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# *Office of Inspector General*

# *Audit Report*

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**REPORT ON THE**  
**OCTOBER 2001 FINANCE PLAN FOR THE**  
**CENTRAL ARTERY/TUNNEL PROJECT**  
*Federal Highway Administration*

*Report Number: IN-2002-086*  
*Date Issued: March 11, 2002*





# Memorandum

## U.S. Department of Transportation

Office of the Secretary  
Of Transportation

Office of Inspector General

Subject: ACTION: Report on the October 2001 Finance Plan for the  
Central Artery/Tunnel Project Boston, Massachusetts  
Report No. IN-2002-086

Date: March 11, 2002

From: Kenneth M. Mead  
Inspector General

Reply to JA-30  
attn. of:

To: Federal Highway Administrator

This report provides the results of our review of the October 2001 Finance Plan for the Central Artery/Tunnel Project (Project). Finance plans are important documents, designed to provide senior program and oversight officials with the comprehensive information needed to make appropriate financial decisions regarding the projects. Congress directed the Office of Inspector General (OIG) to review all annual finance plans for the Project to determine whether they comply with the Federal Highway Administration's (FHWA) finance plan guidance.

FHWA guidance requires the Project's finance plan and annual updates to report (1) all costs, (2) all funding and revenue sources, (3) realistic schedules, (4) cash flows, and (5) other factors relevant to program managers and oversight officials (see Exhibit A for background information regarding FHWA's guidance). As directed, we reviewed the Project's October 1, 2001 Finance Plan to determine whether it complies with FHWA finance plan guidelines. (See Exhibit B for the details of our objective, scope and methodology.)

We appreciate the courtesies and cooperation of representatives of FHWA; the Massachusetts Turnpike Authority; the Commonwealth of Massachusetts, Executive Office of Administration and Finance; the Massachusetts Highway Department; Bechtel/Parsons Brinckerhoff; and Deloitte & Touche.

## RESULTS IN BRIEF

With the exception of the items set forth below, we found that the October 2001 Finance Plan presentations of cost, funding, schedule, cash flow, and other factors have improved over prior Finance Plans and generally meet FHWA's finance plan guidance. In the last 2 years senior management of the Project has worked diligently and successfully to identify prior reporting deficiencies and improve the financial management and reporting on this Project. However, there are several material items related to the cost, funding, and schedule that must be addressed before we can conclude that the Finance Plan is satisfactory. We view the cost adjustment as a technical correction, but one that is necessary in order to provide a fair representation of the Project's cost.

As discussed more fully below, we are prepared to agree with FHWA's decision to approve the finance plan, contingent on the FHWA ensuring that the actions described on page 10 are taken. We have had ongoing discussions with Project and FHWA officials about the needed changes. FHWA and Project officials have agreed to make the changes.

### **Adjustment needed in the presentation of \$162 million in Project costs.**

The Finance Plan cost tables show that the cost of the Project will be \$14.475 billion, which is \$400 million (2.8 percent) greater than cost reported in the October 2000 Finance Plan. We concluded that the Project's estimation methodology for the costs shown is credible. However, the method by which certain insurance and rental costs are presented in the Finance Plan needs to be adjusted so that those amounts are included in the total cost figure.

The Finance Plan currently includes insurance costs of \$522 million. However, in the narrative sections, the Finance Plan discloses that insurance trust fund income is being used to pay additional insurance premiums and costs. According to insurance and trust documents, we determined these additional insurance premiums and costs total \$150 million.<sup>1</sup> These additional costs should be disclosed in the Finance Plan's cost tables.

In addition, new office space costs associated with the planned sale of the Project's headquarters were included in the Project's calculation of net sale proceeds. If the Project proceeds with the planned sale of its headquarters building, it will need to recognize that it will incur estimated costs of \$12 million in future rent. The Project originally planned to pay that rent with part of the proceeds from the sale of the building. Project officials have now committed to

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<sup>1</sup> The \$150 million estimate is based on insurance and trust records available at the time of our audit. Project officials also stated that all revenues generated by the trust would be needed to pay insurance related costs. Future actuarial assessments or trust activity could modify this amount.

using \$12 million from the contingency fund to cover the cost of the future headquarters building rent, which should reduce the total project cost by a similar amount. These adjustments will result in a net increase of \$150 million (1 percent) for a total cost of \$14.625 billion (see Table 4).

In the last 2 years Project managers have made a practice of fully informing the public whenever costs change. The practice of fully disclosing costs rather than “managing to a number” has provided the public and decision makers with better information on the performance of the Project. However, we recognize there is still significant public sensitivity to changes in the Project’s cost. In that light, we note that the adjustments do not represent unexpected new costs. Also, funding for those costs was identified, although it was outside the revenue streams included in the Project’s cost and funding totals. The Finance Plan, when adjusted to include these items, will provide fair representation of the Project’s full cost.

Moreover, past administrations overseeing the Project used a variety of techniques and practices, such as shifting costs off the Project onto other organizations or using future credits as direct reductions to current costs, to lower the reported cost of the Project. Although we are not aware of any similar practices that have not been identified and corrected, future reviews of the Project’s finances could identify additional technical corrections, downward or upward, to ensure full disclosure of the Project’s cost and funding. In our opinion, the willingness of the Project to forthrightly address the corrections identified in this report should be seen as an indicator of the transparency and credibility of the Project’s current financial reporting.

### **Finance Plan adjustment needed to recognize all revenue sources used to pay Project costs.**

The Finance Plan identifies \$14.475 billion in funding sources for the Project, which is the amount needed to meet the costs reported in the Finance Plan. However, as with costs, the Finance Plan needs to be adjusted to recognize the alternative funding sources that are being used to finance the Project. Specifically, the Finance Plan should report that the Project planned to use excess investment income from the insurance trust to pay insurance billings, and should recognize the full amount of the proceeds from the sale of the Project’s headquarters building as a funding source for the Project. FHWA’s finance plan guidance requires that all funding sources be identified.

**Insurance trust income.** From 1992 to 1999, the Project accumulated excess reserves in its insurance trust fund. Since the reserves exceeded the amount needed to pay claims, the excess has been available to pay for other costs, such as insurance premiums. Based on insurance and trust reports available during our audit, we estimate that the Project is using \$150 million in trust fund income to

pay insurance premiums and expenses. Just as the Finance Plan must recognize those premiums and expenses as costs, it must recognize the revenue stream it is using to pay the costs.

Moreover, income earned on the Federal portion of excess reserves in the trust represents an additional Federal contribution if it is used to pay for other costs on the Project. On December 10, 2001, FHWA agreed that income earned on excess Federal funds held in the Project's insurance trust should be counted as a Federal contribution, if those funds are used to pay Project costs (see Exhibit C for the full text). We estimated that \$76 million<sup>2</sup> of the \$150 million of investment income is associated with excess Federal funds held in the insurance trust.

However, Federal contributions to the Project were capped at \$8.549 billion by Congress.<sup>3</sup> Since Federal contributions up to the cap limit have already been identified in the Finance Plan, any additional Federal contribution would cause the Project to breach the cap. To correct this, the Project plans to reduce the amount of Federal money provided to the Project by \$76 million during Fiscal Years 2006 through 2009. That money will instead be spent on other highway projects in the State.

**Building sale proceeds.** The Finance Plan narrative disclosed that the Project plans to sell its headquarters building for \$101.5 million to generate needed cash. The Finance Plan showed the sale will result in an increase of \$68 million in State revenues provided to the Project. In actuality, the proceeds available to the Project from the sale of the building will be more than \$68 million. We estimated potential sales fees at \$4.5 million, in which case the net proceeds to the State if the property is sold for \$101.5 million would be \$97 million.

The general rule regarding the sale of excess real property purchased with Federal money is that the Federal Government is entitled to a share of the proceeds equal to the percentage of original Federal participation.<sup>4</sup> The money is usually returned to the Federal agency that made the grant, but in 1998 Congress made an exception for highway projects. In the Transportation Equity Act for the 21<sup>st</sup> Century (TEA-21), Congress directed states not to return the Federal share of

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<sup>2</sup> FHWA believes that interest should be calculated from 1999 forward rather than in 1992. Our calculations include the full period (1992 to 2000) that overpayments were included in the trust.

<sup>3</sup> In Title III, Section 340 (d) of the House Conference Report on the 2001 Transportation Appropriations Report, Congress directed that "Total Federal contributions to the Central Artery/Tunnel Project shall not exceed \$8,549,000,000."

<sup>4</sup> 49 CFR, § 18.31 Real Property

proceeds from the sale of excess real property money to the Federal agency, but to use the Federal share on other highway projects eligible for Federal assistance.<sup>5</sup>

In the case of the Project's headquarters, the Federal Government contributed 90 percent of the original cost to acquire the building. Therefore, the "Federal share" of the \$97 million in net proceeds amounts to \$87 million (see Table 1).

<b>Table 1</b>			
<b>Sale of Project Headquarters Building (\$ in millions)</b>			
<b>Cost Element</b>	<b>Total</b>	<b>Federal Share</b>	<b>State Share</b>
Original Cost (90/10 ratio)	\$29	\$26	\$3
Current Appraised Value	\$101.5		
Sales Fees (estimated)	(\$4.5)		
Net Proceeds	\$97	\$87	\$10

Since Federal contributions up to the cap have already been identified, if the "Federal share" of the proceeds is deemed to be "Federal" money, it would increase the total contribution above the Federal cap. However, FHWA has opined that all the net proceeds of \$97 million from the sale should be identified as State funds.

Based on the language in TEA-21, FHWA changed its regulations<sup>6</sup> to direct states to use the "Federal share" of proceeds on other eligible projects. FHWA further added that projects funded with the "Federal share" do not become Federal-aid projects. FHWA added that second part because it interpreted Congress' direction in TEA-21 as "extinguishing" the Federal character of the proceeds. Based on that interpretation, FHWA finds that, although the Federal Government paid \$26 million of the original \$29 million cost of the building, none of the \$87 million Federal share of the proceeds will be considered Federal money.

We believe a better reading of TEA-21 would find that Congress intended to streamline the process for reapplying the "Federal share" of real estate proceeds to other Federal-aid eligible transportation projects, but did not intend to extinguish the Federal character of the money. While there is no question that states can use the proceeds from the sale of excess real property on highway projects, the plain language of TEA-21 still refers to a "Federal share." Our interpretation is that by

<sup>5</sup> TEA-21, § 1303(a) Proceeds from the Sale or Lease of Real Property. Congress said that states no longer had to return the proceeds of real estate sales to the agency, but could use the "Federal share of net income...for projects eligible under this title [23]." That change applied only to highway projects. The remainder of the Department still follows the Department regulations found in 49 CFR.

<sup>6</sup> 23 CFR, § 710.403 (e)

specifying a “Federal share,” Congress intended that the funds retain their Federal character.

**Consequences of FHWA’s interpretation.** We are concerned about this matter because the consequences of FHWA’s interpretation are significant and extend beyond the Central Artery Project. For example, because of FHWA’s interpretation that none of the proceeds from the sale of real property are “Federal”:

- *Buying and selling property can be used to convert Federal money into state money.* Under FHWA’s interpretation, States could buy excess real estate using 80 percent Federal funds, sell the property, and convert the Federal money to state funds. That clearly was not the motivation in this case, because the Project bought its headquarters building 6 years before Congress enacted TEA-21. Nonetheless, the financial consequence is demonstrated in this case - Massachusetts will receive \$97 million in available cash from an initial Federal investment of \$26 million and an initial State investment of just \$3 million.
- *States can reduce or avoid their match requirements.* FHWA’s interpretation would also allow states to use the sale proceeds to significantly reduce or even avoid having to make any direct investment of its own funds. States are normally required to provide a matching contribution to the project, usually equal to 20 percent of the Federal contribution. By buying and quickly selling excess real property on a project, a state could use the proceeds to make its matching contribution.
- *Safeguards on Federal funds are not applicable.* FHWA’s interpretation means that projects funded with the “Federal share” of real property proceeds are not required to follow the rules that normally apply when Federal funds are used. For example, rules that would otherwise ensure states contract competitively and use American suppliers for certain materials (like steel) do not apply. In this case, FHWA’s interpretation means that the cap on Federal contributions does not apply to these funds.

We believe the better view of the law is that the “Federal share” of real property sales remains Federal money, but that the States can use the funds on other Federal aid eligible projects. However, we recognize that FHWA is responsible for developing and implementing the regulation and that the regulation could be subject to different interpretations. Therefore, in this instance, we will defer to FHWA's interpretation provided FHWA (1) obtains an independent written legal opinion from the Department’s General Counsel that concurs with its interpretation and (2) notifies the appropriate congressional committees of the Department's interpretation.

**Applicability of the Federal cap.** In addition to the arguments made above, FHWA and the Project have taken the position that, even if the funds were considered Federal, the right-of-way proceeds are not subject to the \$8.549 billion Federal funding cap. FHWA opined that the cap on Federal contributions imposed in the DOT FY 2001 Appropriations Act does not apply to right-of-way proceeds because accompanying report language begins by saying that Section 340(d) applies to apportioned funds. Because right-of-way proceeds are not “apportioned,” they are not subject to the cap.

We do not concur. We believe that Congress intended to limit Federal contributions in total, not just a particular revenue stream. The plain language of the congressional cap applies to "Total Federal contributions" provided to the Central Artery Project.

### **The Finance Plan needs to more fully disclose schedule risks.**

The Project schedule contained in the Finance Plan shows a Project completion date of December 2004. However, there are significant risks that could prevent the Project from meeting its schedule milestones. Our audit and an independent review performed by Deloitte & Touche identified potential delays, including a potential 6-month delay in the Project's overall completion date. The official Project milestones included in the October 2001 Finance Plan and the potential delays identified by the independent review are described in Table 2.

**Table 2**  
**Project Milestones**

<u>Segment</u>	<u>October 2001 Milestones</u>	<u>Delays Beyond October 2001 Milestones<sup>a</sup></u>
Ted Williams Tunnel	Completed	N/A
Initial Leverett Circle Connector	Completed	N/A
Interstate 90 Opening <sup>b</sup>	September 8, 2002 <sup>c</sup>	10 months
Interstate 93 Northbound	November 1, 2002	6 months
Initial Interstate 93 South	November 1, 2003	6 months
Full Interstate 93 South	November 15, 2004	6 months
Project Completion	December 31, 2004	6 months

<sup>a</sup> Potential delays identified by Deloitte & Touche.

<sup>b</sup> The Project has already reported a potential 4-month delay.

<sup>c</sup> The Initial Interstate 90 and the Interstate 90 Substantial Completion milestones were combined into a single Interstate Opening milestone in the Finance Plan as of October 1, 2001.

FHWA guidance calls for presentations of schedule information in financial plans to include identified risks to the schedule. According to Project officials, the schedule presented in the Finance Plan is aggressive, but achievable. Further, they



stated that they intend to hold to the earlier milestones in order to keep contractors from further slippage.

The Project recognized the potential delays in other reports, but not in the Finance Plan. Moreover, the Project did include funding to meet any additional costs from the potential delays in the contingency amounts (cost and funding) included in the Finance Plan. Therefore, if the risks identified by Deloitte & Touche do materialize, they will not necessarily increase the cost of the Project. Nonetheless, to be complete, the presentation of the Project schedule in the Finance Plan should fully disclose the known risks to the schedule.

In particular, we noted that the Project had reported in its Project Management Monthly report (September 2001) that a schedule exposure of 103 days existed due to a water infiltration from beneath the immersed tube tunnels. However this potential exposure was not shown in the Plan's project milestones. After the Finance Plan was prepared, the Project actually encountered a major leak at this work site that had a material impact on the work schedule. The problems encountered at the Fort Point Channel tunnel represent a predictable delay in the Plan's "I-90" opening date milestone. Even though the Project has regained some of the lost time on this site, these types of exposures still exist in all major project segments without being fully reflected in the Finance Plan.

**Revenue Aligned Budget Authority shortfall could reduce Massachusetts' Federal apportionment by \$98 million.**

The October 2001 Finance Plan assumed that Massachusetts would receive \$486 million in Federal funding in fiscal years (FYs) 2003, 2004, and 2005. At the time the Finance Plan was submitted, a \$486 million annual Federal apportionment was a reasonable assumption. However, the Highway Trust Fund receipts that are used to calculate states' apportionments are now expected to be lower than was projected in TEA-21. As a result, total Federal apportionments to the States in FY 2003 may be reduced almost \$9 billion from the FY 2002 level.<sup>7</sup> As described more fully below, congressional and administration deliberations to moderate the impact of this decline are ongoing. Consequently, significant uncertainty exists about the ultimate impact nationally as well as the impact on the State and the project. Until these uncertainties are resolved, we believe it is premature to revise this finance plan to account for reduced Federal funding.

On January 24, 2002, FHWA estimated that the Federal apportionment to Massachusetts in FY 2003, including the revenue aligned budget authority

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<sup>7</sup> In TEA-21, Congress directed that disbursements from the Highway Trust Fund be adjusted annually to reflect actual receipts into the Highway Trust Fund. From 1998 through 2002, a strong economy resulted in greater than expected receipts and the disbursement of those additional funds to the states.

(RABA) cut, will be \$388 million. That is a reduction of \$98 million from the amount projected in the Finance Plan. This planned reduction could have a significant impact on Massachusetts, which depends on the Federal revenue stream to meet its commitments to fund both the Central Artery and the congressionally mandated \$400 million statewide program

According to documents provided by the State, in FYs 2003 and 2004 it intended to use \$201 million of its \$486 million apportionment on the Central Artery, and the remaining \$285 million on other Statewide Road and Bridge Program projects. In 2005, the Project and Statewide Program would receive equal portions. Including Federal funds, the Statewide Program would be funded in those 3 years as shown in Table 3.

<b>Table 3</b>				
<b>Current Funding Scenario in the Finance Plan</b>				
<b>(\$ in millions)</b>				
Year	<b>Federal Apportionment Funds</b>			<b>State Program</b>
	Total	To Central Artery	To State Program	Total (Federal + State)
<b>2003 (Est)</b>	<b>\$486</b>	\$201	\$285	<b>\$476</b> (\$285 + \$191)
<b>2004 (Est)</b>	<b>\$486</b>	\$201	\$285	<b>\$430</b> (\$285 + \$145)
<b>2005 (Est)</b>	<b>\$486</b>	\$243	\$243	<b>\$395</b> (\$243 + \$152)

To meet the \$98 million reduction due to the RABA shortfall, State officials can offset \$76 million of the shortfall in 2003 by reducing the planned Statewide Program from \$476 million to \$400 million (the minimum funding level). However, an additional \$22 million in State funding would still be required to meet the minimum Statewide Program and planned Project expenditures.

The RABA shortfall is a national issue. The full impact of the reduced receipts into the Highway Trust Fund was unfolding as this report was issued. Congress is considering legislation to moderate the impact of the unexpected reduction in funding, and is also preparing for the reauthorization of the transportation bill in 2003. However, once final adjustments to Federal-aid highway funding to the states are made, FHWA and the Project will have to reassess the Federal funding stream and adjust the Finance Plan to ensure adequate funding to the Project and the \$400 million annual full funding requirement for the Statewide Road and Bridge Program through FY 2005.

### **Bonding authority**

We also noted that before FHWA can approve the Finance Plan, the Project must obtain legislative approval to increase state bonding, or identify other funding sources, to ensure sufficient funds are available to meet the planned Project needs.

The Finance Plan shows that in order for the Project to be adequately funded, an additional \$138 million in bond proceeds will be required from the Transportation Infrastructure Fund. The State Legislature had not yet acted to increase the Fund's bonding authority.

### **Funding Exchange**

The Project has advised that it has identified other State funding to replace the \$76 million that must be removed to prevent the Project from exceeding the Federal funding cap of \$8.549 billion. This will be accomplished without the need for any additional State funds. Under the Project's approach, \$76 million will be used on other State-Wide Road and Bridge (SWRB) projects and the State funds previously intended for use on the SWRB program in 2006 -2009 will be used to repay the Project's GANs during those years. The net result will be an even exchange of funds that will have no net impact on the State's transportation funding, but will keep the Project in compliance with the Federal funding cap.

### **CONCLUSIONS**

In view of the foregoing, we are prepared to conclude that the finance plan is satisfactory, contingent on the following:

1. The Project's Finance Plan includes all insurance and rental costs, as well as all funding provided from the insurance trust and the sale of the Project headquarters building, and fairly and clearly presents total project costs in conformity with Generally Accepted Accounting Principles and American Institute of Certified Public Accountants' *Guide for Prospective Financial Information*.
2. The State's contribution provides full funding for all costs above the Federal cap of \$8.549 billion.
3. The Finance Plan includes a more complete discussion of the risks to the Project's construction schedule.
4. FHWA obtains an independent written legal opinion from the Department's General Counsel that concurs with its interpretation regarding the Federal character of real estate proceeds, and notifies the appropriate congressional committees of the Department's determination.

If you have questions, please contact Theodore Alves, Deputy Assistant Inspector General for National Transportation Infrastructure Activities, at (202) 366-0687, or me at (202) 366-1992.

**Table 4**  
**Summary of Project Cost and Funding for the Central Artery/Tunnel**  
**( in Millions)**

	<u>October 2001</u> <u>Finance Plan</u>	<u>OIG Adjusted</u> <u>Figures</u>	<u>Difference</u>
<b>COST</b>			
Construction	\$9,269	\$9,269	\$0
Design	\$1,030	\$1,030	\$0
Force Accounts	\$608	\$608	\$0
Management	\$1,977	\$1,977	\$0
Right of Way <sup>a</sup>	\$576	\$576	\$0
Rent back of HQ or find new space	\$0	\$12	\$12
Insurance	\$522	\$672	\$150
Contingency	\$494	\$482	(\$12)
<b>Total <sup>b</sup></b>	<b><u>\$14,475</u></b>	<b><u>\$14,625</u></b>	<b><u>\$150</u></b>
<b>FUNDING</b>			
Federal – Approved Projects	\$7,049	\$7,049	\$0
GANs (Future Federal) <sup>c</sup>	\$1,500	\$1,424	(\$76) <sup>c</sup>
Massachusetts Exchange <sup>c</sup>	\$0	\$76	\$76 <sup>c</sup>
Massachusetts Turnpike Authority <sup>e</sup>	\$1,638	\$1,609	(\$29)
Massachusetts Port Authority	\$300	\$300	\$0
State Bonds/Notes	\$1,577	\$1,577	\$0
Transportation Infrastructure Fund	\$2,343	\$2,343	\$0
OCIP income allowed <sup>d</sup>	\$0	\$74	\$74
OCIP income Federal portion <sup>d</sup>	\$0	\$76	\$76
Headquarters sale income (net) <sup>e</sup>	\$68	\$97	\$29
<b>Total</b>	<b><u>\$14,475</u></b>	<b><u>\$14,625</u></b>	<b><u>\$150</u></b>

<sup>a</sup> The “Right-of-Way” costs are shown at the actual expenditure amounts. The past expenditures are not reduced by the sale of the headquarters building. The sale of the headquarters building will provide additional funding for the Project, which is shown as the “Headquarters sale income (net)” figure under the Funding section of the Table.

<sup>b</sup> Total Project costs do not add due to rounding error. The \$14,475 million in costs are as reported in the Finance Plan.

<sup>c</sup> \$76 million in Federal funds must be removed from the Project to stay within the Federal cap. The Federal funds will be used on other State-Wide Road and Bridge projects. The State will later increase its contribution to the Project by \$76 million. The net result will be an even exchange of funds that will have no net impact on the State’s transportation funding.

<sup>d</sup> The Project plans to pay \$150 million in insurance costs with investment income not shown in the Project accounts. We estimated that \$76 million of that income was associated with excess Federal funds with the balance of \$74 million allowed for insurance purposes. Because of these technical adjustments no new State funds will be needed.

<sup>e</sup> These amounts are based on FHWA’s interpretation of congressional direction regarding land sales in TEA-21. Net income is \$101.5 million gross proceeds less \$4.5 million estimated sales fees. Since FHWA opines that all \$97 million in net proceeds are state funds, the \$29 million original cost of the building, including the \$26 million Federal share, is included here as state funds available to pay other costs. The Federal contribution of \$7.049 billion is not reduced because based on FHWA’s interpretation, no Federal credit will accrue from the sale. The \$29 million in additional revenue will also allow the MTA to offset its planned contribution by \$29 million.

## EXHIBIT A. BACKGROUND

Under the provisions of TEA-21, all recipients of Federal highway funds with an estimated project cost of \$1 billion or more must submit an annual finance plan to the Secretary of Transportation. The finance plans are intended to provide senior program and oversight officials with comprehensive information needed to make appropriate financial decisions regarding the projects.

On May 23, 2000, FHWA issued guidance to ensure that finance plans reflect the total cost and revenue requirements of a project and provide a reasonable assurance that there will be sufficient financial resources available to implement and complete the project as planned. FHWA's guidance requires that finance plans and annual updates include the following elements.

- **Cost Estimate.** All costs and the value of all resources that will be used to complete the project.
- **Implementation Plan.** A project schedule and cost-to-complete, in annual increments in year of expenditure dollars.
- **Construction Financing and Revenues.** All funding sources that will be used to meet project obligations, clearly described as committed or anticipated amounts, with an evaluation of the likelihood of the anticipated amounts being realized.
- **Cash Flow.** The annual cash income and disbursements on the project.
- **Other Factors.** Other data relevant to program and oversight officials.

The guidance also requires that finance plans be prepared in accordance with recognized reporting standards, such as the American Institute of Certified Public Accountants' *Guide for Prospective Financial Information*.

In October 2000, in the aftermath of a \$1.4 billion cost increase earlier that year, Congress limited the total Federal financial contribution to the Project to \$8.549 billion<sup>8</sup> and required that the OIG review all finance plans to determine whether they comply with FHWA finance plan guidance.<sup>9</sup> Congress also directed

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<sup>8</sup> October 2001 Finance Plan shows Federal contributions of \$7.049 billion and Grant Anticipated Notes of \$1.5 billion (to be converted to Federal funding) that total \$8.549 billion.

<sup>9</sup> Title III, § 340 (c) of the House Conference Report on the 2001 Transportation Appropriations Report states, in part, that "...the Secretary of Transportation shall withhold obligation of Federal funds and all project approvals for the Central Artery/Tunnel Project until the Inspector General of the Department of Transportation finds the annual Central Artery/Tunnel project finance plan consistent with Federal Highway Administration financial plan guidance."

that, in order to receive Federal funding, each annual finance plan must show that the State:

- is complying with a June 22, 2000, partnership agreement with FHWA.
- is complying with the requirement for a balanced statewide program.
- will spend no less than \$400 million each year on the Statewide Road and Bridge Program outside the Project.

## **EXHIBIT B. OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Central Artery Project's October 2001 Finance Plan complies with FHWA finance plan guidance by:

- providing an estimated cost based on supported information available to the Project team;
- identifying appropriate and available funding sources sufficient to meet the total estimated cost;
- providing a project construction schedule that is based on all known and reasonably anticipated delays; and
- properly disclosing other factors affecting the Project.

### **Scope and Methodology**

This review was conducted at the FHWA Massachusetts Division Office in Cambridge, Massachusetts, the Massachusetts Turnpike Authority (MTA), and the Central Artery Project Offices in Boston, Massachusetts, and FHWA Headquarters in Washington, DC.

We compared the FHWA guide requirements with the Finance Plan's contents. Our procedures included determining whether there were significant differences in format or substance between the Finance Plan and the FHWA guide Sample Financial Plan. We also communicated with the Commonwealth of Massachusetts Office of Administration and Finance about its independent Letter of Certification, which accompanied the Finance Plan.

We met with members of the Project's staff to determine how they developed the estimated cost to complete the Project. Our procedures included reviewing the Finance Plan's cost estimates to identify increases since the October 2000 Finance Plan. The review also included examining Deloitte & Touche's report on the Finance Plan and its procedures for assessing the Project's cost estimating methodology. We also reviewed FHWA's June 20, 2001 estimate of Project costs. In addition, we evaluated the reasonableness of the Project's cost estimates by assessing the supportability of its key assumptions. Procedures also included interviewing FHWA and Deloitte & Touche staff to determine the scopes of their evaluations.

We interviewed Massachusetts Turnpike Authority officials and contacted other State officials, to assess the Finance Plan's compliance with financing requirements. We reviewed legislation, Project agreements, and memorandums of understanding. We also reviewed the Finance Plan's funding methodology.

We reviewed the Finance Plan's current implementation schedule, Deloitte & Touche's assessment of the Project schedule, and Project Management Monthly Reports. We interviewed the Project managers and engineers who developed the Project's schedule. To assess the reasonableness of the Finance Plan's Project schedule, we compared it with the Deloitte & Touche assessment and the Project managers' explanation of the schedule process. We did not verify the cost estimates, but relied on the estimates provided by the Project, Deloitte & Touche, and FHWA.

We received written comments from FHWA on March 8, 2002. The comments were incorporated in this report to the extent we considered appropriate.

We conducted this review from September 2001 to March 2002. Our review was conducted in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States.



## **EXHIBIT C. AGREEMENT TO RESOLVE OCIP ISSUES, DATED DECEMBER 10, 2001**

### **Agreement to Resolve OCIP Issues And Allow Acceptance of CA/T Finance Plan Update**

1. FHWA will issue a policy on Owner Controlled Insurance Programs (OCIPs) requiring that Federal participation in reserve funds be limited to the present value of incurred claims and other eligible costs as defined in OMB Circular A-87.
2. This new policy, as applied to the CA/T OCIP, will result in the disallowance of OCIP trust balances in excess of the actuarial valuation of incurred claims. This excess is estimated at \$133 million. The actual amount of disallowed excess Federal funds and the relative portions of principal and interest will be verified by March 31, 2002 using the 2001 actuarial assessment and an on-going MTA-sponsored audit of the CA/T Project trust. The DOT Inspector General will review of the results of the MTA-sponsored audit to ensure compliance with government auditing standards.
3. Disallowed Federal funds are to be withdrawn within 3 months of the date of this agreement. Interest will continue to accrue on the funds until they are withdrawn. That interest will also be withdrawn.
4. The disallowed Federal funds may be used for other CA/T project costs or transferred to the statewide transportation program. Principle amounts included in the disallowed funds have already been counted against the cap on Federal funds (\$8.549 billion) but interest has not. Any interest amounts used for the CA/T project will count against the cap on Federal funds.
5. In order to obtain DOT acceptance of the CA/T finance plan now, MTA will certify in the Finance plan that non-Federal funds will be used to replace any disallowed funds transferred to the statewide program.

Agreed on December 10, 2001

(Original signed by)

Kenneth M. Mead  
Inspector General

(Original signed by)

Mary E. Peters  
Federal Highway Administrator

## **EXHIBIT D. CONTRIBUTORS TO THIS REPORT**

THE FOLLOWING INDIVIDUALS CONTRIBUTED TO THIS REPORT.

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