



John Keel, CPA
State Auditor

A Report on
**The Audit of the Department of Transportation's
Texas Mobility Fund Financial Statements
For the Fiscal Year Ended August 31, 2007**

December 21, 2007

Members of the Legislative Audit Committee:

In our audit report dated December 7, 2007, we determined that the Department of Transportation's (Department) Texas Mobility Fund basic financial statements for fiscal year 2007 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. 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 Resolution for the Texas Mobility Fund's General Obligation Bonds (Resolution) and other laws and regulations. Our procedures did not identify any material weaknesses in internal control over financial reporting or instances of noncompliance that materially affected the financial statements.

In our December 28, 2006, report on the Texas Mobility Fund financial statements for the fiscal year ended August 31, 2006, we recommended that the Department improve the transparency of financial statements to show how Texas Mobility Fund dollars are spent by either (1) paying highway construction expenses directly from the Texas Mobility Fund (rather than through reimbursement of the State Highway Fund) or (2) including a supplemental schedule that lists the amount of Texas Mobility Fund dollars spent on specific projects and the classes of highway construction expenses. In response, the Department included in the financial statements for the year ended August 31, 2007, a supplemental schedule of preliminary engineering, construction, construction engineering, and right of expenditures by county.

Background Information

In May 2005, the Texas Bond Review Board approved the issuance of \$4 billion in Texas Transportation Commission (Commission) State of Texas General Obligation Mobility Fund Bonds through one or more issuances from the Texas Mobility Fund. As of August 2007, the Commission has issued \$3.95 billion in bonds.

During fiscal years 2005 and 2006, the Commission issued \$1.65 billion in fixed-rate general obligation bonds and \$100 million in variable-rate general obligation bonds. In fiscal year 2007, the Commission issued \$2.2 billion in fixed-rate general obligation bonds.

The Resolution for the Texas Mobility Fund's General Obligation Bonds requires the Commission to provide audited annual financial statements of the Texas Mobility Fund.

Summary of Objective, Scope, and Methodology

The objective of the audit was to issue an opinion on the Texas Mobility Fund's (Fund) basic financial statements for fiscal year 2007.

The audit scope covered the Fund's basic financial statements for fiscal year 2007.

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:

- Agnes Rasmussen, CPA, CISA (Project Manager)
- Ron Zinsitz, CPA, CIDA (Assistant Project Manager)
- Lisa Thompson
- Darrell Edgar, CFE
- James A. White
- Serra Tamur, MPAff, CIA, CISA (Information Systems Audit Team)
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Lisa R. Collier, CPA (Audit Manager)

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We also recommended that the Department implement controls to ensure that any accrued interest received from the sale of bonds is deposited promptly into the proper account as required by the Resolution. On January 26, 2007, the Department's chief financial officer signed a memorandum outlining procedures for future bond transactions that would either (1) eliminate the need for a transfer such as was required in 2006 or (2) make the debt management director responsible for ensuring that the bond closing memorandum incorporates transfer directions and that those directions are followed.

If you have any questions, please contact Lisa Collier, Audit Manager, or me at (512) 936-9500.

Sincerely,

John Keel, CPA
State Auditor

cc: Members of the Texas Transportation Commission
Mr. Richard "Ric" F. Williamson, Chair
Ms. Hope Andrade
Mr. Ned S. Holmes
Mr. Ted Houghton, Jr.
Mr. Fred Underwood
Mr. Amadeo Saenz, Jr., P.E., Executive Director, Department of Transportation



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