



**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**

Transportation Trust Fund Authority

July 1, 2009 to June 30, 2011

**Stephen M. Eells
State Auditor**

LEGISLATIVE SERVICES COMMISSION

SENATE

CHRISTOPHER J. CONNORS
NIA H. GILL
ROBERT M. GORDON
THOMAS H. KEAN, JR.
JOSEPH M. KYRILLOS, JR.
JOSEPH PENNACCHIO
STEPHEN M. SWEENEY
LORETTA WEINBERG

GENERAL ASSEMBLY

JOHN F. AMODEO
JON M. BRAMNICK
ANTHONY M. BUCCO
JOHN J. BURZICHELLI
THOMAS P. GIBLIN
LOUIS D. GREENWALD
ALISON LITTELL MCHOSE
SHEILA Y. OLIVER



New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR
125 SOUTH WARREN STREET
PO BOX 067
TRENTON NJ 08625-0067

ALBERT PORRONI
Executive Director
(609) 847-3901

OFFICE OF THE STATE AUDITOR
(609) 847-3470
FAX (609) 633-0834

STEPHEN M. EELLS
State Auditor

THOMAS R. MESEROLL
Assistant State Auditor

JOHN J. TERMYNA
Assistant State Auditor

The Honorable Chris Christie
Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Transportation Trust Fund Authority for the period of July 1, 2009 to June 30, 2011. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in black ink, reading "Stephen M. Eells".

Stephen M. Eells
State Auditor
October 4, 2012

Table of Contents

Scope.....	1
Objectives	1
Methodology	1
Conclusions.....	2
Findings and Recommendations	
Financial Note Presentation	3
Supplementary Data.....	4
Bonds Issued and Status of Bonds	5
Investment Status	5
Projects Financed by Proceeds.....	5
Future Bond Issues.....	5
Schedule I – Schedule of Bonds Issued and Status of Bonds	6
Schedule II – Schedule of Debt Service Payments on Bonds.....	7
Schedule III – Summary of Encumbered and Uncommitted Balances.....	8
Auditee Response.....	9

Scope

We have completed an audit of expenditures made by the Department of Transportation for the period July 1, 2009 to June 30, 2011 for transportation projects funded from the New Jersey Transportation Trust Fund Authority (TTFA). Our scope did not include the project expenditures for New Jersey Transit Corporation since this entity and its financial activities are audited by an independent certified public accounting firm.

Total expenditures of the projects during the audit period were \$1.7 billion. The primary responsibility of the TTFA is to provide the payment for and financing of all, or a portion of, the costs incurred by the Department of Transportation for the planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation system. These activities are accounted for in the Special Transportation Fund.

In addition, we are to report on the status of the bonds including the investment status of all unexpended bond proceeds and a description of any anticipated bond issues. Accordingly, we have included this supplementary data in our report.

Objectives

The objectives of our audit were to determine the extent to which funds are expended for costs directly related to the projects, including the costs for salaries and other administrative expenses. In addition, the statutes require that we report on the status of bonds, to identify projects financed from the proceeds of the bonds, the investment status of unexpended bond proceeds, and to provide a description of any anticipated bond issues. This audit was conducted pursuant to the State Auditor's responsibilities as set forth in N.J.S.A. 27:1B-21.1e and N.J.S.A. 27:1B-21.1f.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, the administrative code, circular letters promulgated by the Office of Management and Budget, and policies of the department. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of financial transactions. We also read the budget messages, reviewed financial trends, and interviewed department personnel to obtain an understanding of the programs and the internal controls, status of bonds, projects financed by the bond proceeds, and the investment status of bond proceeds.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected for testing.

Conclusions

We found that the financial transactions included in our testing related to the TTFA projects. In making this determination, we noted significant misstatements in the bond payable note meriting management's attention.

Information on the status of the bonds, investment of the unexpended bond proceeds, projects financed from bond proceeds and the anticipated bond issues is included as supplementary data in this report. The Department of Transportation's schedules have been corrected to reflect the proper debt service information.

Financial Note Presentation

The Department of Transportation should ensure the accuracy of the bonds payable note.

Department of Transportation management is responsible for the preparation of the financial statements and accompanying notes for the Transportation Trust Fund Authority (TTFA). An external auditor is engaged to perform an annual financial statement audit. An integral part of the financial statements are the accompanying notes that provide additional information which are essential in obtaining a full understanding of the data. The Department of the Treasury, Office of Public Finance oversees the issuance of bonded debt and has responsibility for the timely and accurate tracking and reporting of all State of New Jersey debt issued. The Office of Public Finance information is used in the State's Comprehensive Annual Financial Report (CAFR). The Office of the State Auditor performs an annual audit of the CAFR and has found the information to be accurate.

The TTFA financial statements and accompanying notes should report the same debt service information at maturity as reported by the Office of Public Finance. The note entitled "Transportation System Bonds Payable" accompanying the financial statements provides principal, interest and total bonds payable at maturity to present total debt service on all outstanding bonds. Staff at the Department of Transportation prepared an independent summation on the bonds payable and have made errors for fiscal years 2010 and 2011. For fiscal year 2010, the Transportation Systems Bonds Payable note overstated interest payable by \$1.9 billion and for fiscal year 2011 this note understated interest payable by \$76 million. These misstatements have a significant impact on the presentation of future obligations of the TTFA which are relied upon to develop future financing plans for the Department of Transportation. The external auditor's testing and review process did not identify the misstatements in the notes to the financial statements in their reports issued October 29, 2010 and October 27, 2011 for fiscal years 2010 and 2011, respectively.

Recommendation

We recommend the Department of Transportation compare and reconcile the bond payable note and schedule accompanying the TTFA financial statements to the debt service information reported by the Department of the Treasury, Office of Public Finance to ensure proper reporting.

»»<<»

SUPPLEMENTARY DATA

Bonds Issued and Status of Bonds

On January 15, 1985 the Transportation Trust Fund Authority (TTFA) issued bonds for the purpose of financing the cost of planning, acquisition, engineering, construction, reconstruction, repair and rehabilitation of the state's transportation system. The 1985 Series A bond was the initial series of bonds issued by the TTFA under the bond resolution. The TTFA has issued bonds totaling \$32,077,561,077 as of June 30, 2011. Total debt service at June 30, 2011 was \$25,272,151,323. See Schedule I for the status of bonds issued as of June 30, 2011. This schedule has been adjusted to the debt service information reported by the Department of the Treasury, Office of Public Finance.

Investment Status

Investments and cash and cash equivalents consist of State of New Jersey Cash Management Fund deposits and short term investments acquired under forward delivery agreements (GARVEE and Capital Appreciation). The fair market value of investments and cash and cash equivalents at June 30, 2011 were \$42,728 and \$244,873,605, respectively.

Projects Financed by Proceeds

The projects financed by the proceeds of each bond issue are indeterminable. The bond proceeds are commingled with other revenue sources including motor fuel taxes, commercial vehicle fees and taxes, and toll road authority contributions. A schedule of encumbered and uncommitted balances by budget fiscal year is provided on Schedule III.

Future Bond Issues

One new bond totaling \$1.3 billion was issued in fiscal year 2012. Approximately \$986 million in additional bonds are expected to be sold during fiscal year 2013.

TRANSPORTATION TRUST FUND AUTHORITY

SCHEDULE I
TRANSPORTATION TRUST FUND AUTHORITY
SCHEDULE OF BONDS ISSUED AND STATUS OF BONDS
AS OF JUNE 30, 2011

Bond Series	Amount Issued	Outstanding		
		Principal Balance	Interest	Total Debt Service*
1985 Series A	\$61,270,000	\$0	\$0	\$0
1986 Series A	200,000,000	0	0	0
1988 Series A	125,000,000	0	0	0
1992 Series A	275,000,000	0	0	0
1993 Series A	500,000,000	0	0	0
1993 Series B	61,470,000	0	0	0
1994 Series A	400,000,000	0	0	0
1995 Series A	804,475,000	0	0	0
1995 Series B	788,225,000	33,310,000	2,331,700	35,641,700
1996 Series A	334,065,000	0	0	0
1996 Series B	714,340,000	0	0	0
1997 Series A	703,940,000	0	0	0
1998 Series A	700,000,000	0	0	0
1999 Series A	450,000,000	194,800,000	68,136,994	262,936,994
2000 Series A	450,000,000	0	0	0
2001 Series A	325,000,000	1,570,000	145,750	1,715,750
2001 Series B	690,000,000	0	0	0
2001 Series C	1,191,450,000	439,210,000	73,150,650	512,360,650
2003 Series A	331,100,000	298,555,000	66,117,800	364,672,800
2003 Series B	345,000,000	345,000,000	121,007,563	466,007,563
2003 Series C	924,810,000	15,710,000	9,282,294	24,992,294
2004 Series A	471,655,000	107,495,000	80,582,513	188,077,513
2004 Series B	849,800,000	716,630,000	129,346,838	845,976,838
2005 Series A	566,785,000	301,510,000	35,551,425	337,061,425
2005 Series B	1,213,140,000	1,178,025,000	518,181,694	1,696,206,694
2005 Series C	524,750,000	48,480,000	22,906,800	71,386,800
2005 Series D	953,020,000	462,655,000	191,038,975	653,693,975
2006 Series A	1,580,540,000	1,576,785,000	902,868,797	2,479,653,797
2006 Series B	109,375,000	0	0	0
2006 Series C	1,115,496,792	1,115,496,792	0	1,115,496,792
2006 Series C Accretion	2,593,088,208	2,593,088,208	0	2,593,088,208
2006 Series A Garvee	131,555,000	85,985,000	18,034,000	104,019,000
2007 Series A	1,171,055,000	871,175,000	874,718,313	1,745,893,313
2008 Series A	2,295,700,000	1,000,779,638	938,013,716	1,938,793,354
2008 Series A Accretion	1,172,955,362	1,172,955,362	0	1,172,955,362
2009 Series A	869,075,000	142,730,925	0	142,730,925
2009 Series A Accretion	726,344,076	726,344,076	0	726,344,076
2009 Series B	273,500,000	273,500,000	535,889,063	809,389,063
2009 Series C	150,000,000	150,000,000	1,704,731	151,704,731
2009 Series D	147,500,000	147,500,000	1,657,978	149,157,978
2010 Series A	1,273,180,000	359,253,361	0	359,253,361
2010 Series A Accretion	913,926,639	913,926,639	0	913,926,639
2010 Series B	500,000,000	500,000,000	967,747,500	1,467,747,500
2010 Series C	1,000,000,000	1,000,000,000	912,381,868	1,912,381,868
2010 Series D	485,875,000	485,875,000	284,357,888	770,232,888
2010 Series E	14,100,000	14,100,000	3,299,400	17,399,400
2011 Series A	600,000,000	600,000,000	641,252,076	1,241,252,076
	32,077,561,077	17,872,445,001	7,399,706,322	25,272,151,323
Less: Unamortized Interest on Capital Appreciation Bonds		(4,991,166,014)		(4,991,166,014)
	\$32,077,561,077	\$12,881,278,987	\$7,399,706,322	\$20,280,985,309

*Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$59 million to \$94.4 million through fiscal year 2019.

TRANSPORTATION TRUST FUND AUTHORITY

SCHEDULE II
TRANSPORTATION TRUST FUND AUTHORITY
SCHEDULE OF DEBT SERVICE PAYMENTS ON BONDS
AS OF JUNE 30, 2011

Fiscal Year Ending June 30,	Principal	Interest	Total Debt Service*
2012	\$310,110,000	\$559,438,575	\$869,548,575
2013	340,255,000	537,986,378	878,241,378
2014	360,275,000	518,748,865	879,023,865
2015	397,285,000	498,791,384	896,076,384
2016	418,115,000	477,853,830	895,968,830
2017	445,860,000	454,975,334	900,835,334
2018	464,860,000	433,542,828	898,402,828
2019	487,450,000	410,580,723	898,030,723
2020	570,730,000	386,256,763	956,986,763
2021	609,470,000	347,565,003	957,035,003
2022	642,890,000	314,130,275	957,020,275
2023	677,390,000	279,633,219	957,023,219
2024	712,940,000	244,043,084	956,983,084
2025	716,255,000	213,493,684	929,748,684
2026	733,015,000	192,402,958	925,417,958
2027	744,345,000	177,148,486	921,493,486
2028	758,645,000	161,425,289	920,070,289
2029	773,785,000	145,041,628	918,826,628
2030	575,065,000	134,336,695	709,401,695
2031	582,720,000	129,438,913	712,158,913
2032	590,730,000	124,337,723	715,067,723
2033	579,520,000	116,394,931	695,914,931
2034	616,130,000	104,849,031	720,979,031
2035	629,125,000	91,849,975	720,974,975
2036	671,245,000	81,238,350	752,483,350
2037	646,800,000	73,423,856	720,223,856
2038	632,340,000	66,045,688	698,385,688
2039	698,355,000	59,730,319	758,085,319
2040	790,790,000	46,431,113	837,221,113
2041	695,950,000	18,571,425	714,521,425
Total Minimum Payments	\$17,872,445,001	\$7,399,706,322	\$25,272,151,323
Less: Unamortized Interest on Capital Appreciation Bonds	(4,991,166,014)		4,991,166,014)
	\$12,881,278,987	\$7,399,706,322	\$20,280,985,309

* Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$59 million to \$94.4 million through fiscal year 2019.

TRANSPORTATION TRUST FUND AUTHORITY

SCHEDULE III
DEPARTMENT OF TRANSPORTATION
TRANSPORTATION TRUST FUND AUTHORITY
SUMMARY OF ENCUMBERED AND UNCOMMITTED BALANCES
AS OF JUNE 30, 2011

<u>Budget Fiscal Year</u>	<u>Pre-Encumbered</u>	<u>Encumbered</u>	<u>Uncommitted</u>
1993	\$44,931	\$928,391	\$514,060
1994	3,313,836	3,659,214	2,571,508
1995	968,995	2,372,692	625,080
1996	455,933	1,431,817	274,704
1997	226,443	1,944,576	1,767,969
1998	446,688	3,827,759	763,538
1999	3,484,152	3,718,760	1,397,515
2000	6,740,317	4,337,594	1,963,012
2001	3,066,971	6,335,928	2,598,670
2002	841,443	6,780,025	4,358,984
2003	1,607,857	8,751,921	3,888,260
2004	2,509,677	12,627,610	3,899,071
2005	3,235,703	17,725,136	3,351,368
2006	25,718,359	15,244,871	5,030,533
2007	20,323,568	44,351,365	6,389,569
2008	21,913,663	84,250,226	17,600,468
2009	28,079,915	112,980,730	17,532,575
2010	42,390,920	334,642,813	40,459,240
2011	75,804,486	447,333,377	157,360,088
Total	\$241,173,860	\$1,113,244,805	\$272,346,211

Pre-Encumbered Represents a requisition which earmarks or sets aside funds for future purposes.

Encumbered Represents legally obligated funds reserved for future payment usually supported by issuance of a purchase order or execution of a contract.

Uncommitted Represents appropriation balance after charging all disbursements, encumbrances, and pre-encumbrances.



State of New Jersey

DEPARTMENT OF TRANSPORTATION

P.O. BOX 600

TRENTON, NJ 08625-0600

CHRIS CHRISTIE
Governor

JAMES S. SIMPSON
Commissioner

KIM GUADAGNO
Lt. Governor

September 27, 2012

Stephen M. Eells, State Auditor
Office of the State Auditor
PO Box 67
Trenton, NJ 08625-0067

Subject: New Jersey Department of Transportation (NJDOT)
Transportation Trust Fund Authority Appropriations –
OLS Audit (July 1, 2009 to June 30, 2011)
Auditee Response to Audit Recommendations

Dear Mr. Eells:

Staff in NJDOT's Office of the Chief Financial Officer, who provide staff support to the NJ Transportation Trust Fund Authority (TTFA), have reviewed the findings and recommendations in the Office of the State Auditor's report on the TTFA's expenditures for the period July 1, 2009 to June 30, 2011. The amounts presented in the basic financial statements were correct. The following response relates to concerns expressed over the presentation of the accompanying footnotes.

Specifically, while the underlying schedule correctly identified and accumulated the impact of interest accretion payments by year in a separate worksheet, the lead summary schedule supporting the amounts disclosed in Note D did not subtract these amounts, as it appeared the lead schedule was not updated properly to link to the calculation worksheet.

PAGE 2

The effect of this calculation error did not impact either the principal payment obligations as disclosed in Note D nor did it impact the amounts recorded and reported for transportation system bonds payable on the Statement of Net Assets and Governmental Funds Balance Sheet as of June 30, 2010 or debt service expenditures on the Statement of Activities and Governmental Funds Revenues, Expenditures, and Changes in Fund Balance for the fiscal year ending June 30, 2010.

We concur with the audit recommendation that the bonds payable information be fully reconciled between the TTFA's financial statement and information provided by the Department of Treasury's Office of Public Finance. NJDOT has addressed this issue with our contracted independent auditor who has advised that they will be implementing some additional testing and review controls for the fiscal year 2012 audit. Separately, NJDOT staff will implement changes to reduce the manual transcription of this information, and thus reduce the chance of reporting errors in the future.

Sincerely,

A handwritten signature in cursive script, reading "Gary J. Brune".

Gary J. Brune
Chief Financial Officer

GJB:pmd

C: Joseph W. Mrozek, Deputy Commissioner
Johanna Barba Jones, Esq.
Alemnesh Tessema