
REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

FINANCIAL AUDIT

For the Year Ended:
December 31, 2009

COMPLIANCE EXAMINATION

For the Year Ended:
December 31, 2009

Summary of Findings:

Total this audit: 3

Total last audit: 5

Repeated from last audit: 1

Release Date:
September 9, 2010



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

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SYNOPSIS

- The Toll Highway Authority did not have sufficient control over the financial reporting process.
 - The Toll Highway Authority did not adequately document its reasons for granting settlements to certain toll violators.
 - The Toll Highway Authority is not enforcing the requirements that vendors provide certain certifications to the Tollway.
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ILLINOIS STATE TOLL HIGHWAY AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended December 31, 2009

FINANCIAL OPERATIONS (GAAP BASIS)	2009	2008*
Operating Revenues		
Toll Revenue	\$592,063,529	\$583,646,592
Toll Evasion Recovery	54,828,660	77,653,862
Concessions	2,338,841	2,236,551
Miscellaneous	<u>8,759,200</u>	<u>4,273,563</u>
Total Operating Revenues	<u>657,990,230</u>	<u>667,810,568</u>
Operating Expenses		
Depreciation and Amortization	\$297,371,719	\$278,626,714
Services and Toll Collection	116,613,280	110,681,535
Insurance and Employee Benefits	72,493,677	59,634,767
Engineering and Maintenance of Roadway and Structures ...	48,942,122	46,309,976
Traffic Control, Safety Patrol, and Radio Communications..	22,649,767	22,374,844
Procurement, IT, Finance and Administration	<u>22,406,891</u>	<u>22,100,592</u>
Total Operating Expenses	<u>580,477,456</u>	<u>539,728,428</u>
Total Operating Income	<u>77,512,774</u>	<u>128,082,140</u>
Total NonOperating Expenses	<u>165,165,456</u>	<u>106,139,805</u>
(Decrease) Increase in Net Assets	(87,652,682)	21,942,335
Net Assets at Beginning of Year	<u>2,105,546,159</u>	<u>2,083,603,824</u>
Net Assets at End of Year	<u>\$2,017,893,477</u>	<u>\$2,105,546,159</u>
SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)	2009	2008
Cash and Cash Equivalents (Unrestricted)	\$499,070,519	\$357,722,016
Cash and Cash Equivalents Restricted For Debt Service	317,510,640	267,827,509
Cash and Cash Equivalents – IPASS Accounts	131,548,729	124,296,311
Cash and Cash Equivalents – Construction	224,200	167,159,562
Accounts Receivable (net)	32,912,950	30,567,798
Investments Restricted For Debt Service	-	74,038,196
Capital Assets (net)	5,363,764,762	4,853,139,669
Revenue Bonds Payable and Unamortized Bond Premium	4,079,638,329	3,397,544,225
Total Net Assets	<u>2,017,893,477</u>	<u>2,105,546,159</u>

*Certain reclassifications have been made to the 2008 amounts to conform with the 2009 presentation.

EXECUTIVE DIRECTOR

During Audit Period: Acting Executive Director – Dawn Catuara 12-18-08 thru 2-5-09, Acting Executive Director – Michael King 2-6-09 thru 4-18-10, Executive Director – Kristi Lafleur – Current

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

**NEED TO IMPROVE CONTROLS OVER
FINANCIAL REPORTING**

**Insufficient controls over
financial reporting**

The Illinois State Toll Highway Authority (Tollway) does not have sufficient controls over the financial reporting process.

During our audit of the financial statements we noted the following:

**A detailed accounts
receivable aging was not
provided by the Tollway**

- The Tollway was not able to provide auditors with a detailed accounts receivable aging for its toll evasion receivable account.

**Toll evasion accounts
receivable in the general
ledger was overstated by \$2.6
million compared to the
subsidiary ledger**

- The toll evasion accounts receivable detail provided did not agree to the amount recorded in the financial statements as of year-end. The reconciliation provided shows the gross receivable per the general ledger is overstated by approximately \$2.6 million when compared to the subsidiary ledger (Rite System).

**Intergovernmental
receivables totaling \$24
million were not recorded**

- The Tollway improperly accounted for two intergovernmental agreements (IGA). The Tollway did not record long term IGA receivables for approximately \$24 million, related to projects with IDOT and a County, which will be funded by these other governments in future years. Additionally, the Tollway improperly capitalized the cost of these projects as infrastructure, even though they were for infrastructure that will be owned by the other governments. For the financial statements, \$21 million of these adjustments was recorded and the remaining \$3 million was deemed immaterial and not recorded. (Finding 1, Pages 10-11) **This finding was first reported in 2005.**

We recommended that the Tollway obtain an accounts receivable aging report from the Rite System. The report should be reconciled to the general ledger on a periodic

basis, preferably monthly. Any adjustments identified as a result of the reconciliation should be recorded in a timely fashion. Additionally, the Tollway should develop policies and procedures to obtain and review all intergovernmental agreements and ensure the accounting for those agreements is proper.

Tollway agrees with the auditors

Tollway officials agreed with our finding and stated that a violation aging report will be utilized in the future to reconcile to the general ledger. Tollway officials also stated that they will develop a procedure to obtain the necessary information to properly account for intergovernmental agreements. (For the previous Tollway response, see Digest footnote #1.)

NEED TO IMPROVE THE CONTROLS OVER THE HARDSHIP PROGRAM

Insufficient documentation for Hardship Settlements granted to certain toll violators

The Tollway is not adequately documenting its reasons for granting settlements to certain toll violators.

The Tollway has implemented a program to offer relief to certain toll violators who have financial difficulties. This program is called the hardship program. In operation of this program, the Tollway adopted guidance contained in Illinois Compiled Statute 605 ILCS 10/10 to be used in reviewing hardship cases. Per the statute “The Authority, at its discretion and in consultation with the Attorney General, is further authorized to settle an administrative fine or penalty if it determines that settling for less than the full amount is in the best interests of the Authority after taking into account the following factors: (1) the merits of the Authority’s claim against the respondent; (2) the amount that can be collected relative to the administrative fine or penalty owed by the respondent; (3) the cost of pursuing further enforcement or collection action against the respondent; (4) the likelihood of collecting the full amount owed; and (5) the burden on the judiciary.”

Program to offer relief to certain toll violators

In order to be considered for relief under the hardship program, the violator (respondent) must contact the Tollway and complete a hardship application form. This form is then reviewed and processed by the Tollway’s Legal and Business Systems department. The Tollway has

Hardship application process

established an informal policy requiring Board approval of receivable write-offs that exceed \$1,000.

The exceptions noted below are based on our review of a sample of 25 hardship files:

For all 25 hardship files examined, adequate documentation of the reason for settlement was not clear to the auditors

- 25 out of 25 hardship files tested (100%), did not adequately document the reason it was in the best interest of the Authority to settle for less than the full amount, taking into consideration items (1) through (5) noted above.
- Out of 25 files sampled, 18 contained settlements that were \$1,000 or more below the toll and fine (pre-escalation) amount. None of these 18 cases were provided to the Board for their review.

Auditors could not determine how Tollway arrived at their conclusion

Based on the documentation contained in the hardship file, we could not determine how the Tollway arrived at the conclusion that the respondent represented a hardship and that it was believed to be in the best interest to settle for an amount below the pre-escalated amount assessed. Although the respondents all provided some financial data, it was unclear how this information was evaluated to determine whether this individual was indeed a hardship case, and whether the Tollway was better served by agreeing to a reduced payment. (Finding 2, Pages 12-13)

We recommended that the Tollway update its hardship procedure to require documentation in each file explaining the conclusions reached for granting a hardship settlement amount. Further, we recommended that the Tollway adopt a formal write-off policy that addresses all types of debt forgiveness, including settlements.

Tollway to modify its existing procedures and documentation

Tollway officials stated that they will modify its existing procedures and documentation to provide for a summary of its application of the statutory factors to the facts of each case. The Tollway also stated that they will formalize and consolidate its various debt forgiveness policies.

CERTIFICATION NOT PRINTED ON INVOICES

Failure to enforce State law

The Tollway is not requiring vendors to provide certain certifications in accordance with State law.

During our testing we noted that 605 ILCS 10/16.1 requires a specific statement be attached to the Maintenance and Operation invoices by sellers to the Tollway as follows:

“By submitting an invoice, the Seller hereby certifies that the goods, merchandise and wares shipped in accordance with this order have met all required standards as set forth in the purchasing contract.”

For all 25 vouchers sampled, this language or any similar statement was not found with the vendor invoice. (Finding 3, Page 14)

We recommended that the Tollway either enforce vendor compliance with the statute or seek legislative remedy that rescinds the requirement to have the statement included on all invoices.

Tollway indicates a new process has been put in place

Tollway officials stated that Procurement has developed a new process to require vendors to submit this certification with their invoices.

AUDITORS' OPINION

Our auditors stated the Illinois State Toll Highway Authority's financial statements as of December 31, 2009 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 Financial Reporting - Previous Tollway Response

The Tollway concurs with the recommendation to develop policies and procedures for the following:

- Accounting for intergovernmental agreements
- Accounting for long term lease arrangements
- Adequate review of footnotes and schedules in the financial statements

In addition to developing policies we will continue to pursue a standard fully integrated general ledger system.