

Department of Transportation



Performance Audit Cash Spending Plan April 2020

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Performance Audit DOT – Cash Spending Plan



- ✓ **Audit Objectives:**
 - ✓ **Confirm Amount DOT Exceeded Plan**
 - ✓ **Identify the Causes of Overspending**

Performance Audit

DOT – Cash Spending Plan



- ✓ **Audit Scope: (Session law 2019-251)**
 - ✓ **Budget Adherence by Department, Division, Highway Division**
 - ✓ **Timeliness of Federal Reimbursement Requests**
 - ✓ **Timeliness of Response to Federal Inquiries**
 - ✓ **Controls & Oversight Related to Cash Management, Project Coordination & Delivery, Budget Adherence**
 - ✓ **Effectiveness of Communication & Coordination**
 - ✓ **Effectiveness of Cash Management for SFY 2019**

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	IN MILLIONS	
FUND	CERTIFIED BUDGET	SPENDING PLAN
HIGHWAY FUND	\$3,593	\$3,593
HIGHWAY TRUST FUND	\$1,540	\$1,540
INTENTIONAL SPEND DOWN OF CASH	-	\$670
AMOUNT PLANNED FROM BOND PROCEEDS	-	<u>\$126</u>
Total:	\$5,133	\$5,929

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✓ Confirmed Exceeded “Spending Plan” by \$742M

Expenditure Category	In Millions			
	Spending Plan	Actual Spending	Difference	% Difference
Construction	\$3,310	\$3,434	\$124	3.7%
Operations & Maintenance	\$1,596	\$2,174	\$578	36.2%
Other Modes	\$364	\$438	\$74	20.3%
Other	\$671	\$637	\$(34)	(5)%
Total	\$5,941*	\$6,683	\$742	12.5%

* \$5.1B Certified Budget + 670 M Planned Cash Spend Down + \$126M Planned Bond Proceeds 5

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- ✓ **FINDING - DOT Exceeded Spending Plan Due to:**
- ✓ **Plan Was Not Based on Cost Estimates of Projects/Operations Schedule for FY**
- ✓ **Chief Engineer's Office Did Not Monitor Compliance w/ Plan**
- ✓ **Chief Engineer's Office Did not Enforce Compliance w/ Plan**
- ✓ **2 MATTERS FOR FURTHER CONSIDERATION**

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- ✓ **Plan Was Not Based on Cost Estimates of Projects/Operations Schedule for FY**
 - ✓ **Preliminary Engineering - \$194 M Overage**
 - ✓ **2019 Estimated Spending Not Based on Cost Estimates of Specific Projects or Operations**
 - ✓ **2019 Estimated Spending Based on Prior-Year Spending**

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- ✓ **Plan Was Not Based on Cost Estimates of Projects/Operations Schedule for FY (cont'd)**
 - ✓ **Operations & Maintenance - \$578M Overage**
 - ✓ **2019 Estimated Spending Not Based on Actual Planned Maintenance Projects for the Year**
 - ✓ **2019 Estimated Spending Based Seasonal Spending Estimates & 10-Yr. Historical Averages**
 - ✓ **Disaster Spending - \$246 of \$578 Overage**
 - ✓ **Budgeted \$50M/yr. Since 2015**

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- ✓ **Chief Engineer's Office Did Not Monitor Compliance w/ Plan**
- ✓ **Spending Plan Not Monitored w/in 14 Highway Divisions**
- ✓ **Full Fiscal Year's Allocation Provided Initially**
- ✓ **14 Division Engineers Managed Spending However They Chose**

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- ✓ **Chief Engineer's Office Did not Enforce Compliance w/ Plan**
- ✓ **Chief Engineer's Office Did Not Reject a Division's Contracts/Unspent Budget Insufficient**
- ✓ **No Mid-Year Budget Reductions/Borrow Against Next FY Allocation**
- ✓ **Borrowing Crossed Multiple Years**

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GS 143C-6-11(b) Requires:

Transportation Project funds shall be budgeted, expended, and accounted for on a “cash flow” basis. Pursuant to this end, transportation project contracts shall be planned and limited so payments due at any time will not exceed the cash available to pay them.

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RECOMMENDATIONS:

- ✓ **Spending Plan Should be Based on Cost Estimates of Specific Projects and Operations**
- ✓ **Chief Engineer's Office Should Formally Monitor Each Highway's Spending On a Regular Basis/Adjust**
- ✓ **Chief Engineer's Office Should Take Corrective Actions Whenever Highway Divisions are Overspending**
- ✓ **Chief Engineer Should Consider Requiring Corrections on Quarterly Basis**

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- ✓ **MATTERS FOR FURTHER CONSIDERATION**
 - ✓ **MFC 1: Oversight Should Be Improved**
 - ✓ **Managing Billions of Dollars w/out External Controls**
 - ✓ **No Approved Budget/Spend Plan**
 - ✓ **Spending Not Adequately Monitored**
 - ✓ **WHO?? OSBM? Financial Planning Committee? Other?**

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- ✓ **MATTERS FOR FURTHER CONSIDERATION**
- ✓ **MFC 2: \$4.8 B Advance Construction Should be Reported & Monitored**
- ✓ **Currently NO Evaluation of Advance Construction Practices**
- ✓ **No Detailed Report on Use of Advance Construction**
- ✓ **No Detailed Report on Outstanding Balance**

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- ✓ **MFC 2: \$4.8 B Advance Construction Should be Reported & Monitored**
- ✓ **“Some Information Provided – Financial Statement Schedules/STIP Document**
- ✓ **No Single Document:**
 - ✓ Describing Advance Construction
 - ✓ Benefits,
 - ✓ Risks,
 - ✓ Beginning Balance,
 - ✓ Expenditures,
 - ✓ Contract Amounts,
 - ✓ Planned Additions,
 - ✓ Planned Conversions
 - ✓ Ending Balance

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- ✓ **MFC 2: \$4.8 B Advance Construction Should be Reported & Monitored**
- ✓ **Every State Has Access to Federal-Aid Highway \$- Federal Highway Administration (FHWA)**
- ✓ **Annual Limit Per State – “Obligation Authority”**
- ✓ **2019 North Carolina’s Obligation Authority - \$1.1B**
- ✓ **State Must Incur & Pay Expenditures**
- ✓ **Request Reimbursement**
- ✓ **State Must Meet Annual Obligation Authority to be Eligible for Unused \$ Redistributed by FWHA**

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- ✓ **2 Ways to Use Federal Highway Funding**
 - ✓ **Traditional**
 - ✓ **Advance Construction**
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- ✓ **North Carolina Opted to Use Advance Construction to Finance Projects with Federal-Aid**

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- ✓ **Federally-Financed Highway Projects**
- ✓ **Traditionally Financed:**
 - ✓ **FWHA Approves Project**
 - ✓ **Obligates Federal Funds (80%) at Start of Contract**
 - ✓ **Construction Begins & Pay Construction Costs w/ State Funds**
 - ✓ **Submit Weekly Reimbursement Requests To FHWA**

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- ✓ **Federally-Financed Highway Projects**
- ✓ **Advance Construction**
 - ✓ **Project Approved “Eligible” for Federal Funding**
 - ✓ **No Obligation of Federal \$**
 - ✓ **DOT Adds Federal Share of Eligible Costs to Advance Construction Balance**
 - ✓ **Begins Construction**
 - ✓ **Pays Construction Costs w/ State Funds**
 - ✓ **Some Point in Future Converts Advance Construction Project to Federal-Aid Project & FHWA Obligates Funds**
 - ✓ **DOT Requests Federal Reimbursement**

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- ✓ **Traditionally-Financed vs Advance Construction**
- ✓ **Traditionally-Financed**
 - ✓ **Limits Number of Federal-Aid Projects Started Annually**
 - ✓ **Once FHWA Obligates Funds = State's Obligation Authority**
State Cannot Start any more Federal-Aid Projects
- ✓ **Advance Construction**
 - ✓ **Does Not Require Obligation of Federal funds**
 - ✓ **Projects Approved – Dollars Not Obligated**
 - ✓ **Start More Projects Annually – “Anticipated” to Be Paid w/ Federal Funds**
 - ✓ **Approval by FHWA Subject to State's Obligation Authority** 20

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- ✓ **Current Advance Construction Balance - \$4.8 B**
- ✓ **\$4.8 B – Ties to Federal Report of Approved Projects**
 - ✓ **Approved by FWHA, \$ Not Obligated**
- ✓ **According to DOT Balance Represents:**
 - ✓ **\$1.3B in Expenditures**
 - \$706.6M – GARVEE Bonds**
 - \$604.5M – State Funds – convert & seek reimbursement**
 - ✓ **\$3.5B - ???**

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- ✓ **More Formal Document Including:**
 - ✓ **Describing Advance Construction**
 - ✓ **Benefits,**
 - ✓ **Risks,**
 - ✓ **Beginning Balance,**
 - ✓ **Expenditures,**
 - ✓ **Contract Amounts,**
 - ✓ **Planned Additions,**
 - ✓ **Planned Conversions**
 - ✓ **Ending Balance**

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- ✓ **Advance Construction Recommendations:**
- ✓ **Consider Requiring DOT to Provide Breakdown of All Projects & Associated Contracts in Advance Construction Detailing:**
- ✓ **Expenditures Paid w/ State Moneys**
 - ✓ Date of Expenditures
 - ✓ Anticipated Date of Reimbursement From FHWA
- ✓ **Expenditures Funded w/ GARVEE Bonds**
 - ✓ Breakdown of Outstanding Bonds, i.e., Amount Outstanding, Anticipated Annual Repayments to be Converted, Term End Date
- ✓ **All Other Projects w/ Associated Contracts/Commitments**

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- ✓ **Advance Construction Recommendations**(cont'd):
 - ✓ **Have Schedule/Breakdown Audited by Office of State Auditor**
 - ✓ **Use the Prepared Breakdown as Starting Point**
 - ✓ **Require the Detailed Information Ongoing**

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Questions?

