



STATE OF ILLINOIS
**OFFICE OF THE
 AUDITOR GENERAL**

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

**Financial Audit and Compliance Examination
 For the Year Ended December 31, 2017**

Release Date: July 10, 2018

FINDINGS THIS AUDIT: 7	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	1	0	1	2016		17-5, 17-7	
Category 2:	1	5	6	2014		17-4	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2011		17-2, 17-3	
TOTAL	2	5	7				
FINDINGS LAST AUDIT: 8							

SYNOPSIS

- (17-2) The Tollway does not have adequate financial systems to prepare its annual financial statements resulting in significant manual effort to prepare the annual financial statements in accordance with generally accepted accounting principles (GAAP).
- (17-3) The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.
- (17-5) The Tollway did not comply with the electric vehicle charging station requirements of the Toll Highway Act.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).
Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.
Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on the reverse page.}

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended December 31, 2017

FINANCIAL OPERATIONS (GAAP Basis)	2017	2016
Operating Revenues		
Toll Revenue.....	\$ 1,309,189,509	\$ 1,216,298,044
Toll Evasion Recovery.....	65,639,705	64,490,869
Concessions.....	2,298,943	2,253,646
Miscellaneous.....	21,369,597	20,240,108
Total Operating Revenues.....	<u>1,398,497,754</u>	<u>1,303,282,667</u>
Operating Expenses		
Depreciation and Amortization.....	418,311,759	370,336,593
Services and Toll Collection.....	186,569,358	179,818,194
Engineering and Maintenance of Roadway and Structures....	109,202,332	106,920,897
Traffic Control, Safety Patrol, and Radio Communications...	57,721,525	58,315,004
Procurement, IT, Finance and Administration.....	49,197,494	48,533,427
Total Operating Expenses.....	<u>821,002,468</u>	<u>763,924,115</u>
Operating Income.....	577,495,286	539,358,552
Total Nonoperating (Expenses), net.....	<u>(221,468,734)</u>	<u>(220,120,918)</u>
Change in Net Position.....	356,026,552	319,237,634
Net Position, beginning of year.....	<u>2,512,160,131</u>	<u>2,192,922,497</u>
Net Position, end of year.....	<u>\$ 2,868,186,683</u>	<u>\$ 2,512,160,131</u>

SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)	2017	2016
Cash/Cash Equivalents/Investments (Unrestricted).....	\$ 1,240,974,055	\$ 1,030,866,417
Cash and Cash Equivalents Restricted for Debt Service.....	\$ 147,203,233	\$ 129,389,157
Cash and Cash Equivalents - I-PASS Accounts.....	\$ 180,421,616	\$ 177,917,639
Accounts Receivable - Current (net).....	\$ 20,802,601	\$ 17,574,197
Intergovernmental Receivable - Less Current Portion.....	\$ 208,684,544	\$ 217,997,002
Capital Assets.....	\$ 8,598,693,141	\$ 8,203,957,718
Deferred Outflows of Resources.....	\$ 433,201,371	\$ 503,057,417
Revenue Bonds Payable.....	\$ 6,587,034,955	\$ 6,353,678,438
Deferred Inflows of Resources.....	\$ 51,650,575	\$ 30,155,237
Total Net Position.....	\$ 2,868,186,683	\$ 2,512,160,131

EXECUTIVE DIRECTOR

During Audit Period: Gregory Bedalov (through 2/16/18), vacant (2/17/18 through 2/28/18)
Current: Elizabeth Gorman (effective 3/1/18)

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

INADEQUATE FINANCIAL REPORTING SYSTEMS

Financial systems need to be improved

The Tollway does not have adequate financial systems to prepare its annual financial statements, resulting in significant manual effort to prepare the annual financial statements in accordance with generally accepted accounting principles (GAAP).

During our audit, we noted the Tollway uses several stand-alone applications to track its financial transactions in accordance with provisions of the Tollway's trust indenture. The financial data from each financial application is summarized and manually entered into two applications which are used as a general ledger. Several manual reconciliation procedures are required to ensure the information in the general ledger applications agrees to the various supporting financial applications.

Financial statement preparation is extremely time consuming

Once this information has been reconciled, a data file is generated from the general ledger applications and is imported into another application which is used to create a trial balance. Since the information in the financial applications is recorded based upon the provisions of the Tollway's trust indenture, several top-side entries are required to convert the trial balance to GAAP basis financial statements. As a result, the preparation of the annual financial statements is overly time consuming and requires significant effort by management to ensure the statements are prepared in conformity with GAAP.

Additionally, we noted several of the applications used in the Tollway's financial reporting process, including one of the general ledger applications do not have mechanisms in place to: restrict access for posting transactions, track specific user activity, or provide evidence of supervisory reviews of transaction activity. Therefore, the Tollway's process for approving journal entries is also a manual process and overly time consuming.

The manual nature of the Tollway's financial reporting systems and related processes may result in financial reporting errors and untimely preparation of the annual financial statements. (Finding 2, pages 14-15) **This finding was first reported in 2011.**

We recommended the Tollway review the adequacy of its existing financial systems and consider automating its financial reporting process.

Tollway agrees with the auditors

Tollway management agreed with the recommendation and stated they are implementing an ERP system. *(For the previous Tollway response see Digest Footnote #1.)*

INADEQUATE YEAR END PAYABLES PROCESS

Need to improve controls over the reporting of accounts payable

The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.

During our audit we noted the Tollway's year end accounts payable procedures include reviewing cash disbursements made subsequent to year end through the end of February to determine which accounting period the related expense transactions pertained. Additionally, each Tollway department works with its vendors to obtain estimated or actual fiscal year end billings prior to the end of January.

The auditors reviewed 24 cash disbursements subsequent to year end (totaling \$136,801,386) and 120 cash disbursements during fiscal year 2017 (totaling \$153,824,384). During our review of these transactions, we noted the following were not recorded to the proper accounting period:

- One professional and artistic services expenditure (totaling \$300,000) that pertained to fiscal year 2017 was erroneously recorded as an expense in fiscal year 2018.
- Two highway construction and improvements expenditures (totaling \$1,633,753) that pertained to fiscal year 2016 were erroneously recorded as expenses in fiscal year 2017.
- One highway construction and improvements expenditure (totaling \$1,287,680) that pertained to fiscal years 2014, 2015 and 2016 was erroneously recorded as expenses in fiscal year 2017.
- Two auditing and management services expenditures (totaling \$212,496) that pertained to fiscal year 2016 were erroneously recorded as expenses in fiscal year 2017.
- One land and relocation expenditure (totaling \$542,060) that pertained to fiscal years 2014 and 2015 was erroneously recorded as an expense in fiscal year 2017.
- Three computer software expenditures (totaling \$1,118,781) that pertained to fiscal year 2018 were erroneously recorded as expenses in fiscal year 2017.

Expenses were not recorded in the proper fiscal year

Failure to accurately identify and record period end accounts payable transactions in the appropriate accounting period may result in the misstatement of the Tollway's financial

statements. (Finding 3, pages 16-17) **This finding was first reported in 2011.**

We recommended the Tollway continue to review its current processes to assess the completeness of its expense accruals at year end and consider changes necessary to ensure all period end accounts payable are accurately identified and recorded.

Tollway agrees with the auditors

Tollway management agreed with the recommendation. (*For the previous Tollway response see Digest Footnote #2.*)

FAILURE TO FULLY COMPLY WITH THE TOLL HIGHWAY ACT

The Tollway did not comply with the electric vehicle charging station requirements of the Toll Highway Act (Act).

3 of 6 oasis locations did not have the electric vehicle charging stations

The Tollway is required by the Toll Highway Act (605 ILCS 10/11(e)) to construct and maintain at least one electric vehicle charging station at each location in which the Tollway has contracted with third parties to provide auto and truck fueling stations, garages, stores, or restaurants, as required. During our testing we noted three of six Tollway oasis locations did not have electric vehicle charging stations as of December 31, 2017.

Failure to construct and maintain electric vehicle charging stations at locations required by the Act results in noncompliance with the Act. (Finding 5, page 20)

We recommended the Tollway fully comply with the requirements of the Act or seek legislative remedy.

Tollway agrees with the auditors

Tollway management agreed with the recommendation.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next financial audit and compliance examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Authority as of and for the year ended December 31, 2017, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended December 31, 2017, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by CliftonLarsonAllen LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 - INADEQUATE FINANCIAL REPORTING SYSTEMS

2016: The Tollway concurs with the auditors' recommendation and is pursuing an ERP system which will consolidate and integrate information across our agency and bring our financial systems up to date.

#2 - INADEQUATE YEAR END PAYABLES PROCESS

2016: The Tollway concurs with the auditors' recommendation. Almost 90% of these exceptions relate to utility relocation accruals, and the Tollway has already implemented enhanced procedures to properly record these accruals.