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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

June 5, 2023

Dear Mr. Treviño, Executive Director, Harris County Toll Road Authority and Mr. Menefee, County Attorney:

The Harris County Auditor's Office Audit Division has completed a financial control audit of the Harris County Toll Road Authority's Toll Violation process. The results of our audit are included in the attached report.

We appreciate the time and attention provided by your team. Please expect an email request to complete our Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant County Auditor, 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post".

Michael Post
County Auditor

Report Copies:

District Judges

County Judge Lina Hidalgo

Commissioners:

Lesley Briones

Rodney Ellis

Adrian Garcia

Tom Ramsey

Diana Ramirez



INTERNAL AUDIT REPORT
HCTRA TOLL VIOLATION COLLECTIONS PROCESS
JUNE 5, 2023

Executive Summary

OVERALL CONCLUSION

The overall financial controls related to Harris County Toll Road Authority's (HCTRA) Toll Violation Collections process were found to be effective. However, HCTRA and the County Attorney's Office (CAO) do not have a written agreement outlining how fees collected from toll violations should be allocated between the two departments. The issue was discussed with executive management, and a management action plan has been developed, which will address the issue identified by September 30, 2023.

SCOPE AND OBJECTIVE

The audit procedures tested financial controls over HCTRA Toll Violation processes for the period of March 1, 2021, to August 31, 2022. The objectives of this engagement were to evaluate the design and effectiveness of controls that support the following:

- Toll violation invoicing and collection processes, including adjustments to violation fees and fines.
- Accuracy and completeness of revenue generated and recorded from collection of toll violation fees and fines.
- Compliance with Texas Transportation Code Sec. 284.202 and 284.2032.

SUMMARY OF AUDIT ISSUE

HCTRA and the CAO do not have a written agreement outlining how fees collected from toll violations should be allocated between the two departments.

The audit issue, management's action plan to address the issue, and background information regarding this audit are discussed in more detail on the following pages. The audit issue is ranked based on the likelihood and impact of the risk to Harris County.

AUDIT ISSUE

ISSUE: Lack of Agreement for Allocation of Fee Collection Revenue **[MODERATE]**

What is the Issue: HCTRA and the CAO do not have a written agreement outlining how fees collected from toll violations should be allocated and recorded between the two departments.

Why it Happened: A Commissioners Court order was approved in February 2019 to move toll road violations in-house. The order outlined the fee collection amounts and the estimated costs for the CAO to provide their services; however, it was silent as to the fee allocation for HCTRA. In addition, no subsequent discussion was conducted to identify actual costs and how the fee collection revenue should be allocated.

Why it Matters: HCTRA did not have the ability to recognize revenue for their portion of the toll violation collection fees to offset their incurred expenses. Specifically, from September 2019 to August 2022, HCTRA recorded \$15.4 million of toll violations collection fee revenue as a liability. As of February 28th, 2023, the balance was \$22.1 million.

What is Expected: In accordance with Generally Accepted Accounting Principles, a proprietary fund should recognize revenue when (1) the earnings process is complete or virtually complete and (2) an exchange has taken place.

What Action(s) are Suggested: An analysis of actual costs to manage toll road violations should be conducted by HCTRA and the CAO to determine the reasonableness of the current fee and the amount of the fee allocation between departments. Both departments should develop a formal policy or agreement based on the cost analysis that addresses how the toll violation collection fee revenue should be allocated. Upon execution of this document, HCTRA should reclassify their allocation of the toll violation collection fees received to revenue.

MANAGEMENT'S ACTION PLAN

Responsible Party: HCTRA Tolling Operations, HCTRA Finance, and County Attorney Office

Currently, HCTRA collects the collection fee on behalf of the CAO. HCTRA records a liability for each event of payment and transfers the collected amount to the CAO on an annual basis upon CAO's request. An event of payment occurs when a customer pays their invoice that the collection fee was imposed on.

The amount requested and transferred to the CAO on an annual basis, since the start of the in-house collections program to date, is less than the amount collected for the same period. This difference caused a large increase in the balance of HCTRA's liability account for CAO's collections and led to revenue not being recognized; the CAO only recognizes and records the collection fee revenue in the General Fund when HCTRA transfers the requested funds to the CAO. HCTRA also incurred, and continues to incur, expenses related to the in-house collection program without receiving a portion of the Collection Fee collected. Per the current agreement approved by Commissioners Court, HCTRA does not receive an allocation of this revenue to offset the associated expenses incurred for in house collections.

HCTRA will work with the CAO to determine how the collection fee should be allocated between both departments. Once the allocation is agreed upon, HCTRA will work with the CAO to amend the current



agreement to reflect the allocation. Once the agreement is approved, HCTRA will propose an entry to reduce the liability and claim revenue for their share of the collected fees to date.

Due Date: September 30, 2023

BACKGROUND

On February 12, 2019, Commissioners Court approved the request to modify the administrative and collection fees charged for toll road violations to allow collections to be performed in-house by HCTRA personnel and the CAO with additional staffing. HCTRA and the CAO believed this would have a positive impact on the County as well as HCTRA customers, including improving customer service, reducing fees associated with toll violations, improving the timeliness of dispute resolution, and recovering more of HCTRA's collection expenses. Prior to the transition to in-house collection efforts, the County contracted with Linebarger Goggan Blair & Sampson, LLP, a third-party collection law firm.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

