

Department of Transportation

SFY 2023 Cash Spending Plan

Performance Audit Report January 2024

UNBIASED. IMPACTFUL. IRREFUTABLE.



A Department of the
State of North Carolina



Executive Summary

Objective

The objectives of this audit were to determine whether the Department of Transportation (Department):

- 1) Complied with its Spending Plan for state fiscal year (SFY) 2023.
- 2) Developed the SFY 2023 Spending Plan based on specific projects and operations.
- 3) Monitored and enforced highway division¹ compliance with the SFY 2023 Spending Plan.

As directed by Session Law 2020-91, the audit scope included budget adherence by Department, division, and highway division; timeliness of federal reimbursement requests and response to federal inquiries; controls and oversight of divisions and highway divisions related to cash management, project coordination and delivery,² and budget adherence; efficacy³ of communication and coordination; and efficacy of cash management by the Department.

Background

Session Law 2020-91, Section 5.9.(a), required the Office of the State Auditor (OSA) to conduct an annual performance audit of the Department of Transportation's (Department) Spending Plan.

The Department develops an annual Spending Plan comprised of **current year appropriations** in the Department's Certified Budget, **cash not spent in prior years**, and **bond proceeds** from planned sales of Build NC Bonds and Grant Anticipation Revenue Vehicle (GARVEE) bonds. It represents the total dollars "**intended**" to be spent by the Department in a fiscal year.

OSA's April 2023 audit of the Department's Spending Plan for SFY 2022⁴ found that the Department did not exceed its developed Spending Plan. Additionally, the audit found that the Department implemented OSA recommendations to (1) develop the Spending Plan based on specific projects and operations, and (2) monitor and enforce highway division compliance with the Spending Plan.

¹ The highway division as referred to here is the Division of Highways, which consists of 14 regional offices and a central office.

² Project expenditures make up a significant portion of the Department's expenditures. As such, this audit's scope included project coordination and delivery as it relates to the development, monitoring, and enforcement of the Department's Spending Plan. A detailed analysis of the activities and procedures of the coordination and delivery of the Department's highway construction projects was **not included** in the scope of this audit.

³ The ability to produce a desired or intended result.

⁴ <https://www.auditor.nc.gov/documents/reports/performance/per-2023-4200>.

Executive Summary (Concluded)

Key Findings

- The Department **did not exceed** its developed Spending Plan for state fiscal year (SFY) 2023. The Department planned to spend approximately \$7.88 billion and spent \$7.37 billion (see Finding 1 on page 6).
- The Department **developed** the SFY 2023 Spending Plan based on specific projects and operations (see Finding 2 on page 7).
- The Department formally **monitored and enforced** each highway division's compliance with the developed Spending Plan (see Finding 3 on page 8).



North Carolina Office of the State Auditor

Jessica N. Holmes, State Auditor

www.auditor.nc.gov

Auditor's Transmittal

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Joey Hopkins, Secretary, Department of Transportation
Michael S. Fox, Chairman, Board of Transportation

Ladies and Gentlemen:

We are pleased to submit this performance audit report titled *Department of Transportation SFY 2023 Cash Spending Plan*. The objectives of this audit were to determine whether the Department of Transportation:

- 1) Complied with its Spending Plan for state fiscal year (SFY) 2023.
- 2) Developed the SFY 2023 Spending Plan based on specific projects and operations.
- 3) Monitored and enforced highway division compliance with the SFY 2023 Spending Plan.

The Department of Transportation Secretary reviewed a draft copy of this report. His written comments are included on page 14.

This audit was conducted in accordance with Chapter 147, Article 5A of the North Carolina General Statutes.

We appreciate the courtesy and cooperation received from management and the employees of the Department of Transportation during our audit.

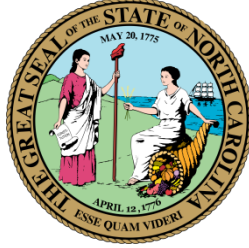
Respectfully submitted,

A handwritten signature in black ink that reads "Jessica N. Holmes". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Jessica N. Holmes
State Auditor

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Background

Session Law 2020-91, Section 5.9.(a), required the Office of the State Auditor (OSA) to conduct an annual performance audit of the Department of Transportation's (Department) Spending Plan.

The Department develops an annual Spending Plan comprised of **current year appropriations** in the Department's Certified Budget, **cash not spent in prior years**, and **bond proceeds** from planned sales of Build NC Bonds and Grant Anticipation Revenue Vehicle (GARVEE) bonds. It represents the total dollars "**intended**" to be spent by the Department in a fiscal year.

The OSA May 2020 audit⁵ report titled *Department of Transportation Cash Spending Plan*⁶ found that the Department exceeded its state fiscal year (SFY) 2019 Spending Plan by \$742 million (12.5%) and was in danger of falling below the statutory cash floor.⁷

OSA's September 2021 audit report⁸ of the Department's Spending Plan for the first half of SFY 2021 (July 2020 through December 2020)⁹ found that the Department did not exceed its **developed** Spending Plan.

However, the audit found that the Department was **still at risk** for exceeding its Spending Plan in future periods because it had **not implemented** OSA recommendations to (1) develop the Spending Plan based on specific projects and operations, and (2) monitor and enforce highway division compliance with the Spending Plan.

The OSA April 2023 audit report¹⁰ of the Department's Spending Plan for SFY 2022 found that the Department did not exceed its **developed** Spending Plan. Additionally, the audit found that the Department **implemented** OSA recommendations to (1) develop the spending plan based on specific projects and operations, and (2) monitor and enforce highway division compliance with the Spending Plan.

Responsible parties discussed in this report include:

Department of Transportation (Department) - responsible for the planning, construction, maintenance, and operation of North Carolina's integrated statewide transportation system.

The Department consists of six divisions. They are the Division of Motor Vehicles, Division of Aviation, Division of Integrated Mobility, Ferry Division, Rail Division, and Division of Highways.

Division of Highways - responsible for building and maintaining over 80,000 miles of highways and 18,500 bridges. Headed by the Chief Engineer. The Division consists of 14 regional offices and a central office in Raleigh.

⁵ Audit was required by Session Law 2019-251.

⁶ <https://www.auditor.nc.gov/documents/reports/performance/per-2020-4200>.

⁷ N.C.G.S. § 143C-6-11 requires the Department to maintain a cash balance equal to at least 7.5% of total appropriations for the current fiscal year.

⁸ <https://www.auditor.nc.gov/documents/reports/performance/per-2021-4200a>.

⁹ The scope period of July 1, 2020 – December 31, 2020 was selected instead of SFY 2020 to allow the Department an opportunity to implement prior audit recommendations.

¹⁰ <https://www.auditor.nc.gov/documents/reports/performance/per-2023-4200>.

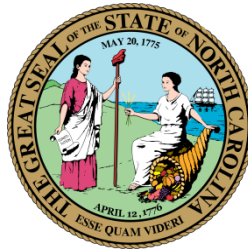
14 Highway Divisions - part of the Division of Highways. Responsible for building and maintaining state roads and bridges in a defined geographic region. Each of the 14 divisions is led by its own division engineer who is responsible for the management and oversight of the division.

Department of Transportation Highway Divisions by County						
Division 1	Division 2	Division 3	Division 4	Division 5	Division 6	Division 7
Northampton Hertford Gates Bertie Martin Washington Tyrell Dare Hyde Chowan Currituck Camden Pasquotank Perquimans	Beaufort Pitt Greene Lenoir Craven Jones Pamlico Carteret	Sampson Duplin Onslow Pender New Hanover Brunswick	Halifax Nash Edgecombe Wilson Johnston Wayne	Person Durham Wake Franklin Granville Vance Warren	Harnett Cumberland Bladen Roberson Columbus	Rockingham Guilford Alamance Orange Caswell
Division 8	Division 9	Division 10	Division 11	Division 12	Division 13	Division 14
Randolph Chatham Lee Moore Montgomery Richmond Scotland Hoke	Stokes Forsyth Davie Davidson Rowan	Mecklenburg Cabarrus Stanly Union Anson	Avery Watauga Ashe Allegany Surry Yadkin Wilkes Caldwell	Alexander Iredell Catawba Lincoln Gaston Cleveland	Madison Buncombe Yancey Mitchell McDowell Burke Rutherford	Cherokee Clay Graham Swain Jackson Haywood Transylvania Henderson Polk Macon

Chief Engineer - oversees and directs the engineering and program activities of the Department's 14 highway divisions, Transportation Safety & Mobility Division, the Central Units and the Technical Services Division. Reports to the Chief Operating Officer.

Key terms discussed in this report include:

Department's Spending Plan - This is the total dollars "**intended**" to be spent by the Department. The "Spending Plan" is comprised of **current year appropriations** in the Department's Certified Budget, **cash not spent in prior years**, and **bond proceeds** from planned sales of Build NC Bonds or GARVEE bonds.



Objectives, Scope, and Methodology

The objectives of this audit were to determine whether the Department of Transportation (Department):

- 1) Complied with its Spending Plan for state fiscal year (SFY) 2023.
- 2) Developed the SFY 2023 Spending Plan based on specific projects and operations.
- 3) Monitored and enforced highway division compliance with the SFY 2023 Spending Plan.

The audit scope included the period of July 1, 2022, through June 30, 2023.

As directed by Session Law 2020-91, the audit scope included budget adherence (**See Note A**) by Department, division, and highway division;¹¹ timeliness of federal reimbursement requests and response to federal inquiries (**See Note B**); controls and oversight of divisions and highway divisions related to cash management, project coordination and delivery,¹² and budget adherence; efficacy of communication and coordination; and efficacy of cash management by the Department.

To determine whether the Department complied with its Spending Plan for SFY 2023, auditors:

- Inspected the Department's SFY 2023 Spending Plan Forecast vs. Actual.
- Reconciled total actual (1) revenue, (2) expenses, and (3) cash balances from Spending Plan Forecast vs. Actual to the Department's internal financial statements prepared by the Financial Management Division using the financial accounting system.

To determine whether the Department developed the Spending Plan based on specific projects and operations and monitored and enforced the Spending Plan, auditors:

- Interviewed Department personnel.
- Reviewed Department policies and procedures for the development and monitoring of the Spending Plan.
- Reviewed state and federal transportation laws relevant to highway construction and cash management.
- Reviewed financial information, including revenue and expenditure forecasting documentation.
- Reviewed Department communications, including reports, memos, monitoring dashboards, and emails.
- Reviewed Department organizational charts and employment information.

¹¹ Refers to the Department's Division of Highways, which consists of 14 regional offices and a central office.

¹² Project expenditures make up a significant portion of the Department's expenditures. As such, this audit's scope included project coordination and delivery as it relates to the development, monitoring, and enforcement of the Department's Spending Plan. A detailed analysis of the activities and procedures of the coordination and delivery of Department's highway construction projects was **not included** in the scope of this audit.

Whenever sampling was used, auditors applied a non-statistical approach. Therefore, test results could not be projected to the population. This approach was determined to adequately support audit conclusions.

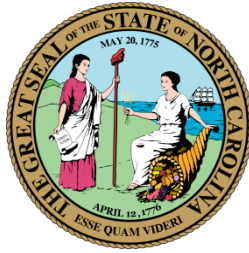
Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in internal controls significant to our audit objectives. As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide 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.

Notes:

- A.** When evaluating budget adherence, auditors determined that the Department complied with the legislative oversight requirements. See Appendix B.
- B.** When evaluating timeliness of federal reimbursement requests and response to federal inquiries, auditors determined that the Department submitted weekly reimbursement requests and requested the maximum allowable reimbursement each year.

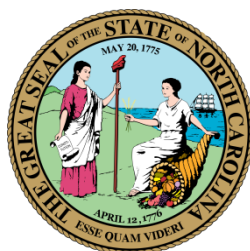


Results and Conclusions

The Department did not exceed its **developed** Spending Plan for state fiscal year (SFY) 2023. The Department planned to spend approximately \$7.88 billion and spent \$7.37 billion (see Finding 1 on page 6).

The Department **developed** the SFY 2023 Spending Plan based on specific projects and operations (see Finding 2 on page 7).

The Department formally monitored and enforced each highway division's compliance with the **developed** Spending Plan (see Finding 3 on page 8).



Findings

1. Department Did Not Exceed Spending Plan for State Fiscal Year 2023

The Department of Transportation (Department) did not exceed its **developed** Spending Plan for state fiscal year (SFY) 2023.

The Department planned to spend approximately \$7.88 billion and spent \$7.37 billion.

**Department of Transportation Spending vs. Forecast
State Fiscal Year 2023 (July 2022 – June 2023)**

Expenditure Category	In Millions			
	Spending Forecast	Actual Spending	Amount Overspent/ (Underspent)	% Amount Overspent/ (Underspent)
Construction ¹³	\$4,180	\$3,930	\$(250) ¹⁴	(6.0) %
Operations & Maintenance ¹⁵	\$2,499	\$2,341	\$(158) ¹⁶	(6.3) %
Other Modes ¹⁷	\$532	\$476	\$(56)	(10.5) %
Other ¹⁸	\$671	\$621	\$(50)	(7.5) %
Total:	\$7,882	\$7,368	\$(514)	(6.5) %

Source: Department SFY 2023 Spend Plan Forecast (as amended)¹⁹ and auditor analysis. **Analysis did not include determining whether expenses were properly categorized.**

The Department's cash balance was \$2.4 billion as of June 30, 2023.

¹³ Construction expenditures include larger capital projects (over \$10 million) that require four to five years to complete, Build NC Bond expenditures, Grant Anticipation Revenue Vehicle (GARVEE) bond expenditures, State Transportation Improvement Projects (STIP), and Right-of-Way (ROW) expenditures.

¹⁴ In SFY 2023, labor shortages and supply-chain issues resulted in the majority of the underspending for the construction expenditure category.

¹⁵ Operations and maintenance expenditures include other construction, contract resurfacing, pavement preservation, bridge program, bridge preservation, roadside environmental, general maintenance reserve, and disaster funding.

¹⁶ In SFY 2023, labor shortages and supply-chain issues resulted in the majority of the underspending for the operations and maintenance expenditure category.

¹⁷ Other modes expenditures include public transportation, ferry, railroads, and airports.

¹⁸ Other expenditures category includes administration, transfers, state aid to municipalities, debt service, and other miscellaneous expenditures.

¹⁹ The Department's SFY 2023 Spending Plan was amended twice during SFY 2023. See Appendix B for more details on amendments per Session Law 2020-91, Section 5.4.

2. Department Developed the State Fiscal Year 2023 Spending Plan Based on Specific Projects and Operations

The Department of Transportation's (Department) state fiscal year 2023 Spending Plan was developed based on specific projects and operations scheduled for the state fiscal year (SFY). Specifically, the Department's SFY 2023 spending estimates for construction²⁰ and operations and maintenance²¹ were based on specific projects and operations and/or were developed using statistical modeling.

Construction

The Department estimated SFY 2023 spending for construction based on specific projects planned for the year and using statistical modeling.

Spending estimates for Grant Anticipation Revenue Vehicle (GARVEE) bond expenditures, Build NC bond expenditures, State Transportation Improvement Plan (STIP) Construction, and US DOT Discretionary Grant expenditures were developed using a statistical modeling tool that was developed with the SAS Institute.²² The statistical modeling tool used data from the Department's construction and financial accounting systems to create project-level forecasts for projects planned for the fiscal year.

Auditors reviewed the spending estimates for the above program areas and found that the estimates agreed to the SAS forecasts.

Spending estimates for State Transportation Improvement Plan (STIP) Preconstruction and Holdouts expenditures were developed using planned project expenditures, labor costs, and purchase order contracts.

Auditors reviewed the spending estimates for STIP Preconstruction and Holdouts²³ and found that the estimates were developed using specific projects scheduled for the year, employee staffing planned for the year, and historical expenditures.

For SFY 2023, the Department planned to spend \$4.18 billion and spent \$3.93 billion, an underspend of \$250 million (6.0%).

Operations and Maintenance

The Department estimated SFY 2023 spending for operations and maintenance based on actual planned maintenance projects for the year and using statistical modeling.

Spending estimates for Contract Resurfacing and Bridge Program were developed using a statistical modeling tool that was developed with the SAS Institute. The statistical

²⁰ Construction expenditures include larger capital projects (over \$10 million) that require four to five years to complete, Build NC Bond expenditures, Grant Anticipation Revenue Vehicle (GARVEE) bond expenditures, State Transportation Improvement Projects (STIP), and Right-of-Way (ROW) expenditures.

²¹ Operations and maintenance expenditures include other construction, contract resurfacing, pavement preservation, bridge program, bridge preservation, roadside environmental, general maintenance reserve, and disaster funding.

²² The SAS Institute is a third-party statistical analysis firm that is assisting the Department revamp its forecasting processes.

²³ Includes preliminary engineering, Right-of-Way, utility, and other expenditures for pre-construction activities.

modeling tool used data from the Department's construction and financial accounting systems to create project-level forecasts for projects planned for the fiscal year.

Auditors reviewed the spending estimates for the above program areas and found that the estimates agreed to the SAS forecasts.

Spending estimates for Mobility/Modernization and General Maintenance Reserve²⁴ programs were based on specific known or predicted projects and operations for each highway division and historical expenditures.

Auditors reviewed the spending estimates for the above program areas and found that the estimates were developed using specific projects for all 14 highway divisions and historical expenditures.

In SFY 2023, the Department planned to spend \$2.5 billion for operations and maintenance and spent \$2.34 billion, an underspend of \$158 million (6.3%).

3. Department Monitored and Enforced the State Fiscal Year 2023 Spending Plan

The Department formally **monitored and enforced** each highway division's spending against the Department's Spending Plan,²⁵ on a regular basis, throughout the state fiscal year to ensure highway divisions did not overspend.

Specifically, the Department maintained:

- Procedures to ensure that the Spending Plan dashboards are accurate and updated timely.
- Monitoring and enforcement activities that were consistent among all 14 highway divisions.²⁶

Monitoring Dashboards Were Accurate and Updated Timely

The Department's 'Cash Spend Plan' dashboards are accurate and updated timely.

The Department's 'Cash Spend Plan' dashboard was created as a tool for the Chief Engineer's Office, highway divisions, and oversight bodies²⁷ to monitor forecasted versus actual spending. The 'Cash Spend Plan' dashboard is used to generate various other dashboards that assist with monitoring, including the 'Highway Maintenance Spend Plan' dashboard.

To ensure that the dashboards are accurate and updated timely, the Department's Funds Administration Section reconciles the dashboards to the Department's internal financial statements monthly.

²⁴ General Maintenance Reserve, while project based, did have reserves (not project based) for unexpected events.

²⁵ State law required the Department to establish uniform and consistent monitoring practices. Session Law 2020-91, Sections 5.6.(a) and 5.6.(b), required the Department to develop and establish uniform (1) financial management structure, (2) report formats, and (3) policies and procedures.

²⁶ Includes implementation of uniform (1) financial management structure, (2) report formats, and (3) policies and procedures as required by Session Law 2020-91, Sections 5.6.(a) and 5.6.(b).

²⁷ Oversight bodies include the Department's Board of Transportation and Financial Planning Committee as well as the Office of State Budget and Management.

Auditors reviewed the 'Cash Spend Plan' dashboard and the monthly reconciliations performed by the Funds Administration Section during SFY 2023 and found that all months were completed. Auditors tested five of the monthly reconciliations and found that the dashboards agreed to the Department's internal financial statements for each month. Therefore, auditors determined that the dashboards were accurate and updated monthly.

Highway Division Monitoring and Enforcement Was Consistent

As required by state law,²⁸ the Department maintained policies and procedures to ensure that highway divisions monitored spending consistently and on a regular basis. Specifically, across all 14 highway divisions, the Department maintained uniform (1) highway division financial management structure and (2) monitoring and enforcement reports and activities.

Financial Management Structure

The Department has seven Regional Accountant positions that are each assigned two highway divisions. Each Regional Accountant is responsible for managing and monitoring their assigned highway division spending for operations, maintenance, and construction.

During SFY 2023, the Regional Accountants reported to the Highway Operations Business Manager and Director of Highway Operations in the Chief Engineer's Office.²⁹

Auditors verified that all seven Regional Accountant positions existed on the Department's organization chart. Additionally, auditors verified that all positions were filled during SFY 2023.³⁰

Monitoring and Enforcement Activities

The Department uniformly performed activities to manage, monitor, and enforce highway division spending. Specifically,

Bi-Weekly Monitoring - Each highway division conducted bi-weekly monitoring reviews of Spending Plan maintenance expenditure activities.³¹

Bi-weekly monitoring reviews were conducted by the Regional Accountants using Bi-Weekly Reports generated from the Department's 'Highway Maintenance Spend Plan' dashboard.³²

The Bi-Weekly Reports presented the annual spending target, the expenditures to-date, percentage of spending target spent to-date, and the remaining amount available. The Regional Accountants monitored spending targets and actual expenditures for all maintenance categories for each division. Variances between planned and actual spending

²⁸ Session Law 2020-91, Sections 5.6.(a) and 5.6.(b).

²⁹ The Department filled the Business Manager position in the Chief Engineer's Office on April 1, 2023 by hiring a current Regional Accountant. This Regional Accountant performed duties for both positions for the remaining SFY 2023.

³⁰ The Regional Accountant for divisions 5 & 6 was promoted to the Business Manager position on April 1, 2023. The Business Manager performed the duties for both positions during the remainder of the SFY 2023. The Regional Accountant position for divisions 5 & 6 was filled after SFY 2023.

³¹ Maintenance expenditures include other construction, general maintenance reserve, contract resurfacing, roadside environmental, pavement preservation, bridge program, bridge preservation, and disasters.

³² Generated from the 'Cash Spend Plan' dashboard created to monitor forecasted versus actual spending for maintenance expenditures.

were communicated to each division's Division Engineer, Construction Engineer, and Maintenance Engineer bi-weekly.

Auditors reviewed 28 out of 364 (8%)³³ Bi-Weekly Reports and related communication materials and verified the monitoring was implemented, uniform, and consistent throughout the year.

Quarterly Monitoring - The Department also performed quarterly variance reviews of planned and actual maintenance expenditure activities for all 14 highway divisions and the statewide division.³⁴

Quarterly variance reviews were conducted by the Regional Accountants, the Director of Highway Operations, and the Chief Engineer or Deputy Chief Engineer using the Quarterly Variance Review Spreadsheet. The Quarterly Variance Review Spreadsheet is prepared using information from the Bi-Weekly Monitoring reviews and inquiries with the Regional Accountants.

The Quarterly Variance Review Spreadsheet presented the highway division, applicable maintenance category, cumulative spending target to-date (based on quarter being monitored), cumulative expenditures to-date, annual spending target, and variance amounts and percentages.

During the quarterly variance review, cumulative spending and planned spending is reviewed for each maintenance category to determine whether it is within established quarterly variance thresholds.³⁵ If variances that exceed thresholds are noted during the quarterly variance reviews, the Chief Engineer or Deputy Chief Engineer, Director of Highway Operations, Highway Operations Staff Engineer, Highway Operations Business Systems Analyst, and the Highway Operations Business Manager discuss and document the cause of the variance and the planned corrective actions, including the anticipated month to be back within target. Potential actions included:

- Reallocation adjustments within the division Spending Plan allocations.
- Suspending the start of new projects.
- Halting spending on projects currently in progress.
- Proposing Spending Plan amendments.³⁶

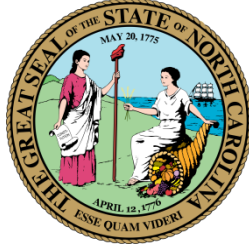
Auditors reviewed the December 2022, March 2023, and June 2023 Quarterly Variance Review Spreadsheets and verified the monitoring was implemented, uniform, and consistent for all 14 highway divisions and the statewide division.

³³ A Bi-Weekly report for monitoring activities is reviewed for each of the 14 highway divisions throughout the year. Auditors selected two Bi-Weekly Reports for each of the 14 highway divisions, one from the first half and one from the second half of SFY 2023.

³⁴ The Statewide Division is used to record statewide maintenance funded expenditures, such as state park maintenance, historical markers, beaver control, etc.

³⁵ Management has established quarterly variance thresholds for each maintenance category. The thresholds range from 5% to 20% depending on the quarter and expenditure category.

³⁶ Spending Plan amendments require approval from the Financial Planning Committee, Office of State Budget and Management, and the Board of Transportation.



Appendices

Appendix A

Auditors reviewed the variances between maintenance spending allocations and actual expenditures for each division to determine whether divisions were within the applicable threshold at year-end. Auditors verified that divisions outside the threshold were addressed during the June 2023 quarterly review.

Highway Division Maintenance Spending vs. Allocation State Fiscal Year 2023 (July 2022 – June 2023)

	In Millions			
Division	Maintenance - Spending Allocation	Maintenance - Actual Spending	Amount Overspent/ (Underspent)	% Amount Overspent/ (Underspent)
1	\$97	\$83	\$(14)	(14.4) %
2	\$105	\$104	\$(1)	(0.9) %
3	\$112	\$108	\$(4)	(3.6) %
4	\$130	\$132	\$2	1.5 %
5	\$169	\$156	\$(13)	(7.7) %
6	\$106	\$98	\$(8)	7.5 %
7	\$141	\$141	\$0	0.0 %
8	\$123	\$100	\$(23)	(18.7) %
9	\$94	\$84	\$(10)	(10.6) %
10	\$113	\$109	\$(4)	(3.5) %
11	\$133	\$125	\$(8)	(6.0) %
12	\$116	\$102	\$(14)	(12.1) %
13	\$111	\$97	\$(14)	(12.6) %
14	\$143	\$113	\$(30)	(21.0) %
19 ³⁷	\$317	\$327	\$(10)	(3.2) %

Source: Department SFY 2023 Highway Maintenance Spend Plan Dashboard³⁸ and auditor analysis.

³⁷ Division 19 is the Statewide Division used to record statewide maintenance funded expenditures.

³⁸ Maintenance expenditures included in the quarterly variance monitoring at the divisions includes general maintenance reserve, contract resurfacing, roadside environmental, pavement preservation, bridge program, bridge preservation, and disasters.

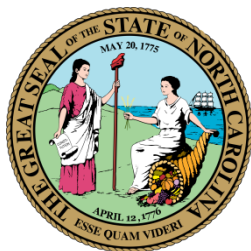
Appendix B

**Legislative Oversight for the Department's Spending Plan
Session Law 2020-91**

Legislative Reference	Requirement	Status
Section 4.1.(d)	Beginning with the 2021-2022 fiscal year, the Department, in collaboration with the Office of State Budget and Management, shall develop a five-year revenue forecast. The five-year revenue forecast will be used (1) to develop the five-year cash flow estimates included in the biennial budgets, (2) to develop the Strategic Transportation Improvement Program, and (3) by the Department of State Treasurer to compute transportation debt capacity.	The Department's five-year revenue forecast was prepared in collaboration with the Office of State Budget and Management.
Section 5.1.(a)	<p>Increased the Board of Transportation's powers and duties related to oversight of the Department's Spending Plan. Legislation required the Board of Transportation to:</p> <ul style="list-style-type: none"> • Expand to 20 voting members. • Ensure the solvency of the State Highway Funds. • Develop accountability and performance metrics and hold the Department accountable to those metrics. • To review and act on the Department's Spending Plan. • To ensure the Department is operating within the approved Spending Plan. 	<p>For state fiscal year (SFY) 2023, the Board of Transportation:</p> <ul style="list-style-type: none"> • Had 20 board members. • Approved the annual Spending Plan and any amendments. • Reviewed budget-to-actual financial reports at least monthly. • Discussed the Department's financial condition during monthly Board of Transportation meetings. • Worked with the Department's General Counsel to confirm that it followed Session Law 2020-91 requirements. <p>The Board of Transportation's Chairman is a member of the Department's Financial Planning Committee and attends committee meetings.</p>
Section 5.2.(a)	Required the Department to maintain an available cash balance at the end of each month equal to at least 7.5% of the total appropriations for the current fiscal year from the Highway Fund and Highway Trust Fund.	The Department's cash balance exceeded the required minimum cash balance every month during SFY 2023.
Section 5.3.(a)	Required the Department to prepare new monthly and annual financial reports created in consultation with the Office of State Budget and Management and deliver to the Board of Transportation and the Legislature's Joint Legislative Transportation Oversight Committee and Fiscal Research Division.	The Department has prepared and provided monthly financial statement reports that contain all information required by Section 5.3.(a) during SFY 2023.
Section 5.4	Required the Department's Spending Plan to be approved by the Board of Transportation, Transportation Oversight Manager at the Office of State Budget and Management, and the State Budget Director.	<p>The Department's SFY 2023 Spending Plan had the following amendments during SFY 2023:</p> <p>Amendment #1 was approved in August 2022 to incorporate adjustments for the new Sales Tax Revenue and Time-Limited Cost Escalation Adjustment legislation.</p>

Legislative Reference	Requirement	Status
Section 5.4 (Continued)	Required modifications to or expenditures outside of the Department's Spending Plan to be approved by the Board of Transportation, Transportation Oversight Manager at the Office of State Budget and Management, and the State Budget Director.	Amendment #2 was approved in October 2022 to incorporate remaining adjustments for passage of the State's budget. Auditors verified that both amendments were reviewed and approved by the Board of Transportation and the Office of State Budget and Management.
Section 5.5.(a)	Created the Transportation Oversight Manager position at the Office of State Budget and Management for the purpose of: <ul style="list-style-type: none"> Monitoring and assisting the Department develop its Spending Plan. Monitoring the Department's finances. Collaborating on assessing the Department's financial risks. Making revenue and cash projections Ensuring the Department's budget is executed consistent with the State Budget Act. 	The position was initially filled as of January 25, 2021, and was filled during SFY 2023.
Section 5.6.(a) - (b)	Required the Department to develop and establish uniform financial management personnel structure in all Highway Divisions. Additionally, the Department is required to develop and establish uniform report formats and policies and procedures that calculate spending and track cash management.	The Department has established uniform personnel structure and uniform, consistent reporting formats and policies.
Section 5.7	Created Financial Analyst position at the Department of State Treasurer for the purpose of: <ul style="list-style-type: none"> Reviewing and monitoring the Department's bond program and activities that use bond proceeds. Monitoring spending and approval of projects using bond proceeds. Reviewing compliance for repayment and debt service. 	The position was initially filled as of April 5, 2021, and was filled during SFY 2023.
Section 5.8.(a)	Required the Department and Transportation Oversight Manager to develop and implement forecasting methodology, best practices, and accuracy standards for forecasting of spending.	The Department initially developed forecasting methodology and presented it to the Board of Transportation and General Assembly on December 31, 2020. During SFY 2023, the Department has continued to implement and adjust forecasting methodology. Note: The methodology was not developed with the Transportation Oversight Manager as the position was not filled until January 25, 2021. See above.

Source: Requirements from Session Law 2020-91. Status identified through auditor analysis.



Response From Department of Transportation



STATE OF NORTH CAROLINA
DEPARTMENT OF TRANSPORTATION

ROY COOPER
GOVERNOR

J.R. "JOEY" HOPKINS
SECRETARY

January 10, 2024

The Honorable Jessica N. Holmes, State Auditor
Office of the State Auditor
20601 Mail Service Center
Raleigh, NC 27699

I am in receipt of the draft report on the SFY 2023 Cash Spending Plan performance audit required by Session Law 2020-91, section 5.9.(a) and agree with your findings that the Department did not exceed the plan, that the plan was based on specific projects and operations, and that we formally monitored and enforced each Highway Division's compliance with the plan.

We will continue to improve spend plan development and execution to ensure plan compliance and optimal performance in the future.

I appreciate the engagement staff's hard work and professionalism and believe the positive outcome of this audit is based in part to their guidance and direction during the development of the spend plan process. Please feel free to let me know if you have any questions.

Sincerely,

DocuSigned by:
J. R. Hopkins
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J.R. Hopkins
Secretary of Transportation

Ordering Information

Copies of this report may be obtained by contacting:

Office of the State Auditor
State of North Carolina
20601 Mail Service Center
Raleigh, North Carolina 27699

Telephone: 919-807-7500
Facsimile: 919-807-7647
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Internet: <https://www.auditor.nc.gov/about-us/state-auditors-tipline>

For additional information contact the
North Carolina Office of the State Auditor at:
919-807-7666



This audit required 780 hours of auditor effort at an approximate cost of \$106,080.