

REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

COMPLIANCE EXAMINATION

For the Year Ended:
December 31, 2005

Summary of Findings:

Total this audit	9
Total last audit	10
Repeated from last audit	3

Release Date:
November 16, 2006



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

To obtain a copy of the Report contact:
Office of the Auditor General
Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
(217) 782-6046 or TTY (888) 261-2887

This Report and Report Digest are also
available on the worldwide web at
<http://www.state.il.us/auditor>

SYNOPSIS

- ◆ The Toll Highway Authority is not completing timely reconciliations for some of their significant general ledger accounts.
- ◆ The Toll Highway Authority did not have the proper internal controls in place to classify all I-PASS transactions properly in some of the lanes.
- ◆ The Toll Highway Authority did not complete bank reconciliations in a timely manner and the cash balance was not reconciled with the State Comptroller's cash report for the months of January through November 2005. In addition, we could not determine the dates that the reconciliations were prepared or approved.
- ◆ The Toll Highway Authority's practices and procedures for recording and maintaining capital assets records need improvement.
- ◆ The Toll Highway Authority does not maintain a detailed record of the outstanding violation penalties receivable. In addition, the Tollway's service provider did not engage an independent auditor to review the control objectives and control activities in place at the outside service provider.
- ◆ The Toll Highway Authority failed to audit the required major systems of accounting and administrative controls as required by State law.

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
COMPLIANCE EXAMINATION
For The Years Ended December 31, 2005 and 2004

FINANCIAL OPERATIONS (GAAP BASIS)*	2005	2004
Operating Revenue		
Toll Revenue	\$580,441,697	\$391,586,232
Toll Evasion Recovery	26,737,437	21,034,678
Concessions	2,790,847	2,654,668
Miscellaneous	<u>2,266,957</u>	<u>3,445,212</u>
Total Operating Revenue	<u>\$612,236,938</u>	<u>\$418,720,790</u>
Operating Expenses		
Depreciation and Amortization	\$152,195,010	\$165,623,349
Services and Toll Collection	96,196,860	83,913,805
Insurance and Employee Benefits	44,659,657	47,756,919
Engineering and Maintenance of Roadway and Structures	34,886,799	32,579,707
Traffic Control, Safety Patrol, and Radio Communications	18,034,485	15,340,985
Procurement, IT, Finance and Administration	<u>22,018,346</u>	<u>20,933,265</u>
Total Operating Expenses	<u>\$367,991,157</u>	<u>\$366,148,030</u>
SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)	2005	2004
Cash and Cash Equivalents (Unrestricted)	\$425,153,914	\$366,674,672
Cash and Cash Equivalents Restricted For Debt Service ..	114,014,999	59,151,196
Cash and Cash Equivalents – I-PASS Accounts	96,320,201	71,110,876
Cash and Cash Equivalents – Construction	573,019,093	0
Accounts Receivable (net)	38,444,129	31,738,214
Investments Restricted For Debt Service	88,496,433	29,571,262
Capital Assets (net)	2,262,248,823	1,805,709,188
Revenue Bonds Payable	1,473,114,718	656,974,338

*Note: Information taken from the Financial Audit which was previously released.

EXECUTIVE DIRECTOR

During Audit Period: Mr. Jack Hartman – Through February 23, 2006

Acting Executive Director: Ms. Marilyn Johnson – February 24, 2006 through March 29, 2006

Currently: Acting Executive Director – Mr. Brian McPartlin - March 30, 2006 to Present

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**TIMELY AND ACCURATE ACCOUNT
RECONCILIATIONS**

The Illinois State Toll Highway Authority (Tollway) is not completing timely reconciliations for some of their significant general ledger accounts.

During our audit, we noted that certain significant general ledger account balances were not reconciled on a timely basis to supporting documentation or subsidiary ledgers. As a result, adjustments to the books and records were being recorded more than six months after the Tollway's fiscal year end. In addition, numerous corrections were being made to the general ledger, as the audit was ongoing and this led to inefficiencies and delays in completing the audit. We noted the following:

Untimely reconciliation of significant account balances

Adjustments to records being made 6 months after year end

Book adjustments to cash of approximately \$28 million after draft financial statements provided to auditors

Adjustments to investments of approximately \$2.8 million

Adjustments to accrued interest receivable of approximately \$9.4 million

- Book adjustments to cash of approximately \$28 million were posted after the draft financial statements were provided to the auditors. Some of the adjustments were posted as late as July 2006, seven months after year-end. The adjustments were to adjust year-end general ledger balances to reconciled cash balances, and to correct posting entry errors in the year-end cash reported in the general ledger.
- Adjustments to investments of approximately \$2.8 million were identified by the auditors and classified as passed adjustments at year-end.
- Adjustments to accrued interest receivable amounting to approximately \$9.4 million were identified by the auditors and recorded in July 2006. The adjustment related to deep discount investments that were reported at fair value and had a reported amount for accrued interest receivable. The adjustment was necessary to correct the accrued interest receivable for these non-interest paying investments.

Other accrued expenses were overstated by approximately \$2.5 million

- The balance reported as “Other Accrued Expenses” in the general ledger, consisting principally of construction related liabilities, was overstated by approximately \$2.5 million compared to the supporting documentation provided during the audit. The auditors proposed an adjustment for this amount.

Stale dated warrant accounts totaling \$528,595 were not substantiated

- During our review of Accounts Payable we noted three “Stale Dated Warrant” accounts totaling \$528,595, which were not substantiated with support. Tollway personnel stated that the stale dated warrants are old outstanding checks that the Tollway believes have been reissued or never cashed. At some point these outstanding checks were reversed from cash to a payable until further investigation could be done to determine if they should appropriately be written off.

Due to From account of approximately \$1.5 million was unsubstantiated

- In addition, the Tollway has a balance of approximately \$1.5 million in the “Due to From” account (a component of accounts payable in the financial statements) that is unsubstantiated as of December 31, 2005. The auditors proposed an adjustment to write-off this amount. (Finding 1, Pages 10-12)

We recommended the Tollway assign responsibility for reconciling all significant balance sheet accounts. Significant accounts would include those that are quantitatively significant and those that are qualitatively significant or susceptible to fraud (cash and investments). All adjustments that result from the reconciliation process should be approved by supervisory personnel prior to posting them to the general ledger. Supervisory approval should be documented in writing. Adjustments that are only recorded at year-end in connection with producing the audited financial statements should also be reviewed and approved by supervisory personnel.

Also, the Tollway should maintain detailed support for all balance sheet accounts and review and reconcile the account detail on a monthly basis in order to ensure accurate financial reporting, safeguard Tollway assets, and strengthen internal controls over financial reporting.

Further, the Tollway should investigate all balances recorded in the “Stale Dated Warrants” account balances and remit appropriate unclaimed property to the State in accordance with the Uniform Disposition of Unclaimed Property Act.

Tollway officials agreed with our recommendations and stated that they have implemented new processes.

LACK OF DETECTION CONTROLS FOR IMPROPER TRANSPONDER USE

Internal control weaknesses

The Illinois State Toll Highway Authority (Tollway) did not have the proper internal controls in place to classify all I-PASS transactions properly in some of the lanes.

Some of the lanes are equipped with vedet loops that are embedded in the ground. Vedet loops count masses of metal as they pass through the lane. The lane equipment is able to read the I-PASS transponder and collects the revenue based on the classification of the transponder as it was originally issued. The number of axles determines the classification of the vehicle. The toll collection and I-Pass system reports the transaction by the original transponder class.

Certain violations would not be detected

A violation is only recorded in the lanes affected if there is no transponder to read or if a transponder that was read was identified as insufficient, invalid, lost or stolen. A violation would not be recorded if a vehicle passed through the lane with a transponder that does not correlate to the class of the vehicle.

Good internal controls require that all lanes contain equipment to identify the classification of vehicles in order to collect the correct toll revenue. (Finding 2 , Page 13)

This finding was first reported in 2002.

Tollway officials agreed with our recommendation and stated they expect to complete implementation in 2007 to implement controls to identify any violations resulting from improper transponder usage with the completion of Open Road Tolling and plaza reconstruction. **(For the previous Tollway response, see Digest Footnote # 1.)**

BANK RECONCILIATIONS NOT COMPLETED TIMELY AND STATE COMPTROLLER'S CASH REPORT NOT RECONCILED

Internal control weaknesses

The Illinois State Toll Highway Authority (Tollway) did not complete bank reconciliations in a timely manner and the cash balance was not reconciled with the State Comptroller's SB05 cash report for the months of January through November 2005. In addition, we could not determine the dates that the reconciliations were prepared or approved.

During our review of 28 bank reconciliations, we noted the reconciliations did not contain the initials and dates of the individuals that prepared the reconciliations on a monthly basis. (Finding 3, Pages 14-15) **This finding was first reported in 2003.**

We recommended the Tollway follow established procedures to ensure all bank accounts are reconciled in a timely manner. In addition, all bank reconciliations should be initialed and dated by the preparer and reviewer. Also, the Tollway should reconcile the ending cash balance per the Comptroller's SB05 cash report to the Tollways' cash balances on a monthly basis.

Tollway officials concurred with our recommendation and stated that they have amended their processes to complete bank reconciliations and reconcile the SB05 every month. **(For the previous Tollway response, see Digest Footnote 2.)**

CAPITAL ASSET SYSTEM

Record keeping for capital assets needs improvement

The Illinois State Toll Highway Authority's (Tollway) practices and procedures for recording and maintaining capital asset records needs improvement.

During our audit of the capital asset records, we noted the following:

- Beginning of the year accumulated depreciation for infrastructure capital assets was overstated by

Beginning of the year accumulated depreciation was overstated by \$45.6 million

approximately \$45.6 million. During fiscal years 2003 and 2004, depreciation expense was recorded for infrastructure assets that were already fully depreciated. As a result of this error, the December 31, 2004 net assets of the Tollway required a \$45.6 million restatement (increase in net assets).

Detailed written procedures needed for capital asset reporting and controls

- Although the Tollway has a formal written capitalization policy addressing items such as the capitalization threshold and useful lives, there are no detailed written processes and procedures documenting other aspects of capital asset reporting and controls.

No detailed listing of capital assets on hand as of year-end that supports the amounts reported on the financial statements

- Under current Tollway practice, capital asset additions are added to an electronic spreadsheet in pools. Each year a new pool is created for each category of capital asset additions (infrastructure, infrastructure facilities, Fiber Optics system, buildings and machinery and equipment). Deletions of capital assets are not assigned to these annual pools. Instead they are applied to the category as a whole (i.e. machinery and equipment). The Tollway depreciates its assets using pools rather than as a detailed level. As a result, there is not a detailed listing of capital assets on hand as of year-end that supports the amounts reported on the year-end financial statements.

Unrecorded depreciation expense of \$3.1 million

- The Tollway does not have an effective system to identify completed construction projects that should be moved from construction in progress to depreciable infrastructure. There are items on the construction in progress (CIP) listing and included in the reported CIP balance, that are substantially complete and in use. At December 31, 2005, these amounts totaled approximately \$65 million, out of approximately \$520 million total CIP, or 12%. Since these projects are essentially complete and the assets are in use, these infrastructure assets should be depreciated. The estimated amount of unrecorded depreciation expense for December 31, 2005 is \$3.1 million. An adjustment to the Tollway's financial statements was proposed. The balance of accumulated depreciation at December

31, 2005 is also understated due to the cumulative effect of this practice over several years.

Supporting documentation for accumulated depreciation did not agree to the amount reported as ending accumulated depreciation in the 2004 financial statements

- The supporting documentation for the beginning balance reported for accumulated depreciation did not agree to the amount reported as ending accumulated depreciation in the 2004 financial statements. The beginning balance per the 2005 financial statements was \$1,085,065 million less than the depreciation roll forward schedule provided to the auditors for 2005. In addition, depreciation expense reported in the roll forward schedule varied from amounts recorded in the financial statements by \$453,785 (roll forward was understated). Year-end accumulated depreciation per the roll forward schedule was understated by \$631,280 compared to the financial statements. The Tollway was unable to account for the difference and, accordingly, an adjustment to their financial statements was proposed.

Capitalization policy not followed

- The Tollway is capitalizing assets with a historical cost less than \$5,000; however their policy states that only capital assets with a cost in excess of \$5,000 should be capitalized. (Finding 4, Pages 16-19)

We recommended the Tollway prepare a formal written process and procedure document to clearly define the criteria for capitalization of individual capital assets for financial reporting purposes in accordance with generally accepted accounting principles. The processes and procedures document should be approved by management.

Further, the Tollway should install comprehensive software to inventory and depreciate its capital assets, transfer construction in progress projects to infrastructure when they are substantially complete and in use and follow their policy by capitalizing only amounts greater than \$5,000.

Tollway officials concurred with our recommendations.

VIOLATION PENALTIES RECEIVABLE AND SERVICE ORGANIZATION ACTIVITIES

No detailed record of receivables for violation penalties

The Illinois State Toll Highway Authority (Tollway) does not maintain a detailed record of the outstanding violation penalties receivable. In addition, the Tollway's service provider did not engage an independent auditor to review the control objectives and control activities in place at the outside service provider.

The violation system does not currently have the ability to generate a report that produces the detail to support the aged receivable

The Tollway currently uses an outside service provider to maintain all records pertaining to violation penalties. Tollway management indicated that the violation system does not currently have the ability to generate a report that produces the detail to support the summarized aged receivable, which would include the individual's name, transaction date and amount. The receivable, net of the allowance for uncollectible amounts as of December 31, 2005 is approximately \$21 million.

Statement on Auditing Standards (SAS) No. 70, Service Organizations is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm.

We recommended that the Tollway maintain a detail record of all receivables, including the violation penalties. The detail records should be reviewed by a supervisor on a monthly basis, with supervisor approval clearly documented in writing. (Finding 5, Pages 20-21)

Tollway officials concurred with our recommendation and stated that the service provider and the violations system will be replaced in 2006 with a new system that has the capability to provide the detail of the aged receivable balance.

WEAKNESSES IN INTERNAL AUDITING

The Illinois State Toll Highway Authority (Tollway) failed to audit the required major systems of internal

accounting and administrative controls in FY 05.

Audits of major systems not performed

We noted the Tollway did not complete any internal audits of major systems of internal accounting and administrative controls. According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003), the Tollway's chief executive officer shall ensure that "audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every 2 years". Further, 30 ILCS 10/2002 states the chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief of auditing activities. All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties.

Authority interaction with Illinois Office of Internal Audit

Tollway management stated that Executive Order # 10 specified that the internal audit function of the Tollway, along with other state agencies be transferred within the Illinois Office of Internal Audit (IOIA), a division of the Department of Central Management Services. IOIA prepared a risk assessment and tentative audit plan for the Tollway for 2005 and 2006. However, after a period of negotiation between the Tollway and IOIA the Tollway was notified by IOIA that due to the timing of the negotiations they would not be able to carry out the proposed 2005 audit plan.

The Tollway's Internal Audit Department was reorganized as the Enterprise and Control Compliance Unit, reporting to the Tollway's Inspector General. (Finding 9, pages 27 – 28)

We recommended the Tollway complete all required audits on a timely basis. Further, the Chief Internal Auditor should report directly to the Chief Executive Officer at the Tollway.

Tollway officials accepted our finding and recommendations and stated the Chief Internal Auditor will report to the Executive Director and the Internal Audit Department intends to perform the required audits.

OTHER FINDINGS

The other findings are reportedly being addressed by Tollway management. We will review progress toward implementation of all our recommendations during the next audit.

Responses to the recommendations were provided by Patricia Pearn, Fiscal Operations Manager.

AUDITORS' OPINION

Our auditors stated the Illinois State Toll Highway Authority's financial statements as of December 31, 2005 and for the year then ended were presented fairly in all material respects.



WILLIAM G. HOLLAND, Auditor General

WGH:TLK:pp

SPECIAL ASSISTANT AUDITORS

Our special assistant auditors for this audit were McGladrey & Pullen LLP.

DIGEST FOOTNOTE

1. LACK OF DETECTION CONTROLS FOR IMPROPER TRANSPONDER USE – (Previous Tollway Response)

2004: We concur and recognize the importance of achieving a solution to this issue. To meet increased I-PASS demand, we continued to add I-PASS Only (IPO) lanes in 2004, and we continue to test the automatic vehicle classification (AVC) smart loop system until we achieve our desired accuracy rate.

We will have the (AVC) smart loop solution installed in all new Open Road Tolling (ORT) lanes and IPO's as we convert to ORT as part of the Congestion-Relief Plan begun in 2005. To avoid the cost and inconvenience to drivers of re-doing work in IPO lanes, we have made a business decision not to install smart loops in lanes targeted for future reconstruction as part of ORT, which begins this summer and will be complete the end of 2006.

By the end of 2005, the AVC system will be operational in 109 out of 161 lanes, with completion of the remainder in 2006.

2. **BANK RECONCILIATIONS NOT COMPLETED TIMELY AND SB05 REPORT NOT RECONCILED – (Previous Tollway Response)**

2004: We concur that bank reconciliations should be prepared timely but, due to system limitations, we can't accomplish this within 30 days in the first quarter of the year. However, we do review the bank activity weekly and compare to our records. We are beginning an Enterprise Resource Planning (ERP) process to define our business needs to assist in drafting a request for proposal to implement an updated financial reporting system.

We will be working with the Comptroller's office to develop a reconciliation process that can be used by both agencies to verify balances.

