



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF TRANSPORTATION

Financial Audit for the Year Ended June 30, 2016 and
 Compliance Examination For the Two Years Ended June 30,
 2016

Release Date: April 20, 2017

FINDINGS THIS AUDIT: 9				AGING SCHEDULE OF REPEATED FINDINGS			
	New	Repeat	Total	Repeated Since	Category 1	Category 2	Category 3
Category 1:	0	0	0	2014		16-2, 16-7	
Category 2:	2	7	9	2013		16-1	
Category 3:	<u>0</u>	<u>0</u>	<u>0</u>	2008		16-6	
TOTAL	2	7	9	2007		16-3, 16-4, 16-5	
FINDINGS LAST AUDIT: 19							

SYNOPSIS

- (16-1) The Department’s calculation of its accounts payable balance at June 30, 2016 was incomplete.
- (16-2) The Department did not timely perform inspections of bridges.
- (16-4) The Department did not maintain sufficient controls over its property and related records.
- (16-8) The Department did not comply with its written procedures and laws that control the outdoor advertising adjacent to the primary and interstate highways during the engagement period.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Expenditures and Activity Measures are summarized on next page.}

DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT for the year ended June 30, 2016
COMPLIANCE EXAMINATION for the two years ended June 30, 2016

EXPENDITURE STATISTICS	2016	2015	2014
Total Expenditures.....	\$ 5,563,032,165	\$ 5,746,738,659	\$ 5,694,530,043
OPERATIONS TOTAL.....	\$ 814,236,796	\$ 996,317,367	\$ 984,883,546
% of Total Expenditures.....	14.6%	17.3%	17.3%
Personal Services.....	421,281,251	448,168,767	463,135,140
Other Payroll Costs (FICA, Retirement).....	222,685,237	225,027,103	223,093,217
All Other Operating Expenditures.....	170,270,308	323,121,497	298,655,189
AWARDS AND GRANTS.....	\$ 2,005,674,004	\$ 2,091,630,840	\$ 2,279,502,915
% of Total Expenditures.....	36.1%	36.4%	41.0%
HIGHWAY/WATERWAY CONSTRUCTION...	\$ 2,731,581,778	\$ 2,643,717,523	\$ 2,420,446,634
% of Total Expenditures.....	49.1%	46.0%	43.5%
CAPITAL IMPROVEMENTS.....	\$ 11,539,587	\$ 15,072,929	\$ 9,696,948
% of Total Expenditures.....	0.2%	0.3%	0.2%
Total Receipts.....	\$ 2,038,851,578	\$ 2,250,528,126	\$ 1,902,485,197
Average Number of Employees (Unaudited)....	4,934	5,145	5,216
SELECTED ACTIVITY MEASURES (UNAUDITED)	2016	2015	2014
Number of bridges maintained/improved.....	66	188	222
Percent of bridges in need of repair.....	8%	8%	7%
Number of lane miles of pavement maintained..	43,086	44,334	43,002
Number of airport safety inspections.....	262	225	172
Highway safety improvements accomplished....	174	120	147
Percent of roads in need of repair.....	21%	21%	18%
SECRETARY			
During Examination Period:	Randall Blankenhorn (2/1/15-present), Erica Borggren, Acting (7/11/14-1/31/15), Ann Schneider (through 7/10/14)		
Currently:	Randall Blankenhorn		

FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS

**WEAKNESSES IN CALCULATING ACCOUNTS
PAYABLE**

The Department's calculation of its accounts payable balance at June 30, 2016 was incomplete.

**Accounts payable understated by
\$14 million**

The estimation model utilized by the Department to calculate accounts payable did not evaluate all conditions that were present subsequent to the financial statements being submitted to the Office of the Comptroller, but prior to the issuance of the financial statements, resulting in a material adjustment to the financial statements. During the course of testing, auditors discovered a significant amount of vouchers which should have been accrued at June 30, 2016 in the State Construction Fund (Fund 0902). The balance discovered exceeded the accrual calculated by the Department's accounts payable model and had the effect of understating accounts payable by \$14 million. The Department recorded an adjustment and revised its financial statements for the potential under accrual at June 30, 2016.

**Accounts payable under accrued by
\$1 million and \$14 million**

Additionally, for two funds for which accruals were made at fiscal year-end without the use of the estimation model, the Department initially under accrued its accounts payable balance at June 30, 2016. In the Downstate Transit Improvement Fund (Fund 0559) and the Federal High Speed Rail Trust Fund (Fund 0433), the Department processed vouchers totaling \$1 million and \$14 million, respectively, subsequent to the lapse period, but prior to the issuance of the financial statements. Auditors identified these transactions during an analysis of subsequent disbursements. The Department recorded adjustments in Funds 0559 and 0433 and revised its financial statements for the potential under accruals at June 30, 2016. (Finding 1, pages 13-14) **This finding was first reported in 2013.**

We recommended the Department perform an analysis of subsequent disbursements after it has submitted its GAAP reporting packages to the Illinois Office of the Comptroller, but prior to preparing its financial statements, to ensure no significant transactions occurred which were not considered in the accounts payable estimation. If such analysis signals a potential under accrual of accounts payable, the Department could then rerun the applicable accounts payable estimation model and determine what adjustments, if any, are necessary. In addition, we recommended the Department expand this analysis to review subsequent disbursement activity, for funds whose liabilities are not estimated through the accounts payable model, throughout the time it prepares its financial statements in order to capture any other significant spending in its funds which should be accrued at year-end.

Department agrees with auditors

Department officials agreed with the finding and stated the Department will continue to enhance its accounts payable estimation models to ensure that the models provide reliable estimates of accounts payable at fiscal year-end. Also, for funds without estimation models, the Department will educate the appropriate personnel about the nature of payables to more readily identify outstanding payables after fiscal year-end and will improve the review process for invoices processed after the 60 day lapse period for any items relating to goods or services received prior to year-end. *(For the previous Department response, see Digest Footnote #1.)*

FAILURE TO TIMELY PERFORM BRIDGE INSPECTIONS

The Department did not timely perform inspections of bridges. The Department is responsible for ensuring that all highway bridges on public roads in the State are inspected. The Department conducts various types of bridge inspections and we examined the timeliness of routine, special, underwater, and fracture critical member inspections.

Routine inspections

36 local bridges were overdue for routine inspections

Using the intervals established by the Department and allowing for the data entry period, according to the Department's Illinois Structure Information System data, as of April 1, 2016, 36 local bridges were overdue for a routine inspection (down from 46 as of May 1, 2014). Of the 36 overdue inspections, 23 were listed as the maintenance responsibility of an adjacent state, two of which were rated as structurally deficient. An additional 4 of the 36 were rated as structurally deficient. The overdue local routine inspections ranged from 6 months overdue to nearly 5 years overdue. Twenty of the 36 overdue inspections were more than 2 years overdue for a routine inspection.

Not included in the 36 is one bridge which, upon inquiry, appears to have been timely inspected, but the inspection was not entered into the bridge system within timeframes required by Federal Regulations and, therefore, appeared overdue in the bridge data provided to auditors.

Special inspections

26 bridges were overdue for a special inspection according to system data

Of the total 26,566 open bridges that the Department is required to inspect or cause to be inspected (i.e. locals), 1,059 were slated for a special inspection totaling 1,109 special inspections. Using the intervals established by the Department and allowing for the data entry period, according to the Department's Illinois Structure Information System data, as of April 1, 2016, 26 bridges were overdue for a special inspection (down from 69 bridges as of May 1, 2014). These 26 bridges required 28 total inspections and were all local bridges (1 bridge required 3 inspections). Upon inquiry, the Department provided

4 bridges had special inspections overdue by more than 2 years

documentation to show that 5 (consisting of 7 inspections) of the 26 bridges had received timely special inspections and, therefore, were not overdue; however, the data we were provided showed these bridges as being delinquent for inspection. Of the remaining 21 bridges with overdue special inspections 17 bridges were rated as structurally deficient and 4 bridges had special inspections which were overdue by more than 2 years. Many of the remaining inspections were overdue by approximately a year or less.

Underwater inspections

11 bridges were overdue for an underwater inspection by adjacent states

Of the total 26,566 open bridges that the Department is required to inspect or cause to be inspected (i.e. locals), 482 were slated for an underwater inspection. Using the intervals established by the Department and allowing for the data entry period, according to the Department's Structure Information data, as of April 1, 2016, 11 bridges were overdue for an underwater inspection (down from 12 as of May 1, 2014), all of which were local and, specifically, the maintenance responsibility of an adjacent State. The bridges were between 1 and 17 years overdue. One of the bridges, which the data showed as 15 years overdue for an inspection, was noted as structurally deficient.

Inspections were between 1 and 17 years overdue

Fracture Critical inspections

9 bridges were overdue for a Fracture Critical Inspection

Of the total 26,566 open bridges that the Department is required to inspect or cause to be inspected (i.e. locals), 518 were slated for a Fracture Critical inspection for a total of 1,217 inspections.

Using the intervals established by the Department and allowing for the data entry period, according to the Department's Illinois Structure Information System data, as of April 1, 2016, 9 bridges (2 State, 7 local) were overdue for a fracture critical inspection (down from 14 as of May 1, 2014), consisting of 28 total components. Two of the local bridges, consisting of 4 total components, were over 19 years overdue. One of these bridges was noted as being structurally deficient. Another local bridge, consisting of 8 components, was 5 years overdue. These 3 bridges were noted in the data as being an adjacent state's maintenance responsibility.

The remaining 6 bridges ranged from a couple months overdue to about a year overdue. The Department showed that 3 of the overdue bridges (1 State, 2 local) had been inspected since the April 1, 2016 data download.

Could not determine timeliness of 26 Fracture Critical Inspections

We could not make a determination about the timeliness of 26 Fracture Critical inspections for 11 bridges (decreased from 303 for 124 bridges in the previous examination). For these 26 inspections, the inspection date indicated that no Fracture Critical Inspections had been completed yet. Ten of these 11 bridges are noted in the database as being the maintenance responsibility of an adjacent State. (Finding 2, pages 15-19)

We recommended the Department ensure bridge inspections are conducted within allowable intervals established by Federal regulations and Department policy.

Department agrees with auditors

Department officials agreed with the finding.

INADEQUATE CONTROLS OVER STATE PROPERTY

The Department did not maintain sufficient controls over its property and related records.

We physically examined 68 equipment items during our testing. Some of the items we noted follow:

Property items tested, totaling \$129,946, were not able to be located

- Three of 68 (4%) items tested, totaling \$129,946, were not able to be located by the Department during our observation. These items included a bookbinding machine, a radio control console and a retro reflectometer.

Property items tested, totaling \$5,098, were obsolete

- Four of 68 (6%) items tested, totaling \$5,098, were deemed obsolete. These items included a lettering machine, telescope, time stamp machine and typewriter and were no longer utilized by the Department.

Items tested, totaling \$2,088, were in a different location

- Three of 68 (4%) items tested, totaling \$2,088, were observed in a different location than what was indicated on the inventory listing. (Finding 4, pages 22-23) **This finding was first reported in 2007.**

We recommended the Department implement procedures to strengthen controls over property and equipment and ensure accurate recordkeeping and accountability for all State assets.

Department agrees with auditors

Department officials agreed with the finding and stated they have utilized BoBS Form 2277 to document the corrective action taken during property control reviews. The Property Control and Inventory Procedures Manual was updated and revised in 2016 to reflect all the redesigned processes. All Central Office and District property control staff have received training on the proper handling and disposal of state owned equipment. The Department will continue to remind applicable staff on the importance of documenting property control transactions correctly. (*For the previous Department response, see Digest Footnote #2.*)

FAILURE TO CONTROL OUTDOOR ADVERTISING

The Department did not comply with its written procedures and laws that control the outdoor advertising adjacent to the primary and interstate highways during the engagement period.

No evidence illegal sign owners were notified

We noted the Department could not provide evidence they notified illegal sign owners by certified mail for 23 of 40 (58%) signs tested. The Department’s records noted these signs were illegal based upon its inventory along controlled routes. (Finding 8, pages 32-33)

We recommended the Department notify the sign owners of the signs determined to be illegal based upon current statutory and Code guidance as required or seek appropriate legislative or Code remedy.

Department agrees with auditors

Department officials agreed with the finding and stated the Department, through the Office of Program Development, Bureau of Land Acquisition, is striving to improve the Outdoor Advertising Control Program by streamlining processes, updating regulations and hiring additional staff to greatly reduce the number of illegal signs and obtain the proper ownership documentation as statutorily mandated. The Department’s goal is to have the mechanisms, policies and regulations in place by 2018, pending legislative, administrative and Federal Highway Administration concurrence, to efficiently regulate outdoor advertising and expeditiously remove illegal signs as required by Federal and State Law.

OTHER FINDINGS

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

AUDITOR’S OPINION

The auditors stated the financial statements of the Department as of and for the year ended June 30, 2016 are fairly stated in all material respects.

ACCOUNTANT’S OPINION

The accountants conducted a compliance examination of the Department for the two years ended June 30, 2016, as required by the Illinois State Auditing Act. The accountants stated the Department complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by Sikich LLP.

SIGNED ORIGINAL ON FILE

BRUCE L. BULLARD
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:PH

DIGEST FOOTNOTES

**#1 – WEAKNESSES IN CALCULATING ACCOUNTS
PAYABLE**

2015: The Department agrees with the finding. The GAAP staff will continue to improve the process to complete the several sets of Excel spreadsheets used to calculate payables reporting at the end of the year. Additionally, the GAAP staff will include communication with district personnel on backlog of local payments.

**#2 – NEED TO IMPROVE CONTROLS OVER STATE
PROPERTY**

2014: The Department agrees with the recommendation. The Department has enacted corrective measures addressing all the specific items identified in the audit. We are also implementing several initiatives designed to strengthen controls and ensure accurate record keeping and accountability per the audit recommendation. The Department is conducting a Department-wide “Special IT Inventory” within the next month, designed to identify and remove obsolete IT equipment from our system and we also plan to begin visiting all district locations to conduct property control training and perform equipment spot audits early this spring. Additionally, we will continue to work with our partners at Central Management Services in an effort to improve communications involving vehicles/equipment sold at auction to local units of government.