Department of Transportation

Performance Audit
Cash Spending Plan
April 2020

Beth A. Wood, CPA,
North Carolina State Auditor
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
## Performance Audit
### DOT – Cash Spending Plan

<table>
<thead>
<tr>
<th>Fund</th>
<th>Certified Budget</th>
<th>Spending Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highway Fund</td>
<td>$3,593</td>
<td>$3,593</td>
</tr>
<tr>
<td>Highway Trust Fund</td>
<td>$1,540</td>
<td>$1,540</td>
</tr>
<tr>
<td>Intentional Spend Down of Cash</td>
<td>-</td>
<td>$670</td>
</tr>
<tr>
<td>Amount Planned From Bond Proceeds</td>
<td>-</td>
<td>$126</td>
</tr>
<tr>
<td>Total</td>
<td>$5,133</td>
<td>$5,929</td>
</tr>
</tbody>
</table>
Performance Audit
DOT – Cash Spending Plan

- Confirmed Exceeded “Spending Plan” by $742M

<table>
<thead>
<tr>
<th>Expenditure Category</th>
<th>Spending Plan</th>
<th>Actual Spending</th>
<th>Difference</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>$3,310</td>
<td>$3,434</td>
<td>$124</td>
<td>3.7%</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>$1,596</td>
<td>$2,174</td>
<td>$578</td>
<td>36.2%</td>
</tr>
<tr>
<td>Other Modes</td>
<td>$364</td>
<td>$438</td>
<td>$74</td>
<td>20.3%</td>
</tr>
<tr>
<td>Other</td>
<td>$671</td>
<td>$637</td>
<td>$(34)</td>
<td>(5)%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,941</strong>*</td>
<td><strong>$6,683</strong></td>
<td><strong>$742</strong></td>
<td><strong>12.5%</strong></td>
</tr>
</tbody>
</table>

* $5.1B Certified Budget + 670 M Planned Cash Spend Down + $126M Planned Bond Proceeds
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
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
Performance Audit
DOT – Cash Spending Plan

✔ 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
Performance Audit
DOT – Cash Spending Plan

✔ 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
Performance Audit
DOT – Cash Spending Plan

✓ 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
Performance Audit
DOT – Cash Spending Plan

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.
Performance Audit
DOT – Cash Spending Plan

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
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?
Performance Audit
DOT – Cash Spending Plan

✓ 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
Performance Audit
DOT – Cash Spending Plan

✓ 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
Performance Audit
dot – Cash Spending Plan

✓ 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
Performance Audit
DOT – Cash Spending Plan

✓ 2 Ways to Use Federal Highway Funding
✓ Traditional
✓ Advance Construction

✓ North Carolina Opted to Use Advance Construction to Finance Projects with Federal-Aid
Performance Audit
DOT – Cash Spending Plan

✓ 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
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
Performance Audit
DOT – Cash Spending Plan

☑ 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
Performance Audit
DOT – Cash Spending Plan

✓ 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 - ???
Performance Audit
DOT – Cash Spending Plan

✓ More Formal Document Including:
  ✓ Describing Advance Construction
  ✓ Benefits,
  ✓ Risks,
  ✓ Beginning Balance,
  ✓ Expenditures,
  ✓ Contract Amounts,
  ✓ Planned Additions,
  ✓ Planned Conversions
  ✓ Ending Balance
Performance Audit
DOT – Cash Spending Plan

✓ 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
Performance Audit
DOT – Cash Spending Plan

✓ 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
Performance Audit
DOT – Cash Spending Plan

Questions?