

AUDITOR'S REPORT

HARRIS COUNTY TOLL ROAD AUTHORITY LANE REVENUE COLLECTIONS FOR THE 12 MONTH PERIOD ENDED SEPTEMBER 30, 2016



April 21, 2017

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HARRIS COUNTY AUDITOR

April 21, 2017

Mr. Gary Trietsch, Executive Director
Harris County Toll Road Authority
7701 Wilshire Place Drive
Houston, Texas 77040

RE: Toll Road Authority Lane Revenue Collections for the 12 month period ending
September 30, 2016

The Audit Services Department performed procedures relative to the Harris County Toll Road Authority (HCTRA) Lane Revenue Collections. The objective of the engagement was to evaluate whether internal controls over HCTRA's Lane Revenue Collections are adequate and that HCTRA fees collected and deposited are properly recorded in the County's Financial Records (IFAS).

Our procedures included the following:

- Selectively tested controls for;
 - Determining the accuracy of toll amounts collected, and
 - Determining whether the amounts collected were timely and accurately deposited and recorded in IFAS.
- Selectively tested whether variances between toll road lane revenue reports and amounts collected were timely resolved.

The engagement process included providing you with engagement and scope letters and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The work performed required our staff to exercise professional judgement in completing the scope procedures. As the procedures were not a detailed examination of all transactions or property, there is a risk that fraud or errors were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and property and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

Mr. Gary Trietsch, Executive Director
Harris County Toll Road Authority

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Michael Post
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
 R. Jack Cagle
 Rodney Ellis
 Jack Morman
 Steve Radack
Kim Ogg
Vince Ryan
William J. Jackson

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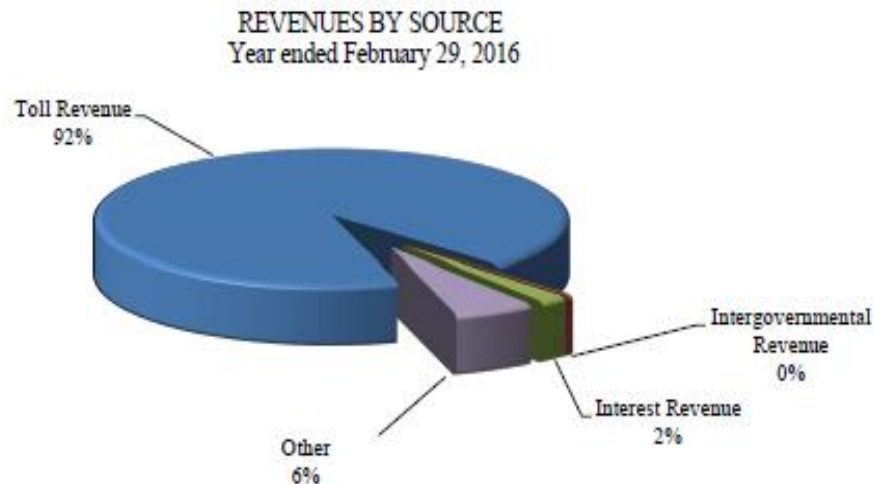
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OVERVIEW

The Harris County Toll Road Authority was established in 1983 by the Harris County Commissioners Court pursuant to Chapter 284 of the Texas Transportation Code. Also, in 1983, Harris County voters authorized issuance of up to \$900 million in bonds to construct, operate, and maintain toll roads in Harris County. Toll revenues are collected via EZ tag, collector, or automated coin machines (ACM's). These revenues are used to recover costs and retire outstanding debt on roadway projects.

Total revenues for fiscal year 2016 were \$824,330,000, an increase of \$112,994,000 from fiscal year 2015 revenues of \$711,336,000. The largest revenue source is toll revenue of \$759,275,927 or 92% of total revenues. This revenue category increased \$70,355,043 from fiscal year 2015. This is primarily due to increased usage and rates at the toll plazas. Other revenue sources totaled \$65,054,073 or 8% of total revenues for fiscal year 2016 and include revenues from Intergovernmental, Interest, and other miscellaneous categories. See graph below:



EZ Tags

The EZ tag program is the primary toll collector medium. It is a highly automated process whereby prepaid toll accounts are established with either a major credit card or electronic fund transfer (EFT). Multiple tags may be assigned to one account. Tolls are automatically deducted from the prepaid accounts when the vehicle passes through designated lanes. When the EZ tag account is established with a major credit card and reaches the minimum balance (e.g., \$10 for individual accounts with 1 to 3 vehicles), a pre-authorized credit card charge is made to replenish the account to the original deposit amount. When the EZ tag account is established with the patrons bank account and reaches the minimum balance (e.g., \$20 for individual accounts with 1 to 3 vehicles), a pre-authorized bank debit is made to replenish the account to the original deposit amount. HCTRA recently implemented a new process where customers can obtain a similar tag, which allows the option to prepay with cash at certain locations.

There are three types of EZ Tags: sticker tags, motorcycle tags, and license plate tags. Accounts are established as individuals only. The sticker tag is assigned with a unique identification number and it is affixed to the inside of the customer's windshield. The license plate tags are used in lieu of sticker tags on vehicles that feature a solar-coated windshield or on vehicles that have a limited amount of space for a windshield mounted sticker tag. Scanning devices are located in all dedicated EZ Tag lanes and some Collector-Attended and ACM lanes to read and verify that the transponder number is valid.

Collector - Attended Lanes

Tolls collected by attendants are counted by collectors in the toll plazas, placed in locked deposit bags, recounted under a surveillance camera by Office Cashiers, and deposited in the County's depository by Brink's Armored Car Service (Brinks). Shortages are reported by shifts and are investigated and reviewed by management daily and are forwarded to HCTRA's internal audit group if they exceed \$10. After the audit process verifies the shortage is greater than \$10, attendants are responsible for repaying the full amount not collected. Attendants are not required to repay shortages less than \$10 (margin for error); however, a history of all cash shortages, including non-reimbursable shortages below \$10, is maintained and monitored for patterns for each attendant. Some collector-attended lanes can also process EZ Tag transactions and a small EZ Tag sign is posted above the lane to indicate this option.

Automated Coin Machines (ACM's)

Exact change is dropped in ACM's by toll road customers and secured in locked deposit vaults. These vaults are collected and transported by Brinks to a processing facility where the coins are counted and deposited into HCTRA's bank account. The results of the Brinks' count (deposit amount on the batch report) are sent electronically via SFTP (secured file transfer protocol) file to HCTRA and Amegy Bank. The deposit amount according to the Brink's Batch Report is verified/reconciled to HCTRA's revenue system. Any variances over 5% are investigated. Some ACM lanes can also process EZ Tag transactions and a small EZ Tag sign is posted above the lane to indicate this option.

Financial Information

Financial information is recorded monthly in IFAS by data interface between the Central Host Audit System (CHAS) and IFAS for revenues and by manual data entry into IFAS for expenditures. CHAS is the system used by HCTRA's Revenue Collections Department. Activities occurring at the plazas, such as toll collector deposits, bag count record, and bank deposit records are recorded and audited in CHAS. The department tracks revenue collected from the various toll lanes, which is periodically reconciled.

RESULTS

Based on the procedures performed over HCTRA Lane Revenue Collections for the 12 month period ended September 30, 2016, controls for ensuring amounts collected are timely and accurately deposited and recorded in IFAS appear adequate and variances between toll road lane revenue reports and amounts collected were timely resolved. However, opportunities to improve controls for ensuring the accuracy of toll amounts collected were identified. Specifically, the following was noted:

- ACM lanes do not have IVIS Technology installed within the lane to automatically detect the number of axles passing through the lanes.
- Controls for safeguarding foreign coins captured by toll lanes with ACM's could be improved.

These items are discussed in more detail within the Issues and Recommendations Section.

ISSUES AND RECOMMENDATIONS

ACM Lane IVIS Technology

Background

Currently the ACM lanes charge a fixed rate for all vehicles regardless of the number of axles on the vehicle. Signs are posted above these lanes stating that these lanes are only for vehicles with 2 axles; however, customers with more than 2 axles are using these lanes.

Issue

ACM lanes do not have IVIS Technology installed within the lane to automatically detect the number of axles passing through the lanes. IVIS Technology is the equipment used to detect the number of axles on a vehicle as it goes through entry and exit points on the toll lane.

As a result, vehicles with more than 2 axles are allowed to pass through the ACM lanes by paying the lower 2 axle rate, which could result in financial loss to the County.

Recommendation

HCTRA Management should consider performing research to determine whether it is cost efficient to install IVIS Technology in the ACM lanes to ensure that passing vehicles are charged the proper rate in relation to the number of axles on the vehicle.

Management Response

HCTRA management recognizes the technical and financial shortcomings of ACM machines and the lack of IVIS technology in the lanes they occupy, and began a process years ago to methodically remove ACMs from toll lanes. The number of ACMs in use on the HCTRA system has steadily declined, and HCTRA remains committed to their continuing removal in the coming years.

ISSUES AND RECOMMENDATIONS

Returned Foreign Currency

Background

Currently, patrons sometimes drop foreign coins into the ACM which drops these foreign coins into the vault just as regular domestic coins. The vaults are picked up by Brinks and the foreign coins are returned to the HCTRA Revenue Department in tamper evident bags with unique identifying numbers. The foreign coin bags from Brinks are received by only one person and are stored in a cardboard box under the desk of the HCTRA Revenue Department Administrative Assistant without going through a logging/monitoring process. Management informed us that Amegy would not take the foreign coins received from toll operations. Therefore, HCTRA sells all foreign coins returned by Brinks to a third party vendor (Unitas Construction) based on a contracted price for each pound regardless of the bags actual value.

The ACM's do not count foreign coins as part of the amount of money received. The patron must still pay the correct toll amount or a violation will occur.

Issue

Controls for safeguarding foreign coins captured by toll lanes with ACM's could be improved. During our observation of the foreign currency process, the following was noted:

1. HCTRA does not utilize a dual receipting process for foreign coin bags delivered by Brinks and received by the HCTRA Revenue Department.
2. Foreign coins captured by toll lanes with ACM's are not securely stored once they are returned by Brinks.
3. No log of returned foreign coin bags from Brinks is maintained and used as a checklist to generate the deposit to the third party vendor (Unitas Construction).
4. The total dollar value received for selling foreign coins to Unitas Construction during the audit period was \$975.45. The accuracy of this amount could not be determined due to the current control environment.

Not having controls in place to safeguard foreign coins could result in misappropriation of funds and financial loss to the County.

Recommendations

HCTRA Management should consider implementing a dual receipting process to receive foreign currency bags from Brinks and maintain a log for bags received requiring two people to initial the log and record the bag number received along with the date and time. This log should be used as a checklist to ensure completeness of the foreign currency transferred to Unitas Construction.

In addition, foreign currency bags should be secured in a safe until they are transferred to Unitas Construction.

ISSUES AND RECOMMENDATIONS

Management Response

HCTRA now maintains a log and dual receipting process for the receipt of foreign coins in bags via HCTRA's armored delivery service from the County's coin depository, and once these bags are received and logged, they are placed in a safe until they are removed, verified against the log, junk items discarded, US currency deposited, and foreign currency re-bagged; awaiting its ultimate pickup by the County's vendor for foreign coinage. These improved procedures should help HCTRA to ensure completeness of the foreign currency transferred to the County's vendor for such coinage.