

An Audit Report on

The Department of Transportation's Management of State Highway Fund 6

March 2003

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The Department of Transportation's Management of State Highway Fund 6

Overall Conclusion

Improving the accuracy of forecasts of the State Highway Fund's (Fund 6) lowest daily balances would help the Department of Transportation (Department) maximize funds available for transportation projects. Between September 1999 and September 2002, forecasts of lowest daily balances three months into the future differed from the actual amounts by an average of 258 percent. The Department has proposed increasing the target for the lowest daily balance by \$200 million, which decreases funds available for new transportation projects. A more reliable forecasting methodology would allow the Department to keep its current, lower target, making the \$200 million difference between the targets available for new transportation projects.

The Department is substantially complying with the capital budget provisions of the General Appropriations Act for the 2002-2003 biennium. As of December 2002, the Department had not spent or obligated \$190.3 million of the \$245 million capital budget appropriated to it for the 2002-2003 biennium. The Department will have to increase its capital budget spending rate by more than 675 percent to exhaust the capital budget by fiscal year end. Any unspent or unobligated capital funds at the end of the 2002-2003 biennium can be re-appropriated in the next biennium for highway construction and maintenance projects.

Delays in implementing SiteManager, a new automated construction administration system, will cost the Department at least an estimated \$2.9 million over the Department's original budget for the project. The delays inhibit the Department's ability to realize efficiencies in contractor administration that are expected to result from SiteManager's replacement of four existing systems. Full implementation is more than four years behind the Department's original schedule.

State Highway Fund (Fund 6)

Fund 6 is the designated fund used by the Department of Transportation for improvement of the state highway system and other functions the Department performs.

The Department prepares a monthly *Cash Forecast of the State Highway Fund* (Cash Forecast), which is the primary fiscal management tool for the Fund. The Cash Forecast includes actual revenues and expenditures. It also includes estimates of revenues, expenditures, ending balances, and lowest daily balances. The Department uses its forecast of the lowest daily balance in determining how many new transportation projects it can start.

Fund 6's total revenues in fiscal year 2002 were \$5.9 billion, and total expenditures were \$5.5 billion. The Department has a goal of maintaining a lowest daily balance of between \$75 million and \$100 million for Fund 6.



Key Points

With Improved Forecasting and Planning, the Department Could Make More of Fund 6 Available for Transportation Projects

The Department can maximize funds available for transportation projects and reduce the need for an increased lowest daily balance by improving the accuracy of its forecasts of Fund 6's lowest daily balance. The Department has proposed increasing its target for the lowest daily balance by \$200 million: the current target range is \$75 million to \$100 million, and the proposed target range is \$275 million to \$300 million. The target has a significant effect on the Department's ability to fund transportation projects; therefore, it is important that the Department set a reasonable target and manage Fund 6 to stay within the target. If the target is too high, the Department will retain excess cash and needlessly delay transportation projects. If the target is too low, the Department risks not having enough cash available to pay contractors.

The forecast of Fund 6's lowest daily balance is one component of the Department's monthly *Cash Forecast of the State Highway Fund* (Cash Forecast). The Department uses the Cash Forecast to determine the amount of cash available for transportation projects. The Cash Forecast accurately presents recent financial activity. However, forecasts of lowest daily balances vary significantly from the actual balances. The Department's methodology assumes a seasonal effect on the lowest daily balance, although history indicates there is none. In addition, the Department has not fully documented all the procedures and assumptions it uses to prepare the Cash Forecast, and it does not always consider complete information when preparing the Cash Forecast.

Other users, including elected officials and legislative agencies, depend on the Cash Forecast for monitoring how the Department is managing Fund 6. The Department can improve readers' understanding of the Cash Forecast by including complete, simple, and clear explanations of management's forecasting methods.

The Department's Spending on Capital Assets Substantially Complies with State Law

In fiscal year 2002, the Department substantially complied with the capital budget provisions of the General Appropriations Act for the 2002-2003 biennium (77th Legislature). The Department's misinterpretation of when it should group purchases as one and identify the purchase as a capital project resulted in its not fully complying with the General Appropriations Act.

As of December 2002, the Department had spent, or had set aside for spending, \$55.6 million (22 percent) of \$245 million in capital budget appropriations available for the 2002-2003 biennium, leaving \$190.3 million unspent and unobligated. The Department indicates that each district, division, and office has a plan for spending the remaining funds and provided examples of spending plans for fiscal year 2003. However, the Department will have to increase its capital budget spending rate by more than 675 percent to exhaust the capital budget by fiscal year end. One reason capital budget spending is reduced is that the Department temporarily suspended all non-essential capital expenses when the Fund 6 balance dropped to \$4.1 million in October 2001.

The Department Should Improve Its Management of Information Technology Resources

Delays in implementing SiteManager, a new automated construction administration system, will cost the Department at least an estimated \$2.9 million over the budget for the project. The Department purchased the new system in 1998 to replace four systems it relies on to manage Fund 6. Installation in all district offices will not be complete until March 2004, instead of August 1999 as the Department originally planned. If the Department does not fully implement SiteManager until 2004, it will have already exhausted 40 percent of SiteManager's useful life. The Department does not have a formal, up-to-date transition plan that provides measurable goals for implementing SiteManager. In addition, the Department's local area network and stand-alone computers are at risk for unauthorized access due to inadequate access controls.

Summary of Management's Response

The Department generally agreed with our recommendations. However, the Department disagreed with our recommendation to have the Transportation Commission review and approve targets for the lowest daily balance in Fund 6. The Department committed to studying some issues further, such as its lowest daily balance target, rather than implementing our recommendations at this time.

Summary of Information Technology Review

The Department is implementing SiteManager, a new construction administration system that will replace four older "legacy" systems. The legacy systems and SiteManager maintain information that the Department uses to manage transportation projects. The Department does not have a formal, up-to-date plan in place for completing the transition from the legacy systems to SiteManager. The Department will need to continue operating the legacy systems concurrently with SiteManager until all contracts maintained on the legacy systems are complete and the Department fully implements SiteManager.

We also conducted a limited review of access controls over the Department's local area network and mainframe. Data maintained on stand-alone computers and on the local area network are at risk for unauthorized access due to inadequate access controls. Unauthorized users could change or destroy data the Department uses to determine the amount of cash available for transportation projects. Our review did not identify weaknesses in controls over information technology resources or in mainframe access controls.

With the exception of the Cash Forecasting System, we did not examine the accuracy of the data in any other system or review the controls for any individual applications.

Summary of Objectives, Scope, and Methodology

The primary objectives of this audit were to determine whether the Department is:

- Managing the daily balance in Fund 6 to minimize excess balances while ensuring that funds are available for prompt payments to contractors.

- Providing accurate and useful financial information on Fund 6 activities to the Legislature and other external customers.
- Complying with the capital budget provisions of the General Appropriations Act.

Our scope included a review of all Department activities related to the monitoring, forecasting, and reporting of Fund 6 financial transactions. We conducted our fieldwork at the Department's Austin headquarters.

Our methodology consisted of auditing data included in the Department's State Highway Fund Cash Forecast for accuracy, auditing the Department's compliance with capital budget provisions of the General Appropriations Act, and evaluating controls over the related automated systems.

 **Table of Results and Recommendations**
denotes entry is related to information technology

Proposed Increases in the Target for Fund 6's Lowest Balance Would Reduce Funds Available for Transportation Projects (Page 1)

The Department should:

- Retain the current lowest daily balance target of \$75 to \$100 million. In addition, the Department should improve its forecasting of the lowest daily balance by replacing the current forecasting method with statistical models, as discussed in Chapter 1-B.
- Revise targets for the lowest daily balance in Fund 6 only upon review and approval by the Commission.
- Establish a formal, written plan detailing actions to take when the Fund 6 balance dips below the lowest daily balance target. The plan should include tiers that call for successively more aggressive action, depending on the severity of the situation.
- Add a footnote to the estimated revenue schedule in future Legislative Appropriations Requests explaining the apparent negative balances contained within the schedule. The Department could also add a note to its financial statements in future Annual Financial Reports explaining any negative fund balances.

Changes Are Needed to Improve the Department's Forecasts of Fund 6 Lowest Daily Balances (Page 4)

The Department should:

- Consider replacing the current method of forecasting lowest daily balances with multivariable models based on statistical methods, such as regression analysis.
- Consider using more than one model on which to base forecasted lowest daily balances.

Elements of the Department's Cash Forecast Rely on Incomplete Information (Page 6)

The Department should:

- Ensure that all change orders affecting payments to contractors are entered into the Financial Information Management System (FIMS).
- Reconsider the Finance Division's policy of not entering negative change orders into FIMS.
- Reconcile change order information in the Contract Tracking System to FIMS until SiteManager interfaces with FIMS.

The Department Does Not Formally Document Procedures and Assumptions Used to Prepare the Fund 6 Cash Forecast (Page 7)

The Department should:

- Establish a process for regularly adjusting and reviewing key assumptions used in forecasting future cash balances in Fund 6. This process, which should occur at least annually, is dependent upon having written records showing how the key assumptions were determined.
- Document the adjustments forecasters make to data used in the Cash Forecast.
- Develop policies and procedures for forecasting the Fund 6 cash balances.

Additional Changes Are Needed to Improve the Fund 6 Cash Forecast Report (Page 9)

The Department should


- Add a narrative to each forecast describing the cause and effect of current and anticipated balance fluctuations.
- Provide users with complete, simple, and clear explanations of the methods and assumptions the Department uses to prepare the forecast.
- Publish an ongoing measure of the differences between actual and predicted values in the Cash Forecast report.

The Department's Spending on Capital Assets Substantially Complies with State Law (Page 11)

The Department should:


- Contact the LBB for further guidance on the legislative intent regarding the classification of multiple purchases of the same asset as a capital budget project.
- Reclassify the five expenditures noted above as capital budget projects.

Table of Results and Recommendations
 denotes entry is related to information technology

 Delays in Implementing a New Construction Administration System Have Increased Costs and Decreased Benefits for the Department (Page 13)

The Department should:

- Determine the incremental cost of maintaining the existing systems to decide whether it is cost-beneficial to accelerate the transition from the older “legacy” systems, and transfer the contract data from the Contract Information System (CIS) to SiteManager.
- Formalize and update the transition plan for managing the conversion from CIS to SiteManager. The transition plan should include measurable goals for implementing SiteManager.

 Controls Are Not Sufficient to Prevent Unauthorized Access to Department Data (Page 15)

The Department should:

- Monitor and investigate invalid access attempts on a regular basis. This could be done by requiring network administrators to review access logs periodically and follow up on any suspicious activity.
- Require employees to use password-protected screen savers to help prevent access to their computers when they are logged onto the network but away from their workstations.
- Prompt users to change their passwords at least once every 90 days.
- Ensure that only authorized users can modify information in applications. This can be accomplished by requiring that all critical data files be saved on the network instead of on hard drives and that the applications have appropriate password-protection and user access levels.

Recent SAO Work

Number	Product Name	Release Date
03-008	An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities	November 2002
02-059	An Audit Report on Revolving Loan Funds	July 2002

Other SAO Products

Number	Product Name	Release Date
03-368	A Legislative Summary Document Regarding Department of Transportation	February 2003
02-345	State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001 (A report by KPMG, LLP)	May 2002
02-555	State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001	May 2002
02-319	A Review of State Entities’ Quality Assurance Procedures	February 2002

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Detailed Results

Chapter 1

With Improved Forecasting and Planning, the Department Could Make More of State Highway Fund 6 Available for Transportation Projects

Improving the accuracy of the Department of Transportation's (Department) forecasts of State Highway Fund 6's (Fund 6) lowest daily balances would help the Department maximize funds available for transportation projects. The Department has proposed increasing its target by \$200 million, which would make those funds unavailable to start new transportation projects. The current target range is \$75 million to \$100 million; the proposed range is \$275 million to \$300 million.

By using a more reliable forecasting methodology, the Department can improve the accuracy of its forecasts of Fund 6's lowest daily balances. The lowest daily balance forecast is one component of the monthly *Cash Forecast of the State Highway Fund* report (Cash Forecast). The Department uses the Cash Forecast to determine the amount of cash available for transportation projects.

The Cash Forecast report includes both actual and forecasted revenues and expenditures. Historical data reported in the Cash Forecast report is accurate and has been reconciled to the Uniform Statewide Accounting System (USAS). However, the forecasted data in the report cannot be relied upon because data used to calculate the forecasts is incomplete. Furthermore, the forecasting methodology needs to be improved. For example, forecasts of lowest daily balances vary significantly from the actual balances. The Department's methodology assumes a seasonal effect on the lowest daily balance, although history indicates there is none. In addition, the Department has not fully documented all the procedures and assumptions it uses to prepare the Cash Forecast, and it does not always consider complete information when preparing the Cash Forecast.

Other users, including elected officials and legislative agencies, depend on the Cash Forecast for monitoring how the Department is managing Fund 6. The Department can improve readers' understanding of the Cash Forecast by including complete, simple, and clear explanations of management's forecasting methods.

Chapter 1-A

Proposed Increases in the Target for Fund 6's Lowest Balance Would Reduce Funds Available for Transportation Projects

The Department's target for Fund 6's lowest daily balance has a significant effect on its ability to optimize the use of Fund 6 for transportation projects. The Department has proposed increasing the target from the current range of \$75 million to \$100 million to a range of \$275 million to \$300 million. The Department's proposal would make \$200 million unavailable for new transportation projects.

It is important that the Department establish reasonable targets and manage the fund to keep balances above the target. If the target is set too high, the Department will retain excess cash, needlessly delaying transportation projects. However, if the target is too low, it does not leave the Department enough maneuvering room for corrective action should the balance begin to drop below the target level.

The Department has given two reasons for increasing the lowest daily balance target:

- Annual expenditures have increased from about \$2.8 billion to \$5.5 billion (for fiscal year 2002) since the current target was set. However, improved forecasting reduces the need for larger balances in Fund 6. In addition, the Department began using the pre-issuance method of receiving federal funds in fiscal year 2002. This means the Department now receives federal funds prior to making payments to contractors, rather than after. This further reduces the need for larger balances in Fund 6.
- Maintaining a larger balance in Fund 6 would prevent misleading negative fund balances reported in the Legislative Appropriations Request (LAR) and the Annual Financial Report (AFR). The estimated revenue schedule in the LAR recognizes revenues and expenditures on the cash basis but also recognizes encumbrances, causing Fund 6 to appear to have a negative balance. In addition, the Combined Balance Sheet in the AFR does not recognize future funding sources that will be available to offset current debts. Rather than changing its financial policies for the sake of these schedules, the Department could add notes to the schedules explaining any negative fund balances.

The Department's Financial Planning Group, whose members include the Executive Director, Chief Financial Officer, and other members of executive management, establishes the target for the lowest daily balance without review and approval by the Transportation Commission (Commission). Revisions to the target represent a significant change in policy by the Department and should occur only after review and approval by the Commission.

In October 2001, the balance in Fund 6 dropped to \$4.1 million. To prevent the balance from dropping below zero, the Department had to temporarily suspend projects and delay employee pay raises and promotions. The Department's Financial Planning Group acted without the benefit of a documented financial emergency action plan to guide it. A financial emergency action plan would assist the Department in considering all possible options, including low-impact responses for small dips and aggressive actions for severe financial situations.

Recommendations

The Department should:

- Retain the current lowest daily balance target of \$75 to \$100 million. In addition, the Department should improve its forecasting of the lowest daily balance by replacing the current forecasting method with statistical models, as discussed in Chapter 1-B.

- Revise targets for the lowest daily balance in Fund 6 only upon review and approval by the Commission.
- Establish a formal, written plan detailing actions to take when the Fund 6 balance dips below the lowest daily balance target. The plan should include tiers that call for successively more aggressive action, depending on the severity of the situation.
- Add a footnote to the estimated revenue schedule in future Legislative Appropriations Requests explaining the apparent negative balances contained within the schedule. The Department could also add a note to its financial statements in future Annual Financial Reports explaining any negative fund balances.

Management's Responses and State Auditor's Follow-Up Comments

- *The Department will take a target of \$75 to \$100 million into consideration after completion of a study of the relationships between revenues, expenditures and a month's lowest daily balance. This study is an effort to determine a methodology that will consistently provide a better estimate than the current practice. The study will include an analysis of Unreserved Fund Equity requirements in the Annual Financial Report. The Unreserved Fund Equity takes into consideration all reported assets and liabilities including encumbrances. We feel it is critical to maintain a positive balance of unreserved equity. We plan on having this revised forecast methodology in place by the end of calendar year 2003.*

State Auditor's Follow-Up Comment

It is not necessary to maintain a positive Unreserved Fund Equity balance for Fund 6 in the AFR as long as future funding sources are available to offset current debts. Because sufficient funding is generally assured, increasing the lowest daily balance target results in a positive presentation in the AFR but also reduces funds available for building roads.

- *The Executive Director in coordination with the Financial Planning Group approves the target cash balance and apprises the commission with the same cash forecast that is provided to others.*

State Auditor's Follow-Up Comment

The Commission is responsible for constructing and maintaining the State's highway system, and the lowest daily balance target significantly affects funds available for highways. Therefore, the Commission, with input from the Financial Planning Group, would appear to have the ultimate responsibility for setting the target.

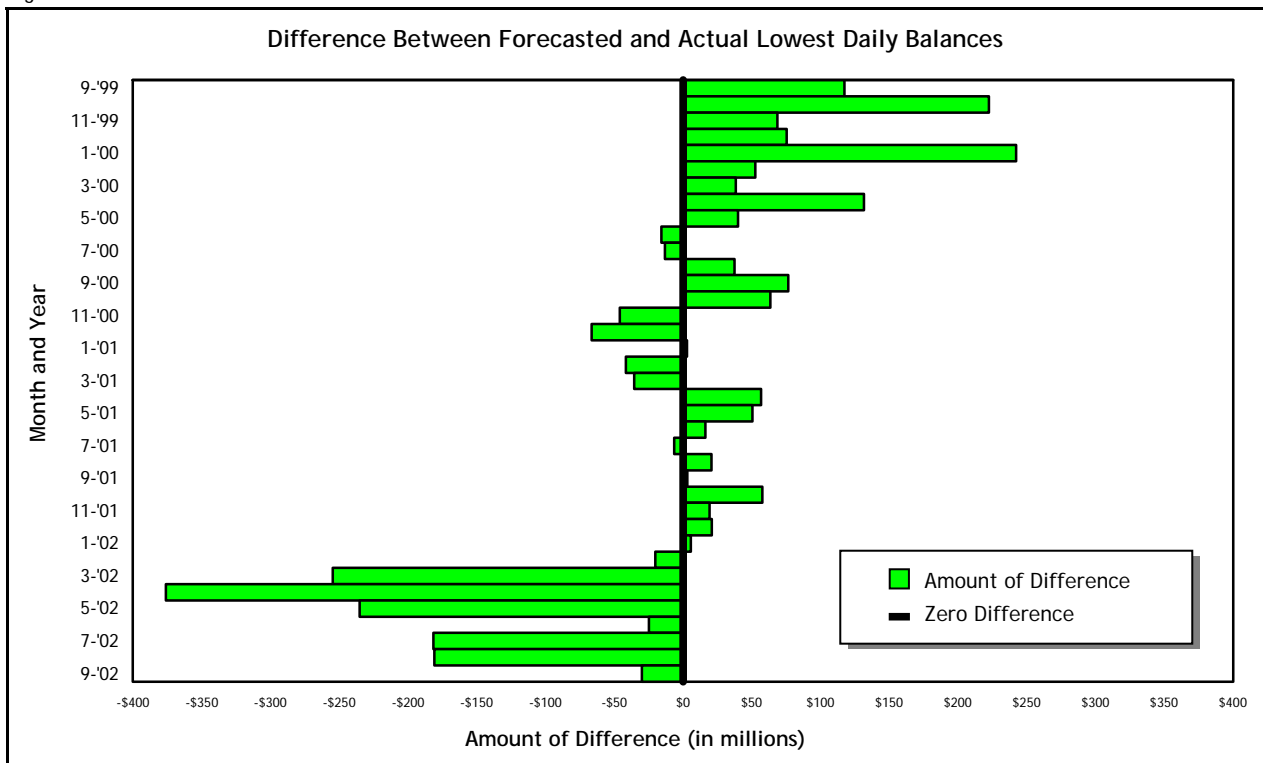
- *The Department will document an action plan with possible short and longer-term solutions. While every possible scenario cannot be identified and planned for, this plan could assist the Department in outlining some options to consider depending on the situation.*
- *We have provided a footnote to the estimated revenue schedule in the current Legislative Appropriations Request (LAR) attempting to explain the negative balances contained within the schedule. We plan to continue to provide a footnote in future LARs and will expand to include sufficient detail on why these negative balances exist.*

Chapter 1-B

Changes Are Needed to Improve the Department’s Forecasts of Fund 6 Lowest Daily Balances

The Department’s forecasts of Fund 6’s lowest daily balances vary significantly from the actual lowest daily balances. Forecasts of lowest daily balances for three months into the future varied from the actual amounts by an average of \$79.3 million (258 percent) according to tests of data for September 1999 through September 2002. The differences ranged from a low of \$2.8 million to a high of \$376 million. Almost a quarter of the variances (9 of 37) exceeded \$100 million. (Figure 1 shows the degree of the differences. Table 1 in Appendix 2 provides the estimates and actual amounts for the months tested.)

Figure 1



Source: Department of Transportation

Because of the timing of the contracting process, the Department relies on its forecasts of lowest daily balances to determine how many transportation contracts to award. If the forecast is not reasonably accurate, the Department risks either overextending itself or not maximizing available funds. If the forecasted lowest daily balance drops below the target range (\$75 million to \$100 million), management has to compensate.

The Cash Forecast Accurately Presents Historical Information

The Cash Forecast report includes revenues, expenditures, and fund balances for the two previous fiscal years. We compared information in the Cash Forecast reports published in fiscal year 2002 with the State's Uniform Statewide Accounting System. Our results indicate that the Department is accurately reporting the historical information included in the Cash Forecasts.

For example, the balance of Fund 6 dropped to approximately \$4.1 million in October 2001. According to the Department, this occurred primarily because of increased expenditures on transportation projects. Other factors included fewer rainy days than expected, which resulted in contractors' accomplishing more construction and payments being higher than expected. At that time, the Department suspended recently awarded construction and maintenance contracts until spring 2002.

The Department bases the lowest daily balance forecast on the particular month's lowest daily and ending balances for the past three years. This approach assumes that there is a seasonal effect on the balance, although history indicates there is none.

The Department is more successful in forecasting revenues and expenditures (two other components of its overall Fund 6 cash forecast) than lowest daily balances. Revenue and expenditure forecasts differ from actual results by an average of less than 10 percent for forecasts of three months into the future.

In 1993, the Department commissioned a study of its forecasts. The study recommended using multivariable forecasting models based on statistical methods, such as regression analysis. The study also included general principles for a good model. Although the study focused on forecasts of payments to contractors, the criteria established in the study also apply to the Department's forecast of lowest daily balances. However, the Department's current methodology does not incorporate the recommendations from the 1993 study.

Recommendations

The Department should:

- Consider replacing the current method of forecasting lowest daily balances with multivariable models based on statistical methods, such as regression analysis.
- Consider using more than one model on which to base forecasted lowest daily balances.

Management's Responses and State Auditor's Follow-Up Comments

- *We were hopeful SAO would be able to provide details of a more effective methodology than ours based upon data collected during this audit. In the absence of this information, we are planning on conducting a study of the*

relationships between revenues, expenditures and a month's lowest daily balance in an effort to determine a methodology that will consistently provide a better estimate than the current practice. We plan on having this study completed by the end of calendar year 2003.

State Auditor's Follow-Up Comment

Our audit found a high degree of inaccuracy in the Department's three-month forecast due to incorrect assumptions that we have discussed with the Department. We have recommended that the Department adopt a statistical approach to its forecast, such as using regression analysis. The Department is ultimately responsible for developing an effective cash forecasting methodology.

- *We will consider using more than one model on which to base forecasted lowest daily balances in the course of our study of the relationships between revenues, expenditures and a month's lowest daily balance.*

Chapter 1-C

Elements of the Department's Cash Forecast Rely on Incomplete Information

The Department uses incomplete information when forecasting the cash available for construction projects. The Department's Fund 6 cash forecast relies, in part, on estimates of future payments to contractors recorded in the Financial Information Management System (FIMS). However, the Department's Finance Division does not always update FIMS with revised estimated contractor obligations (change orders).

The Department's district offices initiate change orders and notify the Construction Division, which enters the change orders into the Contract Tracking System (CTS). The Construction Division then forwards change order information to the Finance Division, which manually records the information into FIMS. The process used to record change orders in FIMS is manual and highly inefficient. The Department has begun implementing a new automated system (SiteManager) that will replace CTS (see Chapter 3). However, until SiteManager is implemented agencywide, the Department will need to perform manual reconciliations of CTS to FIMS.

Change orders in CTS for fiscal years 2001 and 2002 total approximately \$300 million. A reconciliation of FIMS to CTS confirmed that the Finance Division did not enter any of the 901 negative change orders (those that lower a project's cost), totaling \$42.1 million, into FIMS. Finance Division policy prohibits entering negative change orders into FIMS, but this will cause the Department to overestimate the amount it owes contractors.

A separate test of 475 positive change orders (those that increased project costs) found that 10 percent of the change orders, totaling \$1.6 million, were not entered into FIMS. Projecting this result to the population reveals that potentially \$31 million in change orders were omitted from FIMS. Not entering positive change orders into FIMS will cause the Department to underestimate the amount it owes contractors.

Recommendations

The Department should:

- Ensure that all change orders affecting payments to contractors are entered into FIMS.
- Reconsider the Finance Division's policy of not entering negative change orders into FIMS.
- Reconcile change order information in CTS to FIMS until SiteManager interfaces with FIMS.

Management's Responses

- *While the mentioned change orders net to \$12.1 million out of the approximate \$7 billion currently under contract would be considered immaterial, we agree with this finding as we continually try to improve our forecast. The Finance Division has already requested an automated interface from Site Manager to FIMS for change orders. Programming of this request has been delayed until concerns with payment related issues in Site Manager are resolved. The current estimate for completion of this request is August 2003.*
- *The Department is now entering negative change orders into FIMS.*
- *We have created a report (CST 5801) to enable project managers to verify that all funding related change orders have been entered in to FIMS.*

Chapter 1-D

The Department Does Not Formally Document Procedures and Assumptions Used to Prepare the Fund 6 Cash Forecast

The Department does not formally document the steps it takes to forecast future cash balances in Fund 6. Without such documentation, there is an increased risk that the Department will calculate the Cash Forecast inconsistently or use an incorrect methodology when preparing the Cash Forecast. In addition, the Department does not update its assumptions on a regular basis.

For example, the Department assumes contractors can work between 9 and 19 days per month on construction projects, depending on the month. According to staff members, the Department bases workday assumptions on three years of data. However, the supporting documentation provided by the Department does not make it clear that the assumptions are based on three years of data. In addition, the supporting documentation lacks a description of the Department's methodology for estimating workdays. Estimated workdays directly affect anticipated future contractor payments. Without a written methodology, the Department is unable to ensure that management follows the correct process.

In addition, the Department has not updated the study on which it bases its workday calculations since 1995. Without regularly updating key assumptions used in the forecast, the Department fails to recognize how technological changes may affect the forecast over time.

The Department does not have a documented formula for how it developed its workday estimates, such as the precipitation and temperature thresholds used to estimate the number of bad weather days. There is no way to know whether the assumptions reflect conditions from across the state or whether the Department based the estimate on one region. Without such information, the Department cannot know whether it needs to update its numbers, and if so, how.

In addition, the Department does not formally document adjustments made to data used to forecast Fund 6 cash balances. The Department prepares the forecast using data from various sources (such as USAS and its own LAR). Forecasters adjust the data in an attempt to quantify the effect of economic conditions and other factors, such as the terrorist attacks on September 11, 2001. Without documentation for these adjustments, it is difficult to determine whether they are appropriate or adequate. Moreover, future staff members who prepare the forecasts may not know if they need to make similar adjustments.

The Department also lacks documented policies and detailed procedures for preparing Fund 6 forecasts. If the Department experienced turnover in this area, other staff members would have to complete the forecast without the benefit of documented policies and detailed procedures.

Recommendations

The Department should:

- Establish a process for regularly adjusting and reviewing key assumptions used in forecasting future cash balances in Fund 6. This process, which should occur at least annually, is dependent upon having written records showing how the key assumptions were determined.
- Document the adjustments forecasters make to data used in the Cash Forecast.
- Develop policies and procedures for forecasting the Fund 6 cash balances.

Management's Responses

- *We will immediately begin to establish a process for regularly adjusting and reviewing key assumptions used in forecasting future cash balances in Fund 6. After a study is completed of our cash forecasting techniques, we will be able to refine this process.*
- *We also concur that we need to formally document the adjustments forecasters make to data used in the cash forecast. The Department does retain copies of documentation used to forecast future cash balances of the State Highway Fund,*

but the Department will be more diligent in logging changes in a more formal fashion instead of the current note taking method.

- *We also concur with the need to develop policies and procedures for forecasting the Fund 6 cash balances. We are currently updating the existing Cash Forecasting Manual and creating a desk manual of procedures. We plan to have our documentation completed to coincide with the completion of the study of the relationships between revenues, expenditures and a month's lowest daily balance.*

Chapter 1-E

Additional Changes Are Needed to Improve the Fund 6 Cash Forecast Report

The Department has improved the format of the monthly Cash Forecast report, making it more readable and useful for both internal and external users. However, the Department can make additional improvements to explain issues facing the Department and provide answers to users about the Cash Forecast report's quality.

**General Appropriations Act
(77th Legislature), Article VII,
Rider 41**

"The Texas Department of Transportation shall submit a monthly revenue report to the Legislative Budget Board and the Governor on state and federal funds received in State Highway Fund 006 as specified by the Legislative Budget Board. At any time, if the department becomes aware of any variances to estimated amounts appropriated above out of state and federal funds received in State Highway Fund 006, the Department shall notify the Legislative Budget Board and the Governor in writing specifying the affected funds and the reason for the anticipated change."

The Department originally prepared the Cash Forecast report as an internal tool to manage Fund 6's cash flow. However, the Department now distributes the Cash Forecast report to external users, such as the State's political leaders, to communicate the Department's effectiveness at managing Fund 6 and expectations for Fund 6 cash balances in coming months. The Department uses the Cash Forecast report to satisfy Article VII, Rider 41 of the General Appropriations Act (77th Legislature). (See text box.)

In December 2002, the Department increased the Cash Forecast report's usefulness by including a reconciliation of Fund 6 cash balances included in the report to USAS. The Department could further increase the Cash Forecast report's value to users by addressing the following limitations:

- The Cash Forecast report does not include enough information for users to understand the circumstances affecting the Fund 6 cash balance. Adding a description of the cause and effect of current and anticipated balance fluctuations to each forecast would help users understand Fund 6's condition.
- The Cash Forecast report does not include enough information for users to judge the quality of the forecast. Providing users with complete, simple, and clear explanations of the methods and assumptions the Department uses to prepare the forecast would improve its value to external users.
- Readers and users of the Cash Forecast report do not have enough information to judge the Department's success at forecasting Fund 6 financial activity. Publishing an ongoing measure of the differences between actual and predicted

values in the Cash Forecast report would help users determine the level of confidence they can place in the forecast and would give the Department an incentive for constant improvement in forecast accuracy.

Recommendations

The Department should:

- Add a narrative to each forecast describing the cause and effect of current and anticipated balance fluctuations.
- Provide users with complete, simple, and clear explanations of the methods and assumptions the Department uses to prepare the forecast.
- Publish an ongoing measure of the differences between actual and predicted values in the Cash Forecast report.

Management's Responses and State Auditor's Follow-Up Comments

- *The Department will add a text box to our lowest daily balance graph that will contain a brief statement as to the cause of significant fluctuations.*
- *Rather than including an appendix to every cash forecast, which would add to the bulk of the report, the Department will update a booklet on the Cash Forecasting System, which covers these topics. The booklet will be distributed to all recipients of the forecasts.*

State Auditor's Follow-Up Comment

We concur with the Department that updating the booklet on the Cash Forecasting System is a good idea. In addition, the Department could provide an abbreviated explanation of the forecasting methodologies in each month's Cash Forecast report, with a reference to the complete explanation included in the booklet.

- *The Department already publishes, and distributes externally, measures of the forecast's accuracy. The cash forecast currently includes three monthly and annual variance sheets addressing the accuracy of the forecast. They include current fiscal variance from the beginning of the fiscal year to present forecast, previous month actual variance from the forecast, and total current fiscal year forecast by month variance from the previous month. We will also begin to include an additional variance as recommended by SAO that will report historic accuracy over different time frames. We are grateful that SAO made this recommendation that was based on their discussions with recipients of our forecast.*

The Department's Spending on Capital Assets Substantially Complies with State Law

In fiscal year 2002, the Department substantially complied with the capital budget provisions of the General Appropriations Act (77th Legislature) for the 2002-2003 biennium. Riders 1 and 66 of the Act appropriated money to the Department for

spending on capital assets such as land, structures, equipment, and computer hardware and software. The Department can use only the money appropriated through these riders to pay for capital projects, not for any other purpose. Funding for the Department's capital budget comes primarily from revenues constitutionally dedicated to highway construction and maintenance.

The Department's misinterpretation of when it should group purchases together and identify the purchase as a capital project kept it from fully complying with the General Appropriations Act. Our testing of the Department's \$29 million in capital budget expenditures charged to appropriation year 2002 found five equipment purchases, totaling \$317,511, that the Department accounted for separately rather than grouping them together as a capital budget project, as required by the Legislative Budget Board (LBB):

- The Department purchased identical construction vehicle safety devices, each with a unit cost of \$8,424, in four separate transactions that, grouped together, exceed the \$25,000 threshold for identifying the purchase as a capital budget project. The total expended on these items was \$269,568.

As of December 2002, the Department had spent, or had set aside for spending, \$55.6 million (22 percent) of \$245 million in capital budget appropriations available for the 2002-2003 biennium.

Capital Budget		
	Appropriation Year 2002	Appropriation Year 2003
Appropriated	\$149,858,866 ^a	\$95,975,733 & UB ^b
Spent	(29,086,788)	(4,805,866)
Obligated	(21,679,960)	0
Available	\$99,092,118	\$91,169,867

^aThis amount consists of the capital budget appropriated by Rider 1 plus \$50 million appropriated by Rider 66.

^bThe Department has unexpended balance (UB) authority for its capital budget, meaning it can carry unexpended funds forward.

Source: USAS data as of December 2002

The Department indicates that each district, division, and office has a plan for spending the remaining funds and provided examples of spending plans for fiscal year 2003. One reason capital budget spending is reduced is that the Department temporarily suspended all non-essential capital expenses when the Fund 6 balance dropped to \$4.1 million in October 2001.

Funding for the Department's capital budget comes primarily from revenues that are constitutionally dedicated to highway construction and maintenance.

- In another instance, the Department purchased three portable electronic signs with unit costs of \$15,931 each that, grouped together, exceed the \$25,000 threshold for identifying the purchase as a capital budget project.

The LBB defines capital budget projects as:

- An item or asset with a unit cost exceeding \$25,000.
- Similar or identical items with individual unit costs of less than \$25,000 that comprise a "functionally unified asset or asset improvement." For example, the replacement of 20 personal computers as a group or separately, each with a unit cost of \$2,000, exceeds the \$25,000 threshold and should be identified as a capital project.

Recommendations

The Department should:

- Contact the LBB for further guidance on the legislative intent regarding the classification of multiple purchases of the same asset as a capital budget project.
- Reclassify the five expenditures noted above as capital budget projects.

Management's Responses and State Auditor's Follow-Up Comments

- *We are pleased the State Auditor has found that we are in 99% compliance with the capital budget provisions of the General Appropriations Act. We have gone to great lengths to properly identify and classify capital budget items on a consistent basis, agency-wide, in accordance with written and verbal directions. It was a significant challenge to apply a one-sentence definition, one example, and two brief presentations on this subject to the variety and volume of items we purchase.*

We will continue to seek direction from the LBB concerning the classification of purchases as capital or non-capital. In the future, we feel a published definition of "functionally unified asset" and criteria to consider in the decision of capital budget versus non-capital budget would be very beneficial to all state agencies. This information would enable agencies to consistently evaluate the purchase of various items and serve as the basis for justifying their inclusion or exclusion as a capital budget item. We feel this would be a better approach than each state agency calling their own LBB analyst on a case-by-case basis and possibly getting a different answer than other agencies purchasing similar items.

- *We feel that the five expenditures are in accordance with previous direction from the LBB.*

State Auditor's Follow-Up Comment

When testing the Department's capital budget expenditures, we consulted with the Department's LBB budget analyst regarding the classification of expenditures for similar or identical items. The LBB analyst concurs with our determination that the Department should have classified the five expenditures as capital budget projects.

The Department Should Improve Its Management of Information Technology Resources

A review of automated systems relied upon by the Department for managing Fund 6 revealed costly delays in implementing a new automated construction administration system. The delays will cost the Department at least an estimated \$2.9 million more than originally budgeted for the project. The Department purchased the new system in 1998 to replace four older automated systems. Installation in all district offices will not be complete until March 2004, instead of August 1999 as the Department originally planned. In addition, the Department's local area network and stand-alone computers are at risk for unauthorized access due to inadequate access controls. Unauthorized users could change or destroy data the Department uses to determine the amount of cash available for transportation projects.

Chapter 3-A

Delays in Implementing a New Construction Administration System Have Increased Costs and Decreased Benefits for the Department

Delays in the implementation of SiteManager, a new automated construction administration system, are preventing the Department from realizing all the expected benefits of the new system and are leading to increased costs. In addition, the Department does not have a formal, up-to-date transition plan that would provide management with measurable goals for implementing SiteManager. Additional delays in implementing SiteManager will increase the risk that the Department will ultimately rely on the older systems when vendor support is no longer available.

The estimated life-cycle cost of SiteManager has increased by 51 percent, from \$5.7 million to \$8.6 million. According to the Department, some of the increased costs and most of the delays were caused by a need to upgrade the communications infrastructure between district offices and the Department's Austin headquarters. Additional costs were incurred by the loss of key personnel and greater-than-expected costs for contract programmers. However, the true cost of the transition to SiteManager is unknown because the Department does not track maintenance costs associated with the four older systems SiteManager is to replace.

The Department initially proposed installing SiteManager one district office at a time, completing installation at all 25 district offices by August 1999. However, management had implemented SiteManager at only 14 (56 percent) of the district offices by December 2002. The current schedule shows that the last district will begin using the system in March 2004.

The Department purchased SiteManager in 1998 to replace four automated systems used for construction and materials management, including the Contract Information System (CIS) (see text box for additional information). Nevertheless, the Department continues to operate the four systems along with SiteManager. The Department estimates SiteManager's useful life is 10 to 15 years. If the Department does not

fully implement SiteManager until 2004, it will have already exhausted 40 percent of SiteManager's useful life.

If the Department achieves statewide implementation by 2004 as now planned, district offices will still have to maintain some contracts in CIS until approximately 2009. District offices that have not upgraded to SiteManager still enter and track new projects in CIS. The Department intends to operate CIS until all projects tracked in CIS are completed.

SiteManager™ automates aspects of project administration from the time the Department awards a contract through finalization of the project. The American Association of State Highway and Transportation Officials (AASHTO) sponsored development of SiteManager with the participation of 22 states and the Federal Highway Administration (FHWA). Participants were expected to share the \$10 million system development cost.

In Texas, SiteManager was to replace the following existing systems:

- Contract Information System (Maintains data used in monitoring the progress of contracts for the construction or repair of Texas highways)
- Material Control System (Maintains data on materials used in the construction or repair of Texas highways)
- Contract Tracking System (Tracks correspondence related to contracts, including change orders, final estimates, and other documents necessary for contracts)

In addition, SiteManager will partially replace the following system:

- Subcontractor Monitoring System (Tracks the Department's interaction with disadvantaged business enterprises on federally funded projects)

Source: 2001 Quality Assurance Team Monitoring Report and the Department of Transportation.

Based on a review of contracts completed in fiscal year 2002, it appears that district offices, after upgrading to SiteManager, will take up to five years to close out 99 percent of the contracts in CIS. A review of contracts completed in 2002 shows the following distribution:

- 99 percent (2,196 contracts) took up to five years to complete.
- 1 percent (20 contracts) took more than five years to complete.

According to the Department's cost-benefit analysis, the reasons for implementing SiteManager included:

- Promoting statewide standardization and greater accountability.
- Reducing errors.
- Eliminating many manual processes and activities.
- Reducing paperwork demands on district and area offices.
- Providing punctual and accurate information for decision making.

Another reason for phasing out the four older systems is the increasing cost of supporting outdated technology as vendor support ends.

Recommendations

The Department should:

- Determine the incremental cost of maintaining the existing systems to decide whether it is cost-beneficial to accelerate the transition from the older "legacy" systems, and transfer the contract data from CIS to SiteManager.
- Formalize and update the transition plan for managing the conversion from CIS to SiteManager. The transition plan should include measurable goals for implementing SiteManager.

Management's Responses

- *The Department concurs with the SAO Audit Recommendations on the SiteManager implementation. The Construction Division will evaluate the incremental cost of maintaining legacy systems against the benefits of not converting all legacy system data to SiteManager. We did convert several projects at different stages of completion in one of our earlier district implementations. Those conversions required a significant effort at both the district and division level and because the department has not incurred any expense beyond what was necessary to keep legacy systems up/running and meeting basic user needs since 1997 no further action was taken. If after further evaluation, full conversion is determined to be in the best interest of the department and resources are available to do so, we will modify our implementation process to include the conversion of legacy contract data.*
- *In addition, the Construction Division will formalize and update the transition plan for managing the conversion from CIS to SiteManager. The transition plan will include measurable goals for implementing SiteManager.*

Chapter 3-B

Controls Are Not Sufficient to Prevent Unauthorized Access to Department Data

Data maintained on the Department's stand-alone computers and internal network are at risk of unauthorized access. The Department has information technology security policies and procedures in place, and instances of unauthorized access did not come to our attention. However, additional controls could provide greater assurance that data are adequately protected against unauthorized access and accidental or intentional destruction or alteration. In particular, the Department needs to improve controls over access to data the Department depends on for preparing the monthly Fund 6 Cash Forecast report.

Potential Problems an Unauthorized User Can Cause

An unauthorized user could:

- Access an information system and perform unauthorized transactions.
- Damage data and programs.
- Release viruses.

Source: *Auditing Information Systems* by Jack Champlain

The Department uses a decentralized approach to implement and monitor security policies for information technology. This leaves many decisions, such as when and if users should change passwords, to the discretion of local information resource administrators. In addition, the Department has worded some security policies as suggestions instead of requirements. These conditions increase the risk that some users may not adhere to all the security policies. Issues related to network and application controls at the Department included the following:

- **Invalid Access Attempts.** The Department does not record or routinely investigate occurrences of unauthorized attempts to access the network. Invalid access attempts can occur when someone forgets or mistypes a password or when an unauthorized user attempts to access the network.
- **Access Controls for the Network.** The Department currently recommends but does not require employees logged onto the network to use password-protected screen

savers, which would help prevent access to their computers when they are away from their workstations. Password-protected screen savers help mitigate the risk that an individual could make unauthorized changes to data using someone else's network name and password.

- **Password Controls.** The Department's central network administrator does not require users to change their local area network passwords periodically. Instead, the Department leaves password change requirements to the discretion of local information resource administrators. The Department has developed a password reference guide to help users select effective passwords. The Department could enhance password controls by requiring users to change passwords every 60 or 90 days, thereby limiting the exposure time in the case that someone other than the authorized user knows a password.
- **Access Controls for Applications.** Department employees with valid computer user IDs and passwords can gain unauthorized access to other employees' computers. Currently, the Department recommends but does not require employees to save all critical files on the network instead of on their hard drives. When we brought this issue to management's attention, the Finance Division immediately took corrective action.

The Department has drafted, but has not yet adopted, revisions to its Information Security Manual to address the security issues described here. Proposed revisions would require employees to change their local area network passwords every 90 days and use a password-protected screen saver.

Recommendations

The Department should:

- Monitor and investigate invalid access attempts on a regular basis. This could be done by requiring network administrators to review access logs periodically and follow up on any suspicious activity.
- Require employees to use password-protected screen savers to help prevent access to their computers when they are logged onto the network but away from their workstations.
- Prompt users to change their passwords at least once every 90 days.
- Ensure that only authorized users can modify information in applications. This can be accomplished by requiring that all critical data files be saved on the network instead of on hard drives and that the applications have appropriate password-protection and user access levels.

Management's Responses

- *The Department's Information Systems Division (ISD) is currently analyzing what is required to monitor and investigate invalid attempts on a regular basis.*

ISD has in place lockout mechanisms to prevent intrusion to the network. Currently, research on intrusion is performed as requested. ISD will further research if the intrusion detection mechanism is adequate or if enhancements including monitoring are required. If routine monitoring is implemented, additional logging, hardware, software and personnel resources may be required to carry out the capturing and monitoring of the additional data collected as well as the investigation of invalid attempts.

- *We concur with the recommendation to require employees to use password-protected screensavers when they are logged onto the network but away from their computers. The current Information Security Manual recommends that information resource users utilize a screen saver, but it is not required. A new version of the Information Security Manual has been drafted and is in the review phase prior to final publication. This new version includes the requirement to use a password-protected screen saver as noted in the recommendation.*
- *We concur with the recommendation to require users to change passwords at least every 90 days. Mainframe users currently conform to this standard. ISD is in the process of planning the implementation of controls, which will require the users to change local and wide area network passwords at least every 90 days. Changing of passwords will be forced by each software package that provides an entry point to the networks. This implementation requires synchronizing Novell and NT and is targeted for completion by September 1, 2003.*
- *We concur with the recommendation to ensure only authorized users can modify information in applications. ISD has advised that all critical data files be saved on the network for security purposes and for backup and recovery management. However, this policy is not always followed. We will reissue a statement to remind users of this policy and ensure that this information is documented in the Information Resource Security Manual.*

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Appendices

Appendix 1

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether:

- The Department of Transportation (Department) is managing the daily balance in State Highway Fund 6 (Fund 6) to minimize excess balances while ensuring that funds are available for prompt payments to contractors.
- The Department is providing accurate and useful financial information on Fund 6 activities to the Legislature and other external customers.
- Fund 6 expenditures comply with the General Appropriations Act (77th Legislature) limitations on capital budget expenditures.

Scope

The audit scope included a review of the following:

- All activities related to the monitoring, forecasting, and reporting of Fund 6 financial transactions, including the Department's project planning, contract letting, contract payment, cash forecasting, and reporting processes
- The methodology employed by the Department in forecasting the ending monthly and lowest daily balances in Fund 6. We also tested the Department's forecasts to determine their reliability
- Support for the Fund 6 lowest daily balance target to determine whether the Department is basing its cash management on an appropriate target
- Revenue transfers from the Comptroller of Public Accounts to the Department to determine whether the revenues are transferred in a timely manner
- The Department's plan for the transition from the Contract Information System mainframe application to the SiteManager client-server application
- The Department's compliance with capital expenditure limitations imposed by the General Appropriations Act for the 2002-2003 biennium
- The usefulness of the Department's reporting of State Highway Fund 6 financial activities and forecasts

Methodology

The audit methodology consisted of the following steps:

- Gain an understanding of all activities related to the monitoring, forecasting, and reporting of Fund 6 financial transactions, including the Department's project planning, contract letting, contract payment, cash forecasting, and reporting processes.
- Review documentation of the methodology and assumptions used by the Department in preparing the *Cash Forecast of the State Highway Fund* (Cash Forecast).
- Reconcile historical financial activity reported by the Department in its Cash Forecast to the Uniform Statewide Accounting System.
- Perform analyses to determine whether the Department considers contract revisions and change orders in its Cash Forecast.
- Reconcile to supporting data the contract letting data the Department uses in preparing the Cash Forecast.
- Analyze the variance between forecasted and actual data for the Department's forecasts of revenues, expenditures, ending monthly balances and lowest daily balances.
- Perform statistical analyses of the Department's accuracy in forecasting lowest daily balances.
- Verify that the Comptroller of Public Accounts complies with provisions of Tax Code 153.503 regarding the transfer of gasoline tax revenues to the Department.
- Test the Department's expenditures to determine compliance with the capital budget provisions of the General Appropriations Act.
- Review the Department's process of replacing four legacy systems with SiteManager, a new construction administration system.
- Conduct a limited review of access controls over the Department's local area network and mainframe.

Project Information

This audit was conducted in accordance with generally accepted government auditing standards. Fieldwork took place between October 2002 and December 2002. The following members of the State Auditor's staff conducted this audit:

- Walton Persons, CPA (Project Manager)
- Anthony Chavez (Assistant Project Manager)
- Adriana Buford, CPA, CIA

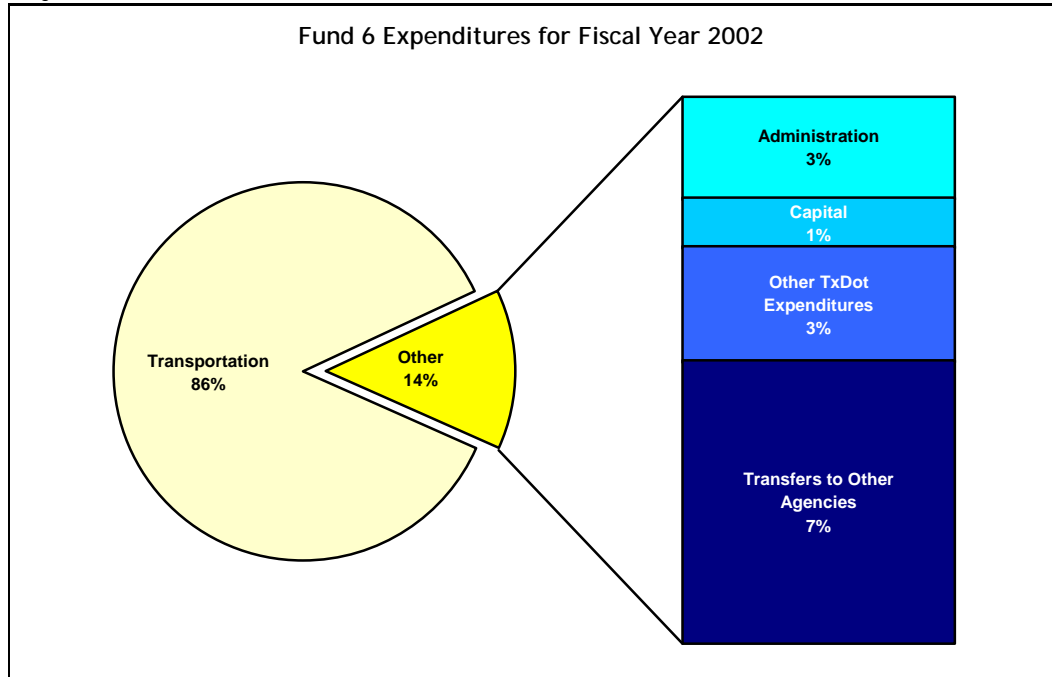
- Jennifer Hedrick
- Carmelita Lacar
- Cesar Saldivar
- Serra Tamur, MPAff, CISA
- Rebecca Tatarski
- Worth Ferguson, CPA (Quality Control Reviewer)
- Sandra H. Vice, MPAff (Audit Manager)
- Frank Vito, CPA (Director)

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Background Information

Figure 2 shows the distribution of \$5.5 billion of expenditures from Fund 6 for fiscal year 2002. Figures represent Department activity, except for the 7 percent transferred to other agencies.

Figure 2



Source: Uniform Statewide Accounting System

Table 1 shows the lowest daily balances forecasted from September 1999 through September 2002. It also shows the actual amount and the difference between the two.

Table 1

Accuracy of Three-Month Lowest Daily Balance Forecasts September 1999 Through September 2002 (Bold Indicates Balances that Fell Within the Department's Target Lowest Daily Balance of \$75 Million to \$100 Million)					
1999	Forecasted	Actual	Difference	% Diff.	
Sept.	\$ 358,759,500	\$ 241,496,030	\$ 117,263,470	32.69%	
Oct.	\$ 346,379,291	\$ 124,177,198	\$ 222,202,093	64.15%	
Nov.	\$ 359,273,821	\$ 290,702,297	\$ 68,571,524	19.09%	
Dec.	\$ 314,966,217	\$ 239,600,138	\$ 75,366,079	23.93%	
2000	Forecasted	Actual	Difference	% Diff.	
Jan.	\$ 293,843,185	\$ 51,749,469	\$ 242,093,716	82.39%	
Feb.	\$ 315,344,796	\$ 262,745,844	\$ 52,598,952	16.68%	
March	\$ 279,160,442	\$ 240,892,565	\$ 38,267,877	13.71%	

**Accuracy of Three-Month Lowest Daily Balance Forecasts
September 1999 Through September 2002
(Bold Indicates Balances that Fell Within the Department's Target Lowest Daily Balance of
\$75 Million to \$100 Million)**

2000	Forecasted	Actual	Difference	% Diff.
April	\$ 199,389,540	\$ 68,018,874	\$ 131,370,666	65.89%
May	\$ 215,126,048	\$ 175,251,724	\$ 39,874,324	18.54%
June	\$ 116,966,109	\$ 132,785,556	\$ (15,819,447)	13.52%
July	\$ 56,663,921	\$ 69,719,807	\$ (13,055,886)	23.04%
Aug.	\$ 66,271,819	\$ 28,871,575	\$ 37,400,244	56.43%
Sept.	\$ 114,908,939	\$ 38,383,246	\$ 76,525,693	66.60%
Oct.	\$ 92,158,405	\$ 28,632,083	\$ 63,526,322	68.93%
Nov.	\$ 25,696,124	\$ 71,598,230	\$ (45,902,106)	178.63%
Dec.	\$ -21,128,910	\$ 45,398,090	\$ (66,527,000)	314.86%
2001	Forecasted	Actual	Difference	% Diff.
Jan.	\$ 21,976,083	\$ 19,144,351	\$ 2,831,732	12.89%
Feb.	\$ 69,508,084	\$ 111,009,183	\$ (41,501,099)	59.71%
March	\$ 12,627,963	\$ 48,065,702	\$ (35,437,739)	280.63%
April	\$ 68,695,537	\$ 11,892,143	\$ 56,803,394	82.69%
May	\$ 72,706,898	\$ 22,278,240	\$ 50,428,658	69.36%
June	\$ 25,470,152	\$ 9,200,173	\$ 16,269,979	63.88%
July	\$ (2,175,282)	\$ 4,140,172	\$ (6,315,454)	290.33%
Aug.	\$ 28,445,863	\$ 7,735,378	\$ 20,710,485	72.81%
Sept.	\$ 48,933,252	\$ 45,811,289	\$ 3,121,963	6.38%
Oct.	\$ 100,219,615	\$ 42,660,594	\$ 57,559,021	57.43%
Nov.	\$ 56,367,498	\$ 37,117,261	\$ 19,250,237	34.15%
Dec.	\$ 38,586,727	\$ 17,843,078	\$ 20,743,649	53.76%
2002	Forecasted	Actual	Difference	% Diff.
Jan.	\$ 20,690,032	\$ 14,952,659	\$ 5,737,373	27.73%
Feb.	\$ 81,284,964	\$ 101,499,028	\$ (20,214,064)	24.87%
March	\$ 40,764,563	\$ 295,504,097	\$ (254,739,534)	624.90%
April	\$ 5,899,849	\$ 381,893,308	\$ (375,993,459)	6372.93%
May	\$ 131,068,693	\$ 354,863,998	\$ (223,795,305)	170.75%
June	\$ 144,087,463	\$ 168,834,356	\$ (24,746,893)	17.17%
July	\$ 197,428,113	\$ 378,975,209	\$ (181,547,096)	91.96%
Aug.	\$ 248,996,698	\$ 429,878,209	\$ (180,881,511)	72.64%
Sept.	\$ 429,993,477	\$ 459,914,425	\$ (29,920,948)	6.96%

Source: Department of Transportation

Figure 3 shows the Department's system for letting projects and completing cash forecasts.

Figure 3

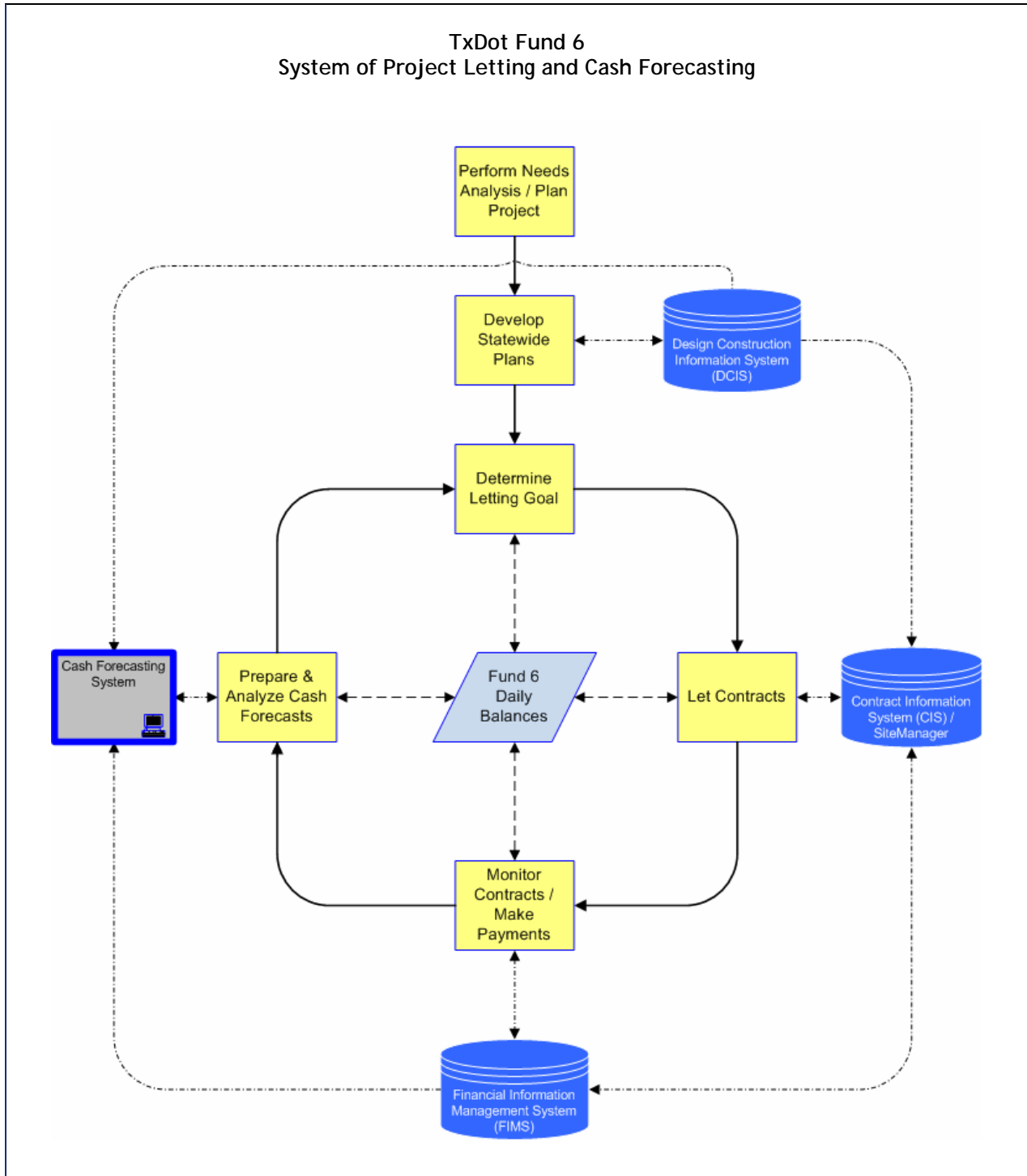
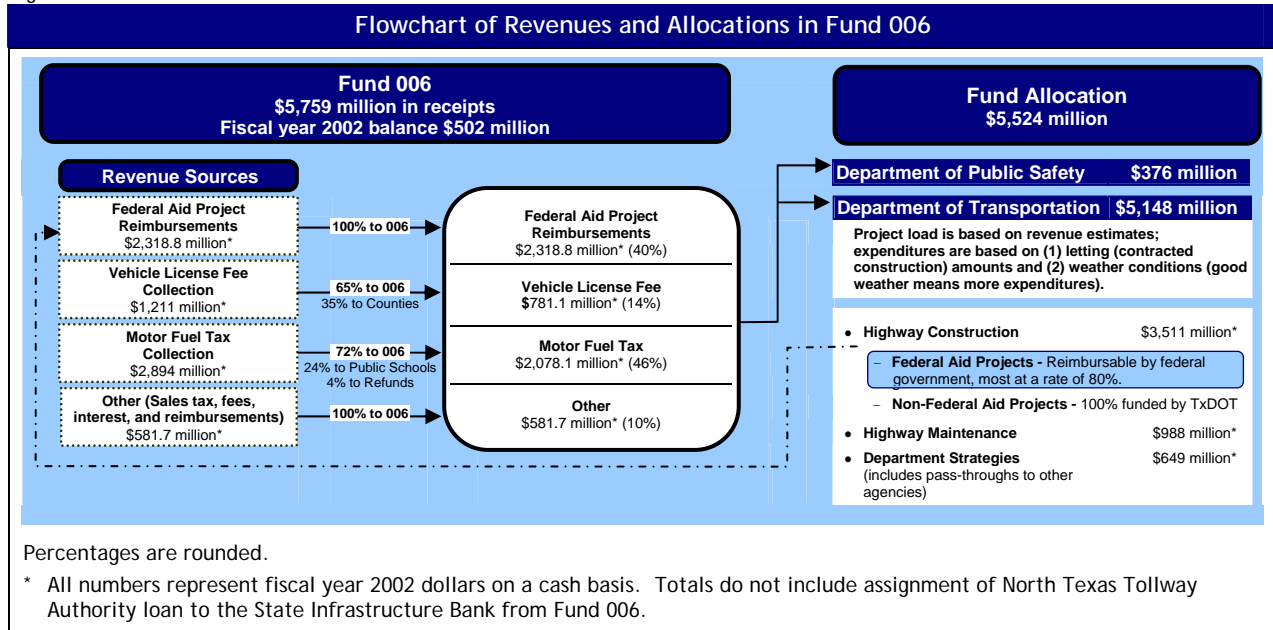


Figure 4 depicts the flow of money through Fund 6.

Figure 4



Source: Department of Transportation, Finance Division

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The Honorable David Dewhurst, Lieutenant Governor, Vice Chair
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The Honorable Bill Ratliff, Senate State Affairs Committee
The Honorable Talmadge Heflin, House Appropriations Committee
The Honorable Ron Wilson, House Ways and Means Committee

Office of the Governor

The Honorable Rick Perry, Governor

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Mr. John W. Johnson, Chair
Mr. Robert Nichols, Member
Mr. Ric Williamson, Member

Department of Transportation

Mr. Michael W. Behrens, P.E., Executive Director



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