



**U.S. House of Representatives**  
**Committee on Transportation and Infrastructure**

**James L. Oberstar**  
**Chairman**

**Washington, DC 20515**

**John L. Mica**  
**Ranking Republican Member**

February 10, 2009

David Heymsfeld, Chief of Staff  
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James W. Coon II, Republican Chief of Staff

The Honorable Calvin L. Scovel, III  
Inspector General  
United States Department of Transportation  
1200 New Jersey Avenue, S.E.  
West Building W70-300  
Washington, D.C. 20590

Dear Mr. Scovel:

Earlier today, you publicly released a report highlighting wasteful uses of Federal highway funds by design and engineering ("D&E") firms hired to perform on state highway contracts.<sup>1</sup> During the seven-year period ending in 2004, about \$1.4 billion was paid in indirect costs to more than 3,500 D&E firms; purportedly to facilitate the design of highways, bridges, and related infrastructure.

While the majority of these funds were spent legitimately on allowable indirect costs, you found numerous examples of firms including expressly unallowable costs and unreasonable costs in the overhead pools allocated to programs receiving federal-aid highway funds. In fact, you concluded, "the combination of poorly audited indirect cost rates and inadequate oversight has enabled D&E firms to claim millions in unallowable costs on (f)ederal-aid highway grants."

For example, your auditors found:

- \$247,685 in charges for items such as social dinners, professional sporting events, theme and holiday parties, trips to Atlantic City, and company-sponsored employee social events;
- \$8,273 for employee Christmas gifts;
- \$355,767 in personal income tax charged for company partners;
- \$301,667 for lease payments on 45 automobile leases, including luxury automobiles (e.g., Mercedes, BMW, Lexus, and Audi vehicles), with no justified business purpose;

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<sup>1</sup> *Oversight of Design and Engineering Firms' Indirect Costs Claimed on Federal-Aid Grants*, Report Number: ZA-2009-033; February 5, 2009.

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- \$5,250 for quarterly condominium charges including those of the company's Chief Executive Officer;
- \$19,956 for the Laguna Cliff Marriott Resort & Spa for a project managers' meeting for which no agenda, attendee list, or receipts were available; and
- \$12,533 in unallowable airfare expenses, including first-class fares, and \$5,153 for non-business-related air travel by a firm's president and his wife.

Inadequate oversight enabled these costs to evade detection by the firms' auditors. This may stem partly from what is an inherent conflict of interest in the relationship between the D&E firms and their auditors. Because indirect cost rate audit contracts are directly awarded and not competitively bid, they often go to Certified Public Accountant (CPA) firms that already have an existing relationship with the D&E firm; i.e., those who do their tax returns or financial statement audits. The auditors' business interests are often aligned more closely with the D&E firm than with the Government.

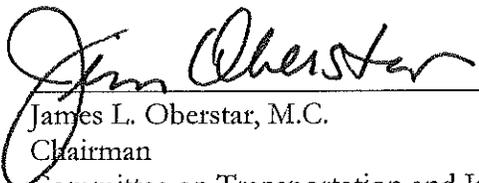
For example, you noted that one audit firm limited its financial transaction testing to those transactions the D&E firm had already identified as unallowable costs and voluntarily removed from its indirect cost rate. The CPA firm did this limited testing to determine if the Government could have been billed for *more*. When your auditors reviewed the transactions, they discovered more than \$950,000 in unallowable costs including political contributions, alcohol, and spa resort charges.

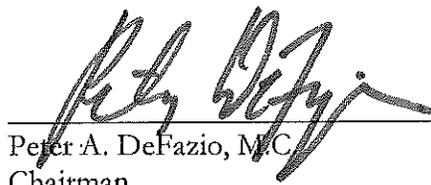
Your report highlighted deficiencies in the Federal Highway Administration's (FHWA) oversight of these contracts. Specifically you noted that FHWA was unable to say which D&E firms were awarded contracts with federal-aid funds, how many D&E firm audits were conducted, and which D&E firms required an audit.

Within 90 days, the Committee would like a briefing by the Inspector General to ensure that FHWA has taken all necessary actions to recover unallowable costs and meet the recommendations in your report.

If you or your staff has any questions regarding this request, please contact me or Leila Kahn with the Committee's Oversight and Investigations staff at (202)-226-4697.

Sincerely,

  
James L. Oberstar, M.C.  
Chairman  
Committee on Transportation and Infrastructure

  
Peter A. DeFazio, M.C.  
Chairman  
Subcommittee on Highways and Transit

cc: The Honorable Ray H. LaHood, Secretary of Transportation