Internal Audit Report

Budget Development, Allocation, and Monitoring

TxDOT Internal Audit Division
Objective
To evaluate the effectiveness of the budget development, allocation process, and monitoring of the budget throughout the year by the districts and divisions (DDs).

Opinion
Based on the audit scope areas reviewed, control mechanisms are effective and substantially address risk factors and exposures considered significant relative to impacting reporting reliability, operational execution, and compliance. The organization’s system of internal controls provides reasonable assurance that most key goals and objectives will be achieved despite significant control gap corrections and improvement opportunities identified. Control gap corrections and improvement opportunities identified are likely to impact the achievement of the organization’s business/control objectives, but management has agreed to corrective action plans to address the relevant risks within 6 months.

Overall Engagement Assessment
Satisfactory

<table>
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<th>Finding</th>
<th>Title</th>
<th>Control Design</th>
<th>Operating Effectiveness</th>
<th>Rating</th>
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<td>Finding 1</td>
<td>Budget Monitoring Process</td>
<td>x</td>
<td>x</td>
<td>Needs Improvement</td>
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Management concurs with the above finding and prepared management action plans to address deficiencies.

Control Environment
Financial Management Division (FIN) facilitated the consolidation of the overall Texas Department of Transportation (TxDOT) budget into the Legislative Appropriation Request (LAR). The LAR is developed by consolidating the budget needs provided by each district and division (DDs). Using these budget needs from the DDs the budget is developed within the Budget Information System (BIS) which then provides estimated allocations. The DDs can request changes to their allocations by submitting an Additional Funding Request (AFR) prior to the LAR approval or an Additional Budget Request (ABR) after the LAR has been approved. FIN provided assistance in monitoring the individual DD budget, however, limited guidance was available to instruct the DD’s on monitoring expenditures at a detailed level.

The PeopleSoft Enterprise: Finance & Supply Chain Module (PeopleSoft), the TxDOT accounting system, has limited budget reporting capabilities, and the reports available have to be reviewed and adjusted by FIN to ensure the data is consistent and to make the reports useful. DDs interviewed reported they were developing their own monitoring tools as they were not yet comfortable with the PeopleSoft reporting.

FIN budget analysts performed a weekly comparison of recent expenditures and accruals to the Uniform Statewide Accounting System (USAS) to verify the funds are available for that week. In addition, Support Services Division (SSD) provided additional direct monitoring assistance to the districts, as well as, 5 divisions. This direct monitoring provided an additional layer of support between FIN and the districts to help drive consistency and to
Budget Development, Allocation, and Monitoring  TxDOT Internal Audit Division – Full Scope

provide guidance with any Additional Budget Requests (ABRs), budget development, and monitoring.

The number of ABRs submitted over the past 3 years have decreased each year from 491 requests (in 2013), to 392 (in 2014), to 261 (in 2015).

Summary Results

<table>
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<th>Finding</th>
<th>Scope Area</th>
<th>Evidence</th>
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| 1       | Budget Monitoring Additional Budget Request Approvals | Audit work performed on the budget manual, interviews with budget personnel in FIN and individual DDs, and review of DD budget monitoring tools identified the following:  
- The Budget Manual (dated 2010):  
  - had not been updated to reflect the PeopleSoft conversion in October 2014  
  - focused on development and allocation of the budget and provided minimal guidance to the DDs on monitoring individual budgets by strategy  
  - the Additional Budget Request (ABR) process was not clearly defined as to the required approval and timing of responses to the DDs  
- DDs did not have the capability to pull timely budget and expenditure reports within PeopleSoft  
- 4 of 8 budget analysts who were interviewed in selected DDs used self-developed spreadsheets to monitor budget versus expenditures |

Audit Scope

The audit scope focused on the development, allocation, and monitoring of the Texas Department of Transportation (TxDOT) budget process for fiscal year (FY) 2015, including a discussion and review with selected DDs. ABRs for FY 2015 were reviewed for approvals and to determine the time to complete the ABR process from submission to notification of a decision. Lastly, testing included analytical analysis of the variance between budget and expenditures and total ABRs submitted by each district and division for FY 2013, 2014 and 2015.

The audit was performed by Alma Alvarez, Jarmon Dorsey, Jehryca Rayford, Ky Stafford, and Lindsay Bibeau (Engagement Lead). The audit was conducted during the period from December 14, 2015 to February 26, 2016.
Methodology
The methodology used to complete the objectives of this audit included:

- Reviewed TxDOT internal documents, such as FIN’s Budget Manual and the Senate Research Center’s Budget 101, to identify key procedures within the overall budget process.
- Reviewed sections of state code, such as the Texas Administrative Code, to identify applicable regulations for budgeting requirements.
- Conducted interviews with key personnel in the DDs, such as, division directors, district engineers, and budget analysts to discuss budget process concerns within their DD.
- Reviewed and compared FY 2015 budget to actual expenditures by DD.
- Selected 34 FY 2015 ABRs from all DDs through a stratified sample based on FY 2015 underspent amounts within the selected DDs, to identify whether ABRs were approved and completed according to Financial Management Division (formerly Finance Division) guidance.

These procedures were applied as necessary to perform the audit fieldwork.

Background
This report is prepared for the Texas Transportation Commission and for the Administration and Management of TxDOT. The report presents the results of the Budget Development, Allocation, and Monitoring audit which was conducted as part of the Fiscal Year 2016 Audit Plan.

The State of Texas prepared a biennial budget (known as the General Appropriations Act), which is introduced and approved by the Texas Legislature, with final approval by the Governor of Texas. To accomplish this task, each state agency prepares its own proposed budget. The TxDOT budget is submitted by the Texas Transportation Commission and is reviewed, discussed, adjusted, and approved by the Legislature as part of the General Appropriation Act. Historically the TxDOT budget has been compiled by FIN from information provided by administration and each district and division (DDs). Budget requests are developed, allocated, and monitored using the Budget Information System (BIS). BIS is leveraged to help in the development of the Legislative Appropriations Request (LAR) before it is presented to the Texas Transportation Commission, and ultimately to Legislators.

With the intention of replacing multiple legacy systems, including financial systems like the Financial Information Management System (FIMS) and BIS, TxDOT implemented PeopleSoft in October 2014. FIMS, which allowed for invoice-level review capabilities, was retired with this implementation; however, BIS was still used as a tool for budget development and allocation by FIN. The same reports, once run from BIS, have been developed within PeopleSoft in an attempt to replace the reporting functionality that once existed between FIMS and BIS. Since BIS does not interface with PeopleSoft as it did with FIMS, the capabilities that previously existed between BIS and FIMS was no longer available.

In developing the budget, the DDs provided input using historical information while considering strategic needs for the coming biennium. FIN uploads these inputs into BIS with corresponding allocations and then reviews for reasonableness within the current year restrictions. If adjustments need to be made prior to LAR approval, it is performed through...
the additional funding request (AFR) process and if adjustments need to be made after LAR approval, that is performed through the additional budget request (ABR) process.

FIN has created the Additional Budget Request (ABR) process for the DDs to use when legislatively approved budgets need to be adjusted. The DD submits an ABR to FIN requesting the budget adjustment. FIN reviewed the ABR for reasonableness then sends it for necessary approval by Administration or FIN. With each ABR, FIN targets a completion timeline of 3-weeks.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Recommendations to mitigate risks identified were provided to management during the engagement to assist in the formulation of the management action plans included in this report. The Office of Internal Audit uses the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework version 2013.

A defined set of control objectives was utilized to focus on reporting, operational, and compliance goals for the identified scope areas. Our audit opinion is an assessment of the health of the overall control environment based on (1) the effectiveness of the enterprise risk management activities throughout the audit period and (2) the degree to which the defined control objectives were being met. Our audit opinion is not a guarantee against reporting misstatement and reliability, operational sub-optimization, or non-compliance, particularly in areas not included in the scope of this audit.
Detailed Finding and Management Action Plans (MAP)

Finding No. 1: Budget Monitoring Process

**Condition**
The overall budget monitoring process for districts and divisions (DDs) is inefficient. Although budget and expenditure reporting is made available through Financial Management Division (FIN); these reports do not provide adequate transactional detail the DDs need to compare expenditures to respective budget line items. As a result, DDs have created their own manual reporting tools to monitor and manage their individual budgets.

**Effect/Potential Impact**
Inefficient reporting tools for monitoring budgets can result in undetected charges being made to the wrong cost center or budget line item. In addition, by not having timely expenditure reporting, performance measures in the districts and in some divisions may be at risk and could impact project spending toward the latter part of the year.

Although inefficiencies exist within the budgeting process, TxDOT’s expenses did not exceed the annual budget within fiscal year 2015.

**Criteria**
The Texas Constitution prohibits the State from appropriating more funds than are available. As a result, the State Legislature, through the Legislative Budget Board (LBB), requires each agency to prepare and produce a budget to ensure funds are available and to assure the state’s taxpayers that funds are spent wisely. According to the Senate Research Center’s Budget 101 agencies are required to establish controls to ensure the data reported to the LBB is properly collected and reported, and accurately reflect the agency’s actual performance.

Department budgetary expectations require budget monitoring at the strategy level and districts have budgetary spending targets included in performance plans.

**Cause**
The conversion to PeopleSoft in 2014 changed the budget reporting process and monitoring tools used that provided transaction reporting. The new process did not include similar reporting capabilities as previously used in the legacy system for allowing the DDs to monitor performance more timely against their budget. In addition, budget support is being provided by two separate divisions, FIN and Support Services Division (SSD). SSD mainly supports the districts and five divisions while FIN provides direct support to the remaining divisions across the agency. This structure has led to some inconsistencies in the messaging and types of information provided to the DDs. The functional alignment is being evaluated at this time.

Updates of the budget guidance to include PeopleSoft specifics such as ABR approvals and timeliness, and monitoring best practices, were not reflected within the current Budget Manual from 2010.
Monitoring guidance provided by FIN and for PeopleSoft reporting tools were still in development as of testing performed during fieldwork.

**Evidence**
A review of the budget manual and interviews conducted with budget personnel in FIN and individual DDs identified the following:

- The Budget Manual (dated 2010):
  - had not been updated to reflect the PeopleSoft conversion in October 2014, and therefore guidance and timelines of the new PeopleSoft reporting is unavailable to the DDs
  - focused on development and allocation and provided minimal guidance to the DDs on monitoring individual budgets by strategy
  - the Additional Budget Request (ABR) process was not clearly defined as to required approval and timing of responses from the DDs
    - the average response time for the 34 selections reviewed from FY 2015 was 27 days from DD submission to notification of a decision
  - Since the conversion to PeopleSoft in October 2014, DDs did not have the capability to pull budget and expenditure reports independently and needed to rely on FIN to provide reporting
  - 4 of 8 budget analysts who were interviewed in select DDs used self-developed spreadsheets to monitor budget versus expenditures

**Management Action Plan (MAP):**

**MAP Owner:**
Raymond Bischoff, Budget and Forecasting Manager, Financial Management Division

**MAP 1.1:**
Will update Budget Manuals to include:
- budget reporting, report timing and monitoring tools available to the DDs within the PeopleSoft system, and
- a high level overview of the ABR process, including ABR submission to approval timelines and ABR required approvals.

**Completion Date:**
August 15, 2016

**MAP 1.2:**
FIN will develop weekly reports to provide to the DDs that will include, but is not limited to, the R25, R15 and R14 reports. These reports will be placed within folders specific to each DDs. FIN, along with users from other DDs will re-evaluate this solution to determine its effectiveness and efficiencies and provide a report to the CFO on any recommended adjustments this reporting process.

**Completion Date:**
August 15, 2016
### Summary Results Based on Enterprise Risk Management Framework

#### Audit Results Dashboard

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#### Closing Comments

The results of this audit were discussed with the following Divisions: Financial Management (formerly Finance Division), Strategic Contract Management (which includes the division formerly known as the Strategic Projects Division), Public Transportation, Traffic Operations, Research and Technology Implementation (formerly Research and Technology Implementation Office), and Information Management Division (which includes the office formerly known as Enterprise Systems Offices) along with the following districts: Dallas, Houston and El Paso. We appreciate the assistance and cooperation received from the districts and divisions contacted during this audit.