



## The State of Texas

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Mr. John Keel  
State Auditor  
P.O. Box 12067  
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Dear John:

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

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

### Cash Forecasting

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

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

Fund Allocation and Commitments

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

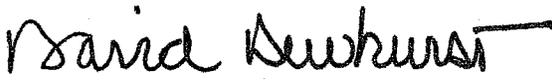
Maintenance

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

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

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

Sincerely,



DAVID DEWHURST  
Lieutenant Governor



TOM CRADDICK  
Speaker of the House