

STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2013

Performed as Special Assistant Auditors for the  
Auditor General, State of Illinois

STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2013

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STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2013

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STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

AGENCY OFFICIALS

Secretary	Ann L. Schneider
Chief Operating Officer	Marsha N. Campos
Chief of Staff	Marva Boyd
Assistant Secretary	Vacant
Deputy Secretary	Vacant
Chief Counsel	Michael A. Forti
Chief Internal Auditor	Stephen D. Kirk
Acting Director, Office of Finance and Administration	Tony Small
Director, Office of Business and Workforce Diversity	Frank McNeil
Director, Office of Communications	John Webber
Director, Office of Legislative Affairs	Leigh Ann Vanausdoll
Director, Office of Planning and Programming	Charles Ingersoll
Director, Office of Quality Compliance and Review	Jeff Heck
Director, Division of Aeronautics	Susan R. Shea
Director, Division of Highways	Omer Osman
Director, Division of Public and Intermodal Transportation	Joseph E. Shacter
Acting Director, Division of Traffic Safety	John Webber

Agency main offices are located at:

2300 S. Dirksen Parkway  
Springfield, IL 62764

STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the State of Illinois, Department of Transportation (Department) was performed by Sikich LLP as special assistants for the Auditor General.

Based on their audit, the auditors expressed an unmodified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as items 2013-001, 2013-003, and 2013-005. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as items 2013-002, 2013-004, and 2013-006.

- |          |   |
|----------|---|
| 2013-001 | Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements |
| 2013-002 | Inaccurate commodities inventory records  |
| 2013-003 | Weaknesses in reporting of capital assets   |
| 2013-004 | Weaknesses in documenting accounts payable  |
| 2013-005 | Weaknesses in the reporting of accounts receivable  |
| 2013-006 | Inadequate controls over processing local road contract requests for payments   |

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 11, 2013. Attending were:

Department of Transportation

Ann Schneider, Secretary of Transportation  
Tony Small, Acting Director Office of Finance and Administration  
Lori Beeler, Audit Coordinator  
Dante Watson, Bureau Chief of Business Services  
Chad Dierking, Unit Chief of Fiscal Operations  
Omer Osman, Director Division of Highways  
Lori Campbell, Section Chief of Business Services  
Stephen Kirk, Chief Internal Auditor  
Michael Forti, Chief Counsel

Office of the Auditor General

Peggy Hartson, Audit Manager

Sikich LLP – Special Assistant Auditors

Amy L. Sherwood, Partner  
Kelli Bruns, Manager

The responses to the recommendations were provided by Lori Beeler in correspondence dated December 13, 2013.

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

### **Report on the Financial Statements**

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness

of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion was not modified with respect to this matter.

### ***Other Matters***

#### ***Restatement***

As discussed in Note 13, the Department restated its fund balance/net position within the Road Fund and governmental activities, respectively, as of June 30, 2012, to reflect reporting errors related to an overstatement that occurred in fiscal year 2012. The restatement totaled \$11.5 million. Our opinions are not modified with respect to that matter.

#### ***Required Supplementary Information***

Management has omitted management's discussion and analysis and budgetary comparison information for the General Revenue Fund, Road Fund, and State Construction Account Fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information, such as the combining General Fund and Motor Fuel Tax Fund schedules and nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, in the combining General Fund and Motor Fuel Tax Fund schedules and nonmajor fund financial statements, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, in the combining General Fund and Motor Fuel Tax Fund schedules and nonmajor fund financial statements, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated December 19, 2013 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

### **Restricted Use of This Audit Report**

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

*Sitich LLP*

Springfield, Illinois  
December 19, 2013

**State of Illinois**  
**Department of Transportation**

**Statement of Net Position**

June 30, 2013 (Expressed in Thousands)

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Unexpended appropriations	\$ 842,802
Cash equity with State Treasurer	171,212
Cash and cash equivalents	2,519
Securities lending collateral equity with State Treasurer	10,337
Receivables, net:	
Intergovernmental	298,915
Other	18,400
Due from other State funds	568,922
Due from State of Illinois component units	59,863
Inventories	54,896
Prepaid expenses	284
Loans receivable, net	21,954
Capital assets not being depreciated	2,656,522
Capital assets being depreciated, net	15,111,337
<b>Total assets</b>	<b>19,817,963</b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	391,620
Intergovernmental payables	772,021
Due to other State funds	16,932
Due to State of Illinois component units	123,862
Obligations under securities lending of State Treasurer	10,337
Unearned revenue	4,001
Long term obligations:	
Due within one year	8,773
Due subsequent year	66,189
<b>Total liabilities</b>	<b>1,393,735</b>
<b>NET POSITION</b>	
Net investment in capital assets	17,750,334
Restricted for:	
Transportation programs	46,586
Debt service	13,134
Unrestricted	614,174
<b>Total net position</b>	<b>\$ 18,424,228</b>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Transportation**

**Statement of Activities**

For the Year Ended June 30, 2013 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
Transportation	\$ 4,659,263	\$ 54,989	\$ 363,575	\$ 1,321,437	\$ (2,919,262)
Intergovernmental	546,586	-	-	-	(546,586)
Interest	1,456	-	-	-	(1,456)
Total governmental activities	<u>\$ 5,207,305</u>	<u>\$ 54,989</u>	<u>\$ 363,575</u>	<u>\$ 1,321,437</u>	<u>(3,467,304)</u>
<b>General revenues and transfers</b>					
Sales tax					219,512
Appropriations from State Resources					13,956,749
Reappropriation to future year(s)					(9,812,728)
Lapsed appropriations					(138,497)
Receipts collected and transmitted to State Treasury					(1,588,926)
Net change in liabilities for reappropriated accounts					(17,003)
Other revenues					541
Interest and investment income					724
Amount of SAMS transfers-in					(492,395)
Amount of SAMS transfers-out					1,117,761
Transfers-in					460,820
Transfers-out					(38,131)
Total general revenues and transfers					<u>3,668,427</u>
Change in net position					201,123
Net position, July 1, 2012, as restated					18,223,105
Net position, June 30, 2013					<u>\$ 18,424,228</u>

**State of Illinois**  
**Department of Transportation**

**Balance Sheet-Governmental Funds**

June 30, 2013 (Expressed in Thousands)

	General Fund	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>					
Unexpended appropriations	\$ 21,794	\$ 414,974	\$ 73,403	\$ 332,631	\$ 842,802
Cash equity with State Treasurer	1,207	4,931	-	164,627	170,765
Cash and cash equivalents	-	-	-	2,519	2,519
Securities lending collateral equity with State Treasurer	-	-	-	10,337	10,337
Intergovernmental receivables, net	-	209,313	-	89,602	298,915
Other receivables, net	-	18,354	10	36	18,400
Due from other Department funds	-	20,890	14,269	3,821	38,980
Due from other State funds	393,238	217	-	175,317	568,772
Due from State of Illinois component units	-	59,857	-	6	59,863
Inventories	-	54,896	-	-	54,896
Loans receivable, net	295	-	-	21,659	21,954
<b>Total assets</b>	<b>\$ 416,534</b>	<b>\$ 783,432</b>	<b>\$ 87,682</b>	<b>\$ 800,555</b>	<b>\$ 2,088,203</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 365	\$ 210,049	\$ 70,438	\$ 110,751	\$ 391,603
Intergovernmental payables	415,557	68,413	1,531	286,520	772,021
Due to other Department funds	265	334	-	38,659	39,258
Due to other State funds	7	15,933	148	844	16,932
Due to State of Illinois component units	-	120,245	1,286	2,331	123,862
Obligations under securities lending of State Treasurer	-	-	-	10,337	10,337
Unearned revenue	-	898	-	3,103	4,001
Unavailable revenue	-	31,092	-	60,134	91,226
<b>Total liabilities</b>	<b>416,194</b>	<b>446,964</b>	<b>73,403</b>	<b>512,679</b>	<b>1,449,240</b>
<b>FUND BALANCES</b>					
Nonspendable portion of:					
Loans and notes receivable	295	-	-	-	295
Inventories	-	54,896	-	-	54,896
Restricted	45	-	-	59,675	59,720
Unrestricted					
Committed	-	281,572	-	251,107	532,679
Assigned	-	-	14,279	-	14,279
Unassigned	-	-	-	(22,906)	(22,906)
<b>Total fund balances</b>	<b>340</b>	<b>336,468</b>	<b>14,279</b>	<b>287,876</b>	<b>638,963</b>
<b>Total liabilities and fund balances</b>	<b>\$ 416,534</b>	<b>\$ 783,432</b>	<b>\$ 87,682</b>	<b>\$ 800,555</b>	<b>\$ 2,088,203</b>

**State of Illinois**  
**Department of Transportation**  
**Reconciliation of Governmental Funds Balance Sheet**  
**to Statement of Net Position**  
**June 30, 2013**  
**(Expressed in Thousands)**

**Total fund balances-governmental funds** \$ 638,963

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 17,767,859

Prepaid expenses for governmental activities are current uses of financial resources for funds. 284

Internal service funds are used to charge costs of air transportation activities to individual funds. The assets and liabilities of the Air Transportation Revolving Fund are reported as governmental activities in the Statement of Net Position. 858

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds. 91,226

Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:

Compensated absences	\$ (46,760)	
Capital lease obligations	(1,205)	
Auto liability claims	(8,377)	
Pollution remediation obligations	(2,300)	
Certificates of participation	(16,320)	
	(74,962)	(74,962)

**Net position of governmental activities** **\$ 18,424,228**

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois  
Department of Transportation

Statement of Revenues, Expenditures, and  
Changes in Fund Balances-Governmental Funds

For the Year Ended June 30, 2013 (Expressed in Thousands)

	General Fund	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
<b>REVENUES</b>					
Sales taxes	\$ -	\$ -	\$ -	\$ 219,512	\$ 219,512
Motor fuel taxes	-	288,644	201,516	(490,160)	-
Operating grants - Federal	-	60,329	-	234,970	295,299
Capital grants - Federal	-	1,337,232	-	-	1,337,232
Other operating grants	-	63,075	-	6,822	69,897
Other capital grants	-	9,518	-	-	9,518
Licenses and fees	-	21,386	-	27	21,413
Other charges for services	-	25,755	-	913	26,668
Other	-	-	11	530	541
Interest and other investment income	-	-	-	724	724
<b>Total revenues</b>	-	1,805,939	201,527	(26,662)	1,980,804
<b>EXPENDITURES</b>					
Transportation	482,688	1,750,090	175,485	1,099,567	3,507,830
Intergovernmental	-	-	-	546,586	546,586
Debt service - principal	-	303	-	1,860	2,163
Debt service - interest	-	162	-	991	1,153
Capital outlays	-	385,614	516,418	500,010	1,402,042
<b>Total expenditures</b>	482,688	2,136,169	691,903	2,149,014	5,459,774
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(482,688)	(330,230)	(490,376)	(2,175,676)	(3,478,970)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	22,190	5,840,054	1,441,840	6,652,665	13,956,749
Reappropriation to future year(s)	-	(3,564,199)	(761,002)	(5,487,527)	(9,812,728)
Lapsed appropriations	(321)	(136,330)	-	(1,846)	(138,497)
Receipts collected and transmitted to State Treasury	(77)	(1,587,002)	-	(1,847)	(1,588,926)
Net change in liabilities for reappropriated accounts	(1)	7,138	11,037	(35,177)	(17,003)
Amount of SAMS Transfers-in	-	(289,557)	(202,838)	-	(492,395)
Amount of SAMS Transfers-out	-	-	-	1,117,761	1,117,761
Transfers-in	460,820	-	-	46,249	507,069
Transfers-out	-	(4,116)	-	(80,264)	(84,380)
Capital lease financing	-	329	-	-	329
<b>Net other sources (uses) of financial resources</b>	482,611	266,317	489,037	2,210,014	3,447,979
<b>Net change in fund balances</b>	(77)	(63,913)	(1,339)	34,338	(30,991)
Fund balances, July 1, 2012, reclassified and as restated	417	403,289	15,618	253,538	672,862
Decrease for changes in inventories	-	(2,908)	-	-	(2,908)
<b>FUND BALANCES, JUNE 30, 2013</b>	\$ 340	\$ 336,468	\$ 14,279	\$ 287,876	\$ 638,963

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Transportation**  
**Reconciliation of Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to Statement of Activities**  
**For the Year Ended June 30, 2013**  
**(Expressed in Thousands)**

<b>Net change in fund balances</b>	\$ (30,991)
Change in inventories	(2,908)
	(33,899)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.	253,093
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,860
Some capital assets were transferred in/out from/to other State agencies and, therefore, no payments were made for the capital asset's value. This is the net amount transferred in from other State agencies.	3,122
Internal service funds are used to charge costs of certain activities to individual funds. The net income of the internal service funds is reported as governmental activities in the Statement of Activities.	363
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.	284
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the decrease in unavailable revenue over the prior year.	(20,754)
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are reported. This is the net book value of the capital assets disposed.	(2,127)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Increase in compensated absence	(455)
Increase in capital leases	(26)
Increase in auto liability claims	(838)
Decrease in pollution remediation obligations	500
	500
<b>Change in net position of governmental activities</b>	<b>\$ 201,123</b>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**

**Department of Transportation**

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**Statement of Net Position - Proprietary Fund**

**Air Transportation Revolving Fund (0309)**

June 30, 2013 (Expressed in Thousands)

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	<b>Governmental Activities - Internal Service Fund</b>
<hr/>	
<b>ASSETS</b>	
Cash equity with State Treasurer	\$ 447
Due from other Department funds	15
Due from other State funds	413
<b>Total current assets</b>	<hr/> 875 <hr/>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	<hr/> 17 <hr/>
<b>NET POSITION</b>	
Unrestricted	858
<b>Total net position</b>	<hr/> <b>\$ 858</b> <hr/>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**

**Department of Transportation**

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**Statement of Revenues, Expenses, and Changes in  
Fund Net Position - Proprietary Fund  
Air Transportation Revolving Fund (0309)**

For the Year Ended June 30, 2013 (Expressed in Thousands)

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Charges for sales and services	\$ 728
<b>OPERATING EXPENSES</b>	
Cost of sales and services	<u>365</u>
<b>Operating income and change in net position</b>	363
<b>NET POSITION, JULY 1, 2012</b>	<u>495</u>
<b>NET POSITION, JUNE 30, 2013</b>	<u><u>\$ 858</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

*State of Illinois*

*Department of Transportation*

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**Statement of Cash Flows - Proprietary Fund**

**Air Transportation Revolving Fund (0309)**

For the Year Ended June 30, 2013 (Expressed in Thousands)

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	<b>Governmental Activities - Internal Service Fund</b>
<hr/>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from transactions with other funds	\$ 695
Cash payments to suppliers for goods and services	(424)
Net cash used by operating activities	<u>271</u>
<b>Net increase in cash equity with State Treasurer</b>	271
Cash equity with State Treasurer, July 1, 2012	<u>176</u>
<b>CASH EQUITY WITH STATE TREASURER, JUNE 30, 2013</b>	<u><u>\$ 447</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
<b>OPERATING INCOME</b>	\$ 363
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in due from other funds	(33)
Decrease in accounts payable and accrued liabilities	(59)
<b>NET CASH USED BY OPERATING ACTIVITIES</b>	<u><u>\$ 271</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013

**(1) Organization**

The Department of Transportation (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review of the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the Road Fund and the State Construction Account are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of locally-held accounts authorized by State law.

The Department is organized to provide safe, cost-effective transportation for Illinois in ways that enhance quality of life, promote economic prosperity, and demonstrate respect for our environment.

**(2) Summary of Significant Accounting Policies**

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

**(a) Financial Reporting Entity**

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; and
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**(b) Basis of Presentation**

The financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to

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the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2013, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the transportation function in the State of Illinois' Comprehensive Annual Financial Report. A brief description of the Department's government-wide and fund financial statements is as follows:

***Government-wide Statements.*** The government-wide statement of net position and statement of activities report the overall financial activity of the Department. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes, charges for services, and intergovernmental revenues.

The statement of net position presents the assets and liabilities of the Department's governmental activities with the difference being reported as net position. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the transportation function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

***Fund Financial Statements.*** The fund financial statements provide information about the Department's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental funds (or portions thereof in the case of shared funds) – see the State of Illinois Comprehensive Annual Financial Report:

**General** – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, public transportation and air transportation for the Governor and State Legislature on official business. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

**Road** – This special revenue fund accounts for the activities of the State highway programs including highway maintenance and construction, traffic control and safety, and

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administering motor vehicle laws and regulations. Funding sources include federal aid, State motor fuel taxes and various license and fee charges.

**State Construction Account** – This capital projects fund accounts for the construction, reconstruction, and maintenance of the State maintained highway system. Funding sources include a portion of motor vehicle registration fees, weight taxes, and transfers from the Motor Fuel Tax Fund.

Additionally, the Department reports the following fund types:

**Governmental Fund Types:**

**Special Revenue** – These funds account for resources obtained from specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

**Debt Service** – These funds account for governmental resources obtained and accumulated to pay interest and principal on general long-term debt issues.

**Capital Projects** – These funds account for resources obtained and used for the acquisition or construction of major capital facilities and other capital assets. Such resources are derived principally from proceeds of general and special obligation bond issues and certificates of participation.

**Proprietary Fund Types:**

**Internal Service** – This fund accounts for air travel provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

**(c) *Measurement Focus and Basis of Accounting***

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of

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general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal aid and motor fuel tax revenue. All other revenue sources including fines, penalties, licenses and other miscellaneous revenue are considered to be measurable and available only when cash is received.

**(d) Shared Fund Presentation**

The financial statement presentation for the General Fund, Road Fund, State Construction Fund, Motor Fuel Tax Fund, Cycle Rider Safety Training Fund, Transportation Bond Series A Fund, Transportation Bond Series B Fund, Transportation Bond Series D Fund, General Obligation Bond Retirement and Interest Fund, and nonmajor governmental funds represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants processed by the State Comptroller's Office after June 30, annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Reappropriation to Future Year(s)

This contra revenue account reduces current year's appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Net Change in Liabilities for Reappropriated Accounts

This account reflects the amount which should be added to or subtracted from the current year appropriation for shared funds to reflect the increase or decrease from prior year to

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current year for amounts included in obligations for reappropriated accounts which are liabilities at June 30 of the prior year and June 30 of the current year.

Receipts Collected and Transmitted to State Treasury

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This “other financing use” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This “other financing source” account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

**(e) *Eliminations***

Eliminations have been made in the government-wide statement of net position to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet and proprietary funds statement of net position as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet and proprietary funds statement of net position as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position as receivable from and payable to external parties, rather than as internal balances. Also, eliminations have been made in the statement of activities to remove the “doubling-up” effect of interdepartmental internal service fund activity.

**(f) *Cash and Cash Equivalents***

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand and cash held in local bank accounts.

**(g) *Inventories***

For governmental funds, the Department recognizes the costs of inventories as expenditures when purchased. At year-end, physical counts are taken of significant inventories, consisting primarily of road salt and sand, traffic signs, and traffic sign materials, in governmental funds and are reported at cost on the average cost method. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Department reports an equivalent portion of nonspendable fund balance.

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**(h) Interfund Transactions**

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

**Services provided and used**—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide and proprietary statements of net position.

**Reimbursements**—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**Transfers**—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

The Department also has activity with the State of Illinois component units primarily related to research grants and purchases of services.

**(i) Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Infrastructure	\$250,000	20-40
Land	100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Easements	25,000	5
Equipment	5,000	3-25
Internally-Generated Intangible Assets	1,000,000	3-25
Non-Internally Generated Intangible Assets	25,000	3-25

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**(j) *Compensated Absences***

The liability for compensated absences reported in the government-wide statement of net position consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

**(k) *Pollution Remediation Obligations***

In the government-wide statement of net position, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within 'most likely', 'worst case' and/or 'best case' scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

**(l) *Fund Balances***

In the fund financial statements, governmental funds report fund balances as a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. This hierarchy is made up of resources which are nonspendable, restricted, or unrestricted (committed, assigned and unassigned).

Nonspendable fund balance represents resources which relate to inventory or long-term receivables not expected to be converted to cash in the near term.

Restricted fund balance represents resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Committed fund balance represents resources that are constrained on use for a specific purpose imposed generally by the Governor and the State legislature. This constraint can only be

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removed or changed by the same action which established it. The action to constrain funds should occur prior to the end of the fiscal year.

Assigned fund balance represents resources that are intended by the Department to be used for a specific purpose. In all governmental funds, other than the General Fund, residual amounts are classified as assigned.

Unassigned fund balance represents resources that are available for any purpose. This classification is only reported in the General Fund, except in cases of negative fund balance reported in other governmental funds which are reported as unassigned.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources which are committed are generally used before assigned resources and unassigned resources.

**(m) Net Position**

In the government-wide and proprietary fund statements of net position, equity is displayed in three components as follows:

***Net Investment in Capital Assets*** – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

***Restricted*** – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

***Unrestricted*** – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

**(n) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(o) New Accounting Pronouncements**

Effective for the year ending June 30, 2013, the Department adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of the Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

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Additionally, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* was effective for the Department beginning with the year ending June 30, 2013. The objective of this statement is to provide financial reporting guidance for deferred outflows and inflows of resources and to rename the residual measure from “Net Assets” to “Net Position”.

**(p) Future Adoption of GASB Statements**

Effective for the year ending June 30, 2014, the Department will adopt GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of the Statement is to determine whether certain transactions previously reported as assets and liabilities should continue to be reported as such or should instead be reported as:

- A deferred outflow of resources, or
- An outflow of resources (expense/expenditure), or
- A deferred inflow of resources, or
- An inflow of resources (revenue).

The Department has not yet determined the impact this statement will have on financial reporting.

**(3) Deposits**

**(a) Deposits**

The State Treasurer is the custodian of the State’s cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments are available within the State of Illinois’ Comprehensive Annual Financial Report.

Cash on deposit for locally held funds had a carrying amount and bank balance of \$2.519 million at June 30, 2013.

**(b) Securities Lending Transactions**

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank AG to lend the State Treasurer’s securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal years 2013 and 2012, Deutsche Bank AG lent U.S. Treasury and U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2013 and 2012 on the amount of the loans available or the eligible securities. In the event of borrower default,

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Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. Moreover, there were no losses during fiscal years 2013 and 2012 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal years 2013 and 2012, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending cash collateral received that was invested in repurchase agreements and the fair value of the securities on loan for the State Treasurer as of June 30, 2013, were \$6,763,623,576 and \$6,742,892,101, respectively. The securities lending cash collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were \$4,556,511,251 and \$4,551,829,732, respectively.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2013 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$10.337 million at June 30, 2013.

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**(4) Interfund Balances and Activity**

**(a) Balances Due to/from Other Funds**

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 393,238	Due from other State funds for June sales tax allocations, debt service payments and interfund borrowings.
Road	20,890	217	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State funds for services and reimbursements of expenditures incurred.
State Construction Account	14,269	-	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June.
Nonmajor governmental funds	3,821	175,317	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred and debt service payments and from other State funds for reimbursement of expenditures and interfund borrowings.
Internal service funds	15	413	Due from other Department funds and other State funds for air transportation services provided.
	<u>\$ 38,995</u>	<u>\$ 569,185</u>	

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The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to other Department and State of Illinois funds.

<u>Fund</u>	<u>Due to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 265	\$ 7	Due to other Department Funds for downstate transit improvements and due to Department internal service funds for air transportation services received.
Road	334	15,933	Due to other Department funds for reimbursement of expenditures incurred and to other State funds for reimbursement of expenditures incurred and for services received.
State Construction Account	-	148	Due to other State funds for services received.
Nonmajor governmental funds	38,659	844	Due to other Department Funds for motor fuel tax allocation for June and to other State funds for services received and retirement costs.
	<u>\$ 39,258</u>	<u>\$ 16,932</u>	

**(b) Transfers to/from Other Funds**

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2013, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 460,820	Transfers from other State funds for sales tax allocation, debt service, and for other purposes.
Nonmajor governmental funds	46,249	-	Transfers from Motor Fuel Tax Fund for allocation pursuant to State statute and other Department nonmajor governmental funds for debt service and downstate public transportation purposes.
	<u>\$ 46,249</u>	<u>\$ 460,820</u>	

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Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2013, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 4,116	\$ -	Transfers to Department nonmajor governmental funds for debt service payments.
Nonmajor governmental funds	42,133	38,131	Transfers to other State funds for motor fuel tax allocation for June, administration of Railroad Safety program, and for other purposes.
	<u>\$ 46,249</u>	<u>\$ 38,131</u>	

*(c) Balances Due to/from State of Illinois Component Units*

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred and services received.

<u>Component Unit</u>	<u>Due from</u>	
	<u>Road Fund</u>	<u>Nonmajor Governmental Funds</u>
Illinois Toll Highway Authority	\$ 59,561	\$ -
University of Illinois	296	6
	<u>\$ 59,857</u>	<u>\$ 6</u>

The following balances (amounts expressed in thousands) at June 30, 2013 represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs.

<u>Component Unit</u>	<u>Due to</u>		
	<u>Road Fund</u>	<u>State Construction Account</u>	<u>Nonmajor Governmental Funds</u>
Illinois Toll Highway Authority	\$ 115,864	\$ -	\$ -
Western Illinois University	5	-	197
Illinois State University	-	-	591
Northern Illinois University	59	-	592
Southern Illinois University	347	-	258
University of Illinois	3,970	1,286	693
	<u>\$ 120,245</u>	<u>\$ 1,286</u>	<u>\$ 2,331</u>

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**(5) Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2013 was as follows:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2013</u>
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land and land improvements	\$ 2,503,005	\$ 137,390	\$ 260	\$ -	\$ 2,640,135
Easements	3,934	1,209	-	-	5,143
Construction in progress	9,880	2,741	1,377	-	11,244
Total capital assets not being depreciated	<u>2,516,819</u>	<u>141,340</u>	<u>1,637</u>	<u>-</u>	<u>2,656,522</u>
Capital assets being depreciated:					
Infrastructure	25,780,592	1,234,452	749,219	-	26,265,825
Site improvements	2,497	-	-	-	2,497
Buildings and building improvements	129,926	942	-	-	130,868
Easements	5,542	1,485	559	-	6,468
Equipment	402,653	23,779	8,869	3,142	420,705
Internally generated software	1,985	44	-	-	2,029
Capital leases - equipment	1,404	329	-	-	1,733
Total capital assets being depreciated	<u>26,324,599</u>	<u>1,261,031</u>	<u>758,647</u>	<u>3,142</u>	<u>26,830,125</u>
Less accumulated depreciation:					
Infrastructure	10,923,773	1,118,271	749,219	-	11,292,825
Site improvements	2,447	14	-	-	2,461
Buildings and building improvements	88,311	2,783	-	-	91,094
Easements	1,693	1,449	559	-	2,583
Equipment	311,060	26,211	8,379	20	328,912
Internally generated software	83	199	-	-	282
Capital leases - equipment	280	351	-	-	631
Total accumulated depreciation	<u>11,327,647</u>	<u>1,149,278</u>	<u>758,157</u>	<u>20</u>	<u>11,718,788</u>
Total capital assets being depreciated, net	<u>14,996,952</u>	<u>111,753</u>	<u>490</u>	<u>3,122</u>	<u>15,111,337</u>
Governmental activity capital assets, net	<u>\$ 17,513,771</u>	<u>\$ 253,093</u>	<u>\$ 2,127</u>	<u>\$ 3,122</u>	<u>\$ 17,767,859</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2013 was charged to the following function:

Transportation \$ 1,149,878

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**(6) Long-Term Obligations**

**(a) Changes in Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2013 were as follows:

	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2013</b>	<b>Amounts Due Within One Year</b>
<b>Governmental activities:</b>					
Compensated absences	\$ 46,305	\$ 28,214	\$ 27,759	\$ 46,760	\$ 3,126
Capital lease obligations	1,179	329	303	1,205	338
Auto liability claims	7,539	2,046	1,208	8,377	1,544
Pollution remediation obligations	2,800	-	500	2,300	1,800
Certificates of participation	18,180	-	1,860	16,320	1,965
<b>Total</b>	<b>\$ 76,003</b>	<b>\$ 30,589</b>	<b>\$ 31,630</b>	<b>\$ 74,962</b>	<b>\$ 8,773</b>

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the Road Fund. Pollution remediation obligations have been liquidated by the applicable governmental fund that accounts for the related construction project.

**(b) Capital lease obligations**

The Department leases land, office facilities, office and computer equipment, and other assets with a historical cost and accumulated depreciation of \$1.773 million and \$631 thousand, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2013 are as follows:

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 338	\$ 125	\$ 463
2015	372	81	453
2016	416	33	449
2017	78	2	80
2018	1	0	1
	<u>\$ 1,205</u>	<u>\$ 241</u>	<u>\$ 1,446</u>

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

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June 30, 2013

**(c) Pollution remediation obligations**

The Department has recorded pollution remediation obligations for investigations and remediation of contaminated soils generally consisting of soil sampling, disposal of impact soil, and installation of groundwater monitoring wells.

**(d) Certificates of Participation**

The Department financed the purchase of certain Department-owned real and personal property (District 1 headquarters) through a third party (non-State issued) certificate. This non-State issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Interest varies from 3.9% - 5.5%. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2013, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 1,965	\$ 887	\$ 2,852
2015	2,070	776	2,846
2016	2,185	655	2,840
2017	2,315	523	2,838
2018 - 2020	7,785	700	8,485
	<u>\$ 16,320</u>	<u>\$ 3,541</u>	<u>\$ 19,861</u>

**(7) Pension Plan**

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2013 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2013. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2013, the employer contribution rate was 37.987%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013

agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

**(8) Post-employment Benefits**

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, William G. Stratton Building, 401 S. Spring St., Springfield, IL 62706.

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013

**(9) Fund Balance**

**(a) Categories**

At June 30, 2013, the Department's fund balances were classified as follows (amounts expressed in thousands):

	<u>General Fund</u>	<u>Road Fund</u>	<u>State Const. Account</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Loans and notes receivable	\$ 295	\$ -	\$ -	\$ -	\$ 295
Inventory	-	54,896	-	-	54,896
Total Nonspendable	<u>\$ 295</u>	<u>\$ 54,896</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 55,191</u>
Restricted purpose:					
General Transportation	\$ 45	\$ -	\$ -	\$ 46,541	\$ 46,586
Debt Service	-	-	-	13,134	13,134
Total Restricted	<u>\$ 45</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,675</u>	<u>\$ 59,720</u>
Committed purpose:					
General Transportation	\$ -	\$ 281,572	\$ -	\$ 251,107	\$ 532,679
Total Committed	<u>\$ -</u>	<u>\$ 281,572</u>	<u>\$ -</u>	<u>\$ 251,107</u>	<u>\$ 532,679</u>
Assigned purpose:					
Transportation Projects	\$ -	\$ -	\$ 14,279	\$ -	\$ 14,279
Total Unassigned	\$ -	\$ -	\$ -	\$ (22,906)	\$ (22,906)
<b>Total Fund Balances</b>	<u><u>\$ 340</u></u>	<u><u>\$ 336,468</u></u>	<u><u>\$ 14,279</u></u>	<u><u>\$ 287,876</u></u>	<u><u>\$ 638,963</u></u>

**(b) Fund Deficits**

The Federal Local Airport Fund and Federal Mass Transit Trust Fund had deficit fund balances of \$22.374 million and \$532 thousand, respectively, at June 30, 2013. The deficits funds will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

**(10) Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. Except for a portion of the auto liability, the State retains the risk of loss (i.e. self insured) for these risks.

Auto liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The Department's risk financing for auto liabilities has been determined using an estimate of claims outstanding.

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The following is a reconciliation of the Department's claims liabilities for the years ended June 30, 2012 and June 30, 2013 (amounts expressed in thousands).

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2012	\$ 8,421	\$ 1,835	\$ 2,717	\$ 7,539
2013	\$ 7,539	\$ 2,046	\$ 1,208	\$ 8,377

**(11) Commitments and Contingencies**

*(a) Commitments*

The Department has outstanding construction projects for highway program improvements and administrative expenses in which it has entered into future commitments. The amount of the Department's commitments was \$4.731 billion at June 30, 2013.

*(b) Encumbrances*

The Department has Road Fund encumbrances for goods ordered but not received prior to June 30, 2013 of \$1.653 million.

*(c) Operating Leases*

The Department leases various real property and equipment under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$11.676 million for the year ended June 30, 2013.

The following is a schedule of future minimum lease payments under operating leases (amounts expressed in thousands):

<u>Year Ending June 30</u>	<u>Total</u>
2014	\$ 192
2015	81
2016	38
2017	<u>8</u>
	<u>\$ 319</u>

*(d) Federal Funding*

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2013, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be

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June 30, 2013

no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

**(e) Litigation**

On April 19, 2004, an auto accident occurred wherein the plaintiff sued the State in *Chraca v. Miles*. On September 8, 2009, judgment was entered in the Circuit Court of Cook County for the amount of \$23.8 million against the State. On February 18, 2010, the State appealed the judgment to the First District Appellate Court of Illinois. The Appellate Court has ruled against the State. The plaintiff is seeking to enforce the judgment through the Court of Claims. An amount of \$2 million, the statutory limit on auto liability exposure per case, has been included in the long-term auto liability. Any amount to be paid in addition to this \$2 million is uncertain at this time. Any court-ordered judgment amount, including the \$2 million already accrued, would be paid from the Road Fund.

The Department is also routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**(12) Reclassification**

As shown in the following table, the financial statements of the Department have been reclassified as of June 30, 2012. The Metro-East Public Transportation Fund (0794) was presented in the General Fund in previous years but was reclassified to a special revenue fund and is included in Nonmajor Funds (amounts expressed in thousands).

	<u>General Fund</u>	<u>Nonmajor Funds</u>
<b>Fund balance, June 30, 2012 as previously reported</b>	\$ 508	\$ 253,447
Reclassification to special revenue fund	(91)	91
<b>Fund balance, June 30, 2012, as reclassified</b>	<u>\$ 417</u>	<u>\$ 253,538</u>

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2013

**(13) Restatement**

As shown in the following table, the financial statements of the Department have been restated as of June 30, 2012 for reporting errors relating to the net overstatement of amounts due from local governments in the Road Fund (amounts expressed in thousands).

	<b>Governmental Fund</b>	
	<b>Road</b>	<b>Governmental Activities</b>
<b>Fund Balance/Net Position, June 30, 2012, as previously reported</b>	\$ 414,788	\$ 18,234,604
Net overstatement of amounts due from local governments	\$ (11,499)	\$ (11,499)
<b>Fund Balance/Net Position, June 30, 2012 as restated</b>	\$ 403,289	\$ 18,223,105

**SUPPLEMENTARY INFORMATION**

**State of Illinois**  
**Department of Transportation**

**Combining Schedule of Accounts -**  
**General Fund**

June 30, 2013 (Expressed in Thousands)

	General Fund Accounts			Total
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	
<b>ASSETS</b>				
Unexpended appropriations	\$ 21,794	\$ -	\$ -	\$ 21,794
Cash equity with State Treasurer	-	45	1,162	1,207
Due from other State funds	-	-	393,238	393,238
Loans receivable, net	295	-	-	295
<b>Total assets</b>	<b>\$ 22,089</b>	<b>\$ 45</b>	<b>\$ 394,400</b>	<b>\$ 416,534</b>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 354	\$ -	\$ 11	\$ 365
Intergovernmental payables	21,175	-	394,382	415,557
Due to other Department funds	265	-	-	265
Due to other State funds	-	-	7	7
<b>Total liabilities</b>	<b>21,794</b>	<b>-</b>	<b>394,400</b>	<b>416,194</b>
<b>FUND BALANCES</b>				
Nonspendable portion of loans receivable	295	-	-	295
Restricted	-	45	-	45
<b>Total fund balances</b>	<b>295</b>	<b>45</b>	<b>-</b>	<b>340</b>
<b>Total liabilities and fund balances</b>	<b>\$ 22,089</b>	<b>\$ 45</b>	<b>\$ 394,400</b>	<b>\$ 416,534</b>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Transportation**

**Combining Schedule of Revenues,  
Expenditures, and Changes in Fund Balances -  
General Fund**

For the Year Ended June 30, 2013 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	Total
<b>REVENUES</b>				
None				
<b>EXPENDITURES</b>				
Transportation	21,868	-	460,820	482,688
<b>Total expenditures</b>	<b>21,868</b>	<b>-</b>	<b>460,820</b>	<b>482,688</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(21,868)</b>	<b>-</b>	<b>(460,820)</b>	<b>(482,688)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>				
Appropriations from State resources	22,190	-	-	22,190
Lapsed appropriations	(321)	-	-	(321)
Receipts collected and transmitted to State Treasury	(77)	-	-	(77)
Net change in liabilities for reappropriated accounts	(1)	-	-	(1)
Transfers in	-	-	460,820	460,820
<b>Net other sources (uses) of financial resources</b>	<b>21,791</b>	<b>-</b>	<b>460,820</b>	<b>482,611</b>
<b>Net change in fund balances</b>	<b>(77)</b>	<b>-</b>	<b>-</b>	<b>(77)</b>
Fund balances, July 1, 2012, as reclassified	372	45	-	417
<b>FUND BALANCES, JUNE 30, 2013</b>	<b>\$ 295</b>	<b>\$ 45</b>	<b>\$ -</b>	<b>\$ 340</b>

The accompanying notes to the financial statements are an integral part of this statement.

**State of Illinois**  
**Department of Transportation**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
June 30, 2013 (Expressed in Thousands)

**Special Revenue**

	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal/Local Airport 0095	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265
<b>ASSETS</b>						
Unexpended appropriations	\$ 79,503	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	-	34,593	338	3,050	329	11,776
Cash and cash equivalents	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	224	7,991
Intergovernmental receivables, net	-	-	-	35,165	-	-
Other receivables, net	-	-	-	18	-	4
Due from other Department funds	-	3,500	-	-	-	-
Due from other State funds	-	-	-	-	584	-
Due from State of Illinois component units	-	-	-	6	-	-
Loans receivable, net	-	-	-	-	-	10,133
<b>Total assets</b>	<b>\$ 79,503</b>	<b>\$ 38,093</b>	<b>\$ 338</b>	<b>\$ 38,239</b>	<b>\$ 1,137</b>	<b>\$ 29,904</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 424	\$ 4,628	\$ -	\$ 8,171	\$ -	\$ -
Intergovernmental payables	39,576	6,081	-	26,947	540	120
Due to other Department funds	38,659	-	-	-	-	-
Due to other State funds	844	-	-	-	-	-
Due to State of Illinois component units	-	-	-	53	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	224	7,991
Unearned revenue	-	-	-	3,068	-	-
Unavailable revenue	-	-	-	22,374	-	-
<b>Total liabilities</b>	<b>79,503</b>	<b>10,709</b>	<b>-</b>	<b>60,613</b>	<b>764</b>	<b>8,111</b>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted fund balance	-	-	-	-	-	-
Unrestricted						
Committed fund balance	-	27,384	338	-	373	21,793
Unassigned fund balance	-	-	-	(22,374)	-	-
<b>Total fund balances (deficits)</b>	<b>-</b>	<b>27,384</b>	<b>338</b>	<b>(22,374)</b>	<b>373</b>	<b>21,793</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 79,503</b>	<b>\$ 38,093</b>	<b>\$ 338</b>	<b>\$ 38,239</b>	<b>\$ 1,137</b>	<b>\$ 29,904</b>

**State of Illinois**  
**Department of Transportation**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
June 30, 2013 (Expressed in Thousands)

**Special Revenue**

	<b>Tax Recovery 0310</b>	<b>Federal High Speed Rail Trust 0433</b>	<b>Downstate Transit Improvement 0559</b>	<b>Transportation Safety Highway Hire-Back 0589</b>	<b>Downstate Public Transportation 0648</b>
<b>ASSETS</b>					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	768	63,868	44,987	190	653
Cash and cash equivalents	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-
Intergovernmental receivables, net	-	52,706	-	-	-
Other receivables, net	-	-	-	-	-
Due from other Department funds	-	-	-	-	-
Due from other State funds	-	-	-	-	174,705
Due from State of Illinois component units	-	-	-	-	-
Loans receivable, net	-	-	-	-	-
<b>Total assets</b>	<b>\$ 768</b>	<b>\$ 116,574</b>	<b>\$ 44,987</b>	<b>\$ 190</b>	<b>\$ 175,358</b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 44	\$ 22,150	\$ -	\$ -	\$ -
Intergovernmental payables	-	-	-	-	36,011
Due to other Department funds	-	-	-	-	-
Due to other State funds	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-
Unearned revenue	-	-	-	-	-
Unavailable revenue	-	37,228	-	-	-
<b>Total liabilities</b>	<b>44</b>	<b>59,378</b>	<b>-</b>	<b>-</b>	<b>36,011</b>
<b>FUND BALANCES (DEFICITS)</b>					
Restricted fund balance	-	-	44,987	190	-
Unrestricted					
Committed fund balance	724	57,196	-	-	139,347
Unassigned fund balance	-	-	-	-	-
<b>Total fund balances (deficits)</b>	<b>724</b>	<b>57,196</b>	<b>44,987</b>	<b>190</b>	<b>139,347</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 768</b>	<b>\$ 116,574</b>	<b>\$ 44,987</b>	<b>\$ 190</b>	<b>\$ 175,358</b>

**State of Illinois**  
**Department of Transportation**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
June 30, 2013 (Expressed in Thousands)

**Special Revenue**

	<b>Airport Land Loan Revolving 0669</b>	<b>Roadside Memorial 0697</b>	<b>Metro-East Public Transportation 0794</b>	<b>Federal Mass Transit Trust 0853</b>	<b>Cycle Rider Safety Training 0863</b>	<b>Rail Freight Loan Repayment 0936</b>
<b>ASSETS</b>						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ 2,042	\$ -
Cash equity with State Treasurer	92	960	-	11	-	3,012
Cash and cash equivalents	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	62	-	-	-	-	2,060
Intergovernmental receivables, net	-	19	-	1,712	-	-
Other receivables, net	-	-	-	-	-	1
Due from other Department funds	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	847
<b>Total assets</b>	<b>\$ 154</b>	<b>\$ 979</b>	<b>\$ -</b>	<b>\$ 1,723</b>	<b>\$ 2,042</b>	<b>\$ 5,920</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 141	\$ -	\$ -
Intergovernmental payables	-	-	-	1,314	-	-
Due to other Department funds	-	-	-	-	-	-
Due to other State funds	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	233	2,042	-
Obligations under securities lending of State Treasurer	62	-	-	-	-	2,060
Unearned revenue	-	-	-	35	-	-
Unavailable revenue	-	-	-	532	-	-
<b>Total liabilities</b>	<b>62</b>	<b>-</b>	<b>-</b>	<b>2,255</b>	<b>2,042</b>	<b>2,060</b>
<b>FUND BALANCES (DEFICITS)</b>						
Restricted fund balance	-	979	-	-	-	-
Unrestricted						
Committed fund balance	92	-	-	-	-	3,860
Unassigned fund balance	-	-	-	(532)	-	-
<b>Total fund balances (deficits)</b>	<b>92</b>	<b>979</b>	<b>-</b>	<b>(532)</b>	<b>-</b>	<b>3,860</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 154</b>	<b>\$ 979</b>	<b>\$ -</b>	<b>\$ 1,723</b>	<b>\$ 2,042</b>	<b>\$ 5,920</b>

**State of Illinois**  
**Department of Transportation**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
June 30, 2013 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	
<b>ASSETS</b>							
Unexpended appropriations	\$ 31,102	\$ 176,042	\$ 43,942	\$ -	\$ -	\$ -	\$ 332,631
Cash equity with State Treasurer	-	-	-	-	-	-	164,627
Cash and cash equivalents	-	-	-	64	-	2,455	2,519
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	10,337
Intergovernmental receivables, net	-	-	-	-	-	-	89,602
Other receivables, net	13	-	-	-	-	-	36
Due from other Department funds	-	-	-	321	-	-	3,821
Due from other State funds	-	-	28	-	-	-	175,317
Due from State of Illinois component units	-	-	-	-	-	-	6
Loans receivable, net	-	-	-	-	10,679	-	21,659
<b>Total assets</b>	<b>\$ 31,115</b>	<b>\$ 176,042</b>	<b>\$ 43,970</b>	<b>\$ 385</b>	<b>\$ 10,679</b>	<b>\$ 2,455</b>	<b>\$ 800,555</b>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 12,661	\$ 27,339	\$ 35,193	\$ -	\$ -	\$ -	\$ 110,751
Intergovernmental payables	18,454	148,700	8,777	-	-	-	286,520
Due to other Department funds	-	-	-	-	-	-	38,659
Due to other State funds	-	-	-	-	-	-	844
Due to State of Illinois component units	-	3	-	-	-	-	2,331
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	10,337
Unearned revenue	-	-	-	-	-	-	3,103
Unavailable revenue	-	-	-	-	-	-	60,134
<b>Total liabilities</b>	<b>31,115</b>	<b>176,042</b>	<b>43,970</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>512,679</b>
<b>FUND BALANCES (DEFICITS)</b>							
Restricted fund balance	-	-	-	385	10,679	2,455	59,675
Unrestricted							
Committed fund balance	-	-	-	-	-	-	251,107
Unassigned fund balance	-	-	-	-	-	-	(22,906)
<b>Total fund balances (deficits)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>385</b>	<b>10,679</b>	<b>2,455</b>	<b>287,876</b>
<b>Total liabilities and fund balances (deficits)</b>	<b>\$ 31,115</b>	<b>\$ 176,042</b>	<b>\$ 43,970</b>	<b>\$ 385</b>	<b>\$ 10,679</b>	<b>\$ 2,455</b>	<b>\$ 800,555</b>

State of Illinois  
Department of Transportation

Combining Statement of Revenues,  
Expenditures, and Changes in Fund Balances -  
Nonmajor Governmental Funds

For the Year Ended June 30, 2013 (Expressed in Thousands)

	Special Revenue					
	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal/Local Airport 0095	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265
<b>REVENUES</b>						
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	(490,160)	-	-	-	-	-
Operating grants - Federal	-	-	-	85,246	-	-
Other operating grants	-	-	-	6,822	-	-
Licenses and fees	-	-	27	-	-	-
Other charges for services	-	-	-	-	-	-
Other	-	-	-	-	283	-
Interest and other investment income	-	-	-	-	1	314
<b>Total revenues</b>	<b>(490,160)</b>	<b>-</b>	<b>27</b>	<b>92,068</b>	<b>284</b>	<b>314</b>
<b>EXPENDITURES</b>						
Transportation	11,944	29,310	49	93,530	540	1,046
Intergovernmental	546,586	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
<b>Total expenditures</b>	<b>558,530</b>	<b>29,310</b>	<b>49</b>	<b>93,530</b>	<b>540</b>	<b>1,046</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,048,690)</b>	<b>(29,310)</b>	<b>(22)</b>	<b>(1,462)</b>	<b>(256)</b>	<b>(732)</b>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	14,097	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-
Lapsed appropriations	(1,636)	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	(4,492)	-	-	-	-	-
Amount of SAMS Transfers out	1,117,761	-	-	-	-	-
Transfers-in	-	42,000	-	-	-	-
Transfers-out	(77,040)	(3,000)	-	(133)	-	-
<b>Net other sources (uses) of financial resources</b>	<b>1,048,690</b>	<b>39,000</b>	<b>-</b>	<b>(133)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>9,690</b>	<b>(22)</b>	<b>(1,595)</b>	<b>(256)</b>	<b>(732)</b>
Fund balances (deficits), July 1, 2012, as reclassified	-	17,694	360	(20,779)	629	22,525
<b>FUND BALANCES (DEFICITS), JUNE 30, 2013</b>	<b>\$ -</b>	<b>\$ 27,384</b>	<b>\$ 338</b>	<b>\$ (22,374)</b>	<b>\$ 373</b>	<b>\$ 21,793</b>

**State of Illinois**  
**Department of Transportation**  
**Combining Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**

For the Year Ended June 30, 2013 (Expressed in Thousands)

	Special Revenue				
	Tax Recovery 0310	Federal High Speed Rail Trust 0433	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648
<b>REVENUES</b>					
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ 219,512
Motor fuel taxes	-	-	-	-	-
Operating grants - Federal	-	127,787	-	-	-
Other operating grants	-	-	-	-	-
Licenses and fees	-	-	-	-	-
Other charges for services	540	-	-	-	-
Other	-	-	-	247	-
Interest and other investment income	-	-	-	-	-
<b>Total revenues</b>	<u>540</u>	<u>127,787</u>	<u>-</u>	<u>247</u>	<u>219,512</u>
<b>EXPENDITURES</b>					
Transportation	551	142,675	-	450	176,808
Intergovernmental	-	-	-	-	-
Debt service - principal	-	-	-	-	-
Debt service - interest	-	-	-	-	-
Capital outlays	-	-	-	-	-
<b>Total expenditures</b>	<u>551</u>	<u>142,675</u>	<u>-</u>	<u>450</u>	<u>176,808</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(11)</u>	<u>(14,888)</u>	<u>-</u>	<u>(203)</u>	<u>42,704</u>
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>					
Appropriations from State resources	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-
Amount of SAMS Transfers out	-	-	-	-	-
Transfers-in	-	-	-	-	-
Transfers-out	-	-	-	-	-
<b>Net other sources (uses) of financial resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balances</b>	<u>(11)</u>	<u>(14,888)</u>	<u>-</u>	<u>(203)</u>	<u>42,704</u>
Fund balances (deficits), July 1, 2012, as reclassified	735	72,084	44,987	393	96,643
<b>FUND BALANCES (DEFICITS), JUNE 30, 2013</b>	<u>\$ 724</u>	<u>\$ 57,196</u>	<u>\$ 44,987</u>	<u>\$ 190</u>	<u>\$ 139,347</u>

State of Illinois  
Department of Transportation

Combining Statement of Revenues,  
Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds

For the Year Ended June 30, 2013 (Expressed in Thousands)

	Special Revenue					
	Airport Land Loan Revolving 0669	Roadside Memorial 0697	Metro-East Public Transportation 0794	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
<b>REVENUES</b>						
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	-	-	-	-	-	-
Operating grants - Federal	-	-	-	21,937	-	-
Other operating grants	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-
Other charges for services	-	373	-	-	-	-
Other	-	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	48
<b>Total revenues</b>	-	373	-	21,937	-	48
<b>EXPENDITURES</b>						
Transportation	-	-	-	21,508	1,746	-
Intergovernmental	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
<b>Total expenditures</b>	-	-	-	21,508	1,746	-
<b>Excess (deficiency) of revenues over (under) expenditures</b>	-	373	-	429	(1,746)	48
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	-	-	-	-	9,551	-
Reappropriation to future year(s)	-	-	-	-	(5,329)	-
Lapsed appropriations	-	-	-	-	(210)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	(2,266)	-
Amount of SAMS Transfers out	-	-	-	-	-	-
Transfers-in	-	-	-	-	-	-
Transfers-out	-	-	(91)	-	-	-
<b>Net other sources (uses) of financial resources</b>	-	-	(91)	-	1,746	-
<b>Net change in fund balances</b>	-	373	(91)	429	-	48
Fund balances (deficits), July 1, 2012, as reclassified	92	606	91	(961)	-	3,812
<b>FUND BALANCES (DEFICITS), JUNE 30, 2013</b>	\$ 92	\$ 979	\$ -	\$ (532)	\$ -	\$ 3,860

State of Illinois  
Department of Transportation

Combining Statement of Revenues,  
Expenditures, and Changes in Fund Balances  
Nonmajor Governmental Funds

For the Year Ended June 30, 2013 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	
<b>REVENUES</b>							
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 219,512
Motor fuel taxes	-	-	-	-	-	-	(490,160)
Operating grants - Federal	-	-	-	-	-	-	234,970
Other operating grants	-	-	-	-	-	-	6,822
Licenses and fees	-	-	-	-	-	-	27
Other charges for services	-	-	-	-	-	-	913
Other	-	-	-	-	-	-	530
Interest and other investment income	-	-	-	-	361	-	724
<b>Total revenues</b>	-	-	-	-	361	-	(26,662)
<b>EXPENDITURES</b>							
Transportation	104,777	336,002	177,611	1,020	-	-	1,099,567
Intergovernmental	-	-	-	-	-	-	546,586
Debt service - principal	-	-	-	-	-	1,860	1,860
Debt service - interest	-	-	-	-	-	991	991
Capital outlays	192,082	8,740	299,188	-	-	-	500,010
<b>Total expenditures</b>	296,859	344,742	476,799	1,020	-	2,851	2,149,014
<b>Excess (deficiency) of revenues over (under) expenditures</b>	(296,859)	(344,742)	(476,799)	(1,020)	361	(2,851)	(2,175,676)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	593,207	3,536,056	2,499,754	-	-	-	6,652,665
Reappropriation to future year(s)	(265,237)	(3,184,155)	(2,032,806)	-	-	-	(5,487,527)
Lapsed appropriations	-	-	-	-	-	-	(1,846)
Receipts collected and transmitted to State Treasury	-	-	-	-	(1,847)	-	(1,847)
Net change in liabilities for reappropriated accounts	(31,111)	(7,159)	9,851	-	-	-	(35,177)
Amount of SAMS Transfers out	-	-	-	-	-	-	1,117,761
Transfers-in	-	-	-	1,210	133	2,906	46,249
Transfers-out	-	-	-	-	-	-	(80,264)
<b>Net other sources (uses) of financial resources</b>	296,859	344,742	476,799	1,210	(1,714)	2,906	2,210,014
<b>Net change in fund balances</b>	-	-	-	190	(1,353)	55	34,338
Fund balances (deficits), July 1, 2012, as reclassified	-	-	-	195	12,032	2,400	253,538
<b>FUND BALANCES (DEFICITS), JUNE 30, 2013</b>	\$ -	\$ -	\$ -	\$ 385	\$ 10,679	\$ 2,455	\$ 287,876

**State of Illinois**  
**Department of Transportation**

**Combining Schedule of Accounts -**  
**Motor Fuel Tax Fund**

June 30, 2013 (Expressed in Thousands)

**Special Revenue**

	<b>Motor Fuel Tax 0012</b>	<b>Motor Fuel Tax- Counties 0413</b>	<b>Motor Fuel Tax- Municipalities 0414</b>	<b>Motor Fuel Tax- Townships and Road Districts 0415</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>						
Unexpended appropriations	\$ 79,503	\$ -	\$ -	\$ -	\$ -	\$ 79,503
Due from other Department funds	-	13,849	19,423	6,286	(39,558)	-
<b>Total assets</b>	<b>\$ 79,503</b>	<b>\$ 13,849</b>	<b>\$ 19,423</b>	<b>\$ 6,286</b>	<b>\$ (39,558)</b>	<b>\$ 79,503</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 424	\$ -	\$ -	\$ -	\$ -	\$ 424
Intergovernmental payables	18	13,849	19,423	6,286	-	39,576
Due to other Department funds	78,217	-	-	-	(39,558)	38,659
Due to other State funds	844	-	-	-	-	844
<b>Total liabilities</b>	<b>79,503</b>	<b>13,849</b>	<b>19,423</b>	<b>6,286</b>	<b>(39,558)</b>	<b>79,503</b>
<b>FUND BALANCES</b>						
Unrestricted	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total fund balances	-	-	-	-	-	-
<b>Total liabilities and fund balances</b>	<b>\$ 79,503</b>	<b>\$ 13,849</b>	<b>\$ 19,423</b>	<b>\$ 6,286</b>	<b>\$ (39,558)</b>	<b>\$ 79,503</b>



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 19, 2013.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2013-001, 2013-003, and 2013-005 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2013-002, 2013-004, and 2013-006 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Department's Responses to Findings**

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Springfield, Illinois  
December 19, 2013

STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS

JUNE 30, 2013

CURRENT FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

**2013-001 FINDING** (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements)

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

During our audit of the June 30, 2013 Department financial statements, we noted:

- The draft financial statements submitted to the auditors contained several errors which required corrections. The Department provided us with 4 drafts of its financial statements, with significant modifications, before providing its final version that we utilized in the audit report on November 19, 2013.
- We noted weaknesses in the financial accounting for the Department's inventory balance due to inaccurate commodities inventory records. These weaknesses are explained in more detail in Finding 2013-002.
- We noted weaknesses in the financial accounting for, and reporting of, capital assets, the most significant of which was the improper accounting for repair and maintenance type contracts. These weaknesses are explained in more detail in Finding 2013-003.
- We noted weaknesses in the documentation of accounts payable. These weaknesses are explained in more detail in Finding 2013-004.
- We noted weaknesses in the reporting of accounts receivable, which led to the restatement of the June 30, 2012 financial statements. These weaknesses are explained in more detail in Finding 2013-005.

The Comptroller requires State agencies to prepare GAAP Reporting Packages for each of its funds to assist in the annual preparation of the Statewide financial statements and the Department's financial statements. GAAP Reporting Package instructions are

specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

In response to this finding from prior years, the Department stated, during fiscal year 2013, it reorganized the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that would ensure timely and accurate financial reporting as required by the Comptroller. The reorganization included the implementation of monthly processes to review and reconcile capital asset reporting to ensure accurate financial reporting. The Department stated it had, at the time of its response, completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of Statewide policies and procedures. The Department responded that it felt the policy administration changes were necessary to improve upon and/or reduce the probability of future compliance issues. In response to the exceptions noted related to the year ended June 30, 2013, the Department stated the information for the financial statements is contained in multiple source computer systems and spreadsheets without a general ledger system to tie it all together throughout the year. This leads to a significant number of spreadsheets completed in order to verify the underlying information and summarize the information at the end of the year. Due to turnover in the past, there was not sufficient staff to complete this task. This year new staff members were hired, however, there is a significant learning curve in becoming familiar enough with all of the separate systems to accurately verify the information from all the various sources. In addition, technology solutions identified in the past have not been available for implementation.

Accurate preparation of the Department's financial information for GAAP reporting purposes is important due to the complexity of the Department and the impact adjustments have on the Statewide financial statements. (Finding Code No. 2013-001, 12-1, 11-1, 10-1, 09-1)

### **RECOMMENDATION**

We recommend the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in an accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Comptroller in an accurate manner, and all supporting documentation is maintained in a contemporaneous manner.

## **DEPARTMENT RESPONSE**

The Department agrees with the finding.

During FY13, additional GAAP staff was added to the Fiscal Operations Unit. None of the new staff had previous experience with the Illinois Department of Transportation but did have GAAP experience. The complexity of the GAAP process within the Department and the numerous systems required to produce the reporting for the Comptroller's Office produced a longer than anticipated learning curve for the new staff. Several new procedures and changes to existing procedures were developed and documented during this audit using the consulting firm that has assisted with GAAP for several years.

In addition, the Department has completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues. During the fall of calendar year 2013, the Department started the implementation of these administrative changes.

**2013-002 FINDING** (Inaccurate commodities inventory records)

The Department of Transportation (Department) maintained inaccurate commodities inventory records for the year ended June 30, 2013.

The Department performed year-end commodities inventory counts at each location to determine the value of commodities inventory to be reported in the financial statements. These counts were performed around June 30, 2013.

Inventory Quantities

During our physical inventory counts, we counted 267 inventory items and noted discrepancies between audit test counts and Department inventory quantities for 94 (35%) items. The errors resulted in a net understatement of the year end inventory balance of \$62,898 which, when extrapolated over the entire inventory population, resulted in an estimated understatement of \$408,207. Through analytical review procedures applied to the final inventory listings, we identified 12 items with unusual final inventory cost variances from fiscal year 2012 to fiscal year 2013. Our testing of these items revealed a net quantity understatement of \$42,825 in addition to the extrapolated misstatement noted above.

Combined, inventory quantity errors resulted in a net understatement of inventory of \$451,032 at June 30, 2013.

Inventory Pricing

In our inventory price testing, we sampled 15 inventory items, including salt at all Districts, which accounted for \$25,636,645 (47%) of the reported inventory value at June 30, 2013. Of the items tested, 12 (80%) were found to have inaccurate costs resulting in a net understatement of the year end inventory balance of \$147,882 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of \$233,800. Through analytical review procedures applied to the final inventory listings, we identified an additional 8 items with unusual pricing variances from fiscal year 2012 to fiscal year 2013. Our testing of these items revealed a net understatement of \$455,823 in addition to the extrapolated misstatement noted above. Through analytical review procedures applied to the final inventory listings, we identified 12 items with unusual final inventory cost variances from fiscal year 2012 to fiscal year 2013. Our testing of these items revealed a net pricing overstatement of \$598,305 in addition to the extrapolated misstatement noted above.

Combined, inventory pricing errors resulted in a net overstatement of inventory of \$376,282 at June 30, 2013.

### Sign Valuation

During our inventory observation we noted inconsistencies in the method Districts were using to value sign inventory. It appeared that sign prices were inconsistent between district inventory sheets. The net effect of any misstatement could not be determined based upon information provided by the Department.

### Reporting Misstatement

Through our testing of the Department's Inventory Analysis Form (SCO-577), we identified gasoline, oil, and lubricants had been overstated by \$20,766.

In total, audit procedures applied to inventory as reported by the Department identified a likely understatement of inventory of \$53,984 at June 30, 2013. The Department did not adjust its financial statements for these errors as they were considered immaterial to the Department's overall financial statements.

The Statewide Accounting Management System (SAMS) (Procedure 02.50.20) requires detailed subsidiary records be maintained for inventories and periodically reconciled to control accounts; in addition, it requires issues, transfers, retirements and losses be reported and accounted for timely. The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports. In addition, Chapter 7 of the Department's Property Control and Inventory Procedures Manual mandates an annual physical inventory of consumable commodity items as part of the external audit process. Year-end physical inventories are to be taken and the Department's records are to be adjusted accordingly.

In response to this continued prior finding, the Department stated it would continue to make improvements to the year-end commodity inventory process to produce an accurate count and pricing of its commodity inventory. The Department stated it would strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting the June 30, 2013, commodity inventory count and pricing. It would conduct a more thorough review at year-end of the commodity inventory records produced by Department personnel to ensure accurate unit costs and consistent unit of measures. The Department also stated it had completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of Statewide policies and procedures. The Department stated the policy administration changes were necessary to improve upon and/or reduce the probability of future compliance issues. The Department, at the time of the previous report issuance, was in the process of planning the implementation of those administrative changes.

In response to the exceptions noted in the current audit, Department management attributed the discrepancies between the audit test counts and Department physical inventory records to its inventory process not being accurately implemented. Department management attributed the discrepancies noted between commodities prices per Department inventory records and supporting documentation to human error.

Failure to maintain accurate commodities records could result in lost or misappropriated items, inaccurate financial statements, and noncompliance with SAMS and internal Department procedures. (Finding Code No. 2013-002, 12-2, 11-2, 10-2, 09-2, 08-2, 07-3, 06-4, 05-12, 04-4, 03-5, 02-9, 00-4, 99-5, 98-4, 96-7, 94-6)

### **RECOMMENDATION**

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

### **DEPARTMENT RESPONSE**

The Department agrees with the finding.

The Department will continue to make improvements to the year-end commodity inventory process to produce an accurate count and pricing of our commodity inventory. As a part of the administrative changes, the Office of Finance and Administration will be taking a leadership role in the accountability for the commodity inventory process. The Department will work to define and document a periodic monitoring process to count and price a sample of inventory items.

In addition, the Department has completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues. During the fall of calendar year 2013, the Department started the implementation of these administrative changes.

**2013-003 FINDING** (Weaknesses in reporting of capital assets)

The Department of Transportation (Department) did not accurately report capital assets to the Illinois Office of the Comptroller (Comptroller) for fiscal year 2013.

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

- At June 30, 2012, the Department did not transfer three buildings from Construction in Progress to Buildings within its capital asset records. The buildings had been placed in service during fiscal year 2012. In fiscal year 2013, the buildings were added to the reported amount of Buildings according to their placed in service dates. However, the buildings were not deleted from Construction in Progress balance on the original Agency Report of State Property (Form C-15) filed in fiscal year 2013 nor from the original capital asset records provided to us during the audit fieldwork. During the audit fieldwork, the amount duplicated, \$1.4 million, was corrected by the Department and depreciation expense was adjusted accordingly.
- The Department improperly capitalized repair and maintenance type expenditures in infrastructure additions. In the prior year, the Department made similar errors resulting in capital assets being overstated due to the capitalization of these costs as infrastructure additions. Through our testing of infrastructure additions, and with the assistance of the Department, we identified \$37.5 million of fiscal year 2012 and \$67.5 million of fiscal year 2013 infrastructure additions were improperly capitalized as the costs related to repair and maintenance type contracts. The Department corrected the errors by reducing infrastructure additions in fiscal year 2013 and revising its capital asset records and financial statements accordingly at June 30, 2013.
- In our testing of repair and maintenance type expenditures, we noted the Department initially failed to capitalize costs related to significant sewage system upgrades at two rest areas. The Department has stated that rest areas are considered to be part of the Statewide infrastructure network and costs should be capitalized in accordance with the policies for infrastructure. The amounts initially not capitalized were \$1.4 million for fiscal year 2012 and \$650 thousand for fiscal year 2013. The total amount, \$2.1 million, was corrected by the Department by increasing infrastructure additions in fiscal year 2013 within its capital asset records and its financial statements for the year ended June 30, 2013.
- During our testing of capital assets, we noted certain assets were duplicated when performing equipment reconciliations in fiscal year 2013, and other assets were omitted. The total net amount of errors discovered, \$1.5 million of overstated equipment, was corrected by the Department in its capital asset records and financial statements for the year ended June 30, 2013.

- In fiscal year 2012, the Department developed a methodology to allocate accounts payable from future years' appropriations to capital outlays and capitalize those amounts. In allocating these amounts in fiscal year 2013, the Department's calculations included errors that resulted in initial capital outlay being overstated. The initial capital outlay calculation was also overstated due to the infrastructure addition errors described previously. As part of the Department's correction efforts performed during the audit fieldwork, the Department corrected the errors noted related to the amounts of accounts payable from future years' appropriations allocated to capital outlays. The corrections were included in the final, revised financial statements provided to us for the year ended June 30, 2013.
- In our prior year testing of land additions, we noted the Department improperly capitalized certain costs which were not related to the acquisition of land, resulting in an overstatement of land. During our testing of land additions in fiscal year 2013, it was noted that the prior year overstatements had not yet been corrected. During the audit fieldwork, the Department corrected the errors by reducing land additions in its capital asset records and financial statements for the year ended June 30, 2013 in fiscal year 2013 by \$4.8 million.
- During our testing of software expenditures, the Department informed us of two internally-generated software projects over \$1 million that should be capitalized. The estimated amount of these project costs were \$2.8 million through June 30, 2013; however, the Department was still evaluating the applicability of the technical guidance to this situation at the time of fieldwork. Costs that should be capitalized were not determinable by the Department. The total population of potential misstatements for this weakness was not considered material by the Department and was not corrected as of June 30, 2013.

The Statewide Accounting Management System (SAMS) (Procedures 27.20.37 and 27.20.38) outlines the instructions for preparing the SCO-537 and SCO-538, respectively. This reporting process is necessary for the Comptroller to complete Department wide and Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

In response to the previous finding, the Department stated it reorganized the Fiscal Operations Unit in fiscal year 2013 to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Comptroller. This reorganization was to include the implementation of monthly processes to review and reconcile capital asset reporting to ensure accurate financial reporting. In addition, the Department had completed the identification of

potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of Statewide policies and procedures. The Department stated it believed the policy administration changes were necessary to improve upon and/or reduce the probability of future compliance issues. Related to exceptions noted during the current audit, the Department stated the information for the capital assets reporting is contained in several source computer systems and spreadsheets without a general ledger system to tie it all together throughout the year. This leads to a significant number of spreadsheets completed in order to verify the underlying information and summarize the information at the end of the year. Due to turnover in the past, there was not sufficient staff to complete this task. This year new staff members were hired, however, there is a significant learning curve in becoming familiar enough with all of the separate systems to accurately verify the information from all the various sources. Data entered into some of the source systems from which capital asset information is obtained is also used for other purposes and the staff entering the information was not aware of capitalization rules and the effect their information had on the resultant reports. One of these reports was relied upon to capitalize infrastructure; however, many of the items on the report were to maintain the highway system rather than add additional use to the highway system.

Inadequate control over maintaining accurate capital assets records prevents the Department from preparing financial information in accordance with GAAP and results in inaccurate, incomplete and untimely preparation of financial information. (Finding Code No. 2013-003, 12-3, 11-3, 10-3, 09-3)

### **RECOMMENDATION**

We recommend the Department devote sufficient resources to its financial accounting function such that the capital asset information is properly recorded and accounted for to permit the preparation of reliable financial information and reports to the Comptroller.

### **DEPARTMENT RESPONSE**

The Department agrees with the finding.

During FY13, additional GAAP staff was added to the Fiscal Operations Unit. None of the new staff had previous experience with the Illinois Department of Transportation but did have GAAP experience. The complexity of the GAAP process within the Department and the numerous systems required to produce the annual capital asset reporting for the Comptroller's Office produced a longer than anticipated learning curve for the new staff. The accuracy of capital asset reporting should improve due to the valuable experience of lessons learned from FY13. Identification of problems with the reports necessary for infrastructure reporting will be addressed during FY14 with a work around in place should the changes not be implemented prior to the end of FY14. The training of staff in the importance of using the appropriate expenditure object codes to ensure that repair and maintenance costs are not capitalized occurred after the FY12 audit was completed and the full effect was not experienced for FY13 reporting. The

consulting firm that has assisted with GAAP for several years worked on documenting new procedures or revising the existing procedures for each capital asset type.

In addition, the Department has completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues. During the fall of calendar year 2013, the Department started the implementation of these administrative changes.

**2013-004 FINDING** (Weaknesses in documenting accounts payable)

Weaknesses were noted in the Department of Transportation's (Department) documentation of its accounts payable balance at June 30, 2013.

The Department could not specifically demonstrate conclusions reached and included within its accounts payable model. In addition, the Department could not expressly demonstrate the accounts payable methodology considered an estimate for liabilities attributable beyond June 30, 2014.

Within the Department's accounts payable estimation model, the Department referenced management conclusions, in which it stated it discussed the expectation of upcoming fiscal year activities, anomalies, and other events. While testing the Department's accounts payable estimation, we requested the Department provide copies of various items of supporting documentation in order for us to corroborate the conclusions reached and included within the accounts payable model. In many instances, Department personnel told us such information was reviewed and meetings occurred, but no documentation of the events were made or maintained in order to provide a complete audit trail to support the Department's estimation. Examples included:

- The spreadsheet utilized to perform the estimation calculation contained sections in which to input the various steps within the process. One of the steps allowed the Department to make an adjustment to the historic data utilized in the model for known anomalies. Rather than utilize this section, the Department hard inputted the information directly into the historic data. Because the source data was changed, it was not possible for a third party to review exactly what was changed within the estimation process.
- The estimation process also allows the Department to adjust its accounts payable estimate based on whether it believes any variance between actual, current fiscal year expenditures that occurred during July and August and the forecasted amount for that period from the model will or will not be absorbed after July and August and before the end of the fiscal year. The Department was unable to provide supporting documentation for how it arrived at the decision to adjust or keep the estimated accounts payable amount.
- The Department adjusted the model for the Transportation Bond Series B Fund (Fund 0554) for known payables for work performed prior to June 30, 2013. However, the management comments in the computer model spreadsheet did not contain detailed support for the adjustment.
- Part of the computer model spreadsheet involves the Department selecting a forecast method in order to arrive at forecasted total future year expenditures to estimate accounts payable. The Department was unable to provide supporting documentation as to why it decided which forecast would result in the most reasonable estimate of accounts payable.

In addition, we noted the Department could not demonstrate its accounts payable model expressly accounts for liabilities extending beyond June 30, 2014. A review of historic trends indicated a liability exists beyond one year from the Statement of Net Position relating to costs incurred at the local level, but not yet presented to the Department. We were unable to determine the Department's method for accounting for this portion of its liability, although the overall accounts payable estimate appeared reasonable in all material respects.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports. The State Records Act (5 ILCS 160/8) requires the Department to make and preserve records containing adequate and proper documentation of the functions and procedures of the Department designed to furnish information to protect the legal and financial rights of the State and of persons directly affected by the Department's activities.

Department management stated its process of estimating accounts payable considers a significant (vast) amount of historical data as well as other financial and program information. The data used by the Department to make its estimates is accumulated from many sources including discussions with Department management and program personnel. The Department further explained that information is obtained in many forms, both internally and externally, including electronic data, reports, letters, email, and through discussions with management and program personnel (both within the Department and with other involved agencies). While the Department endeavors to centralize all information considered and used in arriving at conclusions upon which estimates are based, centralizing all information considered is not always practical. In instances where the Department believed it was not practical to include detailed support for information or source documents considered, the Department summarized, or described the information considered within its accounts payable estimate.

Accounting estimates are an important part of the financial statements prepared by the Department and are based on the Department's knowledge and experience about past and current events. The estimates should also be based upon its assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that events affecting them may differ considerably from those expected. The most sensitive estimate affecting the Department's financial statements at June 30, 2013 was its accounts payable balance. Proper documentation of the considerations comprising the estimates is essential in order to support the estimate included within the Department's financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). (Finding Code No. 2013-004)

## **RECOMMENDATION**

We recommend the Department document, specifically, the management comments and other considerations utilized to support the conclusions reached in its determination of its accounts payable estimate. We recommend that modifications made to the accounts payable be maintained so that auditors can review them during the audit process. Finally, we recommend the Department expressly document within its accounts payable model how it considers the estimation for liabilities attributable 12 months beyond the date of the Statement of Net Position.

## **DEPARTMENT RESPONSE**

The Department agrees with the finding.

The Department has made significant enhancements to its accounts payable estimating methodology during recent years and specifically made considerable enhancements during Fiscal Year 2013. The Department's enhancements of its accounts payable estimating process are ongoing and continuous. To the extent possible and practical, the Department will endeavor to centralize all relevant information considered in making its accounts payable estimates within the estimates, as well as, will seek an enhanced process of centralizing information not able to be included within the estimating worksheets themselves.

In addition, the Department has completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues. During the fall of calendar year 2013, the Department started the implementation of these administrative changes.

**2013-005 FINDING** (Weaknesses in the reporting of accounts receivable)

The Department of Transportation (Department) restated fund balance within the Road Fund and governmental activities net position as of June 30, 2012 due to reporting errors identified during the fiscal year 2013 audit pertaining to fiscal year 2012. In addition, the Department had weaknesses in its accounts receivable reporting at June 30, 2013.

We noted the following errors and weaknesses in the Department's accounts receivable reporting process:

- During the fiscal year 2013 audit, we noted the Department overstated other receivables in the Road Fund (fund 0011) at June 30, 2012. The Department mistakenly recorded \$11.5 million related to receivables from local governments in the balance of other receivables and in the balance of amounts due from local governments. As a result, the Department's total receivables and receipts were overstated by \$11.5 million at June 30, 2012. To correct this error, the Department restated the fund balance within the Road Fund and the governmental activities net position as of June 30, 2012 by \$11.5 million.
- We also noted the Department's initial allowance for uncollectible accounts receivable at June 30, 2013 calculation was significantly higher than it had been in prior years. In prior years, the Department would subtract the amounts due from local governments from its total accounts receivable balance before applying its estimated uncollectible reserve percentage to the aged accounts receivable populations. Through inquiries, we determined, for the year ended June 30, 2013, the Department did not net the amounts due from local governments prior to performing the calculation. As a result, the Department's allowance for uncollectible accounts receivable was substantially higher than in previous years without credible evidence to support the need for such a reserve. The difference between the two methodologies was nearly \$4.1 million. The Department considered this to be material to its financial statements and made the correction as of June 30, 2013.

The Statewide Accounting Management System (SAMS) (Procedure 26.20.20) requires each agency to review the collection history for each type of receivable that it recognizes in order to create guidelines for estimating the amount of debt that will not be collected. Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Department management stated the information for the accounts receivable reporting is contained in multiple source computer systems and spreadsheets without a general ledger system to tie it all together throughout the year. This leads to a significant number of spreadsheets completed in order to verify the underlying information and summarize the information at the end of the year. Due to turnover in the past, there was not sufficient staff to complete this task. This year new staff members were hired, however there is a

significant learning curve in becoming familiar enough with all of the separate systems to accurately verify the information from all the various sources. These caused a duplication of reporting in the past year and an error in calculating the allowance for uncollectible accounts this year. In addition, technology solutions identified in the past have not been available for implementation.

Proper reporting of accounts receivable is necessary for the Department and the Illinois Office of the Comptroller to complete Department and Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Failure to accurately report accounts receivable and an allowance for uncollectible accounts results in inaccurate financial reporting. (Finding Code No. 2013-005)

### **RECOMMENDATION**

We recommend the Department devote sufficient resources to its financial accounting function such that accounts receivable and allowance for uncollectible reporting are properly accounted for and reviewed to permit the preparation of reliable financial information. Additionally, we recommend the Department establish procedures to evaluate the reasonableness of allowance for uncollectible accounts estimation as part of its year end reporting process.

### **DEPARTMENT RESPONSE**

The Department agrees with the finding.

The Department will improve processes and internal controls over accounts receivable reporting in order to accurately report accounts receivable and allowance for uncollectible accounts. This will include a review of collection history for each receipt type.

In addition, the Department has completed the identification of potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues. During the fall of calendar year 2013, the Department started the implementation of these administrative changes.

**2013-006 FINDING** (Inadequate controls over processing local road contract requests for payments)

The Department of Transportation (Department) failed to adequately establish controls over the processing of requests for payments related to local roads contracts during the audit period.

During testing of 60 expenditures, auditors noted 5 payments totaling \$4,569,394 for local roads projects for which inadequate documentation was received by the Department's Central Office prior to processing the payments. In order to process the Requests for Payment submitted by the district offices to the Central Office and prepare a voucher to be submitted to the Illinois Office of the Comptroller (Comptroller) for payment, the total reimbursable costs of the local roads project incurred to date must be entered into the Department's accounting system, Fiscal Operations and Administration (FOA). For the 5 payments tested, the only documentation received by the Central Office from the district office was a Request for Payment form. Personnel at the Central Office manually calculated the total reimbursable cost for entry into FOA assuming the local entity would pay for a portion of the project and the Department would reimburse the remainder of the project through the use of federal or State funds.

When asked to provide the auditors with the vouchers received from the local entity, the district submitted information to the Central Office to substantiate the total reimbursable costs of \$5,616,434 for these projects while \$5,495,329 reimbursable costs had been entered into FOA. The Department was unable to reconcile the difference of \$121,105.

In addition, auditors noted 5 invoices totaling \$76,399 were held and not paid by the Department as of October 9, 2013 because the contract obligations for those projects had lapsed with the Comptroller prior to June 30, 2013. Of these invoices, 2 were received by the Department prior to June 30, 2013 and the remaining 3 were received by the Department during the fiscal year 2013 lapse period.

At the time the Department prepared and submitted its GAAP reporting packages to the Comptroller, Department personnel responsible for its financial reporting were unaware of the lapse of the contractual obligations or the held invoices received from external entities. After further review, Department personnel indicated the Department's accounts payable estimation model took into consideration the situation of vendors holding invoices at fiscal year end, and thus would also cover this circumstance. Auditors did not note any evidence to contradict that statement during their testing of the Department's accounts payable balance and also noted, while the issue was a control deficiency, the amount involved was not material to the Department's financial statements at June 30, 2013.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to

permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. The State Finance Act (30 ILCS 105/9.04) requires expenditures to be for goods and services which are legally incurred and meet the specifications outlined in any related contract. The Statewide Accounting Management System (SAMS) (Procedure 02.50.20) requires expenditures to be valid and properly approved, as well as recorded promptly and accurately.

Department management stated the review of the invoice and subsequent signoff by Department District staff functions as the Department's review and acceptance of the invoice. The Central Bureau of Local Roads and Streets' (CBLRS) part of this review process is to check the invoice against the funding agreement, previous payments, and the federal authorization. The invoices identified in the audit only state the amount of State and/or Federal funds owed. However, the FOA system requires a total amount to be entered. To facilitate payment, CBLRS uses the funding splits in the funding agreement to calculate the total amount to be entered into FOA. This is a continuation of the existing process that was established prior to CBLRS assuming the reimbursement process for these invoices. As for holding invoices with lapsed contract obligations, the Department is required to reimburse Local Public Agencies (LPAs) for all legitimate costs incurred under the terms of the joint funding agreement, regardless of the tardiness of the reimbursement request. CBLRS considered the date entered into FOA and SAMS to be an estimated date. In past years, the obligation was extended simply by submitting a COD stating "extend estimated end date." However, as per the IOC's new requirements, the Department is in the process of executing amendments and accompanying affidavits for those obligations that require extension, in order to reimburse the LPA funds they are due. Invoices identified in the audit were held until a new procedure could be developed.

Failure to enter financial data into the Department's accounting system without the support of actual, contemporaneous documentation compromises the Department's oversight and results in statutory noncompliance. Holding on to vendor invoices rather than submitting them for payment to the Comptroller impacts the accuracy and effectiveness of the Department's financial reporting process. Accurate and timely preparation of the Department's financial information is important due to the complexity of the Department. Because the Department's recognition of federal funds is directly related to the amount of expenditures recognized in any given fiscal year, misstatements in expenditures or accounts payable could result in the misstatement of federal revenue. The failure to accurately enter financial information into the Department's FOA, specifically related to potential federal reimbursable costs, could result in the Department erroneously claiming federal reimbursements. (Finding Code No. 2013-006)

### **RECOMMENDATION**

We recommend the Department implement procedures to ensure financial data is entered into FOA based upon actual, not calculated, information. We also recommend the Department review its financial reporting procedures to ensure vendor invoices are paid

promptly upon receipt and any potential outstanding liabilities, such as unpaid vendor invoices, are specifically considered during the financial reporting process.

### **DEPARTMENT RESPONSE**

The Department agrees with the finding.

The Department is currently working on several initiatives to address the deficiencies identified in the audit finding. Two such initiatives are:

- An invoice tracking system is nearing completion and should be operational in the next few months. Additionally, we are working with our local partners to ensure proper backup is supplied with each request for reimbursement.
- The Department is required to reimburse all funds due a local agency regardless of when a request is made. Occasionally the Department receives reimbursement requests from local agencies after we are required to de-obligate inactive funds with the Illinois Comptroller. Previously, the Department had a procedure to accommodate these late payments. However, recent requirements from the Comptroller have prompted changes to this process. The invoices identified in the audit were delayed while the Department developed alternative procedures.

## PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Weaknesses in the reporting of deferred revenues)

The previous audit noted the Department of Transportation (Department) did not accurately report unavailable deferred revenues at June 30, 2012.

During the current audit, our sample testing indicated the Department accurately calculated unavailable deferred revenues in all material respects. As a result, the prior finding is not repeated. (Finding Code No. 12-4, 11-4, 10-4)

B. **FINDING** (Weaknesses in the reporting of accounts payable)

The previous audit noted the Department did not accurately report accounts payable at June 30, 2012. Additionally, the Department's "look back" procedures contained weaknesses which impacted its effectiveness.

During the current audit, our sample testing indicated the Department's calculation of its accounts payable did not contain any omissions of expenditures, as it did during the previous year. In addition, the Department's "look back" procedures were comprehensive in its population of expenditures and were considered in the estimation process. As a result, the prior finding is not repeated. (Finding Code No. 12-5, 11-5)