STATE OF ILLINOIS

OFFICE OF THE AUDITOR GENERAL

MANAGEMENT AUDIT OF

ROAD FUND REVENUE AND EXPENDITURES

MAY 2013

WILLIAM G. HOLLAND

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly, and the Governor:

This is our report of the management audit of Road Fund revenue and expenditures.

The audit was conducted pursuant to Senate Resolution Number 788, which was adopted June 1, 2012. This audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

WILLIAM G. HOLLAND
Auditor General

Springfield, Illinois
May 2013

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**

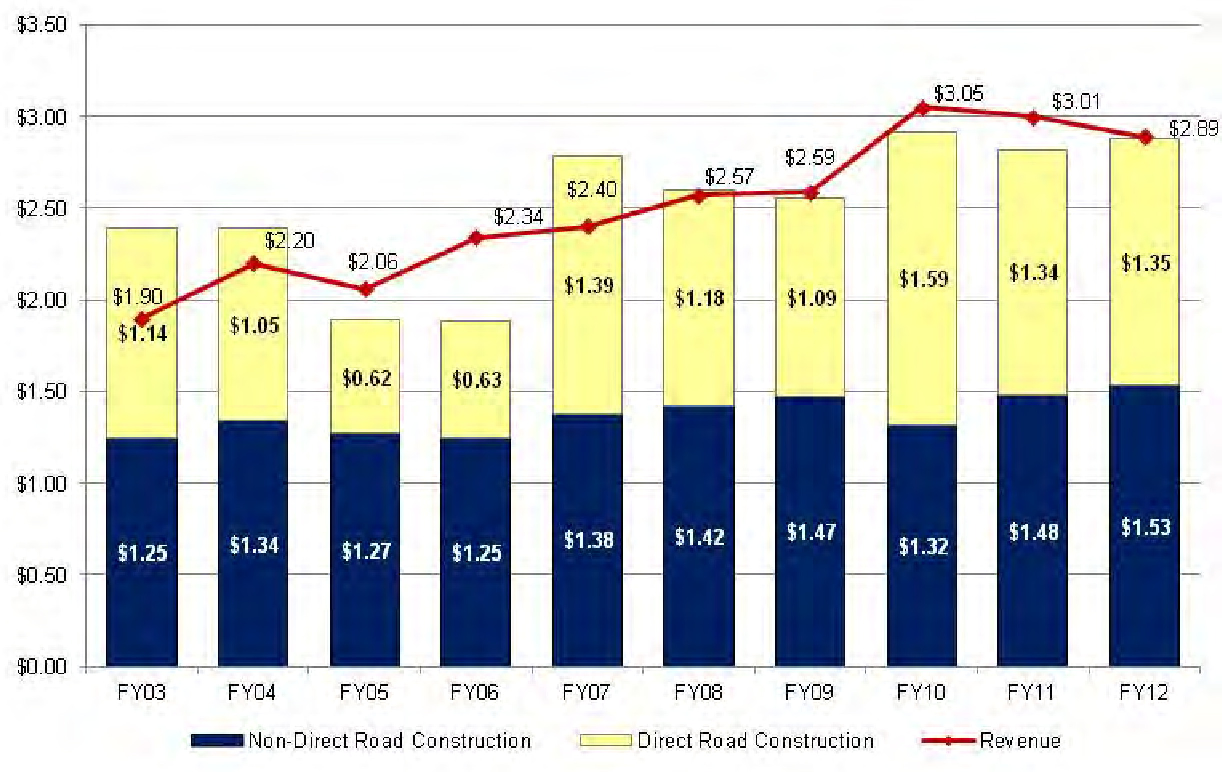
Source: Illinois Comptroller.

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.

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.

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).

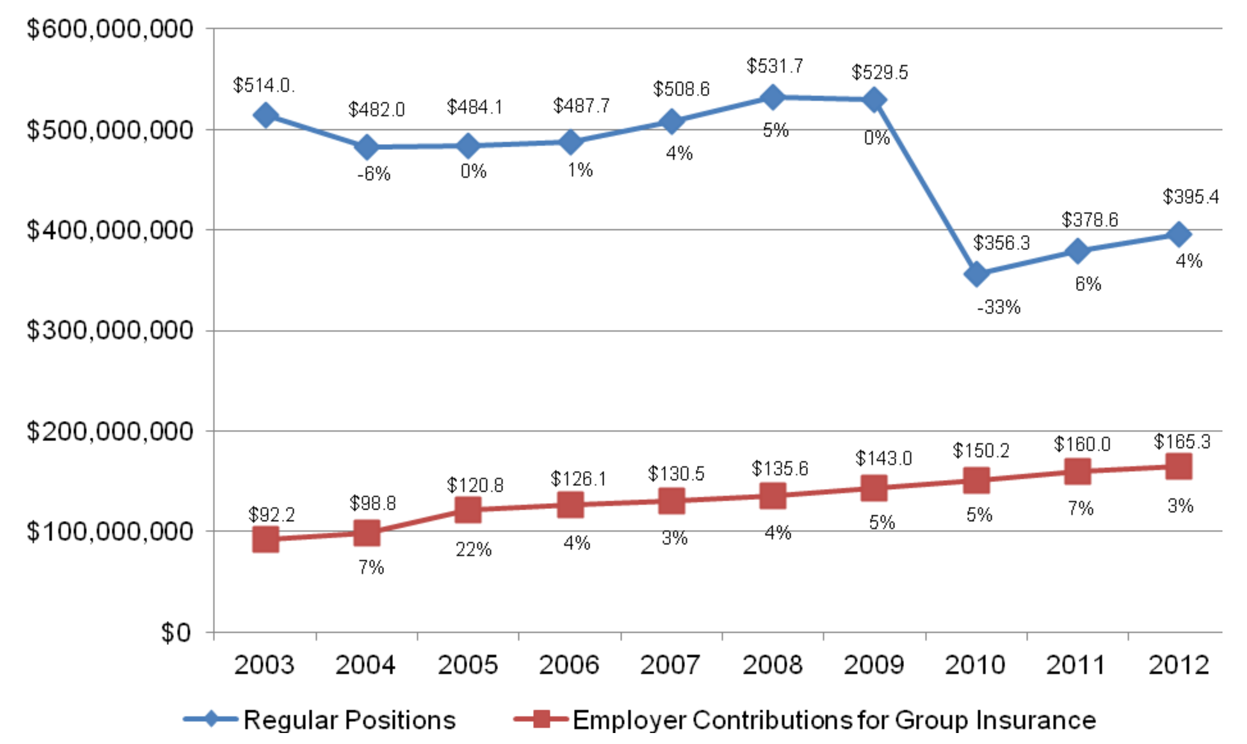
Auditors estimated that the total overpayment by the Road Fund for group health insurance in FY10 and FY11 was approximately $156.6 million.

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

WGH:SAW

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

TABLE OF CONTENTS

Chapter One

INTRODUCTION AND BACKGROUND

REPORT CONCLUSIONS

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.

Road Fund Expenditures

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. Most of the Road Fund expenditures, $18.9 billion, were made by the Illinois Department of Transportation (IDOT).

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. 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.

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 $1.3 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. However, non-direct road construction costs increased to $1.48 billion in FY11 and

$1.53 billion in FY12 (see inset). 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).

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

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.

During the 10 year audit period (FY03 through FY12), $6.2 billion of the $25 billion (25%) 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.

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.

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. 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.

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. These rates differed from the rates GOMB provided to agencies for budgeting purposes. For example, the rate provided by GOMB was $14,500 in FY11; the "other fund" rate per employee calculated in FY11 by HFS was $12,824. We asked GOMB why the HFS rate estimate and the GOMB rate estimate were different and GOMB noted that they were not the ones that put together HFS' numbers and had not seen the documents being cited. The former employee did not respond to our inquiry as to why the numbers differed or how his calculations were used.

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.

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). 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.

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. 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.)

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. This cap is established in a discussion between CMS and GOMB. According to CMS, the GRF contribution owed 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.

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 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.

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 to 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. 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. 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.

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.

Interagency Agreement

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.

BACKGROUND

Senate Resolution Number 788 requires 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 (see Appendix A). The audit is to include, but not be limited to, the following determinations:

1. an examination of the sources of funding for the Road Fund in Fiscal Year 2012, and a determination of whether the funding sources have significantly changed over the past 10 years;
2. an examination of the uses of the Road Fund in Fiscal Year 2012. The analysis should include the amount of funds used for direct road construction costs (including local and State road construction projects), health care and workers' compensation costs, and other costs. To the extent possible, the audit shall include a historical review of the uses of the Road Fund and any significant changes that have occurred over the past 10 years; and
3. a determination whether State Employee Group Health Insurance charges paid from the Road Fund were reasonable and in line with the charges paid from the General Revenue Fund.

FUNDS USED FOR ROAD CONSTRUCTION

Senate Resolution No. 788 requires the Auditor General to examine the funding and uses of the State's **Road Fund**. While the Road Fund is the primary fund used to pay for road construction projects in Illinois, several other funds also provide funding. These include the State Construction Account Fund, the Grade Crossing Protection Fund, and Transportation Bond Series A and D funds. The State's revenue for these funds is primarily from: motor fuel taxes; motorist fees for registration, title, and licenses; bonds; and the federal government. As required by Senate Resolution No. 788, the focus of this audit is on the Road Fund.

Exhibit 1-1
ILLINOIS DEPARTMENT OF TRANSPORTATION CONSTRUCTION PROJECTS AWARDED
Fiscal Years 2003 - 2012

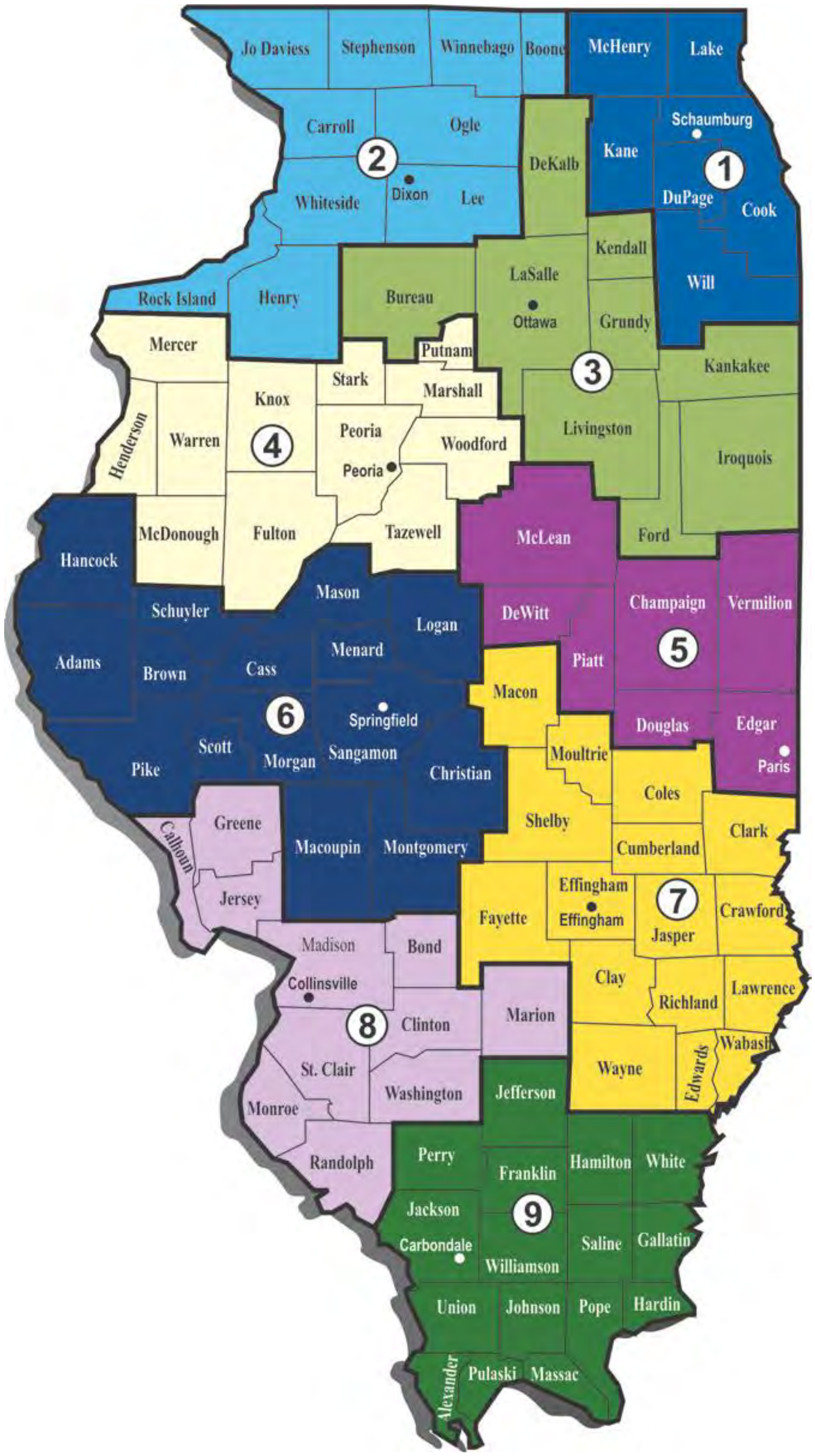
Fiscal Year	Number of State Projects	Total State Awards	Number of Local Projects	Total Local Awards	Total Awards
2003	585	$1,298,865,367	208	$162,169,406	$1,461,034,773
2004	476	867,522,619	223	187,284,092	1,054,806,711
2005	311	879,069,118	187	119,769,031	998,838,149
2006	366	1,002,387,604	260	199,800,775	1,202,188,379
2007	428	994,480,838	282	291,849,430	1,286,330,268
2008	494	809,749,465	273	274,960,510	1,084,709,975
2009	984	1,721,131,762	299	331,489,030	2,052,620,792
2010	862	1,829,399,822	866	474,551,911	2,303,951,733
2011	495	1,339,278,647	288	266,433,791	1,605,712,438
2012	467	1,348,620,862	276	284,912,097	1,633,532,959
Totals	**5,468**	**$12,090,506,104**	**3,162**	**$2,593,220,073**	**$14,683,726,177**

Source: Illinois Department of Transportation.

In FY12, 467 State construction projects were awarded totaling $1.3 billion and 276 local construction projects were awarded totaling almost $285 million. Exhibit 1-1 shows the number of construction projects awarded by the Department of Transportation (IDOT) from FY03 through FY12 for all funds. Additionally, Exhibit 1-2 shows State and local construction projects awarded by IDOT district for FY12.

Exhibit 1-2
ROAD CONSTRUCTION PROJECTS LET IN FISCAL YEAR 2012 BY IDOT DISTRICT

District	State Projects	State Amount	Local Projects	Local Amount
District One	174	$418,941,703	111	$175,115,644
District Two	47	$131,891,222	15	$10,416,876
District Three	33	$111,133,530	26	$18,635,296
District Four	31	$64,073,885	12	$15,282,297
District Five	17	$33,617,520	16	$12,673,014
District Six	49	$86,522,266	22	$9,937,596
District Seven	31	$103,582,397	28	$16,689,211
District Eight	51	$296,919,857	27	$17,522,401
District Nine	34	$101,938,481	19	$8,639,763



Note: Local Projects are awarded with Road Fund money only; however, State Projects include expenditures from other funds.
Source: Illinois Department of Transportation.

Road Fund

The State Finance Act (30 ILCS 105/5) creates special funds in the State Treasury, one of which is the Road Fund. The Road Fund receives funds from designated sources, such as federal reimbursements, motor fuel taxes, and motorist user fees. In FY12, Road Fund revenue totaled almost $2.9 billion. Exhibit 1-3 shows Road Fund revenue for FY03 through FY12.

Exhibit 1-3
ROAD FUND REVENUE BY FISCAL YEAR

FY03	$1,896,875,227
FY04	2,202,470,950
FY05	2,056,417,773
FY06	2,342,680,673
FY07	2,396,105,600
FY08	2,569,736,193
FY09	2,592,736,060
FY10	3,047,017,883
FY11	3,007,131,314
FY12	2,888,217,355
Total	**$24,999,389,028**

Source: Illinois Comptroller.

In FY12, all expenditures from the Road Fund totaled $2,885,731,996. These expenditures were for various purposes, one of which is road construction. According to the State Finance Act (30 ILCS 105/8.3), the Road Fund can be used for a number of different purposes including:

- Paying principal and interest on bonds issued by the State for highway construction;
- Paying the administration costs related to chapters 2 through 10 of the Illinois Vehicle Code:
  - Chapters 2 through 5 - The Illinois Title and Registration Law
  - Chapter 6 - The Illinois Driver Licensing Law
  - Chapter 7 - Illinois Safety And Family Financial Responsibility Law
  - Chapter 8 - Motor Vehicles Used For Transportation Of Passengers
  - Chapter 9 - Owners Of For Rent Vehicles For-Hire
  - Chapter 10 - Civil Liability
- IDOT's expenses for construction, reconstruction, improvement, repair, maintenance, operation, and administration of highways and related costs including:
  - Payment of awards made by the Illinois Workers' Compensation Commission;
  - Acquisition of land and construction of buildings for highway purposes;
  - Operating and maintaining highway garages;
  - Patrolling and policing the public highways and conserving the peace;
  - Separation of highways with railroads;
  - IDOT's operating expenses for administration of public transportation programs; and
- Administration expenses related to motor vehicles and their use for any State agency.

State Construction Account Fund

Unlike the Road Fund, the State Construction Account Fund receives revenue primarily from only two sources: motorist user fees and motor fuel taxes. In FY12, the State Construction Account Fund expenditures totaled $649,771,150. Also, unlike the Road Fund, the money in the State Construction Account Fund can only be used for construction, reconstruction, and maintenance of the State's highway system; it cannot be used for local road projects or non-road construction purposes.

Other Funds for Road Construction

Expenditures for road construction in Illinois in recent years also came from other funds including the Transportation Bond Series A and D Funds and the Grade Crossing Protection Fund. Bonds were the only source of revenue for these funds except for the Grade Crossing Protection Fund, which received revenue from motor fuel taxes. The Transportation Series D bonds were a new bond series issued as part of the Illinois Jobs Now! Program (Program). As part of the Program, increases in motorist user fees were deposited into the Capital Projects Fund and used to pay debt service on the bonds issued for the Program.

ILLINOIS DEPARTMENT OF TRANSPORTATION

The Illinois Department of Transportation is responsible for building and maintaining the State's highways, supporting air, rail and public transportation projects, and encouraging traffic safety. According to IDOT's annual report, Illinois has the nation's fourth largest highway system and the third largest interstate system. IDOT's Office of Planning and Programming and Division of Highways plan and implement construction for the State's road system.

The Division of Highways and its nine district offices are responsible for the design, construction, operation and maintenance of the State highway system and the administration of the State's local roads and streets program. The Division implements the highway portion of the Multi-Year Highway Improvement Program developed by the Office of Planning and Programming.

Road Construction Start to Finish

Construction projects can take many years to complete. A major construction project involving a new highway, for instance, can take from 5 to 20 years to complete. Rehabilitating a highway may take five years or more. The following timeline represents a typical resurfacing project with a bridge replacement:

- **Year 1 -**In the first year in the life of a project, IDOT develops a purpose and need for the project and estimates the project's initial cost.
- **Years 2-3 -**During the next few years in the life of a project, the first phase of engineering occurs. This primarily consists of conducting location studies and environmental impact studies.
- **Year 4 -**During the fourth year, the second phase of engineering occurs. This includes preparing a job site construction plan and developing construction material requirements used in preparing the final contract to be bid on by contractors. During

the second phase of engineering, IDOT also begins preliminary contract plans and completes all bridge and pavement reconstruction reports.

During the fourth year, several other things occur outside of the second phase of engineering. Land acquisition and utility relocations are completed and local agency agreements are finalized.

- **Years 5 and Beyond** -After the previous steps are completed, IDOT conducts bid letting, awards construction contracts, and construction begins. Construction, as previously stated, can take several years.

Since road construction projects can take years to plan and develop, as described above, IDOT develops a multi-year highway transportation program each year that identifies specific projects along with funding and a schedule for implementation.

Multi-Year Highway Improvement Program

The Office of Planning and Programming at IDOT, as required by law, annually develops a proposed improvement program for highways, public transportation, airports, and rail modes. The highway edition includes State and federally funded highway projects on the State and local system. The program specifies improvements IDOT intends to make on the State highway system. Each spring, the Governor submits the Multi-Year Highway Improvement Program for highways and public transportation to the Illinois General Assembly. At the same time, the program is distributed to local governments, citizens and interest groups for review and comment prior to the adoption of IDOT's budget.

According to IDOT, funding for the State's share of the program comes from two main sources: the Road Fund and the State Construction Account Fund. The State Construction Account Fund can only be used for construction, reconstruction, and maintenance of the State's highway system. On the other hand, the Road Fund is used for both State highways and local road projects. IDOT officials stated that funding is first used to match federal funds, then is used for the State's share of the local program, and finally for the State's share of the State program.

Appropriations from these funds in FY12 totaled almost $1.9 billion. Exhibit 1-4 shows fund sources for the Multi-Year Highway Improvement Program for fiscal years 2007 through 2012. The State's portion from the Road Fund for the Multi-Year Highway Improvement Program has varied from year to year. Between FY07 and FY12, the State Road Fund portion has ranged from as low as $95,000,000 in FY10 to $1,143,485,700 in FY07.

Exhibit 1-4
MULTI-YEAR HIGHWAY IMPROVEMENT PROGRAM FUND SOURCES
Fiscal Years 2007 - 2013

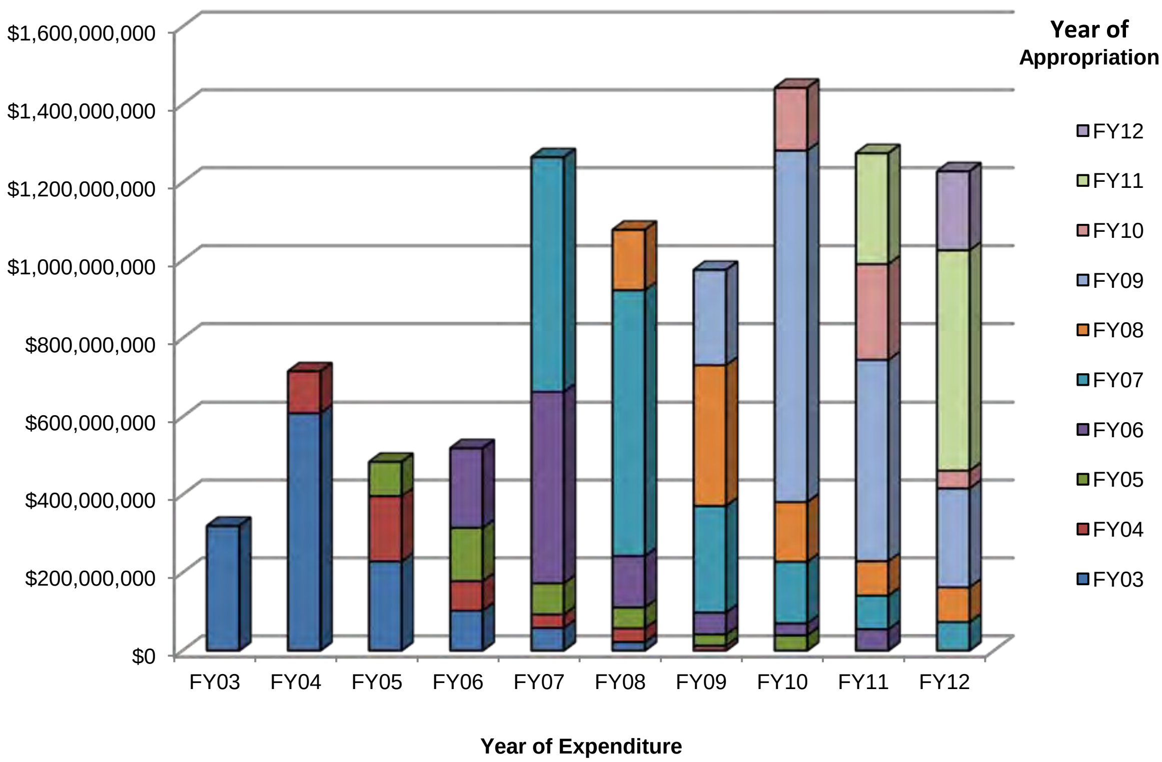
FY	Road Fund -State Portion	Road Fund -Other [1]	**Total Road Fund**	Total State Construction Account Fund	Transportation Series A Bond Fund	**Totals**
2007	$1,143,485,700	$596,514,300	**$1,740,000,000**	$235,000,000	$0	**$1,975,000,000**
2008	358,185,700	600,814,300	**959,000,000**	916,000,000	0	**1,875,000,000**
2009	580,788,000	606,212,000	**1,187,000,000**	758,000,000	0	**1,945,000,000**
2010	95,000,000	550,000,000	**645,000,000**	930,000,000	310,000,000	**1,885,000,000**
2011	1,032,000,000	449,000,000	**1,481,000,000**	452,500,000	141,500,000	**2,075,000,000**
2012	$597,704,000	$535,000,000	**$1,132,704,000**	$720,000,000	$0	**$1,852,704,000**

Note: [1] Includes Local, Township Bridge, Township Approp., High Growth Cities, and County programs.
Source: Illinois Department of Transportation.

Multi-Year Highway Improvement Program Expenditures

Since IDOT plans and implements highway projects over an extended period of time, expenditures for each project do not all occur within the year the funds are originally appropriated. Appropriations for one year are spent over several years. Exhibit 1-5 provides an illustration of how IDOT's Multi-Year Highway Improvement Program appropriations to the Road Fund are expended by fiscal year. For example, the exhibit illustrates that FY03 appropriations were expended as follows: $319,999,832 (24 percent) in FY03; $609,385,643 (45 percent) in FY04; $228,905,496 (17 percent) in FY05; $102,490,678 (8 percent) in FY06; $58,154,113 (4 percent) in FY07; and $21,815,829 (2 percent) in FY08. The data for this was provided by IDOT and only includes Road Fund expenditures related to IDOT's multi-year highway program. It should be noted that the State pays for construction expenses from the Road Fund that are not factored into the Multi-Year Highway Improvement Program. According to IDOT, these construction expenses would include motorist damage to structures (such as guardrails and cable-stayed barriers) as well as abatement of hazardous materials found at various IDOT yards and storage sites. Additionally these expenses would be for things like materials research and testing that are related to construction. Direct road construction expenditures from the Road Fund, those included in the Multi-Year Highway Improvement Program and those not included in the program, will be discussed more in Chapter Three.

Exhibit 1-5
MULTI-YEAR HIGHWAY IMPROVEMENT PROGRAM EXPENDITURES FROM THE ROAD FUND BY ORIGINAL APPROPRIATION YEAR
Fiscal Years 2003 - 2012

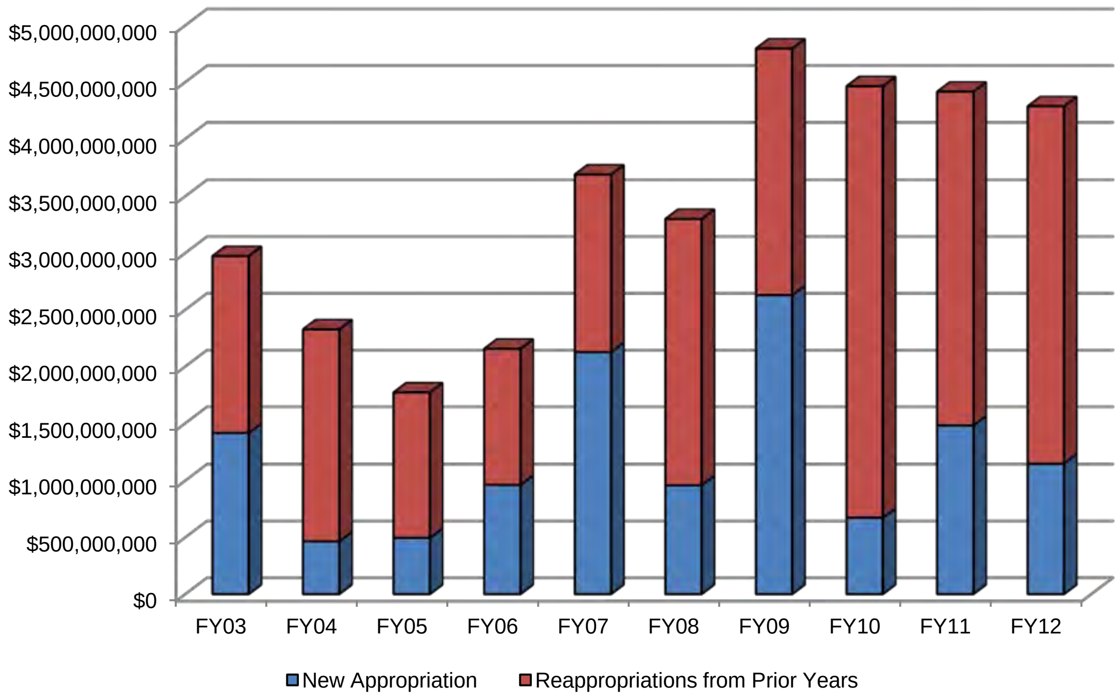


Source: Illinois Department of Transportation data summarized by the OAG.

Changes in funding and appropriations during one year have an impact on planning and road construction for many years. For example, if appropriations are reduced one year to an amount lower than anticipated by IDOT, program plans need to be adjusted and spending in future years is reduced. The impact of the reduced funding does not show until several years later.

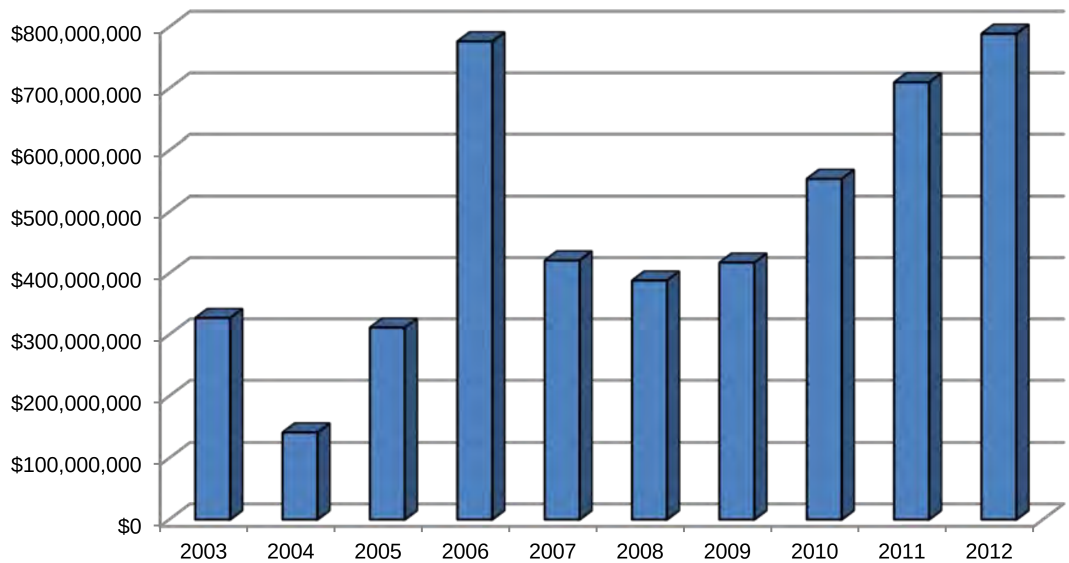
In a year that appropriations are reduced, IDOT may still be spending appropriations from previous years. For example, Exhibit 1-6 shows a reduction in new appropriations in FY10. However, Exhibit 1-5 shows total expenditures that year were much higher because IDOT was still expending a large portion of the prior year's higher original appropriation as a re-appropriation. In contrast, if appropriations are unexpectedly increased, IDOT may not have road projects programmed to match the increase in appropriations. This can result in an end of year balance for the Road Fund being higher than normal, as seen in Exhibit 1-7.

Exhibit 1-6
COMPARISON OF ROAD FUND APPROPRIATIONS AND REAPPROPRIATIONS FOR IDOT'S MULTI-YEAR HIGHWAY IMPROVEMENT PROGRAM
Fiscal Years 2003 - 2012



Source: Illinois Department of Transportation data summarized by the OAG.

Exhibit 1-7
ROAD FUND CASH BALANCES AS OF JUNE 30
Fiscal Years 2003 - 2012



Source: Illinois Department of Transportation data summarized by the OAG.

AUDIT SCOPE AND METHODOLOGY

This management audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was also conducted in accordance with audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310.

The audit's objectives are contained in Senate Resolution Number 788 (see Appendix A). The resolution directs the Office of the Auditor General to conduct a management audit of the moneys deposited into the Road Fund and the subsequent use of those moneys. The resolution contained three determinations.

While IDOT takes all funding sources into consideration when preparing its annual program, Senate Resolution 788 only directs the audit to look at revenues and expenditures from the Road Fund. We obtained detailed expenditure and revenue data from the Comptroller and reviewed Road Fund revenues and expenditures occurring between FY03 and FY12. We also analyzed Road Fund payments for Group Health Insurance and Workers' Compensation. Additionally, we reviewed interagency agreements related to the Road Fund and selected one for detailed review.

Initial work on this audit began in June 2012 and fieldwork was concluded in January 2013. We met with individuals from the Illinois Department of Transportation to review revenues, expenditures, and internal controls over the Road Fund. We also met jointly with the Illinois Department of Healthcare and Family Services, the Governor's Office of Management and Budget, and the Illinois Department of Central Management Services to review the processes used to determine Road Fund payments for Workers' Compensation and Group Health Insurance. We interviewed officials from the Secretary of State to determine how various motorist user fees are distributed to the Road Fund. We also met with the Illinois Department of Commerce and Economic Opportunity to discuss the interagency agreement with IDOT related to expenditures from the Road Fund.

In conducting this audit, we reviewed applicable State statutes and administrative rules. In addition, we reviewed applicable federal regulations and requirements. Any instances of non-compliance are included in this report.

We assessed risk by reviewing recommendations from previous OAG financial audits and compliance examinations and by reviewing internal controls including policies and procedures. The audit identified weaknesses in internal controls, which are included as findings in this report.

REPORT ORGANIZATION

The remainder of this report is organized into the following chapters:

- Chapter Two: Road Fund Revenues;
- Chapter Three: Road Fund Expenditures; and
- Chapter Four: Group Health Insurance and Workers' Compensation.

Chapter Two

ROAD FUND REVENUE

CHAPTER CONCLUSIONS

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.

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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.

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ROAD FUND REVENUE

The Road Fund receives most of its revenue from three main sources: the federal government, motorist user fees, and motor fuel taxes. As illustrated in Exhibit 2-1, Road Fund revenue generally increased each year during the audit period (FY03 - FY12) except for the last two fiscal years. The total amount of revenue received from fiscal year 2003 through fiscal year 2012 was almost $25 billion.

Exhibit 2-1
TOTAL ROAD FUND REVENUE BY FISCAL YEAR

FY03	$1,896,875,227
FY04	2,202,470,950
FY05	2,056,417,773
FY06	2,342,680,673
FY07	2,396,105,600
FY08	2,569,736,193
FY09	2,592,736,060
FY10	3,047,017,883
FY11	3,007,131,314
FY12	2,888,217,355
Total	**$24,999,389,028**

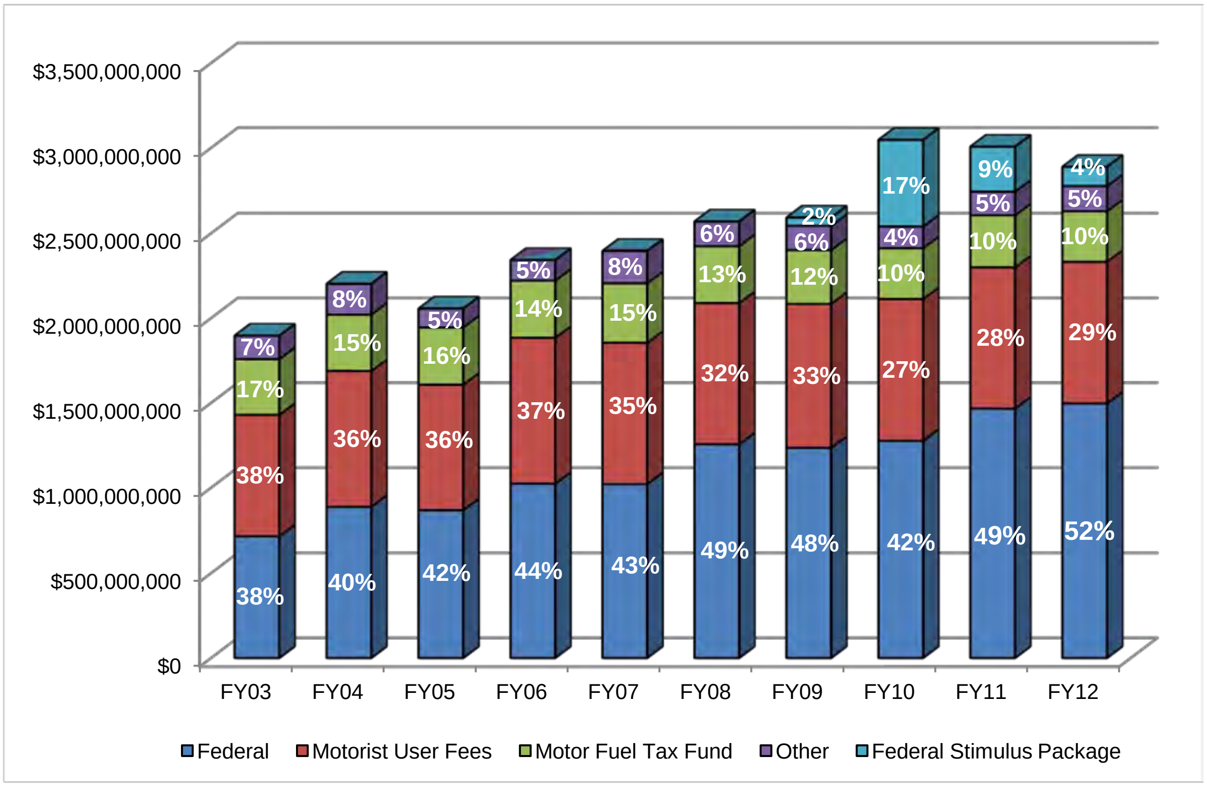
Source: Illinois Department of Transportation and Comptroller data summarized by the OAG.

According to data received from the Illinois Department of Transportation (IDOT), the sources of revenue for the Road Fund during the years covered by the audit period (FY03-FY12) were as follows:

- **45%** - Federal Government ($11.3 billion)
- **33%** - Motorist User Fees ($8.1 billion)
- **13%** - Motor Fuel Taxes ($3.2 billion)
- **4%** - Federal Stimulus Package ($933 million)
- **6%** - Other (local governments, investment income, etc.) ($1.4 billion)

Over the 10 year period, revenue from the federal government generally increased during the audit period, while revenue from motorist user fees and motor fuel taxes as a percent of all Road Fund revenue generally decreased during this time. Additional detail regarding the percentage and dollar amount of Road Fund revenue by year and changes to revenue over the 10 year period is shown in Exhibit 2-2. Appendix B shows a detailed listing of all sources of revenue from FY03 through FY12.

Exhibit 2-2
ROAD FUND REVENUE
Fiscal Years 2003 - 2012



Note: The "Other" category includes: Local Government Revenue, Investment Income Revenue, and State Revenue.
Source: Illinois Department of Transportation data summarized by the OAG.

Federal Revenue for the Road Fund

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. This did not include the Federal Stimulus funds received in FY12.

The Federal Stimulus Package provided federal funds from the American Recovery and Reinvestment Act of 2009 (ARRA), which was signed into law in February 2009. According to data provided by IDOT, ARRA provided over $933 million in federal funds to IDOT from FY09 through FY12.

In order to better understand federal revenue, the Federal Highway Administration (FHWA) and the federal obligation limitation are discussed below as well as two of the ways that the FHWA provides funding.

Federal Highway Administration

The Federal Highway Administration is the federal agency within the U.S. Department of Transportation that is responsible for administering the Federal-Aid Highway Program. The FHWA is authorized by Congress (Title 23 US Code) to provide reimbursements to states for certain eligible expenses. The Illinois Department of Transportation provides the financing up front for local governments by letting the contracts with State funds and then bills the FHWA for its share as reimbursement for paid invoices.

The federal reimbursement share varies depending on the particular federal funding program. According to IDOT officials, the federal share is generally about 80 percent federal funds and 20 percent State or local match. However, with the variety of federal programs, there are a variety of reimbursement rates. Some reimbursement rates are 100 percent federal funds with no State or local match required. Some federal programs may have a 90 percent match, while others may go as low as a 50 percent match. Local projects are typically 80 percent federal funds and 20 percent local funds. If the project is on a State letting, IDOT spends State money first and then receives both federal and local reimbursements.

Two of the ways that the FHWA provides funding are discussed below:

1. **Federal-Aid Highway Program -** The Federal-Aid Highway Program (FAHP) is an umbrella term, which generally refers to most of the federal programs providing highway funds to the states. FAHP is a reimbursable federal program. According to federal documentation provided by IDOT, states are not apportioned cash, but rather are notified that a balance of federal funds is available for their use. This means states can incur obligations, begin projects, and then later be reimbursed for eligible costs incurred. The project does not need to be completed before a state can receive its reimbursement. Reimbursements in Illinois are deposited into the Road Fund.

   Depending upon the type of project, the time elapsing from obligation to reimbursement can vary from a few days to several years. The normal sequence of events for reimbursement is:

   a. Work is done by a contractor;
   b. The contractor sends a bill to the state and the bills for all work done throughout the state are processed by the state;
   c. Vouchers for the bills are sent electronically by the state to the FHWA for review and approval;
   d. The FHWA certifying officer certifies the state transportation department's claim for payment;
   e. Certified schedules are submitted to the Treasury Department; and
   f. The federal share of the cost for all projects on the vouchers is transferred directly from the Treasury Department to the state's bank account by electronic fund transfer.

2. **The Federal Stimulus Package -** The Federal Stimulus Package provided federal funds from the American Recovery and Reinvestment Act of 2009 (ARRA) to the Road Fund from FY09 through FY12. ARRA was signed into law on February

17, 2009. With regard to transportation, the funding was to be used to expand transit capacity and to modernize transit systems; to allow Amtrak to add and modernize cars and engines and to upgrade its tracks; to expand airport capacity and make safety improvements; to make safer roads, highways, bridges and ports; and to invest in jobs to launch high-speed rail.

Obligation Limitation of Federal Funds

We followed up with IDOT officials and inquired about the increase in federal revenue for the Road Fund during the audit period. Officials noted that the federal program has grown significantly. Officials also noted that federal funding has grown at a much faster rate than State funding. In addition, IDOT officials stated that Illinois has received additional funds from other states because these states did not program enough federal projects for their obligation limitations. If states do not program enough projects to meet their obligation limitation, other states can receive a redistribution of these funds in August of each year. Any limitation that is not expected to be committed before the end of the federal fiscal year must be returned to the Federal Highway Administration for redistribution so other states can use it. As seen in Exhibit 2-3, Illinois received $444 million in additional redistributed funds from other states during the audit period.

Obligation limitation is the upper limit on a line of credit of federal assistance that a state is eligible for from the Federal Highway Account of the Federal Highway Trust Fund. The limitation must be committed to projects during the course of the federal fiscal year. According to IDOT officials, the federal government establishes an obligation limitation each year for each state. This establishes a line of credit against the Federal Highway Trust Fund for the state. In order to secure federal money from the obligation limitation, a state has to get the project approved by the regional federal highway office to ensure the project meets eligibility requirements. Once the line of credit has been established, it is available to a state until fully expended or re-assigned to other projects. According to Exhibit 2-3, the total obligation limitation for Illinois during our audit period was $11.1 billion.

Exhibit 2-3
ILLINOIS FEDERAL OBLIGATION LIMITATION
Fiscal Years 2003 - 2012

Fiscal Year	Illinois' Initial Obligation Limitation	August Redistribution From Other States	Illinois' Total Obligation Limitation
2003	$861,363,314	$13,265,380	$874,628,694
2004	938,186,245	36,121,133	974,307,378
2005	813,193,182	37,283,204	850,476,386
2006	898,006,320	71,593,459	969,599,779
2007	1,033,163,070	40,586,756	1,073,749,826
2008	1,092,328,524	38,497,911	1,130,826,435
2009	1,121,712,771	32,551,356	1,154,264,127
2010	1,259,810,240	76,100,425	1,335,910,665
2011	1,343,588,589	34,876,593	1,378,465,182
2012	1,283,954,389	62,629,431	1,346,583,820
Total	**$10,645,306,644**	**$443,505,648**	**$11,088,812,292**

Source: Illinois Department of Transportation.

Motorist User Fees

The second largest source of Road Fund revenue was obtained from motorist user fees collected by the Illinois Secretary of State (SOS). 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. The total motorist user fee revenue deposited into the Road Fund by fiscal year is shown in Exhibit 2-4.

Exhibit 2-4
ROAD FUND REVENUE FROM MOTORIST USER FEES BY TYPE OF FEE
Fiscal Years 2003 - 2012

Fiscal Year	Road Fund Revenue from Motorist User Fees				Total All Motorist User Fees Collected	Percent Received by Road Fund
	Motor Vehicle Licenses	Operator Licenses	Certificates of Title	Total [1]		
2003	$522,467,382	$44,515,388	$145,154,112	$712,136,882	$1,298,481,869	55%
2004	610,391,879	42,816,352	148,088,064	801,296,296	1,353,723,503	59%
2005	**535,243,864**	**50,006,691**	**154,657,968**	**739,908,522**	**1,360,707,715**	**54%**
2006	**735,358,614**	**34,263,124**	**90,545,712**	**860,167,451**	**1,421,239,811**	**61%**
2007	711,114,403	35,061,459	87,829,358	834,005,220	1,409,789,483	59%
2008	717,428,817	29,953,043	85,207,248	832,589,107	1,418,707,534	59%
2009	743,735,467	28,557,137	76,951,002	849,243,606	1,407,183,266	60%
2010	733,830,346	28,102,176	74,162,239	836,094,761	1,491,544,315	56%
2011	729,671,201	27,497,290	75,723,924	832,892,414	1,662,649,034	50%
2012	729,003,019	27,119,477	79,201,947	835,324,444	1,676,269,346	50%
Totals[1]	**$6,768,244,992**	**$347,892,135**	**$1,017,521,575**	**$8,133,658,702**	**$14,500,295,874**	**56%**

Note: Totals may not add due to rounding.
Source: Illinois Department of Transportation and Comptroller data.

We followed up with SOS officials to determine why there were significant changes in revenue deposited into the Road Fund beginning in FY06. As Exhibit 2-4 shows, 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.

According to SOS officials, there were several factors that accounted for the variations in Road Fund revenues noted between FY05 and FY06 in Exhibit 2-4. In FY05, 13 months' payments were made to other State funds due to the passage of Public Act 93-839, which required posting of fees received within 30 days of receipt instead of 60 days. According to SOS officials, the legislation resulted in a reduction of motor vehicle license fees deposited into the Road Fund by $42.9 million dollars. Also in FY05, SOS officials noted that the State Construction Account Fund was overfunded by $17.8 million due to an estimate made in June. The correction to the State Construction Account was made in FY06.

In FY06 SOS changed its methodology for calculating and reporting fees 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. 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 as shown in Exhibit 2-4.

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 the Road Fund revenue and exactly what impact the change had. We could determine that the change made by the SOS involved the manner in which the 37 percent fee allocation to the State Construction Account Fund was applied. The Motor Vehicle Code contains a provision that 37 percent of certain monies received by the Secretary of State be deposited into the State Construction Account Fund. Prior to FY06, it appears that the SOS took 37 percent of the total gross proceeds and deposited them into the State Construction Account Fund. These gross proceeds were calculated for all three fee types but were reported and reduced from motor vehicle licenses only. The proceeds were not reduced from operator licenses or certificates of title fees.

In FY06, the Secretary of State's revised methodology applied the 37 percent State Construction Account distribution to the Road Fund receipts of **each** of the three fees rather than only the motor vehicle license fee. The effect of this change in methodology was to increase the Road Fund receipts reported from the motor vehicle license fee (since the entire disbursement to the State Construction Account was no longer reported as being taken from motor vehicle license fees). There was also a reduction in the Road Fund receipts reported for the certificates of title and operator license fees (since disbursements to the State Construction Account were now being reported as being taken from those two fees).

In reviewing the certificates of title distribution, auditors questioned why the 37 percent distribution to the State Construction Account Fund was applied only against the $48 Road Fund fee. The Motor Vehicle Code (see paragraph (e) in Exhibit 2-5) contains the State Construction Account Fund distribution requirement. However, it does not state that the 37 percent should only be charged to Road Fund receipts. The Code designates specific funds to receive a portion of the certificates of title fee (see paragraph (b) in Exhibit 2-5). For example, the Park and Conservation Fund is designated to receive $2.00, the Motor Vehicle License Plate Fund is designated to receive $4.00, and the Road Fund is designated to receive $48. However, the 37 percent State Construction Account Fund assessment was only being applied to the $48 designated for the Road Fund. The Secretary of State's application of the statute resulted in 37 percent ($17.76) of the $48 designated for the Road Fund being deposited into the State Construction Account Fund and the remainder, $30.24, being deposited into the Road Fund. Due to this change in distribution formula used by SOS, the Road Fund received $46,391,162 less from certificates of title fees than it would have received if $48 per title had been deposited into the Fund in FY12. 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 still went for road construction purposes.

Exhibit 2-5
DISPOSITION OF CERTIFICATES OF TITLE FEES IN THE VEHICLE CODE

625 ILCS 5/2-119(b), (e), and (g)

(b) . . . Beginning January 1, 1995, of the money collected for each certificate of title, duplicate certificate of title and corrected certificate of title, $2 shall be deposited in the Park and Conservation Fund. The moneys deposited in the Park and Conservation Fund pursuant to this Section shall be used for the acquisition and development of bike paths as provided for in Section 805-420 of the Department of Natural Resources (Conservation) Law (20 ILCS 805/805-420).

Beginning January 1, 2000, of the moneys collected for each certificate of title, duplicate certificate of title, and corrected certificate of title, $48 shall be deposited into the Road Fund and $4 shall be deposited into the Motor Vehicle License Plate Fund, except that if the balance in the Motor Vehicle License Plate Fund exceeds $40,000,000 on the last day of a calendar month, then during the next calendar month the $4 shall instead be deposited into the Road Fund.

Except as otherwise provided in this Code, all remaining moneys collected for certificates of title, and all moneys collected for filing of security interests, shall be placed in the General Revenue Fund in the State Treasury.

(e) Of the monies received by the Secretary of State as registration fees or taxes or as payment of any other fee, as provided in this Act, except fees received by the Secretary under paragraph (7) of subsection (b) of Section 5-101 and Section 5-109 of this Code, 37% shall be deposited into the State Construction Fund.

(g) All remaining moneys received by the Secretary of State as registration fees or taxes or as payment of any other fee, as provided in this Act, except fees received by the Secretary under paragraph (7)(A) of subsection (b) of Section 5-101 and Section 5-109 of this Code, shall be deposited in the Road Fund in the State Treasury. Moneys in the Road Fund shall be used for the purposes provided in Section 8.3 of the State Finance Act.

625 ILCS 5/3-821

(g) All of the proceeds of the additional fees imposed by Public Act 96-34 shall be deposited into the Capital Projects Fund. [For certificates of title, Public Act 96-34 imposed an additional $30 fee, to be deposited into the Capital Projects Fund, effective July 13, 2009.]

Source: Illinois Vehicle Code.

Secretary of State officials stated they were applying the 37 percent only to Road Fund receipts due to legislative intent. However, the SOS officials did not provide auditors with documentation sufficiently showing that the intent of the General Assembly was to apply the 37 percent State Construction Account Fund disbursement only to Road Fund receipts.

As auditors followed up with questions concerning the SOS' distribution methodology, SOS officials noted that some of the statutory 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."

When we discussed the statutorily required distributions with Secretary of State's office, they pointed out that "There are limitless possible permutations of these calculations." They noted that: the 37 percent could be applied to all specific distributed amounts; or when provisions conflict, distribute fees based on which sections were amended more recently; or to apply the specific distributions first, and then apply the general language to the remaining money. The distribution methodologies used by the Secretary of State need to comply with relevant statutes, need to be consistently applied across all fees, and need to be documented.

COLLECTION AND DISTRIBUTION PROCESS OVER CERTIFICATES OF TITLE FEES	
RECOMMENDATION NUMBER **1**	***The Illinois Office of the Secretary of State should review its methodology used to collect and distribute to the Road Fund as well as other funds and ensure its methodology is updated, documented, and consistently applied in accordance with the requirements delineated in the Illinois Vehicle Code.*** ***Given the Office of the Secretary of State's conclusion that the statutory requirements governing the distribution of motorist fees are subject to different and conflicting interpretations, the Office should consider seeking an interpretation from the Office of the Attorney General or pursue legislative changes to further clarify the statutes.***
ILLINOIS OFFICE OF THE SECRETARY OF STATE RESPONSE	The Office of the Secretary of State accepts this recommendation. The Office plans to review all of the fees it collects on behalf of the State of Illinois and will document the methodology used to collect and distribute those fees. The Office will work with the Department of Transportation, the Governor's Office and the Legislature to create legislation to further clarify the Illinois Vehicle Code regarding the distribution of motorist fees collected by the Office.

Funds Receiving Motorist User Fees

The amount of motorist user fees deposited into the Road Fund is established by the Illinois Vehicle Code (625 ILCS 5). In addition to the Road Fund, the Illinois Vehicle Code requires fee revenue to be deposited into other funds. While reviewing SOS methodologies related to collecting and depositing motorist user fees into the Road Fund, we reviewed Comptroller records to determine the specific dollar amount of SOS fees deposited into the Road Fund for operator licenses and certificates of title. As a means of comparison and to verify the percentage of dollars deposited into both the Road Fund and the State Construction Account Fund, we attempted to review the specific dollar amounts for these same fees through reviewing Comptroller records of SOS fees deposited into the State Construction Account Fund. However, Comptroller records **did not** detail this information, so we followed up with SOS. According to SOS officials, for the State Construction Account Fund, all motorist user fee revenues for motor vehicle licenses, operator licenses, and certificates of title are reported to the Comptroller under the same category, motor vehicle licenses. SOS officials acknowledged that this should be changed with the Comptroller. This proposed change was supported further by the fact that Comptroller records did detail this information for the Road Fund and broke out revenues into the following three categories: motor vehicle licenses, operator licenses, and certificates of title.

Motor Fuel Tax Revenue

A portion of Road Fund revenue is also received from motor fuel taxes. Exhibit 2-6 shows the total motor fuel tax revenue by fiscal year deposited into the Road Fund. 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 collected of motor fuel taxes collected dropped to $1,222,519,825 and $297,481,408 was deposited into the Road Fund.

As seen in Exhibit 2-6, the Road Fund only receives a portion of the motor fuel taxes collected by the State. Although total revenue from motor fuel taxes has declined over the past 10 years, the percentage of motor fuel tax revenue deposited into the Road Fund has remained relatively consistent. On average, the Road Fund receives about 25 percent of all motor fuel taxes.

Exhibit 2-6
MOTOR FUEL TAXES BY FISCAL YEAR
Fiscal Years 2003 - 2012

Fiscal Year	Total Motor Fuel Taxes Collected by the State	Motor Fuel Taxes Deposited into the Road Fund
2003	$1,323,650,706	$328,941,894
2004	1,346,437,053	331,625,452
2005	1,363,846,517	336,901,817
2006	1,372,797,006	337,057,838
2007	1,376,287,216	350,212,256
2008	1,264,391,817	335,088,370
2009	1,393,497,115	317,271,273
2010	1,269,111,578	299,263,930
2011	1,246,418,970	306,720,852
2012	1,222,519,825	297,481,408
Totals [1]	**$13,178,957,804**	**$3,240,565,089**

Note: [1] Totals may not add due to rounding.
Source: Illinois Department of Transportation and Comptroller data.

The Motor Fuel Tax Law (35 ILCS 505/8) details the requirements related to the distribution of motor fuel tax revenue. When motor fuel taxes are received by the State, they are deposited into the Motor Fuel Tax Fund. The Department of Revenue distributes the Motor Fuel Tax revenue to a number of other funds first and the remaining revenue is then divided between the Road and Construction Funds and local governments. These other funds include the State Boating Act Fund, the Grade Crossing Protection Fund, and the Vehicle Inspection Fund. The

Illinois Department of Revenue also receives a portion for the cost of administration related to the tax.

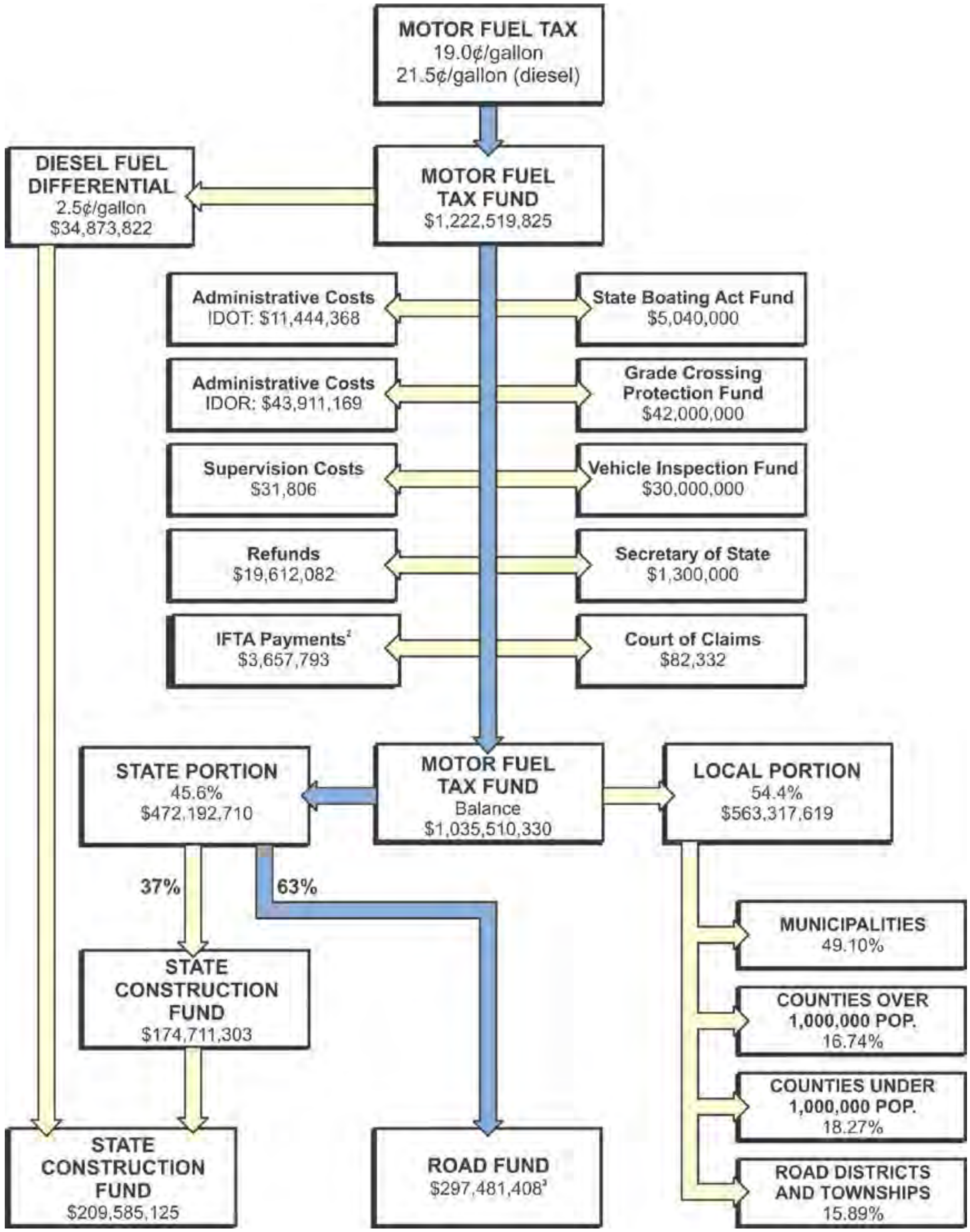
Exhibit 2-7 illustrates the distribution of motor fuel tax revenues and designates the associated FY12 dollar amounts for this process. In FY12, the motor fuel tax fund received $1,222,519,825 from motor fuel tax revenues. As required by statute, portions of these revenues were directed toward administrative costs, local government areas, and the State Construction Account Fund. In FY12, $297,481,408 of the total motor fuel tax revenues received was deposited into the Road Fund.

Using Comptroller data and detailed IDOT transfer distribution information, the dollar amounts in Exhibit 2-7 were calculated internally by auditors and then our results were shared with IDOT. IDOT officials reviewed the dollar amounts and confirmed the amounts were accurate. We also requested these dollar amounts from the Illinois Department of Revenue (IDOR). IDOR officials could not provide these dollar amounts or confirm the amounts calculated for this exhibit by our office. According to officials at IDOR, they cannot validate the numbers because it is a shared fund and they are not responsible for the distributions.

Other Revenue

The Road Fund receives a small amount of revenue from various other sources. This other revenue makes up a total of $1.4 billion over the 10 year audit period. These other funds increased from $138 million in FY03 to $145 million in FY12. Other revenue includes: land and property sales; other agencies and local governments; refunds; bonds; highway traffic signs; fees for vehicle inspections; overweight fines; and interest. See Appendix B for a complete list of all revenue from FY03 through FY12.

Exhibit 2-7
FY12 MOTOR FUEL TAX DISTRIBUTION [1]



Notes:
[1] Motor Fuel Tax revenues totaled $1,222,519,825 in FY12 and Motor Fuel Tax expenditures totaled $1,227,463,703 in FY12.
[2] International Fuel Tax Agreement Payments.
[3] Road Fund balance does not add due to rounding.
Source: Illinois Department of Transportation and Comptroller data summarized by OAG.

Chapter Three

ROAD FUND EXPENDITURES

CHAPTER CONCLUSIONS

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. Most of the Road Fund expenditures, $18.9 billion, were made by the Illinois Department of Transportation (IDOT).

Senate Resolution Number 788 asked auditors 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. 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.

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 $1.3 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).

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, railroad construction improvements were coded by IDOT as a highway construction and improvement 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.

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

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.

ROAD FUND EXPENDITURES

The total amount of expenditures from the Road Fund during fiscal years 2003 through 2012 was $25.1 billion. As seen in Appendix D, expenditures from the Road Fund over the last 10 years have varied between almost $1.9 billion and $2.9 billion annually. Most of the Road Fund expenditures were made by the Illinois Department of Transportation (IDOT). As seen in Exhibit 3-1, $18.9 billion (75%) of the Road Fund's total expenditures were from IDOT during the audit period.

Exhibit 3-1
TOTAL ROAD FUND EXPENDITURES BY AGENCY
Fiscal Years 2003 - 2012

Agency	Total
Department of Transportation	$18,867,393,394
Healthcare and Family Services	1,010,674,800
Secretary of State	892,966,138
Illinois State Police	704,199,052
Central Management Services	324,262,660
City of Chicago [2]	40,000,000
Department of Employment Security	18,862,451
Court of Claims	15,794,017
Intergovernmental Transfers	3,227,630,137
Total [1]	**$25,101,782,648**

Notes:
[1] Total does not add due to rounding.
[2] In FY09, Public Act 96-004 appropriated $40,000,000 to the City of Chicago for expenditures in support of necessary construction, improvement and repair of city roads, streets, bridges, and other infrastructure.
Source: Illinois Comptroller.

Uses of the Road Fund by Agencies Other than IDOT

During the 10 year audit period (FY03 through FY12), $6.2 billion of the $25 billion (25%) was expended 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 Office of the Secretary of State 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 Road Fund revenue in FY12. Both were IDOT expenditures and were statutorily required by 30 ILCS 105/8.3 of the State Finance Act. According to an IDOT official, prior to FY12, these were General Revenue Fund (GRF) expenditures. 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. The total expended in FY12 was $26 million; and
- 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.

The following lists Road Fund expenditures by other agencies from FY03 through FY12.

Department of Healthcare and Family Services

Road Fund expenditures by HFS during the audit period totaled more than $1 billion and were for Employer Contributions for Group Health Insurance. Payments for Group Health

Insurance by HFS began in FY06 at a cost of $126 million. These expenditures increased in each of the next six years. In FY12, expenditures for Group Health Insurance were more than $165 million. Expenditures for the Employer Contributions for Group Health Insurance are discussed in greater detail in Chapter Four.

Secretary of State

Road Fund expenditures by the Secretary of State's office (SOS) during the audit period totaled almost $893 million. Most of the appropriations from the Road Fund for SOS ended after FY09. As a result, SOS expenditures decreased from $126.7 million in FY03 to $2.5 million in FY12. The only expense directly paid from the Road Fund in FY12 was for Refunds (all Vehicle Code related, multiple payments for the same registration, over-payment of International Registration Plan registration, circuit breaker refunds, etc.) Exhibit 3-2 shows Road Fund expenditures by the Secretary of State for the 10 year audit period (FY03 through FY12).

Exhibit 3-2
SECRETARY OF STATE EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012

• Regular Positions (salaries)	$563,327,001
• Contractual Services	87,290,912
• State Employee Retirement	74,555,752
• Social Security and Medicare Contributions	42,306,210
• Extra Help	37,936,000
• Refunds	20,993,757
• Employee Retirement Contribution	18,648,614
• Commodities	14,602,997
• Printing	12,598,018
• Telecommunications	9,278,511
• Equipment	6,005,510
• Operation of Automotive Equipment	2,302,801
• Travel	2,181,770
• Electronic Data Processing	938,286
Total [1]	**$892,966,138**

Note: [1] Total does not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

Illinois State Police

Road Fund expenditures by the Illinois State Police (ISP) during the audit period totaled $704 million. ISP expenditures increased from $97.3 million in FY03 to almost $114.7 million in FY09 and finally decreased to $0 in FY10 when the Road Fund was no longer charged for ISP salaries and benefits. The majority of the annual expenditures for ISP were for Regular Positions (salaries), which was approximately $87 million annually. Exhibit 3-3 shows Road Fund expenditures by the State Police for the 10 year audit period.

Exhibit 3-3
STATE POLICE EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012

• Regular Positions (salaries)	$610,864,602
• State Employee Retirement	76,718,568
• Employee Retirement Contribution	8,701,397
• Social Security and Medicare Contributions	5,614,527
• Lump Sums and other Purposes	2,299,957
Total [1]	**$704,199,052**

Note: [1] Total does not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

Department of Central Management Services

Road Fund expenditures by the Department of Central Management Services (CMS) during the audit period totaled $324 million and were mainly for Employer Contributions for Group Health Insurance. Payments for Group Health Insurance by CMS ended in FY05 when the responsibility for the group health insurance program was transferred to HFS. These expenditures increased from $92 million in FY03 to almost $121 million in FY05 for a total of almost $312 million over the three year period. Exhibit 3-4 shows Road Fund expenditures by the Department of Central Management Services for the 10 year audit period.

Exhibit 3-4
CENTRAL MANAGEMENT SERVICES EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012

• Employer Contributions for Group Health Insurance	$311,774,904
• Industrial Commission or Negotiated Settlement Awards for Injured Employees	6,916,272
• Workers' Compensation Payments to Medical Service Providers	3,713,392
• Awards, Benefits and Treatment Expenses for Injured Employees	941,885
• Combined Settlement/Attorney Payments	444,134
• Attorney Fees – Grants and Awards	309,599
• Workers' Compensation Payments to Vendors for Prescription Drugs and Medical Equip. and Supplies	147,256
• Services, Not Elsewhere Classified	15,217
Total [1]	**$324,262,660**

Note: [1] Total does not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

City of Chicago

In FY09, Public Act 96-004 appropriated $40,000,000 from the Road Fund to the City of Chicago for expenditures in support of necessary construction, improvement and repair of city roads, streets, bridges, and other infrastructure. According to IDOT officials, appropriations for local governments are originally appropriated to IDOT for distribution, except in this case. As a result of this direct appropriation to the City of Chicago, IDOT officials indicated IDOT had no basis for monitoring its use.

Department of Employment Security

Road Fund expenditures by the Department of Employment Security (IDES) during the audit period totaled almost $18.9 million and were for Unemployment Compensation Payments. These expenditures averaged $1.9 million annually over the 10 year audit period.

Court of Claims

Road Fund expenditures by the Court of Claims during the audit period totaled almost $16 million and were mostly for Court of Claims – General Claims. These expenditures increased from $550,420 in FY03 to almost $2 million in FY12. The Illinois Court of Claims pays claims of money damages or personal injury against a State agency or State employee.

Intergovernmental Transfers

Road Fund expenditures for intergovernmental transfers during the audit period totaled $3.2 billion. The majority of the $3.2 billion was for the General Obligation Bond Retirement & Interest Fund (bond principal and interest, which includes Transportation Bond Series A payments). The bond principal and interest totaled more than $2.7 billion during the audit period, and increased from $225 million in FY03 to almost $333 million in FY12. Exhibit 3-5 shows the intergovernmental transfers out of the Road Fund for FY09 through FY12. The transfers related to workers' compensation are discussed in greater detail in Chapter Four.

Exhibit 3-5
INTERGOVERNMENTAL TRANSFERS OUT OF THE ROAD FUND
Fiscal Years 2009 - 2012

	FY09	FY10	FY11	FY12
General Obligation B R & I Fund (which includes Transportation Bond Series A payments)	$244,566,929	$296,243,714	$391,634,769	$332,943,244
Workers' Compensation	33,959,000	34,803,000	50,955,300	35,000,000
Professional Services Revolving Fund	342,700	4,084,600	4,852,500	3,390,600
Audit Expense Fund	177,307	279,054	131,444	203,659
Interest Owed for Cash Management Improvement Act	44,965	4,398	457	0
Totals	**$279,090,901**	**$335,414,766**	**$447,574,470**	**$371,537,503**

Source: Illinois Comptroller data summarized by the OAG.

DIRECT AND NON-DIRECT ROAD CONSTRUCTION COSTS

Senate Resolution Number 788 required the audit to examine the uses of the Road Fund for "direct road construction costs." Since the definition of direct road construction costs is open to interpretation, we discussed extensively with IDOT officials what they consider to be direct road construction costs. Based on these discussions, we selected certain detailed object codes established by the Comptroller and appropriation codes to identify direct road construction expenditures.

Direct Road Construction Expenditures –for the purpose of this audit, direct road construction expenditures (as agreed to by IDOT) include Road Fund expenditures classified by the Comptroller as: Construction and Improvements – Highways; Architectural and Engineering Fees – Highways; Repair and Maintenance – Highways; Transportation Grants; and Construction and Improvement – Railroads. As seen in Exhibit 3-6, expenditures for direct road construction paid from the Road Fund have recently decreased by $238.7 million from $1.59 billion in FY10 to $1.35 billion in FY12.

Exhibit 3-6
DIRECT AND NON-DIRECT ROAD CONSTRUCTION COSTS FROM THE ROAD FUND
Fiscal Years 2003 - 2012

Fiscal Year	Direct Road Construction Costs[1]	Non-Direct Road Construction Costs
2003	$1,140,306,153	$1,253,509,496
2004	1,049,991,354	1,339,568,041
2005	616,503,568	1,267,762,738
2006	627,562,798	1,250,179,876
2007	1,390,137,025	1,381,491,475
2008	1,176,758,182	1,422,988,790
2009	1,087,090,960	1,472,733,528
2010	1,593,445,413	1,320,423,619
2011	1,342,802,362	1,482,795,271
2012	1,354,731,271	1,531,000,725
Totals [2]	**$11,379,329,087**	**$13,722,453,561**

Notes:
[1] Direct Road Construction Expenditures only include direct cash outlays from the Road Fund. It does not include direct highway construction expenditures paid from the Transportation Bond Series A, which is supported by debt service transfers paid exclusively from Road Fund revenue.
[2] Totals may not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

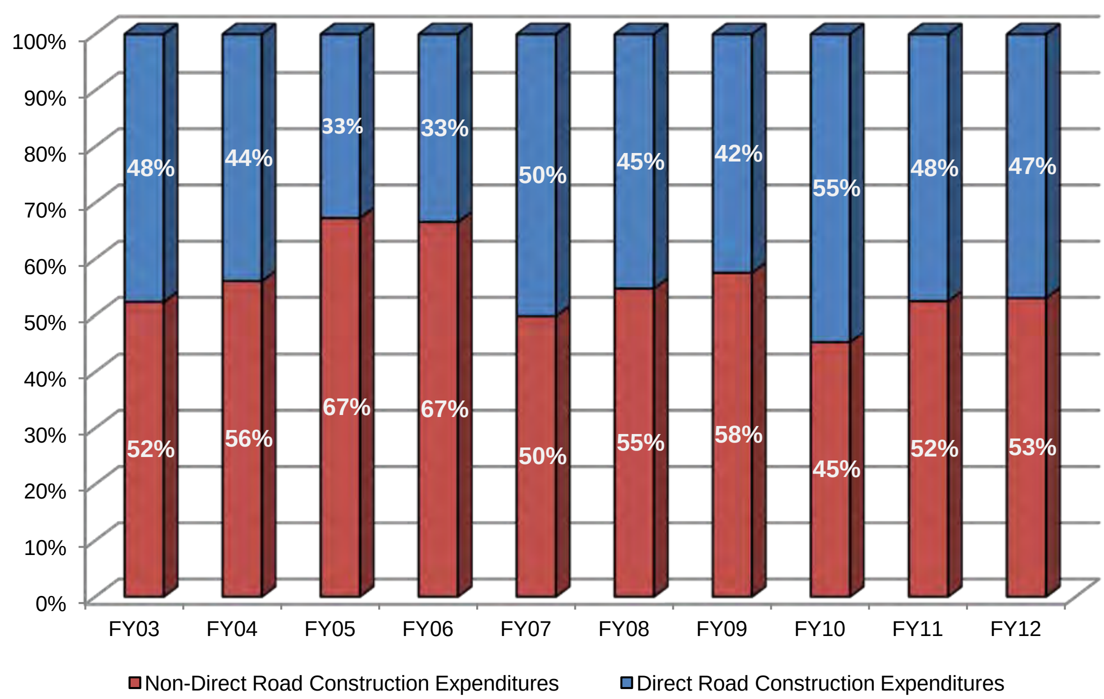
IDOT officials noted that in addition to the above identified Road Fund expenditures for direct road construction, significant Road Fund expenditures are made to pay debt service on bonds used to pay for road construction. These debt service payments are classified in this audit as non-direct road construction expenditures since they do not directly fund road construction paid from the Road Fund. IDOT officials noted, however, that without the debt service payments made from the Road Fund, the direct road construction financed by the Transportation Bond Series A Fund could not occur. 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 –for the purposes of this audit, non-direct road construction expenditures (as agreed to by IDOT) include expenditures that IDOT classified as: Personal Services (such as salaries, health insurance, retirement, and Social Security and Medicare for IDOT, SOS, and ISP employees); Operations (such as contractual services, travel, commodities, printing, equipment, telecommunications, and lump sums and other purposes); Workers' Compensation; General Obligation Bond Retirement and Interest (which includes Transportation Bond Series A payments); and Awards and Grants. IDOT officials noted that while these expenditures do not directly go 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. IDOT noted that projects have to be planned and programmed; lettings need to be organized, conducted and awarded; contracts need to be obligated and vouchers processed and paid; and bills need to be submitted to the Federal Highway Administration for reimbursement. IDOT officials noted "Although these activities are presented as non-construction expenditures and contained within categories such a[s] Regular Positions, Group Insurance, Employee Retirement [See Exhibit 3-12], direct construction expenditures could not occur without them."

While direct road construction expenditures have decreased since FY10, non-direct road construction expenditures have increased by $210.6 million. In FY10, non-direct road construction expenses were $1.32 billion and increased to $1.48 billion in FY11, and to $1.53 billion in FY12. Exhibit 3-6 shows direct road construction and non-direct road construction costs for each year of the 10 year audit period (FY03 through FY12).

Exhibit 3-7 breaks out the direct road construction expenses (represented in blue) versus non-direct road construction expenses (represented in red) from the Road Fund during the audit period (FY03-FY12). As illustrated in this exhibit, in all but 2 of the 10 year audit period, direct road construction expenditures accounted for less than half of all Road Fund expenditures. In FY12, direct construction expenditures were 47 percent of all Road Fund expenditures.

Exhibit 3-7
DIRECT ROAD FUND CONSTRUCTION VERSUS NON-DIRECT ROAD CONSTRUCTION RELATED EXPENSES
Fiscal Years 2003 - 2012



Source: Illinois Comptroller data summarized by the OAG.

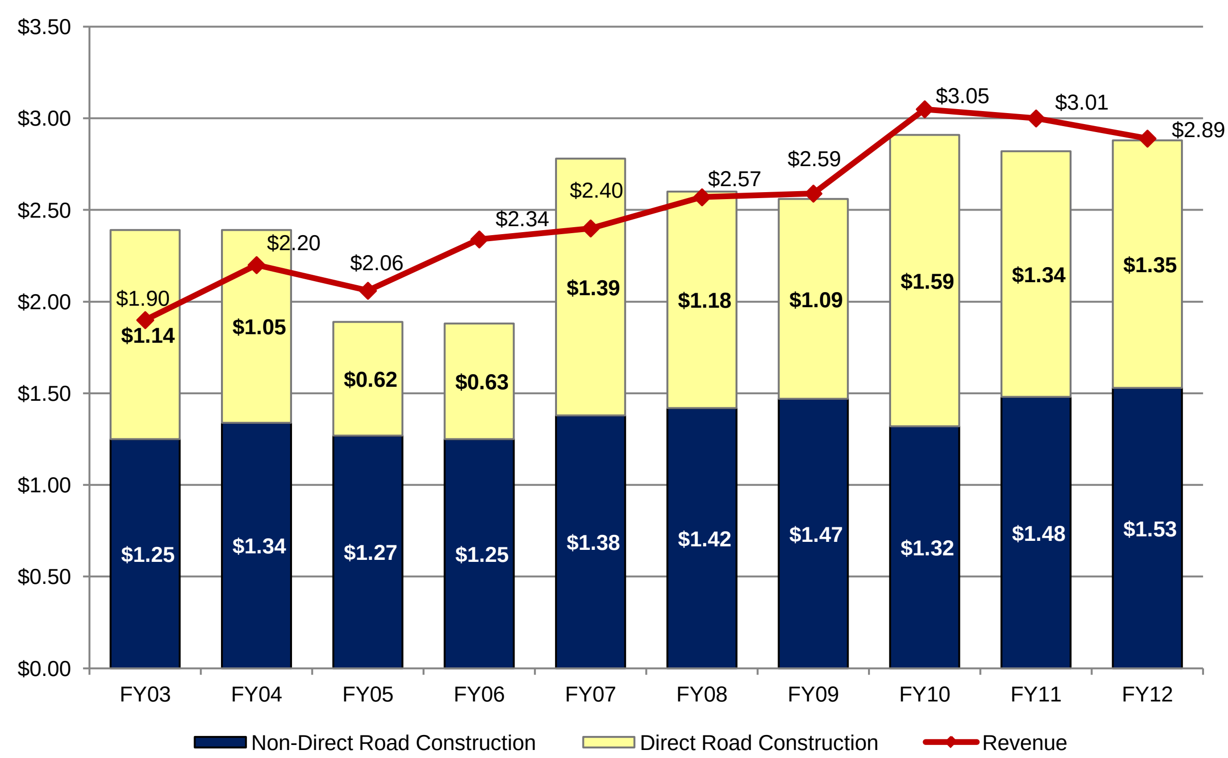
Trends in Direct Road Construction Spending

Over the last three years, there has been a decrease in direct road construction expenditures from the Road Fund and an increase in the cost of construction. The decrease in direct road construction appears to be due to two factors.

First, the Road Fund received $933 million in federal stimulus funding from FY09 to FY12. The stimulus funding peaked in FY10 and decreased in FY11 and in FY12. Direct road construction expenditures from the Road Fund decreased by $238.7 million or 15 percent from $1.59 billion in FY10 to $1.35 billion in FY12.

Second, non-direct road construction expenditures increased from FY10 to FY12 by $210.6 million or 16 percent. Non-direct road construction expenditures increased from $1.32 billion in FY10 to $1.53 billion in FY12. Exhibit 3-8 compares the changes to Road Fund revenue with expenditures for direct and non-direct road construction for the 10 year audit period.

Exhibit 3-8
DIRECT AND NON-DIRECT ROAD CONSTRUCTION FUNDING COMPARED TO ROAD FUND REVENUE
(In Billions)



Source: Illinois Comptroller data summarized by the OAG.

In addition to decreased funding available for direct road construction and an increase in non-direct road construction costs, the costs for road construction are also increasing. Exhibit 3-9 shows the average construction costs by type of work per mile. According to IDOT, between 2002 and 2012, the average costs for every type of construction increased. New construction has more than doubled from $4.02 million/mile from 2002-2004 to $8.91 million/mile from 2009-2012. Increasing construction and non-construction costs combined with declining revenues has caused IDOT to express concern over the number of roads needing repair. IDOT stated that the backlog of State roadway miles in need of improvement is expected to grow significantly through FY18 unless additional revenues are made available. Even if Road Fund revenue was stable, the increase in construction costs would cause a decrease in the amount of direct road construction projects that could be completed.

Exhibit 3-9
CONSTRUCTION COSTS PER MILE BY TYPE OF WORK
(Millions/Mile)

	2002-2004 Average	2005-2008 Average	2009-2012 Average
New Construction	$4.02	$3.33	$8.91
Add Lanes/ Reconstruction	$4.11	$8.74	$4.59
Resurfacing/ Widening and Resurfacing	$0.44	$0.45	$0.58
SMART (Surface Maintenance At The Right Time)	$0.12	$0.14	$0.24

Source: Illinois Department of Transportation (unaudited).

ROAD FUND EXPENDITURE TESTING

We selected 25 expenditures from FY12 for expenditures classified by the Comptroller as Transportation and Related Construction Lump Sums and Other Purposes. We reviewed documentation related to the expenditure and reviewed whether the expenditure was billed to the correct code. The expenditures were in the following areas: Building and Ground Maintenance; Construction and Improvement – Railroads; Contractual Services, Not Elsewhere Classified; Grants to Tax Exempt Organizations; Hospital and Medical Services, Payments to Providers; Professional and Artistic Services, Not Elsewhere Classified; and Repair and Maintenance, Real Property. We reviewed invoices related to the expenditures and we questioned why several of the expenditures were paid out of areas where they had not previously been paid. They included: three payments for Building and Ground Maintenance (janitorial services for a rest area, disposal of tire scraps from IDOT yard, and waste surveys); five payments for Construction and Improvement – Railroads (one for the Chicago Region Environmental and Transportation Efficiency (CREATE) program and four for installing gates and flashers); and three payments for Repair and Maintenance, Real Property (rest area plumbing, weigh station roofs, and digital video recorder).

We met with IDOT to discuss these expenditures, specifically the large changes in expenditures during FY11 and FY12. According to IDOT officials, these large changes in expenditures were due to changes in the way the Comptroller's office began requiring IDOT to report expenditures in FY11. IDOT officials indicated that the Comptroller began denying expenditures and began requiring IDOT to use a set of new expenditure codes. This explained why these large variances occurred for railroad construction, building and ground maintenance, and repair and maintenance of real property.

DIRECT ROAD CONSTRUCTION EXPENDITURES

During our review of direct road construction expenditures, we identified recent changes in the way IDOT was expending Road Fund revenues. However, many of the changes in expenditures were because of recent changes in the way expenditures were required to be coded by the Comptroller. For example, in the last two fiscal years (FY11 and FY12), the amount expended on Construction and Improvements – Highways, which is the major component of direct Road Fund expenditures, decreased. However, some of the decrease was because railroad construction improvements prior to FY11 were billed as Construction and Improvements – Highways. Construction and Improvements – Highways is defined by the Comptroller as: charges incurred for clearing, grading, or surfacing of roads, highways, or bikeways. This limited the comparability of direct road construction expenditures for FY11 and FY12 to prior years. As seen in Exhibit 3-10, in FY10, expenditures increased to $1.27 billion for Construction and Improvements – Highways, which was due to the large amount of federal stimulus that was received. In FY11 and FY12, expenditures decreased to $988 million and $939 million respectively. Therefore, from FY10 to FY12, expenditures for Construction and Improvements – Highways decreased by 26 percent.

As noted above, in FY11, IDOT began billing railroad as Construction Improvement – Railroads. In the previous years, railroad construction was billed as Construction and Improvements – Highways. Our review of Comptroller data showed that there were no expenditures for Construction and Improvement – Railroads until FY11 and FY12; however, IDOT indicated that in FY11, the Comptroller's office added new codes and changed the way railroad construction projects were billed. IDOT expended a total of $82 million in FY11 and FY12 for Construction and Improvement – Railroads, which includes charges incurred for repair and maintenance of railroads as well as charges for architectural, engineering, and other professional services.

Exhibit 3-10
DIRECT ROAD CONSTRUCTION EXPENDITURES PAID FROM THE ROAD FUND[1]
Fiscal Years 2009 - 2012

	FY09	FY10	FY11	FY12
Construction and Improvements – Highways	$801,912,562	$1,267,870,905	$988,292,944	$939,473,878
Architectural and Engineering Fees – Highways	169,328,732	210,061,499	179,381,224	229,671,178
Repair and Maintenance – Highways	48,046,346	47,883,345	29,644,181	56,039,030
Shared Revenue Payments	35,814,300	35,814,300	35,814,300	35,814,300
Land, Rights of Way and Easements – Highways	17,779,375	19,198,532	70,645,426	7,120,086
Transportation Grants	13,918,393	12,332,865	9,120,109	13,867,926
Construction and Improvement – Railroads [2]	0	0	18,021,829	64,197,141
Land, Appraisal, Engineering and Testing Fees – Highways	264,918	231,488	7,891,600	6,748,085
Attorney Fees – Highway and Related Construction	18,593	14,747	3,217,722	1,034,140
Land, Relocation Costs – Highways	7,741	37,732	749,049	94,309
Architectural, Engineering and Other Professional Services – Railroads [2]	0	0	20,694	671,199
Architectural and Engineering – Aeronautics	0	0	3,283	0
Totals [3]	**$1,087,090,960**	**$1,593,445,413**	**$1,342,802,362**	**$1,354,731,271**

Notes:
[1] Direct Road Construction Expenditures only include direct cash outlays from the Road Fund. It does 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.
[2] Prior to FY11, the Comptroller did not have specific codes to specifically identify railroad expenditures.
[3] Totals may not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

We reviewed the first eight years of our audit period (FY03 through FY10) and determined that IDOT billed railroad construction as Construction and Improvements – Highways during those eight years. Since these expenditures did not have a specific code in the Comptroller data, we requested expenditures for railroad construction for the audit period from IDOT. According to documentation provided by IDOT, IDOT paid $190.6 million for railroad construction from FY03 through FY10. Additionally, Comptroller data showed that in FY11 and FY12, IDOT made payments from the Road Fund to the CREATE program. According to IDOT, funding for CREATE began in FY08. The program is intended to improve Chicago's rail system by modernizing connections and grade separating highway and rail traffic. In FY11 and FY12, the Road Fund expended more than $95 million on the CREATE Program.

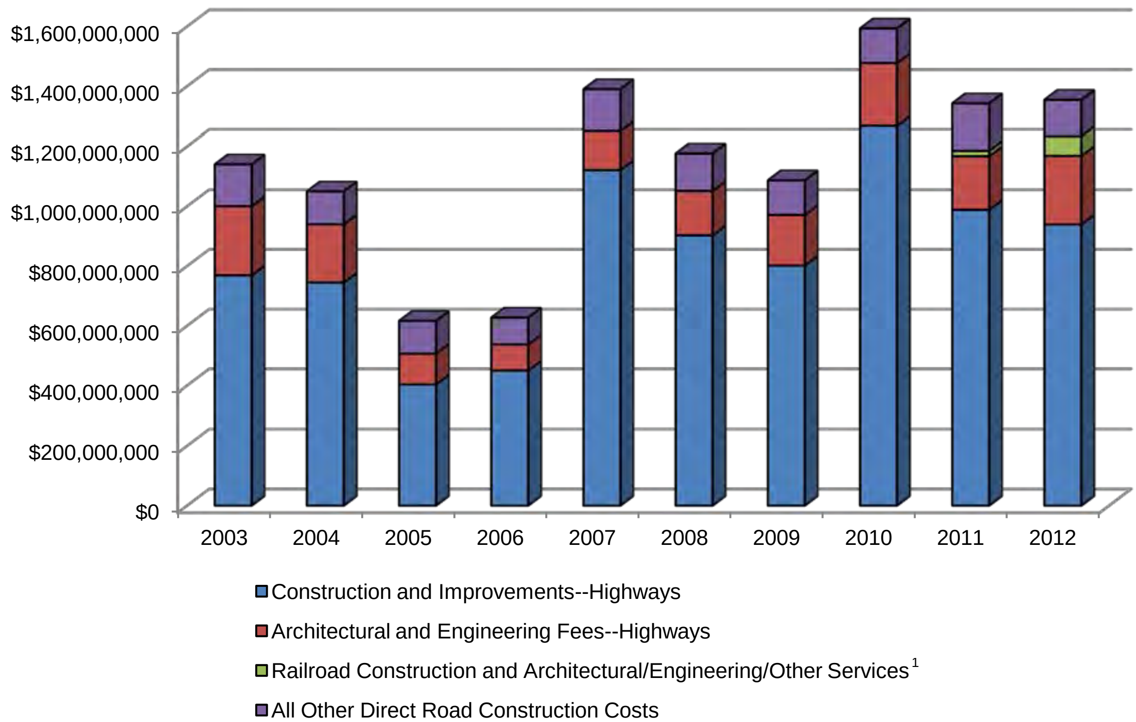
10 Year Analysis of Direct Road Construction Expenditures

Annual direct road construction expenditures from the Road Fund over the last 10 years have varied greatly. Expenditures have been as low as $616.5 million in FY05 and as high as $1.59 billion in FY10. According to IDOT, the increase in expenditures over the last several years can be attributed to the federal stimulus Illinois received. Similarly, annual expenditures for Construction and Improvements – Highways, the largest component of direct road construction expenditures, have varied. Construction and Improvements – Highway has been as low as $403.57 million in FY05 and as high as $1.27 billion in FY10. Exhibit 3-11 shows a breakdown of direct road construction expenditures from the Road Fund during our audit period (FY03 through FY12).

The "All Other Direct Road Construction Costs" category from Exhibit 3-11 includes:

- Attorney Fees – Highway and Related Construction;
- Land, Appraisal, Engineering and Testing Fees – Highways;
- Land, Relocation Costs – Highways;
- Land, Rights of Way and Easements – Highways;
- Repair and Maintenance – Highways;
- Shared Revenue Payments; and
- Transportation Grants.

Exhibit 3-11
BREAKDOWN OF DIRECT ROAD CONSTRUCTION EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012



Note: [1] Prior to FY11, the Comptroller did not have specific codes to specifically identify railroad expenditures.
Source: Illinois Comptroller data summarized by the OAG.

NON-DIRECT ROAD CONSTRUCTION EXPENDITURES

During our review of non-direct road construction expenditures, we again noticed recent changes in the way IDOT was expending Road Fund revenues. IDOT officials indicated that there have not been increased expenditures in these areas; there was just a change in the codes that were used to bill the expenditures. According to IDOT, the increases related to Building and Ground Maintenance and Repair and Maintenance, Real Property were due to a coding change mandated by the Illinois Comptroller. Prior to FY11, Building and Ground Maintenance and Repair and Maintenance, Real Property were billed as either Construction and Improvements – Highways or Architectural and Engineering Fees – Highways. As with direct road construction costs, there were changes in how non-direct road construction costs were coded which limited comparability between FY11 and FY12 and prior years.

These other changes in expenditures resulted in greater costs for non-direct road construction. However, Regular Positions (salaries) decreased in FY10 because the Road Fund stopped paying for them for ISP and SOS. In FY09, the Road Fund paid $96.5 million for ISP salaries and $86.7 million for SOS salaries. In addition, in FY10, the Road Fund stopped paying for other ISP and SOS expenses that totaled $61.9 million in FY09. These expenditures included payments for Social Security and retirement at both agencies, and other operational expenditures at SOS. Exhibit 3-12 shows the last four fiscal years of non-direct road construction expenditures.

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 $1.3 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. Since FY10, several areas have seen large increases in expenditures. As seen in Exhibit 3-12, there were large increases in annual expenditures totaling $162.9 million between FY10 and FY12 in the following areas:

- Transportation Grants ($52 million);
- IDOT Salaries ($39 million);
- State Employees Retirement ($34.8 million);
- Employer Contributions for Group Health Insurance ($15.1 million);
- Building and Ground Maintenance ($8.7 million);
- Grants to Local Governments, Not Elsewhere Classified ($6.8 million); and
- Machinery, Implements and Major Tools ($6.5 million).

Additionally, several areas increased in FY11 and then went down in FY12. These include:

- Repair and Maintenance, Real Property - increased from $4.2 million in FY10 to $19 million in FY11 and to $6.9 million in FY12;
- Statutory Transfers Out - increased from $335.4 million in FY10 to $447.6 million in FY11 to $371.5 million in FY12 (The majority of the increase was for General Obligation Bond Retirement and Interest Fund, which increased from $296,243,714 in FY10 to $391,634,769 in FY11 and to $332,943,244 in FY12); and
- Reimbursement to Governmental Units and Tax Exempt Organizations - increased from $16.5 million in FY10 to $27.3 million in FY11 to $15.1 million in FY12.

Exhibit 3-12
NON-DIRECT ROAD CONSTRUCTION EXPENDITURES
Fiscal Years 2009 - 2012

	FY09	FY10	FY11	FY12
Regular Positions [1]	$529,461,060	$356,338,402	$378,609,565	$395,366,356
Statutory Transfer Out [2]	279,090,901	335,414,766	447,574,470	371,537,503
Employer Contributions for Group Insurance	142,997,300	150,178,800	159,963,100	165,293,800
State Employees Retirement	111,306,771	109,486,053	113,310,223	144,334,020
Transportation Grants	15,265,219	12,368,400	14,831,333	64,359,155
Professional and Artistic Services, Not Elsewhere Classified	35,902,042	33,792,677	19,282,112	35,712,799
Social Security and Medicare Contributions	34,868,736	27,987,078	29,683,210	30,801,715
Rock Salt, Calcium Chloride and Abrasives for Road Use	52,150,484	37,686,022	35,592,471	30,483,055
Extra Help	33,221,531	28,142,295	28,192,692	25,465,791
Motor Vehicles Other Than Passenger Automobiles	28,792,226	18,593,202	1,913,911	22,877,961
Gasoline, Oil and Antifreeze	15,268,644	16,907,394	20,105,043	20,471,606
Facilities Management Revolving Fund Payments	19,587,623	18,601,909	18,613,657	18,211,291
In-House Repair and Maintenance, Purchase of Merchandise	17,420,990	16,925,570	17,525,402	18,066,345
Machinery, Implements and Major Tools	3,286,817	8,788,417	3,780,382	15,302,560
Reimbursement to Governmental Units and Tax Exempt Organizations	14,443,928	16,485,360	27,293,135	15,091,278
Auditing and Management Services	11,991,496	13,138,879	11,559,566	14,124,035
Repair and Maintenance, Automotive Equipment	13,196,121	13,793,800	14,767,402	13,675,629
Building and Ground Maintenance	1,366,018	1,398,882	7,251,579	10,070,098
Statistical and Tabulation Services	9,024,491	9,495,689	10,384,828	9,907,676
Electricity	10,549,992	10,393,344	9,972,351	8,971,670
Parts and Fittings, Automotive Equipment	6,359,405	7,154,125	6,751,841	7,258,926
Repair and Maintenance, Real Property	3,603,291	4,158,631	19,018,651	6,869,491
Grants to Local Governments, Not Elsewhere Classified	611,288	88,696	1,983,057	6,843,063
Repair and Maintenance, Machinery and Mechanical Equipment	4,291,135	5,020,007	5,135,199	5,622,005
Other Expenditures	78,676,017	68,085,223	79,700,091	74,282,896
Totals [3]	**$1,472,733,528**	**$1,320,423,619**	**$1,482,795,271**	**$1,531,000,725**

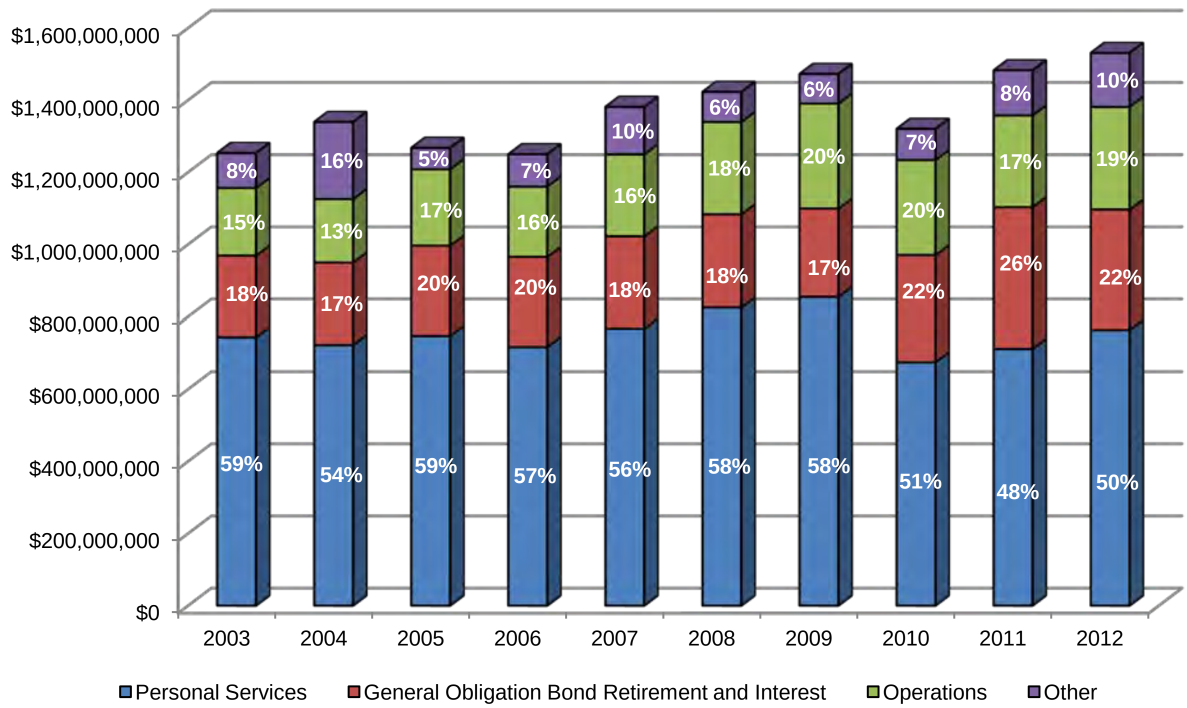
Notes:
[1] The Road Fund stopped paying ISP and SOS salaries after FY09.
[2] Statutory Transfer Out includes payments to the General Obligation B R & I Fund (which includes Transportation Bond Series A payments), the Workers' Compensation Revolving Fund, the Professional Services Revolving Fund, and the Audit Expense Fund.
[3] Totals may not add due to rounding.
Source: Illinois Comptroller data summarized by the OAG.

10 Year Analysis of Non-Direct Road Construction Expenditures

Non-direct road construction expenditures typically account for more than half of all Road Fund expenditures. Exhibit 3-13 shows a breakdown of all non-direct road construction expenditures from the Road Fund during the audit period (FY03-FY12). For the purpose of this audit, non-direct road construction expenditures include the following expenditures and are defined below:

- **Personal Services** - Includes regular positions, employee retirement contributions paid by the State, extra help, State employee retirement, Social Security and Medicare contributions, and Employer Contributions for Group Health Insurance for IDOT, SOS and ISP employees. Personal Services are defined in the State Finance Act (30 ILCS 105/14);
- **General Obligation Bond Retirement and Interest** - Includes payments into the General Obligation Bond Retirement and Interest Fund. The purpose of this fund is to pay the principal of, interest on, and premium on bonds sold under the General Obligation Bond Act (30 ILCS 330/); which includes Transportation Bond Series A payments;
- **Operations** - Expenses required for normal agency activities. Operations include expenditures for contractual services, commodities, travel, equipment, electronic data processing, printing, telecommunication, and operation of automotive equipment; and
- **Other** - Includes payments into the Workers' Compensation Revolving Fund, the Professional Services Revolving Fund, and the Audit Expense Fund. Other expenditures also include awards and grants, refunds, interest, and payments for costs related to permanent improvements, such as attorney and architect fees.

Exhibit 3-13
BREAKDOWN OF NON-DIRECT ROAD CONSTRUCTION EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012



Note: The “Other” category includes: Worker’s Compensation; Professional Services; Transfers; Audit Expense; Interest Owed; Refunds; and Permanent Improvements, Lump Sums, and Other Purposes.
Source: Illinois Comptroller data summarized by the OAG.

Personal Services

Personal services generally account for about half of all non-direct road construction Road Fund expenditures. In FY12, 50 percent of all Road Fund non-direct road construction expenditures were for personal services. Personal services can be broken down into the following categories: employer contributions for group health insurance, state employee retirement, regular positions (salaries), and other personal services. Other personal services can be broken down further into the following: extra help; contractual payroll employees; deceased employee compensation; employer contributions for health and welfare insurance; employer contributions for other fringe benefits; State contribution to Social Security and Medicare for contractual employees; and Social Security and Medicare contributions. The total cost and percent of Road Fund personal service expenditures by category is shown in Exhibit 3-14.

As shown in Exhibit 3-13, in FY10, FY11, and FY12, total payments for personal services out of the Road Fund decreased from 58 percent of total non-direct road construction expenditures in FY09 to 50 percent in FY12. This was due to changes in appropriations out of the Road Fund for personal services for Secretary of State and State Police employees, which were no longer being paid out of the Road Fund. The percent of personal services paid towards regular positions, or salaries, during those years decreased accordingly. However, as is discussed in Chapter Four, the Employer Contributions for Group Health Insurance did not decrease in FY10 when salaries for Secretary of State and State Police employees were no longer paid from the Road Fund.

Exhibit 3-14
BREAKDOWN OF PERSONAL SERVICES EXPENDITURES FROM THE ROAD FUND
Fiscal Years 2003 - 2012

Note: The "Other" category includes: Extra Help, Social Security and Medicare contributions.
Source: Illinois Comptroller data summarized by the OAG.

INTERAGENCY AGREEMENTS

As part of our review of Road Fund expenditures, we requested and IDOT identified 23 interagency agreements IDOT had related to the Road Fund during FY11 and FY12. Many of the agreements were between IDOT and other State agencies for shared services and salaries for agency liaisons. There were three specific agreements in which expenditures out of the Road Fund were $750,000 or greater, which was much higher than other agreements provided. One agreement was between CMS and IDOT in which IDOT was to pay CMS for garage services with an estimated cost of $2,851,900 based on costs from previous years. The second agreement was between IDOT and the Illinois Department of Revenue (IDOR) to fund an on-line International Fuel Tax Agreement credentialing system. The project outlined in the interagency agreement was eligible for federal matching funds and required $1,540,800 from IDOT.

We selected the third largest agreement for review. It was between IDOT and the Department of Commerce and Economic Opportunity (DCEO). This agreement was selected due to its dollar amount and because the agreement required DCEO to pass the grant funds to a vendor. We determined that DCEO did not receive supporting documentation as required by the grant agreement from the Hispanic American Construction Industry Association (HACIA) to monitor the grant which was provided by IDOT from the Road Fund.

In this interagency agreement, IDOT agreed to provide the second year of funding for an existing grant made by DCEO to HACIA. The grant was to be used by the organization to provide two training programs for 180 owners and managers of small and medium construction-related businesses. According to the agreement, the first year of funding for the project was to be provided by DCEO and IDOT agreed to transfer $750,000 to DCEO for the second year of funding for a total of $1,500,480.

The interagency agreement between IDOT and DCEO was effective between January 3, 2011, and June 30, 2012. According to the purpose stated in the interagency agreement, "Training of such owners and managers will better enable these businesses to provide successful bids as contractors and subcontractors on DOT construction projects and accordingly, will also provide a more diverse pool of qualified contractors bidding on said DOT projects."

Grant Monitoring

DCEO did not receive supporting documents required by the grant agreement, which limited its ability to effectively monitor the grant. The agreement required the grantee, HACIA, to provide quarterly financial status and project status progress reports along with various supporting documents. These items were listed on a schedule established by the agreement. We identified numerous issues with the reporting by HACIA and with the monitoring by DCEO.

Late Reporting by HACIA -HACIA was late in providing the required financial and project status reports for every quarter in 2011 and the first two quarters in 2012. DCEO provided notification letters stating that the grantee was not in compliance with the reporting requirements each time the reports were late. On three of the occasions, a second letter had to be sent before receiving the required reports.

Missing Information -DCEO did not receive copies of third party contracts and documentation to verify that programmatic activities were being conducted, such as sign-in sheets or brochures as required by the grant agreement. The project status reports provided by HACIA contained a narrative note section which included details on activities accomplished relating to the grant. However, the narrative note section was not updated in the last six progress reports received by DCEO, which covered the period May 2011 through September 2012. The project status reports received by DCEO stated that they included attachments; however, when we requested to see the additional information, DCEO officials stated that they had not received the attachments. DCEO provided additional grant funds without receiving required supporting documentation to verify compliance with the grant agreement, which includes verification that programmatic activities occurred.

Although St. Augustine College's Institute for Workforce Education provided the actual training program, DCEO did not receive a copy of the third party contract between HACIA and St. Augustine College. The revised grant budget approved by DCEO contained a cost category for contractual services for a total approved amount of $717,360. According to the grant agreement, contractual services were intended to cover training fees paid to St. Augustine College. Without receiving a copy of the third party contract between HACIA and St. Augustine College, DCEO could not determine specifically what St. Augustine College was to provide, when it was to be provided, and what documentation was to be maintained.

We requested all monitoring documentation from DCEO related to the agreement with HACIA. We noted that documentation provided by DCEO did not contain certain documents HACIA was required to provide per the grant agreement. We followed up with DCEO officials and specifically requested copies of any sign-in sheets or other documentation required by the agreement and requested clarification on the number of individuals required to receive training. Subsequent to our requests, DCEO was able to confirm the agreement was to train 180 individuals, and was able to provide copies of sign-in sheets and Client Work Orders between HACIA and St. Augustine College obtained from either HACIA or St. Augustine College.

Revised budget documentation showed that after the $717,360 was spent for contractual services to provide the actual training, the remaining grant funds totaling $783,120 were budgeted for personnel and operational costs at HACIA. This included HACIA having six individuals working on various aspects of the program including administering, monitoring, and promoting the training program. When auditors discussed with DCEO how HACIA was spending grant funds for administrative activities, DCEO officials stated that HACIA's expenditures were detailed in the budget and scope documents. According to DCEO officials, at the time of our request, there were no single expenditures of $30,000 or greater. Therefore, DCEO officials noted no supporting documentation was required for any of the financial status reports.

<table>
<tr><th colspan="2">GRANT MONITORING BY DCEO</th></tr>
<tr><td>RECOMMENDATION NUMBER
2
Continued on following page</td><td>The Department of Commerce and Economic Opportunity should:
• ensure that the proper documentation is obtained from the Hispanic American Construction Industry Association to allow for effective monitoring of the grant agreement; and
• review the required documentation and determine whether HACIA and St. Augustine College met the requirements of the agreement.</td></tr>
</table>

DEPARTMENT OF COMMERCE AND ECONOMIC OPPORTUNITY RESPONSE	The Department agrees with the recommendation and will ensure required supporting documentation is received from the Hispanic American Construction Industry Association. The Department will review the supporting documentation to validate the reported expenditures and activities are in compliance with the grant agreement and align with the corresponding financial and/or progress status report(s).
HISPANIC AMERICAN CONSTRUCTION INDUSTRY ASSOCIATION RESPONSE	While the report stated that HACIA was late in reporting during 2011 and 2012, we want to clarify a couple of items: 1. During the course of the reporting, we had 4 budget revisions which took some time to get approved by DCEO. 2. These revisions added time to our on-time reporting because we had to wait for approval from DCEO before we submitted both the fiscal and programmatic reporting. 3. This had nothing to do with the execution of the program classes. 4. The budget revisions were made to reflect staff leaving and being added to the programs.

Chapter Four

GROUP HEALTH INSURANCE AND WORKERS' COMPENSATION

CHAPTER CONCLUSIONS

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.

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. The responsibility for calculating employer contributions for group health insurance from the Road Fund was under HFS for most of our audit period. The Department of Central Management Services (CMS) was responsible for group health insurance prior to FY06 and again beginning in FY13.

According to CMS and the Department of Healthcare and Family Services (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. These rates differed from the rates GOMB provided to agencies for budgeting purposes. For example, the rate provided by GOMB was $14,500 in FY11; the "other fund" rate per employee calculated in FY11 by HFS was $12,824. We asked GOMB why the HFS rate estimate and the GOMB rate estimate were different and GOMB noted that they were not the ones that put together HFS' numbers and had not seen the documents being cited. The former employee did not respond to our inquiry as to why the numbers differed or how his calculations were used.

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.

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). 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 contribution 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.

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. Transfers into the State's Workers' Compensation Revolving Fund come from three sources: the General Revenue Fund (GRF), 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.)

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. This cap is established in a discussion between CMS and GOMB. According to CMS, the GRF contribution owed 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.

INTRODUCTION

The second determination of Senate Resolution 788 requires an examination of the uses of the Road Fund in Fiscal Year 2012 and to the extent possible, a historical review of the uses of the Road Fund as well as any significant changes over the past 10 years. The Resolution specifically focuses on the amount of funds used for health care and for workers' compensation costs. Chapter Three examined the uses of the Road Fund over the past 10 years. This chapter focuses specifically on the uses of the Road Fund to pay for group health insurance and workers' compensation.

GROUP HEALTH INSURANCE

The responsibility for calculating employer contributions for group health insurance from the Road Fund was under the Department of Healthcare and Family Services (HFS) for most of our audit period. The Department of Central Management Services (CMS) was responsible for group health insurance prior to FY06 and again beginning in FY13. According to CMS and HFS officials, only one employee was responsible for group health insurance calculations related to the Road Fund during our audit period. The employee worked for CMS before moving to HFS when HFS began to oversee the Group Health Insurance program in FY06. Officials noted that this employee was no longer employed by the State of Illinois. Officials from HFS, CMS and the Governor's Office of Management and Budget (GOMB) could not explain to the auditors how the former employee's calculations for group health insurance were derived.

Group Health Insurance Files

We requested and received a copy of the files from the previous employee's computer'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. Since there were no written methodologies included with the files, we reviewed the files and concluded the following:

- 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 for these other funds. Each year a calculation was completed using these variables. These rates were calculated for other funds and were only for budgeting purposes.
- 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; rather, it was charged based on a percent increase from the previous year. The former HFS employee that was responsible for the group health

insurance calculation confirmed that the group health insurance calculation for the Road Fund was not based on a rate per employee.

According to our review of the former employee's data, the rate per employee for group health insurance for "other funds" increased significantly in FY12, increasing from $12,824 in FY11 to $19,126 in FY12. According to the former employee who was responsible for the group health insurance calculation, the rate increased significantly in FY12 because an adjustment was necessary due to under projecting of the rates during previous fiscal years. The reason for the adjustment was not documented in anything provided to us by HFS, CMS, or GOMB.

We met with officials from the Department of Healthcare and Family Services, the Department of Central Management Services, and the Governor's Office of Management and Budget to discuss how the group health insurance appropriations were derived. None of the officials had any idea how the former HFS employee made his calculations. Additionally, we asked how the amount charged to GRF was derived. According to CMS, "during the audit period, there was no actual methodology. Rates were determined based on experience."

In most years, the calculations made by HFS for the amount of group health insurance to be paid from the Road Fund were close to the amounts that were ultimately appropriated from the Road Fund for group health insurance. However, there were significant differences between the rate per employee HFS calculated for the "other funds" and the amount that GOMB communicated to State agencies to use for budgeting purposes. For example, the "other fund" rate per employee calculated in FY11 by HFS was $12,824; the rate provided by GOMB for FY11 was $14,500. We asked GOMB why the HFS rate estimate and the GOMB rate estimate were different and GOMB noted that they were not the ones that put together HFS' numbers and have not seen the documents being cited. The former employee did not respond to our inquiry as to why the numbers differed or how his calculations were used.

The Office of the Auditor General's HFS compliance audit for the year ended June 30, 2011, reported a similar issue with the rate-setting for the Teacher's Retirement Insurance Program. The audit found there was an over reliance on one individual who was involved in calculating the rate-setting methodology, there was a lack of a formal written methodology, and there was no formal process for a documented review.

Beginning in FY13, CMS is responsible for calculating employer contributions for group health insurance; at this time there are no policies, procedures, or methodologies to guide its calculations for the Road Fund.

<table>
<tr><th colspan="2">GUIDANCE OVER CALCULATING EMPLOYER CONTRIBUTIONS
FOR GROUP HEALTH INSURANCE</th></tr>
<tr><td>RECOMMENDATION
NUMBER

3</td><td>The Department of Central Management Services should:
develop policies, procedures, and methodologies for how the State calculates employer contributions for group health insurance;
document how the calculations for group health insurance is derived; and
implement proper segregation of duties in overseeing this process, including stronger checks and balances for understanding the process and ensuring its accuracy.</td></tr>
<tr><td>DEPARTMENT OF
CENTRAL MANAGEMENT
SERVICES RESPONSE</td><td>The Department agrees that formalized policies and procedures should be developed and documented for establishing the budgeted reimbursement rate for employers and establishing a Road Fund appropriation. We concur that we could not provide a documented methodology that had been used by the Dept. of Health Care and Family Services specific to the calculation of the Road Fund base appropriation. The Department has undertaken the hiring of additional resources to cross train, document and provide improved segregation of duties in the development and management of the GHI rates and contributions.

It is important to note that for the Group Health Program as a whole, policies and procedures do exist for published rates, employer and employee contributions. These policies and procedures are documented in the State of Illinois Statewide Cost Allocation Plan and audited annually by the federal government. Reimbursement rates are also evaluated annually by actuarial firms prior to finalization with the State Employees Retirement System. The rates and contribution levels are also reviewed by COGFA. These published rates are used by all agencies and universities for collection of premiums, contributions and employer payroll expenditures when there is a direct group insurance appropriation. GRF and the Road Fund appropriations are more difficult to project because they are funded in lump sums instead of direct personnel line appropriations.</td></tr>
</table>

Overpayment from the Road Fund for Group Health Insurance

Our review of the expenditures from the Road Fund concluded that the Road Fund has been significantly overcharged for employer contributions for group health insurance. Exhibit 4-1 shows expenditures for group health insurance over the 10 year audit period increased from $92 million in FY03 to $165 million in FY12. These yearly increases ranged from 3 percent to 22 percent. The exhibit also includes the appropriation calculation by HFS (and CMS prior to FY06), which was not always the same as the actual appropriation. The expended amount was equal to the Road Fund appropriation in 9 of the last 10 years.

Exhibit 4-1
HFS GROUP HEALTH INSURANCE CALCULATION INFORMATION
Fiscal Years 2003 - 2012

Fiscal Year	HFS Estimated Road Fund Appropriation	Actual Road Fund Appropriation	Road Fund Expenditures	Expenditure Increase from Previous FY
2003	$ - [1]	$92,194,600	$92,194,600	- [1]
2004	100,768,200	100,768,200	98,752,836	7%
2005	114,916,031	120,827,468	120,827,468	22%
2006	128,392,300	126,113,200	126,113,200	4%
2007	131,053,800	130,520,200	130,520,200	3%
2008	135,748,000	135,608,400	135,608,400	4%
2009	142,997,300	142,997,300	142,997,300	5%
2010	150,595,700	150,178,800	150,178,800	5%
2011	155,554,600	159,963,100	159,963,100	7%
2012	$165,293,800	$165,293,800	$165,293,800	3%

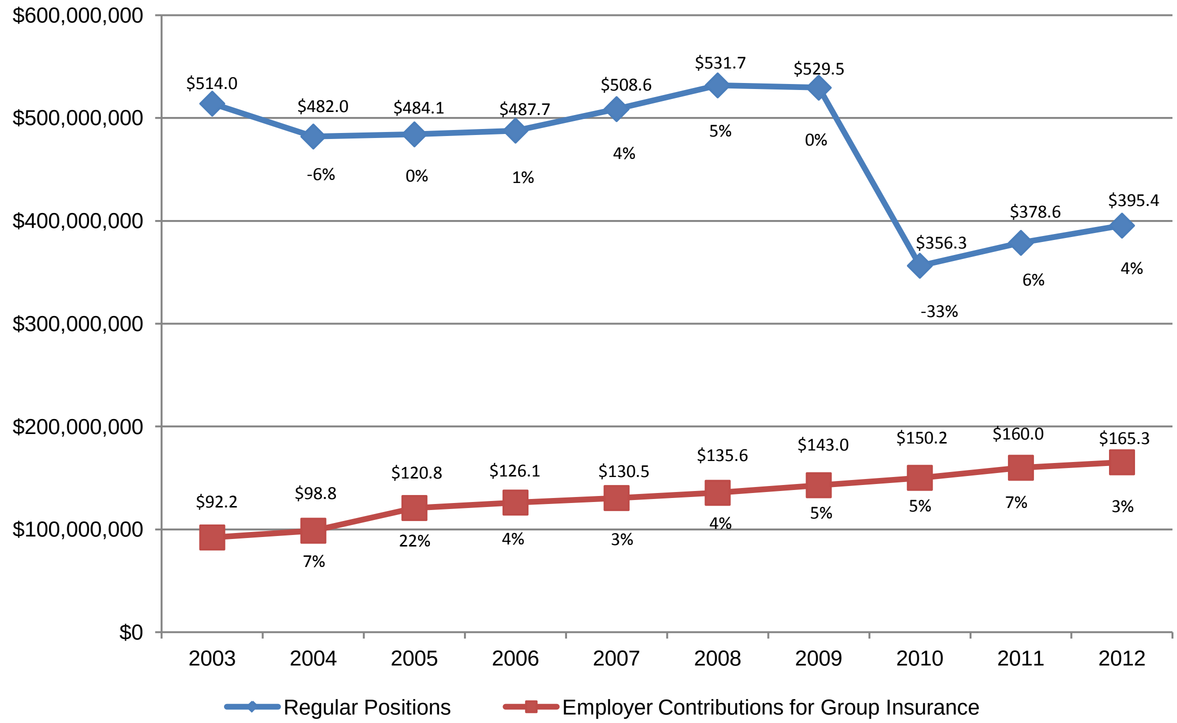
Note: [1] FY03 Information was not provided by HFS.
Source: HFS files on group health insurance and Illinois Comptroller data.

Illinois State Police and Secretary of State Salaries

Throughout the audit period, until FY10, the Road Fund paid for expenditures at both ISP and SOS. These expenditures included regular positions (salaries). As seen in Exhibit 4-2, 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 contribution 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.

We asked the former HFS employee why he continued to include expenditures for ISP and SOS in his group health insurance calculation from the Road Fund. The former official indicated that he was not aware that the Road Fund stopped paying the ISP and SOS salaries until Spring of 2012.

Exhibit 4-2
ROAD FUND SALARIES COMPARED TO GROUP HEALTH INSURANCE PAYMENTS
Fiscal Years 2003 - 2012



Source: Illinois Comptroller data summarized by the OAG.

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. In our examination of group insurance costs paid out of the Road Fund, we requested the headcount from IDOT, ISP, and SOS for those employees that were paid from the Road Fund. According to ISP officials, their headcount figures for FY09, the last year ISP and SOS positions were paid out of the Road Fund, are estimated. SOS figures contained all regular and intermittent employees paid from the Road Fund and are not full time equivalent. We divided the annual Road Fund expenditures by the headcount at IDOT, ISP, and SOS for FY09 and determined that the rate per employee would have been $15,273 (see Exhibit 4-3). In FY09, the Road Fund's computed $15,273 per employee rate is close to the rate that was budgeted by GOMB in FY09, which was $15,900.

In FY10, FY11, and FY12, when the Road Fund was no longer paying the salaries for ISP and SOS employees, the Road Fund was significantly overcharged for group health insurance. In FY10, the rate computed by the auditors (OAG) per Road Fund employee was $30,169, compared to $15,900 that agencies were instructed to use for budgeting group health insurance costs for the "other funds" (see Exhibit 4-3). In FY12, the rate per Road Fund employee increased to $31,947. We multiplied the rate GOMB instructed agencies to use for budgeting for other funds multiplied by the number of IDOT employees paid out of the Road

Fund for fiscal years 2010 and 2011. We determined, at those rates, the Road Fund would have been charged $153.5 million compared to the $310.1 million that it was actually charged during fiscal years 2010 and 2011. Based on the rate GOMB provided agencies to budget for group health insurance, the total overpayment by the Road Fund for group health insurance from FY10 and FY11 was approximately $156.6 million. We could not determine an overpayment for FY12 due to GOMB not providing a specific rate that year. GOMB instructed agencies to use their historical averages.

Exhibit 4-3
ESTIMATED COSTS FOR EMPLOYEES WHOSE GROUP HEALTH INSURANCE WAS PAID BY THE ROAD FUND
Fiscal Years 2009 - 2012

Fiscal Year	Road Fund Group Health Expenditures	Employees Paid From Road Fund	OAG Computed Road Fund Cost Per Employee	GOMB Rate Per Employee for Budgeting **Other Fund** Contributions
2009	$142,997,300	9,363 [1]	$15,273	$15,900
2010	$150,178,800	4,978 [2]	$30,169	$15,900
2011	$159,963,100	5,131 [2]	$31,176	$14,500
2012	$165,293,800	5,174 [2]	$31,947	n/a [3]

Notes:
[1] Figure includes ISP headcount which is estimated. SOS includes regular employees including Intermittent and is not based on full time equivalent.
[2] ISP and SOS salaries were no longer paid out of the Road Fund, thus these figures only include IDOT employees.
[3] Information received from GOMB instructed agencies for budgeting group insurance to use “their historical averages”.
Source: HFS files on group health insurance and information provided by ISP, IDOT, and SOS.

<table>
<tr><th colspan="2">OVERPAYMENT FROM THE ROAD FUND FOR GROUP HEALTH INSURANCE</th></tr>
<tr><td>RECOMMENDATION NUMBER
4</td><td>The Department of Central Management Services and the Governor’s Office of Management and Budget should:
ensure that the Road Fund is not overcharged for employer contributions for group health insurance; and
document and support a consistent methodology for charging employer contributions for group health insurance from the Road Fund.</td></tr>
<tr><td>DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE</td><td>The Department concurs, and is in the process of documenting and employing a more consistent methodology. It is important to note that the appropriations made for contributions to the Group Health Program, and the decisions about the relative burden borne by each fund have been subject to negotiations between the Governor's Office and the General Assembly.</td></tr>
<tr><td>GOVERNOR’S OFFICE OF MANAGEMENT AND BUDGET RESPONSE</td><td>GOMB agrees with the Auditor’s recommendation. Beginning in FY13, the calculations used to establish employer contributions for group health insurance have utilized a headcount and average per person cost allocation methodology. Also in FY13, the General Assembly appropriated a higher than requested amount to the Road Fund; however, CMS plans only to spend the amount out of the Fund needed to cover employees who are paid from the Road Fund.</td></tr>
</table>

WORKERS’ COMPENSATION

The second determination of Senate Resolution 788 specifically requires an analysis of the amount of Road Fund monies used for workers’ compensation costs. Transfers into the Workers’ Compensation Revolving Fund from the Road Fund have increased during the audit period. The amounts transferred ranged from as low as $18 million in FY05 to as high as $50 million in FY11.

Prior to the FY05 consolidation of processing all State employees’ workers’ compensation claims at CMS, large agencies, including IDOT, processed their own employees’ workers’ compensation claims and received an appropriation to pay costs associated with these claims. The appropriations to IDOT for workers’ compensation costs from the Road Fund were $10.6 million in FY03 and $14.6 million in FY04.

During this time period, there were also appropriations from the Road Fund made to CMS to pay workers’ compensation costs for other employees as well. The appropriations from the Road Fund to CMS were $7.3 million in FY03 and $4.9 million in FY04. According to IDOT, these payments were for non-IDOT employees.

During FY05, the administrative function for processing all workers’ compensation claims for State employees was consolidated at CMS. Beginning in FY05 transfers from the Road Fund were made to the Workers’ Compensation Revolving Fund. The transfer amounts for the Road Fund, the General Revenue Fund, and all other funds to the Workers' Compensation Revolving Fund in fiscal years 2005 through 2012 are shown in Exhibit 4-4.

Exhibit 4-4
TRANSFERS INTO THE WORKERS' COMPENSATION REVOLVING FUND
Fiscal Years 2005 - 2012

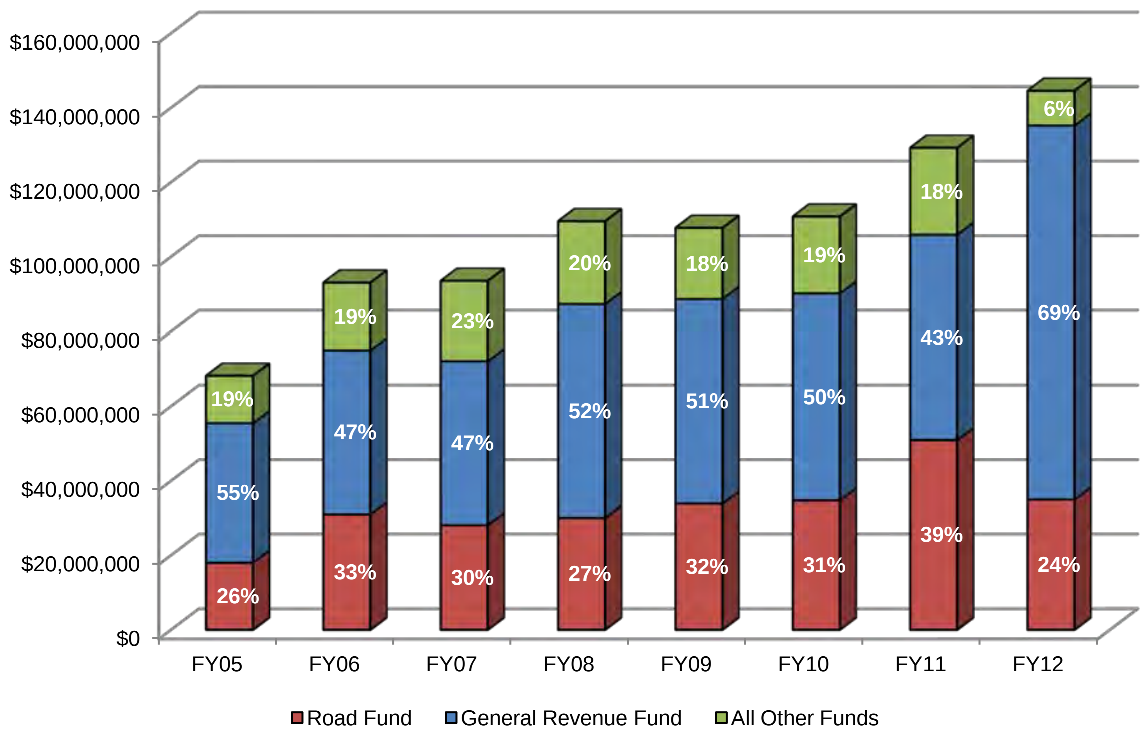
Fiscal Year	General Revenue Fund	Road Fund	All Other Funds	Total
2005	$ 37,461,666	$ 18,052,200	$ 12,710,201	$ 68,224,067
2006	$ 44,000,000	$ 30,987,000	$ 18,106,987	$ 93,093,987
2007	$ 44,028,200	$ 28,084,000	$ 21,451,900	$ 93,564,100
2008	$ 57,309,391	$ 30,049,900	$ 22,211,994	$109,571,285
2009	$ 54,752,023	$ 33,959,000	$ 19,071,394	$107,782,417
2010	$ 55,404,892	$ 34,803,000	$ 20,610,400	$110,818,292
2011	$ 55,000,000	$ 50,955,300	$ 23,322,200	$129,277,500
2012	$100,243,780	$ 35,000,000	$ 9,351,370	$144,595,150

Source: Comptroller and Illinois Department of Transportation data summarized by the OAG.

As shown in Exhibit 4-4, from FY05 to FY11, the amount of GRF transferred for workers' compensation increased 47 percent (from $37.5 million to $55 million). During the same time, 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.)

Transfers into the Workers' Compensation Revolving Fund are also shown as a percentage of all transfers in Exhibit 4-5. As seen in the exhibit, all transfers from the Road Fund into the Workers' Compensation Revolving Fund ranged from 24 percent to 39 percent of all transfers during the eight year period. The exhibit also shows that from FY08 to FY11, the percentage of the transfer from the Road Fund generally increased, while the percentage paid from the General Revenue Fund decreased.

Exhibit 4-5
PERCENT OF WORKERS' COMPENSATION REVOLVING FUND TRANSFERS BY FUND
Fiscal Years 2005 - 2012



Source: Comptroller and Illinois Department of Transportation data summarized by the OAG.

We determined from Exhibit 4-5 that transfers from the Road Fund were increasing at a higher rate than transfers from GRF and other funds. We requested from CMS documentation on how the Road Fund's share for workers' compensation costs are calculated. CMS officials provided their spreadsheets showing how the amount to be transferred from the Road Fund to the Workers' Compensation Revolving Fund was calculated. No written methodologies or procedures were provided. However, CMS officials stated the calculation for determining the amount required from any fund, except the General Revenue Fund, was the same. According to CMS, since the Workers' Compensation Revolving Fund is a risk pool, it is funded in advance based on the following method:

- An agency's share is determined by their actual Workers' Compensation Revolving Fund liability payments for the last complete fiscal year.
- The fund share within each agency is determined by each fund's percentage of that agency's payroll, again using the last complete fiscal year data; and
- The percentages are then applied to the anticipated program liability for the coming year. For example, the calculation of the Road Fund's FY10 liability would be made during FY09 and would be based on the FY08 liability.

We reviewed the calculations for transfers from the Road Fund to the Workers' Compensation Revolving Fund. The Road Fund's original liability amount determined by CMS was significantly lower than the final transfer amount. As shown in Exhibit 4-6, the amount transferred from the Road Fund was above the estimated Road Fund liability in fiscal years 2010 through 2012 by $54.2 million based on the spreadsheets provided by CMS.

Exhibit 4-6
WORKERS' COMPENSATION REVOLVING FUND TRANSFERS
Fiscal Years 2010 - 2012

Fiscal Year	Original Road Fund Workers' Compensation Calculated Liability	Actual Amount Transferred from the Road Fund (due to the cap on GRF)	Amount Above the Estimated Road Fund Liability
2010	$23,087,500	$34,803,000	$11,715,500
2011	$25,345,400	$50,955,300	$25,609,900
2012	$18,120,100 [1]	$35,000,000	$16,879,900
Totals	**$66,553,000**	**$120,758,300**	**$54,205,300**

Note: [1] The decline in the FY12 liability was due to CMS no longer including ISP and SOS in its methodology.
Source: CMS data summarized by the OAG.

CMS officials stated that the final transfer amount was higher than the original calculation because a cap is placed on the GRF contribution due to limited funding. This cap is established in a discussion between CMS and GOMB. According to CMS, the amount owed that was over the GRF cap is divided proportionally and was 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 (see inset for FY11 example). Therefore, we concluded 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.** Appendix E shows the methodology used by CMS to calculate the amount transferred from the Road Fund to the Workers' Compensation Revolving Fund in FY11.

CMS Worksheet Calculation

To determine the total liability for workers compensation to be paid from the Road Fund in FY11, CMS determined that 21.3% of all workers compensation costs were incurred by employees paid from the Road Fund in FY09. The total amount that was needed to be transferred to the Workers' Compensation Revolving Fund (WCRF) in FY11 from all funds was $118,988,500. Using the FY09 percentage calculated above, CMS determined that 21.3% of the FY11 costs, or $25,345,400 would need to be transferred from the Road Fund to the WCRF in FY11.

The amount that needed to be transferred from the General Revenue Fund in FY11 was calculated by CMS to be $87.16 million. However, because a $55 million maximum "cap" had been established by GOMB for the amount of GRF funds that could be transferred to the WCRF, the amount in excess of the cap, or $32.16 million had to be reallocated across all other funds. CMS determined that the Road Fund comprised 79.6% of all other funds, so 79.6% of the $32.16 million, or $25,609,900 in additional worker compensation payments out of the Road Fund was determined to be necessary due to the GRF cap. So, in FY11, a total of $50,955,300 was billed to the Road Fund for workers compensation payments.

According to the spreadsheets provided by CMS, the Road Fund was being charged for workers' compensation costs related to ISP and SOS employees in both FY10 and FY11, even though payments for their salaries from the Road Fund ceased beginning in FY10. If the costs associated with ISP and SOS employee salaries were not factored into the FY10 and FY11 calculations, the amount transferred from the Road Fund for workers' compensations would have been less. We questioned CMS as to why ISP and SOS salaries continued to be included in the calculations for FY10 and FY11. According to CMS, "The last complete Fiscal Year is used as the basis for claims as well as Personal Services spending. For the FY10 calculation, FY08 data was used; for the FY11 calculation, FY09 data was used; for the FY12 calculation, FY10 data was used. Because the SOS and ISP Road Fund employees dropped off Road Fund payroll in FY10, the base for FY12 does not include their salary spend."

As discussed in Chapter One, the State Finance Act (30 ILCS 105/8.3) specifies allowable uses of Road Fund monies. Such uses are generally transportation related and administrative expenses associated with motor vehicles. As a result of the cap on the amount of workers' compensation costs paid from General Revenue Funds, Road Fund monies may have been used for purposes other than those specified in the State Finance Act.

ROAD FUND CONTRIBUTION FOR WORKERS' COMPENSATION	
RECOMMENDATION NUMBER 5	***The Department of Central Management Services and the Governor's Office of Management and Budget should ensure that only workers' compensation costs attributable to employees that are paid out of the Road Fund are charged to the Road Fund.***
DEPARTMENT OF CENTRAL MANAGEMENT SERVICES RESPONSE	The Department concurs. The methodology is based on prior claims experience for each agency/fund, and future risk. The actual transfer amounts have been subject to negotiations between the Governor's Office and the General Assembly.
GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET RESPONSE	GOMB agrees with the Auditor's recommendation. The current methodology being used was formulated by CMS in conjunction with GOMB and is based on historical liabilities and projected costs, on a risk pool basis utilizing a two-year "look back" period.

APPENDICES

APPENDIX A

Senate Resolution Number 788

STATE OF ILLINOIS
NINETY-SEVENTH GENERAL ASSEMBLY
SENATE

Senate Resolution No. 788

Offered by Senators Brady, Althoff, Sullivan, Radogno, Forby, Haine, Koehler, Jacobs, Frerichs, Clayborne and McGuire

WHEREAS, The State's highway system is a critical part of the State's infrastructure; and

WHEREAS, A well developed and maintained State highway system is important for the motoring public and is an essential element in the State's economic development activities; and

WHEREAS, The Road Fund accounts for the activities of the State highway programs, including highway maintenance and construction, traffic control and safety, and administration of the State's motor vehicle laws and regulations; and

WHEREAS, Funding sources for the Road Fund come from federal aid, transfers from the Motor Fuel Tax Fund, and various license and fee charges; and

WHEREAS, According to the Fiscal Year 2010 Comprehensive Annual Financial Report, the Road Fund had revenue of $2.7 billion and expenditures of $2.6 billion, and ended the fiscal *year on June 30, 2010, with a budgetary fund balance of $489 million; and*

WHEREAS, Concerns have been raised that a significant portion of Road Fund receipts are being used for purposes not directly related to road construction; therefore, be it

RESOLVED, BY THE SENATE OF THE NINETY-SEVENTH GENERAL ASSEMBLY OF THE STATE OF ILLINOIS, that the Auditor General is directed to conduct a management audit of moneys deposited into the Road Fund and the subsequent use of those moneys; and be it further

RESOLVED, That the audit include, but not be limited to, the following:

(1) an examination of the sources of funding for the Road Fund in Fiscal Year 2012, and a determination of whether the funding sources have significantly changed over the past 10 years;

(2) an examination of the uses of the Road Fund in Fiscal Year 2012. The analysis should include the amount of funds used for direct road construction costs (including local and State road construction projects), health care and workers' compensation costs, and other costs. To the extent possible, the audit shall include a historical review of the uses of the Road Fund and any significant changes that have occurred over the past 10 years; and

(3) a determination whether State Employee Group Health Insurance charges paid from the Road Fund were reasonable

and in line with the charges paid from the General Revenue Fund; and be it further

RESOLVED, That the Department of Transportation and any other State agency or other entity having information relevant to this audit cooperate fully and promptly with the Auditor General's Office in the conduct of this audit; and be it further

RESOLVED, That the Auditor General commence this audit as soon as possible and report its findings and recommendations upon completion in accordance with the provisions of Section 3-14 of the Illinois State Auditing Act; and be it further

RESOLVED, That a suitable copy of this resolution shall be presented to the Auditor General, the Secretary of State, and the Secretary of the Department of Transportation.

Adopted by the Senate, June 1, 2012.

John J. Cullerton

President of the Senate

Secretary of the Senate

APPENDIX B

Road Fund Revenues FY03 - FY12

Appendix B
FISCAL YEARS 2003 THROUGH 2012 ROAD FUND REVENUES

Source Name	Type	2003	2004	2005	2006
Aeronautics Admin Cost Reim	Federal	$ 264,114	$ 340,472	$ 1,295,533	$ 251,541
Bid Bonds-Contractor Default	State	0	30,000	0	590,411
Certificate of Title	MVR	145,154,112	148,088,064	154,657,968	90,545,712
Conference Fees	State	0	0	22,125	750
Damage & Worker's Comp Claim	State	5,622,151	5,887,816	5,076,041	5,779,263
Emergency Management Agency	State	617,678	0	0	0
Federal Government	Federal	0	0	0	0
Federal Stimulus Package	Federal	0	0	0	0
Hazardous Materials Penalty	State	525,480	390,254	507,734	551,381
Highway Traffic & Signs	State	13,446,655	14,032,109	16,537,513	17,578,752
HWY Sign Maint-Private Sector	State	0	0	4,098	876,070
IEMA-FEMA	Federal	83,780	211,733	433,127	278,502
IL Emergency Management	State	0	0	0	0
Joint Hwy Improv Proj-Others	Local	0	0	6,505,430	6,629,257
Jurisdictional Transfers	State	0	0	0	0
Licenses and Fees	State	(165,420)	0	8,708	0
Local IL Governmental Units	State	41,250	35,750	49,830	26,250
LUST Fund	State	0	0	116,670	0
Miscellaneous	State	157,247	154,569	191,247	282,464
Motor Vehicle Licenses	MVR	522,467,382	610,391,879	535,243,864	735,358,614
Operators Licenses	MVR	44,515,388	42,816,352	50,006,691	34,263,124
Other Charges for Services	State	0	0	0	0
Other IL State Agencies	State	0	0	25,000	0
Other Revenues	State	0	(2,765)	0	0
Overweight Fines/Crt Clerk	State	5,365,773	5,155,966	5,041,160	4,710,101
Prior Year Refund	State	241,699	64,283	336,112	705,380
Private Organiza or Indiv	State	0	0	0	40,000
Private Sect-Hwy Related Prg	State	0	0	1,178,411	1,920,085
Property Add and/or Land	State	0	0	377,038	1,151,170
Property Sales City-County Etc	Local	61,805,080	64,267,779	69,400,615	56,020,081
PY Expenditure Transfers	State	0	0	0	0
PY Warrant Voids	State	11,752	65,464	2,964	5,647
Reim/Jury Duty & Recoveries	State	28,256	8,819	7,785	3,210
Repayment Due to Final Audit	State	0	0	24,610	68,621
Repayment Pursuant to Law	State	0	0	18,330	0
Returned Petty Cash Fund	State	38	1,624	2,752	1,276
Road Fund Interest	Investment Income	12,093,511	2,871,015	2,534,407	19,698,568
Safety Vehicle Inspection	State	408,063	415,888	416,836	430,539
Sale of Land and/or Other St Prop	State	0	0	71,122	1,138,844
Sales of Used Autos & Equip	State	719,241	451,172	189,179	162,562
Sponsorship/Advert Revenue	State	0	0	0	52,500
State Police	State	0	0	17,518	0
Subscription or Publication	State	462,852	532,018	69,020	42,043
Traffic Sig Maint-Private Sect	State	0	0	999,373	2,127,389
Transfer In - Motor Fuel Taxes	MFT	363,942,673	331,646,359	336,901,817	337,063,958
Transportation /NHTSA	Federal	19,687,127	25,042,897	21,375,090	21,446,795
Transportation Bond Series A	Investment Income	1,247,028	87,135,381	1,166,872	584,103
Transportation, Department	Federal	697,511,447	861,842,819	844,979,240	1,001,934,802
Vehicle Inspection Fees	State	620,870	593,234	625,946	360,908
Wetland Mitigation Rights	State	0	0	0	0
	Totals	**$1,896,875,227**	**$2,202,470,950**	**$2,056,417,773**	**$2,342,680,673**

Note: Totals may not add due to rounding.
Source: Illinois Department of Transportation.

Appendix B
FISCAL YEARS 2003 THROUGH 2012 ROAD FUND REVENUES

2007	2008	2009	2010	2011	2012	Totals
$ 780,387	$ 543,675	$ 282,033	$ 693,470	$ 178,634	$ 300,175	$ 4,930,033
0	0	5,000	32,500	0	0	657,911
87,829,358	85,207,248	76,951,002	74,162,239	75,723,924	79,201,947	1,017,521,575
0	0	0	0	0	0	22,875
5,836,628	6,111,682	9,369,852	7,763,754	6,660,562	6,155,415	64,263,163
0	0	0	0	100,701	0	718,379
1,021,561	17,453	838,819	641,598	0	0	2,519,431
0	0	48,123,949	506,879,561	265,073,162	113,143,683	933,220,354
421,193	423,981	241,805	890,676	467,112	745,955	5,165,570
18,749,612	20,828,521	19,000,254	18,419,723	19,489,271	21,773,463	179,855,873
967,280	971,980	1,053,168	1,089,373	1,088,994	1,116,105	7,167,068
2,643,525	998,971	3,249,039	2,881,193	2,662,437	5,089,475	18,531,781
11,286	0	0	0	0	0	11,286
26,909,914	14,178,475	25,841,300	8,153,323	5,487,355	5,245,224	98,950,277
17,325	170,617	0	0	0	0	187,942
99,712	0	719	0	0	0	(56,282)
10,000	0	0	0	0	0	163,080
0	0	0	0	323,995	0	440,665
143,966	477,032	349,360	758,392	441,269	4,133,045	7,088,592
711,114,403	717,428,817	743,735,467	733,830,346	729,671,201	729,003,019	6,768,244,992
35,061,459	29,953,043	28,557,137	28,102,176	27,497,290	27,119,477	347,892,135
0	0	(719)	0	3,957	2,147	5,385
60,000	100,000	0	0	0	0	185,000
0	1,685	(1,140)	0	(31,744)	(2,727)	(36,691)
4,353,779	4,412,347	3,454,139	3,556,722	4,093,365	3,496,657	43,640,009
636,635	839,032	121,928	270,900	367,697	1,688,229	5,271,895
0	0	0	0	0	0	40,000
1,440,434	1,673,539	1,621,885	686,991	259,284	1,144,034	9,924,663
1,033,446	974,969	1,025,295	1,048,020	955,721	1,111,735	7,677,394
60,952,290	64,336,344	65,460,450	74,907,396	78,801,726	66,444,202	662,395,965
225,016	0	0	0	0	0	225,016
1,259	18,166	8,940	5,431	10,151	20,304	150,077
5,631	3,689	3,653	2,837	610	0	64,491
79,627	280,919	58,566	832,113	45,253	0	1,389,710
0	0	0	0	350	0	18,680
2,473	1,433	1,800	0	2,500	0	13,897
26,965,734	18,433,124	10,084,802	3,432,823	2,843,900	4,008,725	102,966,609
425,214	410,408	401,554	459,887	405,996	418,152	4,192,537
1,900,711	7,135,744	1,944,001	503,822	629,570	207,808	13,531,621
0	0	0	0	0	208,867	1,731,021
0	0	0	0	0	0	52,500
0	0	0	6,660	0	0	24,178
238,591	56,933	38,224	34,668	24,535	229,535	1,728,418
1,665,054	2,869,452	2,281,793	3,029,011	2,854,225	2,773,813	18,600,110
385,219,910	335,093,767	317,323,245	299,688,509	312,394,413	319,115,763	3,338,390,414
29,110,461	25,969,568	27,844,575	46,339,613	30,976,759	38,054,522	285,847,409
2,192,953	510,554	273,073	1,226,400	4,353,649	2,108,425	100,798,438
987,565,771	1,228,996,796	1,202,853,480	1,226,362,934	1,432,956,545	1,453,859,995	10,938,863,829
341,678	306,227	337,613	324,822	316,945	300,185	4,128,428
71,325	0	0	0	0	0	71,325
$2,396,105,600	**$2,569,736,193**	**$2,592,736,060**	**$3,047,017,883**	**$3,007,131,314**	**$2,888,217,355**	**$24,999,389,028**

Note: Totals may not add due to rounding.
Source: Illinois Department of Transportation.

APPENDIX C

Road Fund Expenditures FY03 - FY12

Appendix C

FISCAL YEARS 2003 THROUGH 2012 ROAD FUND EXPENDITURES

	2003	2004	2005	2006
Audit Expense Fund	$ 229,517	$ 177,650	$ 174,332	$ 213,676
Awards and Grants	8,747,685	11,086,215	9,523,444	31,737,701
Awards and Grants, Lump Sums, and other Purposes	23,676,495	17,172,593	40,063,189	4,843,786
Awards, Benefits, and Treatment Expenses, Injured Employees	10,599,993	14,599,882	1,114,213	
Commodities	23,196,795	23,926,422	22,390,944	21,719,637
Contractual Services	77,078,625	78,063,201	74,237,104	90,319,554
Court of Claims Awards				
Electronic Data Processing	568,747	1,092,455	338,331	938,286
Employee Retirement Contribution	22,297,071	17,406,878	3,781,162	6,945,816
Employer Contributions Group Health Ins	92,194,600	98,752,836	120,827,468	126,113,200
Equipment	12,933,185	11,759,355	13,255,846	9,782,673
Extra Help	25,288,908	23,847,720	20,908,726	23,772,190
Facilities Management, Legal Services, Statistical Services		915,686	2,369,591	11,332
General Obligation B R & I Fund	225,138,917	227,366,492	249,185,673	248,813,786
Interest Owed for Cash Management Improvement Act		4,109		16,718
Interfund Cash Transfers				110
IT Consolidation			2,245,096	43,523
Lump Sums and other Purposes	32,532,181	29,381,456	28,786,313	30,225,819
Operation of Automotive Equipment	24,377,920	27,302,684	25,977,563	30,306,137
Permanent Improvements, Lump Sums, and other Purposes	4,721,420	4,831,478	4,986,622	4,558,580
Printing	4,444,381	3,476,234	2,980,369	3,297,745
Professional Services Revolving Fund			814,468	5,324,411
Refunds	2,726,658	2,382,183	2,381,863	2,270,113
Refunds, not elsewhere classified	36,374	78,494	123,991	345,855
Regular Positions	510,198,213	478,514,720	490,738,034	484,367,928
Shared Revenue Payments	35,814,300	35,098,014	35,098,014	35,098,014
Social Security and Medicare Contributions	33,178,399	31,266,556	30,766,434	31,176,474
State Employee Retirement	55,468,798	67,524,179	75,589,607	39,690,141
Telecommunications	9,645,952	9,602,538	8,518,678	8,688,616
Tort, Settlements and similar payments - nontaxable	196,476	183,528	326,323	251,689
Transfer to Construction Fund	35,000,000			
Transfer to GRF		131,819,670		
Transfer to Professional Services Revolving Fund				
Transfer to Workers' Compensation Revolving Fund			18,052,200	443,656
Transportation and Related Construction	1,052,257,085	965,957,393	525,486,507	478,360,631
Transportation and Related Construction Lump Sums and other Purposes	40,620,492	46,443,467	40,223,162	102,338,890
Transportation grants	26,016,564	25,090,092	28,853,589	20,456,030
Travel	2,835,242	2,501,491	2,247,452	2,448,890
Unemployment Compensation Payments	1,794,658	1,933,726	1,900,000	1,834,067
Workers' Compensation				30,987,000
Workers' Compensation Revolving Fund				
	$2,393,815,650	**$2,389,559,395**	**$1,884,266,307**	**$1,877,742,675**

Note: Totals may not add due to rounding.
Source: Illinois Comptroller.

Appendix C

FISCAL YEARS 2003 THROUGH 2012 ROAD FUND EXPENDITURES

2007	2008	2009	2010	2011	2012	Totals
$ 161,107	$ 223,970	$ 177,307	$ 279,054	$ 131,444	$ 203,659	$ 1,971,716
19,898,720	17,515,613	18,315,122	17,398,977	16,920,402	13,194,179	164,338,059
12,191,289	3,613,341	6,222,587	5,508,920	15,242,391	79,673,309	208,207,899
						26,314,088
25,532,861	33,636,408	57,346,068	42,793,303	40,791,325	36,151,777	327,485,539
87,905,618	89,649,652	89,943,724	81,790,991	80,357,620	79,760,803	829,106,890
		7,219	137,893		1,149,210	1,294,322
4,262,164	5,922,834	6,686,614	12,916,789	11,455,040	10,531,721	54,712,981
2,240,219	1,865,733	1,831,118	6,852	2,755	3,219	56,380,822
130,520,200	135,608,400	142,997,300	150,178,800	159,963,100	165,293,800	1,322,449,704
24,644,643	27,359,423	32,172,136	28,379,794	5,715,206	41,399,282	207,401,544
29,391,509	32,235,621	33,221,531	28,142,295	28,192,692	25,465,791	270,466,983
						3,296,609
255,244,833	258,265,308	244,566,929	296,243,714	391,634,769	332,943,244	2,729,403,664
56,335	76,242	44,965	4,398	457		203,224
						110
						2,288,619
41,120,967	55,631,790	56,465,229	52,909,179	52,443,041	50,467,126	429,963,101
34,808,882	42,481,571	35,353,990	38,450,296	42,122,027	41,800,362	342,981,434
7,686,835	4,658,966	5,139,385	6,907,924	6,813,274	5,718,372	56,022,857
1,726,722	1,530,910	854,478	655,983	766,012	375,259	20,108,093
5,355,500	2,147,800	342,700	4,084,600		3,390,600	21,460,079
2,214,897	1,972,748	2,273,008		2,283,513	2,488,775	20,993,757
83,035	9,138	14,026	121,915	12,801	17,121	842,751
505,985,321	524,350,121	523,599,858	355,155,618	377,772,273	394,386,793	4,645,068,879
35,098,014	35,098,014	35,814,300	35,814,300	35,814,300	35,814,300	354,561,570
33,210,345	34,699,178	34,509,295	28,040,495	29,730,344	30,874,576	317,452,097
61,823,672	87,059,271	110,072,398	109,150,000	113,072,138	143,993,093	863,443,296
8,767,022	8,545,490	6,913,337	7,212,177	13,196,100	10,152,472	91,242,382
310,110	421,396	447,347	389,606	2,268,070	820,711	5,615,256
35,000,000						70,000,000
						131,819,670
				4,852,500		4,852,500
						18,495,856
662,149,203	308,761,427	148,251,152	190,630,772	85,246,333	91,670,025	4,508,770,529
680,404,723	824,144,834	899,333,399	1,357,578,564	1,231,267,716	1,201,494,754	6,423,850,001
31,215,194	27,925,788	29,163,338	24,424,036	22,946,619	47,750,489	283,841,739
2,634,558	2,386,086	1,885,627	1,858,789	1,728,070	1,847,174	22,373,377
1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	1,900,000	18,862,451
28,084,000			34,803,000	50,955,300		144,829,300
	30,049,900	33,959,000			35,000,000	99,008,900
$ 2,771,628,500	**$ 2,599,746,972**	**$2,559,824,488**	**$2,913,869,032**	**$2,825,597,633**	**$ 2,885,731,996**	**$25,101,782,648**

Note: Totals may not add due to rounding.
Source: Illinois Comptroller.

APPENDIX D

Road Fund Expenditures by State Agency FY03 - FY12

Appendix D

ROAD FUND EXPENDITURES BY STATE AGENCY

FY03 - FY12

Fiscal Year	Department of Transportation	Healthcare and Family Services	Secretary of State	State Police	Central Management Services	City of Chicago [2]	Department of Employment Security	Court of Claims	Intergovernmental Transfers [3]	Total [1]
2003	$1,807,647,105	$0	$126,699,406	$97,309,740	$99,445,887	$0	$1,794,658	$550,420	$260,368,434	$2,393,815,650
2004	1,704,713,620	0	123,990,809	$94,236,332	$103,519,948	0	1,933,726	881,353	360,283,607	2,389,559,395
2005	1,263,777,289	0	126,485,231	$97,309,739	$121,296,825	0	1,900,000	655,863	272,841,360	1,884,266,307
2006	1,239,050,339	126,113,200	122,511,089	$97,270,297	0	0	1,834,067	5,109,580	285,854,102	1,877,742,675
2007	2,088,069,680	130,520,200	128,384,530	$97,309,372	0	0	1,900,000	1,542,944	323,901,775	2,771,628,500
2008	1,934,335,536	135,608,400	129,670,240	$106,085,466	0	0	1,900,000	1,384,111	290,763,220	2,599,746,972
2009	1,849,208,816	142,997,300	130,452,545	$114,678,105	0	40,000,000	1,900,000	1,496,821	279,090,901	2,559,824,488
2010	2,425,143,497	150,178,800	0	0	0	0	1,900,000	1,231,969	335,414,766	2,913,869,032
2011	2,212,913,010	159,963,100	2,283,513	0	0	0	1,900,000	963,539	447,574,470	2,825,597,633
2012	2,342,534,502	165,293,800	2,488,775	0	0	0	1,900,000	1,977,416	371,537,503	2,885,731,996
Totals [1]	**$18,867,393,394**	**$1,010,674,800**	**$892,966,138**	**$704,199,052**	**$324,262,660**	**$40,000,000**	**$18,862,451**	**$15,794,017**	**$3,227,630,137**	**$25,101,782,648**

Notes:

[1] Totals may not add due to rounding.

[2] In FY09, Public Act 96-004 appropriated $40,000,000 to the City of Chicago for expenditures in support of necessary construction, improvement and repair of city roads, streets, bridges, and other infrastructure.

[3] Intergovernmental transfers include transfers for debt service payments, audit expense, workers' compensation, and the consolidation of services.

Source: Illinois Department of Transportation data.

APPENDIX E
FY11 Road Fund Workers' Compensation Revolving Fund Calculation

Appendix E

ROAD FUND WORKERS' COMPENSATION REVOLVING FUND CALCULATION

Fiscal Year 2011

% of SOS FY09 Road Fund Payroll to Total SOS Payroll	51.36%	
FY09 SOS WCRF Liability	$4,948,692	
Road Fund Amount of Total Liability	$2,541,506.17	SOS had 13.8% of Total Road Fund WCRF liability costs in FY09
% of State Police Road Fund Payroll to Total Payroll	38.43%	
FY09 State Police WCRF Liability	$4,345,149	
Road Fund Amount of Total Liability	$1,669,993.94	ISP had 8.8% of Total Road Fund WCRF liability costs in FY09
% of Transportation Road Fund Payroll to Total Payroll	98.14%	
FY09 Transportation WCRF Liability	$17,734,645	
Road Fund Amount of Total Liability	$17,404,218.09	IDOT had 77.4% of Total Road Fund WCRF liability costs in FY09
FY09 WCRF Amount Paid By Road Fund	$21,615,718	Total Road Fund WC Liability "payments" made in FY09 for SOS, ISP, and IDOT.
Total Pool of FY09 Liability Paid for All Agencies	$101,478,799	Total statewide pool of all allocated WC costs from FY09
Road Amount of WCRF Expenses Paid	$21,615,718	Road Fund share of WC costs from above
Percentage of Total Expenditure	21.30%	Road Fund share of the statewide pool
Projected FY11 Liability	$118,988,500	Total WC program amount needed to be transferred in FY11
Percentage applied to liability	21.30%	Road Fund share of the statewide total pool (from above) applied to estimated WC FY11 needed transfers
Road Fund "Owed" Amount	$25,345,411	
Rounded	$25,345,400	Total transfer amount rounded
Original calculation	**$25,345,400**	
Revised amount based on GRF cap	**$50,955,300**	
Actual Billed amount	**$50,955,300**	

Source: Illinois Department of Central Management Services.

APPENDIX F
Agency Responses

Department of Transportation Response

Illinois Department of Transportation
Office of Finance and Administration
2300 South Dirksen Parkway / Springfield, Illinois / 62764

April 22, 2013

MEMORANDUM TO WILLIAM G. HOLLAND, AUDITOR GENERAL
STATE OF ILLINOIS

SUBJECT: Management Audit of the Road Fund

Thank you for your letter dated April 1, 2013 regarding the draft report for the management audit of the monies deposited in the Road Fund and the subsequent use of the monies.

The Illinois Department of Transportation (IDOT) appreciates the Office of the Auditor General for the final results and recommendations that went into this report. The opportunities for improvement and validation that stem from an independent viewpoint are always beneficial.

Thank you for the opportunity to comment on this issue. If you have any questions or need further information, please contact Ms. Lori Beeler in IDOT's Division of Finance and Administration, located at 2300 South Dirksen Parkway, Springfield, Illinois 62564 by telephone at (217) 558-5075 or by e-mail at lori.beeler@illinois.gov.

Matthew R. Hughes
Director

Secretary of State
(Recommendation Number 1)

Illinois Office of the Secretary of State
Senate Resolution Number 788 Recommendation Response

Illinois Office of the Secretary of State Response:

The Office of the Secretary of State accepts this recommendation. The Office plans to review all of the fees it collects on behalf of the State of Illinois and will document the methodology used to collect and distribute those fees.

The Office will work with the Department of Transportation, the Governor's Office and the Legislature to create legislation to further clarify the Illinois Vehicle Code regarding the distribution of motorist fees collected by the Office.

Department of Commerce & Economic Opportunity
(Recommendation Number 2)

Illinois Department of Commerce & Economic Opportunity
Pat Quinn, Governor

April 22, 2013

Scott Wahlbrink
Senior Audit Manager
Office of the Auditor General
Iles Park Plaza
740 East Ash
Springfield, IL 62703-3154

Dear Mr. Wahlbrink:

Thank you for your letter dated April 1, 2013 regarding the sections of the draft report pertaining to the Department of Commerce and Economic Opportunity (DCEO) for the management audit of the moneys deposited in the Road Fund and the subsequent use of the moneys pursuant to Senate Resolution Number 788.

The Department appreciates the work done by you and others in your office for this audit and the one recommendation directed to DCEO. The Department will continue to work with the Hispanic American Construction Industry Association to implement the necessary corrective action for the recommendation.

The Department provides the following response:

> **Recommendation Number 2**: The Department agrees with the recommendation and will ensure required supporting documentation is received from the Hispanic American Construction Industry Association. The Department will review the supporting documentation to validate the reported expenditures and activities are in compliance with the grant agreement and align with the corresponding financial and/or progress status report(s).

Sincerely,

Scott

Scott Harry
Chief Accountability Officer

www.ildceo.net

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Hispanic American Construction Industry Association

(Recommendation Number 2)

HISPANIC AMERICAN CONSTRUCTION INDUSTRY ASSOCIATION

901 W. Jackson Blvd. Suite 205
Chicago, Illinois 60607
312.666.5910
FAX 312.666.5692

April 15, 2013

Mr. Scott Wahlbrink
Senior Audit Manager
Illinois Office of the Auditor General

Dear Scott:

Thank you for providing us with the draft section of your audit for the DCEO grant we received for the training of minority contractors. We appreciate your time and candor in this matter.

While the funding for MCTP (Minority Contractor Training Program) originally called for training 180 participants, HACIA is proud to have successfully registered and trained over 180 diverse participants, including women, men, African Americans, Latinos, Asian, and White Non-Hispanics. This training is crucial as minority-owned companies still represent a growing segment of the construction industry. However, many are not prepared to compete in the marketplace because of a lack of training in such areas as management and technology. MCTP addressed the vital training those contractors needed to compete as the economy slowly opens up with more bid opportunities.

Through our comprehensive services including contractor and employee outreach, training and education programs, and policy advocacy, HACIA has been able to be a conduit for many construction and related businesses throughout Illinois. We represent more than 300 members, 7,000 employees and nearly $400 million in economic output across the Chicago area.

Regarding your audit, while the report stated that HACIA was late in reporting during 2011 and 2012, we want to clarify a couple of items:

1. During the course of the reporting, we had 4 budget revisions which took some time to get approved by DCEO.
2. These revisions added time to our on-time reporting because we had to wait for approval from DCEO before we submitted both the fiscal and programmatic reporting.
3. This had nothing to do with the execution of the program classes.
4. The budget revisions were made to reflect staff leaving and being added to the programs.

If you have any additional questions or need more clarification, please do not hesitate in contacting me.

Sincerely,

Jorge J. Perez
Executive Director

Department of Central Management Services
(Recommendation Numbers 3, 4, and 5)

Recommendation #3
The Department of Central Management Services should:
- Develop policies, procedures, and methodologies for how the State calculates employer contributions for group health insurance;
- Document how the calculations for group health insurance is derived; and
- Implement proper segregation of duties in overseeing this process, including stronger checks and balances for understanding the process and ensuring its accuracy.

DEPARTMENT RESPONSE:
The Department agrees that formalized policies and procedures should be developed and documented for establishing the budgeted reimbursement rate for employers and establishing a Road Fund appropriation. We concur that we could not provide a documented methodology that had been used by the Dept. of Health Care and Family Services specific to the calculation of the Road Fund base appropriation. The Department has undertaken the hiring of additional resources to cross train, document and provide improved segregation of duties in the development and management of the GHI rates and contributions.

It is important to note that for the Group Health Program as a whole, policies and procedures do exist for published rates, employer and employee contributions. These policies and procedures are documented in the State of Illinois Statewide Cost Allocation Plan and audited annually by the federal government. Reimbursement rates are also evaluated annually by actuarial firms prior to finalization with the State Employees Retirement System. The rates and contribution levels are also reviewed by COGFA. These published rates are used by all agencies and universities for collection of premiums, contributions and employer payroll expenditures when there is a direct group insurance appropriation. GRF and the Road Fund appropriations are more difficult to project because they are funded in lump sums instead of direct personnel line appropriations.

Recommendation #4
The Department of Central Management Services and the Governor's Office of Management and Budget should:
- Ensure that the Road Fund is not overcharged for employer contributions for group health insurance; and
- Document and support a consistent methodology for charging employer contributions for group health insurance from the Road Fund.

DEPARTMENT RESPONSE:
The Department concurs, and is in the process of documenting and employing a more consistent methodology. It is important to note that the appropriations made for contributions to the Group Health Program, and the decisions about the relative burden borne by each fund have been subject to negotiations between the Governor's Office and the General Assembly.

Recommendation #5
The Department of Central Management Services and the Governor's Office of Management and Budget should ensure that only workers' compensation costs attributable to employees that are paid out of the Road Fund are charged to the Road Fund.

DEPARTMENT RESPONSE:
The Department concurs. The methodology is based on prior claims experience for each agency/fund, and future risk. The actual transfer amounts have been subject to negotiations between the Governor's Office and the General Assembly.

Governor’s Office of Management and Budget

(Recommendation Numbers 4 and 5)

Governor's Office of Management and Budget Responses to Preliminary Draft Report of the Road Fund Audit

Recommendation #4
The Department of Central Management Services and the Governor's Office of Management and Budget should:

- Ensure that the Road Fund is not overcharged for employer contributions for group health insurance; and
- Document and support a consistent methodology for charging employer contributions for group health insurance from the Road Fund.

GOMB Response:
GOMB agrees with the Auditor's recommendation. Beginning in FY13, the calculations used to establish employer contributions for group health insurance have utilized a headcount and average per person cost allocation methodology. Also in FY13, the General Assembly appropriated a higher than requested amount to the Road Fund; however, CMS plans only to spend the amount out of the Fund needed to cover employees who are paid from the Road Fund.

Recommendation #5
The Department of Central Management Services and the Governor's Office of Management and Budget should ensure that only workers' compensation costs attributable to employees that are paid out of the Road Fund are charged to the Road Fund.

GOMB Response:
GOMB agrees with the Auditor's recommendation. The current methodology being used was formulated by CMS in conjunction with GOMB and is based on historical liabilities and projected costs, on a risk pool basis utilizing a two-year "look back" period.