Table of Contents

Seattle Transportation Department

Report on Budget, Accounting and Fund Management Issues

Executive Summary

We are pleased to present this report on budget, accounting and fund management issues of the Seattle Transportation Department (the department). Branch, Richards & Co., P.S. was engaged by the City of Seattle (the city) to conduct this project. The purpose of this project is to assist the city in determining the underlying cause of recent cash balance shortfalls and other related budget matters, to determine whether these conditions currently exist and to determine whether changes are required to remedy existing conditions. More specifically, this project's purpose is to analyze the department's capacity to manage its budget to meet capital project funding requirements and to meet cash balance targets.

The Background and History section of this report describes the nature of the recent issues encountered by the department and the current financial operations of the department. The Scope and Methodology section of this report provides a summary of the activities involved in this project. The Analysis section provides a description of the analysis of the budget information and status in 1999 as contrasted to current budget processes.

Our conclusions begin on page 18 of the report. Following are a few of the major conclusions we arrived at:

- There are too many TCIP budget totals being shown among various reports, none of which represent the figures the department is managing to which is modeled using revenue constraints, prior carry-overs, grant billing lags, etc.

- There are inconsistencies with the detail of the cash shortfall estimated at $4.6 million. Management had originally estimated that $3.1 million was over-expended in the TCIP, $1.8 million was related to overhead rate under-recovery and ($300k) was unexpected revenue. However, we were not able to support such a figure based upon our analysis of the TCIP monitoring reports, and we ultimately confirmed that an over-expenditure of Operations & Maintenance (O&M) was part of the equation in the amount of $832,000, thus indicating that the TCIP over-expenditure was in fact less than originally computed.

- The continuing cash balance deficits from August 1999 through November 1999 indicated to us that budget issues separate from the Summit conversion problems and billing system problems may have existed. We found that there were some valid and

significant system conversion issues which clouded some of the financial data and management has stated that detailed expenditure reports were not available to accurately invoice third parties and granting sources. While this likely explains a significant portion of the large negative cash balances in August 1999, we believe the negative cash balances should have been a significant indicator of a potential cash shortage at this time.

- Beginning in early 2000, the department reconstructed the TCIP monitoring report to include columns for targeted expenditures segregated by local dollars, grant reimbursement funds and other appropriated funds. While this was a large improvement, it remains difficult for a project manager to rely on the allocation made to "local" expenditures without explanations in the report.

- There does not appear to be a documented and shared monitoring of the "redistribution" of targeted expenditures between projects. It is critical that a re-balancing is documented by source of funding so that the local spending variable is tracked as a result of the redistribution.

- The department's accounting is very complex based upon its numerous funds and sources of funding and managing its cash position is a challenge. However, there continue to be specific weaknesses in important areas of the accounting process. These include errors in the billing process which create cash flow and fund management problems, lack of a clear process for managing the TCIP on a cash basis and written documentation for the processes involved in the financial modeling that creates the local spending targets.

The Recommendations section of this report presents areas where current processes, structure and systems could be improved. Our recommendations are more fully described in the Recommendations section of this report but following are a few highlights:

- Based upon our discussions on the TCIP budget, we would recommend that a combination of a "revenue restricted" budget with appropriation abandonment be submitted for adoptment.

- The department needs to clearly articulate the main business drivers involved in managing a transportation agency and to focus management effort and reporting on these key "metrics". The current definition of project accomplishment is expenditure based and an alternative definition could be project delivery. An integrated approach should be implemented for the quarterly analysis of project delivery (timing of completion), its impact on budget with re-balanced funding source information and projected cashflow and budget status. Thus, the project delivery schedule drives the billings (including the re-balancing of funding sources) which drive the cashflow projections. We believe this would be an improvement in managing the projects.

- Currently department finance staff and TCIP program management frequently meet to discuss project status and funding and budget issues. In order for the approach of processing changes discussed throughout the report to be effectively implemented, budget accountability should be fixed under one division or one individual.

- There needs to be a shared, useful re-balancing analysis that accounts for the re-distributions of targeted expenditures, which is critical to maintain an accurate accounting for such transfers and manage the local fund targets.

We appreciate the assistance provided by city staff as well as support from the department in conducting this project.

Certified Public Accountants

September 29, 2000

Scope and Methodology

Scope

The City of Seattle (the city) required an independent review of the department's ability to manage its budgets, with special emphasis on the transportation capital improvement program (TCIP) expenditures focusing on:

- Fund/Cash Management
- Budgeting and Expenditure Management
- Information and Decision Support Systems

The objective and key deliverable of this project is an independent diagnosis of problems and related specific recommendations for improvement. The primary objective to be addressed in the report is providing methodologies that will enable the department to have financial flexibility to implement its TCIP projects while still ensuring control and accountability over its total CIP expenditures. Another project objective included a review of organizations and processes external to the department that impact the transportation management process. Included was an assessment of the problems encountered with the direct conversion of the SFMS system to Summit on July 1, 1999 without the operation of SFMS on a parallel basis.

In order to accomplish this objective the following procedures were employed.

We obtained certain financial records including historical project expenditure reports from the SFMS system, current Summit-based expenditure reports, reports from separately maintained Access-based systems and project tracking reports. We held numerous meetings with finance staff to obtain explanations and answer questions necessary for us to perform our analysis. We also held discussions with city officials to obtain a general understanding of the department's business and how that business is reflected in the financial records. We conducted interviews with representatives of the City Council and Council staff, department management and staff in the Resource Management and TCIP divisions, Executive Services Department and City Budget Office staff.

We employed various analysis methodologies, described below, to determine underlying causes of perceived problem areas.

Several briefings were held with steering team members and other officials prior to the issuance of a draft report which was provided to elicit input regarding the preliminary project conclusions and recommendations.

Methodology

In addition to the interviews held to determine what caused the cash and fund balance targets to be missed in 1999, we performed certain analyses to determine the timing and significance of contributing factors. In all, we interviewed 16 individuals in 4 different departments to gain an understanding of the different perspectives of what occurred in 1999 and the continuing issues that exist. We also performed a risk analysis relating to capital projects procedures to assist us in which is summarized in Exhibit A.

We performed analyses of the financial information available during the last six months of 1999 to determine if sufficient information was available to determine whether the cash targets would be met and whether the local funds would be over expended.

We performed similar analyses for recent periods in 2000 to determine if sufficient information is available to determine whether the cash targets are likely to be met and whether the local funds targets are likely to be over expended.

We reviewed the current systems used for monitoring TCIP budget related matters and performed a risk analysis to determine whether the current systems appropriately minimize the risks involved in the budget monitoring objectives.

We reviewed the billing methodologies utilized for both grant and 3rd party billing and internal fund transfers to ascertain weaknesses during 1999 and potential effects on the cash shortfall.

We met with Capital Projects staff to obtain an understanding of the types of analysis the project managers perform and identify weaknesses in the information provided by finance analysts and whether communication is adequate within the department to minimize the risks involved in managing the capital expenditures.

We analyzed the 1999 cash balances and management's reporting of the causes and quantification of the cash shortfall to determine whether the conclusions made were consistent and accurate.

We assessed the communication of budget and cash information within the department and external parties for effectiveness.

The items listed above are not all-inclusive and the Analysis section of this report provides the reader with procedures performed and conclusions drawn.

Background and History

Background and History

The organization currently referred to as the Seattle Transportation Department has gone through several city reorganizations over the past several years. These organizational changes provide important context to the recent issues experienced by the department. Until 1997 the department was not a separate city department. Before 1997 the city's transportation function was contained in the Seattle Engineering Department's Transportation Division as one of four line divisions of the Seattle Engineering Department. A few years before this 1997 reorganization, the city's fund structure was modified to split the utilities fund from other funds, including transportation. During this fund structure reorganization the financial condition of the transportation related funds became more clearly apparent. The new transportation fund began with a deficit fund balance and a deficit cash balance. A financing plan was then adopted to allow the transportation operating fund to eliminate cash and fund balance deficits over a 14-year period ending in 2010. Even with the 1997 reorganization most project management activities remained with Seattle Public Utilities (SPU). In 1999, the engineering function related to design of transportation projects moved from SPU to the department. Design and program management activities are now under the department's management structure. Construction management, however, still resides under the SPU reporting structure.

Financial History

The funding structure of the department is somewhat unique within the city. Exhibit B presents some of the major funding sources and a brief description of expenditure restrictions related to these funding sources. The subfunds including the Vehicle License Fee, the City Street, the Arterial City Street and the Waterway Operations and Maintenance Subfunds flow through the transportation master fund. The Transportation Master Fund is essentially the same as the operating fund previously discussed. It is this fund that has the cash balance goals. The TCIP accesses these major fund sources through the Transportation Master Fund. The city also uses a different program categorization. TCIP budgets are categorized as Annual Programs, Development-existing systems and Development-future systems. Within these programs the TCIP tracks numerous individual projects. Due to a wide variety of reasons, individual TCIP projects change over time. As a result, the composition of any of the main program types will likely be different at the end of the year than anticipated at the beginning of the year in the budget documents. Because each project will carry a different mix of funding sources (and therefore expenditure restrictions), changes in individual projects comprising programs require constant monitoring to assure that fund sources by category are not exceeded. As is discussed later in this report, a budget appropriation for a program or certain specific projects are limited by actual revenues received by the city. In order to effectively manage its budgets, the department must track not only its expenditures against budgets as is similar to other city departments but also the individual projects comprising the main programs, the funding source mix of each project and any revenue variances during the year.

In a report issued by the City' Auditor's Office in 1996, the department had experienced certain budget difficulties related to forecasting revenues and reprogramming additional projects to use under spent amounts caused by project delays and project cost savings. At that time, the department was expending approximately 50% of budgeted amounts on projects. The department implemented changes that would allow for appropriate reprogramming to take place. As a result, the "accomplishments rate" (the amount of actual expenditures in relation to planned expenditures) has increased dramatically.

The department has employed various systems and techniques over the years in managing the projects involved in the transportation construction improvement program. In anticipation of the major financial system conversion from SFMS to Summit, the department developed an Access-based download that could receive data downloaded from Summit as well as SFMS. During the critical months after conversion and currently to some extent, management has created customized reports that can be utilized to manage the project balances.

Based upon discussions with the Executive Services Department's Finance Division, the department missed its cash balance goal as of December 31, 1998 by approximately $1.4 million with an ending cash balance (before interfund borrowings) of approximately $7 million.

The conversion to the Summit financial system as of July 1, 1999 created various uncertainties as to the financial position of the department in the months immediately following conversion. One of the uncertainties was caused by the delay in the internal "activity billing" function of the system. The billing function was not brought on-line until August, 1999 thus creating a large amount of expenditures in the operating fund with no corresponding cash transfer from the billed fund source to increase the cash balance. Additionally, management has stated that limited Summit reports were available at this time. In September 1999 the financial picture was further clouded by inclusion through the Summit conversion process of life-to-date costs for Transportation Capital Improvement Projects (TCIP) that were incorrectly included as 1999 current year costs. This was not corrected until the close of the November 1999 financial reports. Please refer to the Analysis section of the report for additional explanations and charts illustrating these issues.

Analysis

1999

Our analysis involved various areas of the department's cost management systems and procedures but focused primarily on budget management, TCIP cost tracking and analysis, overhead-charging methodology, system conversion problems and analysis of the 1999 cash position and causes of the shortfall. Following are descriptions and findings of our analysis.

Budget Issues

We focused our budget analysis on the TCIP budgets and compared the TCIP adopted budget to the specific project budgets tracked by capital project's monitoring reports. The results of this comparison is presented as follows (in thousands):

Adopted CIP Budget Per 1999 Document	$33,427
Supplemental Budget for 1999	$13,527
Adopted 1999 CIP Budget Per 2000 Document	$75,366
Revised CIP Per 13th Month Monitoring Rpt.	$78,391
Revised "Targeted Exp." Per Final Monitoring Rpt.	$53,171

The immediate question that emanates from this analysis is "Which TCIP budget is being used and managed to by the Department?" The $75,366 million shown in the 2000 document obviously includes carry-over budget dollars as does the $78,391 per the internal monitoring report. We did not understand why the internal monitoring report includes anything different than the $75,366. It is the $53,171 that is the departmental target for expenditures and used to manage the TCIP against. It is computed as part of Seatran's financial modeling. This takes into account the current appropriation and carry-over plus cash flow and revenue issues including lag on grant billings and projections of other revenues. Accordingly, the department knows that it is constrained by revenue sources so that the targeted figure is not going to necessarily reflect the adopted budget and carryover. As mentioned later in this report, the local allocation of funding was not segregated in the monitoring report until 1999's final report which was showing the $53.171M as the targeted expenditure number of which the local target was approximately $25.3M. To summarize, there are a lot of different budget figures being documented which cause confusion and may result in external parties' misinterpreting budget and expenditure percentages.

The department is utilizing an internal budgeting system referred to as PBS in compiling their budgets which begins in April for the following year. This provides the framework for the budget figures which are ultimately submitted to the City Budget Office. From our interviews, we found that this system is not efficient and there is duplication of input. It is our understanding that the Department is implementing a new budgeting system which should replace the inefficiencies currently encountered.

TCIP Analysis

We attempted to obtain a "re-balancing" of TCIP project costs with funding sources using the SFMS system as of June 30, 1999 for the purpose of determining whether the department was within cash targets prior to the Summit system conversion. As the SFMS system did not provide necessary reports at the funding level, this analysis could not be performed as expected. In lieu of SFMS's constraints, the department was utilizing monthly monitoring worksheets, by project, to track its expenditures against TCIP adopted budget figures. Upon reviewing these worksheets and discussing them with key personnel, it was disclosed that they also did not provide the necessary breakdown of expenditures by source (ie. local funds vs. specific appropriation or grants). Based upon the monitoring reports, the TCIP had expended only 37% of its total budget as of June 30, 1999 but it did not provide information on what percent of the local spending budget had been consumed. As a result, management would have had to perform detailed analysis of cash balances and billings to estimate what portion of the local, non-reimbursable budget had been expended. We were given no indication that an analysis was documented to determine this. Subsequently when Summit came on-line in July, staff has continually stated to us that the reports did not immediately provide the source of fund information and our inquiries indicate that the Revenue/Expense Project Summary Reports and Budget & Expense Reports were not immediately useful. See related discussion on causes of cash shortfall on page 7.

The December 31, 1999 monitoring worksheets were showing that total spending was not in excess of budget but this report again did not show funding source. Indications are that data came available in the latter part of 1999 showing local vs. grant dollars but staffing and time constraints may have been a factor in not getting the monitoring reports changed until year 2000. The primary weakness to these reports were that the project managers were not being provided with data that indicates the over and under spending by type of funding. Based upon our analysis and interviews, it was also apparent that the project managers had no project tracking system in place to perform this critical analysis on their own. They were achieving a very high accomplishment rate and the monitoring reports were showing that they were within their total $50 plus million TCIP budget. As a result, no detection was made that spending with local dollars had exceeded the targets in time to reduce expenses and prevent the cash shortfall. Project personnel indicated to us that actions taken to slowdown spending of project expenditures needs to be done by early fall at the latest.

In February 2000, the final 12/31/99 monitoring report was reconfigured by showing the local dollars segregation. This report was constructed as a means to assess where the local dollar over-expenditures occurred and in what amounts. In analyzing this report, we noted that the local dollar expenditure target was shown as $27.1 million and the actual expenditure being $25.9 which shows an under-expenditure of approximately $1.2 million, contrary to the department's cash reconciliation exercise which indicated a TCIP over-expenditure of $3.1 million. Discussions with management disclosed that this report was not being relied upon as the final source documentation to support the 1999 overages as the local target figures were not exactly consistent with the financial modeling. The local expenditure target was thought to be $25.3 million for 1999 which would indicate approximately $600,000 over the target compared to the $3.1. Our conclusion was that this report, while helpful in creating the type of analytical tool necessary for the year 2000 in tracking TCIP expenditures by source of funding, was not accurately supportive of the 1999 local dollar variances. More importantly, we at this point cannot attest to the TCIP over-expenditure of $3.1 million using this analysis. The 13th month monitoring report for 1999 which did not show local source funds did indicate total expenditures of approximately $3 million less than the target of $53 million which coincides with the above referenced final report in terms of total dollars.

It must be understood that the $3.1 was a cash estimate of over-expenditure and the monitoring reports show variances of accrual-based expenditures compared to budget targets. In an attempt to convert the monitoring report to cash basis, we adjusted the expenditures by the beginning and end of year grant billing accounts receivables. This computation resulted in virtually no change as the accounts receivable were nearly the same. However, the unbilled, accumulated grant expenditures would also affect the calculation and staff could not readily identify a method to summarize these. As a result, we were still unable to attest to the accuracy of the $3.1 million from this project analysis.

Management, in reconciling and analyzing the cash target overage, identified that the TCIP overage of approximately $3.1 M. could best be shown by the following project over-expenditures (contingency was already consumed with neighborhood planning and ESA impacts). It was not thought at the time from the Summit reports, that O&M expenditures were a factor:

	Local Over-Expenditure
Bridge Seismic Settlement	$ 1,300,000
Harbor Bridges shoring costs	900,000
King St. Station-hidden rail ties	400,000
CBD Lighting-claims	300,000
Harborfront bids being higher	200,000
Total Estimate	$ 3.100,000

First, as stated above, it was difficult to ascertain this number from the final 1999 monitoring report as there were many projects showing over and under expenditures compared to their budgeted targets, although on an accrual vs. cash basis. One could conclude that the above projects were selected to reflect the $3.1 million that was deemed to be overspent, but the project monitorings show many different projects with variances and in total, a $3.1 million over-expenditure for these five projects does not conclusively explain the problem. Management has stated that this was based on a professional estimate at the time and given the time constraints heading into the new year, it is what was best presented.

For further analysis, we examined the $4.6 million estimated cash shortfall (see discussion below) and specifically the make-up of the amount as explained by management (ie. $3.1M TCIP, $1.8M overhead rates, ($0.3M) additional revenues). The $1.8M overhead portion is discussed in next section. Given that the $3.1M could not be supported by the TCIP monitoring reports and we would have had to convert the entire TCIP by project to a cash basis presentation to achieve such a comparison, we looked at the O&M expenditures in total. In reviewing the CAFR report, it appeared that there were over-expenditures in O&M. We discussed this with management who subsequently provided us with support that they stated had not been available to them until April of 2000, which indicated in fact, O&M was overspent in total by $832,000, caused mainly by a $723,000 over-expenditure in the street cleaning project code account. They stated that this information was not accurately stated in late 1999 as a result of system problems, especially with the cost distributions of equipment or warehouse charges for example, to specific project codes. Accordingly, using TCIP as the remainder of the explanation for the $4.6M, a figure of $2.3M would have been more appropriate although still not 100% conclusive.

Overhead Rate Analysis

We also analyzed the overhead-charging plan for 1999 developed by the department and compared that to the overhead plan for 2000. For 1999, the department's plan expected to recover approximately $23,315,000 on a base labor of approximately $20,206,000 (including overtime and TES). The actual recovery and direct labor during 1999 was approximately $22,228,000 and $18,881,000, respectively. In addition, actual overhead costs exceeded budget. The combination of the deficit in recovery and excess overhead costs of approximately $1.8 million contributed to missing the cash balance targets for 1999. Several factors contributed to the variance from plan. One factor is that more actual departmental effort was consumed with more overhead activities than direct activities compared with the plan. Based upon discussions with departmental staff, this occurred, in part, due to departmental initiatives, such as training that required staff to be involved in other than direct charging activities. We also noted a negative variance in paid absences. These factors created the double impact of causing more indirect (overhead) labor than budgeted and less direct time over which overtime charges were applied.

For 2000, the department's plan expects to recover approximately $25,208,000 on a base labor of approximately $19,301,000. The actual recovery and direct labor as of July 31, 2000 is approximately $14,343,000 and $11,003,000, respectively. Using 54% as a benchmark (14 pay periods through July 31 divided by 26 total pay periods), the annualization of the July 31, 2000 amounts would yield recovery and direct labor of approximately $26,560,000 and $20,376,000, respectively. In addition the department projects to have a positive overhead expense variance of $1.5 million by year-end. Using this benchmark, the department would appear to be on a track to exceed their overhead recovery rate targets by approximately $2,700,000 for the year ended December 31, 2000. Department staff indicated that the annualization of July 31st data is an oversimplification of the underlying business practices of the department. They stated that there is a significant amount of year-end activity involved in billing and other adjustments that are not reflected in a simple annualization. Seatran is using a monthly cost center report to assist in its overhead cost projections.

Assessment of Causes for Cash Shortfall

A portion of our scope of work involved the assessment of causes for the 1999 cash shortfall estimated to be $4.6 Million, some of which has already been discussed in the TCIP analysis section of the report. While a conclusive explanation of the cause was very difficult to ascertain, there were specific issues which can be identified as factors. First of all, the department had a very high accomplishment rate on its 1999 TCIP which translates into expenditures incurred at the top of its target. As a result, there was little margin for error in relation to managing the cash position. Also, a primary cause for the lack of detection was that no tracking or reporting was done as of June 30, 1999 or even at the end of the year relating to the spending segregation by local funds versus reimbursable or specific appropriations. As stated previously, the data came available late in the year and although these system and staffing constraints can be attributable to a portion of the reporting of variances in total only, it would appear that opportunity did exist to construct more effective reporting showing the sources of funding.

As addressed in the Background section earlier in the report, automated billings after August 1999 resulted in the amount of these billings equaling less than it would have normally been due to two primary factors. First, with the conversion to Summit there was a significant number of coding structure changes in how setup was accomplished. Because of these changes, there was an extensive learning curve by staff that was not met by the formal pre-conversion Summit training. These resulted in delays in accurately establishing all the criteria needed for billing. Second, Seattle Public Utilities (SPU) automated billings to SEATRAN was also less than normal for the same reasons. SEATRAN automated billings include the amounts billed from SPU. Consequently, the total SEATRAN billings would have been less by the amount of SPU billing not accomplished. Both departments worked to correct problems with billing criteria. A significant portion of the problems were corrected in November but most did not get resolved until December. This resulted in accounting staff spending numerous hours near year-end 1999 to research and correct problems with automated billings, thus likely reducing the amount of available resources to address year-end cash and accounting issues.

Billing problems were not solely SEATRAN's problem as SPU, which performs construction management and design service for SEATRAN, was unable to bill TCIP projects from the conversion until December '99. This totaled approximately $1.7M and causes timing issues related to managing TCIP project costs. These billings affected the timing of grant revenues as grants are billed on a reimbursement basis and cannot be billed until expenditures are recorded, thus increasing the lag in the timing between expenditure, billing and payment.

Using the summit reports and an analysis prepared by ESD-Finance, the month-end cash balances for the transportation master fund are as follows:

	1999	2000
January	$ (7,348,712)	$ (9,555,000)
February	(5,229,282)	(10,918,000)
March	(8,097,327)	(15,048,000)
April	(8,455,700)	(16,085,000)
May	(8,747,566)	(13,355,000)
June	(10,508,685)	(17,137,000)
July	(14,404,044)	(13,326,000)
August	(15,530,446)	$ (11,047,000)
September	(17,489,314)	
October	(17,319,052)	
November	(11,958,660)	
December	$ (5,911,128)	

The December balances are affected by the annual booking of the borrowing between the transportation operating fund and the General Fund. As is very apparent from the above analysis, a large cash change occurred between June and July 1999. The majority of this change can be attributable to the delay in activity billings as discussed above. However, since activity billings came online in August 1999, the continuing cash balance deficits from August 1999 through November 1999 indicate that budget issues separate from the Summit conversion problems existed. This should have been a significant indicator of a fundamental business issue as early as August 1999. Management stated that the cash balance was a concern and they began the process of identifying and segregating the different sources of funds but as already discussed, this was not immediate. Currently, while cash balances are normally strained during the high activity months of summer, the level of cash balance deficit in the transportation master fund in July 2000 also causes concern. Management has recently stated that some miscodings were detected and adjusted billings have been made which has significantly brought the negative cash balance down as of mid-September, 2000 to around ($4.2)M. While we have not performed any detailed analysis of this balance, staff have stated that it was a result of large billings and a sizable billing adjustment to correct previously undetected problems within the activity billing system.

Based on discussions with management and with project personnel, it appears that the transition from SFMS to Summit was not as smooth as planned. It appears that finance was not adequately prepared to transition to a new system. They received pre-training on Summit but were not comfortable enough to get what they needed from accounting system reports to manage the complex billing and funding source issues related to the department. A critical factor was that the department's Accounting Manager was assigned to the Summit project and therefore the department was without this key person during the critical time in 1999. They had to have personnel fill into positions where they were not as well trained and as a result, inefficiencies likely occurred in the internal reporting systems. It appears that with her return from the Summit Project in January 2000, she has been able to give significant support to accounting and finance department personnel and valuable insight into the intricacies of the Summit accounting system.

SEATRAN personnel also noted that in the prior year they were not able to manage money on a local dollar basis due to limits of the SFMS system and initial problems with the Summit data and lack of reports. Projections and management of expenditures was done on a fund basis as opposed to managing expenditures of local dollars. In prior years, because of lower accomplishment rates and lower spending of local dollars it was not as difficult to manage the year-end cash target. When construction expenditures increased during 1999 due to an emphasis on accomplishment, finance was not as efficient and comfortable with the new accounting system to be able to get the necessary financial data out of the system.

In September 1999 the financial picture was further clouded by inclusion through the Summit conversion process of approximately $79 Million of life-to-date costs for Transportation Capital Improvement Projects (TCIP) that were incorrectly included as 1999 current year costs. This problem was not corrected until the close of the November 1999 financial reports. Once corrected, management assessed total 1999 expenditures related to TCIP as of the end of November, on December 13, 1999 and noted amounts were very close to the full year budgeted amounts with very little time to try to slow spending of local dollars related to TCIP. It should be stated that the TCIP monitoring reports being prepared from Summit data, did not contain the large errors in year-to-date costs and possibly could have been utilized for expenditure assessment during these months.

Once the accurate November information was received on December 13, 1999 finance aggressively went after large amounts of billings which were held up in the automated billings system. Documented below is our analysis of monthly internal billings:

	1999 Billings
January	$ (3,147,609)
February	5,219,366
March	4,965,817
April	4,968,610
May	6,785,260
June	9,232,344
July	3,596
August	8,045,230
September	5,025,454
October	7,208,077
November	6,711,840
December	$26,511,355

They also billed grants as much as possible with the short period of time between receiving the correct November accounting data on December 13, 1999 and the close of the year on December 31, 1999. Basically, maximum billing was done prior to year-end in an effort to minimize the cash shortfall. Management has stated that it was very difficult to research why amounts were not being billed through the automated billing system with the historical cost problems they had during September through November resulting from the inaccurate data in the accounting system. Thus, this likely made it difficult to forecast their year-end cash target accurately due to timing of accurate financial data from September through November 1999 accounting reports. We had a concern with the possibility that some of the December billings could be year 2000 revenue creating a potential problem going forward. Staff showed us the system control which places a date parameter on the monthly billing function which prevents billing to be done for a given month past the last day in that month. Unless this control could be overridden, it would appear that all of these billings were for 1999 expenditures.

Current Scenario

Budget Issues

We again performed a budget analysis on the TCIP budgets for the year 2000 and compared the TCIP adopted budget to the specific project budgets tracked by capital project's monitoring reports and also to the department's internal budgeting. The results of this comparison are presented as follows (in thousands):

Adopted CIP Budget Per 2000 Document	$38,117
Supplemental Budget for 2000	$ 4,915
2000 Revised Budget per Quarterly Council Report	$65,688
Revised CIP Per July 2000 Monitoring Report	$44,443
"Targeted Exp." Per July 2000 Monitoring Rpt.	$46,300

Again, there are a lot of budget figures being shown and the same question arises as in 1999 as to why the targeted figure being managed to doesn't agree to the official budget. As mentioned previously, the $46.3 million targeted expenditure results from the financial modeling which takes into account the cash flow and revenue factors. The $65,688 includes prior years' carryovers but the expenditures as a percentage of this figure as reported in the required format for the council report, is not indicative of the targeted spending percentage. Please refer to the Recommendations section for our detailed discussion on budget recommendations.

TCIP Analysis

Beginning in early 2000, the department reconstructed the TCIP monitoring report to include columns for targeted expenditures segregated by local dollars, grant reimbursement funds and other appropriated funds. The financial models support the targeted TCIP expenditure and key staff meet to analyze each of the TCIP projects and estimate the allocation of the expenditures among the three funding categories. On a monthly basis, the finance analysts then download Summit expenditure information in total, into this spreadsheet. Grant reimbursement and "other" expenditures are separately coded from the Summit download and the remainder of the total expenditures fall into the local expenditure column. A computation of the percentage of local dollars expended is shown and analyzed as to its relation to projections as of the given month of the year being analyzed. The purpose is to provide an indication of how the local expenditure percentage compares to expected percentage based on historical measurements.

This monthly monitoring report is distributed to applicable finance analysts and project managers in the Capital Projects Division. As mentioned elsewhere in this report, Capital Projects relies heavily on this report given its limited use of Summit, especially since the Dept. Appropriation by Fund Summary is not on-line yet, and having no current project costing system of their own. As of the July 31, 2000 monitoring report, we performed an analysis with the primary purpose of determining whether any TCIP over expenditure could be currently detected with the management systems in place. Our analysis indicates that unlike 1999, the project managers had much better information with which to track their project expenditures as they relate to the targeted local, grant and other funding sources. However, while this report is a significant improvement over the 1999 reports which provided little if any information enabling staff to monitor the types of funds expended, there are several weaknesses in the reporting and use of the report.

First, it appears that as of the month end, the expenditures coded to the local funds column are not always reflective of the accurate local percentage of a particular project. This is generally a result of expenditures being shown as a local expenditure since a grant billing has not been made. As a result, it is difficult for a project manager to rely on the mix of expenditures without explanations accompanying the report for such projects or an indication as to grants being billed.

Secondly, there does not appear to be a documented and shared monitoring of the "redistribution" of targeted expenditures between projects. Project managers often have to move resources between projects for various reasons during a budget year. It is critical that a re-balancing is documented by source of funding so that the local spending variable is tracked as a result of the redistribution. Otherwise, there is risk that grant dollars could be under-expended and local funds would absorb the overage. We determined that project managers are very aware of the risks and need for this rebalancing, however, we do not believe there is a standardized analysis prepared which they and finance analysts can use together to monitor these variables. In the semi-monthly meetings held between finance and capital projects, this needs to be addressed.

Following is a table summarizing the expenditures as a percentage of targeted spending from the July 31, 2000 monitoring report:

	Target	Expenditures at 7/31/2000	Percent of $ Expended
Local $'s	$14,113,595	$ 6,682,303	47.3%
Other	$10,519,405	$ 4,976,545	47.3%
Grants	$21,667,000	$ 9,262,608	42.7%
Total	$46,300,000	$20,921,456	45.2%

Management is using a range of 39% to 51% for local spending for the 7 months ended July which is based on historical data and therefore it has determined to be within the acceptable range. The 39% is derived from a 1994-1996 regression analysis. The 51% was computed through meetings with Capital Projects management using 1999 data. We believe that this process or the degree of reliance should be challenged as to a better, more current projection model as the current model is based upon aged data and is not very relevant to current year issues.

Related to the above, the department is required to stay within 10% of the current CIP budget plus unexpended balances carried forward from prior years, when redistributing dollars between the three categories of the TCIP: 1) Annual programs; 2) Development-existing systems; and 3) Development-future systems. This was mandated via City Ordinance and we found that a finance analyst is responsible for tracking this monthly. It currently shows a variance on life-to-date of project expenditures which we found to be computed using unused balances from prior years funds not transferred which differs from unexpended CIP carryovers. Also, the current year's supplemental budget figures were not figured into the worksheet. This calculation needs to be re-evaluated as we believe that there is some confusion in the ordinance's definition of carryover balances and although we do not believe there to be may need to be corrected. Also, it was not clear whether the calculation is reviewed or distributed to managers that should have access to the results.

We understand that Capital Projects is implementing a new project tracking system which should be online in 2001. However, currently there needs to be better reporting and communication with the finance analysts and intensive tracking of the local expenditure to budget figures. Project managers receive the monitoring reports within 2 weeks of month end to perform their monthly cost analysis. The local expenditure variances are often misleading since there is no quantification of the unbilled grant expenditures and they currently reside in the local expenditure column creating a visual over-expenditure of local money on such projects. We will have a recommendation in this report to re-assess the monthly monitoring report to implement a change to add a "flagging" mechanism where any projects that are either overspent in local funding or have any other grant billing or cost issue which is not clear in the report, be flagged and explained. Also, it is not clear yet what the new project system will provide as far as an expenditure tracking tool by source of funds. As a result, we are including a recommendation that Finance continue to prepare and improve the monitoring report for purposes of communication with the project managers and especially for the finance analyst's independent use in monitoring the project managers' costs, separate from their new system.

As of August 2000 an "Excess Cost Report" from Summit was not available. This report would show excess costs for projects that have not been billed or cannot be billed as the project has exceeded its budget. This is a valuable analysis tool to identify projects that may have billing problems or are over budget. The risk is that without such a report, there is no quantification of unbilled expenditures which affects the cash target analysis. This report has been requested and is expected to be available as of October 2000 but management has stated that they have currently developed a workable report, that appears to enable them to quantify these expenditures.

Current System Assessment

We analyzed cash balances previously discussed and interviewed those individuals who manage various aspects of the department's CIP budgeting monitoring processes. Based on these activities, we believe that there continues to be aspects of the budget monitoring systems that create a moderate level of risk that the department will not meet cash balance targets.

- Specific aspects of the budget monitoring processes that create this risk include:

- Specific information available to project managers to allow for appropriate budget management may not exist or is not being utilized or communicated to its fullest.

- Reprogramming of fund source types on a monthly basis to assure that local funds are not overspent.

- Lack of re-projecting on a monthly basis using current cost factors and delivery schedules and appropriate reporting of variance analysis.

- Specific computations of converting TCIP over-expenditures to the cash basis need to be improved and utilized in managing the cash targets.

- Continuing errors have been found in the billing process which impact cash flow and analysis.

Conclusions

For the 1999 issues discussed throughout the report, there are several conclusions to make.

- Given the various TCIP budget totals being shown among various reports, there is confusion based upon which figures are being looked at and the resulting question becomes "What TCIP budget is being used and managed to by the Department?" SEATRAN is managing to its internal expenditure targets which are modeled using revenue constraints, prior carry-overs, grant billing lags and other factors relative to current year issues. However, this target does not agree to official adopted budget figures which include carryover of prior year appropriations. We found this to be confusing and inconsistent with other public transportation agencies we addressed and believe that the adopted budget needs to be the "revenue constrained" budget as discussed in detail in our recommendations.

- Management has provided us with reasonable support for their calculation of the cash shortfall estimated at $4.6 million in total. However, there are inconsistencies with the detail of this estimate. They had originally estimated that $3.1 million was over-expended in the TCIP, $1.8 million was related to overhead rate under-recovery and ($300k) was unexpected revenue. However, we were not able to support such a figure based upon our analysis of the TCIP monitoring reports and other financial reports. The internal monitoring reports indicate total under-spending versus the budgets and targets, although on an accrual basis of accounting. Further, the five projects outlined to explain the overage are not conclusively indicative of the problem as there are numerous projects with under and over-spending. Our discussions with management ultimately confirmed that an over-expenditure of Operations & Maintenance (O&M) was part of the equation in the amount of $832,000 thus indicating that the TCIP over-expenditure was in fact less than originally computed.

- Management was not managing the TCIP projects in 1999 on a revenue source basis for a variety of reasons, including the limitations to the system reports both with SFMS and after the Summit conversion. Management has stated that it was not until November that they could conclusively analyze reports that indicated the local overages. Not being able to monitor the expenditures accurately as to local versus grant spending was a major cause of missing the cash target.

- The continuing cash balance deficits from August 1999 through November 1999 indicated to us that budget issues separate from the Summit conversion problems and billing system problems existed. We found that there were some valid and significant system conversion issues which clouded some of the financial data and management has stated that detailed expenditure reports were not available to accurately invoice third parties and granting sources. While this likely explains a significant portion of the large negative cash balances in August 1999, we believe the negative cash balances should have been a significant indicator of a potential cash shortage at this time.

Current Scenario

- Beginning in early 2000, the department reconstructed the TCIP monitoring report to include columns for targeted expenditures segregated by local dollars, grant reimbursement funds and other appropriated funds. While this was a large improvement, all expenditures which have not been billed to a grant or specifically appropriated with other dollars, are summarized in the local column. It is difficult for a project manager to rely on the allocation made to "local" expenditures without explanations in the report indicating what portion of the "local" dollars are actually grant expenditures that have not yet been billed. As a result, variances of over-expended local funds may not be accurate and need to be explained.

- There does not appear to be a documented and shared monitoring of the "redistribution" of targeted expenditures between projects. Project managers often have to move resources between projects for various reasons during a budget year. It is critical that a re-balancing is documented by source of funding so that the local spending variable is tracked as a result of the redistribution. We determined that project managers are very aware of the risks and need for this rebalancing, however, we do not believe there is a standardized analysis prepared which they and finance analysts can use together to monitor these variables.

- Management is using a monthly range of percentages for projecting whether local spending for a particular month end is within an acceptable range. We believe that this process or the degree of reliance should be challenged as to a better, more current projection model as the current model is based upon aged data and is not very relevant to current year issues.

- Related to this, the department is required by Ordinance to stay within 10% of current CIP plus unexpended carryover when redistributing dollars between the three CIP categories. It currently shows a variance on life-to-date of project expenditures which we found to be computed using unused balances from prior years funds not transferred which differs from unexpended CIP carryovers. Also, the current year's supplemental budget figures were not figured into the worksheet. This calculation needs to be re-evaluated as we believe that there is some confusion in the ordinance's definition of carryover balances and although we do not believe there to be a current overage in any of the categories, the calculation may need to be corrected. Also, it was not clear whether the calculation is reviewed or distributed to managers that should have access to the results.

- The department's accounting is very complex based upon its numerous funds and sources of funding and managing its cash position is a challenge. However, there continue to be specific weaknesses in important areas of the accounting process. These include errors in the billing process which create cash flow and fund management problems, lack of a clear process for managing the TCIP on a cash basis and written documentation for the processes involved in the financial modeling that creates the local spending targets.

Recommendations

General Comments

The comments and recommendations below, have been developed from the analysis performed as described in the preceding section. As is clear from such analysis the financial management environment existing in 1999 was very different from the current environment. As such, our recommendations are focused on changes in the current processes. The department is making certain changes, with which we concur, to improve their financial management capabilities. These changes are incorporated in our specific comments below.

Budget Definition & Design

As was concluded from our analysis, there are several different budget numbers for TCIP used by the city and the department. While we understand that a five-year TCIP, by its very nature, will be different than a current year spending plan, we believe more consistency is warranted. The current year spending plan should be based on the recognition of revenue constraints and should be the same amount as the current year in the five-year TCIP plan. Revenue sources such as “to be determined”, grants, loans or contracts that have not been secured, would not be included in either the long term or the current spending plan. In effect, the department’s current “targeted expenditures” concept would become the basis for the adopted budget. This could have a significant impact in that only projects that have sufficient total (and local) revenues would be programmed from year to year. Once other revenue sources were secured, local funds could be freed for project additions, but only to the extent that sufficient local revenues were made available. Since the department has large amounts of carryover budget authority from year to year, this should not present a significant constraint to managing its budgets. However the definition of carryover budget should be challenged. We support a definition based upon available spendable resources instead of carryover appropriations. In other words, the current year “revenue restricted” TCIP budget would consist of current year revenues plus carryover of available resources not spent in the prior year. Department management believes that the effort in obtaining approval for re-appropriating spendable resources would be more time-intensive than the current system of appropriation carryover combined with project abandonment. Due to these perceived feasibility constraints, we would recommend that a combination of a “revenue restricted" budget with appropriation abandonment would work best for the department. The appropriation abandonment process, however, would be much more effective if the abandonment could be performed within a reasonable time after the close of the city's accounting records instead of the estimating process in processing abandonment before year-end. This compromise solution could only be implemented if budget policy related to the department were modified. We reviewed the five-year transportation CIP budget documents for two other cities and discussed budgeting procedures with WSDOT staff. All of these sources of information indicate that only committed revenue sources are reflected in the current year expenditure budget and that only local funds are used in presenting long-term capital plans. Projects contingent upon future funding are not programmed until the funding source has been secured. This supports the recommendation to only adopt a "revenue constrained" budget.

Integrated Management Approach

The department is expecting to implement a new project management software system that is to be fully integrated with the Summit system. This should provide significant improvement in the area of monitoring and decision support systems and may allow for the integrated management approach discussed below. Summit's ability to relate expenditures to specific revenue sources will also aid in this area. The currently configured TCIP monitoring report provides information as to the sources of funds for each project under management. We believe further improvements to this monthly report will aid in project and expenditure monitoring. Such improvements, as is discussed in more detail in the specific recommendations below, includes the addition of grant billed and "billable" amounts so that temporary overages in local funds can be explained. Any overages not identified by the billed and billable amounts should be flagged and researched to determine if expenditure reduction strategies should be pursued. The department uses a historical analysis to determine whether the expenditures are in line with targets. Monthly cash flow projections that include both expenditure and revenue information should be considered as a management tool for both expenditure management and fund and cash balance management.

Regarding cash and fund balance management, we question whether the current cash deficit targets, and the annual "borrowing" process for the next ten years is worth the effort. In our opinion, this process only defines the amounts by which transportation projects will not be funded by the general fund over the next several years. An alternative would be to accelerate this process into one year through a general fund appropriation to restore the cash deficit to zero. This would result in the department managing to its annual budget and performing the necessary billings prior to year-end to achieve a balanced cash basis budget. We realize that there may be other policy implications that would yield this alternative less attractive. For example, it may be difficult for policy makers to justify deferring quantifiable transportation projects to aid in funding future projects. Another difficulty is that an acceleration would provide many intangible benefits to the city in staff efficiency and redirected effort into more value-added activities by more than the department's staff, but would be offset with a near term reduction in tangible projects. Many other transportation agencies use a combination of cash and fund balance management techniques. One useful technique is to present a computation of fund balance on a monthly basis with information obtained directly from the main financial management system. An example of this computation is as follows:

Month-end Cash Balance
+/- Outstanding Bank Items (if applicable)
+ Accounts Receivable
+ Receivables not yet Billed or Recorded
- Current Payables
= Fund Balance

This system of reporting would integrate the cash management with the fund management goals. This also illustrates that a "working capital" management focus may be more useful than a target based solely on cash balances.

This discussion highlights the need to clearly articulate the main business drivers involved in managing a transportation agency and to focus management effort and reporting on these key "metrics". The current definition of project accomplishment is expenditure based. An alternative definition could be project delivery. The quarterly TCIP monitoring report provided to Council partially embraces this concept in its reporting of milestones (i.e., project initiation, start design, construction contract awarded, start construction and finish construction). To further develop this concept, the following activities would be required on a monthly basis. The individuals responsible for program planning and management would analyze the year-to-date project timing status and funding source information. These individuals would "re-age" each project and perform funding source re-balancing, if necessary. The re-aged expenditure projections would be combined with revised billing and collection projections to arrive at a cash flow projection for the remainder of the year. The results of individual project re-aging and revenue balancing would roll up into the three main program categories that have been used in the past or the lines of business concept to be used in future budgets. These totals would then be compared to total budgeted fund sources to detect a potential local fund shortfall. The results of the revised project delivery schedule and the budget allocation (program summary by funding source) for year-to-date actuals and remainder of year projections could be provided to Council on a quarterly basis. The cash flow projections would be based upon the re-aged project expenditure projections, the revised funding mix and the expected timing of receipt of the revised funding mix. This information could replace some of the information currently provided in the quarterly monitoring report without changing the format of the report. Another alternative could be to provide this information separately from the quarterly report. In order for this conceptual recommendation to become a reality, the new project management system would need to effectively address these information needs and the Summit interface, particularly fund source data, would need to be effective. In summary, an integrated approach would be implemented for the quarterly analysis of project delivery (timing of completion), its impact on budget with re-balanced funding source information and projected cashflow and budget status. Thus, the project delivery schedule drives the billings (including the re-balancing of funding sources) which drive the cashflow projections.

Organizational Structure Issues

All of the previous general comments relate to measurements and processes. None of these comments address organizational structure issues. Currently department finance staff and TCIP program management frequently meet to discuss project status and funding and budget issues. In order for the approach to process changes discussed above to be effectively implemented, budget accountability should be fixed under one division or one individual. While distributed responsibilities may have worked for the department in the past, it is overly reliant upon personal attributes for its success. A more systematic approach would safeguard against staff turnover. For example, the TCIP program manager should have access to project specific cost, budget and revenue source information. In addition billings and unbilled amounts should be available to the program manager. This individual should have the authority for reprogramming projects and the responsibility to assure that projects are delivered on schedule and within budget and that local revenues are not over programmed. We are recommending that a central versus distributed management organization be pursued. This does not mean that the organizational chart of the department needs to be revised, rather clear lines of authority and responsibility needs to be defined. The implementation of this recommendation is best made by the department's management but should be made using the following decision criteria.

- Does authority and responsibility vest in one division or individual?
- Is the responsibility commensurate with the authority?
- Is the ownership of the information clearly linked with the responsibility and authority?

Other Comments

If the "revenue restricted" budget concept for all budget documents is universally applied and if the integrated "Key Metric" management system recommendation is implemented, the department's current configuration of budgetary controls and flexibility should work. A focus on available spendable resources coupled with the 10% budget substitution should provide an appropriate balance between control and flexibility. Given that these recommendations are pursued, we make no further recommendation regarding the appropriate level of control versus flexibility. If these recommendations are not pursued, then an additional level of scrutiny of the control versus flexibility issue would be warranted.

There continues to be an issue regarding the appropriate level of complexity in the current fund structure. While the current structure adds a significant level of complexity in the budget management processes, changes in the fund structure could cause difficulties in many other areas not covered by this project. We believe that potential efficiencies exist in simplifying the fund structure. However, without conducting an impact analysis on other departmental processes or impacts on other departments, it would be unadvisable to provide a concrete recommendation based upon the scope and timing of this review.

Specific Recommendations

Budget Variances - As it relates to TCIP budgets, we believe there to be the potential for confusion among departments and officials within the City when reviewing financial data that contains Seatran's TCIP budget figures. The department tracks its expenditures using targeted figures, which account for anticipated revenue and cash flow. This is a necessary exercise given the revenue constraints, carry-over appropriations and other factors but arrives at a figure not supported in the official budget documents. We recommend that consistency be achieved in presenting budget figures and any variances are communicated between departments to avoid such confusion.

TCIP 10% Ordinance Calculation - We have a recommendation to re-assess the 10% TCIP redistribution calculation in compliance with the ordinance referred to previously, as we believe it may currently be computed on a basis inconsistent with the ordinance's terminology related to the unexpended carryover. Also the finance analyst should distribute the 10% calculation to pertinent managers highlighting whether any of the category redistributions have exceeded the 10% or are nearing it. The project managers should then be required to submit action plans for achieving compliance and projections for upcoming redistributions so that some planning can take place, especially as year-end nears and the local cash target becomes more critical. If necessary, the department may wish to consult Legal on clarification of the ordinance and its implementation.

Tracking of Local Dollars Using Projections - Based upon the monthly internal TCIP monitoring reports, management compares the local expenditures as a percentage of target and compares this with a model of projections based upon prior years data. We recommend that this analysis be re-evaluated to utilize a current project cost model that takes into account project completion dates, costs expected to be incurred prior to year-end, identification of grant reimbursement of such dollars and other factors that are included and discussed in the semi-monthly meetings held by finance and capital project personnel.

Explanations to Accompany TCIP Reports to Project Managers - We believe there needs to be some improvements in the data provided project managers via the monthly monitoring reports of TCIP projects relating to the local dollar spending variances. As a result, we recommend that the monthly monitoring report be changed to add a "flagging" mechanism where any projects that are either overspent in local funding or have any other grant billing or cost issue which is not clear in the report, be flagged and explained. This will provide the project manager an explanation if the local over-expenditure is a result of a grant billing lag or is truly overspent whereby, the project manager would be required to discuss the costs with Finance and provide the corrective course of action. Another option would be to add a column to the monitoring report for unbilled grant reimbursement based upon expenditures currently residing in the local column that are eligible for grant billing. These explanations could be distributed shortly after the original report so that the original data remains timely.

Need for Re-balancing Documentation - For a variety of reasons, the department re-distributes or transfers targeted spending among projects during the year. We do not believe that there is a shared, useful re-balancing analysis which is critical to maintain an accurate accounting for such transfers that can be shared among finance analysts and project managers. Central accountability needs to be assigned for the maintenance of the analysis. The report should be reviewed and utilized during the semi-monthly meetings among divisions to perform important analysis relating to how the re-distributions will affect the spending of local versus grant or other appropriated funding. This analysis should become the basis for the calculation of the 10% limitation on program transfers discussed previously.

Cash Basis Analysis of TCIP Variances - The TCIP monitoring reports are being computed using accrual basis accounting information downloaded from Summit. For purposes of managing the cash balances and target, we recommend that a computation is developed that factors in the cash aspects of the grants by adjusting for unbilled and billed accounts receivable. This will enable finance to assess the cash effects of the TCIP portion of the spending and will be especially critical towards year-end as the cash target is being analyzed.

Billing Function - We have discussed the billing problems encountered in the Summit reports in 1999 and also current difficulties which have caused large fluctuations in the fund balances between months. We recommend that key staff meet to discuss the weaknesses, difficulties and proposed solutions necessary to avoid the lag in billing activity and adjustments to bring billings current to match the timing of expenditures.

Documentation of Financial Modeling Process - We have addressed the issues surrounding the CIP budget figures and how they compare with the targeted budgets used internally to track expenditures. These internal targets are developed through a financial modeling process that takes into account revenue constraints, grant billing lags as well as the current year appropriations. We do not believe that finance currently has any documented procedure to be followed in performing this complex analysis which would assist pertinent staff or external officials in understanding how these internally tracked budgets are derived. Additionally, this would prevent major difficulties if there is key staff turnover in the critical positions that are responsible for this computation.

Exhibit A: Funding Sources

Fund	Revenue Source	Expenditure Restrictions
General Fund	The City's general revenue sources, including property tax and business and occupation tax.	Municipal purposes.
Cumulative Reserve Fund	Real Estate Excise Tax, street vacation revenues and transfers from the General Fund.	Capital purposes. Primarily for major maintenance.
Vehicle License Fee Subfund	A $15 per vehicle licensing fee.	Restricted by state law to transportation purposes.
City Street Subfund	State motor vehicle fuel taxes (gas taxes). Per-gallon taxes on vehicle fuels collected and allocated by the State.	Restricted by state law to highway purposes.
Arterial City Street Subfund	State motor vehicle fuel taxes (gas taxes). Per-gallon taxes on vehicle fuels collected and allocated by the State.	Restricted by state law to capital projects in City-owned rights-of-way.
Waterway Operations and Maintenance Subfund	Fees collected from waterway use, occupation permits, and reimbursements for removal/towing of obstructions to the waterway.	Restricted for use in administration, inspection, and policing involved with permits and to avoid interference in the use of the City's waterways.
State and Federal Grants	State and federal funds which generally reimburse the City for a percentage of project costs. Grant rules determine what costs are allowable, and different grants have different reimbursement rates.	Awarded for a specific project or program.
Public Works Trust Fund	State loan program. Interest rates are particularly low (1% to 3%). Matching funds are required, and the interest rate decreases as the percentage of local funds used increases. Loans are for up to 20 years.	Restricted for use on individual or multi-system capital projects involving bridges, roads, water, and sewer systems.