



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS DEPARTMENT OF TRANSPORTATION

**Financial Audit
 For the Year Ended June 30, 2015**

Release Date: January 21, 2016

FINDINGS THIS AUDIT: 3				AGING SCHEDULE OF REPEATED FINDINGS			
	<u>New</u>	<u>Repeat</u>	<u>Total</u>	<u>Repeated Since</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>
Category 1:	0	2	2	2013		15-3	
Category 2:	0	1	1	2009	15-2		
Category 3:	0	0	0	1994	15-1		
TOTAL	0	3	3				
FINDINGS LAST AUDIT: 5							

SYNOPSIS

- **(15-1)** The Department maintained inaccurate commodities inventory records for the year ended June 30, 2015.
- **(15-2)** The Department’s governmental activities net position as of June 30, 2014 was restated due to errors and the Department failed to accurately report capital assets for fiscal year 2015.
- **(15-3)** Weaknesses and errors were noted in the Department’s calculation of its accounts payable balance at June 30, 2015.

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 information is summarized on next page.}

**DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
For the Year Ended June 30, 2015**

STATEMENT OF ACTIVITIES INFORMATION - GOVERNMENTAL ACTIVITIES (expressed in thousands)	Fiscal Year 2015	Fiscal Year 2014
Program Revenues		
Charges for Services.....	\$ 58,286	\$ 73,936
Operating Grants.....	419,962	443,134
Capital Grants.....	1,501,398	1,639,004
Total Revenues.....	<u>1,979,646</u>	<u>2,156,074</u>
Expenses		
Total Expenses.....	<u>5,513,662</u>	<u>5,398,703</u>
Net (Expenses) Revenues.....	(3,534,016)	(3,242,629)
Total General Revenues and Transfers.....	<u>3,419,272</u>	<u>3,900,634</u>
Change in Net Position.....	(114,744)	658,005
Net Position, July 1,.....	* 16,804,318	18,424,228
Net Position, June 30.....	<u>\$ 16,689,574</u>	<u>\$ 19,082,233</u>

*as restated

STATEMENT OF NET POSITION- GOVERNMENTAL ACTIVITIES (expressed in thousands)	Fiscal Year 2015	Fiscal Year 2014
Cash Equity with State Treasurer.....	\$ 62,376	\$ 194,830
Cash and Cash Equivalents.....	2,689	2,756
Receivables, Net.....	305,838	571,358
Inventories.....	59,229	40,292
Capital Assets, Net.....	18,629,456	18,171,195
Other Assets.....	1,556,007	1,445,418
Total	<u>20,615,595</u>	<u>20,425,849</u>
Deferred Outflows of Resources - Pension.....	657,653	-
Total Assets and Deferred Outflows of Resouces.....	<u>21,273,248</u>	<u>20,425,849</u>
Accounts Payable.....	480,177	432,005
Long Term Obligations.....	3,122,916	72,112
Other Liabilities.....	871,686	839,499
Total	<u>4,474,779</u>	<u>1,343,616</u>
Deferred Inflows of Resources - Pension.....	108,895	-
Total Liabilities and Deferred Inflows of Resouces.....	<u>4,583,674</u>	<u>1,343,616</u>
Net Position		
Net Investment in Capital Assets.....	18,616,451	18,155,880
Restricted for Transportation Programs.....	2,925	74,855
Restricted for Debt Service.....	10,414	11,791
Unrestricted.....	(1,940,216)	839,707
Total Net Position.....	<u>\$ 16,689,574</u>	<u>\$ 19,082,233</u>

AGENCY SECRETARY

During Examination Period: Randall Blankenhorn (effective 2/1/15), Erica Borggren (7/11/14-1/31/15),
Ann Schneider (through 7/11/14)

Currently: Randall Blankenhorn

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

NEED TO IMPROVE COMMODITIES INVENTORY RECORDS

The Department did not maintain accurate commodities inventory records for the year ended June 30, 2015.

Inventory quantity errors resulted in an estimated understatement of \$5 million

During our physical inventory counts, we counted 190 inventory items and noted discrepancies between audit test counts and Department inventory quantities for 59 (31%) of items. The errors resulted in a net understatement of the year-end inventory balance of \$672 thousand which, when extrapolated over the entire inventory population, resulted in an estimated understatement exceeding \$5 million.

Pricing errors resulted in an estimated understatement of \$401 thousand

In our inventory price testing, we sampled 17 inventory items, including salt at all Districts, which accounted for \$28 million (48%) of the reported inventory value at June 30, 2015. Of the items tested, 9 (53%) were found to have inaccurate costs resulting in a net understatement of the year-end inventory balance of \$401 thousand.

Aeronautical inventory not reported resulting in a restatement totaling \$1 million

In addition, during fiscal year 2015, the Department determined it had failed to previously report the aeronautical inventory on its financial statements. To correct this error, the Department restated the net position within the proprietary fund (Fund 0309) at June 30, 2014 by \$1 million. (Finding 1, pages 58-59) **This finding was first reported in 1994.**

We recommended the Department strongly emphasize the importance of maintaining accurate inventory quantity and cost records throughout the year. Additionally, the Department should perform periodic physical inventory counts throughout the year and reconcile those to Department records. We further recommended the Department implement a more thorough review at year-end to compare costs assigned per inventory listings to the most recent inventory amounts to ensure accurate unit costs. Finally, training and ongoing education should be provided to all employees involved in the inventory process in order to accentuate the importance of their involvement in this annual exercise.

Department agrees with auditors

Department officials agreed with the recommendations and stated during FY15, the Department continued to make improvements to the commodities inventory process. Department officials also stated that additional training and direction will be provided to the areas involved in the counting, submission and review process. (*For the previous Department response, see Digest Footnote #1.*)

NEED TO IMPROVE REPORTING OF CAPITAL ASSETS

The Department restated governmental activities net position as of June 30, 2014 due to errors identified during fiscal year 2015. In addition, the Department did not accurately report capital assets to the Illinois Office of the Comptroller (Comptroller) for fiscal year 2015.

We noted the following errors and weaknesses in the Department's capital asset reporting process:

Land and building purchases not reported totaling \$47 million

Infrastructure additions not reported totaling \$8 million

Infrastructure deletions were understated by \$201 million

Capital assets understated by \$6 million

- During fiscal year 2015, the Department determined it failed to report a land purchase related to the South Suburban Airport that occurred during fiscal year 2014. The land totaled \$25 million and the building \$22 million, for a combined total of \$47 million. In addition, the Department determined it failed to report infrastructure additions relating to roadway work involving railways that had been completed in prior years. The total infrastructure additions amounted to \$8 million. To correct these errors, the Department restated the governmental activities net position as of June 30, 2014 by \$55 million.
- The Department failed to accurately report infrastructure deletions and accumulated depreciation. Infrastructure deletions were understated by \$201 million, which caused capital assets to be overstated by \$201 million on the financial statements. Infrastructure accumulated depreciation was understated by \$15 million. The Department corrected the error by reducing its capital assets by \$186 million and revising its capital asset records and financial statements accordingly at June 30, 2015.
- While testing construction-in-progress, we noted the Department failed to accurately calculate current year additions to construction-in-progress resulting in a capital asset understatement of \$6 million. The Department corrected this error by revising their financial statements and increasing capital assets by \$6 million at June 30, 2015. (Finding 2, pages 60-61) **This finding was first reported in 2009.**

We recommended the Department ensure its capital asset information is properly recorded and accounted for to permit the preparation of reliable financial information and reports to the Comptroller.

Department agrees with auditors

Department officials agreed with the recommendation and stated during FY15, the GAAP staff completed a review of spending which could include infrastructure costs, which resulted in the prior period spending which was reported this year. These costs will be included on an ongoing basis now

that they have been identified. Additionally, the GAAP staff will continue to improve the process to complete the several sets of Excel spreadsheets used to calculate fixed asset reporting at the end of the year. *(For the previous Department response, see Digest Footnote #2.)*

NEED TO IMPROVE ACCOUNTS PAYABLE CALCULATIONS

Weaknesses and errors were noted in the Department's calculation of its accounts payable at June 30, 2015.

Estimation model included mechanical errors

The estimation model utilized by the Department to calculate accounts payable included mechanical errors that were not identified prior to submitting financial statements to the Office of the Comptroller. Additionally, the estimation process involves consideration of known or anticipated changes in spending in future periods that was not adequately performed prior to submitting the financial statements to the Office of the Comptroller. Specifically,

Accounts payable overstated by \$570 thousand due to calculation errors

- The Department neglected to adjust the model for the Transportation Bond Series A (Fund 553) when calculating the future years' payables portion of the calculation. Fund 0553 had 6 years of historical data available; however, when calculating the average percentage, the Department divided the total by 5 years. This error had the effect of overestimating the accrual by \$570 thousand or 6% of the total accrual for Fund 0553. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015.

Accounts payable overstated by \$168 thousand due to clerical error

- The Department made a clerical error when adjusting the balance of the Transportation Bond Series A Fund (Fund 0553) to the Comptroller on Form SCO-549. A reclassification adjustment was made between transportation expenditures and capital outlays; however, capital outlays were increased without a corresponding decrease in transportation expenditures. This had the effect of overstating accounts payable by \$168 thousand or 2% of the total accrual for Fund 0553. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015.

Accounts payable understated by \$5 million due to failure to recognize vouchers

- The Department failed to recognize certain vouchers from a unit of local government that were processed subsequent to year-end, but prior to the financial statements being issued in the accounts payable model estimation process for Transportation Bond Series D Fund (Fund 0695). The failure to recognize these vouchers resulted in a potential under accrual of accounts payable of \$5 million based on the projected

spending of prior period vouchers for the remainder of 2016 and beyond. The status of the vouchers at the time the model was prepared was known to certain areas of the Department because of the process improvement plan the Department implemented in cooperation with the unit of local government. The Department recorded an adjustment and revised its financial statements for the potential under accrual at June 30, 2015.

Liability totaling \$632 thousand not recorded

In addition, the Department failed to recognize a liability for the Downstate Transit Improvement Fund (Fund 559) for vouchers totaling \$632 thousand which were received subsequent to the fiscal year 2015 lapse period. An estimation model is not prepared for this fund and the Department did not have a mechanism in place to recognize vouchers that may be applicable to prior periods. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015. (Finding 3, pages 62-63) **This finding was first reported in 2013**

We recommended the Department implement a review process to verify the accuracy of any significant calculations used when making key estimations. In addition, we recommended the Department ensure the communication of factors impacting the estimation process be routed to those inputting the data into the accounts payable model.

Department agrees with auditors

Department officials agreed with our recommendations and stated the GAAP staff will continue to improve the process to complete the several sets of Excel spreadsheets used to calculate payables reporting at the end of the year. Additionally, the GAAP staff will include communication with district personnel on backlog of local payments. (*For the previous Department response, see Digest Footnote #3.*)

AUDITOR'S OPINION

Our auditors state the basic financial statements of the Department as of and for the year ended June 30, 2015 were fairly presented in all material respects.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:ph

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for audit were Sikich LLP.

DIGEST FOOTNOTES

#1 - NEED TO IMPROVE COMMODITIES INVENTORY RECORDS

2014: The Department agreed with the finding and stated a quarterly inventory process has been implemented to better prepare the Department for the annual Commodities Inventory process. Additional reviews have been added to the process and they continued to explore ways to improve the accuracy of the various manual processes involved in valuing the Department's Commodities Inventory.

#2 - NEED TO IMPROVE REPORTING OF CAPITAL ASSETS

2014: The Department agreed with the finding and stated during FY14, new GAAP staff was added to the Fiscal Operations Unit which reduced the issues in capital asset reporting. For FY15 the Department identified the errors in the reporting system and will change the criteria for the report. Fiscal Operations staff will also be included in the determination of the correct coding for input into the system. The procedures were changed as part of the correction to the construction in progress for FY14.

3 - NEED TO IMPROVE ACCOUNTS PAYABLE CALCULATIONS

2014: The Department agreed with the finding and stated the Department has made significant enhancements to its accounts payable estimating methodology during recent years, and specifically made considerable enhancements during Fiscal Year 2014. During FY14, new GAAP staff members were added to the Fiscal Operations Unit which will enable the ongoing review of the accounts payable model. The changes needed to the model were incorporated during the corrections in FY14. In addition, the procedures for funds not in the model will be changed to include a review after lapse period.