

# GAO Highlights

Highlights of [GAO-14-113](#), a report to the Ranking Member, Subcommittee on Oversight, Committee on Environment and Public Works, U.S. Senate

## Why GAO Did This Study

FHWA provides funding to states to build and maintain the nation's roadways and bridges. States may then make federal funding available to a local public agency, such as a city or a county, to administer projects. FHWA estimates that 7,000 local public agencies administer such projects. FHWA has identified locally administered projects as an agency-wide, high-risk oversight area. GAO was asked to review FHWA's oversight of locally administered projects. GAO examined: (1) what is known about federal-aid projects local agencies administer; (2) what risks are presented by local agencies administering federal-aid projects and what is being done to mitigate risks; and (3) what challenges local agencies report in administering federal-aid projects. GAO conducted site visits to three states based on federal obligations and other factors. GAO analyzed FHWA obligation data, reviewed relevant documentation, and interviewed FHWA, state, and local agency officials.

## What GAO Recommends

GAO recommends that FHWA (1) collect data about which local public agencies are administering federal-aid projects, (2) collect information from state DOTs on local agencies' capabilities, (3) identify and disseminate minimum and uniform criteria for qualifying local agencies, and (4) explore administrative flexibilities and potential dollar thresholds under which it may not be cost effective for local agencies to administer federal-aid projects. The Department of Transportation did not take a position on GAO's recommendations.

View [GAO-14-113](#). For more information, contact Lori Rectanus at (202) 512-2834 or [rectanusl@gao.gov](mailto:rectanusl@gao.gov).

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## FEDERAL-AID HIGHWAYS

### Federal Highway Administration Could Further Mitigate Locally Administered Project Risks

## What GAO Found

Newly available data from the Federal Highway Administration (FHWA) show the extent and some characteristics of locally administered projects, but other key data are not being collected. From July 2012 to June 2013, local agencies administered about 12 percent or \$3.8 billion of the \$31 billion in federal-aid funding obligated during that period. The federal share was less than \$250,000 for over half of the projects. However, FHWA neither collects information on which local agencies are administering federal-aid projects nor the capabilities of those agencies—information that would allow FHWA to identify the extent and magnitude of its risks and more effectively target its oversight of the states.

Project administration by local agencies presents three risks:

- ***Noncompliance with federal requirements*** is a well-documented risk area and GAO's analysis, derived from multiple sources, revealed a range of concerns including quality of construction and inadequate contract administration. FHWA has made efforts to mitigate this risk by providing training and guidance, among other things. While state departments of transportation (state DOTs) are required to determine whether local agencies have adequate systems and controls to properly manage federal funds, FHWA has not provided clear direction on how to implement this requirement. FHWA promotes, but does not require, a mechanism such as a certification program. FHWA has not developed minimum and uniform qualification criteria for state DOTs to use to assure local agencies are qualified to administer federal projects. Without such criteria, the effectiveness of existing or developing mechanisms may be limited.
- ***The risk of ineffective oversight*** stems from a diffused oversight structure for locally administered projects. FHWA is accountable for ensuring federal funds are used efficiently and effectively. States are responsible for ensuring that projects are properly administered and local agencies have adequate systems to undertake federal-aid projects and sufficient controls to properly manage project funds. GAO's review identified deficiencies in some state DOTs' oversight practices, and FHWA is developing a tool to assess the quality of state DOT oversight. FHWA expects to finalize this tool by mid-2014.
- ***Inefficient use of federal funds*** can occur when the cost of complying with federal requirements is high relative to a project's cost. While FHWA has taken steps to improve the efficiency of federal-aid projects, it has not explored or issued guidance targeted to local agencies on how they can maximize administrative flexibilities, despite internal and external recommendations to do so. Some local agency officials GAO interviewed stated they do not pursue federal funding for projects under certain dollar thresholds because the cost involved outweighs the benefits; however, others choose to do so due to a lack of funding alternatives. FHWA has not examined potential thresholds at which federal funds may no longer be cost-effective, but it is well-positioned to undertake such an analysis.

Many of the local officials GAO interviewed reported a variety of challenges experienced when administering federal-aid projects. For example, they noted significant time, effort, and costs to administer federal-aid projects. However, local agency officials believe that the benefits of federal funding for local infrastructure outweigh the challenges of complying with federal requirements.