

# **TxDOT Internal Audit Toll Collections Audit (1107-3) Department-wide Report**

## **Introduction**

This report was prepared for the Transportation Commission, TxDOT Administration and Management. The report presents the results of the Toll Collections Audit which was conducted as part of the Fiscal Year 2010 Audit Plan. The objective of the audit was to determine if there are any actions that can be taken to improve the return on the toll roads that are managed by the department. This audit also examined a concern that the toll operations general engineering consultant (GEC) was conducting work outside the scope of their contract.

## **Scope**

Audit team included Kathy Baca and Dennis Olson (Staff Auditors) with oversight provided by Raymond Martinez (Auditor-in-Charge). The audit work was conducted during the period of January through September 2010. All work was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors*. Audit work included interviews with the Texas Turnpike Authority Division (TTA) employees and consultant staff; reviews of policies and procedures, contracts, work authorizations, invoices and other supporting documentation; and the observation of various toll operation functions.

## **Background**

The department currently manages various toll roads in the Austin (Loop 1, SH 45, SH 130 and SH 45SE), Tyler (Loop 49) and Laredo (SH 255) areas. TTA is responsible for overseeing the operation of these toll roads. This includes the toll systems, toll facilities, toll collections, toll violations, toll tag, interoperability (with other toll tags) and the customer service center. TTA has limited staff available to oversee these functions and the director position over toll operations is currently vacant. TTA relies on various consultants to handle the daily operation of these toll roads. This includes PBS&J (GEC), URS-Washington Division (customer service center), United Toll Systems (toll system in Austin area), Raytheon (statewide toll system), VESystems (maintenance of the toll system in Austin area), Xerox (billing operations) and NCO (collection agency). The local TxDOT districts are responsible for the maintenance of the roadways. The Finance Division is responsible for certain financial aspects associated with the toll roads.

Last year, the department created two work groups to review the customer service center and roadway maintenance operations for the toll roads in the Austin area. The intent was to develop recommendations to reduce the costs. The groups offered recommendations that were estimated to reduce annual costs by millions of dollars. Many of these recommendations have been implemented and some are still being pursued. In addition, TTA is currently working on an effort to solicit a new contract for the customer service center, toll collection and facilities maintenance services for the department's toll roads.

## Opinion

We think some actions can be taken to improve the return on the toll roads that are managed by the department. More specifically, there are some opportunities for improving toll revenue. We also identified an issue regarding the management of the toll roads. The opportunities are discussed in Finding No. 1 and the issue is discussed in Observation No. 2.

We were unable to determine if the GEC was conducting work outside the scope of their contract because the contract and related invoices are very general. Overall, the work appears to relate to toll operations. There was one situation where TTA directed a subconsultant to conduct work that could be considered inappropriate for an engineering contract. This issue is discussed in Observation No. 1.

## Detailed Finding and Recommendation

**No. 1:** There are some opportunities for improving toll revenue on the toll roads managed by the department. Revenue can be improved by collecting toll charges for vehicles with dealer tags (i.e. paper plates), reducing the number of bad images, reducing misclassifications / missed toll transactions and eliminating free passage for customers who purchase a TxTag at the toll plaza.

Customers who use the toll roads are required to pay the proper tolls and the department should take appropriate action to collect these tolls. The department isn't collecting toll charges on the Central Texas Turnpike System (CTTS) in the Austin area for vehicles with dealer tags because the Transportation Code states that the registered owner is liable for nonpayment but there may not be a registered owner associated with these vehicles for the department to bill. The department isn't collecting toll charges on the CTTS for certain vehicles because of bad camera images that aren't capturing the vehicle license plate number (e.g. the images aren't clear, too light, too dark, glare / shadow, black or the camera was too high, too low, too left or too right). The department isn't collecting the proper toll charges on the CTTS for certain transactions because of toll system misclassifications / missed toll transactions (e.g. the system is miscalculating the number of axles per vehicle and this impacts toll revenue because toll charges are based on the number of axles per vehicle) and because the roadway is separating at a certain location which is impacting the electronic classification equipment. Also, the department is allowing free passage on the CTTS for customers who purchase a TxTag at the toll plaza because the toll management system can't perform multiple transactions for the same customer at the same location at the same time.

**Effect:** If the department doesn't collect the proper tolls from customers who use the toll roads, this will negatively impact the department's ability to cover the cost of operating and maintaining the toll facilities and the debt associated with the construction of the toll facilities. For example, the number of transactions written off for the "no plates" code (such as dealer tags) in the period from July through December 2009 was 306,784 which totaled \$369,094.90 of potential toll revenue, according to reports provided by TTA. The number of bad images written off in that same time period was 39,408 which totaled \$73,265.80 of potential toll revenue. We were

unable to identify the potential toll revenue that was not collected due to misclassifications / missed toll transactions and free passage.

**Recommendation:** TTA should work with the Office of General Counsel (OGC) to determine what actions can be taken to revise the state's toll statutes in order to collect toll charges for vehicles with dealer tags. TTA should work with their consultants on the CTTS to look into the bad images, misclassifications / missed toll transactions and free passage to determine what can be done to resolve or minimize these issues. Also, TTA should work with the Austin District to determine what can be done to resolve or minimize the issue of the roadway separating.

### Management Response and Action Plan

Responsible Party: *Doug Woodall*

Implementation Date: *5-31-2012*

*The TTA has been working with OGC for the past two sessions to improve the department's ability to bill customers by expanding on the vehicle owner registration information limitations. We will continue to do so until legislation is passed that allows the department to use data resources beyond DMV titled owner. Further clarification is required as to whether this recommendation pertains to paper plates used by the dealer for vehicles which have not been purchased, or temporary paper plates assigned to a vehicle which has been purchased or the metal dealer plates unique to the dealer. It is still questionable whether temporary tags will provide the level of detail necessary to pursue payment, but we are scheduled to meet with DMV representatives to learn more.*

*The Toll Management System (TMS) on the CTTS is operating within contract specifications for capturing 99% of transactions. The most recent roadside audit indicated 99.5% captured and an average of 99.96% for FY-2010. TTA will continue to work with the Austin District to identify and correct separation on CTTS toll roads. Currently, due to available resources, it is only feasible to audit mainline Open Road Tolling (ORT) lanes.*

*Generally, the TTA has experienced an above average tag penetration (use of transponder) on the CTTS. When the TMS is operating within specifications, it is with increased tag penetration that the department can address inherent camera and human issues resulting in image code offs. The In-lane Tag Sales program is our effort to increase tag penetration, effectively reducing the number of image based transactions, and offering one free passage at the time of sale incentivizes the customer to purchase the tag. This program was recently analyzed and statistics show that many customers are purchasing more than one tag for each free passage.*

### Observations

**No. 1:** TTA directed a subconsultant to conduct work that could be considered inappropriate for an engineering contract.

The professional engineering contract that the department executed with the toll operations GEC is very general. The contract states that the engineer will provide a broad range of professional

engineering and project management services to develop toll strategies on toll projects. The work authorizations associated with the contract appear to relate to toll operations. The work authorizations are used to authorize the work to be conducted by the engineer. The invoices submitted by the engineer are also very general. The invoices list the hours billed by the staff, hourly rates, titles and a brief progress report. This makes it difficult to identify the specific work that was conducted and who conducted the work by reviewing the supporting documentation.

TTA wanted help to write some proposed revisions to the toll rules in the Texas Administrative Code so they directed a subconsultant of the GEC to do this for them. This related to toll operations so TTA thought it was inside the scope of the GEC contract. The supporting documentation identifies this particular subconsultant employee as a senior toll specialist. According to OGC, this employee is also an attorney and this task could be considered a legal service. The Government Code (Chapter 402 Section 0212) states that any contract for legal services between an attorney and a state agency must be approved by the Attorney General.

**Recommendation:** TTA should consult with OGC when there is any question that their consultants are conducting work that could be considered outside the scope of their contract or could be considered a legal service.

### Management Response and Action Plan

Responsible Party: Doug Woodall

Implementation Date: Immediate

*The work in question was intended to enhance toll collection methodologies within the constraints of existing statutes. The GEC selected the toll specialist best qualified to fulfill TTA's request.*

*TTA does and will continue to consult with OGC whenever any need for legal counsel arises. Toll Operations staff was informed of this audit recommendation during the January 10, 2011, staff meeting and a follow-up email to that effect will also be distributed.*

**No. 2:** TTA doesn't maintain a simple "big picture" report of current revenues, expenses, receivables and uncollectable toll transactions to try to improve the return on the toll roads. TTA indicated that this type of information is available to management, upon request, in three separate reports. In addition, some of this information isn't kept current. The latest transactions receivable data TTA was able to provide was about six (6) months old. TTA said they need about 115 days after the transaction to determine the status of an account (e.g. paid in 30 days, 60 days, etc.) because the accounting system is reported on a cash basis.

**Recommendation:** TTA should develop a simple "big picture" report of current revenues, expenses, receivables and any uncollectable transactions for the toll roads and track the changes in these indicators from month to month so management can use this information to try to improve the return on the toll roads managed by the department.

### Management Response and Action Plan

Responsible Party: Roland G Silva

Implementation Date: 1-31-2012

*The TTA is constantly evaluating methods for improvement and have developed a few reports that are specific enough to identify areas of concern with regard to uncollectible tolls. We are currently coordinating between our Financial Services and Marketing Teams to develop such a report with dashboard presentation. The new back office system specifications provide for greater flexibility and more comprehensive functionality to support our reporting needs. However, we have never recorded receivables within the TTA, we have always reported revenue on a cash bases—as directed by TxDOT Finance. Any reporting of toll revenue receivables are best reported by the Finance Division.*

### **Recent Improvements**

TTA has made some recent improvements to the toll operations program. For example, TTA executed contracts with third party vendors to guarantee the toll charges for rental car customers who use the toll roads. This effort has already generated about \$1 million in revenue, which includes about \$320,000 in violation receipts. TTA renegotiated the VESystems maintenance of the toll system contract to reduce the staffing and this reduced this expense by \$175,000 per month. TTA renegotiated the NCO collections contract from paying the vendor for each account to paying the vendor a percentage of what they collect and this reduced this expense by \$62,000 per month. Also, TTA just implemented a lock box program for incoming mail that could reduce the staffing expense by about \$100,000 over a one year period.

### **Closing Comments**

The results of this audit were discussed with the TTA Division Director in an exit conference held on October 28, 2010. The results were discussed with OGC staff in a briefing held on October 18, 2010. The results were also discussed with the Assistant Executive Director for Engineering Operations in a briefing held on November 2, 2010.

We thank those contacted during this audit for their assistance and cooperation.