

STATE OF NORTH CAROLINA  
Office of the State Auditor

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May 9, 2008

The Honorable Michael F. Easley, Governor  
Members of the North Carolina General Assembly  
Mr. Lyndo Tippet, Secretary, Department of Transportation  
Mr. Joe Bryan, Chairman, Transportation Advisory Committee, N.C. Capital Area MPO

Ladies and Gentlemen:

This letter contains the results of our audit entitled *North Carolina Department of Transportation Funding Allocation Practices*. This audit answers specific questions posed by the Capital Area Metropolitan Planning Organization (CAMPO) about the transportation funding allocation formulas contained in the *North Carolina General Statutes*. The audit does not evaluate whether those formulas are the most efficient or effective method for allocating transportation funds.

#### **OBJECTIVES, SCOPE, AND METHODOLOGY**

Our audit objectives were to determine (1) how much transportation-related tax revenue is collected in the counties comprising the CAMPO planning area each year, (2) how much of this money, under current formulas, should be spent for maintenance and capital projects in the CAMPO highway divisions, and (3) how much of that amount is currently programmed in the approved State Transportation Improvement Plan (STIP) for fiscal years 2007-2013 in the CAMPO counties.

The scope of this audit includes transportation expenditures and revenues for State fiscal years 2004-2006, budgeted allocations for highway maintenance and secondary road construction for State fiscal year 2007, and planning and budgeting of the 2007-2013 STIP.

To determine the State transportation-related revenues collected by highway division, we identified State revenues for the Highway Trust Fund and the Highway Fund in the Department of Transportation (DOT) financial statements for fiscal years 2004 through 2006. We separated the revenues by highway division because the revenue items were only identified for the State as a whole. We obtained Highway Use Tax collections by county from DOT, and we obtained Division of Motor Vehicles (DMV) revenue items by county from DMV. We then sorted and totaled the Highway Use Tax and DMV revenue items by highway division. Gasoline Tax is not collected by county or highway division, so we allocated the Gasoline Tax collected to the highway divisions based on the population of each division as stated on the North Carolina State Demographics website.

To determine the federal transportation-related revenues collected by highway division, we allocated the federal funds received by North Carolina to the highway divisions based on the population of each division as stated on the North Carolina State Demographics website. We used the amount of federal funds received by North Carolina instead of total federal transportation-related revenues collected because federal taxes collected in North Carolina are pooled with taxes from other states and redistributed based on federal factors outside the State's control. Therefore there is no guarantee that federal taxes will be returned in total to the State in the form of federal transportation dollars.

To identify expenditures by highway division, we obtained a General Assembly report, *Annual Highway Construction and Maintenance Report*, which shows all encumbered expenditures by county for 2004, 2005, and 2006. We sorted the information into highway divisions and verified that the total of the expenditures on the General Assembly report materially agreed to the DOT Financial Statement reports for the fiscal years 2004 through 2006.

To determine budgeted allocations for highway maintenance and secondary road construction for State fiscal year 2007, we obtained formulas used by DOT for these calculations and compared them to the formulas specified in the *General Statutes*. We compared allocations to independent population statistics and tested the final allocations for reasonableness.

To determine amounts currently programmed in the STIP, we reviewed project expenditure data by region. We interviewed DOT personnel and analyzed the methods and data used to budget and program the 2007 STIP. We conducted the fieldwork from April 2007 to November 2007.

We conducted this performance audit according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

#### **HOW MUCH TRANSPORTATION-RELATED REVENUES ARE COLLECTED IN THE COUNTIES COMPRISING THE CAMPO PLANNING AREA EACH YEAR?**

DOT does not calculate or collect information to determine how much transportation-related revenues are collected from each county. We collected information and performed calculations to estimate the amount of transportation-related revenues collected from each county. We included State transportation-related revenues and the federal transportation funds received by North Carolina in our calculations. As noted above, we used the amount of federal funds received by North Carolina instead of total federal transportation-related revenues collected because federal taxes collected in North Carolina are pooled with taxes from other states and redistributed based on federal factors outside the State's control. Table 1 below shows the result of our calculations.

**Table 1 – Transportation-Related Revenues FY 2004 - 2006**

| <b>Division</b> | <b>Transportation-Related Revenues</b> |
|-----------------|--|
| 1               | \$302,504,406.93                       |
| 2               | 518,620,471.55                         |
| 3               | 698,231,971.61                         |
| 4               | 621,257,004.31                         |
| 5               | 1,388,398,692.65                       |
| 6               | 708,104,798.15                         |
| 7               | 918,741,922.34                         |
| 8               | 551,491,349.91                         |
| 9               | 798,154,291.18                         |
| 10              | 1,373,603,949.94                       |
| 11              | 415,092,124.14                         |
| 12              | 790,078,373.36                         |
| 13              | 530,865,492.27                         |
| 14              | 391,296,532.63                         |

**Source:** Audit staff calculations

**Recommendation:** There are no recommendations for this finding.

**HOW MUCH OF THIS MONEY, UNDER CURRENT FORMULAS, SHOULD BE SPENT FOR MAINTENANCE AND CAPITAL PROJECTS IN THE CAMPO COUNTIES?**

Our audit determined that DOT materially complies with the allocation formulas contained in the *North Carolina General Statutes*.

However, the question, as stated, implies a required correlation between the amount of taxes collected in an area and the amount of transportation funding that an area receives. Formulas contained in the *North Carolina General Statutes* are not designed to ensure that transportation funds expended in an area correlate with the amount of transportation related taxes collected from that area. We found that the allocation formulas; including formulas for appropriations to municipalities, highway maintenance, secondary road construction, and the STIP; do not require any such correlation.

There are several reasons why the amount of transportation funds expended in an area will differ from the amount of transportation related taxes collected in an area. Using the STIP equity distribution formula as an example, taxes collected and transportation funds received by an area are likely to differ significantly for three reasons: (1) the equity distribution formula does not consider the amount of taxes collected as a distribution factor, (2) funds for STIP statewide capital projects are subtracted from available funding before allocations are made to the divisions, and (3) some divisions received extra allocations for major capital projects in earlier years that will be deducted from current and future allocations in the STIP.

Because some divisions received extra allocations in earlier years, future transportation funding for CAMPO counties will be affected by adjustments to correct for previous over allocations. For example, Region C (Divisions 5 and 6) received approximately \$327 million

more than the amount determined by the distribution formula for federal fiscal years 2000 through 2006. Region C received additional funds because it had construction projects that were ready to start the construction phase. One of the major projects that contributed to the over allocation was the Knightdale bypass which cost approximately \$261 million.

The table below compares the STIP allocations, as determined by the equity distribution formula, to the amounts actually allocated to the divisions for State fiscal years 2000-2006. An over-allocation indicates that a transportation division has received more than the amount determined by the distribution formula; an under-allocation indicates that the division has received less.

**Table 2 – FY 2000-2006 STIP Allocations**

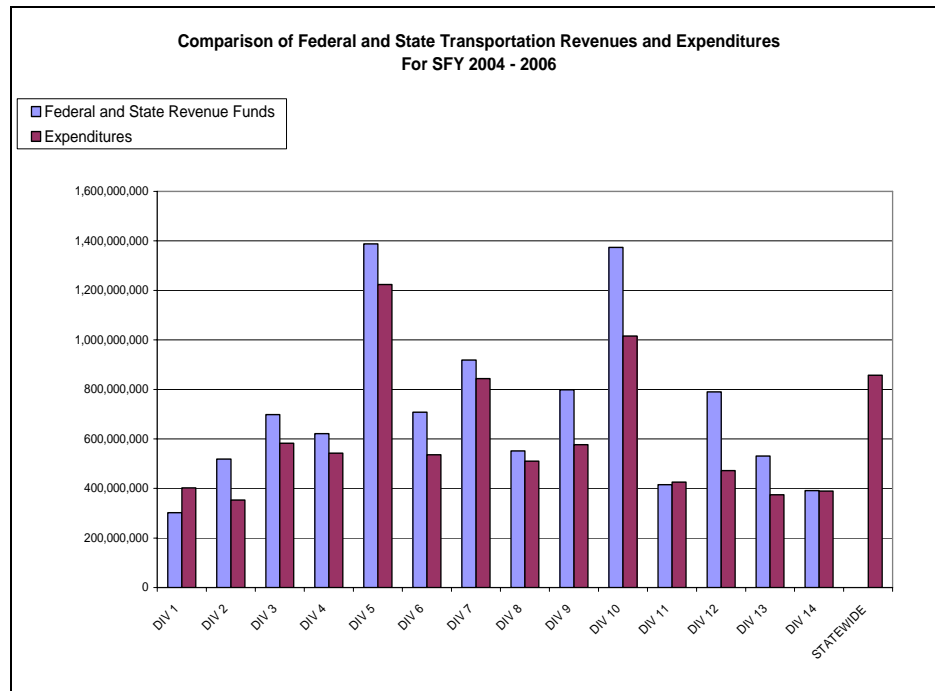
| <b>Division</b> | <b>Allocation per<br/>Distribution<br/>Formula</b> | <b>Actual<br/>Allocation</b> | <b>Over/(Under)<br/>Allocation</b> |
|-----------------|--|------------------------------|------------------------------------|
| 1               | \$ 694,036,559                                     | \$ 570,191,000               | \$ (123,845,559)                   |
| 2               | 540,565,021  | 384,679,000                  | (75,945,021)                       |
| 3               | 526,741,276  | 464,620,000                  | (62,121,276)                       |
| 4               | 506,419,572  | 623,303,000                  | 116,883,428                        |
| 5               | 835,584,961  | 1,157,479,000                | 321,894,039                        |
| 6               | 627,105,577  | 633,094,000                  | 5,988,423                          |
| 7               | 705,761,489  | 669,978,000                  | (35,783,489)                       |
| 8               | 657,590,583  | 605,015,000                  | (52,575,583)                       |
| 9               | 524,616,749  | 612,395,000                  | 87,778,251                         |
| 10              | 756,308,835  | 735,642,000                  | (20,666,835)                       |
| 11              | 449,303,225  | 528,810,000                  | 79,506,775                         |
| 12              | 488,481,084  | 494,143,000                  | 5,661,916                          |
| 13              | 577,623,079  | 516,114,000                  | (61,509,079)                       |
| 14              | 342,701,988  | 333,807,000                  | (8,894,988)                        |

**Source:** DOT accounting records

In order for region allocations to comply with the distribution formula, DOT developed an equity adjustment procedure. This procedure balances regions that were over allotted funds in previous years with those regions that were under allotted funds. Consequently, future STIP allocations will not necessarily correspond with the transportation-related taxes collected in an area because the allocations will be based in part on adjustments to correct equity imbalances.

Although there is no requirement that transportation funds expended in an area correlate with the amount of transportation related taxes collected from that area, the chart on the following page shows that the transportation divisions generally received transportation spending in proportion to the amount of taxes collected from their areas for fiscal years 2004 through 2006.

**Chart 1 – Transportation Revenues and Expenditures**



**Source:** Audit staff calculations

The table below shows the 2007 allocation of non-STIP maintenance and capital project funds to the DOT transportation divisions.

**Table 3 – Non-STIP Maintenance and Capital Project Fund Allocations**

| Division | Highway Maintenance and Resurfacing | Secondary Roads       | Bridge Maintenance   | Economic Development and Small Construction | Powell Bill Aid to Municipalities | Total                   |
|----------|-------------------------------------|-----------------------|----------------------|---|-----------------------------------|-------------------------|
| 1        | \$ 47,731,150                       | \$ 10,135,417         | \$ 3,303,221         | \$ 3,500,000                                | \$ 2,643,971                      | \$ 67,313,759           |
| 2        | 47,037,363                          | 9,912,163             | 4,238,932            | 3,500,000                                   | 6,814,921                         | 71,503,379              |
| 3        | 55,372,483                          | 4,728,200             | 6,465,297            | 3,500,000                                   | 7,886,710                         | 77,952,690              |
| 4        | 58,925,576                          | 5,626,742             | 2,598,913            | 3,500,000                                   | 7,612,012                         | 78,263,243              |
| 5        | 65,487,820                          | 10,759,315            | 3,240,113            | 3,500,000                                   | 24,522,757                        | 107,510,005             |
| 6        | 54,492,399                          | 10,033,272            | 3,482,120            | 3,500,000                                   | 8,614,616                         | 80,122,407              |
| 7        | 53,226,516                          | 7,605,946             | 3,487,688            | 3,500,000                                   | 13,416,360                        | 81,236,510              |
| 8        | 55,532,388                          | 13,749,176            | 4,444,520            | 3,500,000                                   | 6,450,544                         | 83,676,628              |
| 9        | 47,179,185                          | 6,343,577             | 3,518,727            | 3,500,000                                   | 12,858,703                        | 73,400,192              |
| 10       | 53,795,736                          | 5,035,295             | 3,347,382            | 3,500,000                                   | 27,667,035                        | 93,345,448              |
| 11       | 47,239,408                          | 37,610,377            | 4,035,942            | 3,500,000                                   | 3,036,184                         | 95,421,911              |
| 12       | 53,636,321                          | 9,117,963             | 3,542,210            | 3,500,000                                   | 8,619,247                         | 78,415,741              |
| 13       | 45,029,207                          | 14,323,541            | 4,863,314            | 3,500,000                                   | 5,730,480                         | 73,446,542              |
| 14       | 43,520,801                          | 24,840,888            | 4,331,621            | 3,500,000                                   | 2,096,859                         | 78,290,169              |
|          | <u>\$ 728,206,353</u>               | <u>\$ 169,821,872</u> | <u>\$ 54,900,000</u> | <u>\$ 49,000,000</u>                        | <u>\$ 137,970,399</u>             | <u>\$ 1,139,898,624</u> |

**Source:** Audit staff calculations

**Recommendation:** There are no recommendations for this finding.

**How much of that amount is currently programmed in the approved STIP for FY2007-2013 in the CAMPO Counties?**

As noted previously, DOT materially complies with the allocation formulas contained in *North Carolina General Statutes*, and the total value of projects programmed in the STIP for any given geographic area is independent of the amount of taxes collected in that same area.

Amounts currently programmed in the CAMPO counties in the FY 2007-2013 STIP can be obtained directly from the following DOT web site (link below).

[http://www.ncdot.org/planning/development/TIP/tip07/pdf/2007-2013\\_STIP.pdf](http://www.ncdot.org/planning/development/TIP/tip07/pdf/2007-2013_STIP.pdf)

***Recommendation:*** There are no recommendations for this finding.



STATE OF NORTH CAROLINA  
DEPARTMENT OF TRANSPORTATION

MICHAEL F. EASLEY  
GOVERNOR

1501 MAIL SERVICE CENTER, RALEIGH, N.C. 27699-1501

LYNDO TIPPETT  
SECRETARY

May 22, 2008

Mr. Leslie W. Merritt, Jr., CPA, CFP  
State Auditor  
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Raleigh, North Carolina 27699-0601

Dear Auditor Merritt:

Thank you for providing a draft copy of the performance audit of North Carolina Department of Transportation Funding Allocation Practices. Since the report contains no recommendations the Department does not have a response except to thank your staff for its expertise and professionalism in conducting the audit. I appreciate the work of the Office of the State Auditor to help the Department achieve its goals and become aware of additional opportunities to improve its operation.

The Department is continuously evaluating its current structure and business methods and working to make improvements that will help ensure we are maximizing available resources and continuing to provide a high level of service to North Carolina.

Sincerely,

A handwritten signature in black ink, appearing to read "Lyndo Tippet", written in a cursive style.

Lyndo Tippet

LT/jbd

cc: Dan DeVane, Chief Deputy Secretary  
Mark Foster, Chief Financial Officer  
Calvin Leggett, PE, Program Development  
Branch Manager  
Laurie Smith, CPA, Funds Administration  
Section Manager

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