



John Keel, CPA
State Auditor

A Report on
**The Audit of the Department of Transportation's
Central Texas Turnpike System Financial Statements
For the Fiscal Year Ended August 31, 2008**

January 16, 2009

Members of the Legislative Audit Committee:

In our audit report dated December 12, 2008, we determined that the Department of Transportation's (Department) Central Texas Turnpike System's (System) basic financial statements for fiscal year 2008 were materially correct and presented in accordance with accounting principles generally accepted in the United States of America.

We also issued a report on internal control over financial reporting and on compliance and other matters as required by auditing standards. Our procedures were not intended to provide an opinion on internal control over financial reporting or to provide an opinion on compliance with certain provisions of the Resolution for the Central Texas Turnpike System Revenue Bonds, Bond Anticipation Notes, and other laws and regulations. Our procedures did not identify any instances of noncompliance that materially affected the financial statements.

However, we identified issues related primarily to controls over the System's financial reporting. One of these issues resulted in a material weakness, while others represented significant deficiencies in internal control. Auditors also communicated other, less significant issues to the Department in writing.

A *significant deficiency* is a deficiency, or combination of deficiencies, that results in a more than remote likelihood that a more than inconsequential misstatement of the financial statements will not be prevented or detected by the entity's internal control. A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Department should improve its internal controls over the System's financial reporting.

The Department's design of internal control over the preparation of the Statement of Cash Flows failed to detect material misstatements that constituted a material weakness. Auditors identified material misstatements of approximately \$1.2 billion in both the "Proceeds from Sales of Investments" and

Background Information

The Texas Turnpike Authority was created by Chapter 361 of the Texas Transportation Code and is governed by the Texas Transportation Commission (Commission). The Central Texas Turnpike System (System) presently consists of a single "2002 Project," which includes three elements: State Highway 45 North; Loop 1; and State Highway 130, sections 1-4. In the future, the System also may include projects to expand, enlarge, or extend the System pursuant to the Texas Turnpike Act.

The first of the System's tollways opened during fiscal year 2006; in April 2008, the last remaining segment of the 2002 Project was opened. The System reported \$48.9 million in toll revenues for the year ended August 31, 2008.

In August 2002, the Commission issued approximately \$2.2 billion in revenue bonds and bond anticipation notes to fund the development and construction of the 2002 Project. Bond indentures require the Commission to provide audited annual financial statements for the System.

SAO Report No. 09-016

“Payments to Acquire Investments” line items within the Cash Flows from Investing Activities section.¹ These misstatements had no net impact on Net Cash Provided by Investing Activities. While management subsequently corrected the misstatements, they were not initially identified by the Department’s internal control.

In addition, similar misstatements of approximately \$577 million were identified in the same two line items for the year ended August 31, 2007. Therefore, these amounts were restated in the Memorandum Only column of the Statement of Cash Flows for the year ended August 31, 2008. The restatements had no net impact on the previously reported amount for Net Cash Provided by Investing Activities on the Statement of Cash Flows.

These misstatements were the result of a flaw in the methodology used to compile annual investment activity. Transactions for cash equivalents were included in these line items although they are not classified as investments. Auditors did not determine the effect of this methodology on amounts reported prior to fiscal year 2007.

The Department should improve its internal controls over the System’s accounting processes.

The design of the Department’s accounting processes contains several elements that create significant deficiencies in internal control. A discussion of these elements follows.

Procedures for and Timeliness of Journal Entries

The Department uses an Excel spreadsheet to maintain the System’s general ledger and financial reporting process. The Department compiles this spreadsheet by manually entering journal entries and relies on embedded formulas to create a trial balance from which financial statements are prepared. Supporting documentation consists of a collection of bank statements and automated systems that are not integrated or compatible with the System’s general ledger or the Department’s accounting system (Financial Information Management System, or FIMS). Specifically:

- To record toll and investment transactions, Department staff identify transactions in the System’s 17 bank statements and prepare journal entries to record these transactions in the System’s general ledger. This is in lieu of having transactions transmitted into the general ledger as they occur from the System’s toll applications.
- While disbursements made on behalf of the System are recorded in FIMS, the Department must identify these payments by downloading the data and preparing summary manual journal entries to record payments in the System’s general ledger. This is in lieu of having transactions transmitted into the general ledger as they occur from FIMS.

While the examples described above are generally completed on a monthly basis, some transactions are not compiled, maintained, or recorded until year end. Therefore, the System’s general ledger does not contain complete financial data throughout the year. Specifically:

¹ This \$1.2 billion material misstatement is not related to the \$1.1 billion budgeting error previously reported in *An Audit Report on the Department of Transportation’s Financial Forecasting and Fund Allocation* (State Auditor’s Office Report No. 08-045, August 2008).

- Operating expenses paid on the System's behalf from the State Highway Fund (Fund 006) are not extracted from FIMS and entered into the System's general ledger until year end.
- The System's customer deposit account activity is maintained in a separate spreadsheet and consolidated into a single journal entry for inclusion in the System's general ledger at year end.

Security Controls over the System's General Ledger

As described above, the System uses a spreadsheet for its general ledger. It is not practical to establish adequate information security controls on spreadsheets that would prevent unauthorized entries, changes, or manipulation. As a result, the System's general ledger lacks adequate information security controls necessary to protect historical data and ensure the consistency and accuracy of processing. The System's general ledger is password-protected; however, the spreadsheet is not write-protected and does not maintain an audit trail of changes made or who made the changes. In addition, the System's customer deposit account activity spreadsheet lacks any form of protection, such as a password, write protection, or an audit trail. Therefore, original entries can be changed or lost in either spreadsheet, whether intentionally or unintentionally, and any changes or losses would not be traceable. However, we are not aware of any instances of edited or lost data.

Reconciliation of Revenue Transactions

While the Department has implemented numerous reconciliations between portions of the toll applications and the customer deposit account, the reconciliations being performed do not ensure that deposits into the System's bank accounts represent all revenue earned and that revenue amounts reported in the general ledger are complete. Specifically:

- There was no documentation that credit card activity was reconciled to the customer deposit account on a monthly basis. Department staff stated that the file containing the reconciliation was accidentally deleted and could not be recovered. A reconciliation covering September 2006 to August 2008 was re-created and provided to auditors on December 1, 2008. Department staff indicated they performed monthly reconciliations.
- The Department does not conduct full reconciliations of the data in the System's three toll applications: TMS (the toll management system that records all vehicle transactions as they drive through the toll plazas), VTX (the customer account management software that receives data on non-cash transactions electronically from TMS), and the HUB (a data warehouse where toll tag account information is shared with other Texas toll authorities and that communicates electronically with VTX). Since the HUB was implemented in August 2008, reconciliations between the HUB and VTX have been performed only at a summary level because the Department has not been able to extract the large data files needed for a detailed reconciliation. In addition, the Department is not reconciling the data between TMS and VTX. Transactions in VTX comprised 87.5 percent of all toll transactions in fiscal year 2008, while cash transactions (not in VTX) comprised the remaining 12.5 percent.
- Department staff indicated that the reconciliation of the customer deposit account activity to the VTX toll application was a work in progress, and complete reconciliations were not conducted on a monthly basis during fiscal year 2008. While staff were reconciling portions of the activity during the fiscal year, a complete reconciliation was not fully implemented until fiscal year end.

If expected revenue transactions are not reconciled with deposits and those recorded in the general ledger, this creates a risk that misstatements may not be detected and provides an opportunity for theft by fraud. However, we found no instances of fraud or other illegal activity. Auditor analysis of more than 66 million toll transactions during fiscal year 2008 found that the \$48.9 million in toll revenue reported by the System for the year ending August 31, 2008 was reasonable.

Supervisory Review of Customer Deposit Account

The entry of transactions from bank statements into the customer deposit account activity spreadsheet does not undergo supervisory or independent review. Without conducting independent reviews of transaction data, the Department may not detect misstatements or theft by fraud. However, we found no instances of fraud or other illegal activity.

Implementation of Prior Year Recommendations

Overall, the Department has not fully implemented recommendations included in *A Report on the Audit of the Department of Transportation’s Central Texas Turnpike System Financial Statements for the Fiscal Year Ended August 31, 2007* (State Auditor’s Office Report No. 08-017, December 2007). Table 1 lists the implementation status of each prior year recommendation.

Table 1

Implementation Status of Prior Year Recommendations	
Recommendation	Status
Record in a cash receipts journal or the System’s general ledger all toll revenues as they are earned based upon source transaction data from its automated tolling system and actual deposit slips.	Not implemented. Because the inherent limitations of the System’s general ledger do not allow real time or batch process accounting, which is accepted accounting practice, entering transactions on a monthly basis may be the most practical approach. (See “Procedures for and Timeliness of Journal Entries” above.)
Record in a cash disbursement journal or the System’s general ledger all disbursements at the time they are executed and support each entry with source documents evidencing actual transactions.	Partially implemented. While the System did support all entries tested with source documentation, construction expense transactions are being recorded at a summary level on a monthly basis and operating expense transactions are being recorded at year end. (See “Procedures for and Timeliness of Journal Entries” above.)
Record in a cash receipts journal or the System’s general ledger all amounts held in trust for customers as they are received and reconcile customer accounts to the deposits-held-in-trust account each month.	Partially implemented. While the System does record customer deposit account activity in a separate spreadsheet, it does not do so each month. In addition, the reconciliation of customer accounts is a work in progress and may not ensure the proper accounting of all revenue. (See “Reconciliation of Revenue Transactions” above.)
Develop and implement written policies and procedures for (1) the recording of receipts and disbursements and (2) the preparing and reviewing of full reconciliations of all System bank accounts to the System’s general ledger.	Implemented. The Department approved written policies and procedures in August 2008.

Recommendations

The Department should:

- Review its methodology and processes for preparing financial statements in accordance with generally accepted accounting principles.
- Improve its internal control processes by:
 - Entering all transactions into its general ledger and customer deposit account spreadsheets as close as possible to the transaction date, at least monthly.
 - Implementing security measures to protect information in the general ledger and customer deposit account activity spreadsheets after they have undergone review, such as a password and write-protecting cells containing data.
 - Reviewing existing procedures and developing additional procedures, including but not limited to reconciliations, to ensure that all revenue earned from any transaction source—including cash, electronic tag, pay by mail, service center collections, and external toll entities—is collected, deposited, and recorded in the System’s general ledger.
 - Performing independent reviews of all manual entries that are used in the reporting process, regardless of how the entries are compiled and stored.

Summary of Objective, Scope, and Methodology

The objective of the audit was to issue an opinion on the System’s basic financial statements for fiscal year 2008.

The audit scope covered the System’s basic financial statements for fiscal year 2008.

The audit methodology included interviewing personnel, reviewing relevant laws and regulations, reviewing information systems, and performing analyses and tests of financial statement balances and transactions.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

The following staff of the State Auditor’s Office performed the audit:

- Mary Ann Wise, CPA, CFE (Project Manager)
- Anthony W. Rose, MPA, CPA, CGFM (Assistant Project Manager)
- Ishani Baxi
- Darrell Edgar, CFE
- Ann E. Karnes, CPA
- Tony White, CFE
- Serra Tamur, MPAff, CIA, CISA (Information Systems Audit Team)
- Marlen Randy Kraemer, MBA, CISA, CGAP (Information Systems Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

The Department’s full responses are provided in the attachment to this letter.

If you have any questions, please contact Lisa Collier, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

Attachment

cc: Members of the Texas Transportation Commission

Ms. Deirdre Delisi, Chair

Mr. Ned S. Holmes

Mr. Ted Houghton

Mr. William Meadows

Mr. Fred Underwood

Mr. Amadeo Saenz, Jr., P.E., Executive Director, Department of Transportation



This document is not copyrighted. Readers may make additional copies of this report as needed. In addition, most State Auditor's Office reports may be downloaded from our Web site: www.sao.state.tx.us.

In compliance with the Americans with Disabilities Act, this document may also be requested in alternative formats. To do so, contact our report request line at (512) 936-9880 (Voice), (512) 936-9400 (FAX), 1-800-RELAY-TX (TDD), or visit the Robert E. Johnson Building, 1501 North Congress Avenue, Suite 4.224, Austin, Texas 78701.

The State Auditor's Office is an equal opportunity employer and does not discriminate on the basis of race, color, religion, sex, national origin, age, or disability in employment or in the provision of services, programs, or activities.

To report waste, fraud, or abuse in state government call the SAO Hotline: 1-800-TX-AUDIT.

Attachment

Department of Transportation's Response



DEWITT C. GREER STATE HIGHWAY BLDG. • 125 E. 11TH STREET • AUSTIN, TEXAS 78701-2483 • (512) 463-8585

January 9, 2009

Ms. Mary Wise, CPA
Project Manager
State Auditor's Office
1501 N. Congress Avenue
Austin, Texas 78701

Dear Ms. Wise:

Please find below the department's formal response to the audit report on the Central Texas Turnpike System's financial statements for the fiscal year ended August 31, 2008. Time lines for implementation are noted within our response as appropriate. The Finance Division Director is responsible for implementing the audit response.

The department concurs with the recommendations and will immediately: 1) begin recording all transactions into its general ledger and customer deposit account spreadsheets at least monthly, 2) implement additional security measures to protect information in the general ledger and customer deposit account activity spreadsheets and 3) begin performing independent reviews of all manual entries that are used in the reporting process. The other recommended reviews and the development of additional procedures, including but not limited to reconciliations, will be completed as soon as possible but no later than April 15, 2009.

We would like to express our gratitude for the professionalism and responsiveness of you and your staff in working with us to improve the financial reporting process for the Central Texas Turnpike System. If you have any questions or would like additional information, please call Owen Whitworth at (512) 463-8637.

Sincerely,

Amadeo Saenz, Jr., P.E.
Executive Director

cc: Texas Transportation Commission
Owen Whitworth, CPA, Director, Audit Office, TxDOT
Brian Ragland, CPA, Director, Finance Division, TxDOT

THE TEXAS PLAN
REDUCE CONGESTION • ENHANCE SAFETY • EXPAND ECONOMIC OPPORTUNITY • IMPROVE AIR QUALITY
INCREASE THE VALUE OF OUR TRANSPORTATION ASSETS

An Equal Opportunity Employer