



# A Legislative Summary Document Regarding Department of Transportation

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## State Auditor's Observations

The Department of Transportation's (TxDOT) procedures for projecting revenues and expenditures are based on internal cash forecasts that are currently under review by the State Auditor's Office. We expect to release our report in February 2003.

As of the end of fiscal year 2001, TxDOT had not loaned \$182.2 million of funds available in its State Infrastructure Bank (SIB) revolving loan fund. TxDOT does not know how much it spent to administer the SIB program. As a result, we could not determine whether the SIB program was self-sustaining.

Overall, TxDOT has successfully implemented a procurement card program that achieves its objectives of eliminating the need for petty cash and reducing paperwork for emergency purchases.

Prepared for the 78th Legislature  
by the State Auditor's Office

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SAO No. 03-368

*This is not an audit report and, with the exception of any audit report summaries, the material in this document has not been subjected to all of the tests and confirmations performed in an audit.*

# Department of Transportation

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## Financial Profile

### Fund 006 Lowest Daily Balances

In October 2001, the State Highway Fund (Fund 006) balance was \$4.1 million, which was below TxDOT's targeted minimum daily balance of \$75 million. According to TxDOT personnel, this occurred primarily because of increased expenditures on transportation projects. Other factors included fewer rainy days than expected, which resulted in more construction being accomplished and payments being higher than expected. At that time, TxDOT temporarily suspended work on some construction and maintenance contracts until the spring of 2002 for projects that had been recently awarded but on which work had not yet begun. Since then, the cash balance has grown, and in November 2002, the lowest daily balance was \$373 million.

### Revenue Projections

TxDOT separately projects revenues from various sources—such as motor fuel tax, vehicle registration fees, and interest on Fund 006 deposits—based on recent collection trends for the particular source. TxDOT bases expenditure projections on historical trends, estimates of cash required for current and future construction and maintenance contracts, and other information such as economic trends and changes in legislation. The State Auditor's Office is currently reviewing TxDOT's cash forecasts, which include revenue and expenditure projections. The report is expected to be released in February 2003.

We noted that TxDOT's "Estimated Revenue Collections Supporting Schedule" for Fund 006 in the 2002–2003 Legislative Appropriation Request (LAR) contained significant estimated negative beginning unencumbered balances for 2000 through 2003. According to management, this occurred because revenues in the schedule are presented on a cash basis, while deductions are presented on an appropriation basis.

### Reconciliations to USAS and ABEST

TxDOT's reconciliations of its internal accounting system to the Uniform Statewide Accounting System (USAS) appear to be made in a timely manner and properly reviewed. In addition, TxDOT reconciles USAS to the Automated Budget and Evaluation System of Texas (ABEST) each quarter, as required.

### Expenditures by Category

The table below shows TxDOT's expenditures by Comptroller of Public Accounts category as reported by TxDOT in USAS for appropriation years 2000, 2001, and 2002. This data has not been audited. It is provided for informational purposes to show how TxDOT has spent its funds. We obtained explanations from TxDOT for fluctuations across years that appeared unusual.

Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Highway Construction and Maintenance	\$3,037,631,446	\$3,048,910,828	\$3,213,614,590
Salaries and Wages <sup>a</sup>	505,964,181	526,618,055	561,024,169
Professional Services and Fees	240,406,427	284,013,157	254,400,627
Repairs and Maintenance	230,938,683	258,868,409	237,975,386
Supplies and Materials	178,315,249	180,006,810	167,452,802
Other Expenditures (Note A)	140,131,527	147,686,941	293,073,891
Employee Benefits	127,698,075	126,902,299	145,616,110

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Expenditures by Comptroller USAS Category Groups			
Comptroller USAS Category Group	Appropriation Year 2000	Appropriation Year 2001	Appropriation Year 2002
Intergovernmental Payments (Note B)	97,163,283	105,243,432	111,580,164
Interfund Transfers/Other	68,573,794	69,447,962	69,296,692
Public Assistance Payments (Note C)	31,625,420	46,047,377	31,635,766
Communications and Utilities	29,305,584	35,359,078	31,436,068
Rentals and Leases	13,657,949	14,050,570	16,186,536
Printing and Reproduction	8,393,663	8,218,424	8,053,033
Travel	6,102,313	6,372,957	6,386,773
Claims and Judgments	1,568,853	1,052,050	2,487,390
Capital Outlay (Note D)	70,028,061	71,550,945	21,554,760
Interest/Prompt Payment Penalties	376,367	208,269	171,817
<b>Total Expenditures</b>	<b>\$4,787,880,875</b>	<b>\$4,930,557,563</b>	<b>\$5,171,946,574</b>
<p><sup>a</sup> The amounts shown here for Salaries and Wages will not agree with the Salary Expenditures in the Workforce Summary Document prepared by the State Classification Office (SCO) because the USAS Salaries and Wages category does not include certain object codes that SCO considers employee compensation. These include performance awards and employee recognition awards.</p> <p>Source: USAS - All funds including appropriated, unappropriated, and non-appropriated as of November 30, 2002.</p>			

Note A – The increase in appropriation year 2002 is for advances to local municipalities to provide funding for development expenses for the North Texas Turnpike Authority, a subdivision of the State that is separate from TxDOT. The loans will be repaid from funds realized from the initial bond funding.

Note B – The continued increase in Intergovernmental Payments is a result of increased funding to cities for the support and promotion of general aviation. This increase corresponds to increased funding provided in TxDOT’s appropriations. This category also includes expenditures related to public transportation, traffic safety, and metropolitan transportation planning.

Note C – The increase in Public Assistance Payments in appropriation year 2001 reflects federal funding that was utilized in this category for the Congestion Mitigation and Air Quality and Surface Transportation Planning programs.

Note D – The decrease in this category for appropriation year 2002 results from TxDOT’s efforts to increase the cash balance. This was accomplished in part by purchasing only the most critical capital goods until the cash balance was increased to a desirable level.

## Key Findings from Previous Audits and Reviews

January 1, 2001–December 31, 2002

### ***Ongoing Financial Review of the State Highway Fund (Fund 006)***

The State Auditor’s Office will release a report in early 2003 on the financial transactions in the State Highway Fund (Fund 006) at the Department of Transportation (TxDOT).

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## **An Audit Report on State Entity Management of Travel Advance and Petty Cash Funds**

(Report No. 02-070, August 2002)

The five state agencies we audited spent and accurately reported their travel advance and petty cash funds in accordance with state laws and regulations. However, through our analysis, we determined that state agencies and institutions of higher education (state entities) do not appear to need all the travel advance and petty cash funds they have set aside. If not spent, these funds remain unused in bank accounts outside of the State Treasury. We also identified control weaknesses related to travel advance and petty cash accounts at the agencies we audited.

### **Status of Audit Recommendations as of November 30, 2002**

No status is reported at this time to allow TxDOT sufficient time to address recommendations in this recently released report.

The Fort Worth District Office of the Department of Transportation (TxDOT) maintains a \$1,500 petty cash fund balance that had an average monthly activity of only \$224 over an eight-month period for fiscal year 2002. This indicates that the Fort Worth District Office did not review fund activity to determine its current needs.

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## **An Audit Report on Revolving Loan Funds**

(Report No. 02-059, July 2002)

As of the end of fiscal year 2001, the Department of Transportation (TxDOT) had not loaned \$182.2 million of funds available in its State Infrastructure Bank (SIB) revolving loan fund. On May 30, 2002, after our fieldwork ended, TxDOT approved an additional loan for \$144.7 million to the North Texas Tollway Authority. This SIB loan only enabled the North Texas Tollway Authority to pay TxDOT for the outstanding balance of a 1995 loan from TxDOT's Fund 6. No new roads will be built as a result of this loan.

### **Status of Audit Recommendations as of November 30, 2002**

No status is reported at this time to allow TxDOT sufficient time to address recommendations in this recently released report.

TxDOT does not know how much it spent to administer the SIB program. As a result, we could not determine whether TxDOT's SIB program was self-sustaining.

Although we found no violations of applicable laws, we identified inconsistencies related to the SIB program. These included inconsistencies among the terms of the loan agreement, the rules in the Texas Administrative Code, and TxDOT's internal policies and procedures. In addition, the procedures for the SIB program should be formalized.

TxDOT's SIB tracking system is not programmed to make adjustments when borrowers make early payments or must be assessed penalties for late payments. Also, the SIB tracking system currently allows all designated users the same level of access.

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## **An Audit Report on Procurement Card Processes and Controls**

(Report No. 02-022, February 2002)

Overall, the Texas Department of Transportation (TxDOT) has successfully implemented a procurement card program that achieves its objectives of eliminating the need for petty cash and reducing paperwork for emergency purchases. We tested a sample of division and district purchases and, except for several split purchases, all the questionable items we identified had already been identified and addressed by TxDOT staff.

### **Status of Audit Recommendations as of November 30, 2002 (unaudited)**

TxDOT has reported the following:

Implemented	2
<b>Total recommendations</b>	<b>2</b>

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TxDOT relies on preauthorization for procurement card purchases as well as management review of monthly reports that show where cardholders shopped and the amount spent for each procurement card transaction. TxDOT provides cards to about 15 percent of its staff, but it limits its risk by giving most cardholders a small transaction limit.

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## ***State of Texas Federal Portion of the Statewide Single Audit Report for the Year Ended August 31, 2001<sup>1</sup>***

(February 2002)

### **Cash Management**

For the fiscal year ended August 31, 2001, the Department of Transportation's (TxDOT) Highway Planning and Construction – cluster program clearance pattern was calculated to be 4.05 days. The program did not comply with its cash management funding technique in relation to draws for construction expenditures in August 2001. It did not comply because amounts were drawn by the program from the federal government two to four days prior to the day the program expected to pay out the related funds. The questioned cost was \$33,471.00.

<p><b>Status of Audit Recommendations as of November 30, 2002</b></p>
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<p>KPMG LLP will report on the status of these recommendations in the federal portion of the statewide single audit for fiscal year 2002. This report is expected to be released in Spring 2003.</p>
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## **Performance Management**

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### ***Performance Indicators Used by Management***

The Department of Transportation (TxDOT) uses the measures in the General Appropriations Act to monitor performance. To complement the key performance measures included in the General Appropriations Act, TxDOT has established additional internal goals. These internal goals are identified in the August 2001 report *Texas Transportation Partnerships . . . Connecting You to the World* by John W. Johnson, Chairman, Texas Transportation Commission.

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### ***Estimating Performance Targets***

TxDOT's methods of determining performance targets appear to be appropriate. TxDOT develops targets for performance measures based on historical information (trend analyses), external factors, pertinent information related to the individual measure, letting volume, and funding levels.

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<sup>1</sup> Results from only the most recent statewide single audit are included in this Legislative Summary Document. KPMG LLP conducted the federal portion of that audit under contract with the State Auditor's Office. Only excerpts from the KPMG audit report are presented above. For the full text of the KPMG audit report, please see [www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345](http://www.sao.state.tx.us/Reports/report.cfm?report=2002/02-345).

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## **Most Recent Performance Measure Certification**

**Fiscal Year 1998–Fiscal Year 2003**

The results included in *An Audit Report on Fiscal Year 2001 Performance Measures at 14 Entities* (Report No. 03-008, November 2002) for this entity are summarized below.

Period	Goal/Strategy		Measure	Certification Results
2001	A	Transportation Services and Systems	Percent of Motor Vehicle Consumer Complaints Resolved	Certified with Qualification
2001	A.1.1	Plan/Design/Manage	Number of Highway Construction Projects Contracted	Certified with Qualification
2001	A.1.5	Routine Maintenance	Number of Lane Miles Resurfaced With Overlays	Certified with Qualification
2001	A.1.11	Vehicle Dealer Regulation	Average Number of Weeks for Complaint Resolution	Inaccurate
<b>Total Measures Certified Without Qualification<sup>a</sup></b>				<b>0/4 (0%)</b>
<b>Data Reliability Percentage (Certified and Certified with Qualification)</b>				<b>3/4 (75%)</b>

<sup>a</sup> The percentage of unqualified certifications is presented because it is used in determining an entity's eligibility for performance rewards as established in the General Appropriations Act [77th Legislature, Article IX, Sec. 6.31(d)(2)].

Category	Definition
Certified	Reported performance is accurate within +/-5 percent, and controls appear adequate to ensure accurate collection and reporting of performance data.
Certified with Qualification	Reported performance is within +/-5 percent, but the controls over data collection and reporting are not adequate to ensure the continued accuracy of performance data.
Factors Prevent Certification	Actual performance cannot be determined because of inadequate controls and insufficient documentation.
Inaccurate	Reported performance is not within +/-5 percent of actual performance, or there is an error rate of at least 5 percent in the supporting documentation.
Not Applicable	A justifiable reason exists for not reporting performance.

## **Quality Assurance Team Reviews**

**Conducted by the Legislative Budget Board and State Auditor's Office**

### **Completed Projects**

**Quality Assurance Team Annual Report – January 2003**

The Department of Transportation (TxDOT) completed the TxDOT Enterprise Resource Management System (TERMS I) project at a cost of \$5,885,316 on August 31, 2001. The initial budget was \$10,715,755, and the initial completion date was August 31, 2001.

### **Completed Projects**

**Quality Assurance Team Annual Report – January 2002**

TxDOT completed the following projects at the total costs noted:

- Direct Access Storage Device Upgrade: \$8,981,190
- Enterprise Systems Management: \$2,224,563

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- Right-of-Way Information System: \$4,255,495
- Texas Historical Sites Atlas: \$1,386,425

## Ongoing Projects

## Quality Assurance Team Annual Report – January 2003

Licensing Administration Certification and Enforcement (LACE) — In November 1999, TxDOT began to update and integrate existing automated processes of the Motor Vehicle Division. The project vendor was terminated, which affected the time line. Current expenditures for this project are \$1,856,352.

Motor Vehicle Information System (MVIS) — In September 2001, TxDOT began work on a vehicle application system for point-of-sale sticker printing. The cost decrease is based on using previous elements from other systems. Current expenditures for this project are \$312,133.

Registration and Titling System (RTS—formerly RACER) — In September 2000, TxDOT started this project to redesign the point-of-sale portion of the Registration and Title System and to provide Internet capabilities for the registration of vehicles. The cost increase and time line change are due to a new vendor. Current expenditures for this project are \$10,491,480.

Statewide Traffic Analysis and Reporting System (STARS) — In August 1999, TxDOT began working on this system to collect, analyze, and report various traffic data. The cost increased based on additional contractor costs for risk assessment, Joint Application Development sessions, and planning tasks. Current expenditures for this project are \$6,056,202.

TxDOT Enterprise Resource Management System (TERMS II) — This project began in September 2001 and involves the deployment of PeopleSoft™ to users, the evaluation of the replacement of the Uniform Statewide Payroll System (USPS) with PeopleSoft™ Payroll, and the implementation of the Internet version of PeopleSoft™ Human Resource Management System (HRMS). Current expenditures for this project are \$1,377,500.

Project	Function	Initial Budget	Current Budget	Budget Change	Initial End Date	Current End Date	Time Change
LACE	Update and integrate processes	\$4,226,942	\$4,226,942	\$0	08/31/03	06/30/04	10 months
MVIS	Point-of-sale sticker printing	\$19,990,000	\$17,798,120	(\$2,191,880)	08/31/03	08/31/03	None
RTS	Redesign point-of-sale, add Internet capabilities	\$12,135,000	\$18,866,159	\$6,731,159	08/31/03	03/31/03	(5 months)
STARS	Report traffic data	\$4,059,720	\$10,612,390	\$6,552,670	09/30/99	12/31/05	75 months
TERMS II	Deploy PeopleSoft™	\$4,914,098	\$5,556,184	\$642,086	08/31/03	08/31/04	12 months

## Disaster Preparedness

We gathered information from the Department of Transportation (TxDOT) on plans in place to provide continued operations and services in the event of a disaster. Standard audit criteria for disaster preparedness have not been established; therefore, we are not evaluating TxDOT's plans. Our objective was only to provide the information reported by TxDOT.

TxDOT's Information Services Division has a Disaster Recovery Plan for its Central Data Center. TxDOT indicates that it tests the plan annually and validates with three or four districts or divisions. In the event of a disaster, TxDOT says it would be able to restore data, which is stored offsite daily, to a remote disaster recovery site within 72 hours. This alternative setup would provide network connectivity to all locations.

TxDOT is revising its Central Data Center plan, and management plans for the revision to be part of an overall business continuity effort.

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## Information System Vulnerability Assessments

The State Auditor's Office (SAO) and/or the Department of Information Resources performed one or more information system vulnerability assessments at the Department of Transportation between January 2000 and November 2002. Detailed results of this work are confidential under Texas Government Code, Section 2054.077(c). The SAO's Legislative Summary Document titled "Information System Vulnerability Assessments" provides general information about the results of information system vulnerability assessments.

## Travel Expenditures

Travel Expenditures by Appropriation Year (unaudited)			
	2000	2001	2002
In-State Travel	\$ 5,571,966	\$ 5,714,506	\$ 5,928,466
Out-of-State Travel	550,654	642,805	439,435
Foreign Travel	1,469	823	0
Other Travel Costs	(21,776)	14,822	18,872
<b>Total Travel Expenditures</b>	<b>\$ 6,102,313</b>	<b>\$ 6,372,957</b>	<b>\$ 6,386,773</b>
Limit on Travel Expenditures (Cap)	7,205,335	7,205,335	552,123 <sup>a</sup>
<b>Expenditures in Excess of Cap</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

<sup>a</sup> Caps apply to total travel in appropriation years 2000 and 2001, but caps apply only to out-of-state travel and foreign travel in appropriation year 2002. Caps, calculated by the Comptroller of Public Accounts, have been adjusted for any increases requested by TxDOT and approved by the Legislative Budget Board in accordance with the General Appropriations Act.

Source: Uniform Statewide Accounting System (USAS) as of November 30, 2002. Amounts are subject to change as agencies continue to record additional expenditures or adjustments.