
Office of Inspector General

Audit Report

**ARRA LESSONS LEARNED:
OPPORTUNITIES EXIST FOR FAA TO
FURTHER IMPROVE ITS OVERSIGHT
OF AIRPORT GRANT PAYMENTS**

Federal Aviation Administration

Report Number: AV-2013-071

Date Issued: April 18, 2013





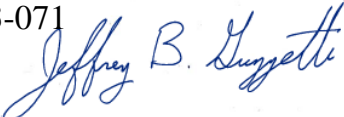
Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** ARRA Lessons Learned:
Opportunities Exist for FAA To Further
Improve Its Oversight of Airport Grant
Payments
Federal Aviation Administration
Report No. AV-2013-071

Date: April 18, 2013

From: Jeffrey B. Guzzetti 
Assistant Inspector General
for Aviation and Special Program Audits

Reply to
Attn. of: JA-10

To: Federal Aviation Administrator

On February 17, 2009, the President signed the American Recovery and Reinvestment Act (ARRA), designating \$1.1 billion for Federal Aviation Administration (FAA) Airport Improvement Program (AIP) grants. To maximize the impact of these grants, ARRA required Federal agencies to hold grantees accountable for their expenditures, and the Office of Management and Budget (OMB) directed agencies to increase grantee oversight for that purpose.¹

Given the sizeable amount of funds involved and our previous findings of improper payments involving AIP grants,² our audit objectives were to determine whether FAA's oversight of ARRA grantees was sufficient to (1) prevent or detect improper payments and (2) ensure funds were used in accordance with ARRA requirements.³ To achieve our objectives, we randomly sampled 19 out of 292 airports, compared payments with supporting documents, and evaluated the sampled payments to ensure they were for approved grant and ARRA purposes. We conducted our work between February 2011 and December 2012 in accordance with government auditing standards prescribed by the Comptroller General of the United States. As part of this audit, we selected a statistical sample

¹ OMB, "Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009," April 3, 2009.

² *Improper Payments Identified in FAA's Airport Improvement Program* (OIG Report No. FI-2011-023), December 1, 2010. In this report, we identified \$13 million in improper payments in FAA's 2008 AIP program. OIG reports are available on our Web site at <http://www.oig.dot.gov/>.

³ For the purpose of this report, we define "ARRA requirements" as a collective term to refer to ARRA statutory requirements, Presidential direction, and OMB and FAA guidance related to ARRA oversight.

of 365 transactions amounting to \$46.6 million out of a universe of \$1.1 billion, which allowed us to project our results. Exhibit A provides more details on our scope and methodology.

BACKGROUND

In 2002, Congress passed the Improper Payments Information Act (IPIA), which provides a framework for agencies to use in testing for improper payments, identifying their causes, and implementing solutions to reduce them. In August 2006, OMB established detailed requirements for complying with IPIA and further clarified that improper payments include the following:

- payments to ineligible recipients,
- payments for ineligible services or services not received,
- payments with insufficient documentation,
- duplicate payments, or
- payments in incorrect amounts.⁴

In implementing IPIA and OMB guidance, FAA's AIP Handbook⁵ further defines payment eligibility and documentation requirements. For example, payments for work outside the scope of the FAA-approved grant are not eligible (e.g., office equipment, passenger parking facilities, and food concessions). The Handbook also describes what documentation the Agency considers sufficient to support grantee payment requests. FAA's Airport District Offices (ADOs) are responsible for awarding and overseeing AIP grants. ADOs are located nationwide and report to FAA's nine regional offices.

In addition to IPIA and OMB guidance, Congress, the President, and FAA imposed additional restrictions on how ARRA funds could be used. The ARRA legislation established tight timeframes for distributing and expending funds. ARRA also required that FAA use its established AIP process and ensure grants did not supplant planned expenditures from other sources. In support of the Act, the President directed executive branch agencies to undertake "unprecedented efforts...to provide public transparency and accountability of [ARRA] expenditures."⁶ To achieve these purposes, FAA issued guidance⁷ in June 2009 stating ARRA funds were subject to "extraordinary scrutiny, with strict distribution and reporting requirements," and directed staff to (a) track ARRA

⁴ For reporting purposes, we categorized improper payments as either ineligible or insufficiently documented. The first category comprises payments made to ineligible recipients or for ineligible services. The second category includes payments that were improper because payment amounts did not match supporting documentation.

⁵ FAA Order 5100.38C, June 28, 2005. The AIP Handbook provides guidance to FAA staff about the administration of the Airport Improvement Program.

⁶ Presidential Memorandum, "Ensuring Responsible Spending of Recovery Act Funds," March 20, 2009.

⁷ FAA Stakeholder Guidance, "American Recovery and Reinvestment Act (ARRA) of 2009," June 9, 2009.

funds separately at all times, (b) not allow ARRA and AIP funds to be mixed or commingled, and (c) not issue grants with both types of funds in the grant.

RESULTS IN BRIEF

FAA's oversight process was not sufficient to prevent or detect more than \$1.4 million in improper payments. Of this total, \$890,657 were for services that lacked FAA's approval, expenses that are not eligible for payment from Federal grant funds, or payments that were billed to the wrong grant. For example, San Francisco International Airport officials improperly billed ARRA for over \$832,000 for unapproved taxiway and drainage work, as well as ineligible survey equipment.⁸ At other airports, we identified almost \$550,000 for services that lacked sufficient documentation to support payment amounts. For example, Washington Dulles International Airport lacked support for contractor invoicing of about \$113,000 billed for crushed stone, concrete, and drainage. These improper payments occurred in part because FAA over-relies on grantees to ensure their payment requests are accurate and supported. Moreover, the Agency's oversight of payments is typically limited to reviewing sponsor summary documentation, which frequently lacks sufficient detail to reveal ineligible or erroneous charges.⁹ While Agency officials report they are currently revising their procedures for overseeing AIP grantees, implementation of these changes will be critical to minimize future improper payments. Using statistical sampling techniques, we estimate that more than \$1.4 million of improper payments we identified in our sample would project to about \$24.3 million in improper payments nationwide, or 2.3 percent of all payments.¹⁰

FAA's oversight also did not ensure that airport grant fund expenditures fully met ARRA and AIP requirements. Examples included allowing grantees to use ARRA funds to cover prior year work and accepting single bids without seeking lower prices. In the first case, FAA reimbursed the State of Alaska, recipient of eight airport ARRA grants, almost \$4.7 million in ARRA funds for prior airport planning and design work that took place between 2004 and 2008, well before ARRA's passage in 2009. While the Act directed FAA to use its normal AIP grant process (which permits such reimbursements), the Act also directed that the funds be used to create jobs and stimulate the economy (i.e., through new work). This apparent conflict could have been avoided if FAA had reimbursed the State of Alaska with AIP planning grants and used the \$4.7 million instead on other new job-creating projects. In the second case, FAA regional offices allowed two grantees (Georgetown, KY, and La Grande, OR) to accept single bids without

⁸ FAA agrees these payments were improper and is seeking recovery of the funds from the airport sponsor.

⁹ During the course of our audit, we identified a number of improper payments that were outside our original sample. As such, we did not include these payments in calculating our projection.

¹⁰ The \$24.3 million best estimate is applicable to the \$1.1 billion in ARRA payments only, with an estimated range from \$11.5 million to \$37.1 million, at 90 percent confidence.

negotiating or comparing the proposals to the cost of similar projects. This raises questions as to whether the grantees obtained the best possible prices—especially since one of the bids was 22 percent higher than the airport’s original cost estimate. These and other examples discussed in this report highlight opportunities for improving the efficiency and effectiveness of FAA grant oversight.

We are recommending that FAA follow through on recovery of improper payments identified in this report. We also make several recommendations aimed at improving FAA’s oversight procedures.

FAA OVERSIGHT DID NOT DETECT OR PREVENT MORE THAN \$1.4 MILLION IN IMPROPER ARRA PAYMENTS

FAA oversight of ARRA expenditures did not detect more than \$1.4 million in improper payments for work that was ineligible or insufficiently documented. (See table 1 and exhibit B.) Overall, using statistical sampling techniques, we project that a total of about \$24.3 million were improper, or about 2.3 percent of the \$1.1 billion¹¹ that FAA

Table 1. Identified and Projected Improper Payments

Category	Improper Payments	Projection
Ineligible Services	\$890,657	\$4,920,360
Insufficient Documentation	\$549,807	\$19,377,262
Total	\$1,440,464	\$24,297,622

Source: OIG analysis

distributed in ARRA payments. Improper payments persist because FAA largely delegates financial oversight—including assuring payment accuracy—to the grantee. FAA also requires grantees to submit only summary-level supporting documentation, which may not be sufficiently detailed to reveal ineligible or erroneous charges. FAA officials told us that they are taking several steps to improve their oversight of AIP grants. These include: revising the AIP Handbook, training staff on these revisions, conducting initial risk assessments of all AIP sponsors, and reassessing them every third year. FAA also plans to move to “e-invoicing,” which will require grantees to provide support documents electronically with each payment request.

¹¹ Figures are rounded. For example, our total universe of ARRA payments was \$1,056,413,232.25 or \$1.1 billion.

Two Airports Used Approximately \$890,000 in ARRA Funds for Ineligible Services

We identified approximately \$890,000 in improper ARRA payments at five airports—most of which occurred at San Francisco Airport—for services that were ineligible (see table 2). According to OMB, an ineligible service includes expenditures for work or materials that are outside the scope of an approved grant or not permitted under

Table 2. Ineligible Services

Airport or Sponsor	Improper Payments
Fernando Luis Ribas Dominicci Airport, PR	\$57,844
San Francisco International, CA	\$832,813
Total	\$890,657

Source: OIG analysis

any grant provision.¹² Specific examples include:

- **San Francisco International Airport (SFO)** billed about \$772,000 to its two ARRA runway grants for unapproved taxiway paving and drainage projects that the airport never requested in its grant applications, and hence, FAA never approved.¹³ SFO also improperly directed its contractor to purchase and bill to ARRA \$61,128 in grant-ineligible survey equipment that the airport wanted for itself. These costs were identified on documents submitted to FAA only as “miscellaneous” or “unanticipated pavement conditions.” Despite these large undefined dollar amounts, FAA did not contest these payments. Instead, Agency officials followed their normal oversight policy, which only requires reviewing summary level documents to determine whether a payment request is “reasonable.” However, after we called these improper payments to FAA’s attention, the Agency verified all of these costs were ineligible and are recoverable.¹⁴ In addition, FAA stated it would review all current and future construction change orders for eligibility, proper scoping, and cost reasonableness.¹⁵ FAA officials also stated that they will no longer allow airport sponsors to bill AIP grants for expenses labeled as “miscellaneous.”
- **The Puerto Rico Port Authority** improperly billed more than \$57,000 of the Port’s indirect costs (i.e., administrative employees’ time) directly to its ARRA runway project. According to OMB, administrative time is not readily assignable directly to a grant unless the time can be identified specifically as being devoted to the grant’s performance. The Port Authority’s administrative

¹² OMB Circular A-123, April 14, 2011.

¹³ In addition to incorrectly charging ARRA grants, SFO also billed unapproved work to regular AIP grants that was not requested in grant applications.

¹⁴ After we identified the incorrect charges, FAA opened an inquiry into SFO’s use of regular AIP funds.

¹⁵ FAA also re-examined selected SFO grant payments for past AIP-funded construction contracts (2010 to 2011). This review identified over \$500,000 in additional improper payments.

charges to ARRA did not meet this standard because documentation provided in support of employees' administrative time charges from the Port's official accounting system was insufficient to determine if those costs were devoted directly to the ARRA-funded project.¹⁶

Nine Airports Billed Nearly \$550,000 for Insufficiently Documented Payments

At nine airports in our sample, we identified nearly \$550,000 in improper payments for insufficiently documented services (see table 3). According to FAA guidance, expenditures must be documented to show that work met all grant and contract requirements for reimbursement.

In some of these cases, we could not determine that work billed by a contractor was actually completed as claimed. For example, Washington Dulles International Airport did not have adequate documentation to support about \$113,000 in costs for crushed stone, concrete, and drainage. Similarly, SFO did not have sufficient documentation to support \$87,632 in payments for a variety of work, including installation of transformers and wiring for runway lighting.

At Georgetown-Scott County Airport (KY), the airport paid a local utility company approximately \$33,000 to relocate a power line and billed the cost to its ARRA grant. However, the work was outside the scope of the approved grant. FAA's AIP Handbook requires work outside of scope to be pre-approved via supplemental agreement and/or grant amendment, and states the extra work should be closely related to the grant purpose.¹⁷ According to the airport, FAA verbally approved the work, and it was related because the power line ran beneath the runway. Yet, without documentation demonstrating Agency approval, payment for this work is improper.

We also identified one airport in our sample—Sioux Gateway—that lacked documentation showing required price and cost analyses had been performed for

Table 3. Insufficiently Documented Items

Airports or Sponsors	Improper Payments
Bacon County, GA	\$418
Bob Hope/Burbank, CA	\$4,284
Denver International, CO	\$128,487
Georgetown-Scott County, KY	\$35,637
Merrill Field, AK	\$8,400
San Francisco International, CA	\$87,632
Sioux Gateway, IA	\$164,413
Spokane International, WA	\$7,891
Washington Dulles, VA	\$112,645
Total	\$549,807

Source: OIG analysis

¹⁶ OMB Circular A-87, revised May 10, 2004.

¹⁷ The AIP Handbook also prohibits adding extra work solely because grant funds are available.

numerous contract change orders.¹⁸ FAA guidance requires this analysis to ensure the grantee is not overcharged, and directs grantees to compare the proposed new price or cost to that for similar work or items, as well as with the original specifications. Yet, Sioux Gateway airport billed \$164,413 for change orders that did not have the required analyses. Instead, airport resident engineers merely signed the change orders and subsequent invoices. FAA headquarters officials told us they agreed with the practice of accepting signatures as sufficient evidence that the costs were reasonable, although the Agency's own AIP guidance specifies that sponsors are required to perform a cost or price analysis for every procurement action that uses AIP funds, including contract modifications. Without documented analyses, the Agency cannot know whether grantees and the Federal government are being overcharged for contract modification work.

Generally speaking, the variety of improper payments and examples we describe above show that FAA could detect more improper payments if it required grantees to provide more detailed support. Many of the improper payments we identified were found by reviewing the supporting documentation provided by contractors to grantees, not merely the required documents provided by grantees to FAA. In contrast, FAA limits its own opportunities to identify improper payments by not expecting or training local ADO staff to conduct more detailed financial oversight (such as reviewing additional supporting documentation). Agency officials report they are revising their procedures for AIP grantee oversight, such as conducting initial risk assessments of all AIP sponsors, reassessing them each third year, and requiring grantees to provide supporting documents electronically with payment requests. However, unless changes include more detailed reviews of documentation by staff trained to identify financial errors and inconsistencies, we are not confident that revising procedures will minimize future improper payments.

Additional ARRA and AIP Improper Payments Identified Outside of Our Statistical Sample

During our review, we identified approximately \$2.2 million in additional ARRA improper payments (see exhibit C) and \$1.2 million in AIP improper payments outside our original sample.¹⁹ Although not included in the calculation of our statistical projections, these improper payments reinforce our overall finding regarding weaknesses in FAA's oversight procedures. Specific examples include:

- **\$184,000 in ARRA payments involving a variety of ineligible items.** These items, which FAA agrees were improper, include a baggage scanner and

¹⁸ The AIP Handbook provides direction on the documentation and analysis required to support change orders.

¹⁹ As required by the generally accepted Government auditing standards prescribed by the Comptroller General of the United States, when we found improper payments or airport grantees not complying with ARRA or AIP criteria, we conducted additional work to determine whether the problems might be systemic or included fraud or abuse.

televisions for a passenger waiting area (Pitt County-Greenville Airport, NC), an engineering field office trailer (Boston Logan International Airport, MA), and a copy machine, along with other items charged to the wrong grant (Huslia Airport, AK).

- **Nearly \$1.3 million in insufficiently documented change orders at two ARRA-funded passenger terminal projects.**²⁰ For example, at Pitt County-Greenville Airport (NC), change orders increased the project cost by \$620,076. Likewise, at Asheville Regional Airport (NC), change orders added \$671,805 in cost and price increases. In neither case did the airport conduct and document a cost and price analysis to ensure that changes made on the project were a good value to the Government.
- **More than \$1.2 million in improper AIP grant payments at SFO for unapproved taxiway work.** According to FAA’s AIP Handbook, before any new work can be added to an AIP grant, the work “must be closely related to work contained in the grant description.” Yet, the taxiway work in question was not only unrelated to existing AIP runway grants, but also in an area of the airport neither adjacent to nor intersecting the runway being rehabilitated. After we brought these payments to FAA’s attention, the Agency agreed the entire \$1.2 million was improper and recoverable from SFO.

FAA OVERSIGHT DID NOT ENSURE THAT SOME ARRA EXPENDITURES FULLY COMPLIED WITH ARRA AND AIP REQUIREMENTS

FAA did not ensure that airport grantees used all ARRA funds in full accordance with ARRA and AIP requirements. As a result, grantees spent ARRA funds in a variety of ways without assurance that the funds were used as effectively as possible. Shortfalls included allowing grantees to (1) use ARRA funds to cover prior year work; (2) inappropriately mix ARRA and AIP funds for some projects; (3) accept single bids for projects without conducting cost comparisons; (4) inaccurately describe scope in project documents, leading to cost growth; and (5) ignore the requirement to maintain sufficient records of ARRA-funded work. In our opinion, these shortfalls could have been avoided if FAA ensured its Airport District Offices (ADOs) rigorously held airports to ARRA and AIP requirements that are critical to effectively using grant funds.

²⁰ These amounts reflect change orders producing net increases outside our sample. Change orders in our sample produced net decreases of over \$1.1 million, which we accepted as reasonable.

Alaska Used Almost \$4.7 Million in ARRA Funds to Cover Prior Year Expenditures, Rather Than Meeting a Key Requirement To Create Jobs and Stimulate the Economy

In the State of Alaska, FAA did not ensure that all ARRA funds met the Act's criteria for job creation. The Act established several key requirements for using ARRA grant funds, including stimulating the economy and creating jobs, obligating grant funds quickly, and complying with FAA's normal AIP process.²¹ While FAA successfully met the latter two requirements, we found one notable instance where funds were not used to achieve economic stimulus. Specifically, FAA reimbursed \$4.7 million in ARRA funds to the State of Alaska for prior planning and design at eight airports. This work had been completed between 2004 and 2008—years before the passage of ARRA in 2009. Further, the State deposited the \$4.7 million in the State's general fund, rather than committing it to creating jobs and stimulating the economy, which was ARRA's purpose.

According to FAA regional officials, Federal regulations and FAA's normal AIP grant process allow planning and design costs to be eligible for reimbursement. However, by doing so, the Agency did not maximize the amount of funds that could be dedicated to job creation and economic stimulus as called for by ARRA. To resolve the differences between AIP and ARRA requirements, FAA could have funded Alaska's airport planning and design work with regular AIP funds. That would have allowed Alaska to reserve ARRA funds for new stimulus-related construction projects in the State or FAA to provide the funds for projects elsewhere in the Nation.

Two FAA Airport District Offices Did Not Maintain Strict Separation Between ARRA and Non-ARRA Funded Projects

FAA airport district offices varied as to how much effort they put into separating ARRA and non-ARRA funded projects. While not specifically cited in the Act, strictly separating ARRA funds was necessary to meet ARRA and FAA requirements for transparency and accountability, and to ensure funds were spent in accordance with approved grant agreements. Accordingly, FAA issued stakeholder guidance²² directing its field staff to track ARRA funds separately at all times and not allow ARRA and AIP funds to be mixed or commingled. Yet, we found several examples where separation was not maintained. For example:

- **Anchorage, Alaska**—FAA regional officials overseeing several grants at Merrill Field, AK, did not take steps to ensure ARRA and regular AIP funds were kept separate. At Merrill Field, ARRA funds were used to pave a taxiway

²¹ In FAA's stakeholder guidance, the Agency directed regional officials "to issue grants for high priority projects that can proceed to construction quickly to preserve and create jobs and promote economic recovery."

²² FAA Stakeholder Guidance, "American Recovery and Reinvestment Act (ARRA) of 2009," June 9, 2009.

and AIP funds to pave a runway. An inherent risk existed that funding could become mixed because the airport hired a single contractor to pave both areas simultaneously. To reduce this risk and ensure accountability, FAA requires airports to collect weigh tickets labeled with project descriptions for each truckload of asphalt delivered. However, we found none of the asphalt weigh tickets collected by the airport were marked for the ARRA taxiway project; all were identified for the runway, or labeled for a non-airport project. As a result, FAA and airport officials had to rely on less accurate methods (i.e., daily inspection reports and asphalt measurements) for estimating the amount of work done on the ARRA-funded taxiway versus the AIP-funded runway. Given the Agency's emphasis on keeping ARRA funds separate, local FAA and airport officials should have taken additional steps to ensure weigh tickets were correctly labeled.

- **Washington, DC**—Similarly, ADO officials in Washington, DC, allowed ARRA and AIP funds to be commingled. At Washington Dulles International Airport, the ADO issued two grants for a pavement project involving runway and connecting taxiways. In implementing the Agency's stakeholder guidance, FAA included a cost allocation plan and schematic diagram in both grant packages showing how costs would be distributed between ARRA and AIP funds. However, the two documents conflicted in that the allocation plan allowed taxiway costs to be split between the two funding sources, while the diagram assigned all taxiway costs to AIP. While Agency officials acknowledged that differences between the two documents created some confusion, they argued the schematic diagram was only intended to be a general description of the respective runway and taxiway work areas. Nevertheless, the cost allocation plan alone did not provide sufficient controls to prevent some pavement work being incorrectly charged to ARRA. Based on our review, Dulles airport officials agreed to correct about \$556,000 of ARRA mischarges involving taxiway work.

Two Grantees Accepted Single Bids Without Negotiating or Comparing Prices

Our review identified two grantees that accepted single bidders' cost proposals without negotiating or comparing the proposals to the cost of similar runway projects elsewhere. These two cases raise questions as to whether these grantees obtained the best possible prices. FAA AIP guidance states that when a sponsor receives only a single bid for a project, the airport sponsor should seek to negotiate a better price, and compare the proposal to its own engineer's estimate, as well as the cost of other similar projects. Additionally, the guidance states that FAA

officials should encourage the negotiations.²³ In interpreting these guidelines, FAA officials point out that “should” does not mean that airport sponsors “must” negotiate prices and compare costs after receiving a single bid.

Nevertheless, had FAA guidance required price negotiations and cost comparisons, significant savings might have been achieved—as illustrated by the following two airports we examined.

- **La Grande/Union County Airport, OR**, received only one bid that was 22 percent higher than the airport’s engineering estimate (\$907,000 versus \$745,000). Yet, the airport accepted the bid without seeking a lower price. Because of the large differential, we asked airport officials why they did not negotiate for a better deal. According to the airport’s resident engineer, the bidder was the only contractor in the area supplying gravel, and therefore, any other contractor would have had to use the bidder’s gravel anyway. However, La Grande is 170 miles from the city of Boise, ID, where other contractors were located who might have been more amenable to negotiations. In fact, one of these contractors was used by the Pocatello Regional Airport for its ARRA project, even though Pocatello is more than 230 miles away from Boise.
- **Georgetown/Scott County Airport, KY**, also received a single bid, which was 5 percent below the airport’s engineering estimate for a runway project (\$2.87 million versus \$3.02 million). According to the airport’s resident engineer, the airport made no effort to negotiate or reduce the bid because it was already below the engineer’s estimate. However, many ARRA-funded projects were executed at far below engineer’s estimates due to the economic recession in 2008 and 2009 when many contractors were drastically reducing bids to obtain work. In fact, 67 of 364 FAA-funded ARRA projects (18 percent) were bid at 25 or more percent below the airports’ requested grant amount. Given the existing economic circumstances at the time, we believe the airport should have complied with FAA guidance and compared the proposal to similar runway projects elsewhere, rather than presume that it had received the best possible deal.

FAA Reimbursed Two Airports for Cost Increases Caused by Inaccurate Project Documentation

Two airports in our review experienced large cost increases due to inaccurate project documentation. FAA policy states that contractors are responsible for carefully examining the site of the proposed work and verifying the quality and

²³ According to the AIP Handbook: (1) the low bid should be compared to similar type work; if only one bid is received, (2) FAA should encourage the sponsor to negotiate with the sole bidder to obtain lower prices; and (3) if there are less than five bidders, and the low bid exceeds the engineer’s estimate by 10 percent, the grant should not be issued unless FAA is satisfied that the costs are reasonable.

quantity of work to be performed. Further, FAA policy states that the contractor's "submission of a proposal shall be prima facie evidence that the bidder has made such examination and is satisfied as to the conditions to be encountered in performing the work."²⁴ Yet, as the following two examples illustrate, FAA reimbursed sponsors for extra contractor work arising from airport miscalculations in project documents.

- **San Francisco International Airport** published an inaccurate description²⁵ of its runway rehabilitation project that led its winning bidder to submit an unrealistically low cost proposal for the work.²⁶ Subsequently, the airport agreed to pay the contractor a 32 percent increase in the unit cost of installed asphalt. This ultimately meant spending \$852,780 over the original bid for extra paving costs. Instead of enforcing its policy and holding the airport accountable for the inaccurate project description, FAA approved the airport's request to bill the extra costs to ARRA through a change order.²⁷ This case was especially egregious because, according to a local FAA official, it was well known that the paving project would be more complicated than the simple description in the bid documents.
- **The Puerto Rico Port Authority**, sponsor of Fernando Dominicki Airport, solicited bids for a runway rehabilitation project using a project description that contained significant errors in the project's design. For example, the Port Authority's consultant for design and construction management significantly underestimated the amount of pavement milling by a factor of 7 (i.e., about 18,000 versus 128,000 square feet). These errors translated into about \$549,000 in extra milling, paving, and painting costs. While the local FAA project manager questioned some of the costs—initially denying payment of approximately \$110,000—FAA headquarters ultimately determined the Port should be reimbursed for all the extra costs.

FAA headquarters officials point out that the extra work—in both cases—would have been covered by the grant if the project had been correctly described; however, this position is inconsistent with the Agency's guidelines that call for grantees and contractors to be held responsible for accurately and completely describing and verifying project work. In addition, FAA provides no incentive to grantees to ensure that project documents are accurate and complete or that

²⁴ FAA Advisory Circular 150/5370-10E, "Standards for Specifying Construction of Airports," September 30, 2009.

²⁵ In the bidding documents, the project was described as a simple 3-inch grinding and repaving of a runway. In actuality, the old pavement had settled irregularly, making grinding and paving significantly more complex and costly.

²⁶ The contractor bid \$70.50 per ton, which the airport agreed to increase to \$93 per ton.

²⁷ A closer review of other San Francisco grants revealed that inadequate management and contracting practices were not limited to ARRA projects. The airport had built into its contracts generous allowances for undefined work, leaving grant funds vulnerable to cost growth as well as potential fraud, waste, and abuse.

contractors' bids are based on the actual work they expect to do. This in turn may create opportunities for fraud or abuse that could otherwise go undetected.

Record Keeping at Three Airports Was Insufficient

Both FAA's AIP and construction guidance provide detailed standards for record keeping, such as requiring airport managers to maintain daily construction records. Moreover, OMB requires that in order for a payment to be proper, sufficient documentation must be available at the time of payment. However, three airports in our sample did not fully meet these requirements. For example:

- **At La Grande/Union County Airport, OR**, the airport did not maintain daily records to verify the quantities of individual line items (e.g., yards of removed pavement) the contractor was billing to ARRA. As a result, the project manager had to search for other documentation, and we had to rely on secondary sources, such as project drawings, to reach a conclusion that payments were accurate.
- **At Merrill Field, AK**, the airport did not ensure that asphalt and gravel weigh slips were marked with the correct project title and number, making it difficult to determine which work was properly chargeable to ARRA versus a separate AIP project occurring simultaneously. As a result, we relied on summary tabulation sheets maintained by the airport's engineer to determine delivery quantities.
- **At Rosebud Sioux Tribal Airport, SD**, the airport did not retain daily delivery records for water measured in thousands of gallons per day. As a result, we relied on weekly summary totals to determine whether the payment was proper.

While the above airports were ultimately able to supply additional documentation supporting that the work was accomplished, these records had not been properly developed or maintained. Moreover, these airports were not able to provide needed records at the time of our site visit, raising questions as to whether the documentation was available at the time of payment, as OMB requires.

In contrast, some airports in our sample were very adept at maintaining project and grants records and making them available during our site visits. For example, at Baltimore-Washington International Airport, the resident engineer kept excellent records and could readily document support for each payment we reviewed. Other airports, including Pitt-Greenville (NC) and Sioux Gateway (IA), made project and grant records available to FAA on a secure Web site. Although not required by FAA guidance, such efforts not only increase the airports' transparency and

accountability, but also allow local ADO officials to conduct more thorough and timely oversight without incurring travel costs.

CONCLUSION

ARRA rapidly injected an unprecedented amount of funding into the U.S. economy, and required an equally unprecedented amount of oversight by Federal agencies to ensure that airport grantees spent funds appropriately. However, even after ARRA, sufficient grant oversight should always be a priority for agencies, and is needed in order to ensure fiscal accountability. As such, our work on ARRA provides important lessons learned for FAA's oversight of all its grant funds. In particular, FAA's reliance on airport grantees to ensure the accuracy of their own payment requests is not sufficient to prevent some improper payments. Furthermore, the high level summary documentation that FAA collects is unlikely to reveal many billing errors. While FAA's planned revisions to its grant oversight process show promise, these enhancements are not expected to be completed until mid 2013. Until these and other changes recommended by our report are implemented, FAA will run the risk of additional improper payments.

RECOMMENDATIONS

To improve its oversight of AIP grants and prevent improper payments, we recommend that FAA:

1. Develop and implement a plan to maximize the recovery of ARRA and AIP improper payments identified in this report.
2. Require ADOs to examine a representative sample of grant payments each year through direct review of contractors' invoices and other supporting documents.
3. Revise and enforce Agency policy regarding contract modifications and change orders by requiring an appropriate dollar threshold for price and cost analyses.
4. Revise Agency policy to require that airport sponsors perform cost comparisons and contract negotiations in cases involving a single bidder.
5. Enhance Agency enforcement policies to ensure airport sponsors or contractors are held accountable for any cost increases due to errors in project description documents.
6. Improve the Agency's oversight and enforcement of airport grant record keeping by expanding ADO electronic access to sponsor project and grant files.

7. Incorporate a checklist into existing ADO grant oversight practices to verify compliance with relevant OMB and FAA financial policies, particularly in such areas as cost eligibility, change orders, price and cost analyses, and single bid negotiations.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FAA our draft report on December 21, 2012, and received FAA's response on March 11, 2013. FAA's response is included in its entirety in the appendix to this report. In its response, FAA stated that more than \$1.1 million in improper ARRA payments and almost \$1.2 million in improper AIP payments that we identified is recoverable. FAA also concurred with recommendations 1 and 5, and partially concurred with recommendations 2, 3, 4, 6, and 7. FAA's planned actions for recommendations 1, 5, and 6 met the intent of our recommendations and where appropriate included reasonable timeframes for implementation. However, we are requesting that FAA provide additional information or reconsider its response for recommendations 2, 3, 4, and 7, as detailed below.

FAA partially concurred with recommendation 2 and requested that the recommendation be closed based on the Agency's alternative actions. Specifically, FAA noted that, in 2012, the Agency implemented several improvements to its grant oversight, including a tool for assessing grantee risk and a grant payment system requiring grantees to electronically submit attachments supporting their reimbursement requests. However, we are concerned that these improvements may not translate into FAA staff providing any additional oversight of contractors' invoices and other supporting documents. The majority of improper payments we identified were found by reviewing those kinds of documents. Therefore, as FAA implements its new risk-based process over the next year, we request that the Agency provide us documentation that demonstrates that its staff is reviewing contractors' invoices and other supporting documents for grantees deemed to be high risk.

FAA partially concurred with recommendation 3, but did not see a need to incorporate a review threshold for price and cost analyses given a recent related policy revision. Specifically, FAA cited the need to allow the revision to work its way through the system before making any further changes to the Agency's policy. However, while FAA's 2012 policy revision does provide more detailed instructions on these analyses, it does not address our underlying concern that grantees may continue to disregard the Agency's requirements for these analyses and incur unreasonable costs. As we noted in our report, some grantees are not conducting required price and cost analyses at all—even for change orders in the hundreds of thousands of dollars. Moreover, FAA officials we interviewed stated

they do not have the resources to ensure all price and cost analyses are completed. Given the Agency's limited oversight resources and our concerns about grantee compliance, we request that FAA provide clarification as to how it will ensure grantees complete needed analyses under the Agency's revised policy.

FAA partially concurred with recommendation 4 and requested that the recommendation be closed based on the Agency's 2012 revisions to its cost analysis policies. However, FAA's response and its revised policy do not address the need for negotiations in cases involving a single bidder. Instead, FAA only focuses on the need to conduct cost analyses in single bidder cases. Yet, as we note in our report, conducting cost analyses without complementary negotiations could result in grantees paying more than is reasonable. Therefore, to minimize the risk of overcharges, we request that FAA provide clarification on what specific steps grantees must take if their cost analyses are significantly lower than the single bid received.

FAA partially concurred with recommendation 7, but disagreed with the need to adopt a formal checklist of financial management requirements to improve its oversight. FAA's response maintains that its AIP Handbook provides sufficient guidance in the financial management area. However, in our opinion, a checklist or explicit "how to" guidance could help FAA staff better enforce the Handbook's financial requirements. For example, while the AIP Handbook requires FAA staff to hold grantees and contractors responsible for accurately describing and verifying project work, it does not describe the procedures for doing so.²⁸ We believe the shortfalls identified in our report regarding change orders, price and cost analyses, and single bidder negotiations—as well as over \$2 million in agreed upon improper payments—demonstrate the need for such oversight aids or additional guidance. Therefore, we request that FAA reconsider its position on this recommendation.

ACTIONS REQUIRED

We consider recommendations 1, 5, and 6 resolved but open pending the completion of planned actions. We also consider recommendation 2 resolved, but open pending receipt of the additional supporting documentation requested. For recommendations 3, 4, and 7, we request that FAA provide additional information or reconsider its position. In accordance with Department of Transportation Order 8000.1C, we request that FAA provide us this additional information within 30 days.

²⁸ See Puerto Rico Port Authority example on page 12 of this report.

We appreciate the courtesies and cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-0500 or Darren Murphy, Program Director at (206) 220-6503.

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cc: DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our objectives were to assess whether FAA's oversight of ARRA grantees was sufficient to (1) prevent or detect improper payments and (2) ensure funds were used in accordance with ARRA criteria.

To assess whether FAA oversight was sufficient to ensure compliance with ARRA, AIP, and other relevant criteria, we contacted key Agency officials in Headquarters, the Alaskan Regional Office, and 12 of 21 Airport District Offices (ADOs). At these locations, we interviewed FAA officials responsible for ARRA grant project and financial management for those airports in our sample. To identify improper payments and ensure ARRA funds were used properly, we randomly selected 19 out of 292 airports. We reviewed 58 of 374 payments made on those grants, and then selected and reviewed 365 line items from those payments, which allowed us to project our results.

Next, we interviewed airport officials and collected documentation supporting those payments. We determined whether the sponsor received proper credit for lower costs of materials or labor when applicable, examined change orders to determine if work stayed within original contract scope, and determined whether appropriate price and cost analysis activities were performed. Additionally, we examined files to ensure appropriate review and approval occurred, verified if payments were made in accordance with the terms of the contract, and established that payments did not exceed contract value and the invoicing of labor costs was adequately documented, recorded, and authorized.

We conducted our work between February 2011 and December 2012 and included such tests of procedures and records as we considered necessary, including those providing reasonable assurance of detecting abuse and illegal acts.

EXHIBIT B. IMPROPER ARRA PAYMENTS IDENTIFIED IN OUR SAMPLE

No.	Airport or Sponsor	Ineligible	Insufficiently Documented	Total
1	Asheville Regional, NC	\$0.00	\$0.00	\$0.00
2	Bacon County, GA	\$0.00	\$417.90	\$417.90
3	Baltimore/Washington, MD	\$0.00	\$0.00	\$0.00
4	Bob Hope/Burbank, CA	\$0.00	\$4,284.49	\$4,284.49
5	Boston Logan International, MA	\$0.00	\$0.00	\$0.00
6	Denver International, CO	\$0.00	\$128,486.84	\$128,486.84
7	Fernando Luis Ribas Dominicci Airport, PR	\$57,843.64	\$0.00	\$57,843.64
8	Georgetown/Scott County, KY	\$0.00	\$35,637.00	\$35,637.00
9	State of Alaska	\$0.00	\$0.00	\$0.00
10	Indianapolis Executive, IN	\$0.00	\$0.00	\$0.00
11	La Grande/Union County, OR	\$0.00	\$0.00	\$0.00
12	Merrill Field, AK	\$0.00	\$8,400.00	\$8,400.00
13	Pitt County-Greenville, NC	\$0.00	\$0.00	\$0.00
14	Pocatello Regional, ID	\$0.00	\$0.00	\$0.00
15	Rosebud Sioux Tribal Airport, SD	\$0.00	\$0.00	\$0.00
16	San Francisco International, CA	\$832,813.49	\$87,632.35	\$920,445.84
17	Sioux Gateway, IA	\$0.00	\$164,413.03	\$164,413.03
18	Spokane International, WA	\$0.00	\$7,890.51	\$7,890.51
19	Washington Dulles, VA	\$0.00	\$112,644.63	\$112,644.63
Totals:		\$890,657.13	\$549,806.75	\$1,440,463.88

EXHIBIT C. IMPROPER ARRA PAYMENTS IDENTIFIED OUTSIDE OUR SAMPLE

No.	Airport or Sponsor	Ineligible	Insufficiently Documented	Total
1	Asheville Regional, NC ²⁹	\$0.00	\$671,805.12	\$671,805.12
2	Bacon County, GA	\$0.00	\$587.61	\$587.61
3	Baltimore/Washington, MD	\$0.00	\$0.00	\$0.00
4	Bob Hope/Burbank, CA	\$0.00	\$0.00	\$0.00
5	Boston Logan International, MA	\$35,000.00	\$0.00	\$35,000.00
6	Denver International, CO	\$0.00	\$42,207.76	\$42,207.76
7	Fernando Luis Ribas Dominicci Airport, PR	\$0.00	\$110,558.11	\$110,558.11
8	Georgetown/Scott County, KY	\$0.00	\$0.00	\$0.00
9	State of Alaska ³⁰	\$14,429.00	\$0.00	\$14,429.00
10	Indianapolis Executive, IN	\$0.00	\$3,801.76	\$3,801.76
11	La Grande/Union County, OR	\$0.00	\$0.00	\$0.00
12	Merrill Field, AK	\$0.00	\$0.00	\$0.00
13	Pitt County-Greenville, NC	\$134,585.00	\$620,076.00	\$754,661.00
14	Pocatello Regional, ID	\$0.00	\$0.00	\$0.00
15	Rosebud Sioux Tribal Airport, SD	\$0.00	\$1,824.92	\$1,824.92
16	San Francisco International, CA ³¹	\$9,202.51	\$0.00	\$9,202.51
17	Sioux Gateway, IA	\$0.00	\$0.00	\$0.00
18	Spokane International, WA	\$0.00	\$0.00	\$0.00
19	Washington Dulles, VA	\$0.00	\$556,053.50	\$556,053.50
Totals:		\$193,216.51	\$2,006,914.78	\$2,200,131.29

²⁹ At Asheville and Pitt County-Greenville, change orders outside our sample increased the overall project cost by \$671,805.12 and \$620,076, respectively. As discussed earlier, these change orders were not supported by required price and cost analyses.

³⁰ Improper payments included \$6,989 for a copy machine and \$7,440 for charges allocable to another AIP grant.

³¹ We also identified \$1.2 million in ineligible AIP payments at SFO (cited in this report). After we brought this to FAA's attention, they concurred that the work was ineligible and the funds are recoverable from the airport sponsor.

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

<u>Name</u>	<u>Title</u>
Darren Murphy	Program Director
Chuck Ward	Project Manager
Diane Brattain	Senior Auditor
Susan Cohen	Senior Analyst
Susan Zimmerman	Senior Auditor
Gloria Muhammad	Auditor
Petra Swartzlander	Senior Statistician
Megha Joshipura	Statistician
Amy Berks	Senior Counsel
Rodolfo Perez	Engineer Advisor
Aron Wedekind	Engineer
Audre Azuolas	Writer-Editor

APPENDIX. AGENCY COMMENTS




Federal Aviation Administration

Memorandum

Date: March 11, 2013

To: Jeffrey B. Guzetti, Assistant Inspector General for Aviation and Special Program Audits

From: H. Clayton Foushee, Director, Office of Audit and Evaluation, AAE-1 

Subject: Federal Aviation Administration's (FAA) Response to Office of Inspector General (OIG) Draft Report on Airport Improvement Program Recovery Act Grants

Introduction

FAA's review of the draft report determined that it concludes over \$1.075 billion in payments of the \$1.1 billion in funding made available during the FAA's implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act) were proper and well documented. This is an extraordinary number for a program that obligated over \$1 billion to improve airport infrastructure and create good paying jobs for America. It is important to remember that an improper payment is a term of art that includes documentation issues, and clerical errors. FAA's strong results are particularly noteworthy in light of the extreme time constraints for obligating these funds, and the extraordinary conditions in place during 2009. These results from a special legislative program with unique requirements are not indicative of an overall \$3.5 billion Airport Improvement Program in need of enhanced oversight as the title implies.

FAA Successfully Implemented the Recovery Act

FAA implementation of its statutory responsibilities with regard to the Recovery Act were enormously successful and fully complied with statutory direction and Office of Management and Budget (OMB) expectations as set forth in its formal guidance.

The Recovery Act was a unique legislative initiative that contained unprecedented requirements regarding agency oversight, grantee reporting, and project implementation timelines. The FAA was instructed to use the existing Airport Improvement Program (AIP) processes to administer

the Recovery Act. The long standing processes and procedures of the AIP enabled the FAA to quickly implement airport construction and equipment projects to satisfy the central objectives of the legislation.

Within a few months of the Recovery Act's enactment, the FAA enhanced its existing processes and procedures with formal guidance with more stringent project selection and oversight requirements. The FAA also developed new sponsor reporting tools. Because the FAA has a well-developed planning and project selection process, projects were able to start almost immediately.

Overall, the FAA expended over \$1 billion towards 372 projects. The types of projects funded included construction or rehabilitation of runways, runway safety areas, taxiways, aprons, terminal buildings, and aircraft rescue and firefighting buildings. Recovery Act funds purchased aircraft rescue and firefighting equipment and made security improvements. Funds helped increase capacity through construction of new airports and mitigated the impacts of airport noise. All of the projects were substantially complete by July 2011.

FAA Works Aggressively to Prevent and Address Improper Payments

The risk of improper payments under the Recovery Act program and the normal AIP was extremely low. This is evidenced by this audit, the 2008 OIG audit of the AIP, and the annual reviews conducted by the Department of Transportation (DOT) in compliance with the Improper Payment Elimination and Recovery Act of 2010 (IPERA).

Every year, the FAA, in conjunction with OST, performs an improper payments review consistent with IPERA. The results of these test procedures for the past two years attest to the effectiveness of the FAA's grants payment management processes. In FY 2012 and FY 2011, the review estimated an improper payment rate of 0.06% (six one-hundredths of one percent) and 0.89%, respectively. These projections are below OMB's definition of significant improper payments (\$10 million and 2.5 percent of total program payments or \$100 million).

Even with the long standing, successful history of the AIP and the minimal risk of improper payments, the FAA has diligently increased oversight and strengthened internal control procedures with minimal increase in FAA staffing resources.

However, several recommendations in this draft report would require specific policy and procedure changes to areas addressed by the FAA over the last 18 months. These recommended changes, based on findings from payments made before these changes took effect, presupposes that the systemic program actions we have taken this past year will be inadequate.

FAA Oversight ensured over \$1.075 billion in payments were proper and consistent with the Recovery Act

Overall the OIG draft report findings pointed primarily to insufficient documentation or documentation errors, which are usually eligible expenses with minimal if any recoveries. Additionally, the OIG draft report did not identify any items associated with fraud, waste or abuse.

Appendix. Agency Comments

Based on the OIG draft report findings, well over \$1.075 billion of payments made by the FAA under the Recovery Act were proper and consistent with the intent of the legislation. Of the \$1.44 million identified in its sample by the OIG, which the draft extrapolates to \$24 million, nearly the entirety of items were considered improper for minor documentation errors or for differences of interpretation of policy/documentation requirements. Many of the items discussed in the OIG draft report would ultimately be eligible for AIP funding. In addition, similar to the AIP reviews conducted consistent with IPERA, the amounts identified and projected by the OIG under the Recovery Act fall below OMB's definition of significant improper payments.

FAA Effectively Implemented the Recovery Act Legislation to Create Jobs, Revitalize the Economy, Provide High Quality Airport Infrastructure and Make Lasting Improvements to the National Airport System

The OIG draft report identifies several areas that it believes the FAA could have better utilized funding to maximize the benefit of the Recovery Act. While we respect the OIG's opinion, the areas identified by did not in any way undermine the effectiveness of the FAA's implementation of the program or the positive benefits received from the funding. Like any program where the needs exceed the resources available, there will be differences of opinion from outside entities on program decisions. Ultimately, the draft report did not identify the findings in these areas as improper payments.

For our specific airport by airport response to the OIG findings please see Attachment 1.

Recommendations and FAA responses

Recommendation #1: Develop and implement a plan to maximize the recovery of ARRA and AIP improper payments identified in this report.

Response: Concur. Based on payment specific information from the OIG, the FAA has identified the following recoverable improper payments. These are enumerated in the table below and Attachment 1. FAA will complete the appropriate recoveries by December 31, 2013.

AIRPORT	AMOUNT
Bob Hope Airport (Burbank, CA)	\$3,232.60
Denver International Airport (Denver, CO)	\$319.63
Georgetown Scott County - Marshall Field (Georgetown, KY)	\$2,187.00
Huslia Airport (Huslia, Alaska) [State of Alaska]	\$6,989.00
Pitt-Greenville Airport (Greenville, NC)	\$134,585.00
Puerto Rico Ports Authority	\$57,843.64
San Francisco International Airport (San Francisco, CA) ¹	\$929,648.35
Total	\$1,134,805.22

Based on information provided by the OIG during the audit, and additional review by the FAA, it was determined that there were additional recoverable amounts totaling \$1,193,580.82 at SFO. A total of \$2,123,229.17 will be recovered from SFO.

Recommendation #2: Require ADOs to examine a representative sample of grant payments each year through direct review of contractors' invoices and other supporting documents.

Response: Partially-concur. In response in part to an OIG recommendation from a previous audit, the FAA's Office of Airports has worked to update its risk-based approach for oversight of the AIP. The revised risk model and policy were issued on October 1, 2012. The revised policy provides an electronic tool for the FAA to assess the overall risk of a grantee and requires more focused oversight through individual program areas such as the grant payment oversight. The electronic tool contains 10 primary factors that address sponsor's policies and procedures, internal sponsor controls and resources, IT structure, past performance and several other factors. The model provides for varying levels of transaction and documentation review based on risk.

In addition, to compliment the updated risk model, in August 2012 the FAA implemented the Department's electronic grant payment system, which transitions all AIP grant payment activities over to an electronic process. The efficiencies and capabilities gained by switching to the new electronic payment system have enabled the FAA's Office of Airports to standardize its payment oversight policies. All sponsors will be required to submit electronic attachments to each payment request to support reimbursement requests. The airport sponsor's grant payment risk level will determine the level of documentation to accompany payment requests and both policies' incorporate escalating levels of oversight where appropriate.

Appendix. Agency Comments

Finally, each year under the Improper Payment Improvement Act, the FAA samples grant payments for purposes of determining the rate of improper payments within the AIP.

The FAA in taking the alternative actions described above, is already complying with the intent of this recommendation, and therefore requests that this recommendation be closed.

Recommendation #3: Revise and enforce Agency policy regarding contract modifications and change orders by requiring an appropriate dollar threshold for price and cost analysis.

Response: Partially-concur. The FAA's Program Guidance Letter (PGL) 12-03 dated January 3, 2012, which amended paragraph 906 of FAA Order 5100.38C, provides the requirements for price and cost analysis. Given this recent change, which was in response to a prior OIG recommendation, the FAA considers it appropriate for this revision to work its way through the system prior to making any further revision to policy. As previously discussed, the items sampled were from before this policy was issued and the clarifications and changes made in January 2012 will further enhance FAA's ability to prevent and detect future improper payments.

With respect to establishing a dollar threshold, FAA has determined that such a threshold would be impractical and potentially detrimental, by refocusing reviews without a specific risk basis. Moreover, setting a standard threshold figure could create a risk that sponsors, consultants or contractors might adjust behaviors in order to stay below that threshold. By contrast, FAA has found the form of the analysis varies depending on the specific circumstances and the nature of the contract modification or change order. The PGL acknowledges these variations and provides examples that address changes or modifications that might require alternatives to the listed analytical procedures (see paragraph 906.d (2)).

The FAA in taking the alternative actions described above, is already complying with the intent of this recommendation, and therefore requests that this recommendation be closed.

Recommendation #4: Revise Agency policy to require that airport sponsors perform cost comparisons and contract negotiations in cases involving a single bidder.

Response: Partially-concur. The FAA's PGL 12-03 dated January 3, 2012, which amended paragraph 906 of FAA Order 5100.38C, provides the requirements for a cost analysis in cases involving a single bidder. As with the FAA's response to recommendation 3 above, given this recent change based on prior OIG recommendations, the FAA finds no reason for a revision to existing policy.

The FAA in taking the alternative actions describe above, is already complying with the intent of this recommendation, and therefore requests that this recommendation be closed.

Recommendation #5: Enhance Agency enforcement policies to ensure airport sponsors or contractors are held accountable for any cost increases due to errors in project description documents.

Response: Concur. The FAA actively reviews cost increases as evidenced by the example provided in the draft report. The FAA recognizes that cost increases occur and the reasons for such increases vary. In the cases referenced in the draft report, the cost increases were necessary in order for the associated project to comply with FAA construction specifications. Although the FAA's intent is to hold contractors accountable for submitted bids (and engineers for the bid documents they prepare), the FAA's corrective actions should not negatively affect the intended project, its designed life-cycle performance or the safety of the traveling public. In many instances, especially when dealing with large-scale construction projects, changes are necessary. Field experts (engineers, airport sponsors, and ADO staff) need to have the flexibility to use professional judgment so that projects can be completed timely and in accordance with federal requirements.

The FAA will provide additional guidance to our Regional offices with guidance on how to evaluate change orders related to errors in project description documents by September 30, 2013.

Recommendation #6: Improve the Agency's oversight and enforcement of airport grant record keeping by expanding ADO electronic access to sponsor project and grant files.

Response: Partially-concur. FAA recognizes that some grantees have electronic records management systems that can be made available to ADO staff for oversight of sponsor project and grant files. FAA will conduct a survey of the extent to which such systems are in use by airports and the extent to which FAA presently has access to those records. If sponsors have existing systems and the ADO's can readily access those systems in their current state, we will provide recommendations to our field offices to use this access to support grant oversight activities consistent with current FAA policies and procedures. FAA will complete the sponsor survey and any necessary guidance by October 1, 2014.

Recommendation #7: Incorporate a checklist into existing ADO grant oversight practices to verify compliance with relevant OMB and FAA financial policies, particularly in such areas as cost eligibility, change orders, price and cost analysis, and single bid negotiations.

Response: Partially-concur. The FAA's AIP Handbook provides sufficient guidance in this area so that a formal checklist is not required. With respect to OMB and FAA financial policies, Chapter 3, Section 2 of FAA Order 5100.38C provides the required details on cost eligibility (allowability, allocability, and reasonableness). With respect to change orders and single bids, as noted above, the FAA amended its guidance through the issuance of PGL 12-03, which amended the foregoing Order.

The FAA, in taking the alternative actions described above, is already complying with the intent of this recommendation, and therefore requests that this recommendation be closed.

Attachment 1
Response to OIG's Individual Improper Payment Findings and Recovery Recommendation
(This Table corresponds to Exhibit B and C of the OIG's Draft Report)

Airport Sponsor	Payment Deemed Improper by OIG	Payment Deemed Improper by FAA	Difference	Recoverable Amount
	In Sample			
	Outside Sample			
Asheville Regional	\$0.00	\$0.00	\$0.00	\$0.00
Asheville, NC	\$671,805.12	\$0.00	\$671,805.12	\$0.00
FAA Comment: Non-concur with OIG finding. The FAA concluded that the engineer/architect review and approval of change orders satisfied OMB and FAA policy requirements. The payment is not recoverable.				
Bacon County	\$417.90	\$417.90	\$0.00	\$0.00
Alma, GA	\$587.61	\$587.61	\$0.00	\$0.00
FAA Comment: Concur with OIG finding. The amount deemed improper is the sum of over and under payments; the net amount is an underpayment of \$82.47, which is not recoverable.				
Bob Hope	\$4,284.49	\$4,284.49	\$0.00	\$3,232.60
Burbank, CA	\$0.00	\$0.00	\$0.00	\$0.00
FAA Comment: Concur with OIG finding. The amount not recoverable pertains to the amount paid for taxiway roto-milling. The FAA concluded that the documentation evidenced the work was completed.				
General Edward Lawrence Logan Int'l	\$0.00	\$0.00	\$0.00	\$0.00
Boston, MA	\$30,000.00	\$35,000.00	\$5,000.00	\$0.00
FAA Comment: Concur with the OIG finding. The improper payment pertains to the recovery of the field office facility expense billed as a direct versus indirect cost. Given that the cost is billable as an indirect cost, the FAA concluded the cost was not recoverable.				
Denver International	\$128,486.84	\$96,522.60	\$31,963.64	\$319.63
Denver, CO	\$42,207.76	\$42,207.76	\$0.00	\$0.00
FAA Comment: Partially concur with OIG finding. The FAA found that the items deemed improper were related to several over or under payments due to payment of estimated invoices throughout the course of the project. While this is standard industry practice and will ultimately be reconciled as part of the final project billing, the FAA does not object to the finding. With respect to the difference, the FAA found that the airport sponsor properly withheld \$31,005.07 from payment because the amount of the billing exceeded the contract ceiling. A payment above the contract ceiling would have been improper. The payment was made once the contract had been properly amended. The residual of the difference, \$958.87, pertains to the allocation of a payment to ARRA rather than AIP.				

The conclusions in the table are based on FAA review of invoices and supporting documentation from the airport sponsor. Our conclusions, supporting evidence and analyses were submitted to the OIG during the audit.

Appendix. Agency Comments

Airport Sponsor	Payment Deemed Improper by OIG	Payment Deemed Improper by FAA	Difference	Recoverable Amount
	In Sample			
	Outside Sample			
Puerto Rico Ports Authority	\$57,843.64	\$57,843.64	\$0.00	\$57,843.64
	\$110,558.11	\$110,558.11	\$0.00	\$0.00
FAA Comment: Concur with OIG finding. The finding is comprised of an overpayment of \$57,843.64 for administrative costs due to insufficient documentation of employee time billed to the grant and an underpayment of \$110,558.11 related to additional costs needed to meet FAA engineering specifications.				
Georgetown Scott County - Marshall Field Georgetown, KY	\$35,637.00	\$2,187.00	\$33,250.00	\$2,187.00
	\$0.00	\$0.00	\$0.00	\$0.00
FAA Comment: Partially concur with the OIG finding. The recoverable amount, which pertains to overbilling by the contractor for hours worked by a subcontractor. The FAA does not agree with the balance deemed improper (\$33,250), which pertains to billing for underground electrical cable relocation not included in the original project plans. This work was found to be necessary after project initiation and was billed at the power company's rate for such work.				
Huslia [State of Alaska] Huslia, AK	\$0.00	\$0.00	\$0.00	\$0.00
	\$14,429.00	\$14,429	\$0.00	\$6,989.00
FAA Comment: Concur with the OIG finding. The FAA determined that of the amount found to be improperly charged to the ARRA grant, \$7,440 is allocable to the AIP grant program.				
Indianapolis Executive Indianapolis, IN	\$0.00	\$0.00	\$0.00	\$0.00
	\$3,801.76	\$3,801.76	\$0.00	\$0.00
FAA Comments: Concur with the OIG finding. This is an underpayment and, therefore, not recoverable.				
Merrill Field Anchorage, AK	\$8,400.00	\$8,400.00	\$0.00	\$0.00
	\$0.00	\$0.00	\$0.00	\$0.00
FAA Comment: Concur with OIG finding. The finding pertains to insufficient documentation for roto-milling. The airport sponsor provided photographs that showed the work was completed; however, there was no documentation of the amount of pavement removed. Given that the evidence showed the work was completed, the FAA concluded that the payment was not recoverable.				

The conclusions in the table are based on FAA review of invoices and supporting documentation from the airport sponsor. Our conclusions, supporting evidence and analyses were submitted to the OIG during the audit.

Appendix. Agency Comments

Airport Sponsor	Payment Deemed Improper by OIG	Payment Deemed Improper by FAA	Difference	Recoverable Amount
	In Sample			
	Outside Sample			
Pitt-Greenville	\$0.00	\$0.00	\$0.00	\$0.00
Greenville, NC	\$754,661.00	\$134,585.00	\$620,076.00	\$134,585.00
<p>FAA Comment: Partially concur with the OIG finding. The OIG finding includes two components: \$134,585 for ineligible costs, which have been recovered, and \$620,076.00 in change orders, which the OIG deemed to be insufficiently documented. The FAA concluded that the engineer/architect review and approval of the change orders satisfied OMB and FAA policy requirements. The items related to ineligible costs are recoverable.</p>				
Rosebud Sioux Tribal	\$0.00	\$0.00	\$0.00	\$0.00
Rosebud, SD	\$1,824.92	\$1,824.92	\$0.00	\$0.00
<p>FAA Comment: Concur with the OIG finding. The finding pertains to the cost of money calculation by the contractor. The contractor used a rate approved by the State of South Dakota, which was not in accordance with the state agency's current rate applicable to the period covered by the billing. Given the contractor used a previously approved rate, the FAA concluded that the amount was not recoverable from the airport sponsor.</p>				
San Francisco International	\$920,445.84	\$920,445.84	\$0.00	\$920,445.84
San Francisco, CA	\$9,202.51	\$9,202.51	\$0.00	\$9,202.51
<p>FAA Comments: Concur with the OIG finding. Based on information provided by the OIG during the audit, and additional review by the FAA, it was determined that there were additional recoverable amounts totaling \$1,193,580.82 at SFO. A total of \$2,123,229.17 will be recovered from SFO.</p>				
Sioux Gateway/Col. Bud Day Field	\$164,413.03	\$0.00	\$164,413.03	\$0.00
Sioux City, IA	\$0.00	\$0.00	\$0.00	\$0.00
<p>FAA Comments: Non-concur with the OIG finding. The amount deemed improper by the OIG pertains to documentation in support of change orders. The FAA concluded that the engineer/architect review and approval of the change orders satisfied OMB and FAA policy requirements, and the work was necessary for the project. The FAA has determined it is not recoverable.</p>				
Spokane Int'l	\$7,890.51	\$7,890.51	\$0.00	\$0.00
Spokane, WA	\$0.00	\$0.00	\$0.00	\$0.00
<p>FAA Comments: Concur with the OIG finding. The airport sponsor corrected these errors on subsequent payments to contractors and on billings to the FAA. Since the work was necessary for the project, the FAA has determined it is not recoverable.</p>				

The conclusions in the table are based on FAA review of invoices and supporting documentation from the airport sponsor. Our conclusions, supporting evidence and analyses were submitted to the OIG during the audit.

Appendix. Agency Comments

Airport Sponsor	Payment Deemed Improper by OIG	Payment Deemed Improper by FAA	Difference	Recoverable Amount
	In Sample			
	Outside Sample			
Washington-Dulles Int'l	\$112,644.63	\$540.00	\$112,104.63	\$0.00
Dulles, VA	\$556,053.50	\$0.00	\$556,053.50	\$0.00
<p>FAA Comments: Partially concur with the OIG finding. Much of the OIG's findings (\$60,005-In Sample, \$556,053.50 – Outside Sample) are related to the allocation of costs between an ARRA and AIP grant. The FAA has reviewed these items and determined the billing was appropriate based on the grantee's applications and executed grant agreement.</p> <p>The FAA was not provided with information on payment totaling \$51,919.63 for PCCP pavement included within the sample; therefore, the FAA was unable to perform procedures to assess the OIG's finding. However, procedures performed to validate payment for similar payment requests for PCCP pavement on this project found that the documentation supported fully the payment. Therefore, the FAA would expect the documentation to support this particular payment as well and has requested documentation for this transaction from the airport sponsor.</p> <p>The OIG's sample also includes an overpayment of \$720 for PVC drain piping. The FAA concluded that the airport sponsor prematurely paid the contractor \$540 for a section of PVC pipe that was to be completed at a later date. All of the work was eventually completed</p> <p>Since the items above were allocated properly and necessary for the project, the FAA has determined them not recoverable.</p>				

The conclusions in the table are based on FAA review of invoices and supporting documentation from the airport sponsor. Our conclusions, supporting evidence and analyses were submitted to the OIG during the audit.

Appendix. Agency Comments