




The Deputy Secretary of Transportation

WASHINGTON, D.C. 20590

July 1, 2010

MEMORANDUM TO: Calvin L. Scovel III
Inspector General

FROM: John D. Porcari 

SUBJECT: FHWA's Oversight of Value Engineering Requirements on Recovery Act Projects is Strong and Effective

The American Recovery and Reinvestment Act of 2009 (Recovery Act or ARRA) has created or has saved upward of 2.8 million jobs since it was enacted. Through the Recovery Act, which provides a \$48.1 billion investment in America's transportation infrastructure, the Federal Highway Administration (FHWA) has more than 10,000 highway projects already under way that will benefit the American public for generations to come.

Recognizing the inherent challenges in implementing the Recovery Act, FHWA enhanced its management oversight to achieve compliance with all applicable requirements—not only the special requirements of the Recovery Act, but also the standard requirements of the Federal-aid Highway Program. For example, FHWA established National Review Teams (NRT) to help oversee the \$27.5 billion in ARRA funding it received and to ensure a consistent and robust oversight approach.

As documented in FHWA's Recovery Act Risk Management Plan, the NRT validated FHWA's ARRA risks and identified emergent ones, including oversight of local public agencies, and described strategies needed to respond to these risks. The effectiveness of FHWA's proactive oversight approach to identify, review, and mitigate ARRA risks is reaffirmed by the Office of the Inspector General's (OIG) use of NRT data on value engineering (VE) in formulating the ARRA Advisory.

VE is one of numerous Federal requirements that FHWA oversees to ensure States' compliance in the delivery of the Federal-aid Highway Program and the development of transportation projects, including those funded by the Recovery Act. The successful application of the VE process contributes measurable benefits to the quality and cost-effectiveness of surface transportation improvement projects and to the effective delivery of the overall Federal-aid Highway Program. For example, the FHWA's stewardship and oversight of State DOTs' VE programs has resulted in an estimated cost savings of more than \$6.1 billion over the past three fiscal years.¹

¹ Information about FHWA's value engineering program is available at <http://www.fhwa.dot.gov/ve>.

The OIG reviewed 124 highway projects in its preliminary analysis, and of those, the OIG highlights in its Advisory several State-administered and locally-administered projects. The highlighted projects included those that successfully fulfilled Federal VE requirements, those that did not use ARRA funding, and those that did not require a VE analysis. With respect to these projects, it is OIG's opinion that either the VE analyses were required and not conducted on these projects, or the VE analyses were not conducted in the concept and design phase in a timely fashion.

It should be noted that multiple factors affect the scheduling of VE analyses during the concept and design phase of a project, and conducting this analysis later in the development of a project still provides benefit to the quality and performance of the analyzed project. Often, analyses conducted later can refine elements of the project's final design and identify elements that may not serve an essential need or purpose.

The FHWA continues to work toward a consistent understanding and application of VE principles on applicable highway projects, including those funded by the Recovery Act, through active monitoring, review, and outreach. The FHWA has long maintained regulations and policy that implement an effective VE program and continues to strive for improvement. The FHWA's recently issued VE performance measures aim to improve the level of documentation incorporated in States' VE policies and States' Stewardship and Oversight Agreements with FHWA.

In addition, FHWA updated its VE policy in May 2010 to provide guidance to the FHWA Division Offices and to the States on VE programmatic considerations, including guidance regarding thresholds for conducting the studies and when studies should be completed. The FHWA plans to update its regulations to reflect statutory changes, and will continue to reach out to all stakeholders in the VE program to increase national awareness of this important program.

We appreciate that OIG has recognized the measures and efforts FHWA has taken to ensure that the required VE analysis is conducted on ARRA and non-ARRA projects in compliance with statutory requirements. The FHWA has been successful in its VE oversight and will continue to work with its State partners to ensure VE requirements are fully met to optimize improvements in project quality, reduce the time to develop and construct projects, and realize the potential to achieve additional cost savings.

For its part, the FHWA is committed to continuing to work with OIG on VE, especially as it may benefit OIG's work on ongoing and future ARRA reviews. The Department also appreciates OIG's ongoing ARRA-related audit work and believes open dialogue can effect real, positive change. Please contact Martin Gertel, Director of Audit Relations, on (202) 366-5145 with any questions or if we can be of assistance.