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.

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.
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 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.
- 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
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) 463-8937.

Sincerely,

[Signature]
Amadeo Saenz, Jr., P.E.
Executive Director

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