THE DEPUTY SECRETARY OF TRANSPORTATION
WASHINGTON, DC 20590

August 07, 2009

MEMORANDUM TO: Calvin L. Scovel III
Inspector General

FROM: John D. Porcari
The Deputy Secretary

SUBJECT: DOT Actions to Ensure Effective Project Selection and Oversight of Airport Improvement Program Grants Pursuant to the Recovery Act

I have received and reviewed the Office of Inspector General's (OIG) American Recovery and Reinvestment Act (ARRA or Recovery Act) Advisory regarding FAA's project selection and oversight of grants under the Airport Improvement Program (AIP) section of the Recovery Act. The report highlights only 6 out of 263 total AIP ARRA projects and does not mention that the FAA's project selection fully complied with applicable statutory and regulatory requirements. Further, the Advisory does not recognize the measures taken to ensure that AIP Recovery Act projects utilize funds in compliance with statutory requirements and as specified in grant agreements.

FAA Project Selection of Airport Improvement Projects Fully Complied with Applicable Requirements

FAA carefully ensured that each grant issued using Recovery Act funding fully complied with applicable statutory requirements. The Recovery Act indicated that stimulus funds for airport purposes are to be administered under the requirements of AIP discretionary funding. These long-standing processes have resulted in the selection of prudent, high-priority projects for funding with Recovery Act funds. As recognized in the OIG's ARRA Advisory, about 80 percent of projects selected by FAA not only met, but far exceeded the existing standards established for AIP grants. The remaining estimated 20 percent of projects fulfilled other important aspects of the AIP program, and fully complied with applicable requirements. The historic strength of the AIP project selection process is reinforced by a recent review of this program completed by the Office of Inspector General.[1] That report found FAA's policies are effectively ensuring the highest priority rated projects are funded in accordance with regulations and that projects funded with lesser ratings are adequately justified.

[1] "*Prioritization of Airport Improvement Program Funding*," Office of Inspector General report AV-2008-002.

Under the Recovery Act, FAA was able to fund projects critical both to the economy and to aviation safety throughout the country. This includes funding for runways, taxiways, airfield lighting, and high priority safety or security equipment. For example, FAA used Recovery Act funds for air rescue and firefighting facilities in Los Angeles and safety critical improvements to runways in Detroit, at JFK Airport in New York, and Dallas-Ft. Worth in Texas. With Recovery Act funding, the FAA was able to accelerate critical aviation improvements that might have been delayed for years.

FAA used a rigorous process to identify a valid candidate pool of the highest priority projects by region. Within the existing statutory priorities, preference was given to those projects that demonstrated capability to meet all applicable statutory requirements necessary to proceed, i.e., that they were truly "ready-to-go." For purposes of the Recovery Act, "ready-to-go" was defined as a project that:

- had an environmental determination;
- had received all requisite airspace approvals;
- appeared on the candidate Airport's approved Airport Layout Plan;
- if required, had a completed FAA-approved benefit-cost analysis;
- if required, had design substantially complete;
- would be bid prior to the time of grant award;
- would be able to issue a "Notice to Proceed" to the contractor within 30 calendar days of a Grant Offer;
- had the airport sponsor's respective certifications as to bid and anticipated Notice to Proceed; and
- was expected to be completed in two years, or no later than February 16, 2011.

AIP projects selected for Recovery Act funds complied with existing statutory priorities as detailed within FAA's normal AIP criteria, known as the National Priority Rating (NPR) System. The NPR system is a numerical model that is one of several tools FAA uses to prioritize airport development. The values generated by the model serve to categorize airport development in accordance with agency goals and objectives. The model generates values between 1 and 100, with a minimum score of 41 generally being necessary to receive typical AIP funding. In order to focus Recovery Act funding on the highest priority projects, FAA set a goal to prioritize funding for those projects scoring a 62 or greater, a level more than 50 percent higher than the typical AIP goal. This was not, as asserted in the OIG's Advisory, a "threshold" for funding. Rather, this was a tool FAA used to focus funding on the highest priority projects.

The balance of the Recovery Act funding was used for other qualified projects, including renovation or replacement of aging infrastructure at smaller airports, new airport construction, safety and various other projects. This group includes the estimated 50 projects singled out in the OIG Advisory, of which 90 percent will provide funding necessary to bring these airports into compliance with current safety standards. Such safety standards projects do not require a cost benefit analysis under the AIP program.

The OIG ARRA Advisory apparently questions the basis for all Recovery Act projects funded under the AIP based on just 6 of 263 projects representing approximately 2.3 percent of the total projects. While each of these projects qualified for funding under existing AIP criteria, the OIG Advisory utilizes factors outside existing requirements to suggest these projects are unworthy. Further while OIG concludes that FAA did not adequately consider the economic merits of the six projects, the OIG Advisory does not cite the required economic consideration that FAA should have conducted. For example, the two projects cited in Alaska qualified under AIP provisions related to safety standards. These projects provide airstrips that meet minimum safety standards for the citizens of these Alaskan towns. These are hardly examples of government waste – both projects are simple gravel airstrips. The costs of these projects have been checked and justified based on the high costs of moving materials and equipment to the areas, as well as construction challenges associated with remote locations in Alaska. Further, it is an overstatement to suggest that funding safety compliant airstrips to ensure the Native Alaskan citizens of Alaska have access to services such as emergency medical assistance falls into the category of "imprudent" projects discussed in the President's memorandum of March 20, 2009, such as casinos, zoos, or golf courses, which are clearly outside the scope and intent of the Recovery Act.

In an effort to clarify the justification for these questioned projects, we are separately providing the OIG with detailed analyses of each of the 6 projects questioned, and would be pleased to clarify any misunderstanding of process or questions that remain.

FAA Using Rigorous Risk-Based Grant Oversight Approach for Recovery Act

FAA employs a rigorous, risk-based approach for overseeing grant recipients as part of its comprehensive and systematic ARRA risk mitigation and management efforts. FAA conducted an extensive risk assessment of AIP to evaluate internal controls and to ensure the unprecedented levels of accountability associated with ARRA can be met. Single Audit findings served as one factor of a grant recipient's risk assessment and any Single Audit finding requiring payment to the Federal government in excess of $100,000 was used as a basis for elevating a grant recipient's risk level, triggering increased oversight. While OIG found 4 ARRA grant recipients with prior Single Audit findings, this represents a small portion (1.4%) of the entire population of ARRA grant recipients to date (278), and validates the effectiveness of FAA's rigorous approach to grant management oversight. Further, none of the Recovery Act grantees have open Single Audit Act recommendations pending against them. Each of the prior findings was closed with action deemed acceptable upon review by the OIG.

FAA has also initiated exceptional oversight measures not recognized in the ARRA advisory to further mitigate risks related to the use of Recovery Act funding. For example, the FAA is in the process of issuing a contract to assist FAA field offices to ensure that appropriate measures are implemented, within both FAA's current risk-based framework and extraordinary measures that may be considered over and above these requirements. In addition, FAA Airport field offices will be stepping up grant oversight for ARRA projects, particularly the higher risk grant recipients with additional on-site inspections and payment monitoring. A team consisting of headquarters and field personnel is currently developing guidance on when and how to conduct the additional on-site construction inspections.

In summary, the Department has emphasized the need for careful stewardship of all funds expended, and particularly Recovery Act funding. Each agency within DOT, including FAA, has gone to extraordinary measures to ensure that spending fully comports with all applicable statutory and regulatory requirements. FAA looks forward to having the opportunity to demonstrate to the OIG how Recovery Act funded projects under the AIP program fully comply with applicable requirements. Please contact Martin Gertel, Director of Audit Relations on (202) 366-5145 with any questions or if we can be of assistance.