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An Audit Report on

The Department of Transportation's Financial Forecasting and Fund Allocation

August 2008
Report No. 08-045

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Overall Conclusion

Ineffective internal communication, a complex reporting structure, and misunderstanding of reported data led the Department of Transportation (Department) to overschedule \$1.1 billion in planned contract awards for fiscal year 2008.

The Department failed to immediately communicate the error and the main causes that led to its overscheduling of contract awards to oversight entities, including the full Texas Transportation Commission, legislative committees, state and local government transportation officials, and the public.

Although the Department has made organizational changes that should help reduce communication obstacles in the future, its reporting process still needs improvement.

Additionally, there are control weaknesses in the Department's process for approving the projected funding amount used to develop contract award schedules. The Department considers all significant revenue sources and associated expenses in its cash forecasting and monitoring processes. However, Department management did not use that information to avoid overscheduling fiscal year 2008 contract awards by \$1.1 billion. Texas Transportation Commission meeting transcripts and supporting documentation for meetings from October 2007 through April 2008 contain no evidence that executive management made the full Texas Transportation Commission aware of the \$1.1 billion error and its causes (see Chapter 1, page 2 for additional details). The Department should improve controls within its cash forecasting processes and the communication of its cash forecasts.

The Department also has experienced significant delays in completing cash forecasts. For example, monthly cash forecast reports for October 2007 through January 2008 were all completed in March 2008 (see Chapter 2, page 12 for additional details).

The Department does not have a transparent process that communicates the effects on districts when other districts accelerate projects. When a district

Background Information

In August 2007, the Department approved a contract award volume of \$4.2 billion for fiscal year 2008.

By October 2007, the Department recognized that it had effectively counted the \$581 million in Proposition 14 proceeds twice when developing the fiscal year 2008 contract award schedule.

Additionally, the Department included \$488 million in Texas Mobility Funds in the future award amount, even though those funds were required for existing projects. These two errors effectively doubled planned awards for those amounts.

These errors, totaling \$1.069 billion (referred to as the \$1.1 billion error), caused the Department to reduce the fiscal year 2008 planned award volume to \$3.1 billion in order to meet cash forecast requirements. See Appendix 2 for information regarding the projects affected by the \$1.1 billion error.

accelerates projects, the cash it uses to pay contractors may have been designated for another district, and this can result in delaying project funding in that region.

Over multiple years, all districts are restricted to spending funds allocated to their current and planned construction and maintenance projects. However, due to the impact of inflation, there is concern that districts may lose financial leverage if their projects are funded in the later years of their funding allocations (because the initial amount of funds originally allocated will buy less roadway in future years). It is important to note, however, that one of the Department's priorities is to spend all federal funds within the period of availability, so the need to have cash available to districts must be balanced with the need to prevent federal funds from lapsing.

The Department received \$7.5 billion in total federal obligation authority for fiscal years 2006 to 2008. Of that amount, the Department's obligation authority was reduced by \$36.5 million (\$23.4 million in fiscal year 2006 and \$13.1 million in fiscal year 2008) or 0.5 percent. As of August 21, 2008, the Department had (1) \$28.0 million in remaining authority for fiscal year 2008 to issue Proposition 14 bonds and (2) \$2.9 billion in overall remaining authority to issue Proposition 14 bonds (see Appendix 7, page 54 for additional details).

The Department has made progress in implementing recommendations to address deficiencies identified 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). Of the four recommendations reviewed, two recommendations have been substantially implemented, one recommendation's implementation is incomplete and ongoing, and one recommendation has not been implemented. The State Auditor's Office will release a separate report that follows up on recommendations in *An Audit Report on Flight Services Provided by the Department of Transportation's Aviation Division Flight Services Section* (State Auditor's Office Report No. 07-001, September 2006).

External audits of Department processes reported weaknesses that are related to issues noted in this report.

Texas Transportation Code, Section 201.109(b)(5), required the Department to contract for an independent audit of its management and business operations in 2007 and every 12 years after 2007. In response to this requirement, the Department entered into contracts for five audits covering certain operational areas. The reports from these audits included issues related to some of the same conditions identified in this audit report, including issues in:

- Organizational development.
- Accounting for total project costs in the allocation of programming targets.
- Oversight and analysis of contract change orders.

- Information technology systems that are capable of tracking total project costs, and the risk of manual transfer of information between systems.
- Deficient internal communication (specifically regarding modified and accelerated letting dates for projects).
- Processes related to developing and tracking total costs on a project basis and applying performance metrics to guide future planning.

Selected Recommendations

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.
- Post Texas Transportation Commission briefing documents on its Web site at the same time it provides commissioners with these documents.
- 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.
- 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.
- 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.

For a list of all recommendations in this report, see Chapter 5, page 26.

Summary of Management's Response

The Department generally agrees with the recommendations in this report. Detailed management responses are included in the Detailed Results of this report.

Summary of Information Technology Review

Auditors reviewed program code and calculations within the Department's cash forecasting system. Auditors also reviewed the Department's general network access and identified weaknesses that were communicated separately to the Department in writing.

Summary of Objectives Scope, and Methodology

The audit objectives were to:

- Determine whether the Department's process for budget forecasting and monitoring produces accurate and complete financial information, including budget variance reporting.
- Determine whether the Department's fund allocation process produces reliable results and is based upon reliable and consistent criteria.
- Follow up on selected audit recommendations from *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).
- As may be appropriate, review other comprehensive financial processes and information of the Department to determine whether they produce transparent, complete, and accurate financial information.

The audit scope included (1) all matters involving the cash forecast process the Department uses to make critical business decisions, such as developing construction contract award volumes and (2) the Department's reporting of its fiscal status to oversight entities. Auditors reviewed the cash forecast process the Department used from April 2007 through July 2008. Additionally, auditors reviewed construction funds the Department allocated to various districts and supporting documentation the Department used to make funding allocations for fiscal year 2008. The audit scope also included the automated systems and processes that support the functions being audited.

The audit methodology included collecting information and conducting interviews with staff at the Department, performing selected tests and procedures, and analyzing and evaluating the results of tests.

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Detailed Results

Chapter 1

The Department's Processes for Reporting and Approving Amounts Available for Contract Awards Require Improvement

Failure to communicate, misunderstanding of the cash forecast results, and a complex reporting structure led the Department of Transportation (Department) to overschedule contract awards by \$1.1 billion in fiscal year 2008.

Because of a failure to communicate details regarding the content of its cash forecast, the Department was initially unaware that:

The Department's Cash Forecast

The cash forecast is the Department's primary tool for identifying and avoiding cash shortages. One of the Department's primary methods of managing cash flow is to adjust projected contract awards.

The cash forecast relies on historical information such as State Highway Fund 006 revenues and actual cash expenditures to project future revenues and anticipated expenditures. 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 to reach the desired cash level.

The Department prepares separate cash forecasts for (1) State Highway Fund 006 and (2) sources of funds other than State Highway Fund 006 (examples of other sources of funds include Proposition 14 bond revenue and Texas Mobility Fund bond revenue).

The expenditures the Department projects in its cash forecast are not identified by appropriation year. Department appropriations for highway construction spending are available for the current year plus four fiscal years (this is in contrast with typical appropriations, which are available for the current year plus two years, see Comptroller of Public Accounts - Accounting Policy Statement 018 for further information). To enable the cash forecast to perform its necessary function, the Department must report expenditures on a cash basis (that is, when the funds are actually spent), regardless of the appropriation year.

- It had erroneously increased fiscal year 2008 planned awards by \$581 million from Proposition 14 bond revenue. The cash forecast projected award volume of \$3.1 billion had already included proceeds available from Proposition 14 bond issues. Therefore, the fiscal year 2008 contract award schedule effectively counted those proceeds twice.
- It had also erroneously increased fiscal year 2008 planned awards by \$488 million from Texas Mobility Fund bond revenue. That revenue was required to satisfy obligations for contracts the Department had already awarded and, therefore, should not have been included as available for contract awards.

These two errors, totaling \$1.069 billion (referred to as the \$1.1 billion error), caused the Department to reduce fiscal year 2008 scheduled contract awards from \$4.2 billion to \$3.1 billion to meet cash forecast requirements.

To improve internal communication, the Department has reorganized by moving its Letting Management section (which schedules contract awards) and its Programming and Scheduling section (which develops the Unified Transportation Program) under its Finance Division. The Finance Division determines the amount available for contract awards. The Department also is attempting to revise its cash forecast reporting structure to provide better information to users (see Appendix 3 for revised cash forecast report).

The Department did not communicate the \$1.1 billion error and its causes in a timely manner.

The Department identified the \$1.1 billion error by October 2007, but it failed to immediately communicate the error and the main causes that led to its overscheduling of contract awards to oversight entities, including the full Texas Transportation Commission, legislative committees, state and local government transportation officials, and the public.

Texas Transportation Commission meeting transcripts and supporting documentation for meetings from October 2007 through April 2008 contain no evidence that executive management made the full Texas Transportation Commission aware of the error and its causes. Although the Department asserts it briefed all commission members individually, no briefing documents, specific dates, or calendars were provided to auditors to verify these briefings.

The lack of a formal, public briefing to the full commission limited the commission's ability to (1) discuss the issue in a forum that would enable them to ensure they all had the same understanding of the circumstances that led to the error and (2) be involved in reviewing and approving policy to prevent similar errors in the future.

Additionally, because the discussions between the Department and commission members were informal, there is no documentation of the content and results of those discussions. Texas Transportation Code, Section 201.102, requires the commission to "develop and implement policies that clearly separate the policy-making responsibilities of the commission and the management responsibilities of the director and staff of the department." It is unclear whether commissioners were involved in policy-making decisions in response to the \$1.1 billion error, such as decisions regarding process and organizational changes designed to prevent similar errors in the future.

Table 1 shows the sequence of events between when the Department made the \$1.1 billion error in September 2007 and when members of the Legislature were informed of the error in February 2008.

Table 1

Sequence of Events Associated with the Department's \$1.1 Billion Error		
Date	Event	Auditor Comments
September 2007	The Department updated the July 2007 cash forecast with fiscal year 2008 contract awards projected at \$3.1 billion.	
September 2007	The Department published a 12-month contract award schedule for fiscal year 2008 (<i>Twelve Month Letting Schedule, FISCAL YEAR 2008, Public Document</i> , September 4, 2007). The Department estimated total project costs contained in that schedule at \$4.7 billion, with approximately \$500 million funded through <u>local</u> bond proceeds. Total state and federal funding required to support the contract award schedule was \$4.2 billion.	In addition to the funding level of \$3.1 billion supported by the July 2007 cash forecast report, the Department incorporated the bond proceeds of \$1.1 billion into the 12-month contract award schedule. This \$1.1 billion was comprised of (1) \$580.5 million in Proposition 14 bond proceeds and (2) \$487.8 million from Texas Mobility Fund bond proceeds (see page 1 of this audit report).
September 2007	Department management stated that the Finance Division became aware of the \$4.7 billion fiscal year 2008 contract award schedule and realized that it was too high.	There was deficient communication between process owners who determined the amounts available for contract awards and the individuals who were responsible for developing the contract award schedule.
October 2007	The Texas Transportation Commission met on October 25, 2007. Auditors' review of the briefing documents made available by the Department and the transcripts of the meetings show no evidence that the \$1.1 billion error was discussed during the meeting.	
October 2007	The Department recognized that it had included \$1.1 billion in bond proceeds as available to support the fiscal year 2008 contract award schedule when those proceeds should have been excluded.	The cash forecast included \$580.5 million in funds from Proposition 14 bonds and \$487.8 million in funds from the Texas Mobility Fund. These two errors totaled \$1.1 billion.
November 2007	The Texas Transportation Commission met on November 15, 2007. Auditors' review of the transcripts of the meetings show no evidence that the \$1.1 billion error was discussed during the meeting.	Although the effects of the error were discussed, the specific error and the causes were not discussed.
November 2007	The Department notified district offices that contract awards for fiscal year 2008 must be reduced \$1.1 billion (from \$4.2 billion to \$3.1 billion).	See Appendix 2 for projects delayed by district offices.
December 2007	The Texas Transportation Commission met on December 13, 2007. The meeting transcript specifies that discussions included construction contract awards that would be reduced beginning in February 2008. The contracts through January had already been approved.	See Table 2 below for contracts awarded after the Department made the \$1.1 billion error. Although the effects of the error were discussed, the specific error and the causes were not discussed.

Sequence of Events Associated with the Department's \$1.1 Billion Error		
Date	Event	Auditor Comments
February 2008	In a hearing, the Department informed members of the Senate Finance Committee and the Senate Committee on Transportation and Homeland Security that it was reducing planned awards for fiscal year 2008 because it had made the \$1.1 billion error.	The Department attributed the error to miscommunication and misinterpretation of available information within the Department.

Table 2 shows total contract awards for each month between when the Department overscheduled contract awards (in September 2007) and when the Department began delaying projects as a result of the \$1.1 billion error (in February 2008). (The month of September is not presented in Table 2 because the award dates of September 1, 2007, preceded the date of the fiscal year 2008 contract award schedule, which was September 4, 2007.)

Table 2

Department Contract Awards October 2007 through January 2008	
Contract Award Date	Contract Award Amount
October 2007	\$ 185,760,068
November 2007	280,197,530
December 2007	598,934,804
January 2008	198,003,947
Total	\$1,262,896,349

The information in Tables 1 and 2 shows that the Department continued to award \$1.3 billion in contracts between October 2007 and January 2008 while it was aware that projected funding levels could not support the planned award schedule. This effectively shifted the impact of the \$1.1 billion error to the remaining projects for which contracts had not yet been awarded.

The Department's monthly revenue and expenditure report does not meet the requirements of Rider 20(b), page VII-24, the General Appropriations Act (80th Legislature).

The Department currently uses its cash forecast report to comply with Rider 20(b). However, the current cash forecast report fails to meet the requirements of that rider.

Rider 20(b) requires the Department to prepare:

- A revenue report.

- A variance report for State Highway Fund 006 that includes “detailed explanations of the causes and effects of current and anticipated fluctuations in the cash balance.”
- Expenditure information at the same level as appropriations.

This information is important to legislators who must make funding decisions for the Department. The Department prepares a summary version and a detailed version of its cash forecast report (see Appendix 3 for an example of the summary version). Both versions provide an estimate of State Highway Fund 006 revenues. The detailed version is produced primarily for internal users. The Department provides the summary version to oversight entities, such as the Texas Transportation Commission, the Office of the Lieutenant Governor, and the Office of the Speaker of the House of Representatives. Other entities, such as the Legislative Budget Board, may receive both the summary and detailed versions of the cash forecast report. The Department presents differences between actual and projected revenues and expenditures only in the detailed version of the cash forecast report.

Additionally, the detailed version of the cash forecast report includes a variance report. However, it does not describe any causes for the variances or identify potential actions that the Department could take in response to the variances.

The Department’s cash forecast report may not be the most appropriate tool for reporting expenditures by appropriation strategies as required by Rider 20 (b). The report presents expenditures on a cash basis, regardless of appropriation year. This allows the Department to match revenue sources and expenditure needs to project its future cash position. Adding information on expenditures by appropriation year would complicate the presentation even further and would not add benefit to the cash forecast.

The Department did not provide a budget reconciliation report that meets the requirements of Rider 39, page VII-30, the General Appropriations Act (80th Legislature).

The Department currently uses an expenditure report to comply with Rider 39. However, the report fails to meet the requirements of that rider.

Rider 39 requires the Department to:

- Prepare an annual budget reconciliation report.
- Reconcile the Department’s expenditures and encumbrances of appropriations to the 12 categories included in the Department’s Statewide Preservation Program and Statewide Mobility Program.

The expenditure report submitted does not include encumbrances, and the report does not reconcile to appropriations. The Department currently does not record encumbrances at the project level and, therefore, cannot tie them to the 12 categories of funding used in its Statewide Preservation Program and Statewide Mobility Program. However, the report does tie expenditures from strategies to the 12 categories of funding.

The Department has not documented and adopted a policy for its approval process for amounts available for contract awards, and there is no evidence of the Finance Division's review and approval of amounts used to develop contract award schedules.

Auditors reviewed documentation related to contract award schedules for a 13-month period from April 2007 to April 2008. Although Department staff from Letting Management provided e-mail communications to the Chief Financial Officer requesting approval of amounts available for contract awards for 11 of those months, they had no evidence of written (electronic or otherwise) responses from the Chief Financial Officer approving those amounts.

Additionally, Department staff from Letting Management were unable to provide communication (in any direction) for September 2007 and October 2007 that discussed requesting or granting approval of amounts used for scheduling contract awards. Furthermore, the Department has no documented process for its Finance Division to follow in reviewing and approving amounts available for contract awards. Formalizing the review and approval of amounts available for contract awards would help to (1) prevent overscheduling or underscheduling of contract awards and (2) ensure accountability and minimize errors in the cash forecast.

Recommendations

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.
- Post Texas Transportation Commission briefing documents on its Web site at the same time it provides commissioners with these documents.

- 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.
- 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:
 - ♦ 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.
 - ♦ 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.
- 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.

Management's Response

- *The Department will continue its practice of briefing the Texas Transportation Commission through discussion items during open commission meeting. A few years ago, the department started to have "discussion items" at most of its commission meetings to discuss significant issues that will require commission action in the future. The department intends to expand this practice and have significantly more discussion items and to schedule these items in a way that provides for greater focus. At its special meeting scheduled for August 25th, the commission will discuss when and how to implement this recommendation.*

Transportation Commission Chair Deirdre Delisi recently appointed two Commissioners to a new Financial Transparency Subcommittee of the Commission to focus on improving the financial transparency of the Department. The subcommittee will take special interest in the implementation of the management's response to this and all audit recommendations. The Department will provide periodic updates to the subcommittee and Commission on the status of the implementation of management's responses.

Estimated Implementation Date: August 2008

- *The department currently, on a routine basis, provides the following types of information to the commission approximately one week prior to the date of the commission meeting: (1) draft minute orders; (2) cover sheets summarizing the background of the issue and the action taken by the minute order; (3) white papers for discussion items that describe the background and possibly policy alternatives.*

The department posts the draft minute orders on the Web three days before the commission meeting.

The department feels that it is important that commissioners receive and have the opportunity to comment on policy documents prior to public release. In response to this recommendation, the department will, however, post on the Web three days before the meeting the cover sheets, including cover sheets or other documents summarizing the background and purpose of discussion items.

Estimated Implementation Date: September 2008

- *An executive summary will be added to the monthly cash forecast report listing assumptions used in that month's report and will highlight any changes in assumptions from prior months' forecasts; the impact on*

projected cash balance of the recommended letting schedule; and a description of any scenarios and the projected impact of that scenario to the contract schedule and cash balances.

Estimated Implementation Date: September 2008

- *The Department agrees with the State Auditor's Office that "The Department's cash forecast report may not be the most appropriate tool for reporting expenditures by appropriation strategies as required by Rider 20 (b). The report presents expenditures on a cash basis, regardless of appropriation year. This allows the Department to match revenue sources and expenditure needs to project its future cash position. Adding information on expenditures by appropriation year would complicate the presentation even further and would not add benefit to the cash forecast." However, as requested in an email from the Legislative Budget Board in April 2008, the Department will continue to use the cash forecast to address Rider 20(b) issues. The cash forecast system is currently being rewritten and the system will address each of the requirements in Rider 20(b).*

Estimated Implementation Date: November 2008

- *Rider 39 requires the Department submit the report in a format prescribed by the Legislative Budget Board (LBB) and the Department has received no comments from the LBB on the report it submitted.*

The Department feels the language of Rider 39 does not match the intent of the author as all Department expenses are not covered within the 12 categories in the Statewide Preservation Program and Statewide Mobility Program (the Unified Transportation Program - UTP). The Department is developing a payout grid that will reflect how the letting figures in the UTP and the associated multi-year expenditures are represented in the Department's budget.

However, to ensure this recommendation is adequately addressed, the department will request clarification of the reporting requirement from the LBB and will include any requested changes/additions in future reports.

Estimated Implementation Date: September 2008

- *The Department will develop a written policy for its current process that requests approval by the Chief Financial Officer of monthly contract award dollar volumes. The Chief Financial Officer and/or their designee reviews and approves the aggregate monthly contract dollar volume amounts received from the Director of Letting Management, Finance Division. The associated projects are approved by the Assistant Executive Director for Engineering Operations. The method of documenting*

approval by these individuals is the signatures on the approved monthly letting schedule. The written policy will include retaining the approvals in accordance with the Department's record retention schedule.

Estimated Implementation Date: September 2008

The Department's Cash Forecast Includes All Revenues and Expenditures, But Specific Aspects of Cash Forecast Controls and Presentation Require Improvement

The Department includes all revenue sources and expenditures in its cash forecasting process, and its budget methodologies and assumptions produce reasonable results.

Line Items Auditors Reviewed in the Department's Cash Forecast

- Vehicle registration fees.
- Motor fuels taxes.
- Right of way federal reimbursements.
- Reimbursements from Fund 927 (the County, Political Subdivision, Local Government Road/Airport Trust Account).
- Contracted routine maintenance expenditures.
- Contracted maintenance expenditures.
- Right of way acquisition expenditures.
- Contracted construction expenditures.
- Federal reimbursements related to contracted construction and maintenance.
- Fund transfers and special provisions.
- Other expansion and growth.

Auditors reviewed the methodologies and related assumptions for selected revenue and expenditure line items within the Department's cash forecast (see text box) and determined that the processes and information used produce reasonable results.

The Department should strengthen certain controls over its cash forecast process.

The Department has not adopted and updated current policies and procedures for much of its cash forecasting process. The Department contracted with the Texas Transportation Institute (TTI) to analyze the cash forecast system. The project was completed in April 2006 and included the preparation of the *Cash Forecast System Manual*, which the Department has failed to adopt as a formal procedure manual. The manual is dated June 2005 and marked as a "draft copy."

The development of the manual predated relatively new revenue sources such as Proposition 14 funds and Texas Mobility Fund bond revenue. Therefore, the manual addresses forecasting only for State Highway Fund 006 revenues and expenditures, and it omits revenue from other sources. Although the Department prepares cash forecasts for those other sources of funds, it has no documented policies and procedures for combining or including those forecasts with the cash forecast for State Highway Fund 006. The Department's failure to understand and document the process of combining the fund sources into one forecast was one factor that led to the \$1.1 billion error discussed in Chapter 1.

The Department's Finance Division has not implemented a review of the cash forecast to detect errors in the manual inputs. Audit testing revealed no significant errors in the Department's cash forecast. However, the cash forecast report is a product of numerous data inputs (including various spreadsheets, ad hoc queries, and files from the Department's mainframe computer) and inputs resulting from manual calculations. Data inputs are developed by units throughout the Department; information provided by the Office of the Comptroller of Public Accounts (Comptroller's Office) also is input into the cash forecast. Much of this information requires manipulation by staff prior to being input into the

cash forecast system. Therefore, a review of data inputs into the cash forecast system would help ensure accuracy of the cash forecast.

The Department has experienced significant delays in completing cash forecasts. The Finance Division has not completed the forecasts in a timely manner, which has resulted in non-compliance with the General Appropriations Act (discussed below). Monthly cash forecast reports for October 2007 through January 2008 were all completed in March 2008.

As discussed in Chapter 1, the Department uses its cash forecast report to satisfy the requirement of Rider 20 (b), page VII-24, the General Appropriations Act (80th Legislature). However, the Department's Finance Division failed to provide these reports to the Legislative Budget Board in a timely manner. The Legislative Budget Board received all reports for the periods from October 2007 through January 2008 in March 2008. Additionally, there is no evidence that the Chief Financial Officer, or another Department official, consistently reviews and approves the monthly forecast report prior to its release.

The Department has not promptly reconciled its cash forecasts (containing fiscal year-end actual revenue and expenditure data) to the annual cash report prepared by the Comptroller's Office. According to Finance Division staff, the Department ensures that revenues and expenditures are accurately input into the cash forecast system for the preceding fiscal year by performing an annual reconciliation of the State Highway Fund 006 cash forecast report to a cash report that the Comptroller's Office prepares. However, the Department did not perform that reconciliation for fiscal year 2007 until after auditors inquired about the reconciliation in May 2008, six months after the Comptroller's Office published the *Texas Annual Cash Report* for fiscal year 2007.

The Department's process for reconciliations that auditors reviewed for fiscal years 2006 and 2007 ensured that revenue and expenditures were reported accurately in the cash forecast at an aggregate level. However, because of differences in formatting between the Department's State Highway Fund 006 cash forecast and the Comptroller's Office's cash report, the Department did not reconcile individual line items. Auditors conducted a more detailed reconciliation, which provided increased assurance that individual line items were accurately stated on the Department's cash forecast report. Therefore, auditors determined that the Department included complete revenue and expenditure information for fiscal year 2007 in its State Highway Fund 006 cash forecast report. Each line item included in the Department's cash forecast report cannot be directly reconciled to a corresponding line item on the cash report. However, the Department should increase assurance that individual line items are accurately reported by grouping certain revenue and expense line items together and reconciling those groups to corresponding line items on the cash report.

The Department should continue efforts to improve the presentation of its cash forecasting results.

The cash forecast report has evolved from an internal tool into a report relied upon by both the Department and external oversight entities. The information in the cash forecast is essential for making internal decisions related to amounts available for construction contract awards and identifying the potential need for short-term borrowing. As discussed in Chapter 1, the General Appropriations Act (80th Legislature) requires the Department to submit a report that identifies the Department's cash expenditures at the same level as the Department's appropriation bill pattern strategies. Such a report would provide assistance in making appropriation decisions regarding the Department. However, the Department uses its current cash forecast report to fulfill this requirement.

When preparing its cash forecast report, the Department consistently uses terminology that may not be informative for all users. It is not easy to understand the information in the cash forecast report without thorough analysis and background knowledge. Therefore, users of the cash forecast report may not be able to understand it. For example, expenditures are organized using the Department's designated operational categories of "Plan It," "Build It," "Maintain It," "Use It," "Manage It." This presentation may not be meaningful to users involved in the appropriation process because it does not show (1) which appropriation strategies are affected by each operational category or (2) the degree to which the strategies are affected.

The Department is developing a new cash forecasting system and plans to begin testing it by the end of fiscal year 2008.

The Department is developing a new cash forecast system with the intent of producing a system that is more flexible and requires less manual data input than the current system. As currently envisioned, the new system will enable the Department to run "what if" scenarios, which will allow forecasters to easily determine the effects of changing specific variables used in the forecast process. The Department expects to begin testing the new system beginning in August 2008. Auditors did not review any documentation related to the new system.

Highway maintenance costs reported by the Department align with cost increases in the industry.

The Department reported highway cost inflation of approximately 60 percent for fiscal years 2002 through 2007, which is consistent with inflation experienced by other state transportation departments in the United States. The Department's Highway Cost Index rose from 118.52 for the December 2002 12-month moving average to 188.81 for the December 2007 12-month moving average, an increase of 59.3 percent over five years. The inflation that the Department has reported experiencing in recent years also is

consistent with data reported for all states through 2006 by the Federal Highway Administration.

The change in the recording of maintenance costs had no effect on aggregate dollars forecasted or spent.

The Department has changed the manner in which it records certain expenditures. Specifically:

- Prior to June 1, 2006, when the Department added lanes to an existing roadway and there was also a need for major rehabilitation of the existing lanes of that roadway, it recorded the cost of the new lanes and the cost of the rehabilitation of existing lanes to accounts associated with the highway construction strategy within the General Appropriations Act.
- Beginning June 1, 2006, when the Department added lanes to an existing roadway and there was also a need for major rehabilitation of the existing lanes of that roadway, it recorded the cost of the new lanes to accounts associated with the highway construction strategy within the General Appropriations Act, but it recorded the cost of the rehabilitation of existing lanes to accounts associated with the maintenance strategy within the General Appropriations Act.

While this change affected the manner in which the Department recorded expenditures, it did not have any effect on the aggregate dollars forecasted or spent.

Recommendations

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 *Cash Forecast System Manual*, 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.
- 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:

- ♦ Testing inputs for accuracy.
- ♦ Reviewing the supporting worksheets to ensure staff followed the Department's policies in the cash forecast preparation process.
- Update and implement the cash forecast approval process and timelines documented in the Texas Transportation Institute's *Cash Forecast System Manual* (or create a separate policy for the approval process). The procedures should specify (1) individuals authorized to approve cash forecast reports, (2) the timeline 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.
- 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.
- 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.

Management's Response

- *The Department will document the policies and procedures for its cash forecasting system/program.*

As mentioned previously, the current cash forecasting system is in the process of being rewritten and will be able to accommodate all current and any new funding sources. This new system will have a significant impact on any procedure/policy documents and we will certainly consider the information contained in the manual prepared by the Texas Transportation Institute during the development of the documents.

Estimated Implementation Date: February 2009

- *The new cash forecasting system previously mentioned will have automated processes that will assist in detecting and preventing manual entry errors. In addition, we have implemented changes to the current cash forecasting system that have significantly reduced the number of manual entries. In addition the documented policies and procedures*

described in the prior Management Response will include steps to ensure staff followed the policies and procedures and the accuracy of inputs.

Estimated Implementation Date: November 2008

- *The Department will implement and document a process to be used to obtain appropriate approval prior to releasing the cash forecast. This process will include 1) who is authorized to approve the forecast, 2) a timeline for the development and approval of the forecast, 3) the method of documenting the approval, and 4) retaining the approvals in accordance with the Department's record retention schedule.*

Estimated Implementation Date: November 2008

- *The annual reconciliation process with deadlines, taking into account the fact that the Comptroller's Annual Cash Report is normally not available until sometime in December, will be included in the cash forecast policies and procedures manual discussed in earlier Management Responses. Reconciliations will be completed in greater detail with emphasis on individual revenue and expenditure elements.*

Estimated Implementation Date: January 2009

- *The Department will continue to work with all oversight entities and legislative committees to ensure that reports provide understandable, adequate and accurate information needed for fiscal and organizational decisions made by these entities.*

Estimated Implementation Date: Continuous

The Department Follows Established Criteria for Its Initial Allocation of Funds to District Offices, But Budgetary Controls Need Improvement

Unified Transportation Program

The Unified Transportation Program (UTP) is the foundation for the funding allocations the Department makes to the districts. The UTP consists of two documents: the Statewide Mobility Program and the Statewide Preservation Program.

The UTP is a long-term plan (covering the current year plus 10 years) for maintaining and building the state highway system. The Department defines its operations through five categories: "Plan It," "Build It," "Maintain It," "Use It," and "Manage It."

The UTP contains funding information for the "Build it" and "Maintain it" operational categories, which include a total of 12 funding categories.

Specifically:

- The Statewide Mobility Program contains information regarding the "Build It" operational category and includes the following nine UTP funding categories:
 - ♦ 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 7 - Metropolitan mobility and rehabilitation.
 - ♦ Category 9 - Transportation enhancements.
 - ♦ Category 10 - Supplemental transportation projects.
 - ♦ Category 11 - District discretionary.
 - ♦ Category 12 - Strategic priority.
- The Statewide Preservation Program contains information regarding the "Maintain It" operational category and includes the following three UTP funding categories:
 - ♦ Category 1 - Preventive maintenance and rehabilitation.
 - ♦ Category 6 - Structures replacement and rehabilitation.
 - ♦ Category 8 - Safety.

The Department appropriately allocates funds among district offices (districts).

Auditors reviewed the initial funding allocations the Department made to all 25 districts for 3 of the 12 funding categories in the Unified Transportation Program for fiscal year 2008 (see text box for detailed information on the Unified Transportation Program). These funding allocations totaled \$3.65 billion. The Department followed its established criteria for these allocations.

Depending on the funding category, the Department makes funding allocations by formula or by project. To develop formulas, the Department uses a collaborative process that includes input from individuals from each district (such as individuals from metropolitan planning organizations and regional planning councils, county judges, and individuals from the Department and the Texas Transportation Institute). The districts identify individual projects and submit them to the Texas Transportation Commission for its approval.

The funding categories auditors reviewed included Preventive Maintenance and Rehabilitation (Category 1), Metropolitan Area Corridor Projects (Category 2), and Statewide Connectivity Corridor Projects (Category 4). These categories represented 53 percent of total funding allocated to districts for fiscal year 2008 and are summarized as follows:

- The Department allocated \$1.201 billion to districts for Maintenance and Rehabilitation (Category 1). This included \$275 million in preventative maintenance funds and \$926 million in rehabilitation funds. To determine district funding levels for these subcategories, the Department applied formulas to 4 variables for preventive maintenance and 10 variables for rehabilitation. Examples of variables include lane miles, pavement distress scores, and vehicle miles traveled.
- The Department allocated \$1.668 billion to districts for Metropolitan Area Corridor Projects (Category 2). To determine district funding levels for

this category, the Department applied weighted formulas to seven variables, such as population, trucking volume, and fatal and incapacitating crashes.

- The Department allocated \$781 million to districts for Statewide Connectivity Corridor Projects (Category 4). The Department allocated Category 4 funds for specific projects identified by a working group that included county judges and other district representatives from specific areas of the state with populations under 50,000.

Districts may exceed funding allocations when their actual expenditures exceed original contract amounts.

The Department uses its Design and Construction Information System (DCIS) to track projects from conception to award. This system is used to establish and monitor district funding allocations. However, the Department records actual contract expenditures in a separate system called the Financial Information Management System (FIMS). Because contract change orders may result in increases or decreases in project costs, actual expenditures in FIMS may be lower or higher than the contract amounts in DCIS.

Districts' available funding balances are decreased by the low-bid amount on their contracts. Therefore, failure to compare contract award amounts with actual project expenditures may result in the following:

- If a district's actual project expenditures exceed the low-bid amount of a contract, the Department would not decrease available funds for that district accordingly. In the long-term, this may result in the district receiving more funds than the Department initially allocated to it.
- If a district's actual project expenditures are less than the low-bid amount of a contract, the Department would not increase available funds for that district accordingly. In the long-term, this may result in the district receiving fewer funds than the Department initially allocated to it.

Instead of adjusting districts' allocations according to actual expenditures, the Department sets aside a predetermined amount (6 percent in fiscal year 2008) of federal funding apportionments before determining each district's initial funding allocation. This set-aside amount is intended to cover potential increases in expenditures that result from change orders.

The Department asserts that it is considering methods of updating DCIS to reflect increases in expenditures. This would help minimize the differences between actual project expenditures and the funding allocations obligated for projects.

The Department does not have a transparent process that communicates the effects on districts when other districts accelerate projects.

District Funding Allocations and Work Programs

Districts manage their funding through work programs. The Department establishes work programs for each of the 12 UTP funding categories for all districts. The Texas Transportation Commission approves initial work program balances through the UTP.

Changes to work program balances may occur through the UTP or through Texas Transportation Commission approval of minute orders.

A work program represents a district's share of funding in a given category for a given year. Work programs have a four-year life (current year plus three subsequent years); there is no requirement that a district use all of the funding for a given work program during the first year. Typically, a district will have multiple work programs in various stages.

Districts manage their funding by "balancing" their work program amounts and ensuring that they spend their individual work program amounts before the end of that work program's life. Work program balances can be obligated in four ways:

- Actual Awards: Based on lowest qualified bid.
- Approved Planned Projects: Based on engineering estimates.
- Preliminary Engineering.
- Change Orders.

The Department does not reallocate funds among districts as a result of some districts accelerating projects. Instead, it adjusts contract award schedules based on available cash flow. The original amounts are still allocated to the districts, but districts' ability to access the funds at a specific time depends on cash flow conditions, which are primarily controlled by the volume of contract awards. Although this is an effective method of controlling cash flow, the Department currently does not notify or otherwise involve districts whose access to funds may be restricted.

When a district accelerates projects to the extent that it has used all of its current year funding allocations, two conditions occur:

- The district must pay contractors with funds that were originally allocated to another district.
- Although the district is spending current year cash allocated to another district, it is also reducing its own future funding.

After a district has exhausted its total funding allocation, it will not be able to fund any additional projects. Therefore, in the long-term, districts that accelerate projects will have less funding allocations remaining in the future.

Considering the complexities of building and maintaining roadways, it is reasonable to expect the rate of progress on projects to vary among districts. However, due to the impact of inflation, districts may lose financial leverage if their projects are funded in the later years of the allocations (because the initial amount of funds allocated will buy less roadway in future years). It is important to note, however, that one of the Department's priorities is to spend all federal funds within the period of availability, so the need to have cash available to districts must be balanced with the need to prevent federal and state funds from lapsing.

Auditors compared planned contract awards to actual contract awards for a five-year period for all districts. The districts with the lowest ratio of awarded-to-planned contracts cited reasons for project delays that were not attributable to the pace of projects in other districts. Instead they asserted their projects were delayed because of issues such as right of way acquisition and design and environmental issues. However, the potential exists that some districts could be negatively affected when other districts spend funds ahead

of schedule. The Department has no process to communicate to the districts regarding how these issues could affect their funding.

Recommendations

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.
- 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.
- 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.

Management's Response

- *The Department is currently working on an information resources project that will address this recommendation by adjusting a district's allocation for the final actual expenditures of a project and for all change orders.*

Estimated Implementation Date: September 2009

- *The information resource project currently being worked on by the Department will be able to track the transfer of funds between districts when one district's ability to accelerate the awarding of contracts outside of the current year's letting schedule and those projects require funding originally allocated to another district. The Department will consider documenting the agreement between the consenting districts and compensating the lending district to offset the lost financial leverage due to inflation.*

Estimated Implementation Date: September 2009

- *The Department currently provides legislators a list of proposed projects within their legislative districts. When allocations are affected through Commission minute orders, the affected legislators will be notified.*

Estimated Implementation Date: September 2008

The Department Has Made Progress in Implementing Recommendations from a Previous Audit of Its Reported Funding Gap and Tax Gap Information

The Department has made progress in implementing recommendations to address deficiencies identified 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). Of the four

Definitions of Implementation Status

- **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.

recommendations reviewed, two recommendations have been substantially implemented, one recommendation's implementation is incomplete and ongoing, and one recommendation has not been implemented.

Funding Gap Recommendation

In its July 2006 strategic plan, the Department reported that there was an \$86 billion "funding gap" between transportation needs and available transportation funding. This funding gap was the reported difference between the estimated funding needed to achieve a desired level of mobility by 2030 and the anticipated traditional available funding.

Prior audit recommendation: The Department should continue to coordinate the development of the funding gap by prescribing the elements of cost and revenue assumptions and validating the cost and revenue estimates provided by external organizations.

Status: Incomplete/Ongoing. The Department formed the 2030 Committee, whose purpose was to oversee an independent assessment of Texas's mobility and maintenance needs through 2030. The 12-member committee comprises industry leaders in logistics, rail, and trucking, as well as community leaders from across the state. The 2030 Committee will hold public hearings over the next several months to allow Texans an opportunity to communicate their perspective on transportation needs. The intent of the committee is to focus the hearings on the benefits of a quality transportation system, rather than advocating for specific projects or solutions.

In 2008, the Department also entered into an interagency contract with the Texas A&M University System's Texas Transportation Institute (TTI) to develop estimates of transportation mobility needs (for highways and public transit) for Texas for fiscal years 2009 through 2030. This contract requires TTI to review and incorporate, where appropriate, information from the State Auditor's Office's report on the Texas Metropolitan Mobility Plan's estimates of need, new definition(s) of "need," and new costs estimates. In addition, the Department contracted with the University of Texas at Austin's Center for

Transportation Research (CTR) to develop an assessment of bridge and pavement needs in the state.

The 2030 Committee will work together with TTI and CTR to develop the mobility and maintenance needs assessment. The committee structure provides for the independent development of transportation needs by parties outside the Department. The committee is expected to present its needs assessment report to the Texas Transportation Commission in December 2008.

Tax Gap Recommendations

The Department previously asserted that revenues associated with traveling on a specific highway were not sufficient to pay for the construction and maintenance of that highway over its estimated life. The costs associated with this “tax gap” (as defined by the Department) included the initial construction and right-of-way costs and the cost of preventive and routine maintenance. The Department now asserts that it does not intend to use the tax gap analysis in the future. Therefore, implementing the prior audit recommendations related to the tax gap analysis may not be an effective use of resources.

Prior audit recommendation: The Department should determine an appropriate tax gap analysis period beyond the 40-year life of a project to capture road segment reconstruction costs.

Status: Substantially Implemented. The Department contracted with Cambridge Systematics to develop an appropriate tax gap analysis period beyond the 40-year life of a project to capture road segment reconstruction costs. The original intent of the tax gap methodology was to illustrate the assertion that no roadway pays for itself. However, the Department does not intend to use or further modify the tax gap analysis.

Prior audit recommendation: The Department should ensure that cost definitions in its tax gap calculation methodology correctly reflect all elements within the cost model. If reconstruction costs are to be included, the Department should extend the analysis period beyond the 40-year life cycle of a road segment to ensure that expenses are associated with revenues.

Status: Substantially Implemented. Cambridge Systematics revised the tax gap calculation methodology to correctly reflect all elements within the cost model. However, the Department does not intend to use or further modify the tax gap analysis.

Prior audit recommendation: The Department should conduct a formal review and approval process to ensure that assumptions used in its tax gap calculation methodology are consistent throughout the Department.

Status: Not Implemented. The Department has not developed a formal review and approval process to ensure the assumptions are consistent throughout the

Department. However, the Department does not intend to use or further modify the tax gap analysis.

Recommendations

The Department should:

- Continue its efforts to implement the recommendation related to the funding gap, including:
 - ♦ Development and implementation of a process to implement the recommendations of the 2030 Committee.
 - ♦ 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).
 - ♦ Identification and implementation of a mechanism to review the data provided by TMMPs, TUMPs, and other external sources.
- Formally document its intent to cease further implementation of the tax gap analysis and related prior audit recommendations.

Management's Response

- *The 2030 Committee is guiding the needs assessment efforts of TTI and CTR is scheduled to complete its work and issue a report to the Texas Transportation Commission in December 2008. At that time, the Department will evaluate the recommendations presented in the report and share them with the Texas Legislature. Pending receipt of the report and any subsequent guidance from the Legislature, TxDOT will develop an implementation plan, as necessary.*

Estimated Implementation Date: September 2009

- *The Department has performed a detailed analysis of individual Texas Metropolitan Mobility Plans (TMMP) and Texas Urban Mobility Plans (TUMP) adopted and submitted by the metropolitan planning organizations (MPO). The Department verified, and updated where needed, uniform unit costs and brought all costs to constant 2007 dollar amounts. The MPOs reviewed and commented on the changes. The Department has developed a consistent picture of the needs in the MPO areas and has provided the information to TTI in their work with the 2030 Committee.*

Estimated Implementation Date: Completed

- *The Department has developed a process to review the data provided by the MPOs for the TMMPs and TUMPS. This process has been provided to TTI for use in their work in developing estimates of transportation mobility needs.*

Estimated Implementation Date: Completed

- *The Executive Director formally agreed to cease any implementation efforts associated with the tax gap analysis as recommended in a memo from the Deputy Executive Director.*

Estimated Implementation Date: Completed

List of All Recommendations in This Report

All of the recommendations in this report are listed below.

Chapter 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.
- Post Texas Transportation Commission briefing documents on its Web site at the same time it provides commissioners with these documents.
- 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.
- 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:
 - ♦ 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.
 - ♦ 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.

- 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.

Chapter 2

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 *Cash Forecast System Manual*, 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.
- 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:
 - ♦ Testing inputs for accuracy.
 - ♦ Reviewing the supporting worksheets to ensure staff followed the Department's policies in the cash forecast preparation process.
- Update and implement the cash forecast approval process and timelines documented in the Texas Transportation Institute's *Cash Forecast System Manual* (or create a separate policy for the approval process). The

procedures should specify (1) individuals authorized to approve cash forecast reports, (2) the timeline 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.

- 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.
- 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.

Chapter 3

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.
- 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.
- 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.

Chapter 4

The Department should:

- Continue its efforts to implement the recommendation related to the funding gap, including:
 - ♦ Development and implementation of a process to implement the recommendations of the 2030 Committee.
 - ♦ 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).
 - ♦ Identification and implementation of a mechanism to review the data provided by TMMPs, TUMPs, and other external sources.
- Formally document its intent to cease further implementation of the tax gap analysis and related prior audit recommendations.

Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to:

- Determine whether the Department of Transportation's (Department) process for budget forecasting and monitoring produces accurate and complete financial information, including budget variance reporting.
- Determine whether the Department's fund allocation process produces reliable results and is based upon reliable and consistent criteria.
- Follow up on selected audit recommendations from *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).
- As may be appropriate, review other comprehensive financial processes and information of the Department to determine whether they produce transparent, complete, and accurate financial information.

Scope

The scope of this audit included (1) all matters involving the cash forecast process the Department uses to make critical business decisions such as developing construction contract award volumes and (2) the Department's reporting of its fiscal status to oversight entities. Auditors reviewed the cash forecast process the Department used from April 2007 through July 2008. Additionally, auditors reviewed construction funds the Department allocated to various districts and supporting documentation the Department used to make the allocations for fiscal year 2008. The audit scope also included the automated systems and processes that support the functions being audited.

Methodology

The audit methodology included interviewing Department staff, examining policies, and reviewing support documentation.

Information collected and reviewed included the following:

- Legislative correspondence and reports, including cash forecasts the Department prepared and issued from April 2007 to April 2008.
- Department guides for transportation planning.

- Cash forecast planning documentation and system data, including assumptions and system code.
- Texas Transportation Commission briefing books, meeting transcripts, and related transcripts from legislative hearings.
- Construction and maintenance contract letting schedules from fiscal year 2004 to the time of the audit, and data extracts from the Department's Design and Construction Information System (DCIS).
- Department Legislative Appropriation Requests.
- Bond transcripts related to Proposition 14 and Texas Mobility Fund bond issues.
- Documentation related to the Department's fund allocations to districts' work programs.

Procedures and tests conducted included the following:

- Interviewed key staff members from:
 - ♦ Finance, including the forecast staff.
 - ♦ Budget.
 - ♦ Transportation Planning.
 - ♦ Letting Management.
 - ♦ Selected district offices.
- Tested and analyzed the Department's cash forecast system, including inputs, outputs, and system calculations.
- Reviewed, tested, and analyzed Department processes for ensuring accurate reporting, including supervisory review of the cash forecast, management review and approval of the cash forecast, and management review and approval of the construction letting volume.
- Reconciled historical financial activity the Department reported in its cash forecast to the Uniform Statewide Accounting System.
- Reviewed the Department's bond authority to determine whether bonding capacity was being used appropriately.
- Reviewed the Department's calculation of funds allocated to each district by category.

- Reviewed projects that were delayed as a result of the Department's \$1.1 billion error.
- Reviewed Department information technology systems for appropriateness of access to the cash forecast system and reviewed the computer code of the cash forecast system.
- Reviewed the Department's methodology for developing a new cash forecast system.

Criteria used included the following:

- The Texas Transportation Institute's *Cash Forecast System Manual*.
- The Department's methodology and processes for preparing and reporting the cash balance forecast.
- General Appropriations Act (80th Legislature).
- The Department's *Transportation Planning Manual*.
- The Department's *Transportation Planning Policy Manual*.
- The Department's *Transportation Planning Process Manual*.
- The Department's *Transportation Programming and Scheduling Manual*.

Project Information

Audit fieldwork was conducted from March 2008 through July 2008. 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:

- James Timberlake, CIA (Project Manager)
- Jules Hunter, CPA, CIA (Assistant Project Manager)
- Tim Ault
- Kathy Aven, CIA, CFE
- Robert H. (Rob) Bollinger, CPA, CFE
- Jennifer Logston, MBA

- Michele Pheeney, MBA
- Brad Reynolds
- Anthony W. Rose, MPA, CPA, CGFM
- Tamara Shepherd, CGAP
- Priscilla Garza (Information Systems Audit Team)
- Serra Tamur, MPAff, CISA, CIA (Information Systems Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Kelly Furgeson Linder, CIA, CGAP (Audit Manager)

Project Reductions as a Result of the Department's \$1.1 Billion Error

Table 3 lists the project reductions, by district office, that were made as a result of the Department of Transportation's \$1.1 billion error. This list includes only projects anticipated in the original contract award schedule.

In addition to the reduction in project awards shown in the table below, the Department made further budget reductions totaling \$509,514, 897 in right of way access (\$249,475,000) and professional services (\$260,039,897).

Table 3

Project Reductions as a Result of the Department of Transportation's \$1.1 Billion Error				
District Office	Original Schedule for Contract Awards for Fiscal Year 2008 (including local projects)	Projects Delayed	Amount Remaining After Subtracting Delayed Projects	Percent Reduction
Abilene ^a	\$ 67,365,367	\$ 0	\$ 67,365,367	0.00%
Amarillo	87,191,150	0	87,191,150	0.00%
Atlanta	66,939,440	0	66,939,440	0.00%
Austin ^b	614,247,887	127,100,000	487,147,887	20.69%
Beaumont	138,334,958	12,507,430	125,827,528	9.04%
Brownwood	38,701,998	0	38,701,998	0.00%
Bryan	121,534,318	0	121,534,318	0.00%
Childress	48,566,214	0	48,566,214	0.00%
Corpus Christi	87,207,003	10,700,000	76,507,003	12.27%
Dallas	643,792,344	16,655,000	627,137,344	2.59%
El Paso	62,780,021	0	62,780,021	0.00%
Fort Worth	279,394,080	0	279,394,080	0.00%
Houston	624,863,036	161,142,165	463,720,871	25.79%
Laredo	264,587,176	113,832,248	150,754,928	43.02%
Lubbock	87,537,715	0	87,537,715	0.00%
Lufkin	89,390,353	46,678,290	42,712,063	52.22%
Odessa ^c	64,602,677	0	64,602,677	0.00%
Paris	100,372,380	0	100,372,380	0.00%
Pharr	156,491,840	41,894,369	114,597,471	26.77%
San Angelo	48,991,909	20,000,000	28,991,909	40.82%
San Antonio	251,168,655	71,516,000	179,652,655	28.47%
Tyler	206,624,881	56,020,000	150,604,881	27.11%
Waco	304,805,774	14,100,000	290,705,774	4.63%
Wichita Falls	114,077,813	0	114,077,813	0.00%
Yoakum	81,585,073	0	81,585,073	0.00%

Project Reductions as a Result of the Department of Transportation's \$1.1 Billion Error				
District Office	Original Schedule for Contract Awards for Fiscal Year 2008 (including local projects)	Projects Delayed	Amount Remaining After Subtracting Delayed Projects	Percent Reduction
Totals	\$ 4,651,154,062	\$ 692,145,502	\$ 3,959,008,560	14.88%
^a District had additional delayed project(s) of \$4,736,008 that were not on the original contract award schedule. ^b District had additional delayed project(s) of \$22,400,000 that were not on the original contract award schedule. ^c District had additional delayed project(s) of \$42,875,808 that were not on the original contract award schedule.				

Source: Department of Transportation.

Example of a Department of Transportation Cash Forecast Report

The Department of Transportation's April 2008 cash forecast report is presented below.

Texas Department of Transportation Total Letting Amounts April 2008 Forecast

BASE CASE	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
State Highway Fund	3,791,847,666	3,393,497,081	2,839,498,005	2,564,310,573	2,423,232,742	2,530,833,237	2,409,418,029	2,406,101,117	2,437,098,117	2,490,098,117	2,536,098,117	2,581,198,117	2,627,598,117	2,668,098,117	2,728,098,117	2,764,098,117
Texas Mobility Fund	-	1,085,148,072	1,614,141,997	223,088,348	272,742,323	-	-	-	-	-	-	-	-	-	-	-
Proposition 14	-	-	834,910,051	1,029,515,137	35,794,929	-	-	-	-	-	-	-	-	-	-	-
SH 121	-	-	-	-	15,194,675	168,822,785	13,440,000	471,657,600	-	-	-	-	-	-	-	-
SH 130 (Seg. 5 & 6)	-	-	-	-	8,279,334	-	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Proposition 12	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Letting	3,791,847,666	4,478,646,153	5,288,450,053	3,816,914,058	2,755,243,803	2,697,656,022	2,424,858,029	2,879,738,717	2,439,098,117	2,494,398,117	2,536,098,117	2,581,198,117	2,627,598,117	2,668,098,117	2,728,098,117	2,764,098,117

SCENARIO

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
State Highway Fund	3,791,847,666	3,393,497,081	2,839,498,005	2,564,310,573	2,423,232,742	2,530,833,237	2,409,418,029	2,406,101,117	2,437,098,117	2,490,098,117	2,536,098,117	2,581,198,117	2,627,598,117	2,668,098,117	2,728,098,117	2,764,098,117
Texas Mobility Fund	-	1,085,148,072	1,614,141,997	223,088,348	272,742,323	1,250,000,000	-	-	-	-	-	-	-	-	-	-
Proposition 14	-	-	834,910,051	1,029,515,137	35,794,929	168,822,785	13,440,000	471,657,600	-	-	-	-	-	-	-	-
SH 121	-	-	-	-	15,194,675	168,822,785	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
SH 130 (Seg. 5 & 6)	-	-	-	-	8,279,334	-	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Proposition 12	-	-	-	-	-	-	2,000,000,000	2,000,000,000	-	-	-	-	-	-	-	-
Total Letting	3,791,847,666	4,478,646,153	5,288,450,053	3,816,914,058	2,755,243,803	3,947,656,022	4,424,858,029	4,879,738,717	2,439,098,117	2,494,398,117	2,536,098,117	2,581,198,117	2,627,598,117	2,668,098,117	2,728,098,117	2,764,098,117

Letting is a contract award amount. The letting figures above will have cash expenditures during the year of letting and during future years until project completion. Page two of this forecast depicts the actual and projected cash expenditures resulting from these letting amounts.

BASE CASE

**Texas Department of Transportation
Total Expenses
April 2008 Forecast**

Expenses

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Research	21,693,751	21,694,455	22,261,119	21,386,499	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007	21,759,007
Engineering	588,655,344	622,420,160	702,103,372	720,417,987	780,865,884	555,268,151	477,077,654	477,038,854	438,521,134	422,650,079	428,660,177	428,978,976	443,749,344	445,222,640	453,778,088	461,300,222
Right-of-Way	286,827,254	822,607,537	544,359,455	568,715,379	595,728,782	380,200,022	249,822,242	239,510,070	158,222,157	151,761,458	148,771,302	142,227,866	147,918,452	148,448,878	151,082,200	153,785,242
Plan It	675,702,340	1,276,847,122	1,266,820,946	1,305,421,905	1,369,261,375	967,288,020	747,555,231	734,069,961	616,520,278	608,171,175	600,469,516	594,921,009	613,454,833	615,521,553	626,128,225	638,946,008
Build It	1,888,845,412	2,458,134,221	3,266,786,137	3,858,940,394	3,730,836,180	2,910,234,313	2,557,659,278	2,345,875,987	1,921,771,507	1,824,459,893	1,828,330,554	1,547,492,731	1,577,857,079	1,603,882,083	1,627,573,301	1,633,134,570
Maintain It	2,241,461,789	2,588,633,626	2,402,262,701	3,046,102,774	2,494,865,289	2,659,765,172	2,453,806,725	2,328,180,708	2,267,353,554	2,253,075,659	2,178,488,883	2,195,831,419	2,224,865,954	2,229,446,745	2,252,144,688	2,270,397,814
Use It	236,411,333	397,255,802	396,460,769	337,002,269	302,474,979	218,655,141	218,655,141	218,655,141	218,655,141	218,655,141	213,949,269	213,949,269	213,949,269	213,949,269	213,949,269	213,949,269
Manage It	162,437,189	161,720,686	162,335,029	221,860,961	185,203,976	184,971,579	184,971,579	184,971,579	184,971,579	184,971,579	175,671,689	175,671,689	175,671,689	175,671,689	175,671,689	175,671,689
*Short-Term Borrowing D/S	-	-	200,825,019	184,103,377	214,811,170	218,750,000	-	-	-	-	-	-	-	-	-	-
*Prop 14 Debt Service	-	-	75,000	66,178,822	151,123,482	241,178,123	241,307,268	241,205,844	241,205,823	241,208,426	241,172,253	241,214,143	241,147,811	241,183,153	241,278,138	241,272,137
Initiation / Additional Programs	-	-	-	-	159,977,668	318,848,845	437,339,204	635,744,880	635,744,880	635,744,880	635,744,880	635,744,880	635,744,880	635,744,880	635,744,880	635,744,880
Total Expenses	6,424,358,951	6,760,691,337	7,546,225,410	7,947,641,441	8,427,742,170	7,301,888,348	6,655,178,340	6,270,818,748	5,855,754,445	5,844,222,793	5,833,666,848	5,820,226,134	6,126,762,210	6,160,354,042	6,160,354,042	6,163,346,555

Source of Funds

State Highway Fund	5,474,258,081	6,420,501,174	6,188,978,823	6,058,884,715	5,597,945,511	6,075,884,073	5,974,200,715	5,842,288,822	5,598,598,773	5,673,230,704	5,734,692,371	5,320,229,134	6,138,762,210	6,260,394,042	6,300,331,359	6,153,346,550
Texas Motor Fuel Fund	-	320,000,163	1,115,475,793	1,838,098,666	1,547,497,166	746,523,108	320,500,463	135,254,814	63,782,409	39,702,464	24,667,163	-	-	-	-	-
Proposition 14	-	-	333,877,225	1,038,877,230	777,559,972	285,843,920	198,700,559	139,451,514	78,892,203	69,007,655	21,603,029	-	-	-	-	-
SA 121	-	-	-	-	148,769,802	186,807,911	119,171,844	307,240,893	215,553,980	177,867,500	63,540,264	-	-	-	-	-
SA 130 (Sep 5.8.6)	-	-	-	-	6,000,000	8,293,354	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Proposition 12**	-	-	-	-	-	-	300,000,000	-	-	-	-	-	-	-	-	-
GR - Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Funds	5,474,258,081	6,760,691,337	7,546,225,410	7,947,641,441	8,427,742,170	7,301,888,348	6,655,178,340	6,270,818,748	5,855,754,445	5,844,222,793	5,833,666,848	5,820,226,134	6,126,762,210	6,160,354,042	6,160,354,042	6,153,346,550

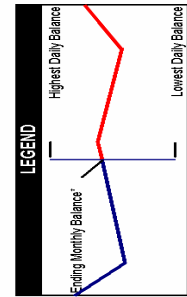
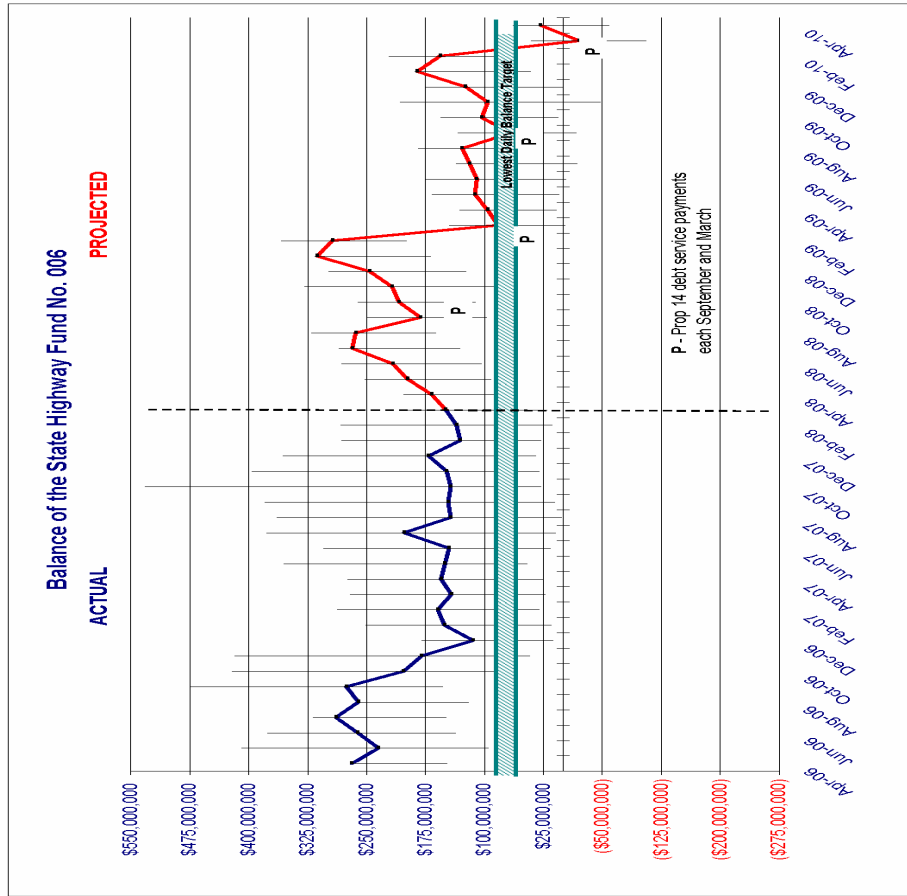
** Amount and timing of funds for Proposition 12 to be determined.

* Includes \$300M of debt service paid from GR

Figures do not include TxDOT employee benefits (insurance premiums, Social Security, etc.) paid by other agencies.

State Highway Fund
Operating Balance
as of April 30, 2008

USAS Ending Balance	4,615,986,329.68
SH 121	(3,244,346,638.04)
Prop 14 / SHF Bonds	(1,111,462,403.02)
SH 130 (Segments 5 & 6)	(26,208,989.35)
State Infrastructure Bank	(62,703,644.68)
CTTS Holding	(8,900,000.00)
Ending Balance	162,384,654.59
Cash Reserved for Payroll	(100,455,695.94)
Available for Operations	61,928,958.65
Short-term borrowing outstanding	233,000,000.00



* For the ending monthly balances, the actual months are shown by the blue line and the projected months are shown by the red line.
 ** Balances below \$0 project the need to issue additional short-term borrowing

Texas Department of Transportation
State Highway Fund Operating Account - Cash Forecast
April 2008 Forecast

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	734,731,622	710,730,689	225,873,689	260,041,688	147,823,371	284,627,642	128,205,288	193,094,337	252,884,177	327,116,586	349,809,710	374,427,484	342,224,177	354,644,639	313,080,141	217,024,263
Revenue																
State Gas Tax	2,130,041,910	2,148,324,884	2,194,180,196	2,239,201,991	2,296,429,758	2,342,745,261	2,377,688,438	2,413,554,737	2,449,759,060	2,485,904,429	2,523,801,996	2,561,659,025	2,600,683,914	2,639,105,170	2,678,871,452	2,718,951,523
Registration Fees	846,810,377	876,802,300	922,713,282	984,246,908	1,038,998,783	1,074,502,089	1,129,421,520	1,177,586,234	1,232,810,169	1,290,844,441	1,351,212,804	1,414,684,888	1,481,000,881	1,550,489,388	1,623,196,418	1,699,334,819
FHWA Reimbursements	2,979,888,594	3,143,363,620	2,965,652,298	1,840,659,068	2,494,900,362	3,193,454,679	3,027,037,286	2,749,365,961	2,570,574,365	2,494,479,412	2,441,597,649	2,403,842,852	2,369,703,494	2,371,785,828	2,812,067,459	2,653,623,649
Other Fed Reimbursements	114,331,350	145,961,417	169,215,339	92,401,458	188,445,648	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122	123,118,122
Short-Term Borrowing	-	-	300,000,000	170,000,000	270,000,000	-	-	-	-	-	-	-	-	-	-	-
Other	317,186,061	359,886,620	532,092,891	447,203,688	489,548,894	416,680,741	435,050,361	447,087,723	457,889,871	467,759,809	467,187,969	471,081,525	474,180,533	477,875,532	480,811,427	483,633,686
Total Revenue	6,097,117,920	6,674,258,941	7,043,860,976	6,675,713,148	6,775,251,565	7,064,480,892	7,092,514,239	6,910,628,797	6,933,950,887	6,957,506,213	6,976,886,540	7,054,226,222	7,205,666,564	7,392,414,038	7,617,669,873	7,878,561,793
Available Funds	6,822,449,614	7,384,989,700	7,919,734,665	6,138,754,816	6,919,654,726	7,354,118,754	7,220,719,807	7,103,693,134	7,086,634,764	7,184,629,899	7,265,099,260	7,428,747,706	7,547,591,141	7,717,069,576	7,930,940,014	7,956,569,566
Expenses																
Research	21,889,751	21,819,435	22,261,119	21,268,439	22,625,600	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037	21,759,037
Engineering	586,835,344	419,334,376	731,053,372	549,885,389	526,447,407	403,859,804	395,332,429	419,719,772	417,133,500	417,706,000	423,538,500	429,878,076	443,749,344	445,322,840	453,276,888	461,380,232
Right-of-Way	268,837,254	631,607,537	346,833,938	277,510,495	208,682,591	134,653,272	131,777,172	138,739,828	139,044,504	139,235,084	141,179,496	143,292,866	147,916,452	148,440,376	151,082,300	153,786,740
Plan It	875,702,349	1,072,761,348	1,101,147,429	848,884,323	759,755,596	590,372,113	548,888,837	590,716,737	577,937,041	578,689,041	596,477,033	594,931,009	613,424,333	676,522,653	626,128,225	688,946,009
Build It	1,908,845,412	2,330,129,882	2,084,931,137	474,900,649	1,921,480,288	2,091,285,945	2,067,867,507	1,822,706,905	1,813,144,121	1,590,329,978	1,531,188,570	1,547,483,731	1,572,937,079	1,600,892,062	1,627,573,301	1,633,134,870
Maintain It	2,241,461,708	2,588,633,628	2,402,288,701	3,046,102,774	2,404,995,388	2,550,755,172	2,453,606,135	2,328,180,708	2,287,353,554	2,250,076,659	2,179,489,963	2,158,831,419	2,214,655,854	2,234,446,745	2,252,144,588	2,270,307,814
Use It	238,411,333	267,255,802	265,488,769	337,002,269	332,474,879	218,655,141	218,655,141	218,655,141	218,655,141	218,655,141	213,348,289	213,348,289	213,348,289	213,348,289	213,348,289	213,348,289
Manage It	162,137,099	161,720,596	183,330,039	221,889,981	185,329,976	184,917,579	184,917,579	184,917,579	184,917,579	184,917,579	175,871,699	175,871,699	175,871,699	175,871,699	175,871,699	175,871,699
Short-Term Borrowing DS	-	-	203,626,816	104,103,377	26,551,136	219,750,000	-	-	-	-	-	-	-	-	-	-
Prop 14 Debt Service	-	-	75,000	68,778,922	38,593,225	24,118,123	241,307,388	241,235,844	241,235,033	241,208,426	241,172,253	241,214,443	241,147,611	241,182,153	241,278,139	241,271,137
Other Agencies	499,888,873	547,683,603	650,824,537	675,823,668	738,098,813	902,903,066	906,338,066	909,623,096	912,803,066	914,488,066	916,468,066	918,468,066	916,468,066	916,468,066	916,468,066	916,468,066
Other Agencies for TLOOT	187,471,791	190,831,234	208,891,567	219,245,542	239,255,591	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289	247,116,289
Inflation/Additional Programs	-	-	-	-	-	-	158,377,488	316,884,648	478,384,304	635,744,880	795,143,544	951,548,844	1,108,378,844	1,268,123,540	1,423,887,116	1,582,374,972
Total Expenses	6,111,718,765	7,169,116,811	7,069,692,397	6,992,937,446	6,655,426,886	7,226,913,468	7,027,657,170	6,951,008,567	6,789,616,659	6,888,276,766	7,068,823,529	7,193,346,803	7,392,479,435	7,613,916,751	7,866,330,963	-
Ending Balance	710,730,689	225,873,689	260,041,688	142,823,371	284,627,642	128,205,288	193,094,337	252,884,177	327,116,586	349,809,710	374,427,484	342,224,177	354,644,639	313,080,141	217,024,263	88,655,073
Lowest Daily Balance	422,886,494	90,332,801	60,045,767	1,708,645	10,941,536	(18,066,587)	(105,913,463)	(49,838,838)	(25,303,033)	(65,107,579)	(83,869,251)	(88,972,593)	(52,965,166)	(26,788,418)	(54,206,778)	(179,497,371)
Letting	3,791,647,666	3,993,497,061	2,699,496,005	2,564,310,573	2,425,225,742	2,550,893,297	2,409,418,029	2,406,101,117	2,437,086,117	2,480,086,117	2,556,086,117	2,561,198,117	2,627,596,117	2,688,086,117	2,726,086,117	2,764,086,117
Project Conversions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

* Excludes \$300M of debt service paid from GR

**Texas Department of Transportation
Texas Mobility Fund
Bond Proceeds and Expenditures
April 2008 Forecast**

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Beginning Balance	-	-	711,231,145	366,818,394	772,136,452	281,697,766	720,834,054	350,333,591	213,973,776	153,195,367	113,492,873	88,430,710	88,430,710	88,430,710	88,430,710	88,430,710
Revenue																
Bond Proceeds	-	1,041,321,308	771,063,042	2,245,217,664	1,157,028,501	1,185,386,485	-	-	-	-	-	-	-	-	-	-
Available	-	1,041,321,308	1,482,294,186	2,612,036,058	1,929,164,953	1,467,084,252	720,834,054	350,333,591	213,973,776	153,195,367	113,492,873	88,430,710	88,430,710	88,430,710	88,430,710	88,430,710
Expenses																
Engineering	-	203,085,774	50,000	133,301,992	191,772,587	111,735,452	55,476,005	20,416,764	9,101,259	5,944,758	3,802,891	-	-	-	-	-
Right-of-Way	-	1,000,000	197,433,517	266,204,884	386,047,191	235,442,590	116,895,868	43,021,038	19,177,653	12,526,455	7,591,806	-	-	-	-	-
Plan It	-	204,085,774	197,493,517	419,506,875	577,819,778	347,718,012	172,371,873	63,437,801	28,278,912	18,471,214	11,194,686	-	-	-	-	-
Build It	-	126,004,399	917,992,276	1,420,392,731	1,059,647,408	399,055,186	198,128,530	72,917,013	32,504,497	21,231,260	12,887,467	-	-	-	-	-
Total Expense	-	330,090,163	1,115,475,793	1,839,899,606	1,647,467,186	746,233,198	370,500,463	136,354,814	60,783,409	39,702,494	24,062,163	-	-	-	-	-
Ending Balance	-	711,231,145	366,818,394	772,136,452	281,697,766	720,834,054	350,333,591	213,973,776	153,195,367	113,492,873	88,430,710	88,430,710	88,430,710	88,430,710	88,430,710	88,430,710
Letting	-	1,085,149,072	1,614,141,997	223,888,346	272,142,323											
Project Conversions	-	-	-	935,892,882												

**Texas Department of Transportation
Texas Mobility Fund
Taxes and Fees
April 2008 Forecast**

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Beginning Balance	-	38,248,925	121,519,074	168,976,727	353,408,051	364,056,799	437,837,782	473,924,289	515,387,124	559,020,830	602,257,207	646,335,268	691,649,437	738,522,341	785,875,395	834,812,377
Revenue																
Statewide Traffic Fine	38,159,890	59,605,556	-	64,379,462	(64,379,462)	-	-	-	-	-	-	-	-	-	-	-
Driver Resp Act	-	18,176,042	(17,391)	79,989,107	(79,989,107)	-	-	-	-	-	-	-	-	-	-	-
Driver's License Fees	-	-	-	312,303	157,194,629	123,338,000	125,168,000	127,086,000	128,972,000	130,907,000	132,871,000	134,864,000	136,887,000	138,940,000	141,024,000	143,139,000
Driver Record Info Fees	-	-	-	53,508,230	75,586,162	55,126,000	55,953,000	56,792,000	57,644,000	58,509,000	59,387,000	60,278,000	61,182,000	62,100,000	63,032,000	63,977,000
Vehicle Inspection Fees	-	-	-	84,555,948	113,233,336	87,972,000	88,731,000	91,526,000	93,357,000	95,224,000	97,128,000	99,071,000	101,062,000	103,073,000	105,134,000	107,257,000
United We Stand	22	814	1,372	2,330	2,881	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
TERP Fees	-	-	-	-	-	96,435,000	99,870,000	103,155,000	106,335,000	109,500,000	112,660,000	115,810,000	118,950,000	122,090,000	125,230,000	128,370,000
Motor Safety Violations	-	-	1,833,079	2,102,244	1,613,295	1,061,000	1,093,000	1,126,000	1,160,000	1,194,000	1,228,000	1,262,000	1,296,000	1,330,000	1,364,000	1,398,000
Interest	88,012	5,250,370	27,268,798	36,700,487	19,612,289	8,000,000	8,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000	9,000,000
Miscellaneous	1	-	(175)	-	3,887	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	38,248,925	83,033,822	111,556,757	321,530,111	222,908,880	371,934,000	379,837,000	388,667,000	396,470,000	402,642,000	409,388,000	416,215,000	423,123,000	430,115,000	438,162,000	445,355,000
Available	38,248,925	122,282,307	233,075,831	490,506,838	576,317,941	735,990,799	817,674,782	862,591,289	911,857,124	961,662,830	1,011,645,207	1,062,550,268	1,114,772,437	1,168,637,341	1,224,067,395	1,280,167,377
Expenses																
Debt Service	-	724,732	63,465,854	134,211,216	212,054,053	238,153,017	343,750,492	347,204,166	352,836,283	359,405,624	365,309,939	370,900,831	376,250,097	382,761,945	389,255,018	394,973,864
Other	-	38,300	633,251	2,887,571	207,079	-	-	-	-	-	-	-	-	-	-	-
Total Expense	-	763,232	64,099,104	137,098,787	212,261,142	238,153,017	343,750,492	347,204,166	352,836,283	359,405,624	365,309,939	370,900,831	376,250,097	382,761,945	389,255,018	394,973,864
Ending Balance	38,248,925	121,519,074	168,976,727	353,408,051	364,056,799	437,837,782	473,924,289	515,387,124	559,020,830	602,257,207	646,335,268	691,649,437	738,522,341	785,875,395	834,812,377	885,193,513
*Lowest Daily Balance	3,270,744	48,104,771	125,473,079	180,867,634	162,864,350	191,565,775	244,429,011	282,071,518	322,220,882	363,865,091	405,152,919	447,022,505	491,617,075	538,056,796	581,628,361	629,024,914

TMF RESERVE REQUIREMENTS:

Prior to the issuance of bonds, the Comptroller must certify that the revenue projected to be received and the balance in the Mobility Fund must equal at least 110% of the principal and interest requirements on the obligations, both proposed and outstanding, during each year the obligations will be outstanding.

As authorized by law, the Commission has elected to use the general obligation pledge of the state on bonds issued to date. With the general obligation pledge, general revenue can be used to pay debt service if the Mobility Fund has insufficient revenues. Debt service payments on fixed rate bonds are made twice a year, April 1 and October 1. Variable rate bonds pay debt service monthly.

In addition, TxDOT maintains a balance reserve to cover certain requirements and contingencies, the foremost of which is potential revenue fluctuations. Additional items include payments or potential payments on swap agreements, cost escalations due to work change orders on funded projects, and as a hedge on interest rates for variable rate bonds.

Texas Department of Transportation
Proposition 14 - State Highway Fund Bonds
Bond Proceeds and Expenditures
April 2008 Forecast

BASE CASE

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	-	-	-	294,277,520	266,963,198	1,031,140,334	746,496,502	548,735,544	418,284,431	339,422,227	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Revenue	-	-	628,150,345	1,000,563,198	1,472,736,889	-	-	-	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available	-	-	628,150,345	1,294,840,759	1,798,700,066	1,031,140,334	746,496,502	548,735,544	418,284,431	339,422,227	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Engineering	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Right-of-Way	-	-	-	37,230,607	54,950,881	37,257,891	25,684,421	17,015,415	10,266,374	9,000,920	2,817,766	-	-	-	-	-
Plan It	-	-	-	37,230,607	54,950,881	37,257,891	25,684,421	17,015,415	10,266,374	9,000,920	2,817,766	-	-	-	-	-
Built It	-	-	333,872,725	671,667,014	677,600,791	243,355,941	171,026,137	113,438,099	68,575,629	60,005,135	48,765,243	-	-	-	-	-
Total Expense	-	-	333,872,725	1,008,877,520	727,555,672	286,643,832	196,169,559	130,451,514	78,862,203	69,007,056	21,603,029	-	-	-	-	-
Ending Balance	-	-	294,277,520	266,963,198	1,031,140,334	746,496,502	548,735,544	418,284,431	339,422,227	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Letting	-	-	834,810,051	1,029,515,137	35,794,629	-	-	-	-	-	-	-	-	-	-	-
Project Conversions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

SCENARIO

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Beginning Balance	-	-	-	294,277,520	266,963,198	1,031,140,334	762,171,151	606,520,236	630,710,076	339,846,291	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Revenue	-	-	628,150,345	1,000,563,198	1,472,736,889	500,000,000	500,000,000	500,000,000	-	-	-	-	-	-	-	-
Bond Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available	-	-	628,150,345	1,294,840,759	1,798,700,066	1,531,140,334	1,262,171,151	1,106,520,236	630,710,076	339,846,291	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Expenditures	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Engineering	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Right-of-Way	-	-	-	37,230,607	54,950,881	37,257,891	25,684,421	17,015,415	10,266,374	9,000,920	2,817,766	-	-	-	-	-
Plan It	-	-	-	37,230,607	54,950,881	37,257,891	25,684,421	17,015,415	10,266,374	9,000,920	2,817,766	-	-	-	-	-
Built It	-	-	333,872,725	671,667,014	677,600,791	243,355,941	171,026,137	113,438,099	68,575,629	60,005,135	48,765,243	-	-	-	-	-
Total Expense	-	-	333,872,725	1,008,877,520	727,555,672	789,965,163	656,650,915	475,910,160	290,961,786	66,433,119	21,603,029	-	-	-	-	-
Ending Balance	-	-	294,277,520	266,963,198	1,031,140,334	762,171,151	606,520,236	630,710,076	339,846,291	270,415,172	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143	248,812,143
Letting	-	-	834,810,051	1,029,515,137	35,794,629	1,250,000,000	-	-	-	-	-	-	-	-	-	-
Project Conversions	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Scenario assumes no net impact to State Highway Fund to retire debt on additional \$1.5B Prop 14 proceeds.

**Texas Department of Transportation
Proposition 12 - General Revenue Bonds
Bond Proceeds and Expenditures
April 2008 Forecast**

SCENARIO

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Beginning Balance	-	-	-	-	-	-	-	268,328,710	257,459,365	220,217,921	483,162,525	1,775,260	-	-	-	-
Revenue	-	-	-	-	-	-	750,000,000	1,250,000,000	1,500,000,000	1,500,000,000	-	-	-	-	-	-
Proceeds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Available	-	-	-	-	-	-	750,000,000	1,518,328,710	1,757,459,365	1,720,217,921	483,162,525	1,775,260	-	-	-	-
Expenses	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Engineering	-	-	-	-	-	-	65,507,295	171,519,031	209,024,036	168,239,534	65,468,688	241,435	-	-	-	-
Right-of-Way	-	-	-	-	-	-	30,628,653	80,714,838	88,364,252	79,171,545	30,808,765	113,617	-	-	-	-
Plan It	-	-	-	-	-	-	98,334,258	252,233,868	307,382,289	247,411,079	98,277,453	355,052	-	-	-	-
Build It	-	-	-	-	-	-	365,337,652	1,003,655,476	1,229,553,155	893,644,317	365,108,812	1,420,208	-	-	-	-
Total Expense	-	-	-	-	-	-	461,671,290	1,281,169,345	1,536,941,444	1,237,065,396	481,387,265	1,775,260	-	-	-	-
Ending Balance	-	-	-	-	-	-	288,328,710	257,459,365	220,217,921	483,162,525	1,775,260	-	-	-	-	-
Letting	-	-	-	-	-	-	2,000,000,000	2,000,000,000	-	-	-	-	-	-	-	-

**Texas Department of Transportation
SH 121
Proceeds and Expenditures
April 2008 Forecast**

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Beginning Balance	-	-	-	-	-	3,138,303,876	3,068,834,677	3,066,719,044	2,874,300,584	2,769,006,104	2,697,835,927	2,739,773,010	2,845,565,608	2,961,531,618	3,078,831,136	3,200,630,401
Revenue																
Proceeds	-	-	-	-	-	3,197,104,248	-	-	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	69,999,430	117,338,712	116,601,411	115,322,398	110,258,590	106,623,323	105,465,367	102,792,598	117,289,518	121,799,265	126,471,628
Available	-	-	-	-	-	3,287,073,678	3,255,642,388	3,186,456,088	3,102,041,442	2,984,558,164	2,803,322,294	2,848,565,608	2,961,531,618	3,078,831,136	3,200,630,401	3,327,102,030
Expenses																
Reimbursements to SHF	-	-	-	-	-	80,135,000	-	-	-	-	-	-	-	-	-	-
Engineering	-	-	-	-	-	7,735,119	2,255,004	600,000	16,175,004	-	-	-	-	-	-	-
Right-of-Way	-	-	-	-	-	-	20,205,000	250,000	56,750,004	-	-	-	-	-	-	-
Plan It	-	-	-	-	-	7,735,119	22,460,004	850,000	72,925,008	-	-	-	-	-	-	-
Build It	-	-	-	-	-	60,889,883	163,347,907	118,867,044	234,815,850	215,553,060	177,992,500	63,549,284	-	-	-	-
Total Expense	-	-	-	-	-	148,769,802	185,807,911	119,717,044	307,740,858	215,553,060	177,992,500	63,549,284	-	-	-	-
Ending Balance	-	-	-	-	-	3,138,303,876	3,068,834,677	3,066,719,044	2,874,300,584	2,769,006,104	2,697,835,927	2,739,773,010	2,845,565,608	2,961,531,618	3,078,831,136	3,200,630,401
Letting	-	-	-	-	-	15,194,675	166,322,765	13,440,000	471,657,600	-	-	-	-	-	-	-

All projects to use this funding have not been identified by the Dallas MPO. As those projects are identified, they will be added to this forecast reducing the ending balances and the projected revenue from interest earnings. The current plan of the RTC is to leave a balance of \$700,000,000 in principal in order to fund future projects with interest earnings.

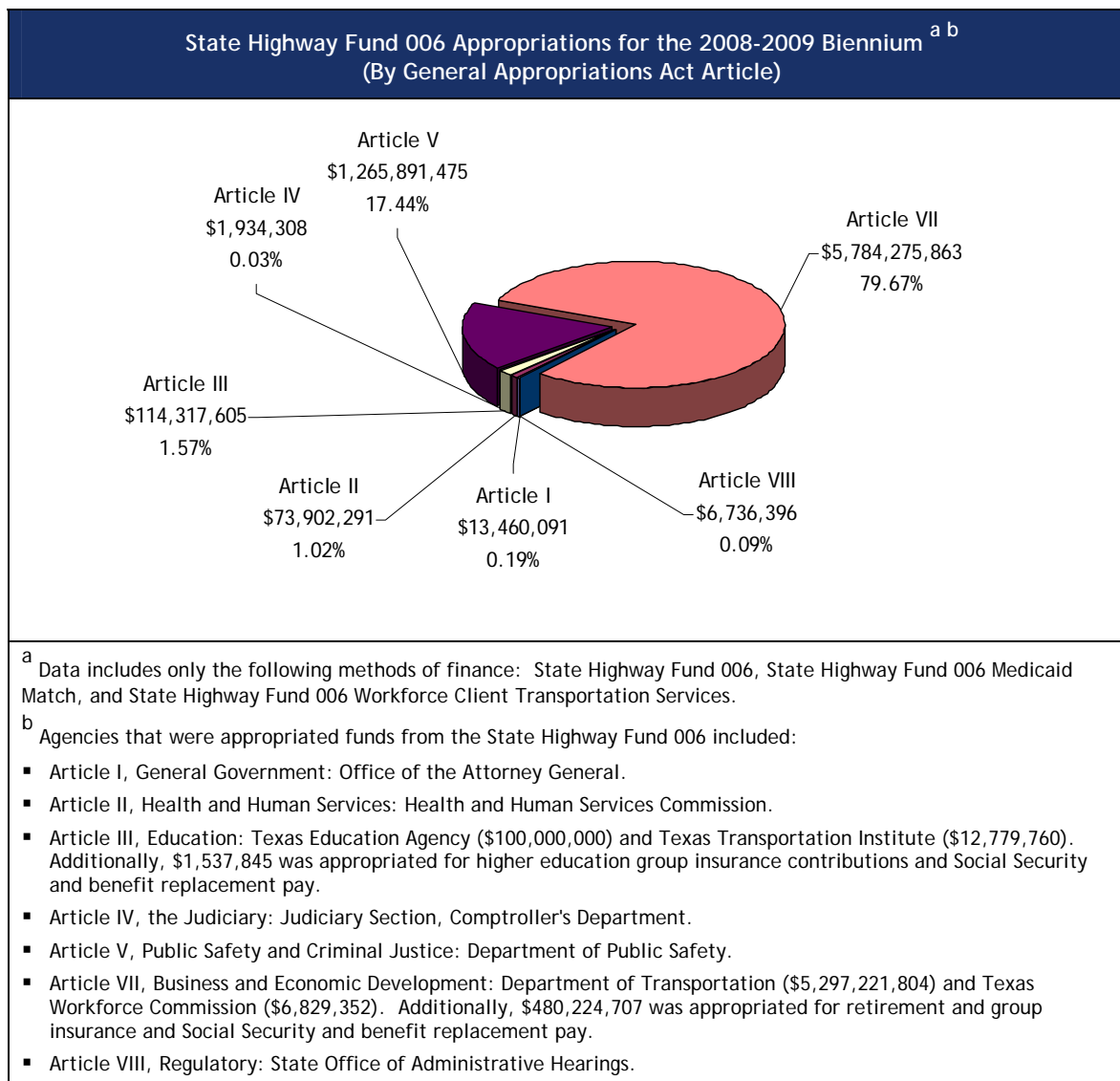
**Texas Department of Transportation
SH 130 (Segments 5 & 6)
Proceeds and Expenditures
April 2008 Forecast**

	FY 2004 Actual	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2008 Forecast	FY 2009 Forecast	FY 2010 Forecast	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
Beginning Balance	-	-	-	-	-	20,539,928	12,828,263	11,285,444	9,683,440	8,019,981	3,952,547	4,104,171	4,261,611	4,425,091	4,594,842	4,771,105
Revenue																
Proceeds	-	-	-	-	25,750,778	-	-	-	336,542	-	151,624	157,440	163,460	169,751	176,263	183,025
Interest	-	-	-	-	788,150	597,669	457,180	397,996	-	232,596	-	-	-	-	-	-
Available	-	-	-	-	26,539,928	21,107,597	13,285,444	11,683,440	10,019,981	8,252,547	4,104,171	4,261,611	4,425,091	4,594,842	4,771,105	4,954,130
Expenses																
Engineering	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Right-of-Way	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plan It	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Build It	-	-	-	-	6,000,000	8,279,334	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Total Expense	-	-	-	-	6,000,000	8,279,334	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Ending Balance	-	-	-	-	20,539,928	12,828,263	11,285,444	9,683,440	8,019,981	3,952,547	4,104,171	4,261,611	4,425,091	4,594,842	4,771,105	4,954,130
Letting	-	-	-	-	8,279,334	-	2,000,000	2,000,000	2,000,000	4,300,000	-	-	-	-	-	-
Project Conversions	-	-	-	-	6,000,000	-	-	-	-	-	-	-	-	-	-	-

Appropriations from State Highway Fund 006

Figure 1 provides information on appropriations from State Highway Fund 006 for the 2008-2009 biennium.

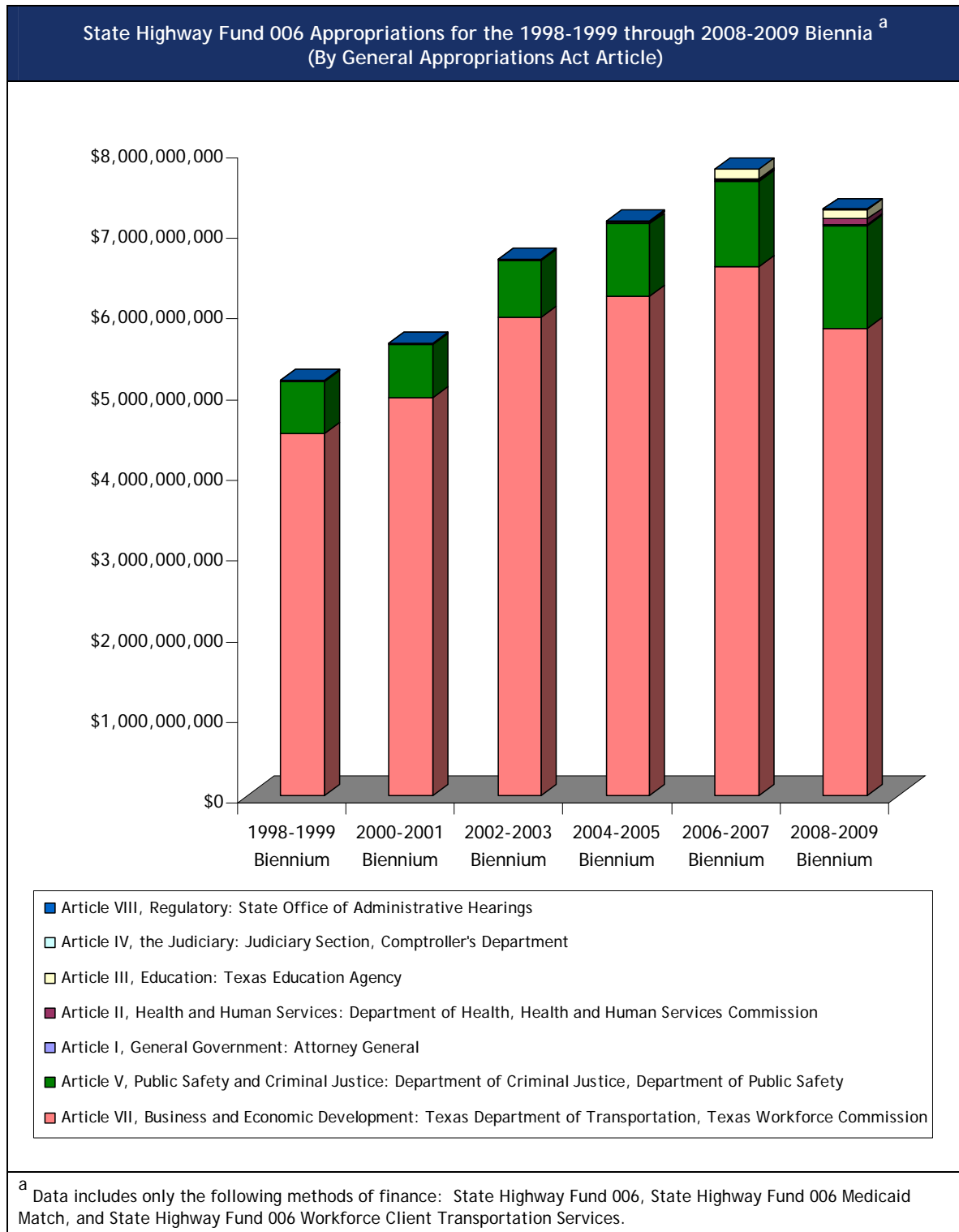
Figure 1



Source: General Appropriations Act (80th Legislature).

Figure 2 shows the trend in appropriations from State Highway Fund 006.

Figure 2



Highway Program Expenditures and Staffing Levels at State Departments of Transportation

Auditors reviewed highway program expenditures and staffing levels at departments of transportation in other states and compared them with the Department of Transportation in Texas. Although the comparison in the following tables presents information on annual highway program expenditures and staffing levels, the ratios of expenditures to employees are not reliable indicators of relative efficiencies because the degree of privatization of highway work may vary substantially across states. States that privatize a higher percentage of highway work will have relatively higher ratios of expenditures to employees.

Table 4 presents information sorted by expenditures per full-time equivalent employee.

Table 4

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Expenditures per FTE)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
Wisconsin	\$ 1,371,082	1,708	\$803
Florida	5,889,473	7,462	789
Michigan	1,719,724	2,944	584
Texas	7,916,610	15,831	500
Nevada	818,344	1,721	476
Utah	796,045	1,694	470
Illinois	3,444,861	7,415	465
Arizona	1,284,398	2,875	447
Rhode Island	360,427	817	441
South Dakota	434,168	1,031	421
Massachusetts	1,342,617	3,755	358
Louisiana	1,765,796	4,940	357
Georgia	2,093,231	5,925	353
North Dakota	373,605	1,113	336
Indiana	1,294,179	3,894	332
Oklahoma	952,784	2,885	330
Delaware	613,453	1,860	330
New York	4,004,892	12,321	325
Ohio	2,337,128	7,209	324

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Expenditures per FTE)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
New Jersey	2,347,045	7,390	318
Maryland	1,438,399	4,702	306
Pennsylvania	4,062,025	13,494	301
Minnesota	1,384,869	4,614	300
Colorado	938,084	3,140	299
Tennessee	1,320,359	4,441	297
Iowa	724,829	2,488	291
Hawaii	244,106	847	288
Mississippi	941,473	3,270	288
Kansas	981,567	3,521	279
Oregon	945,209	3,395	278
California	5,600,653	20,297	276
Alabama	1,191,757	4,445	268
Nebraska	566,911	2,142	265
Missouri	1,776,485	6,752	263
South Carolina	1,239,899	4,715	263
New Mexico	657,513	2,571	256
North Carolina	2,792,230	11,007	254
Kentucky	1,219,524	4,860	251
Connecticut	754,178	3,007	251
Idaho	435,516	1,767	246
Virginia	2,247,520	9,456	238
Montana	512,447	2,177	235
Washington	1,693,973	7,219	235
Vermont	236,176	1,041	227
Arkansas	832,619	3,771	221
New Hampshire	399,471	1,819	220
West Virginia	1,028,188	5,010	205
Maine	520,330	2,538	205
Wyoming	368,894	1,823	202
Alaska	595,189	3,066	194
Totals	\$78,810,255	238,185	Mean \$331
			Minimum \$194
			Maximum \$803

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Expenditures per FTE)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
^a 2006 was the most recent year for which complete data was available from the U.S. Census Bureau and the U.S. Department of Transportation.			

Sources: Unaudited information from (1) *Census of Governments State Government Employment and Payroll March 2006*, U.S. Census Bureau, <http://www.census.gov/govs/www/apest06dl.html>, accessed on July 25, 2008; and (2) *FHWA Highway Statistics 2006 Section IV - Finance, Table SF-2, Disbursements by States for Highways*, U.S. Department of Transportation, <http://www.fhwa.dot.gov/policy/ohim/hs06/finance.htm>, accessed on July 25, 2008.

Table 5 presents the same information presented in Table 4, but sorted by number of full-time equivalent employees.

Table 5

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Number of State Highway Program Full-time Equivalent Employees)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
California	\$ 5,600,653	20,297	\$ 276
Texas	7,916,610	15,831	500
Pennsylvania	4,062,025	13,494	301
New York	4,004,892	12,321	325
North Carolina	2,792,230	11,007	254
Virginia	2,247,520	9,456	238
Florida	5,889,473	7,462	789
Illinois	3,444,861	7,415	465
New Jersey	2,347,045	7,390	318
Washington	1,693,973	7,219	235
Ohio	2,337,128	7,209	324
Missouri	1,776,485	6,752	263
Georgia	2,093,231	5,925	353
West Virginia	1,028,188	5,010	205
Louisiana	1,765,796	4,940	357
Kentucky	1,219,524	4,860	251
South Carolina	1,239,899	4,715	263
Maryland	1,438,399	4,702	306

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Number of State Highway Program Full-time Equivalent Employees)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
Minnesota	1,384,869	4,614	300
Alabama	1,191,757	4,445	268
Tennessee	1,320,359	4,441	297
Indiana	1,294,179	3,894	332
Arkansas	832,619	3,771	221
Massachusetts	1,342,617	3,755	358
Kansas	981,567	3,521	279
Oregon	945,209	3,395	278
Mississippi	941,473	3,270	288
Colorado	938,084	3,140	299
Alaska	595,189	3,066	194
Connecticut	754,178	3,007	251
Michigan	1,719,724	2,944	584
Oklahoma	952,784	2,885	330
Arizona	1,284,398	2,875	447
New Mexico	657,513	2,571	256
Maine	520,330	2,538	205
Iowa	724,829	2,488	291
Montana	512,447	2,177	235
Nebraska	566,911	2,142	265
Delaware	613,453	1,860	330
Wyoming	368,894	1,823	202
New Hampshire	399,471	1,819	220
Idaho	435,516	1,767	246
Nevada	818,344	1,721	476
Wisconsin	1,371,082	1,708	803
Utah	796,045	1,694	470
North Dakota	373,605	1,113	336
Vermont	236,176	1,041	227
South Dakota	434,168	1,031	421
Hawaii	244,106	847	288
Rhode Island	360,427	817	441
Totals	\$78,810,255	238,185	Mean \$331
			Minimum \$194

Highway Program Expenditures and Staffing Levels at State Departments of Transportation for 2006 ^a (Sorted by Number of State Highway Program Full-time Equivalent Employees)			
State	Annual State Highway Program Expenditures (in thousands)	Number of State Highway Program Full-time Equivalent Employees (FTEs)	Expenditures per FTE (in thousands)
			Maximum \$803
^a 2006 was the most recent year for which complete data was available from the U.S. Census Bureau and the U.S. Department of Transportation.			

Sources: Unaudited information from (1) *Census of Governments State Government Employment and Payroll March 2006*, U.S. Census Bureau, <http://www.census.gov/govs/www/apess06dl.html>, accessed on July 25, 2008; and (2) *FHWA Highway Statistics 2006 Section IV - Finance, Table SF-2, Disbursements by States for Highways*, U.S. Department of Transportation, <http://www.fhwa.dot.gov/policy/ohim/hs06/finance.htm>, accessed on July 25, 2008.

Federal Rescissions of Funds

The Department of Transportation (Department) received \$7.5 billion in total original federal obligation authority for fiscal years 2006 to 2008. Of that amount, the Department's obligation authority was reduced by \$36.5 million (\$23.4 million in fiscal year 2006 and \$13.1 million in fiscal year 2008) or 0.5 percent.

The federal government finances the Federal-Aid Highway Program through authorizing legislation. On August 10, 2005, the U.S. Congress enacted the most recent multi-year reauthorization of that program through the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU).

The federal government distributes most Federal-Aid Highway Program funds through apportionments. Limitations on that funding restrict the amount of federal funds that a state may obligate during a period (usually a fiscal year), and these limitations control the rate at which states use their apportionments. States may not obligate their apportionments until they receive obligation authority (which usually occurs annually). It is obligation authority, not apportionments, that represents the amount of federal funds the Department may actually spend.

Since the enactment of SAFETEA-LU, the State of Texas has received rescission notices from the federal government that have reduced its apportionments by \$923.9 million. As of June 2008, these rescissions have reduced the obligation authority available to the Department by \$13.1 million.

Additionally, Department of Defense Appropriations Act, 2006, Pub. L. No. 109-148, resulted in further rescissions that reduced the Department's obligation authority by \$23.4 million in fiscal year 2006.

Proposition 14 Bond Issues

Table 6 lists Proposition 14 bonds the Department of Transportation had issued as of August 21, 2008.

Table 6

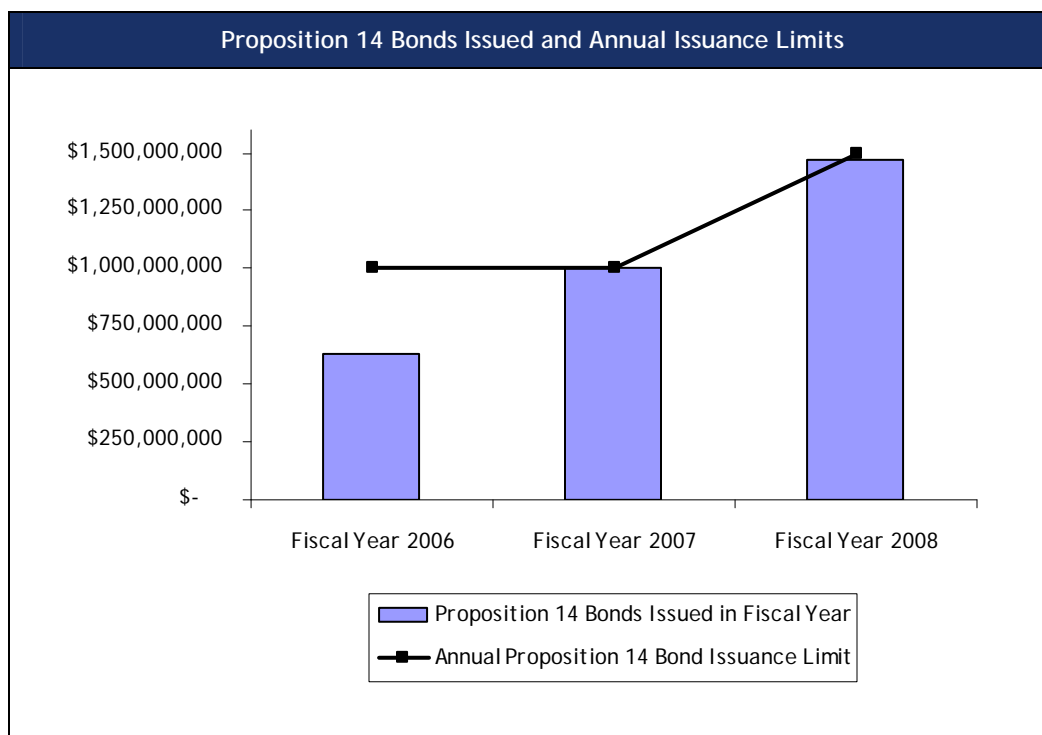
Proposition 14 Bonds Issued by the Department of Transportation (as of August 21, 2008)						
Fiscal Year	Overall Authorization	Annual Issuance Limit	Bond Proceeds	Annual Limit Remaining	Cumulative Amount Issued	Overall Authorization Remaining
2006	\$3,000,000,000	\$1,000,000,000	\$ 627,330,976	\$372,669,024	\$ 627,330,976	\$2,372,669,024
2007	\$3,000,000,000	\$1,000,000,000	\$ 999,997,840	\$ 2,160	\$1,627,328,816	\$1,372,671,184
2008 ^a	\$6,000,000,000	\$1,500,000,000	\$1,472,000,000	\$28,000,000	\$3,099,328,816	\$2,900,671,184

^a The overall authorization was increased to \$6 billion and the annual issuance limit was increased to \$1.5 billion on June 11, 2007, when the Governor signed Senate Bill 792 (80th Legislature).

Source: Texas Transportation Code, Section 222.003, and Department bond transcripts.

Figure 3 shows the trend in Proposition 14 bonds issued and annual issuance limits. This information is complete as of August 21, 2008.

Figure 3



Source: Texas Transportation Code, Section 222.003, and Department bond transcripts.

Request for This Audit



The State of Texas

David Dewhurst
Lieutenant Governor
P.O. Box 12068
Austin, Texas 78711-2068
(512) 463-0001

February 19, 2008

Tom Craddick
Speaker of the House
P.O. Box 2910
Austin, Texas 78768-2910
(512) 463-3000

Mr. John Keel
State Auditor
P.O. Box 12067
Austin, Texas 78711

Dear John:

Last week the Senate Finance and Senate Transportation and Homeland Security Committees held a joint hearing to investigate the Texas Department of Transportation's (TxDOT) current financial state. During the committee hearing, based on the Senators' questions and the responses from TxDOT Commissioners and staff, it became evident that significant weakness and questionable accounting procedures exist in the financial forecasting and reporting of the agency.

As Joint-Chairs of the Legislative Audit Committee, we are requesting that the entire financial process of TxDOT undergo a comprehensive review by the State Auditor. There are several concerns and shortcomings which justify this comprehensive review, for example:

Cash Forecasting

TxDOT officials had projected a \$3.6 billion shortfall by the year 2015 and increased maintenance needs, which require reductions in new construction contract letting. But the forecasting estimate worksheet used to produce these numbers does not seem to show a complete and accurate financial picture. It does not include \$3 billion in Proposition 14 bond proceeds, nor all of the Mobility Fund bond proceeds, nor the \$5 billion in General Obligation bonds, all authorized by Texas voters.

Such items as an inflation factor of 5% included in TxDOT's financial forecast should be questioned and documented. Is inclusion of an inflation factor a sound accounting decision and consistent with past TxDOT practices? Have all the appropriate discount factors for construction costs and/or the debt service paid for projects completed early due to the availability of bond revenues been considered? Forecasts on the revenue side need to be reviewed and either challenged or verified for accuracy.

Mr. John Keel
February 19, 2008
Page 2

Fund Allocation and Commitments

TxDOT's practice of assigning funds by formula to a district, then moving some or all of those funds to another district based on available projects, has generated many questions regarding project management and funding. This methodology and schedule may have created an imbalance and a potential future funding impact for the legislature and should be reviewed. Does TxDOT have proper controls over the shifting of funds between districts, and accounting controls to keep track of such shifts? Is there any amount of new highway construction, obligations, formal or informal, that differs from the dollar amount outstanding on signed contracts?

Maintenance

We are concerned with TxDOT's reported increased need for maintenance funding. The agency claims to have experienced roughly 60% inflation of highways costs between 2002 and 2007. Do TxDOT's claims of inflation track general trends in the highway construction business?

There was also a definitional change to maintenance at the state level in 2006 which needs to be reviewed to make sure that a base level of funding can be accurately established. How has the definitional change impacted the district budgets?

We would also like to follow up with you to determine if and to what degree, TxDOT has addressed the findings of audit report 07-031 relating to a reported long term funding gap. We appreciate your assistance in ensuring that the Members of the Legislature and the public receive accurate, transparent and understandable information to make the policy decisions for a fiscally sound and effective transportation system for Texas. We are requesting that you initiate a comprehensive financial audit of the Texas Department of Transportation at your earliest convenience. The audit scope should include forecasting construction cost and funding allocations by geographic region.

Sincerely,


DAVID DEWHURST
Lieutenant Governor


TOM CRADDICK
Speaker of the House

Other State Auditor's Office Work

Other SAO Work		
Number	Product Name	Release Date
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
07-001	An Audit Report on Flight Services Provided by the Department of Transportation's Aviation Division Flight Services Section	September 2006
03-021	An Audit Report on the Department of Transportation's Management of State Highway Fund 6	March 2003

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable David Dewhurst, Lieutenant Governor, Joint Chair
The Honorable Tom Craddick, Speaker of the House, Joint Chair
The Honorable Steve Ogden, Senate Finance Committee
The Honorable Thomas “Tommy” Williams, Member, Texas Senate
The Honorable Warren Chisum, House Appropriations Committee
The Honorable Jim Keffer, 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 Holmes, Commissioner
Mr. Ted Houghton, Commissioner
Mr. William Meadows, Commissioner
Mr. Fred Underwood, Commissioner
Mr. Amadeo Saenz, Jr., P.E., Executive Director



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