STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ROAD FUND REVENUE AND EXPENDITURES

Management Audit
Release Date: May 2013

SYNOPSIS

Senate Resolution Number 788 required the Office of the Auditor General to conduct a management audit of moneys deposited into the Road Fund and the subsequent use of those moneys, including the amounts used for direct road construction costs. The Resolution asked for a historical review of the Road Fund for a 10 year period. The Road Fund is the primary fund used to pay for road construction projects in Illinois. From FY03 through FY12, the Road Fund had almost $25 billion in revenue and $25.1 billion in expenditures. Most Road Fund expenditures, $18.9 billion, were made by the Illinois Department of Transportation (IDOT).

Auditors worked with IDOT to select certain detail object and appropriation codes to identify direct road construction expenditures. **In FY11 and FY12, less than half of Road Fund expenditures went for direct road construction costs** (see inset). Direct road construction costs mainly consist of payments for highway construction and improvements, architectural and engineering fees, and repair and maintenance of highways. Non-direct costs include State employee salaries and related costs, payment of bonds, and other costs. IDOT officials noted that even though bond payments from the Road Fund are classified as non-direct road construction costs, the payments are for debt service on Transportation Series A Bonds, which are used for direct road construction costs. Also, changes in how expenditures were coded by IDOT beginning in FY11 limits comparability of direct/non-direct costs between FY11 and FY12 with prior years.

ROAD FUND EXPENDITURES

Fiscal Year	Direct Road Construction Expenditures[1]	Non-Direct Road Construction Expenditures
FY10	$1,593,445,413	$1,320,423,619
FY11	$1,342,802,362	$1,482,795,271
FY12	$1,354,731,271	$1,531,000,725
Totals	**$4,290,979,046**	**$4,334,219,615**

Note: [1] Direct Road Construction Expenditures do not include direct highway construction expenditures paid from the Transportation Bond Series A Fund, which is supported by debt service transfers paid exclusively from Road Fund revenue.
Source: OAG analysis of Illinois Comptroller data.

Our audit also found:

- **The Road Fund was overcharged for group health insurance costs by approximately $156.6 million in FY10 and FY11.** Even though personal services expenditures paid from the Road Fund decreased by $173 million in FY10, when the Road Fund stopped paying for salaries of Secretary of State and State Police personnel, there was not a commensurate decrease in group health expenditures paid from the Road Fund.
- Due to a cap set on the amount the General Revenue Fund can pay for workers' compensation costs, **the amount transferred from the Road Fund to the Workers' Compensation Revolving Fund was above the estimated Road Fund liability in FY10 through FY12 by $54.2 million.**
- The Secretary of State did not deposit $48 for each certificate of title into the Road Fund as required by 625 ILCS 5/2-119(b) of the Illinois Vehicle Code. Rather, it deposited 37 percent of the $48 ($17.76) into the State Construction Account Fund and deposited the remaining $30.24 into the Road Fund. **SOS officials noted the various fee distribution requirements in the Vehicle Code are often in conflict.**

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FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

BACKGROUND

Senate Resolution Number 788 required the Office of the Auditor General to conduct a management audit of moneys deposited into the Road Fund and the subsequent use of those moneys. The resolution asked for a historical review of the Road Fund for a 10 year period. The Road Fund is the primary fund used to pay for road construction projects in Illinois. (page 6)

Road Fund Expenditures

The total expenditures from the Road Fund during fiscal years 2003 through 2012 were $25.1 billion.

The total expenditures from the Road Fund during fiscal years 2003 through 2012 were $25.1 billion. Expenditures from the Road Fund over the last 10 years have varied between $1.9 billion and $2.9 billion annually (see Digest Exhibit 1). Most of the Road Fund expenditures, $18.9 billion, were made by the Illinois Department of Transportation (IDOT). (page 31)

Digest Exhibit 1
ROAD FUND REVENUE AND EXPENDITURES BY FISCAL YEAR

FY	Revenue	Expenditures
FY03	$1,896,875,227	$2,393,815,650
FY04	2,202,470,950	2,389,559,395
FY05	2,056,417,773	1,884,266,307
FY06	2,342,680,673	1,877,742,675
FY07	2,396,105,600	2,771,628,500
FY08	2,569,736,193	2,599,746,972
FY09	2,592,736,060	2,559,824,488
FY10	3,047,017,883	2,913,869,032
FY11	3,007,131,314	2,825,597,633
FY12	2,888,217,355	2,885,731,996
Totals	**$24,999,389,028**	**$25,101,782,648**

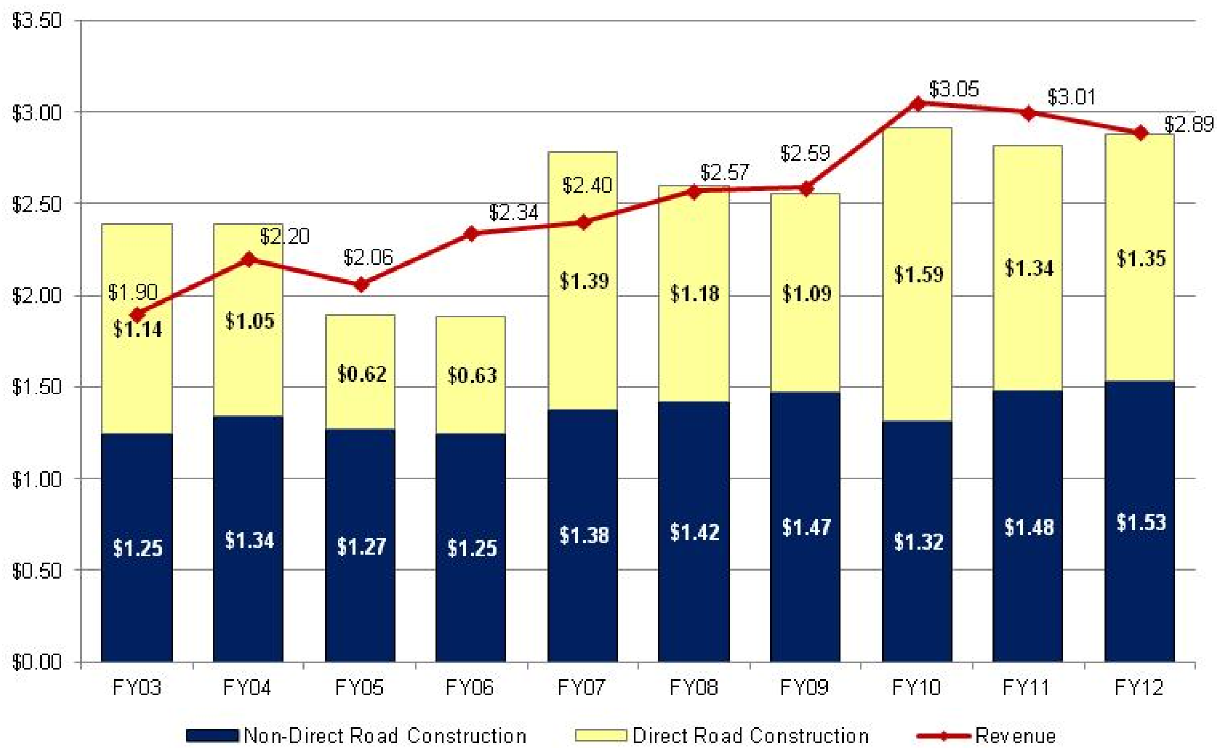
Source: Illinois Comptroller.

Senate Resolution Number 788 required the audit to examine the uses of the Road Fund, including the amounts used for “direct road construction costs.” Since IDOT did not have an established definition of direct road construction expenditures, auditors worked with IDOT and selected certain detail object codes established by the Comptroller and appropriation codes to identify direct road construction expenditures.

In 8 of the last 10 fiscal years, less than half of Road Fund expenditures went for direct road construction costs.

In 8 of the last 10 fiscal years, less than half of Road Fund expenditures went for direct road construction costs. Direct road construction expenditures from the Road Fund mainly consisted of payments for highway construction and improvements, architectural and engineering fees, and repair and maintenance of highways. Direct road construction expenditures have varied greatly over the last 10 years, from a low of $616.5 million in FY05 to a high of $1.59 billion in FY10. According to IDOT, the increase in direct road construction expenditures over the last several years can be attributed to the federal stimulus monies Illinois received. Digest Exhibit 2 compares the changes to Road Fund revenue with expenditures for direct and non-direct road construction for the 10 year audit period.

Digest Exhibit 2
DIRECT AND NON-DIRECT ROAD CONSTRUCTION FUNDING COMPARED TO ROAD FUND REVENUE
(In Billions)



Source: Illinois Comptroller data summarized by the OAG.

IDOT officials noted that in addition to the above identified Road Fund expenditures for direct road construction, significant Road Fund expenditures are made to pay debt service on bonds used to pay for road construction. These debt service payments are classified in this audit as non-direct road construction expenditures since they do not directly fund road construction paid from the Road Fund. In FY12, IDOT noted that Transportation Bond Series A Fund expenditures paid for $419.3 million in road construction costs, and over $2.67 billion over the 10 year audit period.

Non-direct road construction expenditures, which include State employees' salaries, group health insurance, workers' compensation, payment of bonds, and other costs, declined from $1.47 billion to $1.32 billion in FY10 when the Road Fund stopped paying for State Police and Secretary of State employees' salaries and other costs that totaled $245 million in FY09. However, non-direct road construction costs increased to $1.48 billion in FY11 and $1.53 billion in FY12. Non-direct road construction expenses that saw large increases from FY10 to FY12 included: transportation grants ($52 million); salaries ($39 million); State Employee Retirement ($34.8 million); and Employer Contributions for Group Health Insurance ($15.1 million). IDOT officials noted that while these non-direct road construction expenditures do not go directly to road construction, many of the non-direct road construction expenditures are for activities that have to occur before, during, and after contractors are paid in order to keep construction projects going. (pages 35 - 43)

Changes made in the classification of certain types of expenditures limit the comparability of IDOT expenditures made in FY11 and FY12 to those made in prior years.

In reviewing expenditures made by IDOT from the Road Fund in FY11 and FY12, auditors noted significant variations in expenditures from prior years. When questioned, IDOT officials noted that the Comptroller's Office had established new requirements on how IDOT was to classify certain types of expenditures. This limits the comparability of IDOT expenditures made in FY11 and FY12 to those made in prior years. For example, Construction and Improvement – Railroad expenditures were coded by IDOT as Construction and Improvements – Highways prior to FY11. However, beginning in FY11, while still classified as a direct road construction cost, these expenditures were reported in a distinct code for railroads. (page 39)

During the 10 year audit period (FY03 through FY12), $6.2 billion of the $25 billion (25%) in Road Fund expenditures were made by agencies other than IDOT.

During the 10 year audit period (FY03 through FY12), $6.2 billion of the $25 billion (25%) in Road Fund expenditures were made by agencies other than IDOT. This includes $3.2 billion for intergovernmental transfers (primarily for debt service payments), almost $1.6 billion primarily for salaries of the Illinois State Police and the Secretary of State's office, and $1.0 billion expended by the Department of Healthcare and Family Services (HFS) and $324 million by the Department of Central Management Services (CMS) mostly for the Employer Contributions for Group Health Insurance.

According to IDOT officials, there were two new uses of the Road Fund in FY12. Both were IDOT expenditures and were statutorily required by 30 ILCS 105/8.3 of the State Finance Act. These two expenditures were to the National Passenger Rail Company (AMTRAK) for the State's share of intercity rail passenger service and expenditures for services and other program improvements for $26 million; and to the northeastern Illinois' Regional Transportation Authority (RTA) with expenditures of almost $21.4 million. The RTA received $17.6 million of the $21.4 million for reimbursement for providing reduced fares on mass transportation services for students, persons with a disability, and the elderly. According to an IDOT official, prior to FY12, these were General Revenue Fund (GRF) expenditures. (page 31)

We identified two types of expenditures paid from the Road Fund for which the Road Fund was charged more than its proportional share of costs. These two areas were group health insurance and workers' compensation.

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Group Health Insurance

Expenditures for group health insurance from the Road Fund over the 10 year audit period increased from $92 million in FY03 to $165 million in FY12.

Expenditures for group health insurance from the Road Fund over the 10 year audit period increased from $92 million in FY03 to $165 million in FY12. The responsibility for calculating Employer Contributions for Group Health Insurance from the Road Fund was under HFS for most of our audit period. CMS was responsible for group health insurance prior to FY06 and again beginning in FY13.

Officials from HFS, CMS and the Governor's Office of Management and Budget (GOMB) stated they did not know how the rates calculated by the former HFS employee for group health insurance were derived.

According to CMS and HFS officials, only one employee (who has since left State government) was responsible for group health insurance calculations related to the Road Fund and other funds during our audit period. The models and methodologies used for the calculations as well as how the data was used were not clear. Officials from HFS, CMS and the Governor's Office of Management and Budget (GOMB) stated they did not know how the rates calculated by the former HFS employee for group health insurance were derived.

We reviewed group health insurance calculation files from the previous employee's hard drive from HFS. These files contained two types of calculations: calculations for the Road Fund and calculations for all "other funds." Based on our review of the calculations, a different methodology was used when calculating the Road Fund's group health insurance rate than was used for all other funds.

The group health reimbursement rate calculation for budgeting purposes for "other funds" was based on estimated headcount and an estimated group health insurance reimbursement cost. The amount for group health insurance charged to the Road Fund was calculated by taking the previous year's group health appropriation amount and simply multiplying it by the estimated percent increase in the upcoming year's overall group health insurance cost. As a result, the Road Fund was not charged based on actual cost or on a rate per employee; it was charged based on a percent increase from the previous year.

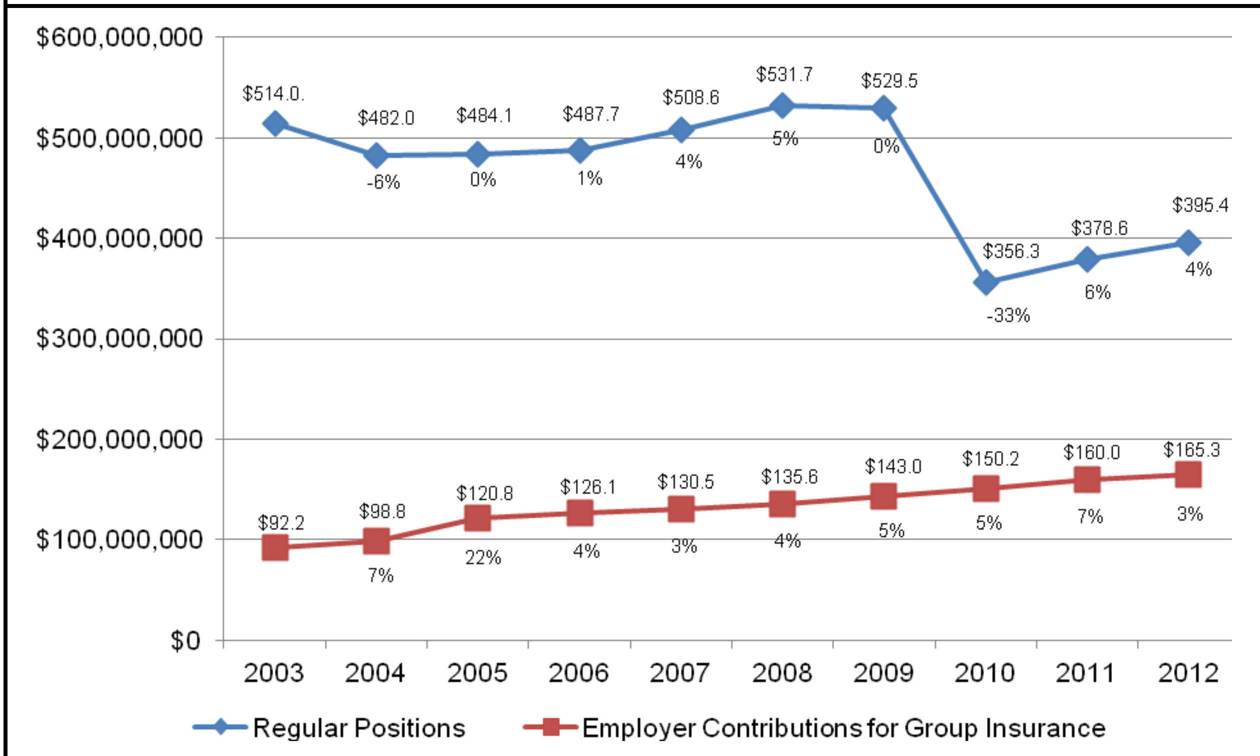
The Road Fund was overcharged for group health insurance costs after the transfer of ISP and SOS positions from the Road Fund.

Our examination of Road Fund expenditures concluded that the Road Fund was overcharged for group health insurance costs after the transfer of ISP and SOS positions from the Road Fund. Throughout the audit period, until FY10, the Road Fund paid for expenditures at both the Illinois State Police (ISP) and the Secretary of State (SOS). These expenditures included regular positions (salaries).

Auditors estimated that the total overpayment by the Road Fund for group health insurance in FY10 and FY11 was approximately $156.6 million.

As seen in Digest Exhibit 3, Road Fund expenditures for regular positions decreased by $173.2 million from $529.5 million in FY09 to $356.3 million (-33%) in FY10 when the Road Fund stopped paying for SOS and ISP positions. However, there was not a commensurate decrease in Group Health Insurance costs paid from the Road Fund. Rather, expenditures for the Employer Contributions for Group Health Insurance from the Road Fund continued to increase. Group Health Insurance expenditures increased from $143 million in FY09 to $150.2 million (5%) in FY10. Auditors estimated that the total overpayment by the Road Fund for group health insurance in FY10 and FY11 was approximately $156.6 million. The former employee who made the group health insurance calculations stated that he was not aware that the Road Fund stopped paying for the ISP and SOS salaries until the Spring of 2012. (pages 53 - 59)

Digest Exhibit 3
ROAD FUND SALARIES COMPARED TO GROUP HEALTH INSURANCE PAYMENTS
Fiscal Years 2003 - 2012



Source: Illinois Comptroller data summarized by the OAG.

Workers' Compensation

Auditors also concluded that the Road Fund was being charged more for workers' compensation costs than was attributable to the projected liability for employees paid from the Road Fund.

Auditors also concluded that the Road Fund was being charged more for workers' compensation costs than was attributable to the projected liability for employees paid from the Road Fund. Transfers into the State's Workers' Compensation Revolving Fund come from three sources: the General Revenue Fund, the Road Fund, and all other funds. From FY05 to FY11, the amount of GRF transferred for workers' compensation increased 47 percent (from $37.5 million to $55 million) and the amount from "All Other Funds" increased 83 percent (from $12.7 million to $23.3 million). However, over the same period, the amount transferred from the Road Fund for workers' compensation increased 182 percent (from $18.1 million to almost $51 million.)

The amount transferred from the Road Fund was above the estimated Road Fund liability in FY10 through FY12 by $54.2 million.

Since FY05, CMS has been responsible for processing State employees' workers' compensation claims. CMS' spreadsheets containing the calculations for transfers from the Road Fund to the Workers' Compensation Revolving Fund showed that the Road Fund's original liability amount determined by CMS was significantly lower than the final transfer amount. **The amount transferred from the Road Fund was above the estimated Road Fund liability in FY10 through FY12 by $54.2 million, based on the spreadsheets provided by CMS.**

CMS officials stated that the final transfer amount is higher than the original calculation because of a cap placed on the GRF contribution due to limited funding.

CMS officials stated that the final transfer amount is higher than the original calculation because of a cap placed on the GRF contribution due to limited funding. This cap is established in a discussion between CMS and GOMB. According to CMS, the GRF contribution owed to the Workers' Compensation Revolving Fund that is over the GRF cap is proportionally charged to other funds, including the Road Fund. Consequently, because of the cap on contributions from GRF, other funds, including the Road Fund, were overcharged for workers' compensation costs.

For example, in FY11, CMS calculated that the Road Fund's workers' compensation liability was $25,345,400. In FY11, CMS and GOMB set a $55 million cap on the amount of workers' compensation transfers that would be made from the General Revenue Fund. The General Revenue Fund's actual liability was $87.16 million. Consequently, the $32.16 million over the $55 million GRF cap was redistributed to all other funds. The Road Fund was charged an additional $25.6 million, resulting in a total of $50.95 million (the original liability of $25.3 million plus the additional $25.6 million due to the GRF cap) being transferred from the Road Fund for workers' compensation in FY11. (pages 59 - 63)

Road Fund Revenue

During the audit period (FY03 through FY12), the Road Fund received most of its revenue from three main sources: the federal government (including stimulus) ($12.2 billion), motorist user fees ($8.1 billion), and motor fuel taxes ($3.2 billion). The total amount of revenue received from fiscal year 2003 through fiscal year 2012 was almost $25 billion.

The largest source of Road Fund revenue during the audit period was from the federal government. According to data provided by IDOT, federal funds (not including stimulus funding) increased from $717,546,468 in FY03 to $1,497,304,167 in FY12.

The largest source of Road Fund revenue during the audit period was from the federal government. According to data provided by IDOT, federal funds (not including stimulus funding) increased from $717,546,468 in FY03 to $1,497,304,167 in FY12. The percentage of the total Road Fund revenue received from the federal government increased from 38 percent in FY03 to 52 percent in FY12. The Federal Stimulus Package from the American Recovery and Reinvestment Act of 2009 provided over $933 million in federal funds to IDOT from FY09 through FY12. (pages 17 - 21)

The second largest source of Road Fund revenue was obtained from motorist user fees collected by the Illinois Secretary of State. Motorist user fees include: motor vehicle licenses; operator licenses; and certificates of title. The SOS collected $14.5 billion in motorist user fees from FY03 through FY12 and deposited $8.1 billion or 56 percent into the Road Fund during the 10 year audit period.

In reviewing SOS deposits into the Road Fund, auditors noted the amount of monies being deposited into the Road Fund for motor vehicle licenses significantly increased beginning in FY06; however, the amount of monies deposited into the Road Fund from operator licenses and certificates of title decreased beginning in FY06.

In FY06, SOS changed its methodology for distributing fees, including those deposited into the Road Fund. However, the SOS did not document its methodologies and did not document the impact the change in methodology would have on either the Road Fund or the State Construction Account Fund.

In FY06, SOS changed its methodology for distributing fees, including those deposited into the Road Fund. However, the SOS did not document its methodologies and did not document the impact the change in methodology would have on either the Road Fund or the State Construction Account Fund (which is also used to pay for road construction costs). The Motor Vehicle Code contains a provision that 37 percent of certain fees collected by SOS be deposited into the State Construction Account Fund. Based on explanations provided by the SOS, the change to the methodology in FY06 had a direct impact on the Road Fund receipts reported for motor vehicle licenses, operator licenses and certificates of title.

During our review, the SOS provided differing explanations as to how the methodology was actually applied prior to FY06. Additionally, without documentation of its methodology, auditors were unable to precisely determine how the methodology changed Road Fund revenue and exactly what impact the change had on the Road Fund or the State Construction Account Fund.

We did determine, however, that SOS did not deposit $48 for each certificate of title into the Road Fund as required by 625 ILCS 5/2-119(b) of the Illinois Vehicle Code.

We did determine, however, that SOS did not deposit $48 for each certificate of title into the Road Fund as required by 625 ILCS 5/2-119(b) of the Illinois Vehicle Code. Rather, it took 37 percent of the $48 ($17.76) and deposited it into the State Construction Account Fund and deposited the remaining $30.24 into the Road Fund. Due to the distribution formula used by SOS, the Road Fund received $46.4 million less in FY12 than it would have received if the entire $48 per title had been deposited into the Fund. However, since the State Construction Account Fund received the $46.4 million that the Road Fund did not get, the funds not received by the Road Fund went for road construction purposes.

When we discussed the statutorily required distributions with the Secretary of State's office, they pointed out that "There are limitless possible permutations of these calculations." They noted that some of the Vehicle Code's provisions regarding the distribution of fees "are in direct conflict, leaving this office with the obligation to interpret those statutes and attempt to implement the will of the General Assembly, to the extent possible in light of the language governing our actions." The distribution methodologies used by the Secretary of State need to comply with relevant statutes and need to be consistently applied across all applicable fees. (pages 22 - 25)

A portion of Road Fund revenue is also received from motor fuel taxes. In FY03, Illinois collected $1,323,650,706 in motor fuel taxes and $328,941,894 was deposited into the Road Fund. In 2012, the total amount of motor fuel taxes collected dropped to $1,222,519,825, of which $297,481,408 was deposited into the Road Fund. (pages 26 - 28)

Interagency Agreement

We determined that DCEO did not obtain adequate documentation to monitor the grant.

We reviewed an interagency agreement between IDOT and the Department of Commerce and Economic Opportunity (DCEO) which required DCEO to pass $750,000 in Road Fund money provided by IDOT to a grantee to provide two training programs for owners and managers of small and medium construction-related businesses. We determined that DCEO did not receive adequate documentation to monitor the grant. DCEO did not receive a copy of the third party contract between the grantee and the college providing the training. The grantee was late in providing certain required financial and project status reports. DCEO did not have documentation to verify that programmatic activities were being conducted, such as sign-in sheets or brochures as required by the grant agreement. (pages 47 - 50)

RECOMMENDATIONS

The audit contains 5 recommendations. The 5 recommendations were to the following agencies: (1) to the Office of the Secretary of State; (1) to the Department of Commerce and Economic Opportunity; (1) to the Department of Central Management Services; and (2) to both the Department of Central Management Services and the Governor's Office of Management and Budget. The agencies agreed with all 5 recommendations. Appendix F to the report contains the agency responses.

WILLIAM G. HOLLAND
Auditor General

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AUDITORS ASSIGNED: This Management Audit was performed by the Office of the Auditor General's staff.