

DEPARTMENT OF TRANSPORTATION**CFDA 20.205 HIGHWAY PLANNING AND CONSTRUCTION (Federal-Aid Highway Program)****CFDA 23.003 APPALACHIAN DEVELOPMENT HIGHWAY SYSTEM****I. PROGRAM OBJECTIVES**

The objectives of the Highway Planning and Construction Cluster are to: (1) assist States in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design, and replace or rehabilitate structurally deficient or functionally obsolete bridges; and (4) to provide for other special purposes. This cluster also provides for the improvement of roads in Puerto Rico, Guam, the Virgin Islands, American Samoa, the Northern Marina Islands, the Alaskan Highway, and the Appalachian Development Highway System (ADHS). The objective of the ADHS program is to provide a highway system which, in conjunction with other Federally-aided highways, will open up areas with development potential within the Appalachian region where commerce and communication have been inhibited by lack of adequate access.

II. PROGRAM PROCEDURES

Federal-aid highway funds are generally apportioned by statutory formulas to the States and generally restricted to use on Federal-aid highways (i.e., roads open to the public and not functionally classified as local). Exceptions to the use on Federal-aid highways include planning and research activities, bridge and safety improvements which may be on any public road, and the Federal Lands Highway Program. Some categories of funds may be granted directly to Local Public Agencies (LPAs), such as cities, counties, tribal governments, Metropolitan Planning Organizations (MPOs), and other political subdivisions. States also may pass apportioned funds through to such agencies. Federal-aid funds may be used for surveying, engineering, right-of-way acquisition, and relocation assistance for capital improvement projects classified as new construction, reconstruction, improvements for functional, geometric, or safety reasons, and 4R projects (restoration, rehabilitation, resurfacing, and reconstruction); planning; research, development, and technology transfer; intelligent transportation systems projects; roadside beautification; wetland and natural habitat mitigation; traffic management and control improvements; improvements necessary to accommodate other transportation modes; development and establishment of transportation management systems; billboard removal; construction of bicycle facilities and pedestrian facilities; fringe and corridor parking; car pool and van pool projects; and transportation enhancements, such as scenic and historic highway improvements. These funds generally cannot be used for routine highway operational activities, such as police patrols, mowing, snow plowing, or maintenance, unless it is preventative maintenance. Also, authorizations for the Surface Transportation Program (STP) and Congestion Mitigation and Air Quality (CMAQ) Improvement Program, may be used for capital improvements to mass transit; CMAQ funds are for projects and programs in air quality, non-attainment and maintenance areas for ozone, carbon monoxide, and small particulate matter, which reduce transportation related

emissions. ADHS projects are subject to the same standards, specifications, policies, and procedures as other Federal-aid highway projects.

Eligibility criteria for the programs differ, so program guidance should be consulted. Projects in urban areas of 50,000 or more population must be based on a transportation planning process carried out by the MPOs in cooperation with the State and transit operators, and be included in metropolitan plans and programs. Projects in nonmetropolitan areas of a State must be consistent with the State's Transportation Plan. All projects must also be included in the approved Statewide transportation improvement program (STIP) and are developed as part of the required Statewide transportation planning process.

In the case of the ADHS program, the Appalachian Regional Commission determines if the State approved project is eligible within an approved Appalachian Highway Plan and notifies FHWA of centerline approval. The FHWA determines if the project satisfies all Federal requirements, administers the grants, and disburses the funds.

Source of Governing Requirements

The primary sources of program requirements are 23 USC (Highways). Implementing regulations are found in 23 CFR (Highways).

Availability of Other Program Information

The Federal Highway Administration maintains a Website that provides program laws, regulations, and other general information (www.fhwa.dot.gov).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Federal funds can be used only to reimburse costs that are: (1) incurred subsequent to the date of authorization to proceed, except for certain property acquisition costs permitted under 23 USC 108; (2) in accordance with the conditions contained in the project agreement and the plans, specifications, and estimates (PS&E); (3) allocable to a specific project; and, (4) claimed for reimbursement subsequent to the date of the project agreement (23 CFR sections 1.9, 630.106, 630.205, and 630.303).
2. Federal funds can be used to reimburse for administrative settlement costs incurred in defending contract claim proceedings before arbitration boards or State courts only if approved by FHWA for Federal-aid projects. If special counsel is used, it

must be recommended by the State Attorney or State DOT legal counsel and approved in advance by FHWA (23 CFR section 140.505).

3. Costs incurred by the State DOT or MPO for highway planning and research work are subject to prior approval by FHWA (23 CFR section 420.111).
4. STP funds may be used by the State for the cost of tuition and direct educational expenses (excluding salaries) of State and local transportation agency employees (23 USC 504(a)(4)).

F. Equipment and Real Property Management

The State shall charge, at a minimum, a fair market value for the sale, lease, or use of real property acquired with Federal assistance from the Highway Trust Fund (other than the Mass Transit Account) for the non-transportation purposes and shall use such income for projects eligible under 23 USC. Exceptions may be granted when the property is used for social, environmental or economic purposes (23 USC 156).

G. Matching, Level of Effort, Earmarking Requirements

1. Matching

- a. The State is generally required to pay a portion of the project costs. Portions vary according to the type of funds authorized and are stated in project agreements.
- b. A State's matching share for a project may be credited by certain toll revenues used to build or improve highways, bridges and tunnels (23 USC 120(j)).
- c. Donations of funds, materials, and services may be credited towards a State's matching share. Donated materials and services must meet the eligibility requirements of the project. However, donations of services by units of local government cannot be credited against the State share of the project (23 USC 323(c) and (e)).
- d. The fair market value of land provided by State or local governments for highway purposes is eligible for matching share on a project. The fair market value of donated land shall not include any increase or decrease in value of donated land caused by the project. The fair market value of donated land shall be established as of the earlier of (1) the date on which the donation becomes effective or (2) the date on which equitable title to the land vests in the State (23 USC 323(b)).
- e. For transportation enhancement (TE) projects, funds from Federal agencies (except U.S. DOT) may be used for the non-Federal share of the project. Credit for the value of donations of funds, materials, land, or services

(including the value of local and State government services, materials and land applied to the project and the cost of preliminary engineering prior to project approval) may be credited toward the non-Federal share (23 USC 133(e)(5)(C)).

- f. Funds appropriated to any Federal land management agency may be used to pay the non-Federal share of any Federal-aid highway project funded under 23 USC 104 (23 USC 120(k)).
- g. Federal Lands Highway Program funds may be used to pay the non-Federal share of Federal-aid highway projects which provide access to or within Federal or Indian lands (23 USC 120(l)).

2. Level of Effort - Not Applicable

3. Earmarking - Not Applicable

J. Program Income

State and local governments may only use the Federal share of net income from the sale, use, or lease of property previously acquired with Federal funds if the income is used for projects eligible under 23 USC (23 USC 156).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. PR-20, *Voucher for Work Under Provisions of the Federal-Aid and Federal Highway Acts, as Amended (OMB No. 2125-0507)*

2. Performance Reporting - Not Applicable

3. Special Reporting - Not Applicable

N. Special Tests and Provisions

1. Use of Other State or Local Government Agencies

Compliance Requirement - A State may use other public land acquisition organizations or private consultants to carry out the State's authorities under 23 CFR 710.201(b) in accordance with a written agreement (23 CFR 710.201(h)).

Audit Objective - Determine whether other public land acquisition organizations or private consultants are carrying out the State's authorities under 23 CFR 710.201(b) in accordance with their agreements with the State.

Suggested Audit Procedures

- a. Examine records and ascertain if other agencies were used for right-of-way activities on Federal-aid projects.
- b. Review a sample of right-of-way agreements with other agencies.
- c. Perform tests of selected right-of-way activities to other agencies to verify that they comply with the written agreement.

2. Replacement of Publicly Owned Real Property

Compliance Requirement - Federal funds may be used to reimburse the reasonable costs actually incurred for the functional replacement of publicly-owned and publicly-used real property provided that FHWA concurs that it is in the public interest. The cost of increases in capacity and other betterments are not eligible except: (1) if necessary to replace utilities; (2) to meet legal, regulatory, or similar requirements; or (3) to meet reasonable prevailing standards for the type of facility being replaced (23 CFR 710.509).

Audit Objective - Determine whether the functional replacement of real property was accomplished within FHWA requirements.

Suggested Audit Procedures

- a. Ascertain if there were any functional replacements of publicly-owned real property.
- b. Verify that FHWA concurred in the State's determination that the functional replacement is in the public interest.
- c. Review a sample of transactions involving functional replacements and verify that the transactions were consistent with the FHWA requirements.

3. Project Extensions

Compliance Requirement - FHWA must approve extensions affecting project costs or the amount of liquidated damages, except those for projects administered by the State DOT under 23 USC 106(c) which allow the State DOT to assume the responsibilities for design, plans, specifications, estimates, contract awards and inspection of progress (23 USC 106(c); 23 CFR section 635.121).

Audit Objective - Determine whether proper FHWA approvals were obtained for contract extensions affecting project costs and the amount of liquidated damages assessed.

Suggested Audit Procedures

- a. Review the systems for monitoring and controlling contract time and review project files to determine if there were project extensions.
- b. Verify that FHWA approval was obtained for time extensions affecting project cost and, where applicable, the amount of liquidated damages assessed.

4. Sampling Program

Compliance Requirement - A State DOT or LPA must have a sampling and testing program for projects to ensure that materials and workmanship generally conform to approved plans and specifications (23 CFR section 637.205).

Audit Objective - Determine whether the State is following a quality assurance program that meets FHWA's requirements.

Suggested Audit Procedures

- a. Obtain an understanding of the recipient's sampling and testing program.
- b. Review documentation of test results on a sample basis to verify that the proper number of tests are being taken in accordance with the program.

5. Contractor Recoveries

Compliance Requirement - When a State recovers funds from highway contractors for project overcharges due to bid-rigging, fraud, or anti-trust violations or otherwise recovers compensatory damages, the Federal-aid project involved shall be credited with the Federal share of such recoveries (Tennessee v. Dole 749 F.2d 331 (6th Cir. 1984); 57 Comp. Gen. 577 (1978); 47 Comp. Gen. 309 (1967)).

Audit Objective - Determine whether the proper credit was made to the Federal share of a project when recoveries of funds are made.

Suggested Audit Procedures

- a. Determine the extent to which the State has recovered overcharges and other compensatory damages on Federal-aid projects through appropriate interviews and a review of legal, claim, and cash receipt records.
- b. Review a sample of cash receipts and verify that appropriate credit is reflected in billings to the Federal Government.

6. Project Approvals

Compliance Requirement - Construction projects administered under standard procedures cannot be advertised nor force account work commenced until FHWA: (1) approves the plans, specifications, and estimates; and (2) authorizes the State DOT to advertise for bids or approves the force account work (23 CFR sections 630.205(c), 635.112(a), 635.204, and 635.309). Construction cannot begin until after FHWA concurs in the contract award (23 CFR section 635.114). This requirement does not apply to construction projects administered by the State DOT under 23 USC 106(c) which allow the State DOT to assume the responsibilities for design, plans, specifications, estimates, contract awards, and inspection of progress (23 USC 106(c)).

Audit Objective - Determine whether project activities are started with required Federal approvals.

Suggested Audit Procedures

- a. Review a sample of projects and identify dates of the necessary approvals, authorizations, and concurrences.
- b. Identify dates that projects were advertised and contract or force account work was initiated and compare to FHWA's approval dates.