



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

William G. Holland, Auditor General

**SUMMARY REPORT DIGEST**

**ILLINOIS STATE TOLL HIGHWAY AUTHORITY**

Financial Audit and Compliance Examination  
 For the Year Ended December 31, 2014

Release Date: June 30, 2015

| FINDINGS THIS AUDIT: 7        |          |          |          | AGING SCHEDULE OF REPEATED FINDINGS |            |                           |            |
|-------------------------------|----------|----------|----------|-------------------------------------|------------|---------------------------|------------|
|                               | New      | Repeat   | Total    | Repeated Since                      | Category 1 | Category 2                | Category 3 |
| <b>Category 1:</b>            | <b>0</b> | <b>0</b> | <b>0</b> | 2013                                |            | 14-5                      |            |
| <b>Category 2:</b>            | 2        | 5        | 7        | 2011                                |            | 14-1, 14-2,<br>14-3, 14-4 |            |
| <b>Category 3:</b>            | <u>0</u> | <u>0</u> | <u>0</u> |                                     |            |                           |            |
| <b>TOTAL</b>                  | <b>2</b> | <b>5</b> | <b>7</b> |                                     |            |                           |            |
| <b>FINDINGS LAST AUDIT: 6</b> |          |          |          |                                     |            |                           |            |

**SYNOPSIS**

- (14-1) The Tollway does not have adequate financial systems to prepare its annual financial statements and significant manual effort is required to prepare the annual financial statements in accordance with generally accepted accounting principles (GAAP).
- (14-3) The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.
- (14-4) The Tollway did not adequately document the rationale to support scores awarded to vendor proposals.

**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, 2014**

| <b>FINANCIAL OPERATIONS (GAAP Basis)</b>                    | <b>2014</b>             | <b>2013</b>             |
|---|-------------------------|-------------------------|
| Operating Revenues  |                         |                         |
| Toll Revenue.....   | \$ 968,971,925          | \$ 943,152,070          |
| Toll Evasion Recovery.....                                  | 53,769,282              | 54,220,590              |
| Concessions.....  | 2,096,881               | 2,305,563               |
| Miscellaneous.....  | 17,982,788              | 17,238,843              |
| Total Operating Revenues.....                               | <u>1,042,820,876</u>    | <u>1,016,917,066</u>    |
| Operating Expenses  |                         |                         |
| Depreciation and Amortization.....                          | 308,835,872             | 308,869,419             |
| Services and Toll Collection.....                           | 115,778,783             | 116,319,349             |
| Insurance and Employee Benefits.....                        | 91,082,480              | 86,277,850              |
| Engineering and Maintenance of Roadway and Structures.....  | 53,850,571              | 47,314,811              |
| Traffic Control, Safety Patrol, and Radio Communications... | 25,503,136              | 22,554,755              |
| Procurement, IT, Finance and Administration.....            | 28,322,665              | 24,325,930              |
| Total Operating Expenses.....                               | <u>623,373,507</u>      | <u>605,662,114</u>      |
| Operating Income.....                                       | 419,447,369             | 411,254,952             |
| Total Nonoperating (Expenses).....                          | <u>(187,078,474)</u>    | <u>(206,482,845)</u>    |
| Change in Net Position.....                                 | 232,368,895             | 204,772,107             |
| Net Position, beginning of year.....                        | <u>2,246,335,592</u>    | <u>2,041,563,485</u>    |
| Net Position, end of year.....                              | <u>\$ 2,478,704,487</u> | <u>\$ 2,246,335,592</u> |
| <b>SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)</b>            | <b>2014</b>             | <b>2013</b>             |
| Cash and Cash Equivalents (Unrestricted).....               | \$ 898,262,170          | \$ 812,039,408          |
| Cash and Cash Equivalents Restricted for Debt Service.....  | \$ 465,390,500          | \$ 456,057,686          |
| Cash and Cash Equivalents - I-PASS Accounts.....            | \$ 167,097,111          | \$ 164,702,419          |
| Accounts Receivable - Current (net).....                    | \$ 9,808,640            | \$ 8,795,293            |
| Accounts Receivable Less Current Portion.....               | \$ 138,551,087          | \$ 108,265,566          |
| Capital Assets.....   | \$ 6,235,314,815        | \$ 5,429,506,171        |
| Revenue Bonds Payable.....                                  | \$ 5,417,187,765        | \$ 4,519,586,373        |
| Total Net Position.....                                     | \$ 2,478,704,487        | \$ 2,246,335,592        |
| <b>EXECUTIVE DIRECTOR</b>                                   |                         |                         |
| During Audit Period : Kristi Lafleur                        |                         |                         |
| Currently: Greg Bedalov                                     |                         |                         |

**FINDINGS, CONCLUSIONS, AND**  
**RECOMMENDATIONS**

**NEED TO IMPROVE FINANCIAL REPORTING  
SYSTEMS**

**Financial systems need to be improved**

The Tollway does not have adequate financial systems to prepare its annual financial statements and 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 trust indentures. 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 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 trust indentures, several top side entries are required to convert the trial balance to GAAP-based financial statements. As a result, the preparation of the annual financial statements is extremely 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 to: restrict access for posting transactions, track specific user activity, or evidence supervisory reviews of transactions activity. Therefore, the Tollway's process for approving journal entries is also manual and 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 1, pages 11-12) **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 were pursuing 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 specifically reviewing cash disbursements made subsequent to year end to determine which accounting period the related expense transaction pertained through the end of January. Additionally, each Tollway department works with its vendors to obtain estimated or actual fiscal year end billings prior to the end of January.

We reviewed 156 cash disbursements subsequent to year end (totaling \$112,062,689). During our review of these transactions we noted the following items were not recorded to the proper accounting period:

- One contractual services expenditure totaling \$34,974 was erroneously accrued twice to fiscal year 2014.
- One administrative expenditure related to trustee fees totaling \$29,333 which pertained to fiscal year 2015 was recorded as expense in fiscal year 2014.
- One roadway maintenance expenditure totaling \$16,996 which pertained to fiscal year 2014 was recorded in fiscal year 2015.
- One computer software expenditure totaling \$9,800 which pertained to fiscal year 2015 was recorded as expense in fiscal year 2014.

### Expenses were not recorded in the proper fiscal year

Failure to accurately identify and record period end accounts payable transactions may result in the misstatement of the Tollway's financial statements. (Finding 3, pages 15-16)  
**This finding was first reported in 2011.**

We recommended the Tollway review its current process 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 and stated they were pursuing an ERP system. (*For the previous Tollway response see Digest Footnote #2.*)

## **PROCUREMENT: LACK OF EVALUATION COMMENTS**

The Tollway did not adequately document the rationale to support scores awarded to vendor proposals.

### **Need to improve documentation**

During procurement testing we selected a sample of 40 procurements executed by the Tollway during the year ended December 31, 2014. The 40 procurements tested were estimated, with renewals, to be approximately \$527 million. Four of the opportunities (with awards estimated at \$49 million) were procured using a Request for Proposal (RFP) for goods and services and the other 36 opportunities (with awards estimated at \$478 million) were either procured as State-use contracts, engineering professional service contracts, or awarded to the lowest bidder.

### **Some of the criteria for scoring were not completed**

We noted inadequate evaluation comments for contracts executed in March and July 2014. Specifically, we noted for one contract that one of five evaluators did not complete 5 of 16 criteria. We also noted for the second contract that one of six evaluators did not complete 2 of 24 criteria.

The Tollway's Evaluation Guidelines for RFP requires an evaluator's total score be supported by and consistent with appropriate comments in each category.

Failure to provide thorough and appropriate comments relative to how scores were assigned to evaluation criteria is in violation with the Tollway's procurement procedures and prevents an independent reviewer from assessing whether the appropriate vendor was awarded the contract. (Finding 4, page 17) **This finding was first reported in 2011.**

We recommended the Tollway take the necessary steps to ensure that procurement evaluation criteria are followed and appropriately documented by all evaluators when awarding State contracts. Such steps should include ensuring that evaluators submit thorough and appropriate comments to support scores awarded for evaluation criteria and following up with evaluation team members who fail to document such comments.

### **Tollway agrees with the auditors**

Tollway management agreed with the recommendation and stated that evaluation guidelines were enhanced and implemented to include additional oversight and monitoring. *(For the previous Tollway response see Digest Footnote #3.)*

## **OTHER FINDINGS**

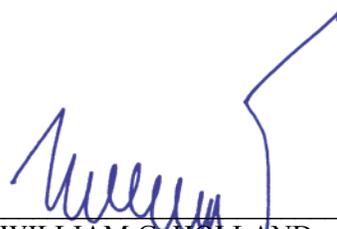
The remaining findings are reportedly being given attention by the Tollway. Auditors will review the Tollway's progress towards the implementation of all recommendations in the next engagement.

## **AUDITORS' OPINION**

Our auditors stated the Illinois State Toll Highway Authority's financial statements as of December 31, 2014 and for the year then ended were presented fairly in all material respects.

## **ACCOUNTANT'S OPINION**

The accountants conducted a compliance examination of the Authority for the year ended December 31, 2014, as required by the Illinois State Auditing Act. The auditors stated the Authority complied, in all material respects, with the requirements described in the report.



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WILLIAM G. HOLLAND  
Auditor General <sup>2</sup>

WGH:TLK

## **SPECIAL ASSISTANT AUDITORS**

Our Special Assistant Auditors for this engagement were KPMG LLP.

## **DIGEST FOOTNOTE**

### **#1 - INADEQUATE FINANCIAL REPORTING SYSTEMS**

2013: The Tollway concurs with the auditors' recommendation and is pursuing an ERP system.

### **#2 - INADEQUATE YEAR END PAYABLES PROCESS**

2013: The Tollway concurs with the auditor's recommendation and is pursuing an ERP system to include improved and automated controls concerning accounts payable.

### **#3 - PROCUREMENT: LACK OF EVALUATION COMMENTS**

2013: The Tollway concurs with the auditors' recommendation. Evaluation guidelines were enhanced and implemented on November 16, 2012 as a result of a prior year audit finding.