
Office of Inspector General

Audit Report

ENHANCED MONITORING TOOLS ARE NEEDED TO IMPROVE NHTSA'S OVERSIGHT OF HIGHWAY SAFETY GRANTS

National Highway Traffic Safety Administration

Report Number: MH-2014-088

Date Issued: August 21, 2014





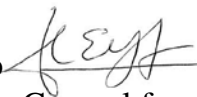
Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION**: Enhanced Monitoring Tools Are
Needed To Improve NHTSA's Oversight of
Highway Safety Grants
National Highway Traffic Safety Administration
Report Number MH-2014-088

Date: August 21, 2014

From: Thomas E. Yatsco 
Assistant Inspector General for
Surface Transportation Audits

Reply to
Attn. of: JA-30

To: National Highway Traffic Safety Administrator

Nearly 34,000 motor vehicle fatalities occurred in 2012, an increase of 3.3 percent from the previous year. To help reduce fatalities, injuries, and economic losses resulting from motor vehicle crashes, the National Highway Traffic Safety Administration (NHTSA) awards formula and incentive grants to States to conduct a wide range of highway safety programs. The Moving Ahead for Progress in the 21st Century Act (MAP-21) authorized about \$1.3 billion to fund these grants for fiscal years 2013 and 2014. States can distribute highway safety grant and penalty transfer funds¹ to a wide network of sub-grantees nationwide, including local law enforcement agencies, municipalities, universities, health care organizations, and other local institutions. NHTSA's regional offices play an important role in monitoring States' and sub-grantees' use of grant funds, such as conducting triennial management reviews and ongoing oversight.

Our objective for this self-initiated audit was to evaluate NHTSA's oversight of Federal highway safety grants provided to the States. Specifically, we determined whether NHTSA (1) ensured that grantees met key Federal requirements and (2) effectively tracked grantee deficiencies and corrective actions.

To conduct our audit work, we focused on one NHTSA regional office, Region 5, which we randomly selected from NHTSA's 10 regional offices (see exhibit B).

¹ Under Title 23 United States Code (U.S.C.) Parts 154 and 164, States that fail to pass open container and repeat offender laws are subject to transferring 2.5 percent of Federal-aid highway construction funds to the highway safety program for alcohol-impaired driving countermeasures, enforcement of laws prohibiting impaired driving. In this report, the term "grant funds" includes these penalty transfer funds.

Region 5 encompasses the States of Indiana, Illinois, Michigan, Minnesota, Ohio, and Wisconsin. Where appropriate, we identified issues that applied across the Agency, including guidance and monitoring mechanisms. We evaluated a statistical sample of 66 grant expenditures (totaling \$5.7 million) drawn from 4,113 grants (totaling \$178 million) in Region 5 from fiscal years 2011 and 2012. We analyzed grantees' expenditures of grant funds from fiscal years 2006 through 2012, assessed NHTSA's guidance for monitoring grants, and evaluated NHTSA's oversight of findings and corrective actions resulting from management reviews. Exhibit A provides more detail on our scope and methodology. We conducted our work in accordance with generally accepted Government auditing standards.

RESULTS IN BRIEF

NHTSA grantees in Region 5 generally met key Federal grant requirements, but the Agency lacks strategies for addressing delayed expenditures of grant funds and targeting higher risk grantees. Our sample review of 66 grant expenditures (totaling \$5.7 million) by Region 5 States and their sub-grantees for fiscal years 2011 to 2012 did not identify significant lapses in the Region's oversight. Each grantee transaction we reviewed generally met funding parameters of the grant programs, was charged to appropriate grant funding codes, and was supported by sufficient documentation. However, NHTSA lacks an overall strategy for addressing persistent delays in grantees' use of grant funds that are present across all regional offices and a comprehensive risk assessment model for targeting oversight to higher risk grantees nationwide. For fiscal years 2006 through 2012, we identified approximately \$539 million in unexpended funds across all regional offices. For Region 5 alone, the amount of unexpended funds was nearly \$67 million, or about 12 percent of the national total. Unused safety grant funds represent potential lost or delayed opportunities to fund programs that reduce fatalities, injuries, and property damage. In addition, NHTSA does not require its regional offices to conduct comprehensive risk assessments, which would serve to direct oversight resources to higher risk grantees and programs. For example, Region 5 does not conduct risk assessments as part of the grant monitoring plans it develops for each State. Without risk assessments, NHTSA lacks a key tool for directing limited oversight resources to higher risk programs and grantees.

Although all of NHTSA's regional offices conduct triennial management reviews of grantees, the Agency does not sufficiently track grantee deficiencies identified in these reviews, or have sufficient tools to identify and mitigate systemic nationwide issues. From fiscal years 2010 through 2012, NHTSA's Region 5 officials conducted congressionally mandated triennial management reviews of all six of its State grant programs. For example, in Region 5, officials closed 7 of 9 findings and 16 of 25 non-binding recommendations made in the triennial management reviews. The deficiencies ranged from improper use of funds to lack

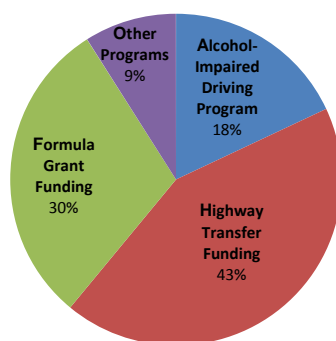
of monitoring plans. However, Region 5 officials could not provide sufficient documentation of States' actions to justify closing three of the findings and recommendations, and they also lacked documentation of management approval. For instance, when we asked about a closed non-binding recommendation intended to improve the timeliness of Ohio's expenditure of grant funds, a Region 5 official acknowledged that the State had not made sufficient progress to justify closing the recommendation. NHTSA's guidance and procedures, which apply to all regional offices, do not require documentation and management approval for key actions related to the disposition of grantee deficiencies; however, Standards for Internal Control in the Federal Government² state that such significant events should be clearly documented. Finally, NHTSA still lacks a standardized mechanism for tracking each of the ten regional offices' disposition of grantee deficiencies—a recommendation we made in 2008.³ This tool would allow the Agency to identify and mitigate systemic issues on a national level. According to NHTSA officials, the Agency is planning to develop a database that will track its grant oversight findings by 2015.

We are making recommendations to improve NHTSA's oversight of highway safety grants.

BACKGROUND

NHTSA awards grant funding to States to implement several highway safety programs. Figure 1 details the major types of grants awarded in fiscal year 2012.

Figure 1. Grant Funding for Highway Safety Programs, Fiscal Year 2012.



Source: NHTSA

² Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3.1) state that management should comprehensively identify risks and consider significant internal and external factors at both the entity-wide and activity level. Risk identification methods include qualitative and quantitative ranking activities, forecasting and strategic planning, and consideration of findings from audits and other assessments.

³ *Best Practices For Improving Oversight of State Highway Safety Programs* (OIG Report Number MH-2008-046), Mar. 25, 2008. OIG reports are available on our Web site at <http://www.oig.dot.gov>.

Prior Office of Inspector General (OIG) audits and investigations and Government Accountability Office (GAO) audits identified weaknesses in NHTSA's oversight of highway safety grants. In February 2013, we reported that Mississippi did not properly administer alcohol-impaired driving transfer funds and that NHTSA lacked agency guidance on how and when to designate States as high risk.⁴ In 2008, in response to OIG⁵ and GAO⁶ audits, NHTSA agreed to enhance its reviews of grantee performance and establish a nationwide system for tracking grantee deficiencies and corrective actions. Furthermore, in Illinois and Texas, OIG investigations resulted in indictments of grantee officials in 2012 and 2013 for making illegal reimbursement claims and misusing administrative time.

In September 2013, NHTSA reorganized its grant oversight function and is reviewing its Headquarters and Regional Office grant oversight operations. For example, NHTSA established a new Headquarters Office of Grants Management and Operations. According to NHTSA officials, this new organization is updating policies, procedures, and guidance for grant oversight, including monitoring States' performance metrics and compliance with grant requirements.

REGION 5 GRANTEES GENERALLY MET REQUIREMENTS BUT AGENCYWIDE ISSUES EXIST WITH EXPENDITURE DELAYS AND TARGETED OVERSIGHT

Region 5 grantees generally spent the grant funds we reviewed in accordance with key Federal requirements. However, across all regional offices, NHTSA lacks an overall strategy for addressing persistent delays in grantees' use of grant funds and comprehensive risk assessment guidance for targeting oversight to higher risk grantees.

Region 5 Grantees Generally Met Key Federal Requirements

We verified that NHTSA Region 5 conducted triennial management reviews of each of its six States, which are designed to evaluate whether grantees comply with Federal grant requirements. In addition to these formal reviews, we confirmed that Region 5 monitored States' administration of the highway safety program through periodic desk reviews, project file reviews, and on-site visits. For example, we verified NHTSA's monitoring activities for grants to Minnesota by reviewing NHTSA's oversight procedures, analyzing its monitoring plan,

⁴ *NHTSA's Oversight of Mississippi's Management of Federal Highway Safety Grants Needs Strengthening* (OIG Report Number MH-2013-040), Feb. 6, 2013. NHTSA requested this audit based on the findings from a NHTSA management review.

⁵ *Best Practices For Improving Oversight of State Highway Safety Programs* (OIG Report Number MH-2008-046), Mar. 25, 2008.

⁶ GAO Report Number GAO-08-788, *NHTSA's Improved Oversight Could Identify Opportunities to Strengthen Management and Safety in Some States*, July 14, 2008.

examining oversight files, and following-up on issues addressed during NHTSA's previous site visit to Minnesota.

To assess Region 5 grantees' compliance with Federal grant requirements, we reviewed a sample of 66 grant expenditures (totaling \$5.7 million) out of a universe of 4,113 grants (totaling \$178 million) under Region 5's grants agreements for fiscal years 2011 to 2012. Overall, we did not identify significant lapses in Region 5's oversight, as grantees generally spent highway safety grant funds in accordance with grant funding criteria⁷ and key Federal cost principles.⁸

Specifically, our review⁹ of Region 5 grantees determined that each transaction (1) met funding parameters of the grant programs, (2) were charged to appropriate grant funding codes, and (3) were supported by sufficient documentation. For example, we verified two fiscal year 2012 expenditures by Indiana University's Automotive Safety Program, for \$130,996 and \$98,950. These two expenditures were made under an \$850,000 occupant protection program grant agreement which provided funds for child passenger safety programs. We also confirmed that States met Federal grant administrative requirements.¹⁰ For example, we verified that grantees complied with requirements for indirect costs, such as rent and motor pools, which were charged to Federal grants.

NHTSA Lacks an Overall Strategy for Addressing Grantee Delays in Using Grant Funds

As of March 2013, the six States in Region 5 had not expended nearly \$67 million in highway safety grant funding from fiscal years 2006 through 2012. All States in Region 5 had unexpended grant fund balances, but Minnesota and Ohio had the highest amounts—\$25.6 million and \$16.2 million, respectively (see table 1). Unused safety grant funds represent delayed or lost opportunities to fund programs that help reduce fatalities, injuries, and property damage.

The unexpended grant funds in Region 5 were distributed among various NHTSA grant programs including the alcohol-impaired driving grant program which accounted for over 37 percent of the outstanding grant balances nationwide, highway transfer funding which accounted for nearly 24 percent, and formula grant funding which accounted for about 14 percent.

⁷ Title 23 U.S.C. establishes Federal criteria for grant program funding.

⁸ Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments," May 2004.

⁹ Our tests of these expenditures were limited to confirming documentation maintained at the State oversight offices and selected sub-grantee offices. We did not trace grant expenditures to original sources, such as traffic citations, that would allow us to make a conclusion regarding the full eligibility of specific paid activities.

¹⁰ Title 49 Code of Federal Regulations (CFR) Section 18 provides Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments.

Table 1. Unexpended Grant Funds From States in NHTSA's Region 5, Fiscal Years 2006-2012

Region 5 State	Amount of Unused Grant Funds	Percent Unused Grant Funds in Region 5
Minnesota	\$25.6 million	38.4
Ohio	\$16.2 million	24.3
Michigan	\$8.3 million	12.5
Indiana	\$6.8 million	10.2
Wisconsin	\$6.0 million	9.1
Illinois	\$3.7 million	5.5
Total	\$66.6 million	100.0

Source: NHTSA data

Unexpended funds are not unique to Region 5. Nationwide, we identified \$538.8 million in unexpended grant balances ranging from about \$0.9 million in fiscal year 2006 to about \$331 million in 2012.¹¹ The amount of unexpended funds varied among NHTSA's 10 Regions (see table 2).

Table 2. Unexpended Grant Funds by NHTSA Region, Fiscal Years 2006-2012

NHTSA Regional Office	Amount of Unused Grant Funds	Percent of Total Unused Grant Funds
Region 3	\$110.1 million	20.4
Region 6	\$66.7 million	12.4
Region 5	\$66.6 million	12.4
Region 4	\$51.1 million	9.5
Region 10	\$50.4 million	9.3
Region 9	\$48.3 million	9.0
Region 2	\$48.0 million	8.9
Region 7	\$38.5 million	7.1
Region 8	\$31.1 million	5.8
Region 1	\$28.0 million	5.2
Total	\$538.8 million	100.0

Source: NHTSA data

Most of the obligated grant funding we identified remains available for expenditure, according to NHTSA grant officials. Funds allocated to States remain available for obligation in those States for a period of 3 years after the last day of the fiscal year for which the funds are authorized.¹² States have an additional

¹¹ Vermont and the Virgin Islands do not have unexpended grant fund balances for fiscal years 2006 through 2012.

¹² 23 U.S.C Chapter 1, Section 118(b).

5 years beyond the 4-year obligation period to spend the obligated funds.¹³ NHTSA Region 5 officials we spoke to expressed frustration with the States' slow use of grant program funds and explained that States may have difficulty using the funding because of staffing limitations and workload issues.

We found that Region 5 has taken some actions to identify and address issues with unexpended grant funds. For example, Region 5's management reviews recommended that four of the six States liquidate unexpended fund balances. In addition, Region 5's Regional Action Plan included strategies for conducting reviews and providing technical assistance to the States. However, Region 5 lacks an overall strategy to systematically address States' persistent delays in using grant funds. For example, Region 5 has not developed individual funding liquidation plans for each State with specific targets and mitigation strategies.

NHTSA has not provided any of its regional offices with sufficient guidance for monitoring States' progress in reducing unexpended grant fund balances. According to NHTSA officials, the Agency has begun taking action to improve grant oversight and to address the grant liquidation issue. In September 2013, NHTSA established a new Headquarters Office of Grants Management and Operations. According to NHTSA officials, the new office plans to update grant oversight guidance on monitoring States' use of grant funds and work with NHTSA's Finance Office to conduct sample tests of States' unexpended grant balances by 2015.

NHTSA Lacks a Comprehensive Approach To Target Higher Risk Grant Programs and Grantees

NHTSA Region 5's grant monitoring plans for each State do not include risk assessments to help target oversight to higher risk grantees, even though Standards for Internal Control in the Federal Government emphasize the need to comprehensively identify risks. NHTSA has broad guidance for all 10 regional offices to follow in developing the monitoring plans, but the guidance does not include specific instructions on conducting comprehensive risk assessments. NHTSA Region 5 officials stated that they used their own instincts to develop the grant monitoring plans and were unclear on how to perform their oversight roles.

Region 5 officials stated that they need more precise guidance and training to identify high-risk grantees. NHTSA Headquarters does not require any of its regional offices to perform risk assessments or provide guidance to the regions on how to incorporate risk-based analysis into their grant monitoring plans. Without comprehensive risk assessment guidance that is applied across every region,

¹³ 31 U.S.C. 1552(a); 31 U.S.C. 1553(a).

NHTSA lacks an important tool for directing its oversight resources to higher risk grant programs and State grantees.

Other Department of Transportation agencies, such as the Federal Motor Carrier Safety Administration (FMCSA), conduct annual risk assessments of their grant programs. According to FMCSA officials, they use established criteria to assess and classify grantee risks, and develop oversight and monitoring plans based on the risk assessments. This practice is designed to help FMCSA officials identify grantees for additional monitoring, on-site visits, and risk mitigation.

NHTSA DOES NOT SUFFICIENTLY TRACK GRANTEE DEFICIENCIES TO IDENTIFY AND MITIGATE SYSTEMIC ISSUES

NHTSA Region 5 conducts triennial management reviews to identify grantee deficiencies and issues requirements and recommendations for corrective actions. However, Region 5 does not maintain sufficient documentation of States' actions to support closing the management review findings, which limits the effectiveness of the reviews. Additionally, NHTSA Headquarters lacks a standardized mechanism for tracking all 10 regional offices' disposition of grantee deficiencies, which would allow the Agency to identify and mitigate systemic issues on a national level.

NHTSA Lacks Clear Guidance for Documentation and Management Review of Actions To Close Grantee Deficiencies

From fiscal years 2010 through 2012, NHTSA's Region 5 officials conducted congressionally mandated triennial management reviews of all six of its State grant programs. These management reviews are intended to assess a State's organization and staffing, financial management, and program management practices in administering the highway safety program. Based on the results of these reviews, the NHTSA review team works with State officials to develop corrective action plans. NHTSA differentiates between "required actions" (to address noncompliance with statutes, regulations, rules, policies, and guidelines) and non-binding "recommended actions" (to improve the State's highway safety program by implementing best practices).

Region 5's reviews identified nine findings resulting in required actions. The deficiencies identified ranged from improper use of transfer funds and program income to lack of monitoring plans. Three of the nine findings related to noncompliance with local benefit requirements, which stipulate that at least 40 percent of Federal funds apportioned to the State be expended by local grantees. Region 5 also made 25 non-binding recommendations to the States. For example, Region 5 made non-binding recommendations to four States to liquidate

their unexpended grant fund balances. (See exhibit C for a summary of Region 5's findings and recommendations).

As of August 2013, Region 5 closed 7 of the 9 findings with required actions¹⁴; it also closed 16 of 25 non-binding recommended actions. However, Region 5 officials did not maintain sufficient documentation, such as specific evidence that States took action to implement the recommended actions, to support States' actions to justify closing three of the findings. For a non-binding recommendation intended to improve the timeliness of Ohio's expenditure of grant funds, a NHTSA official acknowledged that the State had not provided sufficient documentation to justify closing the recommendation. Region 5 officials also lacked sufficient documentation of management's approval for closing actions.

NHTSA's guidance and procedures for all regional offices do not require documentation and management approval for key actions related to the disposition of grantee deficiencies. However, Standards for Internal Control in the Federal Government state that such significant events should be clearly documented. NHTSA officials acknowledged that the Agency could improve its controls for management review of actions to close deficiencies, and stated that more precise guidance and training is needed for tracking and resolving deficiencies.

NHTSA Lacks a Standardized Mechanism for Monitoring the Status of Grantee Deficiencies Nationwide

NHTSA Headquarters lacks a standardized mechanism for tracking the disposition of grantee deficiencies across all regional offices, which would allow the Agency to identify and mitigate systemic issues on a national level. In 2008, we recommended that NHTSA implement an electronic tracking system for monitoring the disposition of oversight recommendations to the States in order to efficiently share finding information, follow up on unresolved recommendations, and enhance quality control. In response to our recommendation, NHTSA agreed to implement a spreadsheet tool to track the deficiencies agencywide.

During our current audit, we identified weaknesses in NHTSA's implementation of the spreadsheet. Specifically, NHTSA Headquarters' spreadsheet is not directly linked to regional offices for real-time updates, and it lacks features to uniformly identify, classify, compare, track, mitigate, and report on systemic or recurrent grantee deficiencies. According to NHTSA officials, the Agency is planning to develop a database by 2015, which would track all of its grant oversight findings including State audits, management reviews, project reviews, and other oversight findings. According to these officials, the database will also allow users to track

¹⁴ Two of the nine deficiencies remain open—one is open pending NHTSA's on-site review, and the other pending confirmation of an inventory sample. See exhibit C for information on the status of each finding and recommendation.

NHTSA's findings until resolution; conduct queries and analyses to determine State, regional, and national trends; and produce management reports.

CONCLUSION

Effective stewardship and oversight of Federal grant funds is critical to improving the safety of our Nation's highways. Region 5's triennial management reviews and other monitoring efforts have encouraged grantees to comply with key Federal requirements and spend highway safety grant funds for appropriate purposes. However, persistent problems with delayed use of grant funds, lack of risk assessments, and insufficient guidance for closing recommendations point to opportunities for improvement in Region 5 that would also apply to other regional offices. Specifically, NHTSA's Office of Grants Management and Operations can provide enhanced oversight and guidance to all of its regional offices. Improved grant guidance and monitoring tools would provide greater assurance that States and sub-grantees are using Federal resources in a timely and appropriate manner.

RECOMMENDATIONS

We recommend that NHTSA:

1. Develop and implement a national strategy for addressing delays in States' use of highway safety grant funds. This strategy should, at a minimum, promote more timely expenditures and use performance measures to monitor States' progress.
2. Revise guidance for grant monitoring plans to include a risk assessment approach to help regions identify and focus on the highest risk grant programs and grantees.
3. Revise grant oversight policies and procedures to require documentation of State corrective actions and management approval for closing the actions.
4. Develop and implement an electronic database, with guidance to regional offices, for identifying and monitoring recurrent or systemic grant oversight findings.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided a draft of this report to NHTSA on June 30, 2014. NHTSA provided technical comments on July 14, 2014, and a formal response on August 4, 2014, which is included in the appendix to this report. NHTSA stated that it generally concurs with all four of our recommendations. However, NHTSA did not provide specific information on all of its planned actions or completion dates as requested in our draft report. Until NHTSA provides further information on its actions and completion timeframes, we will consider all four recommendations open and unresolved. Specifically:

For recommendation 1, NHTSA responded that it will evaluate its programmatic monitoring to determine whether additional measures of effectiveness would benefit its oversight to better ensure the timely and effective use of funds. However, NHTSA did not provide specific information to describe the additional monitoring or alternative performance measures it plans to implement or a target date for completion.

For recommendation 2, NHTSA responded that it will continue to update its monitoring policy to ensure its existing risk assessment approaches are sufficiently explicit, including developing training on risk assessment. However, NHTSA did not provide a target date for completion of the monitoring policy update and risk assessment training.

For recommendation 3, NHTSA responded that procedural improvements to track findings and management considerations as well as documenting actions taken to close out such findings are already underway. However, NHTSA did not provide specific information on the degree to which its planned actions would include policy revisions in addition to procedural improvements or state how the revised policies and procedures would address management approval of closing actions.

For recommendation 4, NHTSA responded that it would be finalizing the selection of a software program for identifying and monitoring grant findings but did not provide specific information as to whether its target action date included implementation of the software program.

We incorporated NHTSA's technical comments into our final report, with one exception. NHTSA disclosed that its Region 5 office closed two open findings with required actions from Indiana and Wisconsin that we noted in our draft report. However, NHTSA reported these actions after we concluded our audit work.

ACTIONS REQUIRED

We consider recommendations 1 through 4 open and unresolved and, in accordance with DOT Order 8000.1C, request that FHWA provide, within 30 days of this report, the additional information requested above.

We appreciate the courtesies and cooperation of NHTSA representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or Kerry R. Barras, Program Director, at (817) 978-3318.

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cc: NHTSA Audit Liaison, NPO-310
DOT Audit Liaison, M-1

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted our work from January 2013 through June 2014 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 objectives.

Our objective for this audit was to assess NHTSA's oversight of Federal highway safety grants provided to the States. Specifically, we determined whether NHTSA's oversight of State administered grant programs (1) ensured that grantees met key Federal requirements and (2) effectively tracked grantee deficiencies and corrective actions. We consulted with our statisticians to randomly select NHTSA Region 5 from NHTSA's 10 regional offices. Region 5 encompasses Indiana, Illinois, Michigan, Minnesota, Ohio, and Wisconsin. Where appropriate, we identified issues that applied across the Agency.

To assess whether NHTSA's oversight of State grant programs ensured that grantees met Federal requirements, we reviewed financial management controls and electronic databases for administering Federal safety grants for States in Region 5. In addition, our statisticians selected a three-stage statistical sample of grant expenditures. Stage 1 was a sample of 3 out of 10 regions selected with probability proportional to a weighted score comprised of a region's number of fatalities, number of States subject to transfer funding requirements, and the dollar value of grant awards to the States in fiscal years 2011 and 2012. We reviewed only one of the three regions selected in Stage 1 of our sample to limit the scope of our work and to allow for timely completion of the audit. For Stage 2, we stratified Region 5's universe of 4,113 grants by 5 categories of grants (alcohol-impaired driving repeat offender transfer funds, alcohol-impaired driving program, occupant protection program, motorcycle safety program, and other programs) and selected a total of 40 out of the 4,113 grants with probability proportional to the grant amount awarded. Finally, for Stage 3 we stratified the universe by the 40 grants from the Stage 2 sample and selected 2 grant expenditures from each grant (unless there was only 1). We selected a total of 66 out of 171 grant expenditures with probability proportional to the grant expenditure amount. Our Region 5 total grant expenditure sample amount was \$5.7 million out of a grant total of \$178 million.

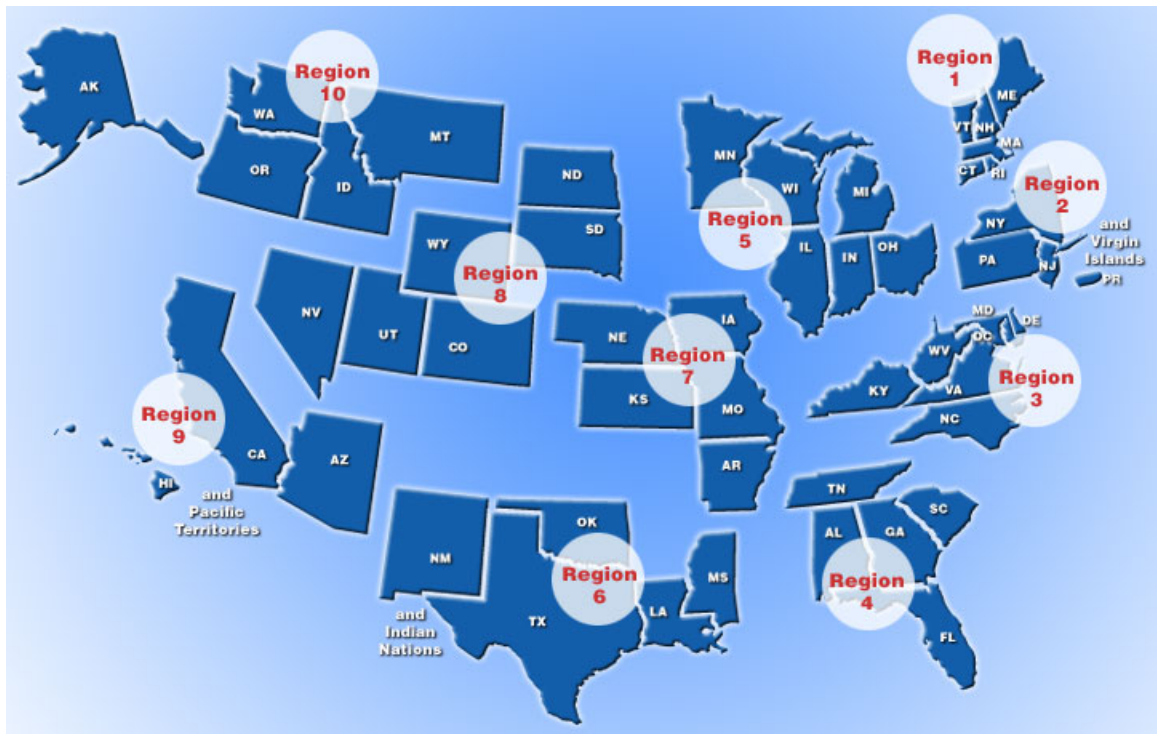
We tested this sample of grant expenditures for compliance with Federal grant requirements. To perform our tests, we visited State highway safety offices in Indiana, Illinois, Michigan, Minnesota, and Ohio¹⁵ and verified claim

¹⁵ Although we did not conduct a site visit to Wisconsin, we reviewed similar records for the sample of Wisconsin grant expenditures at NHTSA's Region 5 office in Chicago, IL.

reimbursements. We traced sample transactions to supporting records, including but not limited to budget and expenditure cost worksheets, law enforcement agency expense report worksheets, overtime wage rates and fringe benefits, salary allocation schedules, employee timesheets, certifications of work hours, records of inventory for purchased equipment, agency claim vouchers, supporting invoices, and accounting records to post expenditures to appropriate grant program funding codes. We also interviewed NHTSA program officials at Headquarters and Region 5, and State officials in Indiana, Illinois, Michigan, Minnesota, and Ohio. We reviewed the timeliness of grantees' use of grant funds from fiscal years 2006 through 2012, for all 10 of NHTSA's regional offices. We verified the amount of unexpended grant fund balances for each State, excluding hazard elimination funding managed by the Federal Highway Administration. Finally, we evaluated NHTSA's policies, procedures, processes, and guidance for monitoring grants and providing oversight to States.

To assess whether NHTSA's oversight of State grant programs effectively tracked grantee deficiencies and corrective actions, we interviewed NHTSA Headquarters and Region 5 officials and reviewed NHTSA's policies, procedures and processes for recording, tracking, and resolving findings. We reviewed triennial management reviews for the six States in Region 5 and reviewed actions taken by NHTSA officials to document, follow-up, and track noncompliant program practices. We also confirmed the final disposition of these findings and corrective actions by examining States' electronic and manual records, following documentation and management approval trails, and verifying that evidence existed that the deficiencies were corrected.

EXHIBIT B. NHTSA REGIONAL OFFICES



Source: NHTSA

EXHIBIT C. NHTSA REGION 5 MANAGEMENT REVIEW REQUIRED ACTIONS AND RECOMMENDATIONS TO STATES

State	Required or Recommended	Findings/Recommendations	Status
IN	01. Required	Contracts lacked required certifications and assurances.	Open
MN	02. Required	Equipment inventory did not adhere to project management guidelines.	Closed
	03. Required	Did not comply with local benefit requirements.	Closed
	04. Required	Did not comply with local benefit requirements.	Closed
	05. Required	Unallowable use of program income for gift card purchases.	Closed
	06. Required	Unallowable use of Section 164 transfer funds.	Closed
WI	07. Required	Lack of a monitoring plan.	Closed
	08. Required	Did not comply with local benefit requirements.	Closed
	09. Required	Equipment inventory did not adhere to project management guidelines.	Open
IL	01. Recommended	Add delegation of authority official.	Closed
	02. Recommended	Hire full time Occupant Protection Coordinator.	Closed
	03. Recommended	Expand Electronic Crash Reporting System.	Open
	04. Recommended	Adopt Electronic Grant System.	Open
	05. Recommended	Ensure qualification for 40 percent local benefit.	Closed
IN	06. Recommended	Fill Media Coordinator position.	Open
	07. Recommended	TSD work directly with TSRP.	Closed
	08. Recommended	TSD work reviewed by financial accountant.	Closed
	09. Recommended	Liquidate unexpended fund balances.	Open
	10. Recommended	Monitor gift cards distributed as incentives.	Closed
MN	11. Recommended	OTS should utilize NHTSA training for State staff.	Closed
	12. Recommended	Liquidate unexpended fund balances.	Open
	13. Recommended	OTS and MNDOT develop projects to liquidate unexpended balances.	Open
	14. Recommended	Provide refresher training on program and financial management.	Closed
OH	15. Recommended	Support seatbelt and booster seat legislation.	Closed
	16. Recommended	Grants should include assurances and certifications.	Closed
	17. Recommended	Liquidate unexpended fund balances.	Closed
	18. Recommended	Substantiate indirect cost rate.	Closed
WI	19. Recommended	Fill five vacancies.	Closed
	20. Recommended	Upgrade policy and procedures manual and training.	Closed
	21. Recommended	Document and manage employee training.	Open
	22. Recommended	Use grant funds for staff travel for training.	Open
	23. Recommended	Liquidate unexpended fund balances.	Closed
	24. Recommended	Provide claims separation of duties and supervisory review.	Closed
	25. Recommended	Ensure qualification for 40 percent local benefit.	Open

EXHIBIT D. MAJOR CONTRIBUTORS TO THIS REPORT

Name	Title
Kerry R. Barras	Program Director
Ryan P. Sanders	Senior Analyst
Maurice Toval	Senior Auditor
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Petra Swartzlander	Senior Statistician
Fritz Swartzbaugh	Associate Counsel

APPENDIX. AGENCY COMMENTS



U.S. Department of
Transportation
National Highway
Traffic Safety
Administration

Memorandum

Subject: **INFORMATION:** Management Comments –
Office of Inspector General (OIG) Draft Report on NHTSA’s
Oversight of State Safety Grants

Date: August 4, 2014

From: David J. Friedman
Acting Administrator

To: Thomas E. Yatsco
Assistant Inspector General for
Surface Transportation Audits
Office of the Secretary of Transportation

The National Highway Traffic Safety Administration (NHTSA) maintains a strong and effective State grant oversight program as demonstrated by the OIG findings that (1) grantees fulfilled all Federal grant requirements; (2) there were zero significant lapses in regional oversight; and (3) each transaction reviewed by the OIG complied with funding parameters, was appropriately charged, and was supported by sufficient documentation. To accomplish these exemplary results, NHTSA:

- Implemented a strong, comprehensive grant oversight system. This included (1) triennial reviews, (2) A-133 grant management compliance reviews, (3) focused sampling of projects, (4) quarterly monitoring activities, (5) routine voucher reviews, and (6) end-of-year reviews. Statements indicating that NHTSA does not conduct risk assessments are inaccurate. Risk assessment is inherent in all of these activities. While Region 5 had no high-risk grantees, NHTSA’s grant oversight resulted in the identification of high-risk grantees in other NHTSA regions. These grantees are subject to extensive specialized oversight measures, including 100 percent approval of all expenditures.
- Focused processes to ensure effective use of funds. The Federal budget process has complicated State highway safety planning and required States to manage their grant funds around the often unpredictable nature of Federal funds distribution. States’ internal processes, such as re-appropriation of Federal funds into State budgets and competitive contracting processes, also impacted States’ use of grant funds. As part of NHTSA’s processes to provide technical assistance to States, regional offices work closely with States to not only encourage expedient use of funds, but also link State planning to projects that effectively use funds to meet highway safety goals.

- Amended regulation to encourage States to expend grant funds promptly within the statutory period of availability. To encourage States to expend grant funds promptly, NHTSA amended its regulation to require States to not only obligate funds within the statutory four year period of availability, but also to expend the grant funds by the end of the succeeding fiscal year and to submit a final voucher within 90 days of that fiscal year. *See* 23 CFR 1200.41(b).

The NHTSA generally concurs with the recommendations. As noted, NHTSA has been pursuing improvements to address prompt expenditure of grant funds. Any approach must necessarily take into account the four-year statutory window for State obligations, which provides intentional flexibility for State spending under these grant programs. As a result, with regard to the first recommendation, a discrete performance measure on the rate of expenditure may not provide a central focus on the key elements of effective implementation of this grant program within the statutory authority granted to the states. As an alternative, NHTSA will evaluate its programmatic monitoring to determine whether additional measures of effectiveness would benefit its oversight to better ensure the timely and effective use of funds. With regard to the second recommendation, NHTSA already assesses risks as part of its comprehensive oversight system and will continue to update its monitoring policy to ensure its existing risk assessment approaches are sufficiently explicit, including developing training on risk assessment. For the third recommendation, procedural improvements to track findings and management considerations as well as documenting actions taken to close out such findings are already underway (e.g., a new interactive database with improved analytical tools, and enhancements to electronic dataset for highway safety planning and annual reporting processes). Regarding the final recommendation, we are finalizing the selection of a software program for identifying and monitoring grant findings. We expect recommendation 3 to be completed by December 31, 2014, and recommendation 4 to be implemented by April 1, 2015.

We appreciate this opportunity to offer additional perspective on the OIG draft report. Please contact Dr. Mary Gunnels at (202) 366-0166 if you have any questions or require additional information about these comments.