
Office of Inspector General

Audit Report

MOST FHWA ARRA PROJECTS WILL BE CLOSED OUT BEFORE FUNDS EXPIRE, BUT WEAKNESSES IN THE PROJECT CLOSE-OUT PROCESS PERSIST

Federal Highway Administration

Report Number: ST-2015-029

Date Issued: March 2, 2015





Memorandum

U.S. Department of
Transportation

Office of the Secretary
of Transportation
Office of Inspector General

Subject: **ACTION:** Most FHWA ARRA Projects Will Be
Closed Out Before Funds Expire, but Weaknesses
in the Project Close-Out Process Persist
Federal Highway Administration
Report No. ST-2015-029

Date: March 2, 2015

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

Reply to
Attn. of: JA-30

To: Federal Highway Administrator

As of June 30, 2014, States have spent over 98 percent (\$25.7 billion) of the over \$26 billion in highway infrastructure investment grants made available by the American Recovery and Reinvestment Act of 2009 (ARRA).¹ The Federal Highway Administration (FHWA) is responsible for overseeing ARRA grant funding for the States' 12,795 ARRA-funded highway and bridge construction and repair projects.² FHWA's oversight responsibilities for ARRA and Federal-aid highway projects include ensuring that States close out projects timely, a critical step towards the final accounting of States' use of Federal funds. Federal regulations require project closeout when the agency determines that all administrative actions and all required work for a project have been completed.³ While there is no regulatory or statutory deadline for closing out ARRA projects, States must be fully reimbursed for all ARRA-funded expenses by September 30, 2015 (the final expenditure deadline), after which all unspent ARRA funds expire and cannot be used to reimburse project costs.

In closing out ARRA projects, FHWA relies on existing Federal-aid highway project close-out requirements and practices.⁴ After our 2012 review of the

¹ Pub. L. No. 111-5 (2009).

² Our report did not cover 119 FHWA ARRA grants for the Puerto Rico Highway Program, Territorial Highway Program, On-the-Job Training/Supportive Services Training, Ferry Boat Development, and Federal Lands Highway.

³ 49 Code of Federal Regulations (CFR) § 18.50(a) (superseded by 2 CFR § 200.343 with same requirement).

⁴ The principal statutes establishing the Federal-Aid Highway Program are found in Title 23 United States Code (U.S.C.), and regulatory requirements are found in Title 23 CFR.

Department of Transportation's financial statements identified large amounts of open FHWA Federal-aid projects with inactive obligations,⁵ the Agency's Office of the Chief Financial Officer sponsored two Program Management Improvement Team (PMIT) internal reviews, completed in June 2013 and February 2014. These reviews reported barriers to timely closeouts of Federal-aid highway projects—such as lack of a timeframe or national policy for closing out projects.

As part of our ARRA oversight mandate, we conducted this audit to determine whether FHWA performs adequate oversight to ensure timely closeouts of completed ARRA-funded Federal-aid projects. Specifically, we assessed whether FHWA (1) will be able to close out ARRA projects by the expenditure deadline and has addressed impediments to timely closeout and (2) has taken action to address weaknesses in policies, procedures, and internal controls for oversight of ARRA and Federal-aid highway project closeouts.

We conducted this audit in accordance with generally accepted Government auditing standards. We reviewed 9 randomly selected States⁶ and 129 randomly selected ARRA-funded Federal-aid highway and bridge projects in those States. We interviewed FHWA Headquarters and Division Office personnel and State officials. We also reviewed FHWA policies and procedures, FHWA's project close-out and financial database reports, State close-out processes, and ARRA project documents. Exhibit A details our scope and methodology. Project closeouts represent the final stage in the management of ARRA-funded Federal-aid highway and bridge projects, and this audit of FHWA's project close-out process completes our office's body of work to fulfill our ARRA oversight responsibilities.

RESULTS IN BRIEF

FHWA and States have closed out⁷ the vast majority of the 12,795 ARRA-funded Federal-aid highway and bridge projects, but a small percentage (7 percent) of the remaining 1,257 active projects will not be closed out before ARRA grant funds expire on September 30, 2015. We estimate that as many as 91 ARRA projects nationwide will not be closed out before the deadline.⁸ Our review identified three key factors that may prevent ARRA-funded projects from being closed out by the

⁵ *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2012 and 2011* (OIG Report Number QC-2013-020), Nov. 15, 2012. OIG reports are available on our Web site: www.oig.dot.gov.

⁶ California, Connecticut, Georgia, New Jersey, North Carolina, Ohio, Texas, Virginia, and Washington.

⁷ The following actions must take place for a project to be closed out: FHWA and the State accept the completed project, the State completes its final audit process, a final voucher is issued, and the project agreement is closed in the Fiscal Management and Information System (FMIS)—the Agency's major financial information system for tracking Federal-aid highway projects.

⁸ Our review found that 7 of the 36 active ARRA projects we sampled would not be closed out until after the final ARRA expenditure deadline. Based on these results, we estimate that 91 active ARRA projects nationwide will not be closed out by the deadline. Our estimate has a 90-percent confidence limit, ranging from 86 to 96 projects.

final expenditure deadline: (1) multi-funded projects, which have both ARRA and non-ARRA funding sources, have construction schedules that extend beyond the expenditure deadline; (2) some States may be underestimating the time needed to close out projects fully funded by ARRA; and (3) a significant backlog of State projects and non-ARRA Federal-aid project closeouts are also pending. Until all ARRA projects are closed out, FHWA will not be able to confirm that States have been fully reimbursed for all eligible ARRA expenditures or verify that projects comply with project agreement terms. While ARRA does not stipulate a deadline for project closeout, closeouts occurring before the expenditure deadline give States time to use any remaining ARRA funds on legitimate costs for other ARRA projects.⁹

FHWA has efforts underway to improve the Federal-aid project close-out process and address its PMIT findings, but internal control weaknesses persist and act as barriers to timely closeouts of ARRA and other Federal-aid highway projects. Specifically, FHWA does not have a nationwide policy or guidelines specifying the minimum administrative actions required to close out projects, and the Agency has not established standard close-out timeframes. In addition, FHWA has not established national performance measures or collected consistent data to monitor State close-out actions and assess close-out timeliness. As a result, Division Offices lack consistent benchmarks for determining whether States have completed all necessary administrative and financial actions before closing out ARRA and other Federal-aid highway projects.

We are making recommendations to enhance FHWA's oversight of closeouts for ARRA and other Federal-aid highway construction projects.

BACKGROUND

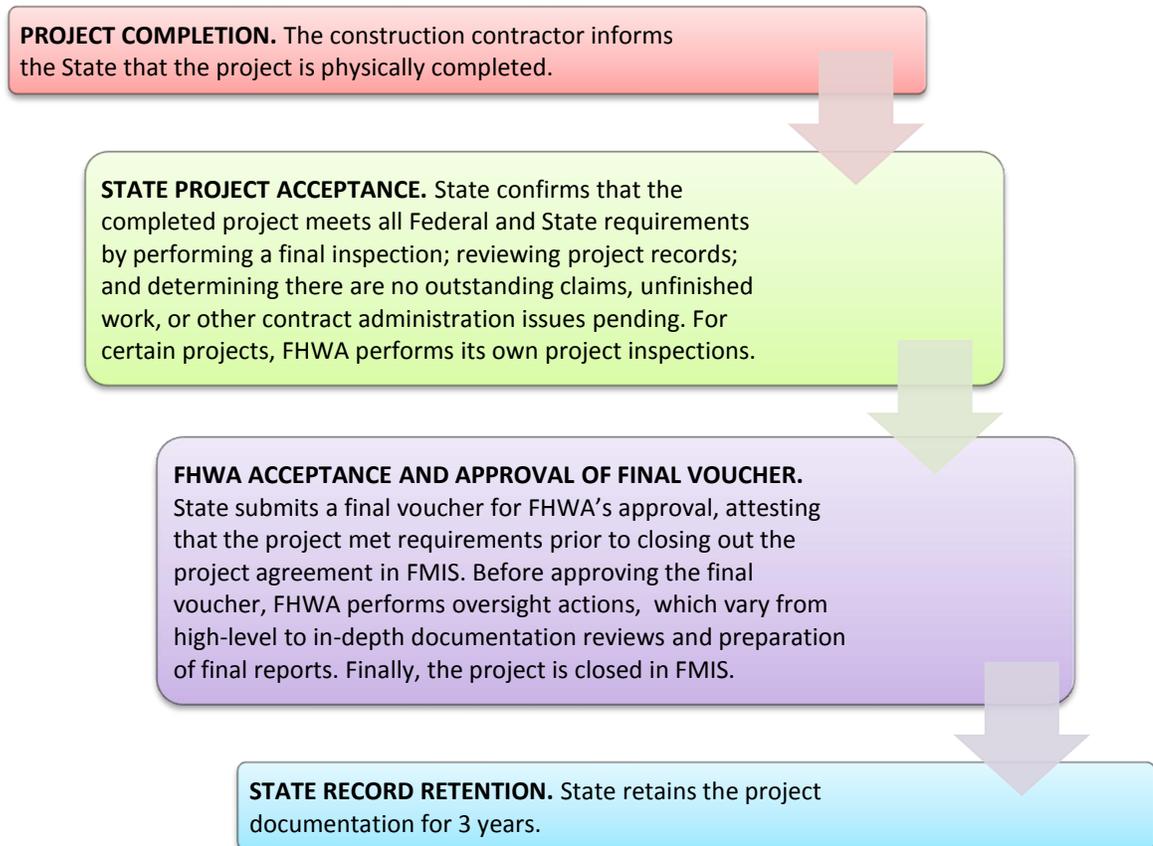
For Federal-aid highway and bridge construction projects, FHWA and States enter into Federal project agreements, which define the scope of work and the amount of Federal and other sources of project funding. Through these project agreements, the Federal Government commits to pay its share of project costs, and States commit to ensuring that the projects will be constructed according to Federal requirements. Additionally, FHWA is required to establish safeguards to verify that projects comply with project agreement terms.

The project close-out phase includes the final administrative steps for all Federal-aid highway and bridge projects. To close out a project, FHWA and State Departments of Transportation must accept the completed project, attest that all applicable administrative actions and required work have been completed

⁹ Under ARRA, if unused obligated funds become available after September 30, 2010, they are considered lapsed funds and can only be spent on legitimate upwards adjustments for existing ARRA projects.

according to Federal laws and regulations, approve the State’s final payment voucher, and close out the project agreement in the Fiscal Management and Information System (FMIS) database—the Agency’s major financial information system for tracking Federal-aid highway projects on a project-by-project basis. Finally, if any unneeded funds remain, States release the funds for other purposes. Figure 1 illustrates FHWA’s project close-out process.

Figure 1. FHWA’s Project Close-Out Process



Source: OIG summary of FHWA’s project close-out process.

In our 2012¹⁰ review of the Department of Transportation’s financial statements, FHWA was identified as contributing to the large number of open Federal-aid projects with inactive obligations.¹¹ Subsequently, FHWA conducted its PMIT reviews to determine the causes of this financial management weakness and

¹⁰ *Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2012 and 2011* (OIG Report Number QC-2013-020), Nov. 15, 2012.

¹¹ An open project is still listed as active in FHWA’s FMIS database. These projects either have Federal funds remaining or have not yet been closed out in FMIS despite Federal funds being fully expended. A project obligation becomes inactive when no expenditures are charged against Federal funds in the previous 12 months.

undertook a 60-day resource-intensive effort to close out approximately 31,000 Federal-aid highway projects in FMIS.

MOST FHWA ARRA PROJECTS WILL BE CLOSED OUT BEFORE FUNDS EXPIRE, BUT IMPEDEMENTS WILL DELAY A SMALL NUMBER OF PROJECT CLOSEOUTS

FHWA and the States have closed out 90 percent of ARRA projects, but a small number of projects will likely not be closed out before ARRA funds expire on September 30, 2015. While there is no regulatory or ARRA imposed deadline to close out projects, this date marks the last opportunity for States to be reimbursed for their ARRA-eligible expenses. Until these projects are completed and closed out, FHWA will not be able to confirm that States have been fully reimbursed for all eligible ARRA expenses or verify that States completed projects according to project agreement terms.

FHWA and States Completed and Closed Out the Vast Majority of ARRA Projects

As of June 30, 2014, FHWA has closed out 11,538 (90 percent) of the 12,795 ARRA-funded Federal-aid highway and bridge projects in FMIS. Based on our analysis of project documentation for a random sample of 44 closed ARRA projects in 9 States, project closeout took an average of 16.3 months from the project completion date—ranging from 4.4 to 45.5 months. In the projects we sampled, Connecticut had the shortest close-out average of only 8.9 months, while California had the longest average of 22 months.¹² Our calculation of FHWA's average close-out time for ARRA projects is shorter than the average close-out time FHWA recently reported for non-ARRA Federal-aid highway projects (4.64 years).¹³

According to FHWA, States closed out ARRA projects faster than non-ARRA Federal-aid highway projects because ARRA projects were prioritized for timely closure and had a funding expenditure deadline. State officials we spoke to confirmed that FHWA's close monitoring and prioritization of ARRA project closeouts contributed to shorter close-out times. In the past, the States and FHWA's Division Offices have not always prioritized the closeout of non-ARRA, inactive Federal-aid highway projects, especially older projects with no remaining Federal funding.

¹² We measured close-out times using the same method that FHWA used in its June 2013 PMIT review. Specifically, we measured timeliness from the project acceptance date (when FHWA and the State determine the project is completed and accept ownership of the project) to the final voucher date recorded in FMIS.

¹³ According to FHWA's June 2013 PMIT report, it took an average of 4.64 years to close out non-ARRA Federal-aid projects from the project completion date and 1.82 years from the date of last payment. However, the data used to compute these averages was likely skewed due to the Agency's effort to close out many old projects in 2012.

State officials also reported that many ARRA projects were highway re-pavement projects or bridge repairs, which generally are faster to complete and close out than new bridge or highway construction projects. Approximately 7,456 (65 percent) of the 11,538 closed out ARRA projects were pavement projects. Many active ARRA projects are not pavement or repair projects; instead, they involve new highway and bridge construction, which States officials say will take longer to close out.

A Small Number of ARRA Projects Will Likely Not Be Closed Out by the Final Expenditure Deadline

While ARRA does not stipulate a deadline for project closeout, closeouts occurring before the expenditure deadline give States time to use any remaining ARRA funds on legitimate costs for other ARRA projects. However, of the remaining 1,257 active ARRA projects in FMIS as of June 30, 2014, a relatively small number may not be closed out by September 30, 2015. During our review, States reported that 7 of the 36 active ARRA projects in our 9-State sample will not be closed out before the final ARRA expenditure deadline. Based on these results, we estimate that about 91 ARRA projects nationwide will not be closed out before the deadline, the majority of which are multi-funded projects funded with both ARRA and non-ARRA funding sources. In contrast, FHWA information states that only 28 multi-funded ARRA projects will not be closed out by the deadline. FHWA's estimate is based on information provided by the Division Offices in November 2013. FHWA lacks a national plan that outlines steps for Division Offices to expedite ARRA project closeouts, as well as a mechanism to ensure up-to-date estimates of project completion and close-out dates for the remaining active ARRA projects. According to FHWA officials, the Office of the Chief Financial Officer has held monthly web conferences to remind States to close out ARRA projects, and the office will be issuing a memorandum outlining final steps for ARRA project completion.

Our review identified three key factors that may prevent ARRA-funded projects from being closed out by the final expenditure deadline: (1) multi-funded projects have both ARRA and non-ARRA funding sources and planned construction schedules extending beyond the deadline, (2) some States may be underestimating the time needed to close out projects fully funded by ARRA, and (3) a significant backlog of State projects and non-ARRA Federal-aid project closeouts are also pending. While ARRA does not stipulate that ARRA-funded projects must be closed out before the final expenditure deadline, FHWA Division officials we interviewed stated they are aiming to close out ARRA projects by the deadline.

Some Multi-Funded Projects Will Still Be in Construction After the ARRA Final Expenditure Deadline

Multi-funded projects—those funded with both ARRA and non-ARRA funding sources—represent a significant portion of the active ARRA projects that have yet to be closed out. FHWA reported that 682 multi-funded projects were still active as of June 30, 2014, which is about 54 percent of the total of 1,257 active ARRA projects.¹⁴ Additionally, the majority of the 91 ARRA projects that we estimate will not be closed out by the final expenditure deadline are multi-funded. Construction schedules for some multi-funded projects extend beyond the ARRA final expenditure deadline, and ongoing project work will be paid for with non-ARRA funding sources, such as other Federal-aid, State, or local agency funds. According to FHWA, all funding sources—whether ARRA or non-ARRA—must be accounted for before a multi-funded project can be closed out, so some multi-funded project closeouts will not occur until well after September 30, 2015.

States May Be Underestimating the Time Needed To Close Out Some ARRA Projects

We asked the States when they planned to close out the 36 active ARRA projects in our sample to determine whether there was sufficient time to complete the close-out process by the ARRA final expenditure deadline. Some States predicted that they would need considerably less time to close out their remaining active ARRA projects than the average time they have needed to closeout ARRA projects in the past—which may not be realistic. For example, California officials estimate that they will need only 12 months to close out one of their active ARRA projects. However, based on the nine projects we sampled from California, the State's average close-out time was 22 months. Similarly, Texas officials estimate needing only 3 months to close out two of their remaining active ARRA projects. However, based on the nine projects we sampled from Texas, the State's average close-out time was over 14 months. While the States may be able to achieve these accelerated close-out timeframes for their ARRA projects, some projects might not be closed out by the expenditure as anticipated, unless the States prioritize closeouts for these projects.

Pending State and Non-ARRA Federal-Aid Project Closeouts Could Delay Closeout of ARRA Projects

Another factor that could prevent ARRA projects from being closed out by the final expenditure deadline is the significant backlog of closeouts that States have pending at any given time—including ARRA projects, non-ARRA Federal-aid projects, and State projects. FHWA's PMIT estimated that there were

¹⁴ According to FHWA, there were 702 active ARRA projects remaining, as of January 31, 2015. Of those, 436 (62 percent) were multi-funded projects.

18,000 projects pending closeouts nationwide at the end of 2012. Yet, FHWA lacks a national strategy that identifies ways to work with the States to reduce annual backlogs of project closeouts for ARRA and Federal-aid projects. We asked officials from the nine States in our sample to estimate their yearly project close-out work load and to gauge their ability to complete ARRA project closeouts by September 30, 2015. Most States we interviewed stated that they have significant annual close-out workloads for both Federal and State projects. For example, Ohio Department of Transportation officials reported that they close out about 600 total highway projects each year, but an additional 600 projects typically remain pending closeout by year end.

According to State officials, the large number of pending closeouts is attributable to labor-intensive close-out procedures, limited staff, competing priorities, and the lower priority assigned to closing out zero-balance projects, including some ARRA projects. Additionally, some State officials indicated that they concentrate on performing closeouts during periods when less construction takes place, mainly in the winter. FHWA officials stated that they have urged the States to prioritize closeouts for ARRA projects. FHWA is aware of States' close-out backlogs and initiated efforts to close out several of these projects in fiscal year 2012, as part of its PMIT efforts to reduce inactive obligations. This effort helped reduce, but not eliminate, the annual backlog of projects awaiting closeout. However, FHWA still lacks a national strategy to track and reduce the backlog of Federal-aid project closeouts nationwide.

FHWA HAS EFFORTS UNDERWAY TO IMPROVE ITS CLOSE-OUT PROCESS, BUT INTERNAL CONTROL WEAKNESSES PERSIST

Our work confirmed the key findings of recent FHWA internal reviews, which identified Agency barriers and weaknesses in internal controls for overseeing Federal-aid highway project closeouts. During our review, we also identified additional internal control deficiencies related to project closeouts that are applicable to both ARRA and non-ARRA Federal-aid projects. While FHWA has taken some action to address barriers to timely closeouts that its PMIT identified in June 2013 and February 2014, it has yet to issue national close-out policy and procedures, establish a close-out timeframe, or implement performance measures and goals to improve close-out timeliness. FHWA's FMIS data entry practices also impede FHWA's ability to apply standard performance measures and track close-out actions.

FHWA's PMIT identified Agency and State barriers and other causes of project close-out delays, as shown in figure 2.

Figure 2. FHWA PMIT Findings Regarding Agency and State Barriers and Other Causes of Federal-Aid Highway Project Close-Out Delays

- Untimely funds adjustment.
- Lack of understanding of the close-out process.
- Reactive project monitoring.
- Delays in financial reconciliation due to missing project documentation.
- Lack of communication and appropriate notification of the need for closeout among and across State Department of Transportation units/divisions.
- Uncoordinated final project audits.
- Areas covered by construction contract warranty not completed.
- Challenges in re-obligating unused funds.
- Limited resources for final audits and financial reconciliations.
- Not prioritizing highway projects with zero-fund balances.

Source: FHWA PMIT reports, June 2013 and February 2014.

The PMIT made a number of recommendations for addressing these problems, and FHWA has developed corrective action plans. (Exhibit B details the status of FHWA's proposed actions in response to the PMIT reports.) However, FHWA has not fully implemented all of the PMIT recommendations.

Our current review confirmed several of the PMIT's findings. Similar to the PMIT report, we found that FHWA (1) has not established a policy or guidance for closing out highway projects, (2) does not have standard project close-out timeframes, (3) does not have performance measures and goals, and (4) lacks consistent FMIS data to assess project close-out timeliness. As a result, Division Offices lack tools and consistent benchmarks for determining whether States have completed all necessary administrative and financial actions before closing out Federal-aid highway projects or for gauging States' close-out timeliness.

FHWA Has Not Established a National Policy or Guidelines for Closing Out ARRA or Non-ARRA Federal-Aid Highway Projects

FHWA lacks a comprehensive, national policy or procedures for project closeouts. Instead, FHWA relies on a patchwork of existing State stewardship and oversight agreement provisions and FHWA Division Office and State procedures. Because

these agreements and procedures vary from State to State,¹⁵ they do not provide a consistent policy framework to ensure that project closeouts nationwide meet FHWA and Federal requirements. For example, under the Common Grant Rule,¹⁶ a Federal agency should close out a grant when it determines that all applicable administrative actions and all required work have been completed; however, FHWA lacks a nationwide policy that specifies the minimum administrative actions or other requirements that should be completed before closing out a project. On October 29, 2014, FHWA issued a project funds management guide that includes processes for closing out projects in FMIS. However, FHWA still does not have complete project close-out guidance and is currently evaluating how to implement the Office of Management and Budget's December 26, 2014, project close-out requirements.¹⁷

In July 2010, FHWA Headquarters directed Division Offices to implement standard operating procedures (SOP) for project closeouts. While Headquarters provided the Division Offices with a template for developing their SOPs, it did not provide nationwide standards for these SOPs. This omission led to implementation of project close-out SOPs that lacked key elements. For example, SOPs for seven of the nine Division Offices we reviewed lacked close-out timeframes or performance measures. Additionally, the two Division Offices we reviewed that had close-out timeframes used inconsistent measures for project close-out timeliness, which inhibits FHWA's ability to compare close-out timeliness among the Division Offices.

FHWA Does Not Have Standard Project Close-Out Timeframes

FHWA does not have a standard project close-out timeframe for either ARRA or non-ARRA Federal-aid highway projects. As reported by the PMIT, some non-ARRA Federal-aid projects are not closed out until years after a project's final acceptance—in part because FHWA has not established regulatory or administrative timeframes for closing out Federal-aid projects. When we asked one Division Office official to identify reasons for project close-out delays, he said, "We do not have an established timeframe for the project close-out process, so there is no definition of delay."

Although FHWA has encouraged States to close out ARRA projects by the September 30, 2015, final expenditure deadline where possible, all nine Division

¹⁵ Our prior work found that stewardship and oversight agreements varied widely across the States in terms of level and detail and the topics covered. FHWA has since revised its stewardship and oversight agreement process and reports that the Division Offices are revising their agreements with the States. *Improvements to Stewardship and Oversight Agreements Are Needed to Enhance Federal-Aid Highway Program Management* (OIG Report Number MH-2013-001), Oct. 1, 2012.

¹⁶ 49 CFR § 18.50(a) (superseded by 2 CFR § 200.343 with same requirement).

¹⁷ 2 CFR § 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Offices we spoke to confirmed that FHWA has not established a timeframe for completing project close-out activities after States accept completed projects from the contractor. In addition, Division officials said that FHWA has not issued interim guidance for ARRA project closeouts, even though the PMIT recommended this action in June 2013. The interim guidance could have provided Division Offices with additional tools, such as timeframes with which to monitor the States' project close-out timeliness.

Moreover, many States have not established timeframes for closing out their non-ARRA Federal-aid projects. Only recently, three of the nine States we reviewed (New Jersey, Ohio, and Virginia) established their own close-out timeframes, which call for closing out Federal highway projects within a year. Without an established timeframe, FHWA has no benchmark for measuring project close-out timeliness—especially for non-ARRA Federal-aid projects, which have no expenditure deadline to serve as a proxy.

FHWA Does Not Have Performance Measures To Assess Project Close-Out Timeliness

FHWA has not established nationwide performance measures to assess States' progress in reducing the time taken to close out projects. Without established performance measures and monitoring of those measures, it is difficult for FHWA to regularly assess how long States are taking to complete project closeouts and to establish goals for improving close-out timeliness.

According to FHWA's PMIT, the most effective measure of project close-out timeliness is from the date that the State releases the contractor from the project (depending on the State, this could be a statement releasing the contractor from liability or a statement accepting the project) to FHWA's review and approval of a States' final voucher (when the State attests that the project met all requirements, and FHWA approves the States' request for a final voucher through FMIS). However, FHWA has not set this performance measurement, or any other performance measurement, as part of a nationwide close-out policy.

FHWA Does Not Have Consistent FMIS Data To Assess Project Close-Out Timeliness

Even if PMIT's recommended measure of project close-out timeliness were written into FHWA policy, the FMIS data used to capture project milestone dates are not consistent or reliable for measuring project close-out timeliness in the manner recommended by PMIT. For example, FHWA's FMIS manual states that the project completion date field should be the date that State officials accept the project from the contractor (the project acceptance date). However, of the

nine States we reviewed,¹⁸ four States (California, Georgia, North Carolina, and Washington) reported inputting a variety of dates into the project completion date field—ranging from the date of the contractor’s release from liability to the date of the final voucher. This occurs because States are not applying a standard definition for the project completion data field in FMIS to ensure consistent data collection among States. States are not also required to manually input the actual project completion date in FMIS.

In addition, FMIS contains other data inconsistencies related to project closeouts. Based on our comparison of FMIS data to State project completion records for 44 randomly selected closed ARRA projects from 9 randomly selected States, we determined that most project completion dates in FMIS did not match the project’s actual completion date. For example, we identified completion dates recorded in FMIS that were inconsistent with State project records for four out of six selected Ohio ARRA projects we reviewed. Of the 16 California ARRA projects we reviewed, 9 projects had completion dates recorded in FMIS that were inconsistent with State project records, and 3 projects had blank project completion date fields in FMIS even though State records indicate that the projects were completed.

Other deficiencies in FMIS date fields also make it difficult to assess the timeliness of States’ project closeouts. Specifically, if the project completion date fields are left blank rather than manually entered into FMIS, the system automatically populates the blank fields with the final voucher date when FHWA approves the final voucher. Once automatically populated in FMIS, the completion and final voucher dates become identical in the system. We found that 65 percent of closed ARRA projects had the same dates for project completion and final voucher—making it difficult to use this data to assess close-out timeliness without a lengthy and labor-intensive review of State project records.

CONCLUSION

Project closeout is an important step to ensure the final accounting of Federal funds used for Federal-aid highway and bridge projects. The vast majority of ARRA projects are now closed out; however, FHWA needs to take actions now to mitigate the impact of weaknesses in its close-out processes to help ensure a successful conclusion of the ARRA program, including improved monitoring and tracking mechanisms. Overall, these close-out weaknesses are not unique to ARRA-funded projects. To better safeguard the large annual Federal investment, over \$40 billion annually, in the Nation’s roads and bridges, FHWA also needs to follow through on its planned actions to improve the overall Federal-aid highway

¹⁸ Connecticut and Texas reported they do not have performance measures for close-out timeliness, and New Jersey and Virginia reported they are currently establishing close-out metrics.

project close-out process by establishing a national close-out policy, close-out timeframes, and performance measures—and addressing data issues in FMIS.

RECOMMENDATIONS

We recommend that FHWA:

1. Implement a national plan that outlines steps for Division Offices to expedite ARRA project closeouts. This plan should include a mechanism to ensure up-to-date estimates of project completion and close-out dates for the remaining active ARRA projects.
2. Develop and implement a mechanism to track States' backlogs of project closeouts for both ARRA and non-ARRA Federal-aid projects.
3. Develop and implement a national strategy to work with the States to reduce annual backlogs of project closeouts.
4. Address all project close-out recommendations made in the 2013 and 2014 PMIT reviews.
5. Monitor project close-out timeliness by developing and implementing national close-out timeframes and performance measures.
6. After implementation of national close-out timeframes and performance measures, review each Division Office's Standard Operating Procedures to assess consistency with FHWA's national policy.
7. Develop and implement a standard definition for the project completion date field in FMIS and require States to manually enter the project completion date into FMIS.

AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

We provided FHWA with our draft report on January 15, 2015. We received FHWA's formal response on February 13, 2015, which is included in its entirety in the appendix to this report. FHWA also provided technical comments, which we incorporated into the report as appropriate. In its response, FHWA stated that it concurs with all seven recommendations and intends to complete actions on or before May 31, 2016. Accordingly, we consider all recommendations resolved but open pending completion of the planned actions.

We appreciate the courtesies and cooperation of Federal Highway Administration representatives during this audit. If you have any questions concerning this report, please call me at (202) 366-5630 or David Pouliott, Program Director, at (202) 366-1844.

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cc: DOT Audit Liaison (M-1)
FHWA Audit Liaison (HCFB-30)

EXHIBIT A. SCOPE AND METHODOLOGY

We conducted this performance audit from July 2013 through January 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 objectives.

Our objective for this audit was to determine whether FHWA performs adequate oversight to ensure timely closeouts of completed ARRA-funded Federal-aid projects. Specifically, we assessed whether FHWA (1) will be able to close out ARRA projects by the expenditure deadline and has addressed impediments to timely closeout and (2) has taken action to address weaknesses in policies, procedures, and internal controls for oversight of ARRA and Federal-aid highway project closeouts.

To achieve our objectives, we analyzed and compared FMIS data with project documents and other data being reported internally by FHWA and interviewed FHWA Headquarters' personnel responsible for overseeing ARRA projects. We also randomly selected 9 States (California, Connecticut, Georgia, New Jersey, North Carolina, Ohio, Texas, Virginia, and Washington) and 129 ARRA projects (36 active projects, 44 closed projects, and 49 withdrawn projects) for review. In New Jersey, Ohio, and Virginia, we conducted on-site interviews with Division Office personnel and State transportation officials. In these States, we also reviewed documents related to internal controls and practices related to project closeouts. For the other six States, we obtained information from the Division Office and State transportation officials through questionnaires and emails.

For the 44 closed ARRA projects in our sample, we reviewed State project documents to verify key close-out actions and to determine the accuracy of key close-out dates that States input into FMIS. Further, we reviewed and analyzed project agreements and final vouchers to determine whether FHWA and State officials complied with FHWA internal controls for project closeout.

To estimate the number of projects that will not be closed out until after the ARRA expenditure deadline, we used a two-stage statistical sample. Stage 1 resulted in a sample of 10 out of 51 States selected with probability proportional to the amount of Federal funding a State received, with replacement. Due to the "with replacement" sampling methodology employed, North Carolina was selected twice, which reduced the actual (unique) sample size from 10 to 9 States. Stage 2 resulted in a stratified sample of 140 out of 3,466 projects from

the 10 States (9 unique) selected in Stage 1. We stratified the 140 projects into 30 strata by State and then stratified them again by the following project classifications: (1) active, (2) closed, and (3) zero Federal fund balance. We selected a sample of projects from each stratum with probability proportional to the amount of Federal funding a project received, with replacement. Due to the “with replacement” sampling methodology, 11 projects were selected twice, which reduced the actual (unique) sample size from 140 to 129 projects. We selected all 64 (56 unique) projects with zero Federal fund balance. Our sample design allowed us to estimate the number of projects that will be closed out after the ARRA deadline with a precision of plus or minus 5 projects at the 90-percent confidence level.

Finally, we reviewed FHWA’s June 2013 and February 2014 PMIT reports and assessed the implications to the ARRA project close-out process. We interviewed the PMIT report authors to assess the scope of the work and testing done, reasonableness of the recommendations made, and status of FHWA’s corrective actions.

EXHIBIT B. STATUS OF FHWA'S ACTIONS TO ADDRESS PMIT'S JUNE 2013 AND FEBRUARY 2014 REPORT RECOMMENDATIONS

July 2013 PMIT Report	
Action	Status
1 Update the FIRE Order and Toolkit with inactive funds directives and procedures, including sampling techniques and assessing obligation validity.	Closed on April 2014. FHWA updated the FIRE Order and Toolkit with inactive funds directive and procedures.
Develop revised or additional performance goals to help ensure alignment between project cost estimates and project agreement obligations.	Open. FHWA has not revised the performance goals to ensure alignment between project cost estimates and project agreement obligations. Target Date: June 2015.
Conduct a national webinar on inactive project evaluation techniques and this report.	Closed on April 2014. FHWA conducted a national webinar on inactive projects.
2 Issue policy and guidance on project closeout to address: (1) minimum required documentation for types of projects; (2) key milestones and critical path for tracking and measuring project closure cycle time; (3) FMIS project completion field and criteria and performance goals for Divisions to use risk-based, data-driven procedures for inactive funds management, including project closure.	Open. On October 29, 2014, FHWA issued a guide for minimum required documentation. However, FHWA has not yet issued policy and guidance to address project close-out processes and related performance goals. Target date: May 2015.
3 Conduct a "Phase 2" National Program Review on project closeout and inactive funds management during the first quarter of Performance Year 2014.	Closed on February 2014. The National Review Team conducted the Phase 2 review on project closeout and inactive funds and developed recommendations. FHWA issued an action plan to address the Phase 2 recommendations.
4 The Office of Infrastructure (HIF) will issue an FHWA Order to address the issue of delays in billing frequency by local public agencies (LPA) in their upcoming FHWA Order on annual assessments of State Oversight of LPAs.	Closed on August 2014. The Office of Infrastructure issued FHWA Order 5020.2 in August 2014 to address the issue of delays in billing frequency by LPAs.
Division Offices should work with their State Departments of Transportation (DOT) to understand and begin to address LPA billing delays within their States.	Closed on January 2015.

Exhibit B. Status of FHWA's Actions To Address PMIT's June 2013 and February 2014 Report Recommendations

February 2014 PMIT Report

Action	Status
<p>1 Provide tools to assist Divisions in working with the State DOTs to map the project closeout and project agreement funds management practices to facilitate communication, identify barriers to efficient closeout and funds management, seek solutions to overcome those barriers, and to identify milestones and timeframes to begin to track progress towards the desired proactive state of Federal-aid project agreement management.</p>	<p>Open. FHWA has not issued a policy to address the close-out processes or provide assistance to Division Offices with identifying barriers found in the February 2014 PMIT report. Target date: June 2015.</p>
<p>2 Issue policy and guidance on project closeout. The guidance will address: Minimum required documentation for types of projects; Key milestones and critical path for tracking and measuring project closure cycle time and timely update of project estimates; FMIS project completion field; and Provide guidance to close out projects completed in excess of the record retention period requirements.</p>	<p>Open. On January 17, 2014, FHWA issued a memorandum that clarified guidance on the availability of de-obligated funds when estimates are updated and projects are closed out. On October 29, 2014, FHWA issued a guide for project funds management and monitoring, including minimum required documentation. However, FHWA has not yet issued a policy on project closeout. Target date: October 2015.</p>
<p>3 Continue to implement the inactive obligation guidance and based on the quarterly results and consider additional measures for the performance year 2016 Strategic Implementation Plan.</p>	<p>Open. FHWA has not developed additional measures or guidance to address the transition from inactive project reporting to more proactive, coordinated project close-out and project agreement funds management. Target date: June 2015.</p>

EXHIBIT C. MAJOR CONTRIBUTORS TO THIS REPORT

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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 Draft Report on
Recovery Act Project Close Out

Date: February 13, 2015

From: Gregory G. Nadeau
Acting Administrator

In Reply Refer To:
HCFB-30

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

Our successful implementation of the \$27 billion in highway funding provided by the American Recovery and Reinvestment Act of 2009 resulted in 43,400 miles of roads repaved, over 2,700 bridges improved, and tens of thousands of jobs created or saved. From the outset of the Recovery Act, FHWA not only carried out its stewardship and oversight responsibilities consistent with existing and new requirements, but we took proactive actions to ensure Recovery Act obligations were expeditiously expended and projects closed timely. For example, while there is no regulatory or statutory deadline for closing out Recovery Act projects, FHWA pursued congressional approval in 2013 to increase obligations by a total of \$115 million to facilitate the States completion of Recovery Act projects. The FHWA also sponsored two national reviews starting in 2013 to assess and address States' challenges with project close out. As a direct result of the Agency's efforts, States have expended 99.6 percent of Recovery Act obligations on 12,914 projects and closed 96.9 percent of projects funded only with Recovery Act dollars as of January 31, 2015.

Based upon our review of a draft of your report, we concur with all 7 recommendations, as written. We intend to complete actions on or before May 31, 2016.

We appreciate this opportunity to offer additional perspective on the OIG draft report. Please contact Juli Huynh, Director of the Office of Financial and Management Programs at (202) 366-6504 with any questions or if the OIG would like to obtain additional details about these comments.

Appendix. Agency Comments