AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS
AASHTO
THE VOICE OF TRANSPORTATION

AASHTO SCOFA Subcommittee on
FISCAL MANAGEMENT AND ACCOUNTING

Chair: **Chelley Hilmes**, Oklahoma
Vice Chair: **Robin Naitove,** Florida
Secretary: **Brenda Morris**, Missouri

Subcommittee on Fiscal Management and Accounting
Teleconference Minutes on Inactive Obligations

Monday, July 8, 2013 / 11:00am – 12:00pm EDT

DRAFT

Attendance

Chair Chelley Hilmes (Oklahoma), Vice Chair Robin Naitove (Florida), Secretary Brenda Morris (Missouri), June Gotschall (Alaska), Clark Paulsen (California), Christian Davis (Connecticut), Earle Timpson (Delaware), Stephanie Johnson (Delaware), Ronda Britt (Georgia), Rhonda Seitz (Kansas), David Talley (Kentucky), Ed Timpf (Michigan), Nicole Pallister (Montana), Dave Olsen (Nevada), Patrick McKenna (New Hampshire), Calvin Leggett (North Carolina), Dorothy Christensen (North Dakota), Matt Downs (Ohio), Diane Stubbs (South Carolina), Leah DeMers (South Dakota), Bruce (Texas), Renea Bordeau (Vermont), Edward Tuecke (Wisconsin), David Stearns (Wyoming), LACMTA, Morten Sorensen (FHWA), Elissa Konove (FHWA), Robert Clark (FHWA), Joung Lee (AASHTO), Bud McDonald (AASHTO)

Minutes

After Chair Hilmes' opening remarks, Joung Lee of AASHTO gave an update from DC. Tax reform is the overarching topic, and that also serves as a possible avenue to address the Highway Trust Fund solvency issue in FY2015, compared to transportation reauthorization standing alone.

Mr. Lee said that the auditor of USDOT, KMPG, had a material weakness finding over 'undelivered orders', or inactive obligation balances, of which it found $2.6 billion that USDOT "could put to better use". The transportation community needs to ensure this issue does not hurt credibility when making the case for increased federal transportation investment.

Elissa Konove, Chief Financial Officer of FHWA, said that over the past year, inactive obligations have been reduced by nearly $2 billion and over 3,000 projects. The previous target for inactive obligations was 4% of apportionments, and is now 2%. The rate for the beginning of this fiscal year (measuring at the end of March) was 2.8%. The tiers at USDOT have been changed to be more aggressive, such as focusing on all balances over $50,000. It is okay for a balance to be lacking activity for a year or longer, as long as there is a valid explanation. Work will continue to be done to attempt to have the issue no longer be a material weakness. Ms. Konove said roughly twenty states were above the 2% target [update: 15 states as of June 30].

Ms. Konove discussed where we go from here, and there has been an intensive effort to develop a sustainable path. One of the key aspects of this is a 'look forward' approach, e.g. for the June reporting, there should be a good handle on any inactive balances as of the end of the 3rd quarter (end of June). Credit is not given for addressing something in the following quarter once the books close on a quarter.

One of the primary best practices on this topic that have been discovered is active engagement from the most senior leadership levels at state DOTs. Another key best practice is for states to take a forward-looking approach, anticipating what may be coming on the list and addressing before the funds go idle.

Regarding how state DOTs are holding locals accountable for CTEP projects, Ms. Konove said one of the items DOT's project closeout report addressed was billing for local projects.

In response to a question from Vice Chair Naitove on whether other states have issues with legally enforcing agreements stating you'll have x days after the close of a project to submit invoices, Ms. Konove said that is one of the main findings of DOT's project closeout report, that they do not have any regulatory or statutory closeout or billing timeframes.

For pooled fund projects, there has been a concerted effort over the last couple years to close those out. There are eight that are ready for reconciliation and pending closeout, and nine remaining that are active. The inclusion of those on the reporting requirements is to validate any outstanding balance and to serve as a reminder to close them out.

In response to a question on whether states have had their division office unilaterally remove funding from a project without consideration of forthcoming expenditures, Ms. Konove said about 1/3 of Division Offices have taken unilateral action or have taken a step towards unilateral deobligation such as a letter indicating a timeframe for which if action has not been taken that there will be unilateral deobligation.

Ms. Konove said a Business Objects report has been developed, which the Division Offices can provide for a status of inactive obligations. FHWA will send a reminder how to run this report in upcoming communication to Division Offices.

Chair Hilmes thanked everyone for joining and the call was adjourned.