OBM | Office of Internal Audit

Department of Transportation

Highway Infrastructure Investment ARRA Program Audit

Audit Period: July 1, 2009 to February 22, 2010

Report number 2010-DOT-02 **Issuance date: March 9, 2010**

Contents

Executive Summary

Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include the following statement of purposes:

- To preserve and create jobs and promote economic recovery.
- To assist those most impacted by the recession.
- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.
- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.
- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio has applied for over 90 ARRA programs with expected total grant awards to exceed $8.5 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- <u>Countercyclical Funds:</u> The two largest components of the State's budget that is exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.
- <u>Appropriated Funds</u>: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.
- <u>Safety Net Funds:</u> These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.
- <u>Economic Growth Funds:</u> These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Ohio Department of Transportation (DOT) has applied for three awards. This audit focused on the Highway Infrastructure Investment (HII) grant. As of December 31, 2009, DOT has disbursed $105,942,647 of the awarded $935,677,030 for this program. For the quarter ending December 31, 2009, DOT reported 596 jobs funded with ARRA dollars in accordance with OMB guidance issued on December 18, 2009.

OIA issued a report dated December 9, 2009 which evaluated the internal control design and implementation. This report focused on the operational effectiveness of the program. OIA's audit focused on DOT's operations and did not extend to funding administered to local governments which were reviewed by federal oversight agencies.

The HII grant (Catalog of Federal Domestic Assistance number 20.205) is a formula grants awarded to DOT by the U.S. Department of Transportation, Federal Highway Administration, to assist State transportation agencies in the constructing and rehabilitating of national highways, and for transportation improvements to most other public roads.

The HII funds resulting from this apportionment are eligible to be obligated for restoration, repair, construction and other activities, and for passenger and freight rail transportation and port infrastructure projects.

OIA would like to thank DOT staff and management for their cooperation and time in support of this audit. This report is intended for the information and use of DOT management and the State Audit Committee.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Highway Infrastructure Investment (HII) program. This work was completed between July 1, 2009 and February 22, 2010. The scope of this audit included the following areas:

- Program administration and monitoring
  - Communication of grant requirements; and
  - Program oversight and monitoring
- Reporting
  - Financial reporting; and
  - Non-financial statistical reporting

The following summarizes the objectives of the audit along with a conclusion on the effectiveness of management's internal controls.

Objective	Conclusion[1]
Evaluate the effectiveness of the "obligation/de-obligation" for the awarding process for ARRA stimulus funds to subrecipients and vendors.	**Well-Controlled**
Evaluate the effectiveness of controls over the timely, accurate, and completeness of ARRA disbursements.	**Well-Controlled**
Evaluate the effectiveness of the controls over subrecipient and vendor monitoring process for the program.	**Well-Controlled**
Evaluate the design and effectiveness of controls over complete, accurate, and timely reporting of financial and non-financial information.	**Well-Controlled**

1 Refer to Appendix for classification of audit objective conclusions.

Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. There were no observations and recommendations identified as a result of this audit.

Appendix – Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-Controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.