively, expeditiously, and on a broader front by working together collaboratively at all levels of government rather than by going our separate ways.

This is reflected by the conference agenda, your presence here and that of the organization you represent. The agenda also reflects the increasing emphasis the DOT, Justice, Labor, and AASHTO are placing on the stewardship of taxpayer dollars. Federal Highway Administrator Mary Peters, Federal Transit Administrator Jenna Dorn, and Secretary Norm Mineta wanted to be here themselves to underscore this. Working with these individuals on a daily basis, I can tell you that our country

is most fortunate to have them at the Department of Transportation for the leadership and values they represent.

I think progress is evident from the time of the first fraud conference of two years ago. And I would like to make note of this progress, but in the context of where do we collaboratively go from here and offer some specific items for your consideration. I'll group them in five basic areas.

## **I. EDUCATIONAL & OUTREACH EFFORTS**

The States are the first line of defense in preventing contract and grant fraud, and we have been working closely with state DOT's, Inspectors General and state auditors, as well as with FTA and FHWA to increase awareness how to prevent and detect fraud. Over 9, 000 individuals have received fraud awareness briefings at all levels of government since the last conference; a training video featuring actual bribery investigations has been released; and FHWA now has a section on fraud indicators in its Core Curriculum Handbook.

USDA's Graduate School Audit Training Institute has developed a fraud course and AASHTO has developed a system called TRANSPORT that can be used to detect bid rigging and other irregularities. These are great tools. Progress is being made on the training front. It's most important to press forward and continue these efforts.

## **II. BE SENSITIVE TO FRAUD CASES REQUIRING SPECIALIZED EXPERTISE**

We are seeing increasing activity involving false claims and certifications for work not performed, product substitution, pricing irregularities, and abuse of the DBE/MBE program--both as illegal front, pass-through companies and as a vehicle for false invoices and kickbacks, in some cases directly to organized crime. You will hear about these cases this week, and they involve several of the largest in program history, involving millions, and with good results.

We've worked directly with many of you on these cases. But, many of these cases could not have been successfully investigated or prosecuted without working together and drawing on specialized expertise, especially in the antitrust, labor, DBE, and financial analysis areas.

I encourage you to be alert to the need for specialized expertise. One value of this Conference is that the source of much of this expertise is here for you to make contact with during this week.

### **III. EXPANDING USE OF PROVEN PROJECT MANAGEMENT AND OVERSIGHT TOOLS**

Stewardship of infrastructure funding requires a good set of tools. There are four tools that we should stress.

--**Reliable Cost Estimates.** These are essential for evaluating project performance and deviations from them can be a warning sign of other problems. Early cost estimates are often very inaccurate because they are

prepared before the project is sufficiently designed or may not include reasonably anticipated costs, like inflation. These need to be scrutinized and should not be accepted as a basis for project approval.

**--Finance Plans Impose Discipline.** We found these to be an extraordinarily good tool, even when the plans themselves are imperfect. This is because they disclose project estimates, costs, schedules, and financing sources, as well as risks. Congress requires them for projects over \$1 billion. Wilson, Central Artery. A very good case can be made for requiring them on projects well under \$1 billion. They are the right thing to do as a matter of routine.

**--Master Project Schedules.** Master project schedules coordinate the work of contractors. If the project does not have such a schedule or it's not current, that project is a prime candidate for problems and possibly lots of them. This is because of delay by one contractor can have a

domino or cascading effect on the entire project, influencing costs and schedule.

--**Achievable Statewide Plans.** The law requires States to prepare financially constrained transportation plans every two years. They are representations to the taxpayers of how the States plan to use taxpayers' money to meet transportation needs. They identify projects, their costs, schedules, and funding sources.

These plans are not supposed to be wish lists--deflated cost estimates or inflated statements about how much money the State will have distorts reality. I think you will see greater scrutiny of these plans by FHWA in the future, especially in light of events this past year. In one State, whose plan was largely unrealistic, of 152 projects, 57% were delayed, 30% started on time, and 13% had to be eliminated. I encourage you to review these plans as well.

#### **IV. FEDERAL AND STATE OVERSIGHT ROLES & CAPACITY**

Based on reports we have issued on 18 major highway and transit projects as well as our criminal investigations, this is an area where important lessons have been learned and can be converted into constructive change. We know a great deal about the oversight approached of FTA and FHWA and what they are doing and plan to do to strengthen oversight and their capacity to perform oversight. But the States and transit authorities are the first line of defense. Some observations.

**--FTA approach is basically sound.** FTA uses project management oversight contractors to report to its staff on large transit projects. This is a sound approach that provides early warnings of cost, schedule, and quality problems. It can be further strengthened to spot check grantee cost and schedule estimates, rather than accepting the grantee's representations without checking them. It has proved very valuable on Puerto Rico's Tren Urbano, currently the nation's most costly transit project.

**--Highway Program's partnership with the States is important, but FHWA must be willing to step back from the partnership and make hard calls when necessary.** This was a problem we saw with the Central Artery in 2000 and initially with the Wilson Bridge in 2001. We see stronger scrutiny by FHWA and more of a willingness to step back and make hard calls, especially in the aftermath of the Century Artery's problems in 2000.

**--Highway Program's heavy emphasis on engineering issues detracts from the focus on other major project drivers, such as accountability over funds, making sure claims are valid, controlling costs, and understanding finance plans.** Central Artery is a prime example. Current FHWA staff is predominately engineers and this reflects its engineering approach. To recalibrate its oversight, FHWA needs to take a more multidisciplinary approach. I think you will begin to see this.

**--Strengthening State Oversight.** We do not know enough about what the States are doing in the way of

staffing for oversight (any shifts that have taken place in recent years) to make sure that claims are valid, internal controls are in place and that irregularities are detected and addressed promptly. I would like to hear from you on this—again, the States are the first line of defense and, in fact, certify that they have the necessary controls in place.

**--Perform a risk assessment of your State's stewardship to establish a corrective action plan and strengthened oversight capacity.** We are doing this on a limited basis in two States to see exactly what controls are in place to assure claims are valid and to assure that irregularities are dealt with. I can tell you based on what we have seen thus far, the entire process relies extremely heavily on the integrity and strength of the State's program. I would encourage you to do one of these risk assessment audits on your State.

## **V. Information Management & Referrals.**

We will improve enormously our ability to manage projects, exercise oversight and collaborate together with better information and exchange of information.

There has been progress in the past two years, but there is substantial room for improvement at the Federal and State levels and on several fronts. To illustrate:

**--No central repository exists of information about pending or completed highway and transit fraud cases, who the contractors were, the results and how it could have been prevented.**

**--Allegations made to State authorities about false claims/kickbacks are not always passed on to the Department of Justice, the U.S. Attorneys or to OIG and vice-versa. This may be due to the lack of an established protocol.**

**--Federal Highways need better data to successfully refocus its oversight efforts. Currently, FHWA**

**electronically tracks costs for individual contracts, but not projects, and the system overwrites previous entries so it's hard to determine what has transpired. To identify trends there is entirely too much manual data collection.**

**--Indications are that some States have the same problem. Financial tracking and analysis not only can help detect fraud, but it can be an early warning as well. Before finance plans were required on projects costing over \$1 billion, I can recall having a hard time getting cost estimates for any highway project.**

### **TEA-21 Reauthorization.**

Finally, next year is a reauthorization year and hearings have already begun--In fact, we testified two weeks ago on the need to strengthened Federal and State oversight of large, so-called mega-projects, and noted for the Members the upcoming Fraud Conference.

I hope this week yields concrete thoughts on this subject--  
Congress and the Department will be keenly interested.

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Thank you. We at the Department and in OIG look forward to working with you. Your attendance and participation in this Conference sends an important message.

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