

**FOLLOW-UP ON AUDIT REPORT: ACTIONS TAKEN
TO RECOVER EXCESS RESERVES FROM THE
CENTRAL ARTERY/TUNNEL PROJECT'S OWNER
CONTROLLED INSURANCE PROGRAM
*FEDERAL HIGHWAY ADMINISTRATION***

*Report Number: QR-2003-089
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reserves to offset current premiums. We also reported that the Project withdrew \$50 million from the OCIP Trust and returned the funds to the State's Federal-aid account. However, during the July 2002 follow-up audit, we found that an additional \$133 million in excess Federal funds remained in the OCIP, and the Project needed to complete an ongoing independent audit of the OCIP trust accounts. We also recommended that FHWA cease Federal participation in the OCIP and issue final OCIP guidelines.

As a result of the July 2002 follow-up audit, the Project transferred \$133 million from the OCIP, and FHWA issued final OCIP guidance. In response to our recommendation to cease Federal participation in the OCIP, the Project transferred an additional \$140 million from the Federal share of the OCIP budget to the Federal share of the Project's construction budget. The total transfer of \$273 million was completed by May 2003, using the results of the Pannell Kerr Forster PC (PKF) independent audit.

PKF audited the Project's OCIP basic financial statements for the year ended June 30, 2002. In its report, PKF rendered an unqualified opinion on the Project's basic financial statements. We performed a quality control review of the audit work and determined that it complied with Government Auditing Standards.

During our current follow-up, we reviewed PKF's audit and verified that Federal amounts transferred between the Project's OCIP and Construction budget categories were recorded in the Massachusetts Highway Department and FHWA accounting records. In addition, the Massachusetts Office of the Comptroller confirmed the transfers. Therefore, we found the total OCIP Federal share of \$273 million transferred to the Project's construction budget for better use to be appropriate.

Recently, Deloitte & Touche LLP (D&T) questioned the likelihood that the Project would achieve a \$20.5 million potential savings in insurance costs, as identified in the Project's latest cost and schedule update. The potential savings in insurance costs were primarily projected reductions in Workers Compensation and General Liability insurance costs that are included in the OCIP Trust. D&T concluded, in any event, that the potential savings in insurance costs do not affect its conclusion regarding the adequacy of the Project's latest budget. Project officials said the decision to reduce insurance costs was based on recent actuarial projections and favorable accident and loss trends.

Since the OCIP is now funded entirely with State funds, the State does not seek reimbursement of Federal funds for OCIP and FHWA no longer will participate in OCIP costs. Therefore, the issue raised by D&T has no bearing on the \$273 million Federal share of the OCIP budget that was transferred to the Federal

share of the Project's construction budget. Because the amount of insurance costs and the amount of contingencies are part of the Project's Fiscal Year 2003 Finance Plan, we will review the basis for these costs in our review of the Plan, which is required by the Department of Transportation and Related Agencies Appropriations Act for Fiscal Year 2001.

We appreciate the cooperation and assistance of FHWA. If we can answer any questions, or be of further assistance, please feel free to contact me at (202) 366-1992, or Debra S. Ritt, Assistant Inspector General for Surface and Maritime Programs, at (202) 493-0331.

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cc: FHWA Executive Director, HOA-3
FHWA Audit Liaison, HAIM-13
OST Audit Liaison, M-1