

# **OVERSIGHT OF AIRPORT IMPROVEMENT PROGRAM HURRICANE GRANTS**

*Federal Aviation Administration*

*Report Number: AV-2007-014*

*Date Issued: December 13, 2006*



# Memorandum

**U.S. Department of  
Transportation**

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: INFORMATION: Oversight of Airport  
Improvement Program Hurricane Grants  
Federal Aviation Administration  
Report Number AV-2007-014

Date: December 13, 2006

From: David A. Dobbs  
Assistant Inspector General for Aviation and  
Special Program Audits

Reply to  
Attn. of: JA-10

To: Assistant Administrator for Financial Services and  
Chief Financial Officer

This report presents the results of our review of the Federal Aviation Administration's (FAA) oversight of funds provided to airports to repair damage caused by Hurricanes Katrina and Rita. FAA funds capital improvements for airports through its Airport Improvement Program (AIP). As part of this program, FAA maintains discretionary grant funds<sup>1</sup> that can be used to help airport operators fund projects, such as runway and taxiway construction and rehabilitation, land acquisition, and airfield lighting and signage. AIP discretionary funds generally cannot be used for construction of terminals or hangars or to fund non-aviation development, such as parking lots and retail space.

After Hurricanes Katrina and Rita struck the Gulf Coast in August and September of 2005, FAA moved quickly to provide airport grantees with discretionary funding remaining from its 2005 budget to help them resume normal operations as soon as possible. Unlike the Highway Trust Fund, the Airport and Airway Trust Fund did not have a separate relief fund to use for emergency repairs.

The Secretary of Transportation believed it critical that the Department provide effective oversight and accountability of hurricane expenditures. The Department's Office of the Assistant Secretary for Budget and Programs and Chief Financial Officer prepared a Hurricane Financial Stewardship Control Plan outlining existing and needed internal controls to safeguard taxpayer funds spent

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<sup>1</sup> FAA also provides AIP entitlement grants that are allocated to airports based on a formula that considers factors such as airport type and number of passenger boardings. In FY 2005, FAA distributed approximately \$1.8 billion in entitlement (or formula) grants and over \$1.7 billion in discretionary grants.

on hurricane relief and recovery activities. As part of this plan, FAA committed to conducting heightened oversight of grants for the reconstruction of Gulf Coast airports damaged by Hurricanes Katrina and Rita.

## OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this program audit was to determine if FAA's procedures and controls for oversight of AIP grants issued to help in rebuilding hurricane-damaged Gulf Coast airports were sufficient to protect taxpayer interests. To accomplish our objective, we interviewed FAA management officials and staff located in Washington, District of Columbia, and FAA's Southern and Southwest Regional offices in Atlanta, Georgia, and Fort Worth, Texas, respectively. We also spoke to airport officials in New Orleans, Louisiana. Finally, we examined FAA guidance related to AIP grants, relevant grant files, and other documentation related to FAA's response to these hurricanes and the damage they caused. We conducted the audit from September 2005 to August 2006. This audit was performed in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States. Our audit included tests of procedures and records as we considered necessary to provide reasonable assurance of detecting abuse and illegal acts.

## RESULTS IN BRIEF

Hurricanes Katrina and Rita caused over \$100 million in damages at airports in the Gulf Coast region. The most heavily damaged airports were located in New Orleans, Louisiana; Biloxi, Mississippi; Lake Charles, Louisiana; and Beaumont, Texas. These and other Gulf Coast airports were immediately closed because of hurricane damage, such as runways and taxiways flooded or blocked with debris and airport terminal buildings and hangers with damage to roofs and windows from high winds (see Figure).

**Figure. Hurricane Damage in Biloxi**



Damage caused by Hurricane Katrina at Gulfport-Biloxi International Airport.  
Source: FAA Southern Regional Airports Division

FAA quickly determined that just over \$60 million of

the damages caused by the hurricanes was eligible for AIP discretionary funding. FAA initially awarded 10 grants totaling nearly \$40.5 million (see Exhibit) to Gulf Coast airport grantees to assist in rebuilding efforts. According to FAA Headquarters officials, FAA awarded the grants on an expedited basis to help restore the airports to operational status and ensure their availability for use by first responders. FAA included conditions in four of the initial grant agreements requiring sponsors to seek reimbursement from other sources, such as insurance and the Federal Emergency Management Agency (FEMA), and to return the Federal share of any recoveries to FAA. However, FAA did not initially plan any heightened oversight of these grants to ensure that any such funds were returned and that expenditures for hurricane damage complied with all grant requirements. In our opinion, the scope of the damage caused by these hurricanes and the lack of planning FAA and airport personnel were able to do before awarding these grants created an increased potential for fraud, waste, and abuse, thus making heightened oversight a necessity. Specifically, the 10 grant awards were:

- based on preliminary damage estimates rather than actual cost bids, which FAA normally uses. This increased the potential for overpayments to grantees because FAA relies on grantees both to limit reimbursement requests to costs incurred and to refund any overpayments when the projects are completed.
- issued without completing many of the normal steps in the grant award process, such as consultation with users, project development, preliminary design, and public hearings. These steps allow FAA to substantiate both the need for the project and the validity of the project costs.
- issued before controls were established to prevent potential duplicate payments to grantees given the fact that multiple groups, including FEMA and private insurance companies, were assisting or planning to assist in rebuilding these airports.

FAA took positive steps to address weaknesses in its early grant award process. In March 2006, FAA issued new guidance to enhance its oversight of AIP funding for hurricane repairs in response to our concerns with the increased risks created by Hurricanes Katrina and Rita. In addition, FAA withdrew 7 of the 10 grants in part to allow airports time to obtain bids with more realistic cost information for repairing hurricane damage. Since work needed to restore operations to the hurricane-damaged airports was already completed by personnel from other airports, only a small amount of the hurricane grant money (\$17,121) had actually been disbursed when FAA made the decision to withdraw the grants.<sup>2</sup>

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<sup>2</sup> AIP grant funds are not disbursed until airports submit requests based on actual expenses incurred.

Withdrawing the grants also permitted FAA to increase the amount awarded to grantees because Congress passed legislation<sup>3</sup> in October 2005 that decreased the amount of matching funds airports had to provide and expanded the type of projects eligible for AIP discretionary funding for Hurricanes Katrina and Rita. FAA officials wanted grantees to be able to take advantage of the additional funding benefits this legislation provided.

FAA Headquarters officials advised us that as of September 2006, over \$102 million in new grants had been issued to airports damaged by Hurricanes Katrina and Rita. Further, according to FAA managers, all new grants are subject to the new grant oversight guidance. We believe that FAA's full implementation of its new oversight requirements will significantly strengthen controls over hurricane-related grant expenditures. We recommend that the Acting Associate Administrator for Airports develop a plan to verify that district office personnel are effectively implementing new guidance requiring grantees to submit timely, detailed expenditure reports and requiring project managers to review the reports and conduct required site visits verifying that grant funds are being spent as intended.

## **SUMMARY OF MANAGEMENT COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided FAA with a copy of our draft report on September 15, 2006. On November 20, 2006, FAA provided us with its formal response to our draft, which is contained in its entirety in the Appendix. FAA agreed with our findings and recommendation and its corrective actions are responsive. We consider the recommendation closed, subject to follow-up provisions of Department of Transportation Order 8000.1C. Our recommendation and a summary of FAA's response can be found on pages 9 and 10 of this report.

## **DETAILED OBSERVATIONS**

### **FAA Responded Quickly but Did Not Plan Heightened Grant Oversight**

Immediately after Hurricane Katrina struck the Gulf Coast and again after Hurricane Rita, FAA initiated efforts to determine the scope of the damage and the immediate needs of the affected airports. It awarded 10 AIP grants totaling nearly \$40.5 million (see Exhibit) to repair damage to terminals, signs, lighting, and

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<sup>3</sup> Public Law No. 109-87, October 7, 2005 (119 Stat. 2059).

fencing and to remove flooded structures. FAA correctly focused on restoration of operations, but it did not plan heightened oversight for these grants. Four of the grant agreements contained conditions regarding reimbursement of grants from other funds available to airports, such as FEMA grants or insurance proceeds, and FAA did visit some of the airports in an effort to assess damages. However, FAA generally planned to oversee grants awarded to Gulf Coast airports using its existing grant procedures.

We did not audit these existing procedures but noted two significant factors that weakened FAA's ability to provide oversight during the special circumstances of devastation and extreme conditions caused by the hurricanes. First, the existing procedures primarily rely on grantee assurances and certifications that grant requirements are met and that funds are spent in accordance with grant provisions. Second, the procedures require only limited FAA follow-up to verify the accuracy of these assurances and certifications.

FAA's existing AIP procedures and controls include significant FAA involvement in project planning and development; however, these procedures do not provide the kind of heightened oversight needed to mitigate increased risks of fraud, waste, and abuse related to Hurricanes Katrina and Rita repair efforts. FAA's AIP guidance<sup>4</sup> focuses on grant award and close-out activities rather than project oversight. For example, the AIP handbook does not require FAA program managers to:

- conduct a pre-established number of site visits at airports with ongoing AIP projects to verify that projects are on schedule and within estimated costs. Although the procedures do suggest that "periodic inspections may be scheduled," program managers individually determine the number of site visits, if any, that are needed.
- analyze quarterly construction and periodic financial reports submitted by grantees to verify that information in the reports is accurate. In addition, grantees are permitted to submit reports that do not contain the information needed for effective FAA oversight. For example, some reimbursement request reports accepted by FAA only show total net disbursements. In fact, the grantee may never be required to show *how the money is spent*. Although there is a reimbursement request form that does require grantees to identify costs by activity, such as administrative expense, architectural engineering, construction costs, and project inspection fees, FAA managers can allow grantees to submit the form with only net disbursements.

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<sup>4</sup> Order 5100.38C, "Airport Improvement Program Handbook," June 28, 2005.

- obtain supporting documentation (e.g., actual invoices) to verify the accuracy of information in the reports. For example, the FAA program manager for the Louis Armstrong New Orleans International Airport, who does obtain more detailed financial reports from grantees, acknowledged that he did not closely review or verify the reports' accuracy by comparing them to actual invoices.

This level of oversight may be sufficient for regular AIP grant awards partly because the grant awards are preceded by extensive planning and FAA involvement. For example, personnel from FAA's development office for Louisiana airports begin working with grantees to meet eligibility requirements as long as 3 years before the award of a grant. This process gives FAA extensive knowledge of the scope, cost, and potential problems with grant projects. FAA, however, could not follow this process in awarding grants following Hurricanes Katrina and Rita because quick restoration of air service to Gulf Coast communities was vital. Vulnerabilities resulted, and we identified the following potential risks:

- The initial 10 hurricane grant awards were primarily based on damage estimates rather than actual contract bids, which FAA normally prefers to use as support for AIP grant awards. FAA officials from the Office of Airport Planning advised us that the reason they prefer to issue grants based on bids is to ensure that grant funds are not tied up (and unavailable for other projects) because of the tendency of estimates to err on the high side rather than the low side. However, the officials also advised us that, in the case of Hurricane Katrina, the severity of damage and the crisis prevented FAA from getting information more reliable than verbal damage estimates.

Awarding the grants based on estimates increased FAA's reliance on airport grantees to report and return any excess grant funds if the estimates were higher than actual project costs. Conversely, grantees were also at risk if the estimates were significantly lower than the actual costs because AIP grants cannot be increased by more than 15 percent once issued.

FAA's risk was increased further after Congress raised the Federal share for hurricane-related AIP grants from 75 percent to 100 percent for New Orleans International Airport and from 95 percent to 100 percent for airports that received the other nine grants. Because grantees were no longer required to share in the cost of these projects, they had less incentive to control costs.

- Multiple groups, including FEMA and various private insurance companies, were assisting or planning to assist in rebuilding Gulf Coast airports. As a result, there was a potential for duplicate payments to airport owners for hurricane repairs. For example, after the award of a \$5.3 million grant to repair damages at the airport in Beaumont, Texas, the airport manager

informed FAA officials that he expected private insurance would cover the repairs to the terminal building that were included in the grant request.

In addition, we noted that the \$15.2 million grant to the New Orleans International Airport initially included a \$2.2 million perimeter fence repair project. According to FAA, the fence had been repaired and paid for through a combination of work completed by personnel from other airports, FEMA funds, and private insurance. FAA included provisions in 4 of the 10 initial grant agreements regarding reimbursement of grants from other funds available to the airports, such as FEMA funds and private insurance, but FAA planned no additional oversight to ensure grantees complied with these conditions.

- Post-hurricane staffing for at least one airport left fewer staff available to manage grant expenditures. Following the hurricanes, the New Orleans International Airport experienced financial difficulties as a result of a substantial loss of passenger revenue.<sup>5</sup> Consequently, airport management cut operations staffing levels by almost half, decreasing from a pre-Katrina level of 222 employees to just 123 employees after the hurricane. The airport accounting staff was cut from 10 to 7, leaving fewer staff to manage grant expenditures.

### **FAA Has Taken Steps To Strengthen Its Oversight of Hurricane-Related AIP Grants**

The first action FAA took to strengthen its oversight of hurricane-related grants was to issue new guidance requiring program managers to increase monitoring activities for these grants. The second was to withdraw most of the initial grants with award amounts that were based on estimates. We believe these actions will strengthen FAA's oversight of hurricane grant expenditures.

#### *FAA Developed New Guidance*

In March 2006, FAA issued a memorandum to program managers outlining specific procedures for monitoring hurricane relief grants in response to our concerns. For example, to avoid duplicate or overlapping reimbursements from other funding sources, FAA will make every effort to offer grants only after the amounts of insurance proceeds or other reimbursements have been determined. As a result, the grant amounts should more closely correspond to the specific amounts needed to complete airport projects. In addition, FAA added new language to each grant that clarifies grantee responsibilities related to

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<sup>5</sup> Total passenger volume decreased 54 percent in December 2005 compared to December 2004.

reimbursements from third parties to address concerns about payments from private insurance.

FAA's new guidance also requires that before issuing a grant offer, program managers must verify damage and project needs through on-site inspection or review of visual documentation (e.g., photographs or digital images). In addition, program managers are now required to make quarterly visits to project sites. The guidance requires that grantees submit construction progress and financial outlay reports more frequently (monthly instead of quarterly) and in more detail. They must also submit supporting invoices within 15 days of grantee fund withdrawals, instead of the quarterly submittal previously required.

FAA determined that the need for immediate funding had diminished because critical temporary repairs to restore airport service were completed with assistance from other airport operators. Immediately following the hurricanes, FAA, the Association of American Airport Executives, and the Airport Council International-North America helped coordinate temporary repairs at Gulf Coast airports. For example, officials from the Houston Airports System sent as many as 30 airport personnel with 14 vehicles to the New Orleans International Airport to assist with patching roofs and securing damaged perimeter security fences. In total, personnel from 22 airports—including those in Pensacola, Florida; Atlanta, Georgia; Orlando, Florida; Savannah, Georgia; Phoenix, Arizona; Portland, Oregon; San Diego, California; and Washington, District of Columbia—provided assistance to re-establish operations at the hurricane-damaged Gulf Coast airports.

### *FAA Withdrew Most of the Grants Based on Estimates*

In October 2005, Congress passed legislation granting the Secretary of Transportation the authority to expand the type of projects that could be eligible for discretionary AIP grant funding at airports damaged by these hurricanes. For example, the Secretary can now issue grants to repair or replace hurricane-damaged public-use facilities, such as airport terminals. The expanded authority also (1) included provisions to fund some emergency operating costs for those airports and (2) increased the Federal Government share of these grants to 100 percent from the previous share of 75 percent for the New Orleans International Airport and 95 percent for other Gulf Coast airports.

As a result, by January 2006, FAA had taken steps to withdraw 7 of the 10 initial grants that were awarded based primarily on damage estimates. Officials at the damaged airports had not made any requests for reimbursements from the grants because their immediate operational needs were addressed with emergency repairs completed by staff from other airports. Another grant was reduced and closed because only a small amount of funds had been expended. The other two grants

remained open. FAA is now working more deliberately in planning and issuing replacement grants for hurricane repairs. For example, the reissued grants are based on competitive bid cost data instead of estimates; this step addresses one of the risk factors identified during our review.

The total amount of the second round of hurricane grants has more than doubled according to updated FAA information. While FAA initially issued \$40.5 million in hurricane grants to airports damaged by Hurricanes Katrina and Rita, as of September 12, 2006, FAA had issued over \$102 million in grants. As a result of the new legislation that expanded eligibility, the new grants will cover the cost of most of the damage to these airports, including terminal and hangar damages, which were previously ineligible for discretionary AIP funding.

We believe that AIP grant oversight for these new hurricane-related projects will be improved if FAA promptly follows through with the implementation of its new guidance.

## **RECOMMENDATION**

We recommend that the Acting Associate Administrator for Airports develop a plan to verify that district office personnel are effectively implementing the new hurricane guidance. Particular attention should be given to requirements for grantees to promptly submit the more detailed expenditure reports and program managers to verify the appropriateness of grant fund expenditures and conduct required site visits to review the progress of airport projects.

## **AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

We provided FAA with a copy of our draft report on September 15, 2006. On November 20, 2006, FAA provided its formal comments to our draft, which is contained in its entirety in the Appendix. FAA agreed with the recommendation outlined in the draft report and the overall finding that its process for issuing emergency hurricane grants at the end of FY 2005 created increased risks to the integrity of AIP funds. FAA also agreed that the emergency called for increased oversight, which it implemented at our suggestion in early 2006. In addition, FAA provided details regarding other circumstances or FAA actions that it believes reduced the specific risks identified by the OIG, in whole or in part.

In response to our recommendation, FAA agreed to take two actions. First, Regional Airports Division Managers for the Southern and Southwest Regions will be directed to provide a detailed report at the end of each quarter to the

Manager, Airports Financial Assistance Division, APP-500, on both the status of the projects included in the hurricane grants and the implementation of the oversight guidance. Second, the Office of Financial Management, Internal Controls Division, AFM-600, will be requested to include the oversight control activities for the hurricane grants as part of its business process testing during the internal control review for AIP grants.

FAA's corrective actions are responsive to our recommendation, and we consider the recommendation closed subject to follow-up provisions of Department of Transportation Order 8000.1C.

We appreciate the cooperation of FAA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-0500 or Robin Hunt, Deputy Assistant Inspector General for Aviation and Special Program Audits, at (415) 744-3090.

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cc: Assistant Secretary for Budget and Programs and  
Chief Financial Officer  
Acting Associate Administrator for Airports  
Regional Administrator, Southern Region, FAA  
Regional Administrator, Southwest Region, FAA  
Martin Gertel, M-1  
Anthony Williams, ABU-100

## EXHIBIT. FY 2005 INITIAL HURRICANE GRANTS

**Table 1. Southern Region Grants**

<b>Hurricane</b>	<b>Airport</b>	<b>Grant Status</b>	<b>Amount of Grant</b>	<b>Purpose of Grant</b>
Katrina	Gulfport-Biloxi	Reduced and Closed 12/13/05	\$1,633,443	Rehabilitate terminal and signage and remove flooded structures
Katrina	Gulfport-Biloxi	Withdrawn 12/13/05	\$950,000	Mitigate hurricane damage to terminal apron
Katrina	Bay St Louis/Stennis	Withdrawn 12/13/05	\$2,050,000	Acquire an Aircraft Rescue and Firefighting (ARFF) vehicle; repair the ARFF building; and replace windcones, a rotating beacon, various lighting systems, a precision approach path indicator, signage, and the automated weather observation system
Katrina	Mobile Regional	Open	\$40,000	Rehabilitate wind cone and airfield signage
Katrina	Hattiesburg-Laurel Regional	Withdrawn 12/13/05	\$40,000	Repair airfield signage and runway edge lights
<b>Total Southern Region Grants</b>			<b>\$4,713,443</b>	
<b>Total Southwest Region Grants (see Table 2)</b>			<b>\$35,756,851</b>	
<b>Total Hurricane Grants</b>			<b>\$40,470,294</b>	

Source: FAA Southern and Southwest Region Airports Offices

**Table 2. Southwest Region Grants**

<b>Hurricane</b>	<b>Airport</b>	<b>Grant Status</b>	<b>Amount of Grant</b>	<b>Purpose of Grant</b>
Rita	Beaumont/SE Texas Regional	Withdrawn 1/5/06	\$5,291,500	Improve terminal and ARFF buildings; replace windcones, fencing, lighting, and signage; and replace or repair an ARFF vehicle
Rita	Lake Charles	Withdrawn 1/4/06	\$7,905,900	Rehabilitate terminal, ARFF facilities, and signage
Katrina	New Orleans	Withdrawn 12/14/05	\$15,200,000	Rehabilitate rescue and firefighting facilities, rehabilitate lighting and signage, enhance security, and improve airfield drainage and runway safety area
Katrina	Baton Rouge	Open	\$550,000	Update Master Plan to incorporate hurricane damage
Katrina and Rita	State of Louisiana	Withdrawn 11/15/05	\$6,809,451	(1) Rehabilitate runways, taxiways, lighting, and ARFF building and improve perimeter fencing (at Lakefront) and (2) rehabilitate lighting and improve perimeter fencing (at Chennault)
<b>Total Southwest Region Grants</b>			<b>\$35,756,851</b>	
<b>Total Southern Region Grants (see Table 1)</b>			<b>\$4,713,443</b>	
<b>Total Hurricane Grants</b>			<b>\$40,470,294</b>	

Source: FAA Southern and Southwest Region Airports Offices

## APPENDIX. MANAGEMENT COMMENTS



# Federal Aviation Administration

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## Memorandum

Date: November 20, 2006

To: David A. Dobbs, Assistant Inspector General for Aviation and Special Program Audits, JA-10

From: Catherine M. Lang, Acting Associate Administrator for Airports, ARP-1  
*Catherine M. Lang*

Thru: Ramesh Punwani, Assistant Administrator for Financial Services and Chief Financial Officer, ABA-1  
*Ramesh Punwani*

Prepared by: Barry Molar, Manager, Airports Financial Assistance Division, APP-500, x78827

Subject: Draft Report on Federal Aviation Administration Oversight of Airport Improvement Program Hurricane Grants, Project No. 06A3017A000; Your Memo of 09/15/06

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This memorandum is provided in response to the subject report. We agree with the recommendations outlined in the draft report and the overall finding that the Federal Aviation Administration's process for issuing emergency hurricane grants at the end of FY 2005 created increased risks to the integrity of Airport Improvement Program (AIP) funds. As the draft notes, we did adopt heightened oversight procedures for these grants in early 2006. We wish to note that for many of the specific risk factors discussed in the draft, other circumstances or FAA actions helped reduce the risks for the FY 2005 grants.

### 1. Adoption of Heightened Grant Oversight Procedures

In the "Results in Brief" and "Detailed Observations," the draft report refers to the FAA's failure to plan for heightened grant oversight as increasing the risk to Federal funds (pages 2 and 4).

We agree that with the benefit of hindsight and the audit work conducted by the Inspector General's staff, the unusual circumstances of Hurricanes Rita and Katrina heightened the risk of abuse of Federal funds. Based upon FAA's prior experience in issuing grants to airports to assist in recovering from natural disasters, we found that existing procedures

had significantly reduced the risk. These procedures included: special conditions requiring reimbursement of funds provided by insurance; Federal Emergency Management Agency (FEMA) grants; standard conditions requiring sponsors to seek all other sources of compensation for damages; requirements to review bid results and to approve notices to proceed. Given the emergency conditions and the need to provide immediate financial relief, there was no time to develop an oversight plan before issuing the FY 2005 grants. The extraordinary extent of the damage required a prompt response with Federal assistance, as noted in the draft report on page 4.

Four of the grants included special conditions requiring sponsors to apply proceeds received from other sources, such as insurance or FEMA to repay AIP grants. FAA staff discussed with the sponsors of the remaining grants the FAA policy in this area. Even without the special condition, grant condition #7 obligates sponsors to pursue financial recovery from other sources when receiving AIP grants for emergency repair or restoration, as discussed below. Other standard procedures also provided protection to Federal funds. FAA has the right to review plans and specifications, including bid specifications and bid tabs. A sponsor needs FAA approval to issue a notice to proceed to its contractors.

More broadly, at the time of the emergency, FAA placed its highest priority on assisting airports in rapidly doing the repairs and rebuilding necessary to assist in providing first response, relief, and restoration for the entire area devastated by the hurricanes. We did not believe that the airports and the devastated regions they served could afford to wait while we developed enhanced oversight procedures.

It was only after issuance of the grants that FAA became aware, in large measure due to the efforts of the OIG, that the procedures and policies we had relied on in other natural disasters might not be sufficient to protect the AIP investment in recovery efforts in the face of the magnitude of devastation suffered on the Gulf Coast. However, based on the OIG's initial review and advice regarding the potential risk to Federal funds, FAA developed a grant oversight program to manage the risk to Federal funds.

As a result of our actions after issuance of the initial grants, we now have heightened oversight procedures in place. This draft report has also made clear the importance of protecting against financial risk, even in emergencies. As a result, in the future, FAA will be able to respond quickly to emergencies and ensure that more adequate safeguards for Federal funds are in place.

## **2. Financial Risks of Issuing Grants Based on Estimates**

The draft report identifies the use of preliminary damage estimate as a basis for issuing grants as a factor that heightened the risk of waste fraud and abuse (Results in Brief, page 3; Detailed Observations, page 6). While the use of estimates had the potential to increase risk to Federal funds, we believe other circumstances helped reduce the potential risk. First, the award of a grant does not result in immediate transfer of funds to a sponsor. Ordinarily, disbursements are made only after a sponsor incurs allowable

## **Appendix. Management Comments**

project costs. Other steps must also be completed before disbursement is authorized. The sponsor must obtain bids and award the contract. This process is subject to FAA review. In addition, the FAA must concur in the project scope prior to the issuance of a notice to proceed by the sponsor. These mechanisms, as well as project closeout procedures, assure that amounts actually disbursed to the sponsor reflect actual eligible costs incurred. The sponsors of these hurricane grants have extensive experience in dealing with FAA grants. They fully understand that if project bids come in below the estimated costs on which the grant is based, the FAA is entitled to and will recover the excess.

As noted in your draft, FAA's policy of issuing grants based on bids is not driven by risks of fraud, waste, and abuse. Rather, it is based on maximizing the impact of available grant funds. Specifically, the AIP statute provides a cap on upward adjustments of grants. Given this cap, sponsors have an incentive to err on the high side, rather than the low side in submitting cost estimates to FAA. Issuing grants based on high estimates locks up grant funds that could otherwise be awarded on additional projects. Because of policies and procedures in place for grant reimbursement, oversight, and closeout, the practice does not increase the risk that sponsors will receive Federal funds in excess of what they are eligible to receive.

### **3. Risk of Double Payments**

The draft report identifies the potential for duplicate payments from AIP on the one hand and insurance proceeds or FEMA on the other. The report acknowledges that four of the ten grants issued included a special condition specifically addressing double payments, but states that the FAA planned no oversight to ensure compliance with those conditions. The draft report also cites examples of two airports from our Southwest Region where FAA had knowledge that payments from other sources had or would occur.

Again, while the potential risk may have been present, we believe other circumstances helped reduce the risk. Based on our prior experience with emergency grants, all levels of FAA involved in issuing the grants were aware of the risk of double payments and understood the importance of avoiding them. As noted earlier, we viewed our highest priority in helping the airports recover so that they were available to help in the overall recovery of the devastated region. The airports and their communities could not afford to wait until other agencies and/or insurance claims were processed. Therefore, we proceeded to issue grants. Four of those grants included special conditions requiring repayment if the sponsor recovered the costs of damage or repair from other sources. Even for the grants that did not have a special condition, FAA program managers made sure that recipients understood their obligation to seek reimbursement from other sources and repay the FAA the Federal share of any proceeds. This obligation is inherent in FAA's standard grant agreement. The standard FAA grant agreement includes a number of standard conditions. One of them, condition 7, specifically obligates a sponsor to take all action necessary to recover Federal funds improperly spent and return them to the FAA. The FAA interprets this condition to include recovery of insurance proceeds and FEMA funds.

## **Appendix. Management Comments**

Finally, we wish to point out that the two airports in the Southwest Region specifically named in the report were among the four airports that had the special condition in their initial grant.

#### **4. Risk Associated with 100 Percent Federal Share**

In FY 2006, following issuance of the initial hurricane grants, Congress enacted special legislation to increase FAA's flexibility in awarding AIP grants for hurricane recovery. Among other things, this legislation increased the Federal share for hurricane recovery projects to 100 percent. The draft report lists this increase as another factor that increased risk ("Detailed Observations," page 6). While the increase in the Federal share had the potential to increase the risk to Federal funds, we believe other circumstances reduced this potential risk. The increase in Federal share did not apply retroactively to the FY 2005 hurricane grants. An airport could take advantage of the 100 percent Federal share only if FAA withdrew or terminated the FY 2005 grant and issued a new grant in FY 2006. FAA did not issue the FY 2006 replacement grants until FAA adopted the new hurricane grant oversight procedures. Therefore, the enhanced oversight procedures were in place before the FAA added to the amount of Federal funds exposed to risk by raising the Federal share of grants to 100 percent.

#### **5. Response to Recommendation**

**Recommendation:** "We recommend that the Acting Associate Administrator for Airports develop a plan to verify that district office personnel are effectively implementing the new hurricane guidance. Particular attention should be given to requirements for grantees to promptly submit the more detailed expenditure reports and program managers to verify the appropriateness of grant fund expenditures and conduct required site visits to review the progress of airport projects."

**FAA Response:** We concur that effective implementation of the oversight plan is critical to effective protection of the Federal funds invested in the hurricane grants. We have developed a plan for oversight of implementation consisting of two components.

1. We will direct the Regional Airports Division Managers for Southern and Southwest Region to provide a detailed report at the end of each quarter (for the months of December, March, June, and September) to the Manager, Airports Financial Assistance Division, APP-500, on both the status of the projects included in the hurricane grants and on implementation of the oversight guidance.
2. ARP will request that the Office of Financial Management, Internal Controls Division, AFM-600, include the oversight control activities for the hurricane grants as part of its business process testing during the internal control review for AIP grants.

#### **Appendix. Management Comments**

The following pages contain textual versions of the graphs and charts found in this document. These pages were not part of the original document but have been added here to accommodate assistive technology.

**Report on Federal Aviation Administration Oversight of Airport  
Improvement Program Hurricane Grants**

**Section 508 Compliant Presentation**

Initial Hurricane Grants for Fiscal Year 2005

**Table 1. Southern Region Grants Totaling \$4,713,443**

<b>Hurricane</b>	<b>Airport Receiving Grant</b>	<b>Grant Status</b>	<b>Dollar Amount of Grant</b>	<b>Purpose of Grant</b>
Katrina	Gulfport-Biloxi	Reduced and Closed 12/13/05	\$1,633,443	Rehabilitate terminal and signage and remove flooded structures
Katrina	Gulfport-Biloxi	Withdrawn 12/13/05	\$950,000	Mitigate hurricane damage to terminal apron
Katrina	Bay St Louis/ Stennis	Withdrawn 12/13/05	\$2,050,000	Acquire an Aircraft Rescue and Firefighting (ARFF) vehicle; repair the ARFF building; and replace windcones, a rotating beacon, various lighting systems, a precision approach path indicator, signage, and the automated weather observation system
Katrina	Mobile Regional	Open	\$40,000	Rehabilitate wind cone and airfield signage
Katrina	Hattiesburg-Laurel Regional	Withdrawn 12/13/05	\$40,000	Repair airfield signage and runway edge lights

Source: FAA Southern and Southwest Region Airports Offices

**Table 2. Southwest Region Grants Totaling \$35,756,851**

<b>Hurricane</b>	<b>Airport Receiving Grant</b>	<b>Grant Status</b>	<b>Dollar Amount of Grant</b>	<b>Purpose of Grant</b>
Rita	Beaumont/SE Texas Regional	Withdrawn 1/5/06	\$5,291,500	Improve terminal and ARFF buildings; replace windcones, fencing, lighting, and signage; and replace or repair an ARFF vehicle
Rita	Lake Charles	Withdrawn 1/4/06	\$7,905,900	Rehabilitate terminal, ARFF facilities, and signage
Katrina	New Orleans	Withdrawn 12/14/05	\$15,200,000	Rehabilitate rescue and firefighting facilities, rehabilitate lighting and signage, enhance security, and improve airfield drainage and runway safety area
Katrina	Baton Rouge	Open	\$550,000	Update Master Plan to incorporate hurricane damage
Katrina and Rita	State of Louisiana	Withdrawn 11/15/05	\$6,809,451	(1) Rehabilitate runways, taxiways, lighting, and ARFF building and improve perimeter fencing (at Lakefront) and (2) rehabilitate lighting and improve perimeter fencing (at Chennault)

Source: FAA Southern and Southwest Region Airports Offices

**Table 3. Grant Totals for Southern and Southwest Regions\***

Total Southern Region Grants	\$4,713,443
Total Southwest Region Grants	\$35,756,851
Total Hurricane Grants	\$40,470,294

\* Table not shown in original document. This information is presented separately here to comply with Section 508 standards.