INACTIVE OBLIGATIONS

Federal Highway Administration

Report Number: FI-2006-011
Date Issued: November 14, 2005

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Memorandum

Subject: ACTION: Report on Inactive Obligations
Federal Highway Administration
Report No. FI-2006-011

Date: November 14, 2005

From: Theodore P. Alves
Principal Assistant Inspector General
for Auditing and Evaluation

Reply to Attn. of: JA-20

To: Acting Federal Highway Administrator

This report presents the results of our audit of Federal Highway Administration (FHWA) inactive obligations. We initiated this audit in response to a request by the House Committee on Appropriations.[1]

Last year, Congress provided the 50 states, the District of Columbia, U.S. territories, and Indian nations[2] nearly $35 billion in Federal-aid grants to help build and maintain our Nation's highway system. Recipients of Federal-aid obligate those funds under grant agreements to cover the cost of transportation projects. This obligation creates a liability on the part of the Federal Government for the payment of the appropriated funds. When obligated amounts exceed project costs, the excess obligations are no longer needed for the purpose for which they were obligated and should be released and made available to fund active transportation projects. One indication that funds may no longer be needed is when projects become inactive, at which time FHWA should assess the continued need for these funds. An obligation is considered inactive when there has been no expenditure activity on the grant project for a year or more.

FHWA has recognized that in today's tight fiscal environment it needs to take a more active role in monitoring states' use of Federal-aid funds, with a goal of reducing the amount of Federal dollars kept idle year after year on transportation projects.

[1] House Committee Report No. 108-671, accompanying the Fiscal Year 2005 Appropriations for the Department of Transportation.
[2] These entities are collectively referred to as "the 52 states" in this report.

The House Committee on Appropriations requested this audit based on concerns over the hundreds of millions of dollars of unneeded obligations that we identified in our March 2004 report.[3] We reported that this situation continued despite recommendations the Inspector General has made over the last 8 years (see prior recommendations on pages 11 and 12). The Committee specifically requested that we review records in 10 states that did not receive the largest amounts of Federal-aid dollars. The Committee wanted to know if FHWA had corrected the problems and whether the problems we identified also existed in states that received lesser amounts of Federal-aid funds.

Our audit objectives were to (1) estimate the amount of unneeded obligations Agency-wide as of December 31, 2004, that could be released and used on active transportation projects and (2) determine the extent to which FHWA has implemented our prior audit recommendations on improving processes used to identify and release unneeded obligations. This audit did not include high-priority or other earmarked projects because Federal-aid funds for these are congressionally mandated and cannot be released and made available for use on other transportation projects.

To complete the audit, we randomly selected 10 states not previously reviewed and 4 states previously reviewed (Table 2 on page 7). In the 14 states, we identified about $1 billion in obligations meeting our selection criteria of a $500,000[4] minimum unexpended project balance and no expenditure activity in a year. Due to the large number of selected obligations in 3 of the 14 states, we did not review the entire $1 billion in obligations. In California, New York, and Virginia, we identified subsamples for review. Overall, we performed an in-depth review of 411 obligations with unexpended balances totaling $600 million. Using a statistical sampling plan, we projected our results nationwide.

RESULTS IN BRIEF

Based on our in-depth review of records in 14 states this year, we found $258 million of unneeded Federal-aid funds, and we estimated that, in total, about $661 million in idle funds existed nationwide. This year, for the first time, FHWA worked aggressively with the states to ensure that unneeded funds were deobligated. As a result, according to FHWA officials, the 52 states actually released a total of $757 million of idle Federal-aid funds and made them available for use on active transportation projects. The amount of Federal-aid dollars

[3] OIG Report FI-2004-039, "Inactive Obligations, Federal Highway Administration," March 31, 2004. OIG reports can be accessed at www.oig.dot.gov.

[4] In March 2004, we recommended that FHWA lower the dollar threshold for reviewing inactive obligations from $1 million to $500,000.

released this year is consistent with our estimate of the amount of Federal-aid dollars that were unneeded nationwide.[5]

This represents a significant achievement compared to prior-year efforts. We attribute this year's success to FHWA management's taking the lead to implement processes that significantly changed the way FHWA and the states identify and release unneeded obligations kept idle on transportation projects. This year, FHWA followed through aggressively to work with the states to provide more effective oversight of Federal-aid funds. The actions FHWA took this year are responsive to our prior recommendations. However, to ensure that this progress is sustained in the future, FHWA must continue working with the states to institutionalize processes that identify and release unneeded obligations.

In the past, FHWA was reluctant to mandate that states release unneeded and idle Federal-aid funds on transportation projects because officials believed that the action would harm the relationships developed over years of working with the states to build the Nation's highway system. Today, FHWA and state officials recognize that in times of tight fiscal constraints, their relationship must change if they are to become true stewards of Federal-aid and state transportation funds.

The unneeded funds had remained idle primarily because they were kept on projects (1) that were completed, canceled, or reduced in scope and no longer needed for the purpose for which they were obligated or (2) for several years before project construction contracts were awarded. The following are examples of transportation projects with unneeded funds.

- By 1998, one state had obligated about $16 million in Federal-aid funds to construct additional lanes on a major road; the work was completed in November 2001. The state agreed that the unexpended balance of $1.7 million was not needed to complete the project. During our visit, the state was awaiting the project close-out audit. After our visit, the state deobligated the $1.7 million and made it available for use on other projects. The unneeded funds had remained idle for 4 years.

- In one state, about $4.4 million in Federal-aid funds had been obligated by 1996 for the rehabilitation of a viaduct. Although the project was completed in 1999, state records were not closed out and remaining unused funds of about $676,000 had not been deobligated. During our visit, state officials deobligated the unexpended amount and made it available to fund other transportation projects. The unneeded funds had remained idle for about 6 years.

[5] Our estimate provided a 95 percent likelihood that the actual amount of unneeded obligations was between $440 million and $775 million.

- About $2.8 million in Federal-aid funds was obligated by one state in April 2002 for a road rehabilitation project. The funds remained obligated until our audit in February 2005, when the state canceled the project and deobligated the funds. State officials can now use the $2.8 million on other transportation projects. These unneeded funds remained idle for 3 years.

- Three states released a total of $54 million in obligations on 23 projects awaiting the start of scheduled construction. One state obligated $3.5 million in 2001 to replace the pavement of a major road. The construction work was delayed about 5 years and rescheduled to start in early 2006. These funds were released and made available for use on active transportation projects. The FHWA Division manager stated that the release of these funds would not affect completion of this project when construction was ready to start.

Before her departure earlier this year, the FHWA Administrator championed efforts to change this situation. She initiated actions to improve the reviews of inactive obligations and ensure that unneeded funds were released. Specifically:

- On February 28, 2005, FHWA implemented new policy and procedures on how to identify and validate the need for inactive obligations under its Financial Integrity Review and Evaluation (FIRE) Program. FIRE is designed to improve processes in major FHWA areas, including validating the need for inactive obligations. The Administrator officially issued FIRE on April 26, 2005.

- On March 16, 2005, the Secretary of Transportation addressed the FHWA Division Administrators' spring meeting and reminded them that FHWA's oversight of grants needed improvement. He encouraged them to be more fiscally accountable and to exercise stronger oversight of how states spend Federal-aid dollars. FHWA has agreed to make necessary changes in the way it does business with the states.

- On May 10, 2005, in testimony before Congress, the FHWA Administrator committed FHWA to ensuring that Federal dollars would be spent wisely and accounted for.

- On July 11, 2005, FHWA issued a Notice of Proposed Rulemaking soliciting comments on proposed amendments to its regulation governing when unneeded obligations should be released (Title 23 CFR Part 630).[6] The proposed amendments are designed to ensure that unneeded

[6] The Notice of Proposed Rulemaking would change provisions of Title 23 CFR Part 630, "Project Authorization and Agreements." Title 23 CFR Part 630 is referred to as Title 23 in this report.

> obligations are released in a timely manner. The amendments would require that states identify project completion dates in their grant agreements. Those dates would prompt the release of unneeded funds by the state within 90 days of project completion. FHWA anticipates finalizing the amendments by early 2006.

Efforts to work with the states to improve reviews of inactive obligations and release unneeded funds also continued after the FHWA Administrator's departure. On August 26, 2005, the Acting FHWA Administrator endorsed our prior recommendations and identified actions to fully implement them. According to FHWA officials, states nationwide released $757 million of unneeded obligations by September 30, 2005. FHWA Division Administrators certified by October 31, 2005, that these funds had been released.

From the outset, FHWA faced a major challenge getting 52 FHWA Division Offices and state departments of transportation to agree to change how they conducted business. The new FIRE program and the amendments to Title 23 provide a good start. FHWA still needs to follow through to ensure full implementation of FIRE by all Division Offices and to expedite finalizing amendments to Title 23. In addition, FHWA needs to follow through on implementing the recommendations we made in March 2004: (1) define the data that are needed to track the national performance goal of reducing unneeded obligations, (2) evaluate the need to further lower the dollar threshold for reviewing inactive obligations, and (3) hold Division Administrators accountable by incorporating in their 2006 performance standards a requirement that they identify and release unneeded obligations.

FINDINGS

States Kept Over a Half-Billion Dollars in Federal-aid Funds Idle on Inactive Projects That Could Have Been Released and Used on Active Projects

Over the past 8 years, we performed in-depth reviews of state records and found hundreds of millions of dollars of unneeded Federal-aid funds on transportation projects. Until this current review, we found that FHWA's actions had minimal effect on reducing the amount of unneeded funds kept on transportation projects from year to year. This year, we estimated, based on a statistically valid sample, that the 52 states kept about $661 million ($607 million of unneeded obligations and $54 million of premature obligations) in Federal-aid funds idle on transportation projects. The results are summarized in Table 1.

Table 1. Idle Federal Funds That Could Be Put to Better Use on Active Transportation Projects

Reason for Idle Funds	Actual Cost Savings in 14 States (Millions)	Projected Cost Savings (Millions)	Cost Savings Nationwide (Millions)
Unneeded Obligations	$ 204	$ 403	$ 607
Premature Obligations	$ 54	$ 0	$ 54
Total	**$ 258**	**$ 403**	**$ 661**

Based on our in-depth review of records in 14 randomly selected FHWA Division and state offices, we estimated that states could immediately release obligations totaling $661 million and make these funds available for use on active state transportation projects. This includes the $258 million we found in the 14 states and another $403 million in projected unneeded funds nationwide.

Using the Fiscal Management Information System (FMIS)—FHWA's grants management system—we verified that by September 30, 2005, FHWA approved the release of $239 million (92.7 percent of the $258 million) of unneeded obligations in the 14 states. The $258 million includes $204 million of unneeded obligations in 14 states and $54 million of premature obligations in 3 of the 14 states. Table 2 summarizes the unneeded obligations by state and dollar amount. The premature obligations are discussed on page 9. We projected that states would release another $403 million if FHWA Division Offices performed the same level of review at all states that we performed at the 14 states.

FHWA Division Offices completed reviews of inactive obligations in 2005 and reported $757 million of unneeded obligations had actually been released by the states. We are 95 percent confident that the amount of unneeded obligations ranged between $440 million and $775 million. The total Federal-aid funds released this year are within this range and meet our expectation of unneeded and idle funds nationwide.

To evaluate the adequacy of processes used to support the total dollars actually released, FHWA reviewed implementation of FIRE in states that completed their inactive obligation reviews by June 30, 2005. They randomly selected 12 states (3 states we visited and 9 new states) and performed a follow-up review of state records. As a result of that review, FHWA recommended providing training on the types of documents required to support the need for an inactive obligation.

Table 2. States Reviewed Sorted By Unneeded Obligations on Transportation Projects, as of December 31, 2004

Item	States Visited	Universe (Millions)	Reviewed (Millions)	Unneeded Obligations Millions	Unneeded Obligations No. of Projects
	Not Previously Visited				
1	Minnesota	$ 27	$ 27	$ 21	10
2	Illinois	$ 33	$ 33	$ 14	19
3	Florida	$ 24	$ 24	$ 12	9
4	Indiana	$ 64	$ 64	$ 11	15
5	Kentucky	$ 17	$ 17	$ 11	9
6	South Carolina	$ 42	$ 42	$ 9	8
7	Massachusetts	$ 68	$ 68	$ 6	9
8	Ohio	$ 26	$ 26	$ 3	3
9	North Carolina	$ 15	$ 15	$ 2	5
10	New Mexico	$ 13	$ 13	$ 0	0
	Subtotal	**$ 328**	**$ 328**	**$ 91**	**87**
	Previously Visited				
11	District of Columbia	$ 66	$ 66	$ 41	15
12	California	$ 307	$ 59	$ 31	20
13	Virginia	$ 131	$ 80	$ 28	34
14	New York	$ 120	$ 67	$ 13	17
	Subtotal	**$ 625**	**$ 272**	**$ 113**	**86**
	Total*	**$ 953**	**$ 600**	**$ 204**	**173**

* Amounts may not add up exactly to Subtotals and Totals due to rounding.

A detailed summary of the $204 million of unneeded obligations by state and project status can be found in Exhibit B. Discussions of completed, canceled, and reduced-scope transportation projects with unneeded and idle Federal-aid funds follow, sorted by project status.

Completed Transportation Projects with Unneeded Obligations

The bulk of the unneeded obligations occurred when projects were completed and unexpended balances were not immediately released. We found unneeded obligations of about $127 million (62 percent of $204 million) on 130 completed transportation projects in 13 of the 14 states. The following examples highlight completed projects with obligations that should have been released sooner.

- By 1998, one state had obligated about $16 million in Federal-aid funds to construct additional lanes on a major road; the work was completed in November 2001. The state agreed that the unexpended balance of $1.7 million was not needed to complete the project. During our visit, the state was awaiting the project close-out audit. After our visit, the state deobligated the $1.7 million. The unneeded funds remained idle for 4 years.

- In 1993, a state obligated just over $5.1 million in Federal-aid funds for the right-of-way phase of a project to extend and relocate a major road. The right-of-way phase was completed and cost $2.5 million, leaving an unexpended balance of $2.6 million in Federal-aid funds. The state has deobligated those funds.

- In one state, about $4.4 million in Federal-aid funds had been obligated by 1996 for the rehabilitation of a viaduct. Although the project was completed in 1999, records were not closed out and the remaining unused funds of about $676,000 had not been deobligated. During our visit, state officials deobligated the unexpended amount and made it available to fund other transportation projects. The unneeded funds remained idle for about 6 years.

To keep this situation from continuing, two FHWA Division Offices took aggressive steps to get states to immediately release the unneeded balances remaining on completed projects. One division told the state that it would take prompt action to deobligate unneeded funds remaining on completed projects within 30 days of project completion and documented this practice in written policy and procedures. A second FHWA Division Office informally requested that states begin releasing unneeded funds 6 months after project completion. This practice of designating a specific time frame for releasing the unneeded funds proved effective. The second Division Office released about $193 million of unneeded obligations this year. We found that the other 12 divisions we visited relied on the states to determine when to release any unneeded obligations on completed projects.

Canceled Transportation Projects With Unneeded Obligations

We found unneeded obligations totaling over $73 million on 37 canceled projects in 7 of the 14 states visited. Three examples follow.

- About $2.8 million in Federal-aid funds was obligated by one state in April 2002 for a road rehabilitation project. The funds remained obligated until our audit in February 2005, when the state canceled the project and deobligated the funds. State officials can now use the $2.8 million on other transportation projects. These unneeded funds remained idle for 3 years.

- In June 2003, one state obligated $2.2 million in Federal-aid funds for a bridge painting project. In February 2005 during our visit, the state canceled the project. State officials agreed that problems that developed with the contractor could not be resolved. The $2.2 million was deobligated and will be made available for use on other active projects.

- In 1999, one state obligated Federal-aid funds of about $806,000 for the right-of-way phase of a major road project. In September 2001, about $2,000 was spent, but the project never progressed to the construction phase. The $804,000 remained idle for about 4 years before the state deobligated the unexpended funds and made them available for use on other transportation projects.

Reduced-Scope Transportation Projects with Unneeded Obligations

We found about $3.4 million of unneeded obligations on 6 reduced-scope transportation projects in 4 of the 14 states visited. For example:

- By January 2001, one state had obligated Federal-aid funds totaling about $29.1 million for a pavement rehabilitation project on a major highway. The state spent about $27.3 million on the project, which left an unexpended balance of $1.8 million as of December 31, 2004. The state agreed the scope of the project had been reduced by $1.6 million and released the unexpended balance during the audit.

- In December 2003, one state obligated $1.5 million in Federal-aid funds for the enhancement of a transportation system. During our visit, the state agreed that the scope of the project needed to be reduced by $1 million because the contract limited the dollar amount of Federal participation to $500,000. The state deobligated the $1 million during the audit.

Premature Obligation of Project Construction

States could make many more Federal-aid dollars available for active projects each year by obligating funds closer to the start of project construction. We found that three states kept Federal-aid funds idle from year to year because funds were obligated several years before project construction contracts were awarded. Transportation projects start with a planning and design phase, move to a right-of-way and utility phase, and end with construction. In one state, funds were obligated for project construction at the start of the project planning and design phase. As a result, obligations were made long before they are needed to fund construction. During our audit, the 3 states released about $54 million in obligations on 23 projects awaiting the start of scheduled construction and made them available immediately for use on other active transportation projects. FHWA Division managers stated that releasing premature obligations would not affect the completion of projects. They assured us that funds would become available when the time came to begin project construction.

Funding New Transportation Projects

We sampled 411 projects in the 14 states visited, and initial Federal funding for these projects approached $1.2 billion. At an average Federal funding level of $2.9 million per project, the estimated $661 million in idle obligations could be released and used on roughly 230 transportation projects throughout the Nation. States can use the released funds on other active projects or to start new projects in accordance with Federal-aid procedures. States are required to maintain an extensive repertory of approved projects ready to be started.

States, in cooperation with metropolitan planning organizations (MPOs) and in consultation with non-metropolitan local officials, are required to develop a Statewide Transportation Improvement Program (STIP) that contains projects or project phases to be funded through the Federal-aid Highway Program and the Federal Transit Act. Incorporated into the STIP are the metropolitian Transportation Improvement Programs (TIPs) that are developed by MPOs in cooperation with the state and public transportation operators. The STIP is approved by the state Governor, as well as by the FHWA Division Administrator and the Federal Transit Administration’s Regional Administrator.

Before the enactment of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), STIPs and TIPs were required to contain projects over a 3-year period and be updated at least every 2 years. With the enactment of SAFETEA-LU, these documents now must contain projects over a 4-year period and be updated every 4 years.

We reviewed the STIP for one of the 14 states and determined that $11 million of idle Federal-aid funds in that state could be released and used sooner to start the right-of-way and utility phases on two new projects or the construction phase of one new project to expand major highways.

Until This Year, FHWA Was Slow To Implement Prior Recommendations and Establish an Effective Process To Ensure the Release of Unneeded Funds

The release of hundreds of millions of unneeded funds on transportation projects has been slowed by FHWA's delay in implementing our prior recommendations. We made a series of recommendations in four reports since 1997, culminating in seven recommendations in March 2004, to correct this problem. However, FHWA delayed implementing these recommendations until this year, when it issued a new program, FIRE, and proposed amending Title 23 provisions to stipulate when states should release unneeded obligations.

Status of FHWA Efforts To Implement Prior Recommendations

1997. In a 1997 Management Advisory report,[7] we recommended that the FHWA Administrator accurately account for unexpended obligations on all completed and inactive projects and develop performance goals for managing excess funds. FHWA responded by issuing a report in 1999, "Project Funds Management," recommending that FHWA Division and state offices consider using eight best practices for managing project funds, including identifying and ensuring the prompt release of unneeded obligations on completed, canceled, or reduced-scope transportation projects. Divisions have not been successful in getting the states to implement the best practices because states viewed them as recommendations, not requirements, and opted not to implement them.

1999. We recommended that the Department issue policy requiring Operating Administrations perform annual reviews of their inactive obligations to identify, monitor, and close completed projects. FHWA responded to the Department by issuing policy on validating inactive projects that required an annual review of projects with no expenditure activity for 1 year or more and with an unexpended balance of $1 million or greater. According to FHWA policy, states were to release obligated funds that FHWA believed were not needed to complete projects and use them on active state projects.

2001. We made three recommendations to the FHWA Chief Financial Officer (CFO) and Chief, Federal-aid Financial Management Division, to (1) independently review states' records to identify unneeded funds, (2) stress to the states the importance of implementing best practices, and (3) develop a national performance goal and measures on reducing inactive obligations to be incorporated into the FHWA performance plan. FHWA agreed with each recommendation, pledging action by the end of 2001. In response to our recommendations, FHWA issued a directive in December 2001 encouraging

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[7] OIG Report TR-1998-045, "Management Advisory on Unexpended Obligations on Complete and Inactive Highway Projects, Federal Highway Administration," December 11, 1997.

Division Administrators to sample state records when performing inactive obligation reviews. However, states continue not to implement the eight best practices, and while FHWA established goals and measures in 2000 through 2003, it established no targets to assess whether the goals were met. No goals and measures existed for 2004 and 2005. FHWA established a goal and measures for 2006 but still needs to establish a target.

2004. We redirected our recommendations from the CFO to the FHWA Administrator. We made seven recommendations, which included to implement policy and procedures requiring that Division Offices work closely with states to identify and release unneeded funds and include a performance goal and measure in FHWA's performance plan. We further recommended that the Administrator hold FHWA Division Administrators accountable to work closely with states in identifying unneeded obligations and that FHWA lower the dollar threshold for reviews of inactive obligations from $1 million to $500,000.

2005. This year, the Acting FHWA Administrator committed to implement our March 2004 recommendations. FHWA began implementing two recommendations by issuing policy and procedures under its new FIRE program to require divisions to work with states in validating the need for inactive obligations and lowering the dollar threshold for performing reviews to $500,000. Further, FHWA committed to including FIRE requirements in Division Administrators' performance standards beginning in FY 2006. Officials told us they are currently defining data that will be used to track the reduction of unneeded obligations.

CONCLUSION

Over the past 8 years, we have made recommendations to FHWA for improving the processes it uses to identify and release unneeded funds kept on transportation projects. We recognize that FHWA has taken a much more active role this year in working with the states to identify and release unneeded funds on completed, canceled, and reduced-scope projects. We further recognize that this effort presents a significant challenge, especially since 52 FHWA Division Offices and states must embrace this effort to ensure full success. The FHWA and state partnership role has existed for more than a half century, so a change in culture of this magnitude is no simple task. Management must provide continuing attention and support to ensure that the needed changes take hold. We applaud the Acting Administrator's aggressive actions to address this issue this year and his planned actions to ensure that the changes are fully implemented. Because FHWA has committed to fully implement our prior recommendations, we are not making new recommendations in this report.

MANAGEMENT COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FHWA with a draft of this report on October 31, 2005. The acting FHWA Administrator provided a written response on November 4, 2005. In his response, he commented that FHWA will continue to monitor inactive obligations in the future and aggressively work to keep them to a minimum. To ensure that the progress FHWA made this year is sustained in the future, FHWA must continue working with the states to institutionalize processes to identify and release unneeded obligations.

We appreciate the courtesies and cooperation of FHWA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-1992, or Earl C. Hedges, Program Director, at (410) 962-3612.

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cc: Martin Gertel, M-1
Cynthia Thornton, HAIM-13

EXHIBIT A. SCOPE AND METHODOLOGY

FHWA had recorded grants obligations with states of about $37 billion as of December 31, 2004. The bulk of this amount went to the states to fund investments in highway infrastructure and safety programs. Using FMIS, we identified 34,756 obligations totaling $4.5 billion that had had no expenditure activity for 12 months. About $2 billion of this represented about 1,500 obligations with unexpended balances of $500,000 and greater. We used a $500,000 threshold to review the inactive obligations for this audit because our March 2004 report found unneeded obligations on transportation projects with unexpended balances of less than $1 million (the threshold at that time).

To assess the extent to which FHWA implemented our prior audit recommendations, we met with Federal-aid managers at FHWA Headquarters and reviewed the FHWA order on FIRE, implemented on February 28, 2005.

For site visits, we randomly selected the following 10 states from those not previously visited: Florida, Illinois, Indiana, Kentucky, Massachusetts, Minnesota, New Mexico, North Carolina, Ohio, and South Carolina. In these 10 states, we reviewed 229 projects with inactive obligation balances totaling about $328 million, which represented all inactive obligations with unexpended balances of $500,000 and greater.

We randomly selected the following four states from those in our 2004 audit for follow-up visits: California, the District of Columbia, New York, and Virginia. We did not review all inactive obligations with unexpended balances of $500,000 and greater in three of the four states due to the large number of inactive obligations exceeding that threshold. For these four states, we reviewed a total of 182 randomly selected projects, with inactive obligation balances totaling $272 million. We projected the results in the 14 sample states to the Nation as a whole in accordance with the sampling plan. We also followed up to determine whether inactive obligations identified as unneeded in the previous audit had been released and used on other transportation projects.

In the 14 states visited, we requested that FHWA Division Office financial managers provide support to justify the inactive obligated amounts. We also visited state offices; interviewed project fund managers and program and accounting officials; and reviewed obligating documents, including project files, to evaluate the monitoring of selected projects and the use of FHWA best practices.

We relied on FHWA's FMIS as the primary source of automated information on obligations and expenditure history for grant obligations. Only records for projects that were (1) not classified as earmarked, (2) had had no expenditures since December 31, 2003, and (3) had unexpended balances of $500,000 and greater were included in the universe. FHWA validated the earmarked projects included in the sample. We also used FMIS to determine whether the unneeded and idle funds were released by September 30, 2005.

We reviewed audit work performed by Clifton Gunderson, LLP, to understand (1) internal controls over the processing and recording of grants in FHWA during FY 2004, (2) relevant laws and regulations, (3) grants program policies and procedures, and (4) key elements of the control environment. We also reviewed work performed by Clifton Gunderson to understand and assess the risk of fraudulent, improper, and abusive grant activity and computer-based controls established over FMIS and Delphi, the Department's financial management system.

We identified payment activity of $100 or less recorded in FMIS during the 12-month period ended December 31, 2004, and concluded that low-dollar payments did not preclude inactive obligations of greater than $500,000 from appearing in the universe. Also, there was no indication of the existence of fraud related to whether the inactive obligations reviewed represented valid liabilities.

We performed the audit from January 2005 through October 2005 in accordance with Generally Accepted Government Auditing Standards prescribed by the Comptroller General of the United States and included such tests as we considered necessary to provide reasonable assurance of detecting abuse or illegal acts.

EXHIBIT B. UNNEEDED OBLIGATIONS BY STATE AND PROJECT STATUS, AS OF DECEMBER 31, 2004

States Visited	Dollar Value on Completed Projects (Thousands)	Dollar Value on Canceled Projects (Thousands)	Dollar Value on Reduced-Scope Projects (Thousands)	Total (Thousands)
New States				
Minnesota	$ 21,297	$ 0	$ 0	$ 21,297
Illinois	$ 13,055	$ 804	$ 0	$ 13,859
Florida	$ 12,057	$ 0	$ 0	$ 12,057
Indiana	$ 6,196	$ 5,135	$ 158	$ 11,489
Kentucky	$ 8,808	$ 0	$ 2,600	$ 11,408
South Carolina	$ 8,896	$ 0	$ 350	$ 9,246
Massachusetts	$ 5,924	$ 0	$ 304	$ 6,228
Ohio	$ 1,299	$ 2,184	$ 0	$ 3,483
North Carolina	$ 2,228	$ 0	$ 0	$ 2,228
New Mexico	$ 0	$ 0	$ 0	$ 0
Subtotal	**$ 79,761**	**$ 8,123**	**$ 3,412**	**$ 91,296**
Prior States				
District of Columbia	$ 8,945	$32,115	$ 0	$ 41,060
California	$ 16,048	$15,093	$ 0	$ 31,140
Virginia	$ 15,119	$12,691	$ 0	$ 27,810
New York	$ 7,121	$ 5,433	$ 0	$ 12,554
Subtotal	**$ 47,233**	**$65,331**	$ 0	**$ 112,564**
Total*	**$126,994**	**$73,454**	**$ 3,412**	**$ 203,860**

* Amounts may not add up exactly to Subtotals and Totals due to rounding.

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

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Memorandum

U.S. Department of Transportation
Federal Highway Administration

Subject: INFORMATION: Draft Report on Inactive Obligations
FHWA Project No. 05F3013F000

Date: November 4, 2005

Reply to
Attn. of: HCF-1

From: J. Richard Capka
Acting Administrator

To: Theodore P. Alves
Principal Assistant Inspector General
for Auditing and Evaluation

Thank you for the opportunity to comment on the draft report. Our staffs have jointly worked on this issue for several years and I am happy the lingering issues of the past have been resolved. The Federal Highway Administration will continue to monitor inactive obligations in the future and we will aggressively work to keep them minimized. Thank you for the assistance you have provided to help us reach this conclusion.

BUCKLE UP AMERICA