

Audit: NCDOT overspent hundreds of millions because of poor budgeting and oversight

The News and Observer By Richard Stradling May 05, 2020

RALEIGH – The N.C. Department of Transportation spent \$742 million more than it expected to in the year that ended last June 30 because of poor budgeting and oversight within the department, according to the state auditor's office.

NCDOT planned to spend \$5.94 billion that year, but exceeded that amount by 12.5%, according to a [report released Tuesday by the Office of the State Auditor](#). As a result, the department was forced to delay payments to contractors, put hundreds of projects on hold and obtain a \$220 million bailout from the General Assembly.

NCDOT officials have blamed their financial problems on two main causes: unexpected repairs and cleanup after storms, including hurricanes Matthew in 2016 and Florence in 2018, and the costs of settling lawsuits related to a state law called the Map Act, which was found to be unconstitutional. As of last week, [those settlements amounted to \\$600 million](#).

But the auditor's office says NCDOT's overspending in fiscal year 2019 had other causes. It says the department's spending plan was not based on cost estimates for specific projects and operations scheduled for the year and that the Office of the Chief Engineer didn't monitor spending or enforce compliance with the plan.

Too often NCDOT based its spending projections on what it had spent in the past, according to the audit. For example, it says, the department spent \$194 million more on pre-construction engineering than expected because it based its forecasts "entirely on prior-year spending," and then didn't adjust when additional projects arose throughout the year.

NCDOT followed the same approach when it planned for cleanups and repairs after storms and other disasters, the audit says. The department budgeted \$50 million for disasters in fiscal year 2019, as it had the previous four years, even though it had spent \$335 million more than expected during those years.

Hurricane Florence caused extensive flooding in Eastern North Carolina in fiscal year 2019, contributing to \$296 million in NCDOT cleanup and repair costs that year, nearly six times the budgeted amount.

The audit says NCDOT was "hesitant to plan more spending in disaster areas because it did not know whether there would be disasters in any given year. If disasters did not occur, then the money set aside for disasters would not be available for other priorities. Yet when disasters occurred, the department did not adjust its operations and maintenance forecasted amount and continued to overspend."

NCDOT AGREES WITH AUDIT

In a written response, NCDOT said it agreed with the audit's findings and recommendations. It says spending forecasts should be based on specific projects and operations for the coming year and that the chief engineer's office should monitor spending at each of the department's 14 highway division offices and make cuts or delay contracts when overspending occurs.

NCDOT said nearly all of the audit's recommendations were put in place last year. For example, it said the 14 division offices are now providing quarterly spending reports that are reflected in a "spend plan dashboard" that shows how actual spending compares with forecasts.

In addition, it says the division offices are now given money for operations and maintenance every six months, rather than annually, allowing the chief engineer's office to adjust spending in the second half of the year based on available revenue and updated forecasts.

The audit was ordered by the General Assembly last fall as part of a bill that [provided financial help to NCDOT](#) along with new reporting requirements meant to make spending more transparent. The conclusions are similar to a study commissioned by the State Office of Budget and Management last year that [faulted the department for lack of financial oversight](#) that resulted in overspending at each of its 14 divisions.

The problems highlighted by the audit made NCDOT more vulnerable to the sharp drop in tax revenue caused by the coronavirus outbreak. The department expects to receive [\\$300 million less in revenue](#) from fees and sales taxes on fuel and cars in March, April and May alone.

State law requires NCDOT have at least 7.5% of its annual budget on hand at any given time. The audit says that as a result of its overspending, NCDOT was in danger of “falling below that statutory cash floor” in fiscal year 2019. When that happens, the department cannot enter new contracts for supplies and equipment or begin new highway projects.

Last week, [it actually happened](#). With revenue plunging, NCDOT ended April with less than \$272 million on hand, below the required minimum of \$293 million. It has laid off more than 350 temporary and contract workers, delayed the start of dozens of major construction projects and is looking at other options, including furloughing employees, to save money.