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May 13, 2021

The Honorable Thomas R. Carper
Chair
The Honorable Shelley Moore Capito
Ranking Member
Committee on Environment and Public Works
United States Senate

The Honorable Peter A. DeFazio
Chair
The Honorable Sam Graves
Ranking Member
Committee on Transportation and Infrastructure
House of Representatives

Federal Highway Administration: Administrative Expenses Funded from the Highway Trust Fund

In December 2015, the Fixing America's Surface Transportation (FAST) Act authorized funds for fiscal years 2016 through 2020 from the Highway Trust Fund (HTF) for the administrative expenses of the Department of Transportation's Federal Highway Administration (FHWA). The FAST Act includes a provision for GAO to submit a report describing the FHWA administrative expenses funded from the HTF every 5 years following an initial report.[1] Our initial report was issued in June 2016 and covered fiscal years 2013 through 2015.[2]

Our objectives were to describe (1) the types and amounts of administrative expenses funded by HTF for the FHWA programs and offices during the 5 most recent fiscal years (2016 through 2020); (2) the extent to which FHWA adequately designed tracking and monitoring internal controls over its administrative expenses as of September 30, 2020; and (3) the extent to which FHWA has the flexibility, under existing laws and regulations, to reallocate administrative monies funded from the HTF between general operating expenses and other functions. This report transmits briefing slides regarding the final results of our work in response to the provision in the FAST Act (see enc. I).

To address our first objective, we reviewed relevant legislation and FHWA budget documents, and interviewed FHWA officials to understand the types of FHWA administrative expenses funded from the HTF. We also analyzed FHWA general ledger data and relevant FHWA

[1]Pub. L. No. 114-94, § 1433, 129 Stat. 1312, 1430 (Dec. 4, 2015).

[2]GAO, *Highway Trust Fund: Administrative Expenses of the Federal Highway Administration*, GAO-16-631R (Washington, D.C.: June 24, 2016).

financial documents related to FHWA administrative expenses funded from the HTF for fiscal years 2016 through 2020.

To address our second objective, we interviewed FHWA officials on the processes and steps that FHWA took to track and monitor administrative expenses funded from the HTF. We obtained and reviewed applicable policies and procedures that the Department of Transportation and FHWA used. These included the Department of Transportation's Summary Report for its Office of Management and Budget Circular A-123 (*Management's Responsibility for Enterprise Risk Management and Internal Control)* assessment and the results of FHWA's relevant internal control risk assessments. We determined whether FHWA adequately designed its tracking and monitoring internal controls over its administrative expenses as of September 30, 2020, in accordance with *Standards for Internal Control in the Federal Government*.[3] We focused our review on the tracking and monitoring internal controls related to general operating expenses because obligations for these expenses represented over 94 percent of obligations of administrative monies funded from the HTF for fiscal year 2020.

To address our third objective, we interviewed FHWA officials and reviewed existing laws and regulations and other relevant budgetary guidance to determine the extent to which FHWA has the flexibility to reallocate administrative monies between general operating expenses and other functions. We assessed the reliability of the data we used by reviewing relevant documentation and interviewing knowledgeable agency officials. We found the data to be reliable for the purposes cited in this report.

We conducted this performance audit from November 2020 to May 2021 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.

In summary, we found that FHWA administrative expenses funded from the HTF for fiscal years 2016 through 2020 include (1) general operating expenses (salaries and benefits, equipment, travel, and other expenses);[4] (2) transfers to the Appalachian Regional Commission[5] and (3) the Disadvantaged Business Enterprise, Highway Use Tax Evasion, and On-the-Job Training Support Services programs. In our review of tracking and monitoring internal controls over general operating expenses, we found that FHWA had adequately designed these controls as of September 30, 2020, for the significant business processes related to general operating expenses. Furthermore, we found that FHWA has limited flexibility, under existing laws and regulations, to reallocate administrative monies funded from the HTF between general operating expenses and certain other functions.

We are not making any recommendations in this report.

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[3]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

[4]Other expenses consisted of transportation, rent, communications and utilities, printing, supplies, and other services.

[5]The Appalachian Regional Commission supports administrative activities associated with the Appalachian development highway system.

Agency Comments

We provided a draft of this report to the Department of Transportation for review and comment. The Department of Transportation provided technical comments, which we incorporated as appropriate.

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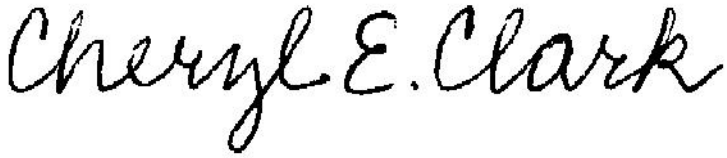
We are sending copies of this report to the appropriate congressional committees and the Secretary of Transportation. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have questions concerning this report, please contact me at (202) 512-9377 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report include LaDonna Towler (Assistant Director), Tulsi Bhojwani (Auditor-in-Charge), Troy Burrows, Ricky Cavazos, Maxine Hattery, and Diana Lee.



Cheryl E. Clark
Director
Financial Management and Assurance

Enclosure

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Federal Highway Administration: Administrative Expenses Funded from the Highway Trust Fund

Senate Committee on Environment and Public Works and House Committee on Transportation and Infrastructure

For more information, contact Cheryl E. Clark at (202) 512-9377 or clarkce@gao.gov.

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Background

- In December 2015, Fixing America's Surface Transportation Act (Public Law 114-94) authorized funds for fiscal years 2016 through 2020 from the Highway Trust Fund (HTF) for the administrative expenses of the Department of Transportation's Federal Highway Administration (FHWA). The act includes a provision for GAO to submit a report describing the administrative expenses of FHWA funded from the HTF every 5 years following an initial report. Our initial report was issued in June 2016 and covered fiscal years 2013 through 2015.[1]

[1]GAO, *Highway Trust Fund: Administrative Expenses of the Federal Highway Administration*, GAO-16-631R (Washington, D.C.: June 24, 2016).

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Objectives

- Our objectives were to describe the following:
  1. The types and amounts of administrative expenses funded from the HTF for FHWA programs and offices during the 5 most recent fiscal years, 2016 through 2020.
  2. The extent to which FHWA adequately designed tracking and monitoring internal controls over its administrative expenses as of September 30, 2020.
  3. The extent to which FHWA has the flexibility, under existing laws and regulations, to reallocate administrative monies funded from the HTF between general operating expenses and other functions.

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Scope and Methodology

- To address our first objective, we
  - reviewed relevant legislation and FHWA budget documents and interviewed FHWA officials to understand the types of FHWA administrative expenses funded from the HTF and
  - obtained and analyzed FHWA general ledger data and relevant FHWA financial documents related to FHWA administrative expenses funded from the HTF for fiscal years 2016 through 2020.

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Scope and Methodology (continued)

- To address our second objective, we
  - interviewed FHWA officials on the processes and steps FHWA took to track and monitor the administrative expenses funded from the HTF;
  - obtained and reviewed applicable policies and procedures used by the Department of Transportation and FHWA including the Department of Transportation's Summary Report for its Office of Management and Budget Circular A-123 *(Management's Responsibility for Enterprise Risk Management and Internal Control)* assessment and the results of FHWA's relevant internal control assessments; and

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Scope and Methodology (continued)

- determined whether FHWA adequately designed tracking and monitoring internal controls over its administrative expenses as of September 30, 2020, in accordance with *Standards for Internal Control in the Federal Government*.[1]

We focused our review on the tracking and monitoring controls related to general operating expenses because obligations for these expenses represented over 94 percent of obligations of administrative monies funded from the HTF for fiscal year 2020.

[1]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

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Scope and Methodology (continued)

- To address our third objective, we
  - interviewed FHWA officials and reviewed existing laws and regulations and other relevant budgetary guidance to determine the extent to which FHWA has the flexibility to reallocate administrative monies funded from the HTF between general operating expenses and other functions.

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Scope and Methodology (continued)

- We assessed the reliability of the data we used by reviewing relevant documentation and interviewing knowledgeable FHWA officials. We found the data to be reliable for the purposes cited in this briefing.
- We conducted this performance audit from November 2020 to May 2021 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.

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FHWA Administrative Functions Funded by Monies from the HTF

- 23 U.S. Code § 104(a) provided monies for administrative expenses of FHWA to be used to
  - administer the provisions of law funded from appropriations for the Federal-aid and other highways programs;
  - make transfers to the Appalachian Regional Commission;[1] and
  - reimburse, as appropriate, the Office of Inspector General of the Department of Transportation for the conducting of annual audits of financial statements.
- From administrative monies made available under § 104(a), the Secretary of Transportation shall deduct sums as necessary to carry out other sections of 23 U.S. Code for specific programs.
- Funds authorized for each fiscal year remain available until expended.

[1]The Appalachian Regional Commission supports administrative activities associated with the Appalachian development highway system.

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FHWA Administrative Functions Funded by Monies from the HTF (continued)

- The types of FHWA administrative expenses funded from the HTF for fiscal years 2016 through 2020 are categorized under three functions:

General Operating Expenses	• Salaries and Benefits • Equipment • Travel • Other[a]
Transfers	Appalachian Regional Commission
Programs	• Disadvantaged Business Enterprise • On-the-Job Training Support Services • Highway Use Tax Evasion

[a]Other expenses consisted of transportation, rent, communications and utilities, printing, supplies, and other services. According to FHWA officials, during fiscal years 2016 through 2020, no reimbursements from monies provided for administrative expenses were made to the Office of Inspector General of the Department of Transportation for conducting annual financial statement audits because the audits were funded by direct appropriations to the Office of Inspector General.

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FHWA Obligations Funded by Monies from the HTF for Fiscal Years 2016-2020

(dollars in millions)	Fiscal Years 2016	2017	2018	2019	2020
Funding Authorization[a]	**453.0**	**459.8**	**466.7**	**473.7**	**480.8**
Obligations					
General Operating Expenses					
Salaries and Benefits	301.5	308.3	312.4	319.0	333.0
Other[b]	108.4	106.5	109.5	109.7	111.7
Travel	8.1	7.7	9.4	8.7	3.5
Equipment	5.1	5.6	6.7	4.4	3.4
Total General Operating Expenses	423.1	428.1	438.0	441.8	451.6
Appalachian Regional Commission	2.2	1.9	2.2	1.8	1.9
Programs					
Disadvantaged Business Enterprise	7.6	2.1	8.1	9.1	9.2
On-the-Job Training Support Services[c]	12.1	8.4	2.2	13.0	7.2
Highway Use Tax Evasion[c]	1.0	7.6	3.1	2.0	4.6
Total Programs	20.7	18.1	13.4	24.1	21.0
Total Obligations	**446.0**	**448.1**	**453.6**	**467.7**	**474.5**

Source: GAO analysis of Federal Highway Administration data. | GAO-21-419R

[a]Funding authorization specified in 23 U.S.C. § 104(a)(1) by fiscal year is available for obligation without further legislative action. See 23 U.S.C. § 118(a). This type of budget authority is referred to as contract authority and permits an agency to incur obligations in advance of appropriations. Contract authority is unfunded and a subsequent appropriation or offsetting collection is needed to liquidate the obligation. In addition, the funding authorization is available until expended. 23 U.S.C. § 104(a)(3).

[b]Other expenses consisted of transportation, rent, communications and utilities, printing, supplies, and other services. According to FHWA officials, during fiscal years 2016 through 2020, no reimbursements from monies provided for administrative expenses were made to the Office of Inspector General for the Department of Transportation for conducting annual financial statement audits because the audits were funded by direct appropriations to the Office of Inspector General.

[c]Obligations for On-the-Job Training Support Services (for fiscal years 2016 and 2019) and Highway Use Tax Evasion (for fiscal years 2017 and 2020) included the maximum program funding limitation amount for the fiscal year and carryover unobligated funds from prior fiscal years.

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Internal Controls to Track and Monitor General Operating Expenses

- Internal control is a process that is effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the following objectives of an entity will be achieved:
  - effectiveness and efficiency of operations,
  - reliability of financial reporting, and
  - compliance with applicable laws and regulations.[1]

[1]GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington, D.C.: September 2014).

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- The Department of Transportation assesses the internal controls of business processes based on its risk assessment as required by OMB Circular A-123.[1]
- We found that FHWA had adequately designed tracking and monitoring internal controls over the following significant business processes related to general operating expenses as of September 30, 2020:
  - Human Resources/Time and Attendance;
  - Procure to Pay;
  - Travel Management; and
  - Property, Plant, and Equipment.

[1]The Department of Transportation's business processes include those related to FHWA's general operating expenses.

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- Examples of key internal controls for tracking and monitoring FHWA administrative expenses include the following business processes:
  - Human Resources/Time and Attendance:
    - Approving officials for Time and Attendance approve the employees' time and attendance in the Consolidated Automated System for Time and Labor Entry.
    - The Servicing Personnel Office reviews award forms that document personnel actions, such as quality step increases and performance awards, for appropriate approvals, signatures, and verification of accuracy.

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- Procure to Pay:
  - Program and division offices ensure that purchases are limited to the bona fide needs of FHWA and that statutory authority exists for the use of the funds.
  - The Contracting Officer/Contract Specialist's assistant creates and prepares obligating awards for the Contracting Officer's review and signature.
  - New awards greater than $1,000,000 require FHWA's legal counsel review prior to Contracting Officer signature.

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- Travel Management:
  - All individuals who perform temporary duty travel for their agency shall have an approved travel authorization before starting travel.
  - Traveler vouchers and receipts are reviewed and approved (by first reviewer in approval chain) to ensure expenses are authorized and justified. If approved, the voucher then moves to the funds certifier for funds review.
  - FHWA uses E2 Solutions as its travel management system, which monitors temporary duty travel authorizations and informs travelers to either submit travel vouchers or cancel authorizations.

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- Property, Plant, and Equipment:
  - The acquisition of capitalized property (including software) is subject to the procurement approval process before purchase.
  - FHWA takes physical inventory (an actual item-by-item count) of all accountable property and reports the property inventory value and count to the Office of the Secretary of Transportation.
  - FHWA's financial system's fixed asset module and the general ledger are reconciled and reviewed monthly by the FHWA Office of Financial Services to validate that the ending balances agree.

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Internal Controls to Track and Monitor General Operating Expenses (continued)

- FHWA had additional internal controls to track and monitor administrative expenses through its general operating expenses budget review process.
  - FHWA's Budget Office periodically reviews and approves if adjustments are needed to ensure (1) sufficient funds are made available for administrative expenses, or (2) surplus funds are identified and distributed to other functions within the administrative functions as determined by the FHWA Executive Director.

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Limited Flexibility to Reallocate Administrative Monies Funded from the HTF

- The administrative monies funded from the HTF include amounts transferred to the Appalachian Regional Commission and specific programs. FHWA has limited flexibility, under existing laws and regulations, to reallocate administrative monies funded from the HTF between general operating expenses and certain other functions.
- Limitations, as shown in the table that follows, include the following:
  - General operating expenses and transfers to the Appalachian Regional Commission are subject to obligation limitations specified under annual appropriations acts.
  - Specific programs are subject to maximum program funding limitations per fiscal year provided under 23 U.S. Code.
  - Funding cannot be used for any purpose not authorized by statute.

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Limited Flexibility to Reallocate Administrative Monies Funded from the HTF (continued)

- Funding Authorization, and Obligation and Program Funding Limitations

(dollars in millions)	Fiscal Years 2016	2017	2018	2019	2020
Funding Authorization[a]	**453.0**	**459.8**	**466.7**	**473.7**	**480.8**
Obligation Limitation[b]					
General Operating Expenses	425.8	432.6	439.5	446.5	453.6
Appalachian Regional Commission	3.2	3.2	3.2	3.2	3.2
Total Obligation Limitation	429.0	435.8	442.7	449.7	456.8
Program Funding Limitation[c]					
Disadvantaged Business Enterprise (DBE)	10.0	10.0	10.0	10.0	10.0
On-the-Job Training (OJT)	10.0	10.0	10.0	10.0	10.0
Highway Use Tax Evasion Project (HUTE)	4.0	4.0	4.0	4.0	4.0
Total Program Funding Limitation	24.0	24.0	24.0	24.0	24.0
Total Obligation and Program Funding Limitation	**453.0**	**459.8**	**466.7**	**473.7**	**480.8**

Source: GAO analysis of public laws and Federal Highway Administration budget documents. | GAO-21-419R

[a]Funding authorization is specified in 23 U.S.C. § 104(a) for administrative expenses.

[b]Obligation limitations are specified in annual appropriations acts for general operating expenses and the Appalachian Regional Commission transfers.

[c]Under 23 U.S.C. §§ 140(b), 140(c), and 143(b), respectively, the Secretary of Transportation shall (for OJT and DBE) or may (for HUTE) deduct such sums as necessary per fiscal year from funding made available under 23 U.S.C. § 104(a) for administrative expenses, not to exceed the following: $10 million for the administration of OJT; $10 million for the administration of DBE; and $4 million to carry out HUTE.

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Limited Flexibility to Reallocate Administrative Monies Funded from the HTF (continued)

- A funding authorization for administrative expenses (in the form of contract authority) that is not obligated in the fiscal year for which it is authorized carries over into future fiscal years, because the funding remains available until expended. FHWA has the ability to use carryover funds from prior years for administrative expenses, to the extent that the obligation limitation provided in annual appropriations acts allows for such carryover funds to be obligated.

- Based on program funding limitations, specific needs, and budget decisions, FHWA has limited flexibility to determine how much to allocate to each of the three functions (general operating expenses, transfers to Appalachian Regional Commission, and specific programs) from the authorized monies in a given fiscal year.

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