

#### **4. SURFACE AND AIRPORT INFRASTRUCTURE**

The Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21) and the Aviation Investment and Reform Act for the 21<sup>st</sup> Century (AIR-21) provided an unprecedented infusion of funds for highway, transit, and airport infrastructure projects. Highway and transit funding increased by over 40 percent and airport infrastructure funding by about 75 percent. TEA-21 provides \$218 billion for highway and transit projects while AIR-21 makes \$12.4 billion available for airport infrastructure projects.

The most pressing issues are ensuring that available funds are used as intended by 1) expeditiously advancing projects to improve capacity, relieve congestion, and enhance safety while respecting the letter and intent of environmental laws; and 2) exercising stewardship and oversight to prevent fraud and mismanagement.

Concerns abound over the length of time and process associated with environmental clearances (including noise) for infrastructure projects. All of the modes face this challenge. In 2000, the Department proposed environmental streamlining rules, but the proposed rules were not well received by state transportation officials and industry. This remains a top infrastructure challenge for the new Secretary and Congress.

History instructs us to be on the outlook for fraud and to take steps proactively to prevent it whenever major investments in infrastructure programs are made. The Inspector General, with the support of American Association of State Highway and Transportation Officials (AASHTO), the Justice Department, and the Federal Bureau of Investigations (FBI), has a major initiative in this area. In FY 2000 alone, the Office of Inspector General (OIG) investigations led to 52 indictments and 36 convictions in these areas (indictments increased 49 percent over 1999, convictions by 24 percent over the same period).

The Department needs to continue to improve its stewardship and oversight of transportation funding. The Federal Transit Administration (FTA) has improved its oversight and became one of a few agencies to be removed from the High-Risk list of the General Accounting Office. However, the Federal Highway Administration's (FHWA) focus has been on engineering, while inadequate attention has been paid to transportation planning, controlling project costs, and ensuring money is being spent appropriately. The painful Boston Central Artery Project disclosures last year, several internal embezzlement/kickback cases, and the \$14 million in fines and jail terms in the Palumbo Brothers/Monarch Construction cases illustrate the need for improved stewardship and oversight. While Federal agencies must take the lead role the states also have an obligation, as front line authorizers, to ensure stewardship and oversight of Federal funds.

### *Progress in the Last Year:*

- New guidance on finance plans issued. In the aftermath of the Central Artery's stunning cost increase, on February 17, 2000, at the direction of the Secretary, FHWA agreed to implement the Inspector General's recommendations for improving FHWA's oversight of the Project. Those included issuing revised guidance for reporting financial data, requiring the Central Artery Project to identify additional funding, and requiring projects to accurately disclose significant changes to the project scope in their annual financial plans. In 2000, both FHWA and FTA issued new guidance for financial reporting on infrastructure projects greater than \$1 billion.
- A special task force was convened to review FHWA's oversight. The Secretary also convened a special Task Force on the Central Artery to examine the circumstances that led to FHWA's failure of oversight on that project and recommend improvements to ensure effective oversight in the future. On March 31, 2000, the Task Force issued a report containing 34 recommendations to improve FHWA's oversight. FHWA action on the Task Force recommendations is progressing. For example, FHWA has created its own headquarters "mega project team" to oversee the administration of infrastructure mega projects.
- A One DOT task force examined oversight of large transportation infrastructure projects across the Department. Following up on the Central Artery Task Force, the Secretary established a One DOT Task Force on Oversight of Large Transportation Infrastructure Projects to develop policy and strengthen oversight procedures for monitoring large dollar construction projects across the entire Department. The Task Force provided its report to the Secretary, and, on December 29, 2000, the Secretary signed a memorandum adopting the report and directing the FAA, FHWA, FTA, and the USCG to "promptly begin the important work to implement these recommendations."
- OIG efforts to combat fraud continued in FY 2000. In continuing its effort to detect and prevent waste, fraud, and abuse in TEA-21 programs, during FY2000, OIG investigations of contract and grant fraud resulted in 52 indictments and 36 convictions. In October 2000, as part its fraud awareness initiative, OIG spearheaded a National Fraud Conference on Highway Construction and Related Programs with the FHWA, the American Association of State Highway & Transportation Officials, the FBI, and the Georgia Department of Transportation. The conference attracted 330 officials from Federal and state law enforcement agencies, state highway and transit departments, and state prosecutors and inspector general offices nationwide.

- FAA issued guidance on airport financial reports. FAA revised guidelines for airport sponsors in preparing annual airport financial reports. It is intended to standardize reporting requirements and provide information that is more meaningful for monitoring the use of airport revenues.

**Most Significant Open Recommendations and Issues:**

- Oversight of the cost, schedule and performance of infrastructure mega projects. Monitoring of the cost, schedule, and performance of mega projects is critical to identify problems and initiate action to mitigate risks as soon as possible. The Department has identified and initiated steps to improve its oversight. The key now is to implement the new procedures. DOT needs to:

- *Follow through on recommended actions to improve its oversight capacity.* These actions included the following.
  - *Timely implementation* of all the recommendations for improving oversight made by the Secretary's Task Force on the Central Artery and the One DOT Oversight Task Force is essential. These include vigorous enforcement of financial reporting requirements, designating accountable oversight managers for megaprojects, and taking timely action to protect Federal interests on projects designated as "at risk."
  - *Diligent enforcement* of the new FHWA and FTA guidance for financial reporting on infrastructure projects greater than \$1 billion, and critical analysis of the plans submitted are needed to ensure the Department is provided complete and consistent reporting of basic standardized financial data. Fully developed finance plans have been useful in identifying emerging cost and funding shortfalls in projects.
  - *Independent analysis* of project performance and close oversight of project management on federally funded highway projects by FHWA's "mega project team" is required.
- *Ensure adequate funds for project oversight.* Transit project management oversight funds are dependent on the amount appropriated for New Starts. With the depletion of commitment authority by the addition of new grant agreements, oversight funds will soon be insufficient to adequately monitor all large-dollar projects as well as numerous earmarked projects. FTA advised Congress that a funding shortfall in oversight funds of about \$5 million is anticipated for FY2002. The Conference Report for the

Department of Transportation Appropriations Act for Fiscal Year 2001 directed FTA to develop a plan for the 2002 budget submission that:

- determines the amount of funds needed to maintain an adequate level of oversight for all projects requiring oversight and the level of funding that likely will be available;
  - identifies options to cover any projected funding shortfalls; and
  - identifies steps to respond to any shortfalls that may occur.
- *Mitigate risk on FTA projects with full funding grants agreements.*
- Within the past year, the number of New Starts projects with full funding grant agreements increased from 15 to 22. Commitments for the current 22 projects with full funding grant agreements and 6 pending projects would consume the remaining New Starts commitment authority provided by TEA-21.
  - In FY 2001, 83 projects, received \$1.06 billion in New Starts appropriations. However, Congress earmarked funding for 61 projects that were not appropriated for full funding grant agreements by FTA. These 61 projects received \$437 million or 40 percent of all New Starts funding. Meanwhile, projects with full funding grant agreements have, over the past 4 years, not received the full funding they were supposed to receive under their grant agreements. When the annual Federal appropriations are less than the scheduled payment in the grant agreements, grantees may need to find alternative funding sources or extend the construction schedules. In either instance, overall project costs may increase.
- *Ensure the viability of statewide transportation infrastructure programs by:*
- Ensuring that states requesting funding for large infrastructure projects provide adequate funding to maintain and operate the remainder of their statewide transportation infrastructure programs.
  - Ensuring timely completion of projects. In addition to financial pressure from large projects, earmarking of appropriated funds can reduce the Department's and grantees' flexibility to fund other important projects, as well as to adequate funding to complete projects. Earmarking has been increasing. In FY 2001, 85 percent (\$2.47 billion of \$2.89 billion) of funding in 13 Department of Transportation programs was earmarked for 977 projects. Timely

completion of the statewide program may be at risk if project costs rise above available funding (earmarked amounts and other funding).

- Continuing to strengthen internal controls over project cost estimates. Grantees underestimating costs to obtain project acceptance has been a problem. Project approval should be delayed or made conditional until designs are complete enough to support accurate cost estimates.
- *Ensure appropriate use of Airport revenues.* As a condition for approval of a FAA grant, Federal law requires the airport sponsor to agree to comply with specific assurances, including an assurance that airport revenues will be used only for the capital or operating costs of the airport. While FAA has issued new guidance, it must follow through and exercise adequate oversight to:
  - Ensure that airport revenues are used for eligible purposes.
  - Ensure that annual audits conducted under the Single Audit Act adequately monitor the use of airport revenues.
  - Resolve and close significant OIG recommendations concerning airport revenue diversions, particularly recommendations that have remained open or unresolved for extended periods.
- Detection of fraud, scandal, and abuse. Improving fraud detection and training, procedures, and techniques among DOT operating administrations and their program recipients who are responsible for oversight of infrastructure programs by:
  - Coordinating with FHWA Program Administration Office to conduct joint training sessions for state and local highway agencies on its 2000 Contract Administration Handbook, which includes a new section on fraud indicators and procedures for reporting fraud to the OIG.
  - Developing fraud prevention and detection recommendations for enhancing FTA's Triennial Review and other oversight tools.
  - Coordinating with FAA and airport authorities to conduct fraud awareness briefings and training to their staffs nationwide.
  - Coordinating with FHWA and transportation/highway industry organizations, such as the American Association of State Highway

& Transportation Officials, to have all FHWA highway program recipients include the OIG in their operating procedures for reporting allegations of fraud, waste, and abuse on Federal-aid infrastructure construction projects. At present, FHWA highway program recipients usually report allegations of fraud involving Federal-aid highway projects to FHWA division offices or state and local law enforcement agencies.

- Highway, transit, and airport mega projects. The following is a list of mega projects and the total estimated cost (including the Federal portion).

<b>Project Name</b>	<b>Project Cost (Billions)</b>
<b>Highway Projects</b>	
Alameda Corridor	\$2.4
California Route 30/210	\$1.1
Central Artery / Ted Williams Tunnel	\$14.1
Cypress Freeway	\$0.967
Edsel Ford Freeway, Detroit, MI	\$1.3
Illinois "FIRST" program	\$4.1
Interstate 15, Salt Lake City, Utah	\$1.6
Interstate 25 Corridor, Denver, CO	\$3.3
Interstate 278, Gowanus Expressway	\$0.8 to \$9
Interstate 635, North Dallas, TX	\$1.5
Las Vegas (Clarke County) NV Beltway	\$1.5
Maryland Intercounty Connector	\$1.2
Miami Intermodal Center	\$1.9
Milwaukee East-West Corridor	\$0.55 to \$0.870
Mon-Fayette Expressway	\$2.5
Tampa Interstate	\$1.5
Spokane Freeway	\$1.1
Springfield Interchange, Alexandria, VA	\$0.6
Texas Route 130	\$1.0
US 71 Relocation, DeQueen, AR	\$1.1
West Virginia's Corridor H	\$1.3
Woodrow Wilson Bridge	\$2.2

### **Transit Projects**

Atlanta North Line Extension	\$0.5
Bay Area Rapid Transit Extension	\$1.5
Dallas North-Central Light Rail Extension	\$0.5
Denver Southeast Corridor	\$0.9
Houston Regional Bus	\$1.0
Hudson Bergen Rail	\$2.2
Los Angeles Red Line	\$4.5
Minneapolis/Hiawatha Corridor Light Rail	\$0.7
St. Louis MetroLink Extension	\$0.3
South Boston Piers Transit Way	\$0.6
San Juan Tren Urbano Rail Transit	\$1.7

### **Airport Capital Improvement Projects\***

Chicago O'Hare International Airport	\$2.1
Los Angeles International Airport	\$4.9
Dallas/Fort Worth International Airport	\$3.9
San Francisco International Airport	\$4.4
Denver International Airport	\$1.6
Lambert International Airport (St. Louis)	\$2.1
Miami International Airport	\$5.0
George Bush International Airport	\$1.2
Houston Intercontinental International Airport	\$1.7

\* This list of airport infrastructure projects includes both runway and other facility projects estimated to cost over \$1 billion. The table at page 40 lists runway projects at major hub airports, including projects costing less than \$1 billion.

**Key OIG Contacts:** Thomas J. Howard, Acting Deputy Assistant Inspector General National Transportation Infrastructure Activities, 202-366-5630; and David H. Gamble, Acting Assistant Inspector General for Investigations, 202-366-1967.

#### **4. SURFACE AND AIRPORT INFRASTRUCTURE**

**Dark Grey** = Top Priority Task for 2001

**Light Grey** = Include in 2001 Top Management Challenges Efforts

**White** = Sufficiently Resolved to be Dropped from Management Challenges Efforts

	<b>First Year Issue Raised in OIG Management Challenges Report</b>	<b>Was Significant Progress made in last year?</b>
<ul style="list-style-type: none"> <li>Diligently enforce new guidance on finance plans and conduct critical analysis of the plans submitted.</li> </ul>	New Issue	New Issue
<ul style="list-style-type: none"> <li>Perform Independent analysis of project performance and close oversight of project management on federally-funded highway projects by FHWA's "mega project team".</li> </ul>	New Issue	New Issue
<ul style="list-style-type: none"> <li>Ensure that all the recommendations for improving oversight made by the Secretary's Task Force on the Central Artery and the One DOT Oversight Task Force are implemented on a timely basis.</li> </ul>	New Issue	New Issue
<ul style="list-style-type: none"> <li>Improve vigilance against fraud and corruption to deter unscrupulous contractors from attempting to raid the massive infusion of funding TEA-21 and AIR-21 provided by (1) conducting joint FHWA and OIG training sessions for state and local highway agencies on fraud indicators and reporting procedures; (2) developing fraud prevention and detection recommendations for enhancing FTA's Triennial Review and other oversight tools; (3) coordinating with FAA and airport authorities to conduct fraud awareness briefings and training; and (4) coordinating with FHWA and transportation/highway industry to include the OIG as a resource for reporting allegations of fraud, waste, and abuse on Federal-aid infrastructure construction projects.</li> </ul>	New Issue	Some
<ul style="list-style-type: none"> <li>Follow through and exercise adequate oversight to ensure that airport revenues are reasonably established and that funds are used for eligible purposes. FAA must also ensure that airport sponsors require that annual audits conducted under the Single Audit Act include a review and opinion on airport revenue use.</li> </ul>	1999	Some
<ul style="list-style-type: none"> <li>Address concerns regarding FTA funding for project oversight.</li> </ul>	New Issue	New Issue
<ul style="list-style-type: none"> <li>Ensure that states requesting Federal funding for mega projects provide adequate funding to maintain and operate the remainder of the statewide transportation infrastructure program.</li> </ul>	New Issue	New Issue

<ul style="list-style-type: none"> <li>• Monitor project performance and mitigate funding risks for infrastructure projects to protect the Government's financial interests as soon as problems are identified.</li> </ul>	1999	Some
<ul style="list-style-type: none"> <li>• Continue to strengthen internal controls over project cost estimates to prevent grantees from underestimating costs in order to obtain project acceptance.</li> </ul>	1999	Some
<ul style="list-style-type: none"> <li>• Reach final agreement on revenue diversion with Hawaii and Queen City airports.</li> </ul>	1998	N
<ul style="list-style-type: none"> <li>• Issue guidance on preparing finance plans for mega projects.</li> </ul>	1999	Y