



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Financial Audit and Compliance Examination
 For the Year Ended December 31, 2015

Release Date: July 21, 2016

FINDINGS THIS AUDIT: 6	AGING SCHEDULE OF REPEATED FINDINGS						
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		15-6	
Category 2:	0	6	6	2013		15-5	
Category 3:	0	0	0	2011		15-1, 15-2, 15-3, 15-4	
TOTAL	0	6	6				
FINDINGS LAST AUDIT: 7							

SYNOPSIS

- (15-1) 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).
- (15-3) The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.

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, 2015**

FINANCIAL OPERATIONS (GAAP Basis)	2015	2014
Operating Revenues		
Toll Revenue.....	\$ 1,146,629,436	\$ 968,971,925
Toll Evasion Recovery.....	64,323,149	53,769,282
Concessions.....	2,117,517	2,096,881
Miscellaneous.....	15,493,528	17,982,788
Total Operating Revenues.....	<u>1,228,563,630</u>	<u>1,042,820,876</u>
Operating Expenses		
Depreciation and Amortization.....	328,650,467	308,835,872
Services and Toll Collection.....	160,233,841	115,778,783
Insurance and Employee Benefits.....	*	91,082,480
Engineering and Maintenance of Roadway and Structures.....	98,064,006	53,850,571
Traffic Control, Safety Patrol, and Radio Communications...	50,307,156	25,503,136
Procurement, IT, Finance and Administration.....	42,135,110	28,322,665
Total Operating Expenses.....	<u>679,390,580</u>	<u>623,373,507</u>
Operating Income.....	549,173,050	419,447,369
Total Nonoperating (Expenses), net.....	<u>(201,705,716)</u>	<u>(187,078,474)</u>
Change in Net Position.....	347,467,334	232,368,895
Net Position, beginning of year, as previously reported.....	2,478,704,487	2,246,335,592
Restatement - GASB 68.....	<u>(633,249,324)</u>	-
Net Position, beginning of year, as previously reported.....	<u>1,845,455,163</u>	<u>2,246,335,592</u>
Net Position, end of year.....	<u>\$ 2,192,922,497</u>	<u>\$ 2,478,704,487</u>

* - Insurance and Employee Benefits were allocated amongst various Operating Expenses in 2015.

SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)	2015	2014
Cash and Cash Equivalents (Unrestricted).....	\$ 938,208,030	\$ 898,262,170
Cash and Cash Equivalents Restricted for Debt Service.....	\$ 183,467,919	\$ 465,390,500
Cash and Cash Equivalents - I-PASS Accounts.....	\$ 174,903,373	\$ 167,097,111
Accounts Receivable - Current (net).....	\$ 14,181,437	\$ 9,808,640
Intergovernmental Receivable - Less Current Portion.....	\$ 222,856,244	\$ 138,551,087
Capital Assets.....	\$ 7,379,283,872	\$ 6,235,314,815
Revenue Bonds Payable.....	\$ 6,150,137,340	\$ 5,417,187,765
Total Net Position.....	<u>\$ 2,192,922,497</u>	<u>\$ 2,478,704,487</u>

EXECUTIVE DIRECTOR

During Audit Period : Kristi Lafleur (1-1-15 thru 6-24-15) Greg Bedalov (6-25-15 thru current)

Currently: Gary 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 is required 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 are 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.

The auditors reviewed 205 cash disbursements subsequent to year end (totaling \$191,499,712) and 120 cash disbursements during fiscal year 2015 (totaling \$172,420,365) . During our review of these transactions the auditors noted the following items were not recorded to the proper accounting period:

Expenses were not recorded in the proper fiscal year

- Four highway construction and improvement expenditures (totaling \$5,493,411) that pertained to fiscal year 2015 were recorded as expenses in fiscal year 2016.
- One computer software expenditure (totaling \$5,988) that pertained to fiscal year 2014 was recorded as expense in fiscal year during 2015.
- One auditing and management services expenditure (totaling \$130) that pertained to fiscal year 2014 was recorded as an expense during fiscal year 2015.
- One repair and maintenance expenditure (totaling \$40) that pertained to fiscal year 2014 was recorded as an expense during fiscal year 2015.

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 are pursuing an ERP system. *(For the previous Tollway response see Digest Footnote #2.)*

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.

AUDITOR'S OPINION

Our auditors stated the Illinois State Toll Highway Authority's financial statements as of December 31, 2015 and for the year then ended are presented fairly in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended December 31, 2015, 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.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

SPECIAL ASSISTANT AUDITORS

Our Special Assistant Auditors for this engagement were KPMG LLP.

DIGEST FOOTNOTE

#1 - INADEQUATE FINANCIAL REPORTING SYSTEMS

2014: The Tollway concurs with the auditors' recommendation and is pursuing an ERP system which will consolidate data, integrate information across our agency, and bring our financial systems up to date.

#2 - INADEQUATE YEAR END PAYABLES PROCESS

2014: The Tollway concurs with the auditor's recommendation and is pursuing an ERP system that will include improved and automated controls concerning accounts payable.