



External Audit Report

Hidalgo County Regional Mobility Authority

TxDOT Compliance Division

Objective

To determine if Hidalgo County Regional Mobility Authority (HCRMA) has effective internal controls in place to ensure TxDOT grant and loan funds are managed in accordance with applicable funding agreements and verify whether costs are allowable and adequately supported.

Overall Conclusion

HCRMA has implemented effective internal controls and processes to manage TxDOT grant and loan funds in accordance with applicable funding agreements and ensure costs are allowable and adequately supported. All tested expenditure transactions were allowable per applicable agreements.

We identified an instance of non-compliance related to HCRMA's accounting of grant funding. HCRMA's accounting system and requests for reimbursements (RFR) did not separately account for federal and state portions of grant funds expended and reimbursed, as required by 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR 200). Management took corrective action to update the accounting system and future RFRs prior to the conclusion of the engagement.

Scope

The scope of the audit included HCRMA's current financial, grant and loan management processes and TxDOT funds paid to HCRMA between September 1, 2014 and December 31, 2016. HCRMA received \$3,672,610 in grant reimbursements and \$20,000,000 in State Infrastructure Bank (SIB) loan proceeds during this period.

Methodology

The methodology used to complete this audit included:

- Gaining an understanding of HCRMA's operating structure and its financial controls and processes.
- Conducting interviews with HCRMA personnel.
- Conducting interviews with relevant TxDOT Pharr District and Area Office personnel.
- Reviewing TxDOT grant and loan agreements with HCRMA, 2 CFR 200, Texas Transportation Code and Texas Administrative Code.
- Reviewing HCRMA's policies, procedures, and relevant agreements with vendors.
- Verifying HCRMA's management of unexpended SIB loan funds in accordance with applicable agreements.
- Verifying completeness and accuracy of a sample of HCRMA's bank reconciliations related to grant and loan funds.
- Comparing approved grant budget to actual reimbursements.

- Comparing expended project funds to project completion timelines for reasonableness.

RFRs and SIB loan expenditures occurring through December 31, 2016 were tested for the following requirements:

- Supporting documentation exists, including proof of payment, and amounts were accurately supported and calculated,
- Costs were allowable and allocable per 2 CFR 200 and TxDOT funding agreements,
- Costs were incurred during the funding agreement period,
- Grant expenditures were paid prior to submission of the reimbursement request, and
- Costs were approved by required stakeholders (i.e., responsible manager, Executive Director, Board of Directors, responsible TxDOT staff).

Data Reliability

Auditors assessed the reliability of the payment data generated from TxDOT's PeopleSoft Financials accounting system by comparing the data to expenditure and revenue data in the accounting system of HCRMA's fiscal agent. Auditors determined that the payment data was reliable for the purposes of this audit.

Project Information

This audit was conducted for HCRMA, TxDOT Administration and the Chief Audit and Compliance Officer. The audit was included in the fiscal year 2017 Compliance Division work plan. Audit fieldwork was conducted from January 2017 through February 2017.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions on our audit objectives. The audit was performed by Ashlee Jones (Engagement Lead), Gail Ates, Cheryl Durkop, Tasha Foote, and Ruben Juarez.

Background

Regional Mobility Authorities (RMA) are political subdivisions created by one or more counties and certain municipalities to address regional transportation needs. RMAs may finance, design, construct, operate, and maintain transportation projects. The Texas Legislature authorized RMAs in 2001, and the Texas Transportation Commission (Commission) is tasked with approval of individual RMAs.

HCRMA was authorized by the Commission and the Hidalgo County Commissioners Court in 2005 to accelerate needed transportation projects in Hidalgo County. HCRMA's mission is to provide customers with a rapid and reliable alternative for the safe and efficient movement of people, goods, and services.

HCRMA currently has two active funding agreements with TxDOT. In April 2013, the Commission authorized a \$17,670,000 Advanced Funding Agreement (AFA) for HCRMA to reconstruct and widen US 281 and provide a new grade separated interchange at the SH 365/US 281 intersection. In May 2016, the Commission authorized a \$42,210,000 State Infrastructure Bank loan with HCRMA to pay for the costs of right-of-way, utility relocation, and construction of the SH 365 project. The SH 365 project includes three segments of construction of both toll and non-toll improvements. HCRMA received the first of two loan disbursements in December 2016 in the amount of \$20,000,000. Additionally, TxDOT has approved \$127,935,862 in future grant funding to HCRMA for construction costs of the SH 365 project.

Results

Auditors reviewed HCRMA's internal control structure and processes pertaining to TxDOT funds and found that HCRMA has effective internal controls and processes in place to manage TxDOT funds in accordance with applicable funding agreements and ensure costs are allowable and adequately supported.

HCRMA has experienced personnel in key functions overseeing TxDOT funds, such as construction engineering and record keeping, land acquisitions, accounting, and audit and compliance. The seven member Board of Directors is actively engaged in oversight of HCRMA, and there is a strong review and approval process to ensure costs associated with TxDOT funds are appropriate and allowable. HCRMA has documented policies and procedures governing its processes, including items such as conflicts of interest, ethics and compliance, fraud reporting, and procurement of goods and services. In addition, HCRMA has a positive professional relationship with TxDOT Pharr District and Area personnel that assist in project monitoring and review and approve RFRs. HCRMA received a local construction records audit by the TxDOT Pharr Area Office in October 2016 and took timely action to correct the findings identified.

HCRMA received a total of \$23,672,610 in TxDOT funds between June 2016 and December 31, 2016. The first grant reimbursement for construction of the US 281 Connector project was issued in June 2016, with a total of \$3,672,610 in reimbursements received through December 2016. HCRMA received the first SIB loan instalment of \$20,000,000 for acquisition of right-of-way for segments 1 and 2 of the 365 tollway project in December 2016.

Auditors reviewed all 8 grant reimbursement requests totaling \$3,672,610, and verified all costs were allowable, adequately supported, and received required approvals. However, RFRs and HCRMA's accounting system did not separately account for Federal and State portions of grant funding as required by 2 CFR 200. During the engagement, HCRMA management took corrective actions to update the accounting system and future RFRs to separately account for Federal and State grant expenditures and reimbursements.

Auditors also reviewed SIB loan funds and determined they were appropriately expended and managed. As of December 2016, the unexpended balance of \$14,305,073 was managed and secured by HCRMA in accordance with applicable agreements. Costs incurred as of December 2016, totalling \$5,817,915 were adequately supported, allowable, and received required approvals.

Appendix

Hidalgo County Regional Mobility Authority Organization and Operations	
Geographic Area	Hidalgo County
Staffing	8 employees
Accounting Services Provider	In-house part-time CFO to oversee the financials; contract with the City of Pharr for the preparation of the financials and bookkeeping.
General Engineering Consultants (GECs) on Contract	Dannenbaum Engineering Corporation
Toll Roads	US 281/Military Highway Border Safety Inspection Facility Connector is currently under construction. In planning: 365 Tollway; International Bridge Trade Corridor; State Highway 68; US 83 Relief Route; Hidalgo County Loop Segment A and Segment C.
Legal Services Provider	Bracewell LLP; Escobedo & Cardenas, LLP; Law Office of Richard Cantu, P.C.
Funding provided by TXDOT	\$127 million Financial Assistance Agreement (grant) for 365 Tollway \$42.21 million State Infrastructure Bank loan for 365 Tollway; 30 year payoff \$17.67 million Advanced Funding Agreement (grant) for US 281 (Military Highway) Connector
Plans for Self-Sufficiency	Per HCRMA management, HCRMA is generating sufficient revenue from Vehicle Registration Fees for General Administration and to service local debt incurred by the HCRMA. HCRMA anticipates appreciable revenue beginning in 2031 from the 365 Tollway Project, allowing for self-sufficiency.