

**DRAFT MINUTE ORDERS ARE SUBJECT TO CHANGE
PRIOR TO COMMISSION APPROVAL**

**UPDATE ON THE STATUS OF THE IMPLEMENTATION OF RECOMMENDATIONS
MADE IN THE STATE AUDITOR'S OFFICE CASH FINANCIAL FORECASTING
AND FUND ALLOCATION AUDIT REPORT**

DESCRIPTION:

The State Auditor's Office recently completed an audit on the financial forecasting and fund allocation processes of the department. The report made a number of recommendations, many of which the department has already implemented. This is an update on the progress of implementing the recommendations of the state auditor.

ISSUES:

During the initial workshop on September 24, 2008, each recommendation, management response and status was described. In subsequent workshop meetings or regular commission meetings, the status on any recommendation that has changed significantly since the last update will be briefly described. Many of the recommendations had been implemented prior to the publication of the audit report and several have since been implemented. Staff is actively working toward implementation of any unresolved items.

Of note, the commission workshop meetings will help to address one of the main concerns related to briefing the commission on significant items in a public setting. These meetings, along with recommended refinements to the cash forecasting function and coordination with the letting and planning functions under the CFO, will enhance the transparency of the department.

Staff continues to work with oversight agencies, including the Legislative Budget Board, to ensure we are providing information needed to comply with legislation and to assist in their decision making.

REFERENCES:

State Auditor's report on the Texas Department of Transportation's
Financial Forecasting and Fund Allocation

DESIRED RESULTS:

Commissioners' understanding of progress and expectations for future updates or specific plans for implementation.

FURTHER ACTIONS

Staff will continue to brief the commission, as needed, on the status of the implementation of the Audit recommendations at each of the scheduled workshop meetings or regular commission meetings.

OTHER:

None

March 18, 2009, 8:30 a.m.

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SAO Recommendation #1

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.

TxDOT Management 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

Status

Completed.

The commission, at its August 25th special meeting, directed staff to schedule monthly workshops of the commissions. These workshops will be held the day before the regularly scheduled meeting. There will not be a workshop when the commission is meeting out-of-town (three to four times a year). Also, if there is conflict with a legislative meeting, the workshop meeting will be combined with the regular monthly meeting.

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SAO Recommendation #2

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

TxDOT Management Response

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 minute orders and cover sheets including other documents summarizing the background and purpose of discussion items.

Estimated Implementation Date

September 2008

Status

Completed.

Since the October 2008 commission meeting, all pertinent documents have been posted on the internet three days prior to the meeting. This practice will continue indefinitely.

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SAO Recommendation #3

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.

TxDOT Management Response

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

Status

Completed.

Beginning with the August 2008 cash forecast, an executive summary was included and this practice will be continued indefinitely.

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SAO Recommendation #4a

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.

TxDOT Management Response

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

Status

Discussions with the LBB took place in September 2008 to clarify their needs. The September 2008 cash forecast was converted into an appropriation level format in December 2008 for the FY2009-FY2019 portions, but staff is still working on getting historical data (FY2006-2008) into that format to add to the report. Much of that data is no longer available through USAS or SIRS. An ad hoc report from the Comptroller was requested in February and the data received is under review for inclusion. The FY2009-FY2019 portion was sent to the LBB for confirmation that it meets their needs. The LBB confirmed that with a slight modification and the historical data, it meets their needs. [The data and modified format were sent to the LBB in March and this recommendation will be complete upon their agreement.](#)

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SAO Recommendation #4b

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 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.

TxDOT Management Response

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

November 2008

Status

Complete.

Finance Division and GPA staff met with the Department's LBB analyst on September 17, 2008 and discussed the intent of the rider and the content and format of reports to be provided. Based on the agreed upon requirements for meeting the rider, the report was submitted to the LBB analyst on October 30, 2008. The analyst reviewed the report and suggested changes in a meeting held November 18, 2008. A revised report including an executive summary was submitted on December 3, 2008. The LBB analyst's opinion is that we have complied with the spirit of the rider given the difficulty involved in matching up all of the department's expenses with the twelve categories applicable only to construction and maintenance.

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SAO Recommendation #5

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.

TxDOT Management Response

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

Status

Completed.

The Programming and Letting branch of the Finance Division has written a policy for its current process which includes all of the aspects of the recommendation. Instead of documenting approvals by signatures as was originally proposed, email communications are being used and retained in accordance with the record retentions schedule. The policy will be included in the Transportation Programming and Scheduling Manual until the Finance Division develops a manual for these activities.

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SAO Recommendation #6

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 revenue, Texas Mobility Fund bond revenue, and other funding sources that may be granted. The final product should clearly communicate amounts available for funding contract awards.

TxDOT Management 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

Status

The policies and procedures for the cash forecasting system will be documented through an existing interagency agreement with the Texas Transportation Institute (TTI). Full featured testing and documentation have been delayed as the software has not yet been completed. Testing of the majority of features is expected to begin in [March](#) upon receipt of the software application. Documentation will be prepared in parallel with the testing.

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SAO Recommendation #7

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.

TxDOT Management Response

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

Status

Completed in current system.

The new cash forecast system, once implemented, will have an automated process that will detect and eliminate manual entry errors. That new system should be completed by May 2009.

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SAO Recommendation #8

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.

TxDOT Management Response

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

Status

Completed.

Documentation of the process has been developed and approved.

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SAO Recommendation #9

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.

TxDOT Management Response

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

Status

A preliminary reconciliation of the cash forecast with the Comptroller's system (USAS) for FY 2008 was completed in September 2008. The Comptroller's Annual Cash Report has been received and the Finance division has reconciled groups of the remaining line items with groups from the cash forecast. Final review and approval of the reconciliation will occur by the end of March 2009.

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SAO Recommendation #10

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.

TxDOT Management Response

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

Status

No additional action needed. The Department has and will continue to work with all interested parties.

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SAO Recommendation #11

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.

TxDOT Management 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

Status

The Finance Division is currently working with the Construction Division and Technology Services Division on this recommendation. A report has been developed which details the annual obligation allocation by district and accounts for the impact of change orders, final expenditures and other charges that affect those obligation amounts. A hyper-link feature will be added to the functionality of this report that will allow the districts to view the approved change orders and other charges that have impacted the obligation allocation.

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SAO Recommendation #12

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.

TxDOT Management Response

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

Status

The Finance Division is actively working with the Technology Services Division and Administration on this recommendation. Further analysis of options is required but the expected implementation date remains at September 2009.

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SAO Recommendation #13

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.

TxDOT Management Response

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

Status

Completed.

Should this occur, the Government and Public Affairs Division is prepared to make these notifications.

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SAO Recommendation #14a

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.

TxDOT Management 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

December 2009

Status

The 2030 Committee presented its final report to the Transportation Commission in February 2009. The Commission adopted the report by Minute Order and directed agency staff to develop a report in conjunction with its partners on the development of the Texas Transportation Plan and present that report to the governor and members of the Texas Legislature at the beginning of the next legislative session. This subsequent report will identify and implement the recommendations of the 2030 Committee. The agency anticipates incorporating the findings of the 2030 Committee in the development of the Texas Transportation Plan, subject to any direction from the Texas Legislature.

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SAO Recommendation #14b

Continue its efforts to implement the recommendation related to the funding gap, including:

- 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).

TxDOT Management Response

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

Status

No further action necessary.

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SAO Recommendation #14c

Continue its efforts to implement the recommendation related to the funding gap, including:

- Identification and implementation of a mechanism to review the data provided by TMMPs, TUMPs, and other external sources.

TxDOT Management Response

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

Status

No further action necessary.

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SAO Recommendation #14d

Continue its efforts to implement the recommendation related to the funding gap, including:

- Formally document its intent to cease further implementation of the tax gap analysis and related prior audit recommendations.

TxDOT Management Response

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

Status

No further action necessary.