

IBTTA's Summit on All-Electronic Tolling, Managed Lanes & Interoperability
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Toll Transactional & Financial Accountability

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Toll Transactional & Financial Accountability

- Progression of Tolling from prepaid and/or cash collections to All-Electronic Toll Collection has significant operational and **accounting** impacts.
 - Complex Transactional Processing – Pay-by-Mail transactions have a long transaction lifecycle, as compared to toll booth or prepaid account toll transactions, introducing significant complexity and risk.
 - Change in Basis of Accounting – Move from cash basis (Cigar Box Accounting) to the modified accrual or full accrual basis of accounting.
- Complexities of All-Electronic Toll Collection increase demands for transactional and financial accountability to avoid losses of revenue and to maintain credibility with toll customers and stakeholders. Toll organizations should give significant consideration and attention to:
 - Systems Support of Business Needs – “Traditional” toll systems have not kept pace and do not support operational and accounting requirements.
 - Financial and Transactional Reporting – Lack of adequate system reporting will leave you blind as to your true financial position and limit reconciliation capabilities.
 - Financial and Transactional Reconciliations – Lack of robust reconciliations will lead to lost revenue and financial reporting errors which may negatively impact organizational credibility.

Complex Transactional Processing

- The lifecycle of a toll transaction in an All-Electronic Toll Collection environment is much more complex than the days of toll booths and pre-paid accounts. Below examples assume \$4 Toll and \$44 Notice of Civil Penalty. (**Green** represents increase to ledger balance / **Red** represents decrease to ledger balance).
 - Toll Booth Transaction:
 1. Single Transaction = \$4 Cash / \$4 Revenue
 - Prepaid Transponder Transaction:
 1. Customer Payment to Customer Deposit Account = \$4 Cash / \$4 Liability
 2. Toll Transaction =
 - a) \$4 Liability / \$4 Cash (Customer Deposit Account)
 - b) \$4 Cash / \$4 Revenue (Toll Facility Account)
 - Toll Bill Transaction (customer makes timely payment):
 - Toll Transaction = \$4 Receivable / \$4 Revenue
 - Customer Payment = \$4 Cash / \$4 Receivable

Complex Transactional Processing (continued)

- Toll Bill Transaction (customer does not make timely payment):
 1. Toll Transaction & Toll Bill Issued = \$4 Receivable / \$4 Revenue
 2. 2nd Toll Bill Issued w/Rebilling Fee = \$5 RBF Receivable / \$5 Revenue
 - Total.....= \$9 Receivable / \$9 Revenue
- Toll Bill Not Paid After 80 Days:
 3. Reverse Toll Bill = \$4 Revenue / \$4 Receivable
 4. Notice of Civil Penalty Issued = \$44 NOCP Receivable / \$44 Liability
 5. NOCP Adjudicated & Upheld = \$44 Liability / \$44 Revenue
 6. Customer Pays:
 - a) Rebilling Fee = \$5 Cash / \$5 Rebilling Fee Receivable
 - b) NOCP = \$44 Cash / \$44 NOCP Receivable
- Other considerations must also be included when dealing with receivables such as the allowance for doubtful accounts, write-offs, cost allocation of RBF Revenue, and limiting revenue recognition to amounts collectible within 12 months.

Change in Basis of Accounting

- Traditional Tolling (Toll Booths & Prepaid Accounts) supported cash basis accounting. Movement to use of Toll Bills requires a change to full accrual or modified accrual basis of accounting.
- Washington State law requires state government accounting processes/systems to conform to Generally Accepted Accounting Principles (GAAP).
- WSDOT toll facilities are accounted for in dedicated Special Revenue Funds. In accordance with GAAP, these funds recognize revenue using the modified accrual basis of accounting.
 - Under accrual accounting, revenue is recognized when a claim to revenue has been established (e.g., revenue is recognized when it is earned such as the transfer/delivery of goods or services).
 - Modified accrual is different in that the *timing* of revenue-related inflows of financial resources is also considered. Under modified accrual accounting, revenue is recognized when it becomes both *measurable* **and** *available to finance expenditures of the period (maximum of 12 months)*.

Change in Basis of Accounting

- The Washington State toll program consists of two different categories of revenue under GAAP: exchange revenue and non-exchange revenue which are promulgated under Governmental Accounting Standards Board (GASB) Statements 33 and 34.
 - Exchange Revenues are characterized by a transfer of goods or services between parties that are of equal value. Under AETC, this concept still applies since those who use the toll facility do so being reasonably informed of the charge to use the facility. Exchange revenue is recognized when claim is established and the amounts are measurable and available.
 - Non-Exchange Revenues are characterized by a transfer of goods or services between parties that are not equal between parties. These include taxes levied, penalties and fines. Notice of Civil Penalty (NOCP) revenue resulting from toll violations is non-exchange revenue in the Washington State toll program. Non-exchange revenue is recognized when a legally enforceable claim has been made, as determined at the point of adjudication or when the account holder is non-responsive and the account ages beyond the established policy date.



Systems Support of Business Needs

- “Traditional” toll systems have not kept pace and do not support operational and accounting requirements in an AETC environment
 - Fail to support self- balancing accounts with double entry debit/credit subsidiary accounting.
 - Fail to support real-time accounting.
 - Fail to support transactional and financial accountability.
- Organizations responsible for operation and management of AET toll facilities should require and demand systems of the vendor community that meet your needs.
- WSDOT is *getting close to completion* of implementing a system that meets these needs.

Financial and Transactional Reporting

- With the greater complexity of AETC, comes greater complexity in financial reporting and data requirements.
 - Lifecycle and stages of a toll transaction can be long and complex, which creates a more difficult reporting environment.
 - Fund accounting can result in greater complexity.
 - Data must be able to be “locked down” at some point to provide consistent and reliable information to stakeholders (e.g., fiscal month revenue vs. traffic).
 - Visibility to transactional status to ensure timely progression of transactions and posting of related accounting transactions as it progresses through the lifecycle.
 - “Standard” reporting which may have met needs in a non-AETC environment will not suffice to meet AETC transactional and financial accountability needs.
 - Detailed receivables reporting and aging schedules are required for management of accounts as well as to provide data necessary to support calculation of allowance for doubtful accounts and deferred revenue.

Financial and Transactional Reconciliations

- The lifecycle of a toll transaction in an All-Electronic Toll Collection environment is much more complex than the days of toll booths and pre-paid accounts. Use of robust of transactional and financial reconciliations is critical to your bottom line.
- WSDOT, in collaboration with our back office vendor, has developed a robust reconciliation methodology which will provide full accountability for toll transactions through the complete lifecycle of the transaction.
 - From lane, to each status change of the transaction, until final payment, dismissal, or write-off.
 - Appropriate debit/credit accounting when applicable for status changes.
- This robust activity identifies “stuck transactions” or other problems, which if not detected timely, presents major operational and accounting problems, loss of revenue, and audit risks.
- Some reconciliations (e.g., cash receipts/deposits) should be performed daily, while others performed weekly (e.g., lane transactional status) to be effective. WSDOT is currently backlogged more than 12 months, but is closing the gap and expects to be current very soon.



Mitigate Your Risk

- Avoid “Stuck” or “Lost” Toll Transactions –
 - Hundreds of thousands of transactions, worth millions of dollars can easily become “stuck” or “lost” within Back Office Toll Systems.
 - Delays to processing/posting of customer transactions creates backlogs which are difficult to catch up and cause customer frustration and negative media exposure.
- Ensure cash receipts and credit card transactions are applied to customer accounts / toll bills (ideally within 24 hours), to avoid erroneous escalation of toll bills / NOCPs.
- Complete timely reconciliations to avoid large surprises to your financial statements and demonstrate effective internal controls to auditors of financial statements as well as SSAE-16 audits of vendor systems.
- Support transactional and financial accountability to demonstrate financial integrity and credibility to customers, stakeholders, bondholders, and bond rating agencies.



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