

**REMARKS FOR  
JAMES S. SIMPSON  
FEDERAL TRANSIT ADMINISTRATION**

**NATIONAL FRAUD AWARENESS CONFERENCE**

**“Modal’s Perspective on Stewardship and  
Oversight Challenges”**

**JULY 30, 2008**

**CHICAGO, IL**

On behalf of President Bush and Transportation Secretary Mary Peters, I am delighted to join you today to discuss the importance of integrity and oversight within the transportation community.

As the nation’s federal source of funding for major capital transit projects in all 50 states and territories, FTA’s formula and discretionary grant programs are vitally important to jump-starting and growing public bus and rail systems in urban and rural communities.

FTA’s robust oversight and accountability policies and programs are the cornerstone of the agency’s integrity, and essential for ensuring that we and our grantees are excellent stewards of taxpayer dollars.

We understand it is far wiser to prevent waste, fraud, or abuse from occurring, than to deal with it after the fact.

Now more than ever . . . given the rising costs and risks associated with constructing major capital transportation projects. . . we've got to be especially vigilant.

We require all grantees receiving federal funds for capital transit programs to undergo comprehensive oversight and scrutiny on a regular basis.

Our oversight programs monitor major capital projects to determine if they're on time, within budget, meet all design specs, and are efficiently and effectively implemented.

On projects where red flags arise -- for example, on risk or procurement -- we conduct additional oversight reviews.

One of the hallmarks of our approach is our Senior Assessment Team, which oversees internal controls over operations, financial reporting, and regulatory compliance.

This team sets the tone at the top -- demonstrating the FTA leadership's commitment to monitoring, preventing, and if necessary eliminating waste, fraud, and abuse among project sponsors, contractors, or other key stakeholders.

I'm proud of FTA's strong track record in this area.

FTA's oversight programs have been recognized by the U.S. Government Accountability Office, the Office of Management and Budget, and the U.S. Department of Transportation's Inspector General as a model for other federal agencies.

Our vigilance has paid off. Last year, we stopped annual payments of \$110,000 to a contractor for services that were not being received. . . We discontinued procurement of services totaling \$210,000 that FTA no longer needed. . . and we saved FTA \$355,000 by replacing externally provided training services with in-house resources.

Our most significant oversight work involves our largest capital projects. In the New York metropolitan region alone, FTA is investing \$8.5 billion in a \$16 billion portfolio of capital transit projects, including our Lower Manhattan Recovery work (including new PATH subway station at WTC site), East Side Access, and Second Avenue Subway.

On the Lower Manhattan recovery project -- even though the intended federal share was 100% -- any cost overruns would have to be borne by the project sponsor. As the DOT Inspector General noted, close FTA oversight is especially warranted on this project. . . Any costs that exceed the federal limits put added pressure on the projects sponsor to identify local funds to cover cost overruns -- on a project where no local funding was originally identified.

Other projects in this region that have a large local share – East Side Access and Second Ave. Subway – also involve a large federal funding commitment that warrants close FTA oversight.

There are already clear signs that these projects face potentially serious budgeting and scheduling problems.

One project, in particular, has made it clearer than ever that close oversight is absolutely essential in guiding investments in major capital transportation projects. In early July, we convened a working session with sponsors of a proposed major extension to the Dulles Metro in Washington, D.C., which, once completed, would add significant rail capacity in Northern Virginia out to Dulles International Airport.

We and the DOT Inspector General have publicly and privately expressed a number of concerns about the first phase of this project. Our concerns relate to technical capacity, project controls, scope and budget, procurement methodologies, and risk assessment.

The risks we have identified include significant cost growth, with more than \$1 billion in potential cost overruns and schedule delays of four years. . . Large amount of federal funds that could be committed over time through FTA's discretionary New Starts grant program and other means, including the Transportation Infrastructure Finance and Innovation Act—a federal credit program for eligible transportation projects of national or regional significance. . . The project operator's relative lack of experience

managing projects of this type. . . The complex organizational and managerial arrangements among key parties. . . And the degree to which project funding depends on local toll road revenues.

The DOG Inspector General's office recommended that FTA conduct all project reviews and oversight on the Dulles project "with extra vigilance" and consider going beyond reviews to examine sufficiency of local funding and contractual arrangements.

In light of these risk factors, FTA has been very proactive on oversight for the Dulles project, imposing requirements and changes that ultimately enabled this project to move ahead into Final Design under our New Starts capital program.

For example, we have required the project sponsors to establish a capital reserve account to cover likely cost risks and to commit to a greater share of local funding. We also required regional governments (D.C., Virginia, and Maryland) to commit to provide funding to Metro's operator to help ensure that the current system can maintain its performance in light of a more than \$500 million backlog of immediate maintenance and repair needs.

Not surprisingly, we're providing enhanced oversight, given the known risks on this project. But there are never any guarantees, and we will have to watch this project very closely. . . Accountability is key.

In closing, let me observe that the old adage is true: An ounce of prevention is worth a pound of cure. Extra scrutiny on high-risk projects is not optional.

I'll leave you with this thought about the *real* definition of accountability.

The ancient Romans had a tradition. Whenever one of their engineers constructed an arch, as the capstone was hoisted into place, the engineer assumed accountability for his work in the most profound way possible: He stood directly under the arch.

I commend you for your commitment to this important issue, and to your efforts to implement policies and procedures that protect public assets and ensure that the public's interests are protected at all times.

Thank you.