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A Follow-up Audit Report on

The Department of Transportation's Financial Forecasting and Fund Allocation

August 2010
Report No. 10-039



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Overall Conclusion

The Department of Transportation (Department) has fully or substantially implemented 14 (78 percent) of 18 recommendations in *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008). That audit report cited weaknesses related to the Department's processes over (1) managing internal communications and preparing external reports; (2) approving amounts available for construction contract awards; (3) preparing, reviewing, and communicating its cash forecast reports; and (4) communicating the effect on district offices when other district offices accelerate construction projects.

Because its construction projects last for many years, the Department forecasts its cash balances for the current fiscal year and the next 11 fiscal years to ensure that its future expenditures will not exceed its anticipated revenues. The Department uses a cash forecast system to produce reports of projected revenues, expenditures, and cash balances. Those reports are the Department's primary tool for identifying projected cash shortages. The Department avoids projected cash shortages by adjusting contract awards or other expenditures to reach the desired cash level.

Since the 2008 audit, the Department has implemented policies and procedures related to its construction contract award and cash forecast processes, and it has formalized its communication with district offices when construction projects are accelerated. It has also improved transparency by adding monthly workshops to most meetings of the Texas Transportation Commission and by posting briefing documents for Texas Transportation Commission meetings on its Web site.

The Department's new cash forecast system is not yet fully operational. The Department anticipates that the new system will automate several manual

Background Information

The State Auditor's Office issued *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (Report No. 08-045) in August 2008. Of the 18 recommendations in that report:

- 9 have been **fully implemented**. The Department has taken all actions to implement those recommendations.
- 5 have been **substantially implemented**. The Department has taken the majority of actions necessary to implement those recommendations.
- 3 are **incomplete or ongoing**. The Department has taken some action to implement those recommendations, but that action is not sufficient to show substantial progress toward completion.
- 1 is **undetermined**. Auditors could not identify an opportunity for the Department to have demonstrated its implementation of the recommendation.

processes, more efficiently forecast multiple funding sources, and allow adjustments to the cash forecast assumptions and report formats to be made more easily. The Department is developing the new system internally and has revised the implementation date from December 2008 to December 2010.

While the Department has made progress in improving its financial forecast and fund allocation processes, it should make additional improvements in (1) the clarity, quality, and timeliness of reports it provides to external parties and (2) formally documenting and consistently implementing its policies and procedures.

Summary of Management's Response

The Department generally agrees with the recommendations in this report.

Summary of Objectives, Scope, and Methodology

The audit objectives were to:

- Determine the extent to which the Department has implemented recommendations in *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008).
- Determine whether the Department's new cash forecast system for the State Highway Fund (Fund 006) accurately incorporates all relevant revenue, expenditures, and other cash activity to produce a reasonable estimate of cash balances and the results of various cash management scenarios.

The scope of this audit included following up on prior audit recommendations, which covered the Department's actions in implementing the recommendations between September 2008 and April 2010. Additionally, auditors reviewed the Department's progress and current status in implementing its new cash forecast system. Auditors did not review any information technology systems but did observe a demonstration of portions of the new cash forecast system.

The audit methodology included collecting and reviewing documentation; conducting interviews with staff at the Department, staff at the Legislative Budget Board, and legislators and their staff; performing selected tests and procedures; and examining policies and procedures.

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Detailed Results

Chapter 1

The Department Has Fully or Substantially Implemented Five of Seven Prior Audit Recommendations Related to Its Cash Forecast Processes

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

The Department's Cash Forecast

The cash forecast is the Department's primary tool for identifying and avoiding cash shortages. The Department prepares monthly cash forecasts for multiple funding sources, including the State Highway Fund, the Texas Mobility Fund, Proposition 12 bond proceeds, Proposition 14 bond proceeds, and American Recovery and Reinvestment Act funds. One of the Department's primary methods of managing cash flow is to adjust projected construction contract awards, although other expenditures may also be adjusted.

The cash forecast relies on historical information, current statutes and appropriations, economic forecasts, and other relevant data to project future revenues and anticipated expenditures. By starting with the current cash balance, adding the net anticipated revenues, and subtracting the net anticipated expenditures, the Department can identify when cash balances will reach minimum levels or go into deficit. Department management can then decide how to adjust contract awards or other expenditures to reach the desired cash level.

The Department of Transportation (Department) has fully or substantially implemented 5 (71 percent) of the 7 prior audit recommendations related to its cash forecast processes in the August 2008 audit report.¹ The implementation of the remaining two audit recommendations related to the cash forecast processes is incomplete/ongoing and involves updating the *Cash Forecast System Manual* and changing the categorization of expenditures reported in the cash forecasts.

The Department has not yet implemented its new cash forecast system (see text box for more details about the Department's cash forecast). Department staff are developing this system, and the Department projects it will implement the new system in December 2010. The Department originally expected to implement the new system in December 2008. The Department asserted that the delay in implementation is primarily due to reduced staff availability and the increased functionality required of the new system. Specifically:

- A single Finance Division programmer was assigned to develop the new cash forecast system. That programmer was temporarily reassigned for a few months in 2009 to assist with the separation of the newly established Department of Motor Vehicles' automated applications from the Department's automated applications.
- The Finance Division's Cash Forecasting Section, which had been working with the programmer to identify system needs and perform testing, experienced some staff turnover during 2009.
- The original plan for the new cash forecast system was to convert the existing system and automate the existing manual processes, creating a system that would more

¹ *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008).

efficiently forecast multiple funding sources. However, the Department indicated that, as the development of the new system progressed, additional features that were not previously anticipated were included in the system's design. Those additional features increased the complexity of the system and lengthened the time line for its development.

Table 1 presents the Department's status in implementing prior audit recommendations related to its cash forecast processes.

Table 1

Status of Implementation of Prior Audit Recommendations Related to the Department's Cash Forecast Processes			
No.	Recommendation	Implementation Status	Auditor Comments
1	The Department should include a summary of important information in its cash forecast report, and include in that report recommended actions and a clear description of what-if scenarios. For example, an executive summary section could explain the assumptions involved in the base scenario; the recommended schedule for contract awards and the impact on cash balance; changes in assumptions and scheduled contract awards; and scenario criteria and the impact if a scenario is accepted, rejected, or altered.	Fully Implemented	The Department has updated its cash forecast report to include an executive summary of information presented in the report. This executive summary includes an explanation of the assumptions used, the impact of the contract award schedule and of various scenarios on cash balances, and changes from the previous month's report.
2	The Department should modify its reports and coordinate with the Legislative Budget Board to ensure that any required reports meet the needs of legislative oversight entities. The Department submits reports in response to the requirements of two riders: <ul style="list-style-type: none"> Rider 20(b), page VII-24, the General Appropriations Act (80th Legislature). Until the reports required by this rider are changed by subsequent legislative sessions or waived in writing by the Legislative Budget Board, they should include the following elements: (1) a revenue report, (2) a variance report for State Highway Fund 006 describing reasons for the fluctuation, and (3) expenditure information at the same level as appropriations. This may be accomplished by modifying the current report (cash forecast report) or through coordination with the Legislative Budget Board to develop a new budget and expenditure monitoring tool. 	Incomplete/Ongoing	The Department has prepared a template to report expenditures at the same level as appropriations in the cash forecast report. However, the Department's development and implementation of a methodology to report expenditures in this format is still in progress. The existing cash forecast reports include a revenue report and variance analysis, as required by the rider. It should be noted that this information is now required by Rider 19(b), page VII-28, the General Appropriations Act (81st Legislature). The other rider referenced in the prior audit recommendation is discussed in Chapter 2 at recommendation 3.

**Status of Implementation of Prior Audit Recommendations
Related to the Department's Cash Forecast Processes**

No.	Recommendation	Implementation Status	Auditor Comments
3	<p>The Department should develop and implement policies and procedures for its cash forecasting process. To accomplish this, the Department should consider comparing its cash forecasting processes to the Texas Transportation Institute's <i>Cash Forecast System Manual</i>, updating the manual accordingly, and finalizing and implementing the manual as policy. The final product should contain sufficient detail to be useful as a continuity guide for budget analysts and others involved in the cash forecast process. It also should address additional fund sources, such as Proposition 14 bond proceeds, Texas Mobility Fund bond proceeds, and other funding sources that may be granted. The final product should clearly communicate amounts available for funding contract awards.</p>	Incomplete/Ongoing	<p>The Department's current <i>Cash Forecast System Manual</i> is dated June 2005, and it has not been updated since the previous audit. However, the Department is working with the Texas Transportation Institute to write a new manual describing the procedures needed to produce cash forecasts using the Department's new cash forecast system.</p>
4	<p>The Department should develop and implement a process to review manual entries into its cash forecast system that have a significant effect on forecast outcomes. At a minimum, the review should include:</p> <ul style="list-style-type: none"> ▪ Testing inputs for accuracy. ▪ Reviewing the supporting worksheets to ensure staff followed the Department's policies in the cash forecast preparation process. 	Substantially Implemented	<p>The Department has developed a process to review manual entries into the cash forecast system, but it is not consistently following its procedures. Specifically, the procedures require a supervisor to review, initial, and date supporting worksheets. None of the supporting worksheets for the five cash forecast reports that auditors tested was initialed and dated by the reviewer.</p>
5	<p>The Department should update and implement the cash forecast approval process and time lines documented in the Texas Transportation Institute's <i>Cash Forecast System Manual</i> (or create a separate policy for the approval process). The procedures should specify (1) individuals authorized to approve cash forecast reports, (2) the time line under which the reports should be produced and approved, (3) the method of documenting the approval, and (4) a requirement that the approvals will be available for review in subsequent periods in accordance with the Department's record retention schedule submitted to the state records administrator, as required by Texas Government Code, Section 441.185.</p>	Substantially Implemented	<p>The Department has updated its cash forecast approval policies and procedures to include (1) authorization, documentation, and retention requirements and (2) time lines for the preparation, approval, and distribution phases. However, because they do not establish a time line for the discussion phase, the Department's policies and procedures lack a complete time line for the cash forecast approval process. The Department's informal goal is to distribute each cash forecast report by the end of the month.</p> <p>In addition, the Department is not consistently following the time lines established in its policies and procedures. Of the five cash forecast reports created between September 2008 and March 2010 that auditors tested:</p> <ul style="list-style-type: none"> ▪ None was prepared within seven business days as required by policy. ▪ None was approved within three business days as required by policy. ▪ Two were distributed within one business day as required by policy. <p>For the five cash forecast reports tested, the Department took between 11 and 71 calendar days after the end of the respective month to finalize and distribute the reports.</p>

Status of Implementation of Prior Audit Recommendations Related to the Department's Cash Forecast Processes			
No.	Recommendation	Implementation Status	Auditor Comments
6	The Department should complete its annual reconciliations of the cash forecast with the Comptroller's Office's cash report in a timely manner and resolve any discrepancies identified. Additionally, the Department should perform the reconciliations with greater detail, which will provide increased assurance that individual revenue and expenditure line items are accurate.	Substantially Implemented	In fiscal year 2009, the Department reconciled the cash forecast report to the Office of the Comptroller of Public Accounts' (Comptroller's Office) cash report by individual line item. This reconciliation was performed in greater detail than in prior years when the reconciliations were performed for summary totals only. However, the reconciliations for fiscal years 2008 and 2009 took 84 and 91 calendar days, respectively, to complete after the Comptroller's Office's cash report was available. The Department's policies and procedures do not include a time line for completing annual reconciliations.
7	The Department should continue to work with oversight entities, such as the Texas Transportation Commission, the Legislative Budget Board, and legislative committees to produce a report that communicates the information these entities need when making fiscal and organizational decisions regarding the Department.	Substantially Implemented	The Department has worked with the Legislative Budget Board and modified the cash forecast report to make it more understandable. However, these monthly reports, which are currently 13 pages in length, may contain too much detail for some oversight entity users. In addition, the Department has not been distributing the forecasts directly to all relevant legislative committees; the Department added the House and Senate Transportation committees to the distribution list in May 2010.

The Department's cash forecast policies and procedures are not complete, and some are not sufficient to ensure that staff follow them consistently, as described in Table 1 above. It is important that policies and procedures for the cash forecast process are documented and in place to reduce the risk of an overcommitment of funds and cash shortages. Auditors noted the following weaknesses in the Department's documented cash forecast policies and procedures:

- The current *Cash Forecast System Manual* is dated June 2005 and has not been updated since the previous audit to include sufficient detail for those involved in the cash forecast process to produce the cash forecast from the current cash forecast system. However, the Department is working with the Texas Transportation Institute to write a new manual for the new cash forecast system that is being developed.
- The policies and procedures for reviewing manual entries into the cash forecast system do not include sufficient direction on how to perform and document consistent and thorough reviews.
- The policies and procedures do not include an overall time line for producing and distributing cash forecast reports.

- The policies and procedures for reconciling the cash forecast to the Comptroller's Office's cash report do not include a target date for completing these annual reconciliations.

Recommendations

The Department should:

- Complete and implement a methodology to report expenditures in appropriation strategy categories in the cash forecasts in accordance with the reporting requirements in Rider 19(b), page VII-28, the General Appropriations Act (81st Legislature).
- Complete and update all cash forecast policies and procedures so they include sufficient detail to allow staff to follow them consistently.
- Complete testing and implement the new cash forecast system. The Department also should update all documented cash forecast policies and procedures to reflect any changes in cash forecast processes resulting from this implementation.
- Establish a formal mechanism to provide management with opportunities for ongoing communication with legislators and legislative budget and transportation committees about Department operations and activities.

Management's Response

- *Substantial changes were made to the Texas Department of Transportation's (TxDOT) bill pattern in the 2010-2011 GAA requiring reworking and updating to TxDOT's data sets and processes used with the cash forecast. TxDOT will work with the appropriate legislative committees and the Legislative Budget Board (LBB) to clarify the intent of the rider. An appropriation level report will be developed and included in the cash forecast in accordance with the rider and distributed monthly based on the subsequent direction received.*

Estimated Implementation Date: January 2011

- *The policies and procedures are being updated in a joint effort by TxDOT and the Texas Transportation Institute (TTI). TTI is rewriting the manuals to coincide with the new cash forecast system and current TxDOT policies. This process is occurring in parallel with the testing and implementation of the new system.*

Estimated Implementation Date: December 2010

- *Parallel testing of the new cash forecast system is underway and began with the June 2010 cash forecast. The parallel testing will continue for several more months along with preparation of updated policies and procedures.*

Estimated Implementation Date: December 2010

- *TxDOT will work with legislative leaders to establish a formal mechanism to provide agency management with opportunities for ongoing communication with legislators and legislative budget and transportation committees about TxDOT's operations and activities.*

Estimated Implementation Date: December 2010

The Department Has Fully or Substantially Implemented Five of Seven Prior Audit Recommendations Related to Communication and Transparency

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

Undetermined - No opportunity was identified to demonstrate implementation of a prior recommendation.

Department Planning Terms

Work Program - A district's share of funding in a given category for a given year. Work programs have a four-year life (the current year plus three subsequent years) and districts will usually have multiple work programs in various stages.

Letting Cap - A district's maximum annual construction contract award volume for each category.

Change Order - An amendment to contract work due to a significant change in the character of work, an expansion in scope of work, or the granting of a time extension.

The Department fully or substantially implemented 5 (71 percent) of the 7 prior audit recommendations related to communication and transparency in the August 2008 audit report.² Its implementation of one remaining audit recommendation is incomplete/ongoing and is related to the improvement of the process used to produce a statutorily required report. The status of the other remaining audit recommendation could not be determined because auditors could not identify an opportunity for the Department to have demonstrated its implementation.

The Department develops the Unified Transportation Program (UTP) as part of its project planning process and uses information from the UTP in communications with internal and external parties (see text box for definitions of planning terms). The UTP is a long-term plan (covering the current year plus 10 years) for maintaining and building the state highway system from available forecasted funding. The UTP consists of two major components, mobility and preservation, and the 2010 UTP was contained in a single document. The 2007 UTP comprised two separate documents: the Statewide Mobility Program and the Statewide Preservation Program. The UTP contains the following 12 funding categories:

- Category 1 – Preventive maintenance and rehabilitation.
- Category 2 – Metropolitan area corridor projects.
- Category 3 – Urban area corridor projects.
- Category 4 – Statewide connectivity corridor projects.
- Category 5 – Congestion mitigation and air quality improvement.
- Category 6 – Structures replacement and rehabilitation.
- Category 7 – Metropolitan mobility and rehabilitation.
- Category 8 – Safety.
- Category 9 – Transportation enhancements.

² *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008).

- Category 10 – Supplemental transportation projects.
- Category 11 – District discretionary.
- Category 12 – Strategic priority.

Table 2 presents the Department’s status in implementing prior audit recommendations related to communication and transparency.

Table 2

Status of Implementation of Prior Audit Recommendations Related to the Department’s Communication and Transparency			
No.	Recommendation	Implementation Status	Auditor Comments
1	The Department should brief the full Texas Transportation Commission on developments that occur and have a significant statewide impact, so that the members of the commission can be involved in the process for making corrections. The Department should conduct these briefings during open commission meetings to enable members to (1) discuss matters in a forum that will help ensure they have the same understanding of issues and (2) promote their involvement in reviewing and approving Department policy when deemed necessary to address issues.	Fully Implemented	The Texas Transportation Commission (Commission) formally decided at its August 25, 2008, meeting to schedule monthly discussion workshops on the day before each regular Commission meeting, beginning in September 2008. These workshops provide a forum for Department staff to bring forward to the Commission major policy items or Departmental issues and allow the Commission to provide feedback. The workshops are combined with the regular Commission meeting when there is a conflict with a scheduled legislative meeting. Workshops are held only when the regular meeting is in Austin.
2	The Department should post Texas Transportation Commission briefing documents on its Web site at the same time it provides commissioners with these documents.	Fully Implemented	The Department posts Commission briefing documents on its Web site approximately three days prior to each Commission meeting, usually held on a Thursday. The commissioners receive briefing books no later than the Friday before each meeting so that they may review the documents and make any corrections before the briefing documents are posted on the Web site.
3	The Department should modify its reports and coordinate with the Legislative Budget Board to ensure that any required reports meet the needs of legislative oversight entities. The Department submits reports in response to the requirements of two riders: <ul style="list-style-type: none"> • Rider 39, page VII-30, the General Appropriations Act (80th Legislature). This rider mandates that the Department submit a report that includes a reconciliation of the Department's expenditures and encumbrances of appropriations made to the Department by the General Appropriations Act to the 12 categories included in the Department's Statewide Preservation Program and Statewide Mobility Program. The Department should identify and disclose reasons for any differences (that is, reconciling amounts and items) between expenditures/encumbrances and the 12 categories of funding. 	Incomplete/Ongoing	The expenditures reported in the Department's annual <i>Budget Reconciliation Report</i> are estimates based upon allocations to each category and are not actual amounts. These allocations are the result of the Department planning for construction costs by category, but not recording expenditures by category. Additionally, the Department does not record encumbrances by project; therefore, the <i>Budget Reconciliation Report</i> does not include encumbrances by category as required by the rider. The Department has included a disclosure of this limitation in the report and, at the request of the Legislative Budget Board, added an executive summary to the report. It should be noted that this report is now required by Rider 36, page VII-34, the General Appropriations Act (81st Legislature). The other rider referenced in the prior audit recommendation is discussed in Chapter 1 at recommendation 2.

**Status of Implementation of Prior Audit Recommendations
Related to the Department's Communication and Transparency**

No.	Recommendation	Implementation Status	Auditor Comments
4	The Department should develop, adopt, and implement a formal, documented process for its Finance Division to follow in reviewing and approving amounts used to develop all contract award schedules. The process should specify (1) the individuals in the Finance Division who are authorized to approve the aggregate amount available for contract awards; (2) the method of documenting approvals; and (3) a requirement that the approvals will be available for review in subsequent periods in accordance with the Department's record retention schedule submitted to the state records administrator, as required by Texas Government Code, Section 441.185.	Substantially Implemented	The Department has documented and implemented a process for reviewing and approving monthly construction contract award schedules. The process specifies the individuals authorized to approve the amount available for contract awards and the method for documenting the approvals. Although the documented process does not require the approvals to be retained for subsequent periods in accordance with the Department's record retention schedule, the Department appropriately documented and retained the approvals for all five monthly contract award schedules created between September 2008 and April 2010 that auditors tested.
5	The Department should consider adjusting districts' work programs when districts' actual expenditures differ from the initial funding allocations in their work programs. This would include adding or subtracting the impact of change orders from the obligated work program balance.	Fully Implemented	The Department considered and has begun developing a process to adjust districts' work programs by adding or subtracting the impact of change orders from each district's obligated work program balance. The Department has also begun implementing a process to adjust annual letting caps for change order amounts.
6	The Department should develop and implement a transparent process that communicates to the districts the reduction in current year funds resulting when districts accelerate projects. The Department should consider including a documented agreement between the "lending" district and the "borrowing" district. It also should consider the feasibility of compensating the lending district for lost financial leverage due to the effect of inflation.	Fully Implemented	The Department has (1) established a section on its internal Web site to store completed borrowing and lending agreements between districts, (2) created a screen in its Design and Construction Information System (DCIS) to track transfers of spending authority between borrowing and lending districts, and (3) begun drafting formal guidance for the districts on how to request transfers of spending authority.
7	The Department should, when changes are made that affect allocations as published in the most recent Unified Transportation Program, provide legislators whose districts are affected with information regarding these changes, which are made through minute orders approved by the Texas Transportation Commission.	Undetermined	The Department asserts that between September 2008 and April 2010 no changes occurred to district allocations in the 2007 Unified Transportation Program. Auditors reviewed Commission meeting minutes for this time period and did not identify any minute orders that made changes to district allocations. Therefore, the Department has not yet had an opportunity to implement this recommendation.

Recommendations

The Department should:

- Identify the data needed to produce its annual *Budget Reconciliation Report* with minimal estimations and incorporate that data into the development and implementation of its new accounting system.

- Include in its policy on construction contract award schedules a requirement that approvals of these schedules be available for review in subsequent periods in accordance with the Department's record retention schedule.
- Continue its efforts to adjust each district office's letting caps and work programs by adding and subtracting the impact of change orders.

Management's Response

- *TxDOT has documented the requirement for Project One, which will replace TxDOT's current accounting system with Peoplesoft, to capture the data needed to produce its annual Budget Reconciliation Report without making estimations. After the completion of Project One, TxDOT will be using an accounting system managed by the Comptroller which is intended to become a statewide system used by all state agencies.*

Estimated Implementation Date: September 2011 (per Comptroller's current timeline and scope for Project One)

- *The requirement that approvals be available for review for a period consistent with the record retention schedule will be included in the policy.*

Estimated Implementation Date: September 2010

- *As mentioned in the report, TxDOT has implemented a process to adjust letting caps for the impact of change orders. The process is continuously being reviewed and improved to ensure the data is as accurate and timely as possible.*

Also, the TxDOT will develop a mechanism to account for change orders in its Design and Construction Information System (DCIS) work programs.

Estimated Implementation Date: August 2011

The Department Has Fully Implemented All Four Prior Audit Recommendations Related to the Funding Gap and Tax Gap

Implementation Status Definitions

Fully Implemented - Successful development and use of a process, system, or policy to implement a prior recommendation.

Substantially Implemented - Successful development but inconsistent use of a process, system, or policy to implement a prior recommendation.

Incomplete/Ongoing - Ongoing development of a process, system, or policy to address a prior recommendation.

Not Implemented - Lack of a formal process, system, or policy to address a prior recommendation.

Definitions

Funding Gap - The difference between the cost of future transportation needs and the anticipated transportation funding available.

Tax Gap - The difference between the costs of construction and maintenance of a highway over its estimated life and the state and federal fuel tax revenues resulting from travel on that highway.

2030 Committee - A volunteer committee of 12 experienced and respected business leaders appointed by Texas Transportation Commission Chair Deirdre Delisi, at the request of Governor Rick Perry, in May 2008. The committee published the *Texas Transportation Needs Report* in February 2009. According to that report, the committee's charge was to "provide an independent, authoritative assessment of the state's transportation infrastructure and mobility needs from 2009 to 2030."

The Department fully implemented all four prior audit recommendations related to the funding gap and tax gap (see text box for definitions) in the August 2008 audit report.³

In August 2006, the Metropolitan Planning Organizations (MPOs) submitted their individual calculations of funding gaps in their Texas Metropolitan Mobility Plans (TMMPs) and Texas Urban Mobility Plans (TUMPs). The Department performed an initial analysis of the assumptions used and data provided on the funding gaps in the TMMPs and TUMPs and presented the results to Department management in January 2008. However, Department management decided to perform a more rigorous analysis of the statewide funding gap.

The Department contracted with the Texas Transportation Institute (Institute) in May 2008 to determine the transportation needs in Texas in conjunction with the Institute's work with the 2030 Committee (see text box for definition). The Institute was instructed to review and update the information used in the development of the TMMPs and TUMPs to compute an overall estimate of transportation needs. The Department stated that it will no longer require the MPOs to submit the TMMPs and TUMPs and instead will use the MPOs' mobility transportation plans that are submitted every four or five years.

The Department also formed a nine-member workgroup comprising representatives from the Texas Association of MPOs (TEMPO) and the Department, with contributors from the Institute and the Center for Transportation Research at the University of Texas at Austin. The workgroup published the report *Funding the Future: A Forecast of Transportation Finance* in July 2009. According to that report, the workgroup was "to produce an estimate of expected conventional revenues through 2035, and quantification of possible revenue enhancements." The workgroup's findings, when combined with the transportation needs determined by the Institute and the 2030 Committee, comprise the elements the Department needs to compute the statewide funding gap.

³ *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008). The audit recommendations related to the funding gap and tax gap in the August 2008 report resulted from a follow up of the audit recommendations in *An Audit Report on the Department of Transportation's Reported Funding Gap and Tax Gap Information* (State Auditor's Office Report No. 07-031, April 2007).

Table 3 presents the Department's status in implementing prior audit recommendations related to the funding gap and tax gap.

Table 3

Status of Implementation of Prior Audit Recommendations Related to the Department's Funding Gap and Tax Gap			
No.	Recommendation	Implementation Status	Auditor Comments
1	The Department should continue its efforts to implement the recommendation related to the funding gap, including: <ul style="list-style-type: none"> Development and implementation of a process to implement the recommendations of the 2030 Committee. 	Fully Implemented	The Department has contracted with engineering consulting firm PBS&J to develop a statewide, long-range transportation plan. The contract specifies that the consulting firm shall use the 2030 Committee's <i>Texas Transportation Needs Report</i> as a reference tool.
2	The Department should continue its efforts to implement the recommendation related to the funding gap, including: <ul style="list-style-type: none"> Documentation and uniform application of the common assumptions to be used in the development of the Texas Metropolitan Mobility Plans (TMMP) and the Texas Urban Mobility Plans (TUMP). 	Fully Implemented	The Department contracted with the Texas Transportation Institute, which, through its work with the 2030 Committee, produced a statewide transportation needs assessment using updated cost assumptions. The Department also formed a workgroup with three external entities to produce a common set of revenue assumptions that the workgroup used to create a baseline statewide revenue forecast.
3	The Department should continue its efforts to implement the recommendation related to the funding gap, including: <ul style="list-style-type: none"> Identification and implementation of a mechanism to review the data provided by TMMPs, TUMPs, and other external sources. 	Fully Implemented	Because the Department chose to (1) contract with the Texas Transportation Institute to produce an updated needs assessment and (2) form a workgroup to create a baseline revenue forecast, it decided that it was not necessary to perform a review of the data provided in the TMMPs and TUMPs.
4	The Department should formally document its intent to cease further implementation of the tax gap analysis and related prior audit recommendations.	Fully Implemented	The Department formally documented its intent to cease further implementation of the tax gap analysis in a memorandum approved by the executive director on August 11, 2008.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine the extent to which the Department of Transportation (Department) has implemented recommendations in *An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation* (State Auditor's Office Report No. 08-045, August 2008).
- Determine whether the Department's new cash forecast system for the State Highway Fund (Fund 006) accurately incorporates all relevant revenue, expenditures, and other cash activity to produce a reasonable estimate of cash balances and the results of various cash management scenarios.

Scope

The scope of this audit included following up on prior audit recommendations, which covered the Department's actions in implementing the recommendations between September 2008 and April 2010. Additionally, auditors reviewed the Department's progress and current status in implementing its new cash forecast system. Auditors did not review any information systems but did observe a demonstration of portions of the new cash forecast system.

Methodology

The audit methodology included interviewing Department staff and external parties, examining Department policies and procedures, and reviewing supporting documentation.

Information collected and reviewed included the following:

- Information obtained through interviews with Department staff, Legislative Budget Board staff, legislators, and legislative staff.
- Texas Transportation Commission meeting schedules, briefing materials, meeting transcripts, meeting minutes, and minute orders.
- Department policies and procedures.

- Department documents and correspondence, including organizational charts, manuals, contracts, computer screen images, memoranda, and Web site pages.
- Department reports, including cash forecast and budget reconciliation reports.
- The Office of the Comptroller of Public Accounts' cash reports.
- Reports produced by an external committee and a Department-created workgroup.

Procedures and tests conducted included the following:

- Tested the Department's review and approval of cash forecast reports.
- Tested the timeliness of cash forecast report preparation, approval, and distribution.
- Tested the preparation and timeliness of annual reconciliations between the cash forecasts and the Office of the Comptroller of Public Accounts' cash reports.
- Tested the approval of monthly contract award schedules.
- Tested the preparation of budget reconciliation reports.

Criteria used included the following:

- General Appropriations Act (80th and 81st Legislatures).
- The Department's *Transportation Programming and Scheduling Manual*.
- The Department's cash forecast review procedures.
- The Department's Cash Forecast Division policies and procedures.
- The Department's *Annual Cash Report* reconciliation procedures.

Project Information

Audit fieldwork was conducted from April 2010 through May 2010. 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.

The following members of the State Auditor's staff performed the audit:

- Anthony W. Rose, MPA, CPA, CGFM (Project Manager)
- Tracy L. Jarratt, CPA (Assistant Project Manager)
- Olivia Gutierrez
- Stephen J. Randall, MBA, CISA
- Sonya Tao
- Charles P. Dunlap, Jr., CPA (Quality Control Reviewer)
- Sandra Vice, CIA, CGAP, CISA (Assistant State Auditor)

Recent State Auditor's Office Work

Recent SAO Work (Reports Issued Since January 2007)		
Number	Product Name	Release Date
10-022	A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2009	February 2010
10-021	A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2009	February 2010
10-017	An Audit Report on the Department of Transportation's Bridge Inspection Program	December 2009
09-016	A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2008	January 2009
09-011	A Follow-up Audit Report on Flight Services Provided by the Department of Transportation's Aviation Division Flight Services Section	October 2008
09-008	An Audit Report on Performance Measures at the Department of Transportation	October 2008
08-045	An Audit Report on the Department of Transportation's Financial Forecasting and Fund Allocation	August 2008
08-018	A Report on the Audit of the Department of Transportation's Texas Mobility Fund Financial Statements for the Fiscal Year Ended August 31, 2007	December 2007
08-017	A Report on the Audit of the Department of Transportation's Central Texas Turnpike System Financial Statements for the Fiscal Year Ended August 31, 2007	December 2007
08-007	An Audit Report on the Department of Transportation's Oversight of Regional Mobility Authorities	October 2007
08-006	An Audit Report on the Medical Transportation Program at the Texas Department of Transportation	October 2007
07-031	An Audit Report on the Department of Transportation's Reported Funding Gap and Tax Gap Information	April 2007
07-018	An Audit Report on the Department of Transportation's Aviation and Metropolitan Transportation Planning Grant Programs	March 2007
07-015	An Audit Report on the Department of Transportation and the Trans-Texas Corridor	February 2007

In addition, the State Auditor's Office performs work annually at the Department of Transportation as part of the federal portion of the Statewide Single Audit and the audit of the State's Comprehensive Annual Financial Report.

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Joe Straus III, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Jim Pitts, House Appropriations Committee
The Honorable Rene Oliveira, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

Department of Transportation

Members of the Texas Transportation Commission

Ms. Deirdre Delisi, Chair

Mr. Ned S. Holmes

Mr. Ted Houghton

Mr. William Meadows

Mr. Fred Underwood

Mr. Amadeo Saenz, Jr., P.E., Executive Director



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