



Memorandum

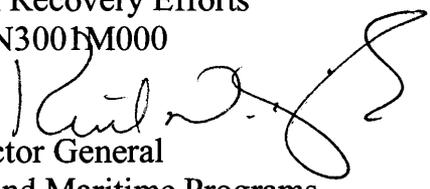
**U.S. Department of
Transportation**

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. 06N300HM000

Date: November 30, 2005

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

Reply to JA-40
Attn of:

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.

² U.S. Department of Transportation, Office of Inspector General memorandum, "Oversight Efforts for Hurricane Relief and Recovery Activities," October 6, 2005.

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cc: Audit Liaison, OST
Audit Liaison, FHWA