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

SUMMARY REPORT DIGEST

DEPARTMENT OF TRANSPORTATION

Financial Audit for the Year Ended June 30, 2012 and Compliance Examination for the Two Years Ended June 30, 2012

Release Date: June 19, 2013

Summary of Findings:

Total this audit:	**19**
Total last audit:	**23**
Repeated from last audit:	**15**

SYNOPSIS

- The Department's year-end financial reporting contained numerous deficiencies.
- The Department maintained inaccurate commodities inventory records for the year ended June 30, 2012.
- The Department did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2012.
- The Department did not accurately report unavailable deferred revenues at June 30, 2012.
- The Department filed emergency purchase affidavits for contracts and purchases due to the Department's failure to procure contracts in a timely manner.
- The Department inadequately monitored interagency agreements.
- The Department did not maintain controls to ensure employees' overtime hours were appropriately documented, reasonable, and agreed to the timekeeping system.
- The Department did not have adequate controls to prevent inappropriate payments to vendors.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year(s) Ended June 30, 2012

EXPENDITURE STATISTICS	2012	2011	2010
Total Expenditures..	**$ 5,646,159,445**	**$ 5,618,589,680**	**$ 4,935,663,676**
OPERATIONS TOTAL..	$ 898,582,586	$ 827,119,352	$ 803,438,716
% of Total Expenditures...	15.9%	14.7%	16.3%
Personal Services...	427,882,668	413,780,888	391,219,607
Other Payroll Costs (FICA, Retirement)....................	182,349,538	148,898,643	141,472,161
All Other Operating Expenditures.............................	288,350,380	264,439,821	270,746,948
AWARDS AND GRANTS...	$ 1,772,468,183	$ 1,693,395,770	$ 1,380,805,278
% of Total Expenditures..	31.4%	30.2%	28.0%
HIGHWAY/WATERWAY CONSTRUCTION..............	$ 2,968,203,247	$ 3,090,347,440	$ 2,744,511,758
% of Total Expendiutres..	52.6%	55.0%	55.6%
PERMANENT IMPROVEMENTS.................................	$ 6,905,429	$ 7,727,118	$ 6,907,924
% of Total Expenditures..	0.1%	0.1%	0.1%
Total Receipts..	**$ 1,980,337,400**	**$ 2,066,090,711**	**$ 2,015,363,911**
Average Number of Employees (Unaudited)...............	**5,259**	**5,221**	**5,106**

SELECTED ACTIVITY MEASURES (Unaudited)	2012	2011	2010
Number of bridges maintained/improved......................	262	263	292
Percent of bridges in need of repair..............................	8.0%	8.0%	7.0%
Number of lane miles of pavement maintained.............	42,875	42,875	42,875
Construction investment/lane mile................................	$62,890	$68,925	$61,846
Highway safety improvements accomplished……….........	189	239	266
Percent of roads in need of repair.................................	15.0%	12.0%	10.8%

AGENCY DIRECTOR	
During Examination Period:	Ann L. Schneider (effective 7/1/11), Gary Hannig (through 6/30/11)
Currently:	Ann L. Schneider

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE YEAR-END FINANCIAL REPORTING

Financial reporting was inaccurate

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Office of the State Comptroller contained numerous inaccuracies. These problems, if not detected and corrected, could materially misstate the Department's financial statements and negatively impact the Statewide financial statements prepared by the Office of the State Comptroller.

Final corrected financial statements not provided until February 1, 2013

During our audit of the June 30, 2012 Department financial statements we noted the draft submitted to the auditors contained several errors which required corrections. The Department provided the auditors with the final corrected financial statements on February 1, 2013, 3 ½ months after providing the original draft to the Office of the State Comptroller.

The Department cited human error and a lack of resources as contributing factors to the inaccurate financial reporting. (Finding 1, pages 14-16) **This finding was first reported in 2009.**

We recommended the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in an accurate and complete manner.

Department agrees with auditors

Department officials agreed with the recommendation and stated they have reorganized the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes. (For the previous Department response, see Digest Footnote # 1)

NEED TO IMPROVE COMMODITIES INVENTORY RECORDS

The Department maintained inaccurate commodities inventory records for the year ended June 30, 2012.

Entire inventory population was overstated by an estimated $492,278

During our physical inventory counts, we counted 248 inventory items and noted discrepancies between audit test counts and Department inventory counts for 80 (32%) items. The errors resulted in an overstatement of the year-end inventory balance of $113,385 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of $492,278.

Pricing errors resulted in an estimated overstatement of $1,939,489

In our inventory price testing, we sampled 15 inventory items, including salt at all Districts, which accounted for $28,077,646 (48%) of the reported inventory value at June 30, 2012. Of the items tested, 13 (87%) were found to have inaccurate costs resulting in a net overstatement of the year-end inventory balance of $121,947 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of $1,880,045. Through analytical review procedures applied to the final inventory listings, we identified an additional 7 items with unusual pricing variances from fiscal year 2011 to fiscal year 2012. Our testing of these items revealed a net overstatement of $59,444 in addition to the extrapolated misstatement noted above. (Finding 2, pages 17-19) **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 also 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 recommendation and stated they will continue to make improvements to the year-end commodity inventory process. (For the previous Department response, see Digest Footnote #2)

NEED TO IMPROVE REPORTING OF CAPITAL ASSETS

The Department did not accurately report capital assets to the Office of the State Comptroller for fiscal year 2012.

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

Improper capitalization of repair and maintenance expenditures

Capital assets were overstated by $47.2 million

- The Department improperly capitalized repair and maintenance type expenditures in infrastructure additions. Through our testing of infrastructure additions, we identified $47.2 million of fiscal year 2012 infrastructure additions which were incurred under contracts coded as repair and maintenance. The total award amount for these multi-year contracts was $105.1 million. At June 30, 2012, capital assets were overstated by approximately $47.2 million due to the capitalization of these costs as infrastructure additions.

The exact amount of the overstatement is unknown because it is possible that some of the contracts were correctly capitalized. At the time of our testing, we were unable to reach such a conclusion because of the weaknesses noted in the Department's coding of its repair and maintenance type contracts. The potential misstatement was not considered material by the Department and was not corrected as of June 30, 2012.

$663 thousand of sewer system upgrades not capitalized

- In our testing of repair and maintenance type expenditures, we noted the Department failed to capitalize $663 thousand of costs related to significant sewer system upgrades at two rest areas. The Department has stated that rest areas are considered to be part of the State-wide infrastructure network and costs should be capitalized in accordance with the policies for infrastructure. These misstatements were not considered material by the Department and were not corrected as of June 30, 2012.

Overstatement of loss on disposal totaling $39.3 million

- The Department understated accumulated depreciation deletions for infrastructure due to an error in identifying the accumulated depreciation associated with fully depreciated infrastructure assets being deleted from the reported balances. This error resulted in the Department improperly showing a loss from disposal of $39.3 million. As current year deletions are used by the Department to calculate current year additions, depreciation additions for infrastructure were also understated by $39.3 million. While the balance of infrastructure assets, net of accumulated depreciation, was fairly stated at June 30, 2012, the Department had overstated the loss on disposal of infrastructure assets and understated current period depreciation expense. The misstatement was not considered material by the Department and was not corrected as of June 30, 2012.

Improper allocation of capital outlays and transportation expenditures

Capital assets were understated by $8.9 million

Accounts payable for the Road Fund was understated by $2.6 million

- In the fiscal year 2011 audit, it was noted the Department failed to properly allocate accounts payable between capital outlays and transportation expenditures resulting in an understatement of capital assets at fiscal year-end for amounts to be paid after the lapse period. For fiscal year 2012, the Department developed a methodology to allocate accounts payable from future years' appropriations to capital outlays and capitalize those amounts at June 30, 2012. In implementing this new procedure, the Department improperly subtracted $8.9 million of lapse period expenditures related to equipment which were not expended from reappropriated funds resulting in an understatement of capital assets. Additionally, the accounts payable balance used for the Road Fund (Fund 011) was understated resulting in a $2.6 million understatement of capital assets. These misstatements were not considered material by the Department and were not adjusted for at June 30, 2012.

Overstatement of land totaling $2.2 million

- In our testing of land additions, we noted the Department improperly capitalized certain costs which were not related to the acquisition of land resulting in an overstatement of land of $2.2 million. The Department made similar errors resulting in a $2.5 million overstatement of land at June 30, 2011. The Department did not consider the combined overstatement of $4.7 million to be material to the financial statements and it was not corrected as of June 30, 2012.

Errors in amortization of temporary easements resulted in a $130 thousand overstatement

- The Department failed to accurately determine the current year amortization of temporary easements resulting in a $130 thousand overstatement of capital assets at June 30, 2012. In the prior year, the Department made the same error resulting in a $125 thousand overstatement of capital assets at June 30, 2011. The Department did not consider the combined overstatement of $255 thousand to be material to the financial statements and it has not been corrected at June 30, 2012. (Finding 3, pages 20-22) **This finding was first reported in 2009.**

We recommended the Department devote sufficient resources to its financial accounting function such that the 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. (For the previous Department response, see Digest Footnote #3)

NEED TO IMPROVE REPORTING OF DEFERRED REVENUES

The Department did not accurately report unavailable deferred revenues at June 30, 2012.

We noted the following errors and weaknesses in the Department's unavailable deferred revenue process:

Unavailable deferred revenues were understated by $1.5 million

- The Department failed to accurately report unavailable deferred revenue in the Road Fund (Fund 011) at June 30, 2012 due to the failure to include and properly allocate all applicable receipts collected during the lapse period in the spreadsheets utilized to calculate the balances reported in its financial statements. The effect of the errors resulted in a $1.5 million understatement of unavailable deferred revenue, and overstatement of federal operating grants, at June 30, 2012. The errors in Fund 011 were not considered material and have not been corrected as of June 30, 2012.
- The Department failed to accurately determine the amount of accounts payable in the Federal High Speed Rail Trust Fund (0433) and the Federal Mass Transit Trust Fund (0853) due to failing to consider expenditures made after

Receivables and unavailable deferred revenues were understated by $3.8 million

August 31, 2012. Due to the expenditures being reimbursable under federal operating grants, the errors also resulted in understatements of intergovernmental receivables and unavailable deferred revenues totaling $2.7 million in Fund 0433 and $1.1 million in Fund 0853 at June 30, 2012. The errors in Funds 0433 and Fund 0853 were not considered material and have not been corrected as of June 30, 2012. (Finding 4, pages 23-24) **This finding was first reported in 2010.**

We recommended the Department devote sufficient resources to its financial accounting function such that the deferred revenues are properly accounted for to permit the preparation of reliable financial information submitted to the Office of the Comptroller.

Department agrees with auditors

Department officials agreed with the recommendation. (For the previous Department response, see Digest Footnote # 4).

NEED TO IMPROVE CONTROLS OVER EMERGENCY PURCHASES

The Department filed emergency purchase affidavits for contracts and purchases which should not have been an emergency.

Emergency purchases were filed due to inability to procure contracts timely

During our testing of emergency purchases, we identified 3 affidavits totaling $102,600 during fiscal years 2012 and 2011 for purchases, according to the guidelines set forth in the Illinois Procurement Code, that only met the definition of an emergency due to the Department's inability to procure contracts in a timely manner, thus creating the emergency situation. The purchases made by the Department under those 3 emergency affidavits included refuse collection, scale maintenance, and weather service. (Finding 6, page 28)

We recommended the Department follow the Illinois Procurement Code and use its emergency provisions only in true emergencies.

Department agrees with auditors

Department officials agreed with our recommendation and stated in October 2012, the Department implemented a process requesting end-users to provide the information necessary to ensure the procurement process can be completed in a timely manner.

NEED TO IMPROVE CONTROLS OVER INTERAGENCY AGREEMENTS

The Department's process to monitor interagency agreements was inadequate.

We noted the following:

Interagency agreements were signed between 1 and 116 days late

- Four of 23 (17%) interagency agreements tested were signed by all parties 1 to 116 days after the effective date.

No performance evaluations for "liaisons"

- For 2 of 3 (67%) agreements tested entered into by the Office of the Governor (Office) and the Department and other agencies, for the sharing of employee services ("liaisons"), no performance evaluations were available for review. Both agreements required the Department to maintain all documentation related to leave administration, payroll and other personnel activities.

"Liaison" paid prior to beginning employment with Department

- For 1 of 3 (33%) agreements tested entered into by the Office and the Department and other agencies, for the sharing of employee services ("liaisons"), the Department failed to enforce the terms of the agreement. According to the agreement, the liaison was to dedicate a substantial portion of working time between the Department and the Department of Agriculture (DOA) from July 1, 2011 through June 30, 2012. Additionally, the liaison's salary was to be split between the Department and DOA. According to the Department, the liaison did not begin employment with the Department until February 1, 2013.

Cellular charges totaling $657 were paid after an employee transferred

- The Department paid approximately $657 in monthly service charges for a personally assigned cellular device 158 days after an employee separated from the Department and transferred to the Governor's Office without an agreement.

No supporting documentation for invoices

No audits of GCPF projects

- The Department did not comply with certain requirements of an interagency agreement with the Illinois Commerce Commission (ICC) when disbursing payments for a Grade Crossing Protection Fund (GCPF) project. For 8 of 25 (32%) invoices selected, the Department was not able to provide supporting documentation for invoices totaling $261,514. The Department was also not able to demonstrate approval of 2 of the remaining 17 (12%) invoices that were provided. Additionally, we noted the Department did not conduct audits of the GCPF projects as required by the agreement. The interagency agreement assigns the Department responsibility to ensure the rail carriers provide sufficient documentation for all reimbursements and provided for minimum documentation requirements. The agreement further requires the Department to conduct audits of all GCPF projects. (Finding 7, pages 29-31) **This finding was first reported in 2007).**

We recommended the Department ensure interagency agreements are approved prior to the effective date of the agreement, and before any expenses are paid. We also recommended the Department ensure the terms of the agreements are followed.

Department agrees with auditors

Department officials agreed with our recommendation and stated they will continue to endeavor to have fully executed agreements in place before costs are incurred, services performed, or staff assigned to work at another agency on behalf of the Department. (For the previous Department response, see Digest footnote # 5).

NEED TO IMPROVE CONTROLS OVER EMPLOYEE OVERTIME

The Department did not maintain controls to ensure employees' overtime hours were appropriately documented, reasonable, and agreed to the timekeeping system.

Overtime pay totaled $25,838,570 and $38,151,425 during FY12 and FY11

According to Department records, the Department expended $25,838,570 and $38,151,425 during fiscal years 2012 and 2011, respectively.

We tested a sample of 15 employees who received between $19,543 and $72,590 in overtime pay during fiscal years 2011 and 2012 and reviewed three months of their sign out sheets, overtime cards, when applicable, and the timekeeping system (TKS) balances.

We noted the following during our review:

Overtime paid was not recorded on overtime cards

- Two of 15 (13%) employees tested were paid an additional 7 hours of overtime over what was recorded on the overtime card.

Additional overtime recorded when hours were not worked

- Two of 15 (13%) employees' tested overtime cards contained 19 instances where the employees recorded additional overtime than was actually worked according to employees' start and stop times. The employees received 7.5 additional overtime hours.

Employee worked 24 hours consecutively

- One of 15 (7%) employees tested accrued significant overtime hours in short periods of time. In three separate instances, the employee worked 24 hours consecutively.

We also tested 25 general overtime cards and noted the following weaknesses:

No employee signature on overtime card

- Three of 25 (12%) overtime cards reviewed did not have an employee signature.

Overtime improperly recorded at time and one half

- Two of 25 (8%) overtime cards reviewed did not have overtime hours recorded properly. The overtime hours were recorded at time and one half when it should have been recorded as straight overtime.

Additional overtime recorded when hours were not worked

- One of 25 (4%) overtime cards reviewed had more overtime hours claimed than was actually worked according to the employee's start and stop times. The employee claimed 1 additional hour of overtime. (Finding 9, pages 34-36) **This finding was first reported in 2007.**

We recommended the Department implement controls to ensure employee overtime is adequately documented and all amounts paid are proper.

Department agrees with auditors

Department officials agreed with our recommendation and stated they will send a reminder memo to the timekeepers addressing the importance of accurate data entry. (For the previous Department response, see Digest footnote #6).

INADEQUATE CONTROLS TO PREVENT INAPPROPRIATE PAYMENTS TO VENDORS

$85,226 in duplicate payments during FY11 and FY12

The Department did not have adequate controls to prevent inappropriate payments to vendors. During testing, we noted 12 instances where the Department issued $85,226 in duplicate payments to vendors during the audit period.

Payments were issued twice

We obtained a report of potential duplicate vouchers using auditing software and noted 9 of 25 (36%) payments tested totaling $12,157 were issued twice by the Department. We also noted 3 of 25 (12%) refunds totaling $73,069 were the result of duplicate or erroneous payments.

Vendors return duplicate or erroneous payments

The Department's accounting system invokes a warning for duplicate payments for invoices if the invoice number already exists or if the payee identification and invoice dollar amount are the same, but the same individual who enters the voucher can override the alert. In addition, there is no centralized report to allow management to review all employee overrides for reasonableness. Further, the system only warns for duplicates within the same accounting entity and fiscal year, and the Department has 35 accounting entities entering vouchers and also has reappropriated accounts that do not lapse at the end of the fiscal year. (Finding 15, pages 49-50) **This finding was first reported in 2007.**

No review of employee overrides

We recommended the Department implement controls to review the employee override for duplicate payments. In addition, controls should be implemented to prevent duplicate payments between accounting entities and over different fiscal years for the reappropriated accounts. We further recommended the Department obtain reimbursement for the duplicate payments.

Department agrees with auditors

Department officials agreed with the recommendation and stated they are reviewing current controls and potential new controls to address the issue. (For the previous Department response, see Digest Footnote #7)

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Department. We will review the Department's progress toward implementation of our recommendations in our next examination.

AUDITORS' OPINION

Our auditors state the basic financial statements of the Department as of and for the year ended June 30, 2012 were fairly presented in all material respects.

STATE COMPLIANCE EXAMINATION – ACCOUNTANT'S REPORT

The auditors qualified their report on State Compliance for findings 12-3, 12-5, 12-7 and 12-9. Except for the noncompliance described in these findings, the auditors state the Department complied, in all material respects, with the requirement described in the report.

WILLIAM G. HOLLAND
Auditor General

WGH:PH:rt

AUDITORS ASSIGNED

Sikich, LLP were our special assistant auditors.

DIGEST FOOTNOTES

 # 1 - NEED TO IMPROVE YEAR END FINANCIAL REPORTING

2011: The Department agreed with the recommendation and stated they experienced significant difficulties with the WEDGE reporting system. The delay caused by these difficulties resulted in significant delays in the final information being available for the GAAP packages, further delaying the financial statement process. The Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial as required by the Office of the Comptroller.

#2 – NEED TO IMPROVE COMMODITIES INVENTORY RECORDS

2011: The Department agreed with the recommendation and stated they will continue to make improvements to the year-end commodity inventory process to produce an accurate count and pricing out their commodity inventory. They stated they will strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting the June 30, 2012, commodity inventory count and pricing. They would conduct a more thorough review at year-end of the commodity inventory records produced by Department personnel to ensure accurate unit costs and consistent unit of measures.

 # 3 – NEED TO IMPROVE REPORTING OF CAPITAL ASSETS

2011: The Department agreed with the recommendation and stated they were reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller. This reorganization will include the implementation of monthly processes to review and reconcile capital asset reporting to ensure accurate financial reporting.

 # 4 - NEED TO IMPROVE CONTROLS OVER REPORTING OF DEFERRED REVENUES

2011: The Department agreed with the recommendation and stated the Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller. This reorganization will include the implementation of monthly processes to review and analyze the information necessary to ensure accurate financial reporting of deferred revenues.

#5 -NEED TO IMPROVE CONTROLS OVER INTERAGENCY AGREEMENTS

2010: The Department agreed with the recommendation and stated they would continue to work with the interagency agreement manager in the Governor's Office to ensure that all interagency agreements are properly executed before the employee begins work and that all terms of the agreements are followed.

#6 – NEED TO IMPROVE CONTROLS OVER EMPLOYEE OVERTIME

2010: The Department agreed with the recommendation and stated a memorandum will be distributed detailing the levels of responsibility in regards to documenting overtime. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of Statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

#7 – INADEQUATE CONTROLS TO PREVENT INAPPROPRIATE PAYMENT TO VENDORS

2010: The Department agreed with the recommendation and stated they held training on the Fiscal Operations and Administration (FOA) system in May 2011. Duplicate payments was addressed and staff was informed that FOA does warn of duplicate payments across all accounting entities, staff were also reminded of the responsibility to verify accuracy of the invoicing when a duplicate payment warning occurs. The Department does invoice the vendors for reimbursement when duplicate payments are made. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of Statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.