

AUDITOR'S REPORT

HARRIS COUNTY TOLL ROAD AUTHORITY EZ TAG SALES REVENUE AND INVENTORY CONTROLS FOR THE SIX MONTH PERIOD ENDED MARCH 31, 2019



January 17, 2020

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HARRIS COUNTY AUDITOR

January 17, 2020

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

RE: Harris County Toll Road Authority EZ Tag Sales Revenue and Inventory Controls for the six month period ended March 31, 2019

The Audit Services Department performed procedures relative to the Harris County Toll Road Authority (HCTRA) EZ Tag Sales Revenue and Inventory Controls. The objective of the engagement was to document and assess the adequacy of HCTRA's internal controls over the sale and inventory of EZ Tags.

Our procedures included selectively testing whether controls were functioning related to the following:

1. The accuracy of EZ Tags sales revenue recorded in HCTRA's Back Office System (RITE 2.0) and the County's Financial System (IFAS).
2. The timeliness of EZ Tags sales revenue deposited in the County's depository.
3. The accuracy of HCTRA EZ Tag inventory records.

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, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial and inventory records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

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

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

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 Lina Hidalgo
Commissioners:
 R. Jack Cagle
 Rodney Ellis
 Adrian Garcia
 Steve Radack
Vince Ryan

TABLE OF CONTENTS

OVERVIEW	4
SUMMARY OF RESULTS	5
ISSUES AND RECOMMENDATIONS	6
Lack of Reconciliation of EZ Tag Inventory	6
Inventory Shipped to 3rd Party Vendor Before Advance Payment	7
Certain EZ Tag Policies & Procedures are not Updated	9
Unauthorized Access to Non-Revenue Accounts	10
Cash Receipts were not Posted Timely in IFAS	12

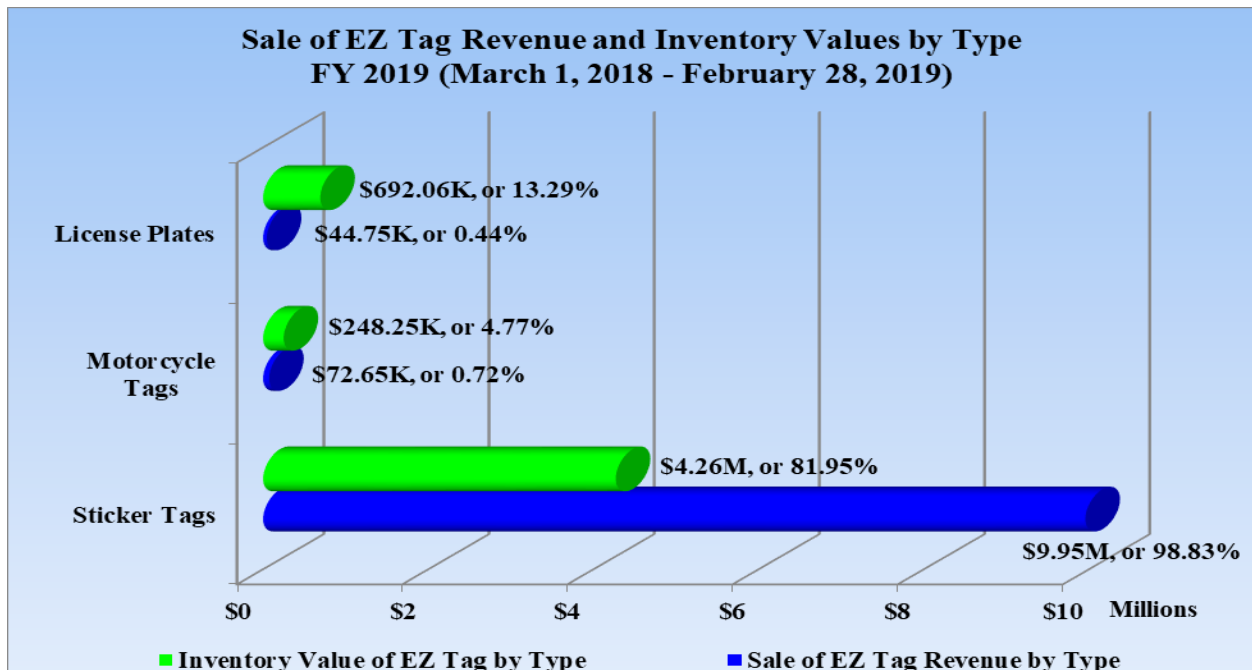
OVERVIEW

HCTRA was established on September 22, 1983 by the County’s 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. The Toll Road system consists of approximately 126 miles of roadway in the Houston/Harris County (County) area. HCTRA accepts cash at the tollbooths, and also utilizes EZ Tags which is an automated payment system.

There are three types of EZ Tags: sticker tags, motorcycle tags, and license plate tags. The sticker tags are assigned with a unique identification number and are affixed to the inside of the customer’s windshield. The motorcycle tag is a tag mounted internally or externally on a vehicle. 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 Automatic Coin Machine (ACM) lanes to read and verify that the transponder number is valid.

Customers can purchase EZ Tags internally from HCTRA’s 6 store locations or through their online website. In addition, HCTRA has contracted with a 3rd party vendor to sell prepaid EZ Tag stickers at various retail locations.

Total revenue from the sale of EZ Tags for FY 2019 was \$10,073,276. This total represents \$9,955,862 for sticker tags, \$72,657 for motorcycle tags, and \$44,757 for license plate tags. HCTRA maintains and tracks EZ Tags in their inventory tracking system (ODOO System), which was implemented in FY 2019. The value of EZ Tag inventory as of FY 2019 was \$5,208,974 in total. This total represents \$4,268,657 for sticker tags, \$248,255 for motorcycle tags, and \$692,062 for license plate tags as depicted in the chart below:



SUMMARY OF RESULTS

Based on the procedures performed, HCTRA's internal controls relative to EZ Tag sales revenue and inventory need to be strengthened. Specifically, the following opportunities for improvement were noted below.

1. Lack of Reconciliation of EZ Tag Inventory

HCTRA's inventory process to track and monitor the accuracy and completeness of EZ Tag inventory needs improvement. Although HCTRA completes a physical count of inventory, there is no reconciliation completed between the physical inventory count of EZ Tags to a perpetual inventory system record.

2. Inventory Shipped to 3rd Party Vendor Before Advance Payment

HCTRA does not have controls in place to ensure payment is received prior to inventory being shipped to their 3rd party EZ Tag vendor. HCTRA's Management did not verify payment was recorded in IFAS prior to shipment of inventory to their 3rd party EZ Tag vendor totaling \$116,000 in May of 2018 and \$200,000 in February of 2019. However, in October 2019 the May and February past due invoices were subsequently paid.

3. Certain EZ Tag Policies & Procedures are not Updated

HCTRA policies and procedures for the sale and inventory of EZ Tags does not reflect their current processes.

4. Unauthorized Access to Non-Revenue Accounts

HCTRA Management has configured RITE 2.0 to allow users access to assign and activate EZ Tags or add vehicles to an existing Non-Revenue EZ Tag account. Furthermore, no monitoring controls were in place to ensure that only authorized personnel activate EZ Tags on non-revenue accounts.

5. Cash Receipts were not Posted Timely in IFAS

HCTRA Finance Department did not post cash receipt batches from RITE 2.0 to IFAS timely. Nineteen out of 30 (63%) payments tested in RITE 2.0 were recorded into IFAS within 3 – 9 business days.

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

ISSUES AND RECOMMENDATIONS

Lack of Reconciliation of EZ Tag Inventory

Background

Pursuant to Harris County Procedures Manual A.1-3, *Inventory Internal Control Guidelines*, materials and supplies should be inventoried at least annually. Also, a reconciliation and investigation of differences between the inventory records and physical inventory should be performed.

Issue

HCTRA's inventory process to track and monitor the accuracy and completeness of EZ Tag inventory needs improvement. Although HCTRA completes a physical count of inventory, there is no reconciliation completed between the physical inventory count of EZ Tags to a perpetual inventory system record.

Not performing a reconciliation of physical inventory to their inventory records impairs the HCTRA's ability to properly track and monitor EZ Tag inventory which could result in financial loss to the County.

Recommendation

HCTRA management should improve their inventory process by performing a reconciliation of physical inventory to their inventory records, at least annually, as required by Harris County Procedure Manual A.1-3. Additionally, consideration should be given to implementing a perpetual inventory system.

Management Action Plan

Currently, HCTRA has an inventory system that is configured to produce a report of inventory on hand; however, the report has incorrect data, which causes management to be unable to reconcile the physical inventory of EZ Tags to the inventory system records. HCTRA management will evaluate whether the data discrepancies in the current inventory system can be resolved or if it is more efficient to find a more suitable inventory management system that meets HCTRA's need of a perpetual inventory system for accurate reporting.

Responsible Party

HCTRA Customer Service Management

Agreed Upon Completion Date

HCTRA Management estimates implementation by October 31, 2020

ISSUES AND RECOMMENDATIONS

Inventory Shipped to 3rd Party Vendor Before Advance Payment

Background

Pursuant to the Texas Constitution Article III, Section 52, *Restrictions on Lending Credit by Political Corporations or Political Subdivision*, the Legislature shall have no power to authorize any county, city, town or other political corporation or subdivision of the State to lend its credit or to grant public money or thing of value in aid of, or to any individual, association or corporation whatsoever. It is the County Attorney's Office interpretation that shipping EZ Tag inventory prior to receiving payment would be considered an extension of credit.

Pursuant to HCTRA Management, HCTRA must receive payment for EZ Tag inventory sold to 3rd parties before inventory is shipped.

Issue

HCTRA does not have controls in place to ensure payment is received prior to inventory being shipped to their 3rd party EZ Tag vendor. HCTRA's Management did not verify payment was recorded in IFAS prior to shipment of inventory to their 3rd party EZ Tag vendor totaling \$116,000 in May of 2018 and \$200,000 in February of 2019. However, in October 2019 the May and February past due invoices were subsequently paid. As a result, HCTRA was not in compliance with the Texas Constitution Article III, Section 52, *Restrictions on Lending Credit by Political Corporations or Political Subdivision*, or their own informal policy which could result in financial loss to the County if the vendor goes bankrupt.

In addition, the contract between HCTRA and their 3rd party EZ Tag vendor is silent as to whether payment is required prior to shipment of EZ Tag inventory.

Recommendations

1. HCTRA Management should improve internal controls to ensure payments are received for EZ Tag inventory sold before shipping EZ Tag inventory to the vendor. This should include updating the contract between HCTRA and their 3rd party EZ Tag vendor to state that payment is required prior to shipment of EZ Tag inventory.
2. HCTRA Management should implement a monitoring control by periodically reviewing invoices for HCTRA's 3rd party EZ Tag vendor to ensure payments are received prior to shipment.

ISSUES AND RECOMMENDATIONS

Inventory Shipped to 3rd Party Vendor Before Advance Payment (Continued)

Management Action Plan

HCTRA Customer Service Management now has personnel assigned to closely monitor the 3rd party EZ Tag vendor contract to ensure proper oversight over payment receipt for EZ Tag inventory sold to 3rd parties before inventory is shipped. HCTRA Management will work with the Harris County Purchasing department to update the contract between HCTRA and the 3rd party EZ Tag vendor to state that payment is required prior to shipment of EZ Tag inventory.

Responsible Party

HCTRA Customer Service Management

Agreed Upon Completion Date

HCTRA Management estimates implementation by May 31, 2020

ISSUES AND RECOMMENDATIONS

Certain EZ Tag Policies & Procedures are not Updated

Background

HCTRA sells EZ Tags to clients that allow access to the County's Toll Road System as long as the account is active and has the necessary preauthorized funds.

Pursuant to Harris County Procedures Manual A.1-3, *Inventory Internal Control Guidelines*, written policies and procedures should be established within each department for handling and safeguarding County inventory.

Issue

HCTRA policies and procedures for the sale and inventory of EZ Tags does not reflect their current processes.

Not having current policies and procedures impairs accountability and could lead to inefficiencies, confusion, and the inability to meet organizational goals.

Recommendations

1. HCTRA Management should update their policies and procedures for the sale and inventory of EZ Tags and have applicable staff sign the policies indicating they read and understand the policies.
2. HCTRA Management should review these policies for applicable changes on at least an annual basis or when material updates are needed.

Management Action Plan

Due to ongoing modifications to HCTRA's RITE 2.0 Back Office System, HCTRA Management will update procedures to ensure practices are consistent with policies in place. HCTRA Customer Service Management and HCTRA IT Management will work together to ensure policies and procedures are reviewed and updated at least annually, systems in place reinforce HCTRA policies, and that any variances are bridged by standard operating procedures.

Responsible Party

HCTRA Customer Service Management

Agreed Upon Completion Date

HCTRA Management estimates implementation by October 31, 2020

ISSUES AND RECOMMENDATIONS

Unauthorized Access to Non-Revenue Accounts

Background

Harris County Procedures Manual I.1-5, *Non-Revenue EZ Tag Accounts*, defines non-revenue accounts as accounts for vehicles that are authorized for free passage on County toll roads (i.e., marked police vehicles, fire department vehicles, ambulances, other authorized emergency vehicles, military vehicles and convoys, funeral procession vehicles, motorcades for heads of state and dignitaries, etc.). County-owned/leased vehicles are also permitted free passage on the toll roads while used in the performance of County business. Also, the policy allows for free passage on the toll roads for current federal and state military members with military identification and certain HCTRA employees who must incur a toll to access or depart their duty station or must use the toll road system in their private vehicles during their workday to conduct HCTRA business.

Pursuant to HCTRA's internal policy only authorized personnel should activate EZ Tags to existing Non-Revenue EZ Tag Accounts. Currently only 1 person and a backup are assigned responsibility for these EZ Tag activations.

Issue

HCTRA Management has configured RITE 2.0 to allow users access to assign and activate EZ Tags or add vehicles to an existing Non-Revenue EZ Tag account. Furthermore, no monitoring controls were in place to ensure that only authorized personnel activate EZ Tags on non-revenue accounts.

Not having system controls in place to prevent unauthorized personnel from activating EZ Tags to existing Non-Revenue EZ Tag Accounts could lead to misappropriation and financial loss to the County.

Recommendations

HCTRA Management should grant security access rights to authorized personnel only and restrict access within RITE 2.0 to prevent unauthorized personnel from assigning and activating an EZ Tag or adding a vehicle to an existing Non-Revenue EZ Tag Account. If Management wants to allow this access or if this access cannot be restricted, a monitoring control should be implemented to ensure only authorized personnel activate EZ Tags to non-revenue accounts.

Management Action Plan

HCTRA Management is coordinating with personnel involved to implement monitoring controls. A report is available to monitor all changes performed on Non-Revenue Accounts, and can be run periodically to verify only authorized personnel are performing activations and deletions of transponders and/or approved updates on Non-Revenue Accounts.

ISSUES AND RECOMMENDATIONS

Unauthorized Access to Non-Revenue Accounts (Continued)

Responsible Party

HCTRA Incident Management, HCTRA Customer Service Management, and HCTRA Finance Management

Agreed Upon Completion Date

HCTRA Management estimates implementation by March 31, 2020

ISSUES AND RECOMMENDATIONS

Cash Receipts were not Posted Timely in IFAS

Background

HCTRA uses their established internal receipting systems to issue receipts for County collections. To ensure all collections are recorded in the County's General Ledger, HCTRA must issue receipts from their internal receipting system and interface these receipts to IFAS.

Harris County Procedures Manual F.1-1-3, *Cash Receipts – Interfacing to IFAS*, requires cash receipts to be posted in IFAS daily or at least every other day.

Issue

HCTRA Finance Department did not post cash receipt batches from RITE 2.0 to IFAS timely. Nineteen out of 30 (63%) payments tested in RITE 2.0 were recorded into IFAS within 3 – 9 business days.

Not recording payments received timely could lead to underreported revenues.

Recommendations

1. HCTRA Management should ensure cash receipt batches recorded in RITE 2.0 are timely posted to IFAS by providing refresher training to personnel responsible for posting cash receipt batches through an interface from RITE 2.0 to IFAS.
2. A monitoring function should be implemented to help ensure cash receipt batches are recorded from RITE 2.0 to IFAS timely. This may include reviewing a sample of posted batches to confirm they were posted timely and signing the review as verification the review was completed.

Management Action Plan

Although the mentioned cash receipt batches from RITE 2.0 to IFAS were not posted timely, HCTRA Finance is unaware of any material underreported revenues or material revenues related to these cash receipt batches that were recorded incorrectly. HCTRA Finance is currently working on strengthening procedures to ensure the timely posting of cash receipt batches. The procedures to be implemented will include strengthening the monitoring and review controls in place.

Responsible Party

HCTRA Finance Management

Agreed Upon Completion Date

HCTRA Management estimates implementation by March 31, 2020