Memorandum

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

Subject: INFORMATION: Notification of Audit of Opportunities for the Federal Highway Administration to Free Up Unneeded Funds in States Affected by Hurricanes Katrina and Rita and Use Those Funds on Recovery Efforts
Project No. 06N3001M000

From: Kurt W. Hyde
Assistant Inspector General for Surface and Maritime Programs

To: Acting Federal Highway Administrator

Congress is considering a multibillion dollar proposal to cover the long-term cost of reconstructing roads and bridges damaged by Hurricanes Katrina and Rita in the Gulf States. We are undertaking this audit to assist the Federal Highway Administration (FHWA) and the affected states by identifying funds dedicated to congressionally directed projects that are no longer needed. With congressional approval, the identified funds could be freed up and redeployed to reduce the cost of reconstruction.

Although FHWA recently reviewed unneeded funds provided through normal Federal-aid apportionments and identified over $750 million nationwide that could be freed up and used to fund active or new projects, that effort did not address projects that were funded through specific direction from Congress. Those projects, commonly called earmarked or demonstration projects, are identified in authorization or appropriations acts or related committee reports. Unlike routine Federal-aid funds that expire within 3 years of funding if they are not obligated, earmarked funds remain available until they are expended. Also, while Federal-aid funds can be freed up and reapplied to other projects, earmarked funds must be used only on the specifically designated project. When earmarked funds are no longer needed to complete the project (e.g., the project is completed for less than the appropriated amount), the remaining funds cannot be applied to other projects without express congressional approval. According to data from FHWA’s
financial system, significant amounts of unobligated and unexpended funds remain
dedicated to earmarked projects in the hurricane-affected states that were
designated as long ago as 1983.

As an Executive Branch agency, FHWA must respect congressional direction to
fund designated projects. However, in some cases, the funds may no longer be
needed. For example, the project could have been completed for less than the
designated amount. In other cases, circumstances may have changed. For
example, the state may have undertaken an alternative transportation solution, the
estimated cost of the project may have greatly exceeded the earmarked amount, or
the state simply does not plan to undertake the project. Consequently, the funds
will remain idle and unused until they are identified and presented to Congress
with a request to rescind the funds. Should that happen, Congress has the option
to retain the earmark, rescind the funds, or rescind and reapply the funds to other
projects, including reconstruction projects, in the affected states.

Because states often need several years to develop a project before they begin
construction, we will limit our audit to projects that were designated in legislation
enacted on or before October 23, 2000.1 We will interview officials from FHWA,
state departments of transportation, and local governments and review project files
and other related documents in five Gulf States—Alabama, Florida, Louisiana,
Mississippi, and Texas. We will determine the status of the project, that is,
whether it has been completed, modified, planned, or not planned to be undertaken
by the state. It is not within the scope of our review to second guess or otherwise
determine the appropriateness of any particular earmarked project. To determine
the state’s intent regarding demonstration projects, we will discuss each project
with state officials and review state planning documents.

This audit is part of a broader effort by the Office of Inspector General (OIG), as
described in an October 2005 memorandum,2 to conduct a series of audits of the
U.S. Department of Transportation’s relief and recovery activities to ensure that
taxpayers’ interests are fully protected.

We plan to begin the audit immediately. We will contact your audit liaison to
schedule an entrance conference to discuss the planned audit. For additional
information, please contact Kurt Hyde, Assistant Inspector General for Surface
and Maritime Programs, at (202) 366-2017, or Michael Ralph, Program Director,
at (202) 366-1515.

1 This is the date that P.L. 106-346, Department of Transportation and Related Agencies Appropriations,
2001, was enacted.
Hurricane Relief and Recovery Activities,” October 6, 2005.
cc: Audit Liaison, OST
    Audit Liaison, FHWA