



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, 2007

December 21, 2007

Members of the Legislative Audit Committee:

In our audit report dated December 7, 2007, we determined that the Department of Transportation's (Department) Central Texas Turnpike System (System) basic financial statements for fiscal year 2007 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 (Resolution), 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 several deficiencies related primarily to controls over toll revenues that, when combined, represent a significant weakness in internal control over financial statement reporting. Toll revenues during this first year of tolling operations were quantitatively insignificant, but they will be much greater in the future. Should the deficiencies identified below not be corrected, they may become a material weakness in internal control.

## 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), which is controlled and governed by the Commission, presently consists of a single "2002 Project," which includes three elements: State Highway 45 North, Loop 1, and State Highway 130. In the future, the System may also include projects to expand, enlarge, or extend the System pursuant to the Texas Turnpike Act.

The first of the System's tollways were opened during fiscal year 2006, and all remaining segments of the 2002 Project are expected to be opened by March 2008. The System reported \$16.7 million in toll revenues for the year ended August 31, 2007.

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.

## The Department Should Record Toll Revenues When Earned and Fully Reconcile Related Bank Accounts

Toll receipts are initially deposited to the System's operating bank account and subsequently moved by automated transfer to accounts at a trustee bank. However, the Department does not record general ledger entries for cash receipts, revenues, and disbursements when transactions occur based on source documentation, such as deposit slips, automated tolling system transaction data, and payment vouchers. Rather, the Department records toll receipts, revenues, and disbursements after it receives the monthly trustee bank statement, and it bases its entries on the amounts that the trustee bank reports. While the Department compares the deposit amounts reported by the System's operating bank to deposit amounts reported by the contractor that manages the tolling operations, this practice may not detect the loss or theft of funds that are never deposited because the reports prepared by the contractor are not source documents from the toll collection system.

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Similarly, approximately three-fourths of all System revenues are received in the form of customer deposits to automated tolling system (“TxTAG”) accounts. These deposits are largely funded by charges to customer credit cards that are deposited into the System’s operating bank account. However, while the Department’s contracted toll operator reconciles expected credit card receipts to its operations reports and to bank credit card reports, the Department does not perform independent reconciliations of the credit card activity or record in the System’s general ledger the amounts held in its operating bank account. Instead, the Department records the customer deposit account ending balances at year end as part of the financial statement process. To ensure appropriate fiduciary stewardship and management control over customer deposits, amounts held in trust for customers should be recorded on the System’s general ledger as they are received, and customer accounts should be reconciled to the deposit account each month by the Department.

In addition, the System is reimbursed by other turnpike authorities when patrons from those authorities use System tollways. In turn, the System reimburses the other authorities when System customers use their tollways. These receipts and disbursements are made to and from the System’s operating bank account. However, the activity is not recorded in the System’s general ledger. Only at year end are ending balances due to or due from other authorities recorded. Consequently, the receipts and disbursements that occur during the year are not reflected in the System’s Statement of Cash Flows.

Further, the Department does not ensure that complete monthly reconciliations of the System’s bank accounts to its general ledger accounting system are performed by someone who is not involved in the reporting or executing of disbursements or receipts. The Department also does not have approved written policies and procedures for the bank reconciliation process or for required management review of reconciliations. Transactions that are not recorded in the accounting system when they occur and are not reconciled to associated bank accounts on a timely basis provide an opportunity for theft of cash by fraud. Without management review of bank reconciliations, misstatements may not be detected. However, we found no instances of fraud or other illegal activity.

#### Recommendations

The Department should:

- 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.
- 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.

<b>Summary of Objective, Scope, and Methodology</b>
The objective of the audit was to issue an opinion on the Central Texas Turnpike System (System) basic financial statements for fiscal year 2007.
The audit scope covered the System’s basic financial statements for fiscal year 2007.
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 <i>Government Auditing Standards</i> issued by the Comptroller General of the United States.
The following staff of the State Auditor’s Office performed the audit:
▪ Agnes Rasmussen, CPA, CISA (Project Manager)
▪ Ron Zinsitz, CPA, CIDA (Assistant Project Manager)
▪ Darrell Edgar, CFE
▪ Jules Hunter, CPA, CIA
▪ Lisa Thompson
▪ James A. White
▪ Serra Tamur, MPAff, CIA, CISA (Information Systems Audit Team)
▪ Dennis Ray Bushnell, CPA (Quality Control Reviewer)
▪ Lisa R. Collier, CPA (Audit Manager)

- 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.
- Develop and implement written policies and procedures for (1) the recording of receipts and disbursements and (2) the preparing and review of full reconciliations of all System bank accounts to the System's general ledger.

The Department agrees with the recommendations in this report and plans to have the recommendations implemented by March 1, 2008. The Chief Financial officer is responsible for implementation. The Department's response is included in an 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  
Mr. Richard "Ric" F. Williamson, Chair  
Ms. Hope Andrade  
Mr. Ned S. Holmes  
Mr. Ted Houghton, Jr.  
Mr. Fred Underwood  
Mr. Phillip E. Russell, Director, Texas Turnpike Authority Division  
Mr. Amadeo Saenz, Jr., P.E., Executive Director, Department of Transportation



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# Attachment

## Department of Transportation's Response

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December 14, 2007

Mr. John Keel, CPA  
State Auditor  
State Auditor's Office  
P. O. Box 12067  
Austin, Texas 78711-2067

RE: Audit Report on the Texas Department of Transportation's (TxDOT)  
Central Texas Turnpike System Financial Statements

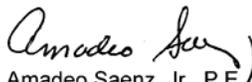
Dear Mr. Keel:

As requested in the December 5 letter from Ms. Agnes Rasmussen, Project Manager, on the Audit of TxDOT's Central Texas Turnpike System Financial Statements, we are providing our response to the Audit.

We agree with the recommendations and plan to have the recommendations implemented by March 1, 2008. The Chief Financial Officer is responsible for implementation.

We value the audit process and appreciate the professionalism of your staff. If you have any questions, please contact me at (512) 305-9501 or Owen Whitworth, Director, Audit Office at (512) 463-8637.

Sincerely,

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

cc: Texas Transportation Commission  
Owen Whitworth, Director, Audit Office, TxDOT

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