

EXECUTIVE SUMMARY

DEPARTMENT OF TRANSPORTATION HIGHWAY PLANNING AND REAL PROPERTY MANAGEMENT

Purpose

The purpose of this audit was to assess the Department of Transportation's (NDOT's) procedures for developing short- and long-term plans for capacity projects¹ and pavement preservation projects,² including the selection, prioritization, and funding of projects. We also assessed the Department's procedures for acquiring, managing, and disposing of real property. Our audit included a review of planning and real property activities for calendar years 1999 through 2001.

Results in Brief

The Department's short- and long-term transportation planning efforts need to be improved. Important aspects of the process are unclear, and poorly documented. For instance, capacity projects included in NDOT's short-term plans were not fully evaluated for need in accordance with Department procedures. Also, decisions about project prioritization were made without explicitly using criteria or data. Furthermore, NDOT has performed little long-term financial planning concerning its needs and resources. As a result, decision-makers³ do not have complete information to make informed decisions about the state's transportation system and stakeholders do not have the information to fully participate in the process. Better documentation would also make the process more open and transparent. This would enhance accountability and provide reasonable assurance

¹ Capacity projects include constructing a new roadway or interchange, as well as adding lanes to an existing roadway.

² Pavement preservation projects include major maintenance work such as reconstruction or overlaying a roadway.

³ Decision-makers include legislators and State Board of Transportation members.

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that federal and state transportation funds are spent on capacity projects that are most needed.

NDOT acquires, manages, and disposes of millions of dollars of real property each year. However, NDOT does not have an efficient way to identify the property it owns and determine whether the property is no longer needed by the Department. In addition, NDOT did not have documentation that it performed all aspects of its processes for acquiring, managing, and disposing of properties. This was caused, in part, because records can be filed in a number of areas resulting in property management files missing pertinent information. As such, information to support NDOT's compliance with laws, regulations, and policies was not always available.

Principal Findings

- None of the 30 capacity projects we selected from the last 3 years' plans were fully evaluated in accordance with Department procedures. The estimated cost for these 30 projects is nearly \$1.7 billion. Documenting its evaluations of capacity projects would help provide assurance the Department selects the most beneficial projects. (page 17)
- The Department's process for determining which capacity projects will be included in its proposed short-term plans is unclear. This prioritization process involves deciding which projects to fund over the next 3 years, the year to fund the project, and the project's funding source. Our audit found the Department lacked documentation on how it prioritized capacity projects. Therefore, the Department could not demonstrate the extent to which it considered specific criteria or data, such as safety, user benefits, and congestion relief to prioritize projects. A more transparent process would enhance accountability

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and promote better understanding by local officials and the public. (page 21)

- Although generally familiar with the Statewide Transportation Improvement Program (STIP) process, stakeholders⁴ involved in statewide highway planning do not fully understand NDOT's process for prioritizing capacity projects. Based on our interviews, NDOT's process for prioritizing projects is unclear to metropolitan planning organization (MPO) officials. Moreover, our written survey of officials in the 15 rural counties expressed similar concerns. Eight of 10 counties responding to the survey indicated they do not understand how decisions about the Department's short-term plans are made and 7 of 10 do not understand the criteria used. (page 23)
- In contrast to capacity projects, NDOT prioritizes preservation projects based on a well documented process using criteria such as pavement condition, safety data, and traffic volume. NDOT's process allows it to quantify the backlog of repairs, identify preservation project priorities, and identify funds needed in the long-term to maintain state highways. (page 25)
- NDOT does not have documentation, including written policies and procedures for deciding how to allocate federal and state funds among categories. The Department categorizes projects into three broad categories: capacity, preservation, and other. The lack of documentation makes it more difficult for the Department to explain and justify its allocation decisions. (page 26)
- NDOT's long-term planning documents project revenues and expenditures over a limited time and do not discuss strategies for addressing potential funding

⁴ Stakeholders include MPO and rural transportation officials.

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shortfalls. In addition, some projects in the Department plans are listed without identifiable funding sources. This can lead to unrealistic expectations by report users. (page 29)

- NDOT could not provide any written policies and procedures related to the issuance of bonds to fund highway projects. The Department issued \$100 million of bonds in November 2000, and plans to issue another \$557 million from fiscal years 2002 to 2006. In addition, although NDOT's analysis to decide whether to issue bonds was reasonable, it could have been improved by (1) analyzing the tradeoffs of borrowing to fund projects, and (2) preparing cash flow projections that covered the entire payback period of the bonds. (page 32)
- NDOT does not have an inventory of land it owns and the status of those properties. NDOT estimates it currently owns over \$350 million of right-of-way, including easements. The lack of an inventory impacts NDOT's ability to manage its properties. NDOT is currently in the process of developing a comprehensive automated inventory system that Department officials believe will improve the efficiency of their operations. (page 36)
- NDOT did not have evidence that excess property determinations were made for the 15 completed projects totaling \$85.1 million we reviewed. The Department defines excess property as property acquired for an NDOT project that is not needed after a project is completed. NDOT management stated the excess property determinations were made but not documented. By not documenting excess property determinations, NDOT cannot be assured that these determinations are being done and cannot easily identify its excess property. (page 37)

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- NDOT generally relies on requests from third parties to identify properties to sell or lease. Of the 25 disposals and 30 leases we examined, about two-thirds of the disposals and over half of the leases were initiated by third parties. Relying on third parties is not the most effective property management method and may not maximize benefits to the State. Some properties have low values and cannot be leased or sold economically; however, NDOT does have other properties of considerable value. For example, two properties recently appraised exceeded \$9 and \$16 million. (page 37)
- Although policies and procedures provide rules for disposing of surplus property, some requirements were not followed. NDOT defines surplus property as property no longer needed for highway purposes. First, 28 surplus property requests required to be submitted to the Surplus Property Committee were not reviewed by the Committee. Second, we found four instances where NDOT lacked appraisals supporting that properties were exchanged for reasonably close values. Inconsistent evaluations, inappropriate disposals, and not receiving fair value for exchanged properties could result from not following established processes. (page 38)
- NDOT has not established effective lease monitoring and collection processes. Several leases expired before they were renewed and not all payments were collected. We found 18 leases had expired before lease renewal notices were sent. Of the 18 expired leases, 12 had been expired for at least 6 months with one agreement being expired for 34 months. Because of the poor monitoring and collecting practices, we identified about \$48,000 in lease payments that went uncollected. (page 40)
- NDOT did not have evidence it always complied with property management laws and Department

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procedures. Many of the 30 leases we examined did not have records to support that one or more of the property management requirements were completed. For example, NDOT lacked evidence it regularly inspected 16 of the properties. The purpose of inspections is to detect damage, vandalism, weed growth, vehicle abandonment, trash dumping, unauthorized uses or change of use. Letting properties get run-down can reduce their value, thus not protecting the public investment. (page 41)

- The Department's inventories of properties it leases are not accurate. We found the inventories had duplications and expired agreements, and did not include all leased properties. Without a complete inventory, agreements may not get renewed, payments may go uncollected, and properties may not be inspected. In addition, management will not have accurate information on the Department's leasing activities. (page 42)
- Although acquisition files were missing some information, for the 70 properties tested nothing came to our attention to indicate these property acquisitions were not completed in accordance with key laws, regulations, and procedures. We tested requirements that NDOT obtain and review appraisals, purchase the property at fair market value or follow administrative settlements, and condemnation procedures. Although NDOT followed established acquisition rules, many factors can delay or increase the time needed to acquire real property. These factors include condemnation court cases, environmental concerns, traffic and budget issues, and other design and technical problems. (page 43)

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Recommendations

This audit report contains 11 recommendations. To improve the development of short- and long-term plans for project selection, prioritization, and funding, the Department should evaluate all capacity projects in accordance with Department procedures. In addition, it needs a written process for determining how capacity projects are placed in short-term plans and should prepare and make available to decision-makers and stakeholders a summary of the Department's prioritization analysis. Further, its process for allocating funds among categories needs to be documented. Moreover, the Department's long-term plan needs to include projected revenues, expenditures for major categories, and alternatives for addressing any funding shortfalls. In addition, debt management policies and procedures should be developed.

To improve the management and disposition of real property, the Department needs to continue developing its real property inventory system, document its excess property determinations, and establish criteria for what to do with its excess property. In addition, it needs to process all requests for surplus property through the Surplus Property Committee and track requests. Finally, records need to be maintained and monitoring processes developed for leasing activities. (page 93)

Agency Response

The agency, in its response to our report, accepted all 11 recommendations. (page 67)