



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

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**Transportation Trust Fund Authority  
Appropriations**

July 1, 2006 to June 30, 2008

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# New Jersey State Legislature

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Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is a revised report on the audit of the Transportation Trust Fund Authority Appropriations for the period of July 1, 2006 to June 30, 2008. Additional correspondence was received from the Department of Transportation clarifying their initial response and is included as part of the reissued report. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells  
Assistant State Auditor  
December 30, 2009

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## Transportation Trust Fund Authority Appropriations

### *Scope*

We have completed an audit of expenditures made by the Department of Transportation for the period July 1, 2006 to June 30, 2008 for transportation projects funded from revenues of 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 two-year audit period were \$1.5 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 objective of our audit was 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, administrative code, circular letters promulgated by the Department of the Treasury, 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 message, 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. Sample populations were sorted and transactions were judgmentally selected for testing.

*Conclusions*

We found that the financial transactions included in our testing were related to the Transportation Trust Fund Authority projects. In making this determination, we noted an issue 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.

### Prompt Payment Interest

**P**rompt payment interest expense has increased significantly.

N.J.S.A. 2A:30A-2, effective September 1, 2006, requires prompt payment interest to be paid on invoice documents not processed and paid within 30 days of receipt. On average, during fiscal year 2008 transportation invoices were processed 50 days after receipt. In fiscal year 2008 the prompt payment interest total was \$232,610, an increase of 55 percent over fiscal year 2007. The department has lost several key employees over the last two years and due to the state's hiring, promotional, and overtime freeze the department has not been able to avoid the expense. The department was recently granted authorization to hire four employees. The new hires will be placed in the payments section of the department. Management expects that this will help to alleviate the prompt payment interest expense.

#### **Recommendation**

We recommend management continue to actively monitor the prompt payment interest expense and take corrective action, in the event the new hires do not significantly reduce this expense.

**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 \$21,655,405,000 as of June 30, 2008. Total outstanding debt service at June 30, 2008 was \$16,004,873,714. See Schedule I for the status of bonds issued as of June 30, 2008. See Schedule II for future debt service payments, by year, on these bonds.

### **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, Grant Anticipation Revenue Vehicle (GARVEE) and Capital Appreciation Bonds (CABS). The fair market value of investments and cash and cash equivalents at June 30, 2008 was \$88,805 and \$293,822,773, respectfully.

### **Projects Financed by Proceeds**

The projects financed by the proceeds of each bond issue, excluding GARVEE, 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 encumbrances and uncommitted balances by budget fiscal year is provided on Schedule III.

**Future Bond Issues**

Three new bonds totaling \$1.5 billion were sold during fiscal year 2009. Approximately \$1.2 billion in additional bonds are expected to be sold during fiscal year 2010.

SCHEDULE I

TRANSPORTATION TRUST FUND AUTHORITY  
SCHEDULE OF BONDS ISSUED AND STATUS OF BONDS  
AS OF JUNE 30, 2008

Bond Series	Amount Issued	Outstanding		
		Principal	Interest	Total Debt Service *
1985 Series A	\$61,270,000	\$0	\$0	\$0
1986 Series A	200,000,000	-	-	-
1988 Series A	125,000,000	-	-	-
1992 Series A	275,000,000	-	-	-
1993 Series A	500,000,000	-	-	-
1993 Series B	61,470,000	-	-	-
1994 Series A	400,000,000	-	-	-
1995 Series A	804,475,000	-	-	-
1995 Series B	788,225,000	93,960,000	19,244,500	113,204,500
1996 Series A	334,065,000	-	-	-
1996 Series B	714,340,000	-	-	-
1997 Series A	703,940,000	-	-	-
1998 Series A	700,000,000	102,830,000	48,638,025	151,468,025
1999 Series A	450,000,000	249,195,000	109,594,025	358,789,025
2000 Series A	450,000,000	-	-	-
2001 Series A	325,000,000	1,570,000	404,800	1,974,800
2001 Series B	690,000,000	-	-	-
2001 Series C	1,191,450,000	882,090,000	183,304,571	1,065,394,571
2003 Series A	331,100,000	312,155,000	116,284,875	428,439,875
2003 Series B	345,000,000	345,000,000	143,712,961	488,712,961
2003 Series C	924,810,000	15,710,000	11,505,838	27,215,838
2004 Series A	471,655,000	107,495,000	99,125,400	206,620,400
2004 Series B	849,800,000	800,065,000	250,166,006	1,050,231,006
2005 Series A	566,785,000	445,920,000	93,121,613	539,041,613
2005 Series B	1,213,140,000	1,186,440,000	709,051,590	1,895,491,590
2005 Series C	524,750,000	48,480,000	30,542,400	79,022,400
2005 Series D	953,020,000	465,910,000	261,337,139	727,247,139
2006 Series A	1,580,540,000	1,580,540,000	1,157,064,566	2,737,604,566
2006 Series B	109,375,000	-	-	-
2006 Series C	1,115,496,792	1,115,496,792	-	1,115,496,792
2006 Series C Accretion	2,593,088,208	2,593,088,208	-	2,593,088,208
2006 Series A Garvee	131,555,000	114,745,000	33,854,250	148,599,250
2007 Series A	1,171,055,000	1,171,055,000	1,106,176,155	2,277,231,155
	<u>\$21,655,405,000</u>	<u>\$11,631,745,000</u>	<u>\$4,373,128,714</u>	<u>\$16,004,873,714</u>
Less: Unamortized				
Interest on Capital				
Appreciation Bonds		(2,472,168,595)		(2,472,168,595)
		<u>\$9,159,576,405</u>	<u>\$4,373,128,714</u>	<u>\$13,532,705,119</u>

\* Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$68.7 million to \$111.5 million through fiscal year 2019

SCHEDULE II

TRANSPORTATION TRUST FUND AUTHORITY  
 SCHEDULE OF DEBT SERVICE PAYMENTS ON BONDS  
 AS OF JUNE 30, 2008

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service *</u>
2009	\$266,705,000	\$405,105,441	\$671,810,441
2010	281,170,000	391,081,407	672,251,407
2011	315,215,000	376,017,105	691,232,105
2012	332,855,000	359,234,442	692,089,442
2013	352,930,000	339,344,387	692,274,387
2014	373,190,000	319,992,526	693,182,526
2015	409,110,000	298,961,787	708,071,787
2016	430,835,000	278,048,207	708,883,207
2017	452,815,000	254,083,886	706,898,886
2018	471,295,000	233,935,087	705,230,087
2019	485,950,000	211,756,902	697,706,902
2020	580,035,000	187,621,039	767,656,039
2021	620,500,000	149,315,241	769,815,241
2022	654,370,000	115,444,338	769,814,338
2023	689,285,000	80,528,688	769,813,688
2024	338,015,000	53,539,569	391,554,569
2025	328,250,000	42,103,100	370,353,100
2026	332,585,000	37,769,225	370,354,225
2027	334,855,000	35,500,975	370,355,975
2028	337,235,000	33,116,475	370,351,475
2029	339,740,000	30,609,725	370,349,725
2030	342,380,000	27,974,350	370,354,350
2031	345,150,000	25,203,850	370,353,850
2032	348,060,000	22,291,350	370,351,350
2033	351,125,000	19,229,475	370,354,475
2034	354,345,000	16,010,475	370,355,475
2035	357,725,000	12,626,475	370,351,475
2036	361,190,000	9,162,394	370,352,394
2037	364,735,000	5,618,537	370,353,537
2038	80,095,000	1,902,256	81,997,256
Total Minimum Payments	\$11,631,745,000	\$4,373,128,714	\$16,004,873,714
Less: Unamortized Interest on Capital Appreciation Bonds	<u>(2,472,168,595)</u>		<u>(2,472,168,595)</u>
	<u>\$9,159,576,405</u>	<u>\$4,373,128,714</u>	<u>\$13,532,705,117</u>

\* Total debt service does not include New Jersey Transit Corporation certificates of participation which range from \$68.7 million to \$111.5 million through fiscal year 2019

SCHEDULE III

DEPARTMENT OF TRANSPORTATION  
 TRANSPORTATION TRUST FUND AUTHORITY APPROPRIATIONS  
 SUMMARY OF ENCUMBERED AND UNCOMMITTED BALANCES  
 AS OF JUNE 30, 2008

<u>Budget Fiscal Year</u>	<u>Pre-Encumbered</u>	<u>Encumbered</u>	<u>Uncommitted</u>
1993	\$46,190	\$1,524,182	\$277,179
1994	3,988,246	9,719,824	2,252,633
1995	1,268,772	3,361,089	509,112
1996	514,839	2,760,135	334,765
1997	1,553,317	4,111,655	3,287,887
1998	478,294	4,809,019	1,365,344
1999	3,683,554	7,651,598	1,042,726
2000	10,140,323	7,987,853	1,207,899
2001	4,090,640	9,769,822	5,496,035
2002	1,642,595	19,086,917	3,318,783
2003	3,623,973	18,768,476	4,766,826
2004	4,774,862	28,379,567	6,088,676
2005	5,959,459	36,907,384	11,682,530
2006	28,516,930	71,120,118	20,490,963
2007	32,128,977	208,788,402	35,077,470
2008	186,120,881	428,418,227	118,898,805
<b>Total</b>	<u>\$288,531,852</u>	<u>\$863,164,268</u>	<u>\$216,097,633</u>

- 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, New Jersey 08625-0600

JON S. CORZINE  
*Governor*

STEPHEN DILTS  
*Commissioner*

December 29, 2009

Stephen M. Eells  
Assistant State Auditor  
Office of the State Auditor  
125 South Warren Street  
PO Box 067  
Trenton, NJ 08625-0067

Dear Mr. Eells:

The Department recently provided you with a comment relative to the draft audit report "Transportation Trust Fund Authority Appropriations for July 1, 2006 - June 30, 2008" (See response from Commissioner Stephen Dilts dated 12-23-2009). I would like to make a technical correction to that comment as it relates to the total number and value of FY 2008 capital invoice payments processed by NJDOT. In consultation with your staff we have determined that payments made directly by NJ Transit were inadvertently included in our database report and subsequently overstated the volume and dollar value of payments made by NJDOT. Accordingly, we request that the narrative in our comment related to invoices processed be corrected to read as follows:

"NJDOT paid 14,449 capital invoices in FY 2008 totaling \$1.55 billion. Accordingly, the entire \$232,610 in prompt payment interest incurred during FY 2008 represents just 0.015% of our total capital payment stream."

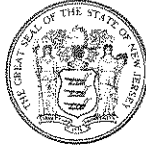
We would like to thank your staff for inquiring about this calculation and allowing us to make the necessary correction. If you have any questions, please let me know.

Sincerely yours,

A handwritten signature in cursive script that reads "Steve Hanson".

Steve Hanson  
Chief Financial Officer

Mr. Stephen Dilts, Commissioner  
Ms. Judith Sigle, Director of Accounting and Auditing



## State of New Jersey

DEPARTMENT OF TRANSPORTATION  
P.O. Box 600  
Trenton, New Jersey 08625-0600

JON S. CORZINE  
*Governor*

STEPHEN DILTS  
*Commissioner*

December 23, 2009

Stephen M. Eells  
Assistant State Auditor  
Office of the State Auditor  
125 South Warren Street  
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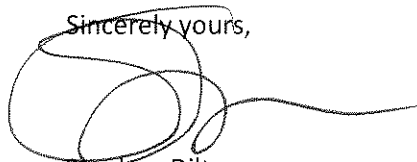
Dear Mr. Eells:

Thank you for providing me with a confidential draft copy of your pending audit report entitled "Transportation Trust Fund Authority Appropriations for July 1, 2006 - June 30, 2008". I would like to compliment the work of your staff in preparing this report. The audit was conducted in a highly professional manner and we concur that the information presented in this report is accurate. We do wish to make one comment regarding the Prompt Payment Interest finding noted on page 3 of the report.

The Department acknowledges that prompt payment interest did in fact increase by \$82,352 or 55% between FY 2007 and FY 2008. However, let me take a moment to discuss this cost increase within the context of our overall capital program. NJDOT paid 16,000 capital invoices in 2008 totaling \$2.31 billion. Accordingly, the entire \$232,610 in prompt payment interest incurred during FY 2008 represents just one tenth of one percent (.010%) of our total capital payment stream. We would also like you to note that almost all of our capital payments are subject to P.L. 2006, c.96 which requires payments on design and construction contracts to be made within 30 days before prompt payment interest accrues. This law contrasts with the 60 day time period defined under P.L. 1987, c.184 which governs most state agency payments. Nevertheless, NJDOT has been able to sustain this very low rate of prompt payment interest within the 30 day clock by streamlining its payment processes. We have implemented a variety of improvements to our payment processes including the batching of invoices where permitted, standardizing forms and procedures for consultant service invoices, providing face to face training for both vendors and DOT contract managers, and implementing daily work in progress monitoring that reallocates staff as necessary to address payments exposed to prompt payment penalties.

Again, I would like thank you for the efforts of your staff and this opportunity to comment on your draft report. I request that our one comment on the prompt payment finding be included in your final published report as was suggested in your letter. If you have any questions, please let me know.

Sincerely yours,

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal tail extending to the right.

Stephen Dilts  
Commissioner

SD:mes

Mr. Steven B. Hanson, Chief Financial Officer

Ms. Judith Sigle, Director of Accounting and Auditing

Mr. Robert R. Salman, Inspector General, NJDOT