



John Keel, CPA  
State Auditor

# The Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements For the Fiscal Year Ended August 31, 2010

A Report on

February 11, 2011

Members of the Legislative Audit Committee:

In our audit report dated December 14, 2010, we determined that the Department of Transportation's (Department) Central Texas Turnpike System's (System) basic financial statements for fiscal year 2010 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 (see attachment). 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 resolutions for the System's revenue bonds, 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 management's controls over the System's financial reporting that represented a significant deficiency in internal control. Those issues are discussed in the attachment. We did not identify any issues that represented material weaknesses in controls over the System's financial reporting.

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.

We also communicated other, less significant issues to the Department separately in writing.

## 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, sections 1-4. 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 opened during fiscal year 2006; in April 2008, the last remaining segment of the 2002 Project was opened. The System reported \$73.3 million in toll revenues for the year ended August 31, 2010.

In August 2002, the Commission issued approximately \$2.2 billion in revenue bonds and 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.

As of August 31, 2010, the System had \$1.5 billion in revenue bonds outstanding and \$1 billion in a Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA) note.

The Department's management response to the findings and recommendations is presented in the attachment to this letter. We appreciate the cooperation we received from the Department. If you have any questions, please contact Angelica Ramirez, 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, Jr.  
Mr. William Meadows  
Mr. Fred A. Underwood  
Mr. Amadeo Saenz, Jr., P.E., Executive Director,  
Department of Transportation

**Summary of  
Objective, Scope, and Methodology**

The objective of the audit was to issue an opinion on the Central Texas Turnpike System's (System) basic financial statements for fiscal year 2010.

The audit scope covered the System's basic financial statements for fiscal year 2010.

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:

- Anthony W. Rose, MPA, CPA, CGFM (Project Manager)
- Mary Ann Wise, CPA, CFE (Assistant Project Manager)
- Jennifer D. Brantley, CPA
- Lindsay R. Johnson
- Ashlee C. Jones, MAcy, CGAP, CFE
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Angelica M. Ramirez, CPA (Audit Manager)



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# Attachment



## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

Members of the Texas Transportation Commission:

Ms. Deirdre Delisi, Chair  
Mr. Ned S. Holmes  
Mr. Ted Houghton, Jr.  
Mr. William Meadows  
Mr. Fred A. Underwood

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

We have audited the basic financial statements of the Central Texas Turnpike System (System) as of and for the fiscal year ended August 31, 2010, and issued our report thereon dated December 14, 2010. Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

We have chosen not to comply with a reporting standard that specifies the wording to be used in discussing restrictions on the use of this report. We believe the use of such wording is not in alignment with our role as a legislative audit function.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the System's financial statements as of and for the year ended August 31, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered the Department of Transportation's (Department) internal controls over System financial reporting (Department's internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following combination of deficiencies in the Department's internal control to constitute a significant deficiency because the Department's accounting and reporting processes do not facilitate the preparation of financial statements for the System that fully comply with generally accepted accounting principles:

**Management should improve the Department's internal controls over the System's accounting and reporting processes.**

The Department's internal controls over the System's accounting and financial reporting practices are not sufficient to facilitate the preparation of accurate financial statements that fully comply with all applicable accounting standards. In addition, the Department does not adequately monitor the System's control activities to ensure that the System's financial statements are accurate and the likelihood of a material misstatement is minimized (see text box for more information about internal control activities).

The majority of the Department's processes for compiling the System's general ledger and financial statements are manual. Manual processes and controls are less reliable than automated processes and controls because they can be more easily bypassed, ignored, or overridden and they are also more prone to errors and mistakes. As a result, consistency of application cannot be assumed. Because of this reliance on manual processes, it is imperative that Department management take an active role in ensuring that an adequate review of all manual processes occurs and that controls are in place and operating as intended.

The deficiencies in the Department's processes for and monitoring of the System's financial statement preparation, when combined, create a significant deficiency in internal control. A discussion of these deficiencies follows.

**Management should ensure that the System's financial report complies with all applicable accounting principles.**

The Department did not depreciate six bridges (with a total cost of \$6.1 million) in a manner that was in conformity with generally accepted accounting principles. The six bridges belong to the System but were depreciated in the State Highway Fund (Fund), which is not part of the System. Generally accepted accounting principles dictate that depreciation be recognized in the same fund in which the related asset is recorded.

The Department records all construction costs initially as non-depreciable roadways in the appropriate fund. It then reclassifies the costs related to bridges as depreciable. However, the Department decided to depreciate these six bridges in the Fund although the cost was recorded in the System. As a result, \$6.1 million of non-depreciable roadways was incorrectly reclassified as

**Monitoring of Control Activities**

Control activities are the policies and procedures that help ensure that management directives are carried out. An example of a control activity is the reconciliation of the System's general ledger to detailed records such as the toll system and the System's numerous bank accounts.

One component of a strong internal control environment is management's commitment to ensuring that its accounting and financial reporting staff possess or obtain the knowledge, skills, and expertise necessary to carry out their duties effectively. Management's monitoring of internal controls also should include determining whether controls are operating as intended and modifying the controls as needed. Monitoring of controls is a process to assess the quality of internal control performance over time.

depreciable bridges in the Fund, and the same amount of depreciable bridges remained incorrectly recorded as non-depreciable roadways in the System.

It is important that Department management ensure that its staff sufficiently research accounting standards for proper accounting methods and obtain guidance as needed. A recommendation to report all System bridges as depreciable was first communicated to Department management and those charged with governance in fiscal year 2009 (see Table 1 below for more information about prior year recommendations).

**Management should implement written procedures specific to the System.**

The Department does not have a detailed, written manual specific to the System and its unique activities. A detailed written manual specific to the System is imperative if the System is to produce accurate and consistent financial statements. Many of the deficiencies discussed below may have been alleviated if the Department had implemented written procedures specific to the System and management monitored and adjusted those procedures as necessary to reflect new systems and processes.

**Management should ensure that adequate review processes over accounting entries and financial statements are in place and operating effectively.**

To record its toll and bank activity, the Department manually compiles and enters information from a collection of bank statements, toll application summary reports, Access databases, and the Department's accounting system (the Financial Information Management System, or FIMS). Manual processes require compensating controls, which include but are not limited to a thorough review to ensure that the numerous manual processes have operated as intended and produced the expected results. However, the Department's review processes and procedures for the System were not sufficient to ensure that the Department applied consistent methodologies for the System's accounting entries and presented accurate results in the System's financial reports. Several of the Department's manual processes contained errors and inconsistencies that more complete reviews may have identified and corrected. Specifically:

- **Calculation of Interest Accruals.** The Department did not perform an adequate supervisory review of the preparation of the System's accounting entries. As a result, interest accrual entries for the System's fiscal year 2010 financial statements contained errors and inconsistencies that affected Net Assets. Because the items were not material, adjustments were not made to the financial statements as of August 31, 2010. Specifically:
  - ♦ Interest Payable and Interest and Amortization Expense each were overstated and Net Assets Restricted for Debt Service was understated by \$80,853 as of August 31, 2010. This error occurred because the Department applied an incorrect methodology for calculating the System's accrued interest payable as of August 31, 2010. The Department's calculation for the System's revenue bonds was based on 16 of 184 days, which was not the correct calculation base for the revenue bonds. According to the related bond documents, the accrued interest payable for the revenue bonds should be based on a 30-day month and a 360-day calendar year, which was the methodology the

Department applied in its fiscal year 2009 calculation of the revenue bonds' accrued interest payable.

- ♦ Interest and Dividends Receivable, Interest and Investment Income, and Net Assets Restricted for Debt Service each were understated by approximately \$32,000 as of August 31, 2010. When calculating this accrued interest receivable, the Department incorrectly counted 16 days from the last interest payment received on August 13, 2010, when it was 18 days to the end of the fiscal year. In addition, the Department incorrectly used the interest earned in fiscal year 2009 as its basis for computing this accrual, rather than the interest earned in fiscal year 2010.
- ♦ A similar error in the fiscal year 2009 financial statements was identified. Interest Payable and Interest and Amortization Expense were each understated and Net Assets Restricted for Debt Service was overstated by \$1,157,806 as of August 31, 2009, because the Department did not accrue the interest payable for the System's Transportation Innovation Financing Infrastructure Act (TIFIA) note in fiscal year 2009. As a result, total Net Assets as of August 31, 2009, was overstated by \$1,157,806, thereby overstating beginning balances for fiscal year 2010.
- **Review of the Bridge Database Used to Compile the Financial Statements.** The Department does not perform timely reviews of its processes to record capital assets. As discussed above, the Department relies on numerous, manual processes to compile the System's financial statements. One of those processes is the tracking of completed bridges and their related depreciation. The Department uses a Microsoft Access database to compile and track the System's bridges and to calculate related depreciation. The Department must manually update the database for each bridge added, and the database is used to update and support the general ledger and financial statements. However, the Department does not regularly review the information in the database. Therefore, errors in this process have gone undetected and have resulted in overstatements to depreciable bridges in the financial statements. Specifically:
  - ♦ During fiscal year 2010, the Department performed a review of the System's bridge database and found that one bridge's value had been incorrectly entered in 2007. This caused an overstatement of \$4,536,000 in depreciable bridges and a corresponding understatement in non-depreciable roadways from fiscal years 2007-2009 until the errors, including the related depreciation, were corrected in fiscal year 2010.
  - ♦ The Department also noted another bridge whose identifying number was incorrectly entered into the database, resulting in a duplication when the bridge was also added with its correct identification number. The duplication caused a \$724,500 overstatement to depreciable bridges in fiscal year 2009. The duplicate and resulting depreciation were removed in fiscal year 2010.
- **Review of the Financial Statements.** Auditors' review of the System's fiscal year 2010 financial statements identified numerous revisions needed to the notes, statements, and required supplementary information. In addition, auditors identified many typographical, spelling,

and other proofing errors. The Department's review procedures for the System's financial statements were not adequate to identify and correct such errors.

**Management should ensure that prior audit recommendations are adequately addressed.**

The Department has not fully implemented recommendations included in *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2009*, (State Auditor's Office Report No. 10-022, February 2010), many of which have been repeated for several years. Table 1 presents the Department's status in implementing prior audit recommendations for the System.<sup>1</sup>

Table 1

Implementation Status of Fiscal Year 2009 Recommendations As of December 2010			
Fiscal Year 2009 Recommendation	Previous Report(s) Containing a Similar Recommendation <sup>a</sup>	Implementation Status	Auditor Comments
The Department should record each bank account separately in the System's general ledger and develop and implement procedures for utilizing the application's built-in bank reconciliation function.	Fiscal Year 2007 Fiscal Year 2009	Partially Implemented	The Department is recording all but one bank account separately in the System's general ledger. For that one account, the Department uses two general ledger accounts. In addition, the Department has not developed or implemented procedures for utilizing the application's built-in bank reconciliation function for the System.
The Department should develop and implement procedures for conducting regular supervisory reviews of deleted and voided transactions.	Fiscal Year 2009	Fully Implemented	The Department implemented a process for supervisory review for the System. Under this process, the individual voiding or deleting a transaction must present the transaction for supervisory review. However, a more complete process would require the supervisor to pull all transactions periodically and perform a review to ensure that all voided/deleted transactions are reviewed.
The Department should develop and implement procedures for entering transactions from source documentation and discontinuing the practice of entering transactions as a compilation of monthly activity.	Fiscal Year 2008 Fiscal Year 2009	Not Implemented	The Department is still compiling System activity on a monthly basis from a variety of systems and entering those transactions in total via monthly journal entries. Entering data from source documentation, rather than from a compilation, enhances the reliability of reconciliations and account balances and helps to ensure that individual transactions are traceable and supportable. In addition, employees entering data from a compilation may not detect the loss or theft of funds that are never deposited because the reports used to compile entries are summary level reports, rather than the source documents from the toll collection system.  In fiscal year 2010, Department staff entered into the System's general ledger the majority of System transactions, including expenses paid from the State Highway Fund, investment transactions, and toll transactions, from three to five months after the transaction.

<sup>1</sup> Audits of the System's financial statements for fiscal years 2003 through 2006 were performed by other auditors.

**Implementation Status of Fiscal Year 2009 Recommendations**

As of December 2010

Fiscal Year 2009 Recommendation	Previous Report(s) Containing a Similar Recommendation <sup>a</sup>	Implementation Status	Auditor Comments
The Department should develop and implement procedures for reconciling all activity from the System's general ledger to source documentation, such as bank statements and reports from the System's toll application.	Fiscal Year 2007 Fiscal Year 2008 Fiscal Year 2009	Not Implemented	While the Department ensured that certain reconciliations of System activity were performed in fiscal year 2010, the reconciliations were performed as a compilation of activity between systems, rather than between a system and the general ledger. In addition, the reconciliations were often performed prior to the entering of the activity into the general ledger. For example, the System's toll revenue is reconciled between the toll systems and the bank statements. However, this reconciliation is not ensuring that amounts entered into the System's general ledger reconcile to either the toll system or the bank statements. If expected revenue transactions are not reconciled with deposits and recorded in the general ledger, this increases the risk that misstatements may not be detected.
The Department should develop and implement procedures for ensuring that all reconciliations are done on a monthly basis, are fully supported, and are protected from deletion.	Fiscal Year 2007 Fiscal Year 2008 Fiscal Year 2009	Partially Implemented	Results of interim audit work performed in May 2010 indicated that reconciliations were not being done on a monthly basis. However, as of August 2010, the System was ensuring that reconciliations were done on a monthly basis and materially supported.  To protect files from deletion, the System implemented new procedures requiring that all reconciliations be placed in a password-protected folder to which only the director of accounting management had access. However, as of December 2010, the folder into which the reconciliations were placed was not password-protected and three individuals, including the director, had access rights allowing them to create, file scan, read, erase, write, and modify the documents in the folder.
The Department should develop and implement procedures for ensuring that it reports all bridges as Capital Assets Depreciable.	Fiscal Year 2009	Not Implemented	See discussion on Page 2 of this report.
The Department should develop and implement procedures for transferring and recording partner revenues and ensuring that all amounts recorded and transferred from the customer deposit account reconcile to the amounts invoiced to the System's partners each month.	Fiscal Year 2009	Partially Implemented	The Department implemented an adjustment process to ensure that the System amounts recorded materially agree with the amounts billed. However, the amounts recorded and the amounts billed differed in individual months by as much as \$22,071. Overall, the System overrecorded revenue by \$393 during fiscal year 2010.  In addition, cash that the Department transferred from the custodial deposit account to the System for its portion of invoiced tolls did not reconcile to the invoiced amounts for fiscal year 2010. Individual months tested differed by as much as \$22,029. Overall, the Department distributed \$6,624 more to the System than the amount invoiced in fiscal year 2010.  An adequate review process would help ensure that each month's entries were accurately recorded in a timely manner, and that correcting entries to subsequent months, causing that month to be inaccurate, do not occur.

**Implementation Status of Fiscal Year 2009 Recommendations**

As of December 2010

Fiscal Year 2009 Recommendation	Previous Report(s) Containing a Similar Recommendation <sup>a</sup>	Implementation Status	Auditor Comments
The Department should ensure that supervisory reviews of the System's posted transactions occur and that the reviews are documented.	Fiscal Year 2007 Fiscal Year 2008 Fiscal Year 2009	Partially Implemented	While the Department implemented a master sign-off sheet for supervisory reviews of the System's transactions, auditors' tests indicate that the supervisory review and approval is not consistently documented. For example, signature dates did not agree between the master sign-off sheet and the actual document reviewed for 9 (11.7 percent) of 77 documents tested. In addition, two reports did not have a corresponding column on the master-sign off sheet for the preparer or reviewer to document his or her review. A thorough, independent review of transaction data may prevent misstatements or errors like those discussed in this report.

<sup>a</sup> For fiscal year 2007, see *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).

For fiscal year 2008, see *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* (State Auditor's Office Report No. 09-016, January 2009).

For fiscal year 2009, see *A Report on the Audit of the Department of Transportation's Central Texas Turnpike System's Financial Statements for the Fiscal Year Ended August 31, 2009* (State Auditor's Office Report No. 10-022, February 2010).

**Management should ensure that the System is in compliance with its bond covenants, Department employees are adequately trained, and the System maintains only one accounting system.**

**Complying with Bond Covenants.** During fiscal year 2010, the System's accounting records included transactions that reflected the activity of other entities besides the System. As a result, the System was not in compliance with Section 712 of the Indenture of Trust for the System's bonds that states, "The books and records of the System may form a part of the books and records of the Commission but shall be maintained as a separate enterprise account." The Department made adjustments as of August 31, 2010, to remove this activity from the System's financial statements.

**Training of Accounting Staff.** Management has not made it a priority to ensure that its staff is adequately trained in the use of the commercial accounting software that has been used as the System's general ledger since 2009. While management reported that it purchased a self-study course, as of August 31, 2010, not all accounting staff charged with using the software had completed the course. Therefore, the Department may not be utilizing the full potential of the features in the commercial software, most of which are designed to reduce the likelihood of errors and misstatements.

**Maintaining Dual Systems.** The Department is maintaining two sets of accounting records. In fiscal year 2009, the Department implemented a commercial accounting software program, which is the System's accounting system of record. However, Department staff has yet to cease using the old spreadsheet-based general ledger used for the System's financial transactions in fiscal years

2003 through 2008. Department staff still enter compiled transactions into the old spreadsheet general ledger before the transactions are approved and entered into the Department's commercial accounting software of record. In addition to creating more work for staff and increasing the amount of review required, this practice undermines the integrity of the System's accounting system of record.

### **Recommendations**

To alleviate the deficiencies discussed above and prevent future deficiencies in the System's financial statements, management should ensure that the Department:

- Uses proper accounting methods, is in compliance with all authoritative literature including bond covenants, and has adequate resources to sufficiently research all applicable accounting standards as needed to obtain guidance on accounting and reporting issues. Research should include, but not be limited to, the publications of and direct contact with the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants (AICPA), and the Comptroller of Public Accounts.
- Develops and fully implements detailed, written policies and procedures specific to the System's accounting practices. Changes in procedures should be documented and approved in writing by management. These procedures should include, but not be limited to:
  - ♦ Reporting and depreciating all capital assets appropriately including, but not limited to, recording in the System's general ledger (1) all assets paid for by the System and (2) all bridges as depreciable.
  - ♦ Using consistent calculation methodologies for all year-end accrual entries, such as interest accruals.
  - ♦ Performing timely reviews of all components used to compile financial statements including, but not limited to, those used to track and record its capital assets.
  - ♦ Entering transactions from source documentation and discontinuing the practice of entering transactions as a compilation of monthly activity.
  - ♦ Reconciling all activity from the System's general ledger to source documentation, such as bank statements and reports from the System's toll application, and ensuring that all such reconciliations are done on a monthly basis and are fully supported.
  - ♦ Ensuring that it records and transfers partner revenues in accordance with the amounts invoiced to the System's partners each month.
  - ♦ Ensuring that supervisory reviews of the System's posted transactions occur on a timely basis and that the reviews are adequately documented.

- Develops and implements detailed written procedures specific to the System's reporting function that provide for a full review of the financial statements as a whole, before the financial statements are submitted for auditor review. These procedures should include, but not be limited to, (1) detailed expectations and scope for each reviewer and (2) use of a sufficiently detailed checklist to help ensure that a review of all applicable rules and laws, including the GASB standards, occurs and that the financial report fully complies with the applicable rules and laws. The Department should also consider:
  - ♦ Incorporation of a reporting style guide to be used across all reporting entities. The guide should explain the Department's reporting standards for formatting, punctuation, and other style-related topics.
  - ♦ Implementing as a final review step a thorough review of the financial statements by someone outside of the compilation and financial processes, preferably by person(s) who are proficient in technical writing skills.
- Discontinues the practice of maintaining two sets of accounting records and rely exclusively on the System's accounting system of record.

#### **Management's Response**

*The Texas Department of Transportation (Department) will continue to evaluate and improve controls over the Central Texas Turnpike System's (System) accounting and reporting processes. As noted in the Independent Auditor's Report dated December 14, 2010, the State Auditor's Office (SAO) reported that in their opinion, the financial statements of the System were presented in conformity with generally accepted accounting principles. The System reported revenues of over \$73 million in fiscal year 2010 with assets of over \$3 billion.*

*The Department has initiated the process of phasing out the Microsoft Excel based accounting system noted in the Report. Dual systems had been maintained to assist in the conversion to the new accounting system and to reduce the risk of errors. During this period the Department was able to determine best practices and procedures for capturing and recording financial information utilizing the new accounting system and plans to document in a manual specific to System activities. The manual will also address prior year recommendations noted by the SAO. Staff charged with utilizing new accounting system software will have completion of the self-study as part of their performance plan.*

*The establishment of custodial accounts with an independent custodian in fiscal year 2010 will help to ensure the Department is in compliance with bond covenants noted in the Report. All deposits related to prepaid toll accounts will now be held and secured by the independent custodian. As a result, cash deposits from TxTAG customers are no longer recognized as assets of the System including any matching deferred revenue. The custodial accounts will serve as a clearinghouse for payments to the System, the Department and other toll operators. All toll revenues earned will be due from and remitted by the custodian of the custodial accounts. This*

*new process should help ensure that accounting records do not reflect activity of other entities beside the System.*

*The Department will evaluate procedures for the determination of interest accruals at year end to ensure the correct numbers of days are used in calculations. The Department agrees with the SAO that Interest and Amortization Expense of \$66,745,615 was understated by \$80,853 (0.12%) and Interest and Investment Income of \$6,251,339 was understated by approximately \$32,000 (0.51%). For fiscal year 2010, the Department did properly accrue the interest payable for the System's TIFIA note. The TIFIA note error in fiscal year 2009 did not have any impact on Total Net Assets reported as of August 31, 2010.*

*The Department agrees and continues to evaluate and modify controls for the accounting and reporting of bridges. The Department has seen noticeable improvement from prior years in this area. As noted in the Report, controls implemented in fiscal year 2010 allowed the Department to detect and correct the duplicate bridge error prior to the submission of financials. As a result, this bridge was properly and accurately reported as of August 31, 2010. The Department will continue to modify controls to ensure remaining errors noted are detected and corrected in a timely manner.*

*The Department will evaluate procedures for resolving differences of interpretation of accounting standards. The six bridges noted in the Report are unique to the System in that the bridges were either existing State Highway Fund bridges or new bridges that had to be reconfigured to accommodate additional capacity or the System design. In addition, the System is not responsible for the maintenance or associated expenses of these bridges. Although all costs were accounted for as capital assets (Infrastructure) of the System, because of legal constraints and the factors noted above there were differences of opinion on whether to treat these costs of \$6.1 million as non-depreciable or depreciable. As of August 31, 2010 the System reported Total Infrastructure of approximately \$2 billion. The Department plans to confer with the Department's Internal Audit Office, the Texas Comptroller of Public Accounts and the Governmental Accounting Standards Board when similar issues arise in the future.*

*The Department's scheduled date for implementation of corrective actions not yet implemented is June 30, 2011. The Director of Finance for the Department is responsible for implementation of corrective actions.*

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of the indenture for the Central Texas Turnpike System Revenue Bonds and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances or noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, nothing came to our attention that caused us to believe that the Department failed to comply in all material respects with the terms, covenants, provisions, or conditions of the System's Revenue Bonds and other laws and regulations insofar as they relate to accounting matters.

Auditors also communicated other, less significant issues to the Department in writing.

This report is intended for the information and use of the Texas Transportation Commission, Department management responsible for the System, and the Legislature. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA  
State Auditor

December 14, 2010