



Highlights of [GAO-09-751](#), a report to congressional requesters

Why GAO Did This Study

The federal-aid highway program provides about \$33 billion a year to states for highway projects. The federal government provides funding for and oversees this program, while states largely choose and manage the projects. As requested, GAO reviewed the Federal Highway Administration's (FHWA) implementation of several requirements in the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU): (1) oversight of states using a risk management approach; (2) efforts to develop minimum standards for estimating project costs, and periodically evaluate states' cost estimating practices; and (3) reviews of states' financial management systems. GAO also reviewed FHWA's policy on presenting an estimate of financing costs in financial plans for major projects (i.e., projects estimated to cost over \$500 million). GAO reviewed FHWA plans, risk assessments, reviews, and other documents; visited five FHWA field offices and reviewed financial management reviews in an additional five field offices; and interviewed FHWA officials.

What GAO Recommends

GAO is making recommendations to improve FHWA's tracking of risks and its oversight of states' estimates of project costs, financial management systems, and financial plans for major projects. The Department of Transportation stated it would consider the report's recommendations.

View [GAO-09-751](#) or [key components](#). For more information, contact Phillip Herr at (202) 512-2834 or herr@gao.gov.

FEDERAL-AID HIGHWAYS

FHWA Has Improved Its Risk Management Approach, but Needs to Improve Its Oversight of Project Costs

What GAO Found

FHWA has improved its approach to managing risks to the federal-aid highway program by requiring field offices to identify risks, assess them on the basis of the potential impact and the likelihood they will occur, and develop response strategies for key risks in their planned oversight activities. For fiscal years 2007 through 2009, most of the field offices GAO visited had oversight activities to address a majority of the key risks. However, most of the field offices that GAO visited were not fully tracking risk mitigation activities, thereby limiting the effectiveness of FHWA's efforts to mitigate risks to the federal-aid highway program.

FHWA has made limited progress in meeting SAFETEA-LU's requirement to develop minimum standards that states must follow when estimating project costs. GAO has reported that project cost estimates typically have not been reliable predictors of project costs or financing needs. While FHWA has efforts under way, it is unlikely to issue standards until 2011, at the earliest. In addition, FHWA has not established a process to periodically evaluate states' cost estimating practices, and four of the five field offices GAO visited were doing little in this regard. However, for major projects, FHWA has established a process for evaluating the credibility of states' cost estimates. Establishing standards for cost estimates and periodically evaluating states' cost estimating practices could help to ensure that highway projects are effectively and efficiently managed.

FHWA's guidance and documentation for reviews of state departments of transportation's financial management systems and practices generally meet key federal standards and principles, but they lack specific steps and documentation in some key areas. For example, FHWA's guidance does not require reviewers to provide certain specific information on improper payments. In addition, while the 10 field offices that GAO reviewed generally covered the required areas in their financial management reviews in 2008, their documentation sometimes lacked information on the specific procedures performed or issues identified by reviewers. Without this information, it is difficult for FHWA to monitor and follow up on field offices' and states' progress in correcting deficiencies.

FHWA does not require states' financial plans for major projects to present an estimate of the projects' financing costs. According to a senior FHWA official, this is partly because it is difficult to develop accurate estimates. While uncertainty about a major project's financing cost can exist, and presenting estimates of financing costs for all projects could be impractical, financing costs on major projects can represent a significant cost to a state, and can, when combined with payments on the principal portion of the debt, tie up large shares of future federal transportation funding. Presenting an estimate of a project's financing costs would help ensure that decision makers who approve funding for these projects have key information that is relevant to such decisions.