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# *Office of Inspector General*

# *Audit Report*

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## **FHWA'S FIRE PROGRAM IS ADDRESSING STATE VULNERABILITIES, BUT OPPORTUNITIES EXIST TO MAKE IMPROVEMENTS**

*Federal Highway Administration*

*Report Number: ST-2015-083*

*Date Issued: September 1, 2015*






# Memorandum

U.S. Department of  
Transportation

Office of the Secretary  
of Transportation  
Office of Inspector General

Subject: **ACTION:** FHWA's FIRE Program Is Addressing  
State Vulnerabilities, but Opportunities Exist To  
Make Improvements  
Federal Highway Administration  
Report Number ST-2015-083

Date: September 1, 2015

From: Mitchell Behm   
Assistant Inspector General for  
Surface Transportation Audits

Reply to  
Attn. of: JA-30

To: Federal Highway Administrator

The Federal Highway Administration (FHWA) oversees States' use of approximately \$40 billion in Federal funds provided annually for thousands of projects, ranging from relatively simple paving work to complex highway and bridge construction. By issuing those grants to State and local governments, FHWA incurs contractual obligations. In 2004, we reviewed \$1.3 billion in Federal-aid highway obligations and concluded that \$284 million of them were no longer needed because they were associated with canceled, reduced scope, or completed projects.<sup>1</sup> In response to that report and to ensure that funds are safeguarded against mismanagement, FHWA established the Financial Integrity Review and Evaluation (FIRE) Program in 2005. FHWA Division Offices annually conduct FIRE reviews that assess States' management of Federal funds in key areas, such as inactive obligations and improper payments.

Despite implementation of this program, we continue to periodically identify financial vulnerabilities in the highway program. For example, work conducted by independent auditors concluded that FHWA's inactive project reviews, a key component of FHWA's FIRE program, contributed to a material weakness<sup>2</sup> in the Department of Transportation's (DOT) consolidated financial statements for fiscal years 2011 and 2012. The auditors stated that personnel did not properly identify

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<sup>1</sup> *Report on Inactive Obligations, FHWA* (OIG Report Number FI-2004-039), March 31, 2004. OIG reports are available on our Web site: <https://www.oig.dot.gov/>.

<sup>2</sup> A financial statement material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

funds that were no longer needed for specific obligations. As a result, we reviewed FHWA's FIRE Program to evaluate whether FHWA's FIRE reviews (1) complied with agency policies and procedures and (2) were used effectively to address vulnerabilities.

We conducted this audit from July 2014 through July 2015 in accordance with generally accepted Government auditing standards. To conduct this audit, we visited 5 randomly selected Division Offices and reviewed supporting documentation for 10 FIRE program components conducted between October 2010 and September 2013. We interviewed staff involved in those components, as well as FHWA's Office of the Chief Financial Officer (OCFO) and Resource Center Finance Services Team (RCFST)<sup>3</sup> members. Exhibit A contains additional details on our scope and methodology, and exhibit B summarizes our assessment of the Division Offices' compliance with the FIRE program.

## **RESULTS IN BRIEF**

FHWA Division Offices' FIRE reviews generally complied with agency policies and procedures in carrying out the components of the FIRE program. For example, all five Division Offices we reviewed participated in FHWA's nationwide improper payments review and conducted inactive obligation reviews. However, we identified three program areas where they lacked either adequate oversight or documentation. First, four of the five Division Offices used outdated guidance to define materiality for FIRE reviews. This is because FHWA lacks adequate oversight mechanisms to ensure that all Division Offices use appropriate criteria to define materiality and report material weaknesses identified in FIRE certifications. As a result, this increased the risk that Division Administrators could identify and report material weaknesses inconsistently or submit annual certifications without including them at all. Second, while the Division Offices collaborated each year to identify risk areas and plan the required financial management reviews (FMR), they did not consistently document these decisions because the FIRE Order does not require them to do so. As a result, officials outside of FHWA, such as the Office of Inspector General (OIG), cannot independently verify that FMRs actually addressed identified risks. Finally, none of the five Division Offices maintained complete records for staff financial management training because FHWA does not require them to centrally document and track such information. This could make it difficult for Division Administrators to fulfill their responsibility in the FIRE Order to ensure staff are adequately trained to administer the program.

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<sup>3</sup> Among other things, RCFST provides training and technical assistance to Division Offices on carrying out the FIRE program and is located in the Office of Technical Services.

While Division Offices generally used the FIRE program as a tool to address financial management vulnerabilities, such as invalid inactive obligations, they did not consistently follow up on FMR recommendations. For example, all five offices had outdated, incomplete, or missing follow-up information on the status of their FMR recommendations. This is largely because FHWA's recommendation tracking system was stored on local Division Office servers, and the FIRE Order did not assign any centralized FHWA offices the responsibility to oversee the tracking system. As a result, FHWA could not ensure that weaknesses identified in FMRs were fully addressed. FHWA introduced an improved process in 2014 to better track FMR results and recommendations, including monitoring by OCFO. However, Division Offices may not be tracking older recommendations because FHWA did not require them to transfer those recommendations to the new information system. Thus, it is too soon to determine whether the Agency will implement the process sufficiently in order to address these shortcomings.

We are making recommendations to improve the implementation of the FIRE program.

## **BACKGROUND**

In 2008, FHWA issued FIRE Order 4560.1b, which governed the FIRE program until 2014, when the Agency issued FIRE Order 4560.1c. According to the 2008 FIRE Order, each Division Office was required to conduct financial management oversight and take the necessary actions to ensure and certify that Federal funds are properly managed and effectively used in accordance with Federal policies, and that safeguards are in place to minimize fraud, waste, abuse, and mismanagement. To assist Division Offices as they conduct FIRE reviews, in 2006 and 2014, FHWA issued a "FIRE Tool Kit" that provides additional guidance and examples. Additionally, the 2014 FIRE Order enhanced the OCFO oversight responsibilities and expanded RCFST's mandate to assess Division Offices' FIRE reviews. The FIRE Order requires all Division Administrators to annually certify the results of the FIRE program. FIRE certifications either identify all instances of material non-conformance with Federal requirements and effective internal controls, or indicate that none exist. In 2013, the OCFO revised the annual certification process by consolidating the FIRE annual certification, certification validation, and Federal Managers' Financial Integrity Act<sup>4</sup> (FMFIA) assurance requirements into a single FIRE certification/FMFIA assurance statement submission. FHWA also uses Division Offices' FIRE certifications/FMFIA assurance statements to support the Agency-wide FMFIA certification.

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<sup>4</sup> P.L. 97-255. FMFIA is an Act to amend the Accounting and Auditing Act of 1950 to require ongoing evaluations and reports of the adequacy of the systems of internal accounting and administrative control of each executive agency and for other purposes.

While the FIRE program has 12 components, our audit focused on FHWA oversight of States, and thus we did not audit the implementation of 2 components: administrative reviews and program funds management reviews—see the table below for details.

**Table. Division Office FIRE Components Included in the OIG Review**

<b>Component</b>	<b>Explanation</b>
Risk Assessment	Annual assessment of risks identified by Division Offices
Program Plan	List of FIRE activities for a Division Office to conduct in a fiscal year
Financial Management Review	Comprehensive review of a key process or system employed by a State DOT in managing Federal-aid funds. Conducted in response to the results of the risk assessment.
Improper Payments Review	Review of State payments on projects funded by Federal-aid Highway grants
Inactive Project Review (Inactive Obligations)	Review of Federal-aid projects for which no costs have been billed to FHWA for a specified period of time
Single Audit Review	Review of highway-related findings and recommendations from States' single audit reports
Federal Audit Finding Review	Review to ensure an office addresses findings and recommendations in DOT Office of Inspector General or Government Accountability Office reports
Annual Certification	Form providing reasonable assurance that an office and its programs meet the objectives of the FIRE Program and FMFIA (Due each June)
Certification Verification	Form updating annual FIRE certifications (Due each September)
Follow-Up Activities	Division Office processes to ensure that findings and recommendations are addressed in a timely manner

Source: FHWA Order 4560.1b (November 2008)

## **FIRE REVIEWS COMPLIED WITH AGENCY POLICIES AND PROCEDURES BUT LACKED SUFFICIENT OVERSIGHT AND DOCUMENTATION**

In general, the five FHWA Division Offices complied with Agency policies and procedures in conducting the FIRE program. However, we identified three program areas that were lacking—one where the Division Offices did not have adequate oversight for applying the correct materiality criteria to annual FIRE certifications and two program areas where offices did not have sufficient documentation: linking FMRs to risk assessments and maintaining complete training records.

### **Division Offices Generally Implemented All Components of the FIRE Program**

The five FHWA Division Offices generally complied with Agency policies and procedures in conducting the FIRE Program. For example, our review found that

all five Division Offices participated in FHWA's nationwide improper payments review, conducted inactive obligation reviews, and submitted annual certifications and associated validations. In addition, these Division Offices exceeded FIRE Program requirements for improper payment reviews by proactively conducting quarterly or even monthly reviews of billings submitted to FHWA for payment. See exhibit B for a more detailed assessment of Division Offices' compliance with FIRE program policies.

### **Division Offices Did Not Always Apply the Correct Materiality Criteria When Completing Annual FIRE Certifications**

Four of the five FHWA Division Offices we sampled used outdated criteria to define materiality for their annual FIRE certifications. They used 2007 guidance, which described a materiality threshold—1 percent of a State's apportionments or in excess of \$400 million for the Highway Trust Fund. However, the 2008 FIRE Order, which was in effect during the entire period of our audit, defined an instance of material non-conformance or materiality as "...a significant internal control system weakness producing such quantitative or qualitative impacts that an FHWA official is precluded from providing the needed reasonable assurance that the objectives of the FMFIA and OMB Circular A-123 have been met."

We found they used the outdated guidance primarily because FHWA lacks adequate oversight mechanisms to ensure that all Division Offices use appropriate criteria to define materiality. Specifically, to complete their FIRE certifications, Division Administrators—in consultation with their senior staff—either identify all instances of material non-conformance with Federal requirements and internal controls or indicate that none exist.

Division Administrators are given substantial discretion to make the final decision about what is material and what needs to be reported—before they certify the results and sign the FIRE certifications. For instance, even though one Division Office was using the outdated 2007 guidance to define materiality, the Division Administrator told us that his office is not obligated to report any information even if it exceeds 1 percent of the apportionment, unless he determines that the issue is material. Given the significant degree of discretion they have in determining what is material and what needs to be reported in their FIRE certifications, Division Administrators could identify and report material weaknesses inconsistently or submit annual certifications without including material weaknesses. In another example, one Division Office did not meet the Agency's inactive obligation goal for 3 quarters during fiscal year 2012—the same year that independent auditors identified a material weakness relating to inactive obligations at FHWA. In fact, the Division Office missed the Agency's goal by almost 120 percent during one quarter. According to the Finance Manager, the Division Office did not consider this issue to be material because inactive obligations were already a high priority

for FHWA in 2012. While we acknowledge that some inactive obligations may be valid and needed for some projects, the Division Office missed an opportunity to further assess whether it had a material weakness to report. If FHWA had an oversight mechanism in place, it could have validated the Division Administrators' decision in such cases.

Currently, no FHWA entity performs oversight to ensure that the correct criteria are used. There are a number of entities that could provide this needed layer of additional oversight and also ensure that materiality is appropriately assessed and that all material weaknesses have been reported. As of April 2014, such entities could include, for example:

- OCFO, which provides nationwide leadership, performance targets, and accountability to the FIRE program.
- Directors of Field Services (DFS), who provide supervision and leadership to Division Offices on strategic initiatives like the FIRE program.
- RCFST, which is tasked to ensure consistent financial management activities and practices of Division Offices by verifying, reviewing, and analyzing FIRE plans, documentation, results, and performance metrics.

Recently, FHWA has taken steps to improve Division Offices' understanding of materiality in the context of the FIRE program. The revised FIRE Order issued in April 2014 includes an enhanced definition of materiality and, during the course of our review, FHWA issued a memorandum to all Division Offices reiterating the new definition of materiality.

### **FHWA Offices Did Not Always Document the Link Between Financial Management Reviews and Risk Assessments**

The 2008 FIRE Order directed Division Offices to conduct at least one FMR annually in response to their risk assessment. As part of FHWA's annual planning process, Division Office staff representing various disciplines (e.g., planning, engineering, and finance) collaborate to determine what risks confront the Division Office. Staff also prioritize those risks and decide which should be the subject of FMRs. In addition, the old FIRE Tool Kit in effect during the scope of our audit stated that FMRs should explain why the review was performed and what the reviewer hoped to accomplish. However, neither it or the old FIRE Order requires Division Offices to document the link between FMRs and risk assessments.

The Division Offices in our review did not consistently document the link between their FMRs and risk assessments. During the period covered by our review, the

5 Division Offices issued 22 FMRs based on risk assessments, on topics ranging from project closeout to State infrastructure banks.<sup>5</sup> Division Offices did not document this link for approximately 85 percent of these FMRs. This is in contrast to the Standards for Internal Controls in the Federal Government, which call for accurate and timely records of key events and transactions.

As a result of this lack of documentation, an Agency official from outside a Division Office would be unable to establish or validate a link between the FMRs and the risk assessments performed without assistance from the employees at the Division Office who participated in the decision regarding what FMRs to perform. Additionally, this could reduce the likelihood that Division Offices are targeting their limited resources by conducting FMRs in response to the highest risks.

### **Division Offices Lacked Complete Financial Management Training Records**

Both the 2008 and 2014 FIRE Orders state that Division Administrators are responsible for ensuring that Division Office staff are adequately trained to administer the FIRE Program. However, we found that none of the five Division Offices maintained complete records of staff who participated in webinar-based financial management training. The lack of training records is due in part to a gap in policies and procedures. Specifically, FHWA often knows which office is participating in webinars but not which individuals. FHWA also does not have a centralized system or tool to document and track training of Division Office staff who administer the FIRE Program. For example, a Division Office employee completed a key training course related to the FIRE program, but that information was not recorded in DOT's Training Management System (TMS) or financial management training records that FHWA headquarters keeps outside of TMS. A lack of accurate and complete training records impedes Division Administrators' ability to fulfill their responsibility in the FIRE Order to ensure staff are adequately trained to administer the program.

Additionally, FHWA did not have a list of required training courses for Division Office staff who administer the FIRE program. During the course of our audit, we discussed this issue with FHWA officials who told us in June 2015 that they are developing a list of required training. Whether these training courses are mandatory or optional, documenting and tracking them could strengthen Division Administrators' ability to fulfill their responsibilities under the FIRE program.

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<sup>5</sup> State infrastructure banks are revolving infrastructure investment funds for surface transportation that are established and administered by States.



## **FIRE REVIEWS FOCUSED ON ADDRESSING STATES' FINANCIAL MANAGEMENT VULNERABILITIES, BUT RECOMMENDATION FOLLOW-UP WAS NOT CONSISTENT**

In general, the five FHWA Division Offices used the FIRE reviews as a tool to help ensure that States were addressing financial management vulnerabilities. However, we found that Division Offices did not consistently follow up on review recommendations, making it difficult for FHWA to ensure that weaknesses identified in FMRs were fully corrected.

### **Division Offices Used FIRE Results To Deal With Vulnerabilities**

The five Division Offices generally used the FIRE review results to address financial management vulnerabilities. For example, the Division Offices we sampled effectively used the FIRE program's inactive Federal-aid project reviews as a tool to help drive down inactive obligation rates. As a result, they reduced their average inactive obligation percentage rates from 4.3 percent in 2012 to 1.6 percent in 2013. As an Agency, FHWA reduced its inactive obligation rate down to 1.1 percent in 2015. In addition, Division Offices followed up on findings from all single audit reports, ensuring that State departments of transportation implemented the recommendations.

### **Division Offices Did Not Follow Up or Maintain Status Information on All FMR Recommendations and Corrective Action Plans**

According to the old FIRE Tool Kit, "...simply conducting a review and writing a report does not produce improvements. The payoff lies in implementing the improvements identified during the process of performing a review." However, our review found a lack of adequate oversight of the follow-up process at each Division Office we visited. Specifically:

- Two Division Offices did not follow up on recommendations or corrective action plans resulting from at least one of their FMRs. For instance, one Division Office did not follow up on an April 2012 recommendation related to consultant costs. In this case, the State was required to revise its indirect cost rate for consultants to a rate based upon each firm's actual costs. If the State does not implement the recommendation, it could result in inflated consulting costs to the State. In October 2014, the Finance Manager confirmed that there had been no follow-up on this recommendation.
- All five Division Offices had outdated, incomplete, or missing follow-up information on the status of their FMR recommendations or corrective action plans. For example, one Division Office did not accurately record the current status of recommendations, even though each recommendation was resolved.

Division Offices' inability to maintain complete and accurate status information reduces FHWA's ability to effectively oversee State DOTs through implementation of FMR recommendations. This has been occurring largely because, before fiscal year 2014, FHWA's system for tracking recommendations was stored on local Division Office computer servers and was not accessible by OCFO and other offices. Further, the 2008 FIRE Order did not assign to any centralized FHWA office the responsibility to oversee Division Offices' follow-up activities.

In fiscal year 2014, however, FHWA introduced a new process to maintain FIRE review results in a more systematic and transparent manner. This process includes the following:

- A new information system (i.e., INPUT) that contains follow-up and other data from Division Offices and other FHWA units. This system may be accessed by a range of FHWA offices, such as OCFO, the RCFST, and Division Offices.
- The new FIRE Tool Kit states that Division Offices must monitor the implementation status of their recommendations and corrective action plans in INPUT and update the information quarterly. The OCFO is responsible for monitoring the status of Division Offices' FIRE activities quarterly or as needed.
- The 2014 FIRE Order also assigned to OCFO the responsibility of providing nationwide accountability for the FIRE program and to RCFST the responsibility of reviewing and analyzing FIRE documentation and results. We note that this new process applied only to FIRE reviews starting in June 2014, the beginning of FHWA's 2015 performance year.

However, FHWA did not require Division Offices to transfer open recommendations and corrective action plans from the old system to INPUT, making it possible that Division Offices would not focus and monitor the implementation status of those recommendations in the future. While our sampled Division Offices either transferred those items or plan to do so on their own, there is still no process in place to ensure that all Division Offices will continue to track and implement older FMR recommendations and corrective action plans.

It is too soon to determine whether the Agency will implement the new process sufficiently. Going forward, FHWA faces the management challenge of ensuring that Division Offices and other FHWA units implement the new process, including using INPUT, to track follow-up activities.

## **CONCLUSION**

The FIRE program is an important part of FHWA's efforts to ensure that States appropriately manage Federal funds and protect them from fraud, waste, and abuse. Over the past decade, FHWA's Division Offices have taken positive steps by generally implementing the program according to Agency policies and procedures. Additionally, FHWA established a new FIRE Order and new processes to track FIRE review results. However, it will be critical for FHWA to focus on effectively implementing its planned actions and taking additional steps to ensure consistent determinations of materiality, improve recordkeeping of key decisions and FIRE training activities, and enhance mechanisms to monitor States' corrective actions on identified vulnerabilities. Doing so will provide greater assurance that the FIRE program will meet its full potential as a tool to consistently apply sound financial management and accountability across FHWA's programs.

## **RECOMMENDATIONS**

We recommend that the Federal Highway Administrator:

1. Develop and implement a mechanism to oversee Division Administrators' decision making process to validate that all material weaknesses have been reported and that materiality has been appropriately assessed.
2. Require Division Offices to clearly document how the financial management reviews responded to the risk assessments or other internal control weaknesses.
3. Require Division Offices to keep complete records for key training related to the FIRE Program and track this information in a centralized system.
4. Require Division Offices to transfer open, pre-existing FMR recommendations and corrective action plans to INPUT.

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

We provided FHWA with our draft report on July 23, 2015, and received its response on August 20, 2015, which is included as an appendix to this report. FHWA concurred with all four of our recommendations, agreed to implement them as written, and provided appropriate target completion dates. Accordingly, we consider all recommendations resolved but open pending completion of the planned actions.

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) 366-5630 or Toayoa Aldridge, Program Director, at (202) 366-2081.

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cc: DOT Audit Liaison (M-1)  
FHWA Audit Liaison (HCFB-32)

## **EXHIBIT A. OBJECTIVES, SCOPE, AND METHODOLOGY**

We conducted our audit work between July 2014 and July 2015 in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Given the importance of the FIRE program and the financial vulnerabilities identified at FHWA, we performed this self-initiated audit and evaluated whether FHWA's FIRE reviews (1) complied with agency policies and procedures and (2) were used effectively to address vulnerabilities. In April 2014, FHWA issued a new FIRE Order governing the program, but the new Order did not go into effect until performance year 2015, which ran from June 1, 2014, until May 31, 2015. Therefore, to conduct our work, we assessed FIRE reviews conducted from October 2010 through September 2013.

Further, for the purposes of our review, we selected 10 components within the FIRE Program as presented in the table (on page 4). We did not include two other FIRE components (i.e., administrative and program funds management reviews) because they do not focus on Division Office oversight of State DOTs. Also, we relied on the work of the OIG Office of Financial and Information Audits and the OIG Statistician for assessing improper payments reviews.

To accomplish our audit objectives, we reviewed laws, regulations, policies, procedures, guidance, and other relevant information to understand the requirements for the FIRE Program. We conducted audit work at FHWA Headquarters and sampled Division Offices. We worked with an OIG Statistician to select a random sample of 5 out of 52 Division Offices. First, we stratified the Division Offices by their fiscal year 2013 obligation amounts into five strata: Very High, High, Average, Low, and Very Low. Then the statistician selected a simple random sample of one Division Office from each stratum. The sampled Division Offices, ranked in descending order are Texas, Missouri, Minnesota, New Mexico, and Rhode Island.

We also interviewed FHWA officials from the OCFO, Program Management Improvement Team, RCFST, DFS, and senior officials at State Departments of Transportation. In general, we discussed with FHWA officials their roles and responsibilities, requirements, processes, and training programs for performing FIRE reviews. Consequently, we used this information to accomplish our audit's objectives and to identify program weaknesses.

## EXHIBIT B. OIG ASSESSMENT OF DIVISION OFFICE COMPLIANCE WITH FIRE POLICIES AND PROCEDURES

FIRE Component	DIVISION OFFICE					Notes
	Minnesota	Missouri	Rhode Island	Texas	New Mexico	
<b>Risk Assessment</b>	Yes	Yes	Yes	Yes	Yes	
<b>Program Plan</b>	Partially	Partially	Partially	Partially	Partially	Division Offices performed all applicable FIRE components but did not document them in a plan. However, the effect was not material.
<b>Financial Management Review</b>	Partially	Partially	Partially	Partially	Partially	Division Offices had weaknesses documenting links to risk assessments and follow-up actions on recommendations.
<b>Improper Payments Review</b>	Yes	Yes	Yes	Yes	Yes	
<b>Inactive Federal-aid Project Review</b>	Yes	Yes	Yes	Yes	Yes	
<b>Single Audit Review</b>	Yes	Yes	Yes	Yes	Yes	
<b>Federal Audit Findings Review</b>	N/A	N/A	N/A	N/A	N/A	No Federal findings were addressed to these Division Offices.
<b>Annual Certification</b>	Partially	Yes	Yes	Yes	Yes	The Division Office did not sign an annual certification on time. However, the effect was not material.
<b>Certification Validation</b>	Yes	Yes	Yes	Yes	Yes	
<b>Follow-Up Activities</b>	Partially	Partially	Partially	Partially	Partially	Division Offices did not follow-up on all FMR recommendations, and some status information was out-of-date or missing.

**EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT**

<b><u>Name</u></b>	<b><u>Title</u></b>
Toayoa Aldridge	Program Director
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## APPENDIX. AGENCY COMMENTS



U.S. Department  
of Transportation

Federal Highway  
Administration

# Memorandum

Subject: **INFORMATION:** Federal Highway Administration (FHWA) Response to Office of Inspector General (OIG) Draft Report on FHWA's Financial Integrity Review and Evaluation (FIRE) Program

Date: August 19, 2015

From: Gregory G. Nadeau  
Administrator

In Reply Refer To:  
HCFB-30

To: Calvin L. Scovel III  
Inspector General

The FHWA's FIRE Program implements controls designed to safeguard FHWA funds against fraud, waste, and abuse, and to assess whether proper internal controls are established and maintained in conducting day-to-day operations. The FHWA has continued to improve this program since its creation in 2005. Most recently in 2014, FHWA issued FIRE Order 4560.1C to align the FIRE Program with the Agency's risk-based stewardship and oversight approach and its strategic planning processes. Specifically, FHWA ensured the tracking and monitoring of unit-level financial activities and results by incorporating reporting in a centralized system. This allows us to use an objective, data-driven approach to identify national financial trends and address priority focus areas based on the Agency's risks and performance management results.

In addition, the revised FIRE Order formalized provisions of the Office of Management and Budget's (OMB) Circular A-123, Management's Responsibility for Internal Control, within the FIRE Program. Including OMB Circular A-123 elements into the FIRE Program strengthens FHWA's systematic and proactive measures to implement, assess, and monitor appropriate, cost-effective internal controls for results-oriented management. It also better aligns the FIRE activities and results to support FHWA's Financial Managers Financial Integrity Act (FMFIA) compliance.

Based on our review of your report, we concur with the recommendations, as written, and intend to complete the necessary actions for recommendation 4 by March 31, 2016, and recommendations 1 through 3 by June 30, 2016.

We appreciate OIG's recognition of our continuing efforts to balance risk areas with our limited resources to ensure effective internal controls. Please contact Juli Huynh, Director of the Office of Financial and Management Programs at (202) 366-6504 with any questions.