

McGladrey & Pullen

Certified Public Accountants

Illinois State Toll Highway Authority (A Component Unit of the State of Illinois)

Compliance Examination
For the Year Ended December 31, 2005
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Examination
For the Year Ended December 31, 2005

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Financial Statement Report

The Financial Statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2005 are published in a separate document and are incorporated herein by reference.

**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

**Agency Officials
December 31, 2005**

Executive Director Through February 23, 2006	Jack Hartman
Acting Executive Director February 24, 2006 to March 29, 2006 March 30, 2006 to present	Marilyn Johnson Brian McPartlin
Chief of Finance	Michael Colsch
Controller	Leslie Savickas
Fiscal Operations Manager	Patricia Pearn
General Counsel	Thomas Bamonte

Central Administrative Agency offices are located at:

2700 Ogden Avenue
Downers Grove, Illinois 60515



The Illinois State Toll Highway Authority
2700 Ogden Avenue
Downers Grove, Illinois 60515-1703
630/241-6800
Fax: 630/241-6100
T.T.Y. 630/241-6898

August 4, 2006

McGladrey & Pullen, LLP
Certified Public Accountants
20 N. Martingale Road, Suite 500
Schaumburg, IL 60173

Ladies and Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Tollway. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Tollway's compliance with the following assertions during the period ended December 31, 2005. Based on this evaluation, we assert that during the year ended December 31, 2005 the Agency has materially complied with the assertions below.

- A. The Tollway has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Tollway has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Tollway has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the agency are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The money or negotiable securities or similar assets handled by the Tollway on behalf of the State or held in trust by the agency have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois State Toll Highway Authority

Brian J. McPartlin, Executive Director

Michael J. Colsch, Chief of Finance

Tom Bamonte, General Counsel

Illinois State Toll Highway Authority
 (A Component Unit of the State of Illinois)

Compliance Report

Summary

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

Auditor's Report

The Independent Accountant's Report on State Compliance, on Internal Control over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

Summary of Audit Findings

<u>Number of</u>	<u>This Report</u>	<u>Prior Report</u>
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Details of audit findings are presented in a separately tabbed report section.

Schedule of Findings

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05-2	13	Lack of Detection Controls for Improper Transponder Use
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05-4	16	Capital Asset System
05-5	20	Violation Penalties Receivable and Service Organization Activities
		Current Findings (State Compliance)
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**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

Compliance Report

Summary

Exit Conference

The findings and recommendations appearing in this report were discussed with Tollway personnel at a pre-exit conference on September 8, 2006. Attending were the following individuals:

Illinois State Toll Highway Authority

Interim Executive Director	Brian McPartlin
Chief of Finance	Michael Colsch
Chief of Communications	Kathleen Cantillon
Controller	Leslie Savickas
Chief Internal Auditor	Patrick McIntyre
Executive Secretary	Christina Grosso
Fiscal Operations Manager	Patricia Pearn
Press Secretary	Joelle McGinnis
Chief Accountant	Tara Martin
Chief of Open Road Tolling	Matt Beaudet
Business Systems Project Manager	Michael Catolico
Deputy Chief of Staff	Billy Glunz

McGladrey and Pullen, LLC

Joseph Evans, CPA	Partner
Linda Abernathy, CPA	Director
Heather Morandi	Supervisor

Office of the Auditor General

Thomas L. Kizziah, CPA	Audit Manager
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A formal exit conference was waived by the Tollway.

Responses to the recommendations were provided by Patricia Pearn, Fiscal Operation Manager on September 18, 2006.

McGladrey & Pullen

Certified Public Accountants

Independent Accountant's Report on State Compliance On Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Illinois State Toll Highway Authority's compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the year ended December 31, 2005. The management of the Illinois State Toll Highway Authority is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois State Toll Highway Authority's compliance based on our examination.

- A. The Illinois State Toll Highway Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Illinois State Toll Highway Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Illinois State Toll Highway Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. The State revenues and receipts collected by the Illinois State Toll Highway Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Illinois State Toll Highway Authority on behalf of the State or held in trust by the Illinois State Toll Highway Authority have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Illinois State Toll Highway Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Illinois State Toll Highway Authority's compliance with specified requirements.

In our opinion, the Illinois State Toll Highway Authority complied, in all material respects, with the aforementioned requirements during the year ended December 31, 2005. However, the results of our procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as findings 05-06, 05-07, 05-08 and 05-09. As required by the Audit Guide, immaterial findings relating to instances of noncompliance excluded from this report have been reported in a separate letter to your office.

Internal Control

The management of the Illinois State Toll Highway Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of law and regulations. In planning and performing our examination, we considered the Illinois State Toll Highway Authority's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses. However, the results of our procedures disclosed other matters involving internal control which are required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which are described in the accompanying schedule of State findings as finding 05-08.

As required by the Audit Guide, immaterial findings relating to internal control deficiencies excluded from this report have been reported in a separate letter to your office.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2005, which collectively comprise the Illinois State Toll Highway Authority's basic financial statements, and have issued our report thereon dated August 4, 2006. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Illinois State Toll Highway Authority. The 2005 Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material aspects in relation to the basic financial statements for the year ended December 31, 2005, taken as a whole. The Illinois State Toll Highway Authority's basic financial statements for the year ended December 31, 2004, were audited by other auditors whose report thereon dated May 31, 2005, expressed an unqualified opinion on the respective basic financial statements.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
August 4, 2006

McGladrey & Pullen

Certified Public Accountants

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 the basic financial statements of the Illinois State Toll Highway Authority, as of and for the year ended December 31, 2005, which collectively comprise the Illinois State Toll Highway Authority's basic financial statements and have issued our report thereon dated August 4, 2006. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Illinois State Tollway Highway Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Illinois State Toll Highway Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as Findings 05-01, 05-02, 05-03, 05-04, and 05-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements cause by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 05-01 and 05-04 to be material weaknesses. We also noted certain deficiencies in the design or operation of internal control over financial reporting which do not meet the criteria for reporting herein and which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of internal control deficiencies, which we have reported to management of the Illinois State Toll Highway Authority in a separate letter dated August 4, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Illinois State Toll Highway Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as Findings 05-01, 05-03. We also noted certain matters which are reported as State compliance findings in the schedule of findings. We also noted certain immaterial instances of noncompliance, which we have reported to the management of the Illinois State Toll Highway Authority in a separate letter dated August 4, 2006.

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

McGladrey & Pullen, LLP

Schaumburg, Illinois
August 4, 2006

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-1 Timely and Accurate Account Reconciliations

The Illinois State Toll Highway Authority (Tollway) is not completing timely reconciliations for some of their significant general ledger accounts.

During our audit, we noted that certain significant general ledger account balances were not reconciled on a timely basis to supporting documentation or subsidiary ledgers. As a result, adjustments to the books and records were being recorded more than six months after the Tollway's fiscal year end. In addition, numerous corrections were being made to the general ledger, as the audit was ongoing. As a result, this led to inefficiencies and delays in completing the audit. We noted the following specific instances where significant unreconciled differences occurred, or adjustments were posted on an untimely basis:

- Book adjustments to cash of approximately \$28 million were posted after the draft financial statements were provided to the auditors. Some of the adjustments were posted as late as July 2006, seven months after year-end. The adjustments were to adjust year-end general ledger balances to reconciled cash balances, and to correct posting entry errors in the year-end cash reported in the general ledger.
- Adjustments to investments of approximately \$2.8 million were identified by the auditors and classified as passed adjustments at year-end.
- Adjustments to accrued interest receivable amounting to approximately \$9.4 million were identified by the auditors and recorded in July 2006. The adjustment related to deep discount investments that were reported at fair value and had a reported amount for accrued interest receivable. The adjustment was necessary to correct the accrued interest receivable for these non-interest paying investments.
- The balance reported as "Other Accrued Expenses" in the general ledger, consisting principally of construction related liabilities, was overstated by approximately \$2.5 million compared to the supporting documentation provided during the audit. The auditors proposed an adjustment for this amount.
- During our review of Accounts Payable we noted three "Stale Dated Warrant" accounts, totaling \$528,595, which were not substantiated with support. Tollway personnel stated that the stale dated warrants are old outstanding checks that the Tollway believes have been reissued or never cashed. At some point these outstanding checks were reversed from cash to a payable until further investigation could be done to determine if they should appropriately be written off.
- In addition, the Tollway has a balance of approximately \$1.5 million in the "Due to From" account (a component of accounts payable in the financial statements) that is unsubstantiated as of December 31, 2005. The auditors proposed an adjustment to write-off this amount.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-1 Timely and Accurate Account Reconciliations (Continued)

Good internal controls require that all significant accounts be reconciled on a regular basis, preferably monthly, to the underlying documentation such as subsidiary ledgers, bank reconciliations or vendor invoices. The Uniform Disposition of Unclaimed Property Act (765 ILCS 1025/8.1) (Act) states all tangible personal property or intangible personal property and all debts owed or entrusted funds or other property held by any federal, state or local government or governmental subdivision, agency, entity, officer or appointee thereof, shall be presumed abandoned if the property has remained unclaimed for 7 years. 765 ILCS 1025/11(a) states every person holding funds or other property, tangible or intangible, presumed abandoned under this Act, shall report and remit all abandoned property specified in the report to the State Treasurer. 765 ILCS 1025/11(d) states the report and remittance of the property specified in the report shall be filed by the governmental entity before November 1st of each year as of June 30 next preceding.

Tollway management stated that their financial reporting systems are over 20 years old and extremely cumbersome to work with. Further, several key employees were on leaves during the year-end close, and one accountant previously integral to the preparation of financial statements resigned during the audit, resulting in delays in closing the books and the use of newly hired, inexperienced staff. Additionally, in late 2005 there was a banking change to improve the accounting for Tollway cash. This change resulted in 9 additional bank accounts established by the State Treasurer, requiring reconciliation. As the Tollway worked to obtain all the necessary bank statements from the Treasurer, put processes in place, and staff vacant positions, they were delayed in fully reconciling every balance in their financial statements.

Several of the Tollway's accounts were misstated in the trial balances initially presented to the auditors, as addressed above. Most of these misstatements were identified by the auditors during the audit process and were not detected by employees or management while performing their assigned duties. Without a process whereby all significant balance sheet accounts are reconciled and adjusted on a regular basis, the amounts reported by the Tollway may be materially misstated in interim financial statements and reports as well as at year-end. In addition, identifying and posting entries during the audit process delays issuance of the audited financial statements. (Finding Code No. 05-01)

Recommendation

We recommend the Tollway assign responsibility for reconciling all significant balance sheet accounts. Significant accounts would include those that are quantitatively significant and those that are qualitatively significant or susceptible to fraud (cash and investments). All adjustments that result from the reconciliation process should be approved by supervisory personnel prior to posting them to the general ledger. Supervisory approval should be documented in writing. Adjustments that are only recorded at year-end in connection with producing the audited financial statements should also be reviewed and approved by supervisory personnel.

Also, the Tollway should maintain detailed support for all balance sheet accounts and review and reconcile the account detail on a monthly basis in order to ensure accurate financial reporting, safeguard Tollway assets, and strengthen internal controls over financial reporting.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-1 Timely and Accurate Account Reconciliations (Continued)

Further, the Tollway should investigate all balances recorded in the “State Dated Warrants” account balances and remit all appropriate unclaimed property to the State in accordance with the Uniform Disposition of Unclaimed Property Act.

Tollway Response

The Tollway concurs with this recommendation and has implemented new processes. We have assigned general ledger accounts to specific employees who are responsible for generating a month-end workpaper indicating the correct account balance and the source document to verify this. These employees are responsible for ensuring that the general ledger indicates the correct account balance. Supervisory personnel are reviewing and approving the workpapers.

We have assigned a specific employee to research the state dated warrants account and are already in the process of preparing the Unclaimed Property Report, due November 1, 2006.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-2 Lack of Detection Controls for Improper Transponder Use

The Illinois State Toll Highway Authority (Tollway) did not have the proper internal controls in place to classify all I-PASS transactions properly in some of the lanes.

Some of the lanes are equipped with vedet loops that are embedded in the ground. Vedet loops count “masses of metal” as they pass through the lane. The lane equipment is able to read the I-PASS transponder and “collects” the revenue based on the classification of the transponder as it was originally issued. The number of axles determines the classification of a vehicle. The toll collection and I-PASS system reports the transaction by the original transponder class. A violation is only recorded in the lanes affected if there is no transponder to read or if a transponder that was read is identified as insufficient, invalid, lost/stolen, etc. A violation would not be recorded if a vehicle passed through the lane with a transponder that does not correlate to the class of the vehicle.

Good internal controls require that all lanes contain equipment to identify the classification of vehicles in order to collect the correct toll revenue.

According to Tollway management, a decision was made to delay installation of the vehicle identification system in old roads. The Tollway waited to install the system in conjunction with the conversion to open road tolling lanes.

In May 2003, the Office of the Auditor General released a management audit of the Illinois State Toll Highway Authority, which contained 23 recommendations to improve the performance and operations of the Tollway. As of December 2005, the Tollway had implemented all items except this issue that was also reported in the immaterial letter last year at December 31, 2004.

Not being able to identify vehicles by class or not having a system in place to identify improper usage of the transponder may lead to lost or reduced revenue collection. (Finding Code No. 05-02, 04-03, 03-06, 02-07)

Recommendation

We recommend the Tollway continue to implement controls to identify any violations resulting from improper transponder usage.

Tollway Response

The Tollway concurs and expects to complete implementation in 2007 with the completion of Open Road Tolling and plaza reconstruction.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-3 Bank Reconciliations Not Completed Timely and SB05 Report Not Reconciled

The Illinois State Toll Highway Authority (Tollway) did not complete bank reconciliations in a timely manner and the cash balance was not reconciled with the Comptroller's SB05 cash report for the months of January through November 2005. In addition, we could not determine the dates that the reconciliations were prepared or approved.

During our review of 28 bank reconciliations, we noted the reconciliation's did not contain the initials and dates of the individuals that prepared the reconciliations on a monthly basis.

Strong internal controls require that all bank accounts be reconciled in a timely manner to detect and correct errors and omissions. In order to verify that the bank accounts are reconciled in a timely manner, signatures and/or initials of the individuals preparing and reviewing the reconciliations along with the date should be noted on the document.

According to Statewide Accounting Management System Procedure 9.40.30, the reconciliation should be performed monthly and the Comptroller's Office should be notified of any unreconciled differences so that necessary corrective action can be taken to locate the differences and correct the accounting records.

Tollway officials stated that the current Tollway computer systems (all of which are in excess of 20 years old) do not allow for general ledger balances in the current year to be viewed until the prior year's activity has been audited, any necessary adjustments have been made, and the previous year file on the general ledger is locked and closed. As a result of this limitation, formal and final reconciliations between the general ledger and bank statements are postponed until the completion of the prior year's audit—normally occurring each year in the late spring. Until this general ledger system is replaced by modern, flexible software, monthly bank reconciliations in the first 4-6 months of each year will be prepared several months late.

Failure to perform timely bank reconciliations may lead to incorrect cash balances on the general ledger as well as loss or misuse of Tollway funds. The timely preparation of the bank reconciliations is critical to ensuring that data is not lost and for the resolution and follow up of any reconciling adjustments. The cash balance on the SB05 report is used in preparing the footnotes for the State of Illinois financial statements. Incorrect balances on the SB05 report could lead to inaccurate information in the State of Illinois' financial statements. (Finding Code No. 05-03, 04-06, 03-07)

Recommendation

We recommend the Tollway follow established procedures to ensure all bank accounts are reconciled in a timely manner. In addition, we recommend that all bank reconciliations be initialed and dated by the preparer and reviewer. We also recommend the Tollway reconcile the ending cash balance per the SB05 report to the Tollways' cash balances on a monthly basis.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-3 Bank Reconciliations Not Completed Timely and SB05 Report Not Reconciled (Continued)

Tollway Response

We concur. We have amended our processes to complete bank reconciliations and reconcile the SB-05 every month.

We have assigned responsibility for specific general ledger accounts to specific employees. We have also implemented daily on-line viewing of bank account information and more frequent recording of cash activity. This has permitted us to reconcile our bank accounts to subsidiary ledgers on a timely basis. All bank reconciliations now require preparer's initials and date, as well as supervisor approval.

The system limitations will not be easily cured. A replacement ERP system has been budgeted and the Tollway is developing an RFP to acquire the system. Until a new system is acquired, we will continue to be unable to complete final, formal reconciliations during the early part of each fiscal year. But the work to transition cash accounting from one general ledger account to a basis in which each bank account has its own GL account has been completed, and staff and procedures are in place to do reconciliations on a timely basis.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-4 Capital Asset System

The Illinois State Toll Highway Authority's (Tollway) practices and procedures for recording and maintaining capital asset records needs improvement.

During our audit of the capital assets records, we noted the following:

- Beginning of the year accumulated depreciation for infrastructure capital assets was overstated by approximately \$45.6 million. During fiscal years 2003 and 2004, depreciation expense was recorded for infrastructure assets that were already fully depreciated. As a result of this error, the December 31, 2004 net assets of the Tollway required a \$45.6 million restatement (increase in net assets).
- Although the Tollway has a formal written capitalization policy addressing items such as the capitalization threshold and useful lives, there are no detailed written processes and procedures documenting other aspects of capital asset reporting and controls.
- Under current Tollway practice, capital asset additions are added to an electronic spreadsheet in pools. Each year a new pool is created for each category of capital asset additions (infrastructure, infrastructure facilities, Fiber Optics system, buildings and machinery and equipment). Deletions of capital assets are not assigned to these annual pools. Instead, they are applied to the category as a whole (i.e. machinery and equipment). The Tollway depreciates its assets using pools rather than at a detailed level. As a result, there is not a detailed listing of capital assets on hand as of year-end that supports the amounts reported on the year-end financial statements.
- The Tollway does not have an effective system to identify completed construction projects that should be moved from construction in progress to depreciable infrastructure. There are items on the construction in progress (CIP) listing and included in the reported CIP balance, that are substantially complete and in use. At December 31, 2005, these amounts totaled approximately \$65 million, out of approximately \$520 million total CIP, or 12%. Since these projects are essentially complete and the assets are in use, these infrastructure assets should be depreciated. The estimated amount of unrecorded depreciation expense for December 31, 2005 is \$3.1 million. An adjustment to the Tollway's financial statements was proposed. The balance of accumulated depreciation at December 31, 2005 is also understated due to the cumulative effect of this practice over several years.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-4 Capital Asset System (Continued)

- The supporting documentation for the 2005 beginning balance reported for accumulated depreciation did not agree to the amount reported as ending accumulated depreciation in the 2004 financial statements. The beginning balance per the 2005 financial statements was \$1,085,065 million less than the depreciation roll forward schedule provided to the auditors for 2005. In addition, depreciation expense reported in the roll forward schedule varied from amounts recorded in the financial statements by \$453,785 (roll forward was understated). Year-end accumulated depreciation per the roll forward schedule was understated by \$631,280 compared to the financial statements. The Tollway was unable to account for the difference and, accordingly, an adjustment to their financial statements was proposed.
- The Tollway is capitalizing assets with a historical cost less than \$5,000; however their policy states that only capital assets with a cost in excess of \$5,000 should be capitalized.

Good business practices require the establishment of an in-depth, formal written process and procedure document that clearly defines capital additions, differentiating them from expense items. This would also apply to the identification of capital assets, the depreciation of those assets, and subsequent tracking of those assets and maintenance of records that support amounts recorded in the financial statements. The processes and procedures document should also specify responsibility for preparing and reviewing capital assets records. Once a process and procedure document is completed, controls should be designed to ensure the processes and procedures are followed.

Tollway management stated that their financial reporting system was designed to fulfill the requirements of its Trust Indenture, which does not require that capital assets be accounted for in any way. When the GAAP capitalization requirement was introduced the Tollway initially relied on “stop-gap” systems to fulfill GAAP requirements. In more recent times, the expectation has been that an Enterprise Resource Planning systems project would be initiated and that new Tollway financial software would handle the capitalization and depreciation of capital assets.

Without a formal process and procedure document, there exists the potential for over/under recording capital asset additions and deletions, as well as the corresponding depreciation and accumulated depreciation related to those assets. Without a detailed listing of capital assets on hand at year-end the Tollway’s internal control over financial reporting may not be effective, and reconciliation to the financial statements becomes inefficient. (Finding Code No. 05-04)

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-4 Capital Asset System (Continued)

Recommendation:

We recommend the Tollway prepare a formal written process and procedure document to clearly define the criteria for capitalization of individual capital assets for financial reporting purposes in accordance with generally accepted accounting principles (GAAP).

In addition, the processes and procedures should:

- i. Act as the source document for determining the useful lives for those assets that will be capitalized.
- ii. Address how frequently the useful lives will be reviewed and adjusted, if necessary.
- iii. Specify the level of detail to be maintained in support of capital assets.
- iv. Address the capitalization threshold amounts for capital assets.
- v. Address the depreciation method used for capital assets.
- vi. Address responsibility for determining which expenditures are capital in nature versus an expense item (engineering personnel versus accounting personnel).
- vii. Specify who is responsible for maintaining capital asset records on an ongoing basis, and who is responsible for reviewing and approving amounts reported.
- viii. Address capital asset retirements, sales and other disposals, including infrastructure assets.

The processes and procedures document should be approved by management.

Further, the Tollway should install comprehensive software to inventory and depreciate its capital assets. The general ledger should then be adjusted to reflect the inventory records after physical inventories are conducted. If the capital asset system is not integrated with the general ledger, then records should be reconciled at least monthly.

In addition, the Tollway should transfer construction in progress projects to infrastructure when they are substantially complete and in use. The Tollway should begin depreciating these assets at that time.

We also recommend the Tollway implement policies and procedures to ensure their policy of capitalizing only amounts greater than or equal to \$5,000 is followed.

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Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-4 Capital Asset System (Continued)

Tollway Response

We concur. A more detailed capitalization process and procedure document will be prepared.

Prior to the completion of the audit, we purchased fixed asset accounting software, which is now in the process of being populated. This software will calculate depreciation on an asset-by-asset basis. This will also assist in ensuring that assets under \$ 5,000 are not inadvertently capitalized.

We have initiated a process to work with the Engineering Department to identify the status of construction projects and routinely transfer these from Construction in Progress to a depreciable asset.

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Compliance Report
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Current Findings – *Government Auditing Standards*

05-5 Violation Penalties Receivable and Service Organization Activities

The Illinois State Toll Highway Authority (Tollway) does not maintain a detailed record of the outstanding violation penalties receivable. In addition, the Tollway's service provider did not engage an independent auditor to review the control objectives and control activities in place at the outside service provider.

The Tollway currently uses an outside service provider to maintain all records pertaining to violation penalties. Tollway management indicated that the violation system does not currently have the ability to generate a report that produces the detail to support the summarized aged receivable, which would include the individual's name, transaction date and amount. The receivable, net of the allowance for uncollectible amounts as of December 31, 2005 is approximately \$21 million.

Statement on Auditing Standards (SAS) No. 70, Service Organizations is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm.

Detailed records of all receivables should be maintained in support of the reported balance. It is common practice to run an aging of receivables on a monthly basis to determine past due accounts for collection efforts as well as to determine the sufficiency of the recorded allowance, and to determine balances which should be written off.

According to the Tollway, during 2005, the violation system did not have the capability to produce a detailed report of the individual accounts comprising the receivable balance. However, the detail of the individual invoices is available within the system. In lieu of this report, the Tollway requested the vendor to have a SAS 70 review of internal controls performed but the vendor refused to do this at a reasonable cost to the Tollway.

Without detailed records supporting the balance recorded for violation penalties receivable, the Tollway has to rely upon the control objectives and control activities in place at their outside service provider. Since their service provider has not obtained a SAS 70 examination, the Tollway is lacking a valuable assurance from an independent source. (Finding Code No. 05-05)

Recommendation

We recommend the Tollway maintain a detail record of all receivables, including the violation penalties. The detail record should be reviewed by a supervisor on a monthly basis, with supervisor approval clearly documented in writing.

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Compliance Report
For the Year Ended December 31, 2005

Current Findings – *Government Auditing Standards*

05-5 Violation Penalties Receivable and Service Organization Activities (Continued)

Tollway Response

We concur that the violation system should produce a detailed listing that reconciles to a system aging report. This service provider and the violations system will be replaced in 2006 with a new system that has the capability to provide the detail of the aged receivable balance. On August 24, 2006, the current service provider was able to produce a detailed listing to support the 12/31/05 receivable balance that exactly matched the aging report from their system.

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**Compliance Report
For the Year Ended December 31, 2005**

**Current Findings – State Compliance
05-6 Locally Held Funds Report on Receipts and Disbursements**

The Department was delinquent in filing the fourth quarter C-17 (Report of Locally Held Fund) and the report submitted was not accurate.

The fourth quarter C-17 was due on January 30, 2006 and was filed on February 15, 2006. In addition to being filed late, the C-17 was submitted prior to all journal entries being posted. The amounts reported on the C-17 were not indicative of the final balances reflected in the December 2005 financial statements. The fourth quarter C-17 has not been resubmitted with the actual numbers as of June 2006.

According to Illinois Compiled Statute (15 ILCS 405/16), "within 30 days after the end of each quarter, or at such earlier time as the comptroller by rule requires, each State agency shall file with the comptroller the report of its receipts and collections during the preceding quarter, including receipts and collections of taxes, and fees, fund and fund authorizations from sources other than appropriation by the General Assembly, gifts, grants and donations, and income from revenue producing activities or property of or under the control of the agency".

According to Tollway management, the failure to file the C-17 in a timely manner was due to several employees being on leave at that time of the year. The workload for the remaining employees was increased. As a result of an oversight, this form was filed 2 weeks late.

Failure to submit the quarterly C-17's accurately and in a timely manner results in noncompliance with state statutes. (Finding Code No. 05-06, 04-10)

Recommendation

We recommend the Tollway review their policies and procedures for ensuring that required forms are filed in a timely manner and for all correct, final adjusted balances.

Tollway Response

We concur. The new process now in place to reconcile the general ledger balances monthly will result in timely posting of journal entries; hence, the C-17 reports will be accurate.

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Compliance Report
For the Year Ended December 31, 2005

Current Findings – State Compliance

05-7 Improper Voucher Processing

The Illinois State Toll Highway Authority (Tollway) did not approve vendor invoices within 30 days of receipt or pay vendors within 60 days after receipt of the invoices. In addition, 2 vouchers were not properly approved by the appropriate department head.

During our testing we noted 21 of 200 (11%) vouchers sampled for testing were not approved within 30 days after receipt of vendor invoices. The vendor invoices were approved in the following timeframe:

- 12 vendor invoices (totaling \$152,281) were approved between 31-55 days;
- 6 vendor invoices (totaling \$118,155) were approved between 56-100 days; and
- 3 vendor invoices (totaling \$158,757) were approved between 101-156 days.

We also noted 23 out of 200 (12%) vouchers sampled for testing were not paid within 60 days after receipt of vendor invoices. The vendor invoices were paid in the following timeframe:

- 8 voucher invoices (totaling \$132,353) were paid between 61-90 days after receipt;
- 5 voucher invoices (totaling \$24,809) were paid between 91-120 days after receipt;
- 4 voucher invoices (totaling \$93,638) were paid between 121-150 days after receipt; and
- 6 voucher invoices (totaling \$163,384) were paid between 151-223 days after receipt.

We also noted during our testing that two invoices totaling \$21,839 were not signed by the Department Chief. These invoices were above the Tollway's approval threshold of \$10,000, and required approval by the Department Chief.

Good business practice requires all invoices be properly approved within a reasonable amount of time to ensure timely payment.

According to Tollway management, every effort is made to approve invoices timely; however, there are cases where additional information, such as a pending credit memo, may delay the process. Also, it is sometimes necessary to route invoices through numerous approvers prior to payment.

Not properly approving the vendor invoices in a timely manner could cause payments to be late, which could result in late fees or interest charges. (Finding Code No. 05-07)

Recommendation

We recommend the Tollway adequately review and properly approve all vouchers and process them in a timely manner.

Illinois State Toll Highway Authority
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Compliance Report
For the Year Ended December 31, 2005

Current Findings – State Compliance

05-7 Improper Voucher Processing (Continued)

Tollway Response

We concur. As stated above, there are instances where invoices received require further information/documentation from the vendor. As the Tollway has begun implementing our Congestion-Relief Program, we are working with more vendors than before, many of which are working with the Tollway for the first time and are unfamiliar with our invoicing processes. As a result, we are initiating a process to better document these exceptions and working to better educate new vendors about the Tollway's invoicing process.

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Compliance Report
For the Year Ended December 31, 2005

Current Findings – State Compliance

05-8 I-PASS Policies and Procedures

The Illinois State Toll Highway Authority (Tollway) does not have an approved manual for I-PASS financial policies and procedures. In addition, the current version of the manual does not specify which manager approvals should be documented in writing.

Our review of the "I-PASS Financial Policies and Procedures" manual indicated that the current manual in use by the Tollway is in draft form. Additionally, during our examination, we noted that two of the four monthly IAG reconciliations (50%), totaling \$2,201,974, did not have written approval from the department manager.

In 2004, the Tollway joined the E-ZPass Interagency Group (IAG), a collaborative group of 21 member agencies operating toll roads, bridges and tunnels in 11 states. Membership in the IAG allows interstate travelers to use I-PASS transponders on all Tollways that use transponders, and in turn E-ZPASS is accepted on all Illinois Tollways. The draft I-PASS Financial Policies and Procedures manual discussed the procedures for the IAG Settlement/Reconciliation process. The IAG monthly settlement statement is a spreadsheet documenting the amounts due to/from IAG members.

Good internal controls require that policies and procedures be approved and implemented for all departments. Good internal controls would also require that all IAG settlement statements be approved in writing by the department manager, or other authorized individual, prior to making any IAG payments.

Tollway management stated the manual was recently amended in draft form to include procedural changes associated with new I-PASS processes and systems, including changes resulting from the addition of the IAG and the Chicago Skyway. In addition, although the IAG reports were verified by the proper personnel, the signature was overlooked.

An approved manual is necessary to ensure uniform policies and procedures are in place for employees to follow and for management to have adequate control over the department's activities. It is also important to ensure adequate internal control is maintained over Tollway assets, and information that will be used as a basis for financial reporting. In addition the IAG settlement statements should contain written management approval in order to document management's review of the statement and the approval of the balances in the reconciliation. (Finding Code No. 05-08)

Recommendation

We recommend the current I-PASS Financial Policies and Procedures manual be revised as necessary, then approved by appropriate management personnel and issued to those employees working in the department. In addition, the policy and procedures manual should clearly indicate that approvals from the department managers, or other authorized individuals, should be documented in writing. All payments to the IAG should be supported by statements that indicate written manager approval.

Illinois State Toll Highway Authority
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Compliance Report
For the Year Ended December 31, 2005

Current Findings – State Compliance

05-8 I-PASS Policies and Procedures (Continued)

Tollway Response

We concur.

**Illinois State Toll Highway Authority
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**Compliance Report
For the Year Ended December 31, 2005**

Current Findings – State Compliance

05-9 Internal Auditing

The Illinois State Toll Highway Authority (Tollway) failed to audit the required major systems of internal accounting and administrative controls of the Tollway for the year ended December 31, 2005.

We noted the Tollway did not complete any internal audits of major systems of internal accounting and administrative controls during fiscal year 2005. Required audits would include the following areas of internal accounting and administrative controls:

- Tollway organization and management
- Budgeting, accounting and reporting
- Property, equipment and inventory
- Revenues, receivables and cash
- Personnel & Payroll
- Roadway Maintenance & Property Rehab & Improvements
- Expenditure control
- Administrative Support Services
- Purchasing & procurement
- Petty Cash & Local Funds
- Electronic Data processing

According to the Fiscal Control and Internal Auditing Act (30 ILCS 10/2003), the Tollway's chief executive officer shall ensure that "audits of major systems of internal accounting and administrative control be conducted on a periodic basis so that all major systems are reviewed at least once every 2 years." 30 ILCS 10/2002 states the chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief of auditing activities. All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties.

Tollway management stated that Executive Order # 10 specified that the internal audit function of the Tollway, along with other state agencies be transferred within the Illinois Office of Internal Audit (IOIA), a division of the Department of Central Management Services. IOIA prepared a risk assessment and tentative audit plan for the Tollway for 2005 and 2006. However, after a period of negotiation between the Tollway and IOIA the Tollway was notified by IOIA that due to the timing of the negotiations they would not be able to carry out the proposed 2005 audit plan.

The Tollway's Internal Audit Department was reorganized as the Enterprise Control & Compliance Unit, reporting to the Tollway's Inspector General. The Enterprise Control & Compliance Unit did conduct pre-implementation, internal control and operational reviews of various functions within the Tollway during 2005. Areas reviewed included:

- Compliance reviews of oases leases
- Unannounced verifications of revenue day counts by Tollway money room
- Unannounced plaza change fund verifications
- Pre-implementation reviews of new computer systems, including violations, IPASS and lane host systems.

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Compliance Report
For the Year Ended December 31, 2005

Current Findings – State Compliance

05-9 Internal Auditing (Continued)

The major areas of internal control must be audited timely to maintain an effective internal control system. When internal audits are not completed timely and in accordance with an approved audit plan, the Tollway may fail to detect weaknesses in its internal control in a timely manner. (Finding Code No. 05-09)

Recommendation

We recommend the Tollway complete all required internal audits on a timely basis. Further, the Chief Internal Auditor should report directly to the Chief Executive Officer at the Tollway.

Tollway Response

The Internal Audit Department was re-established in June 2006 when a Chief Internal Auditor, who will report to the Executive Director, was hired. The Internal Audit Department intends to perform the required reviews of major systems of internal controls.

**Illinois State Toll Highway Authority
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**Prior Year Finding Not Repeated
For the Year Ended December 31, 2005**

Government Auditing Standards

05-10 COBRA Notifications were Not Timely

The Illinois State Toll Highway Authority (Tollway) did not issue COBRA (Consolidated Omnibus Budget Reconciliation Act of 1986) notifications to terminated employees in a timely manner.

During the current year, our sample testing did not disclose any instances of untimely notifications. All COBRA notifications tested were filed on a timely basis. (Finding Code No. 04-01)

05-11 Inventory Count Not Performed

The Illinois State Toll Highway Authority (Tollway) did not perform an inventory count for all locations during the fiscal year.

During the current year, our testing disclosed that inventory counts were performed for all locations at some point throughout the fiscal year. (Finding Code No. 04-02)

05-12 Lack of Detailed Reconciliation for Service Organization Activities

The Illinois State Toll Highway Authority (Tollway) did not have a detailed reconciliation process related to service organizations.

During the current year, our testing indicated that detailed reconciliations were being performed during the fiscal year. The irregularities discovered in the previous year were not found in the current year based on the sample tested. (Finding Code No. 04-04)

05-13 Violation Receivable Not Reconciled

The Illinois State Toll Highway Authority (Tollway) did not reconcile the violation receivable recorded in the general ledger, which is the basis for the financial statements, to an accurate subsidiary ledger on a monthly basis.

During the current year, it was noted that each month a detailed reconciliation was performed for the violation receivable balance. (Finding Code No. 04-05)

05-14 Sick and Vacation Accrual Not Properly Recorded

The Illinois State Toll Highway Authority (Tollway) did not accurately input the sick and vacation payroll records used to document absences for salaried and hourly employees into the system to produce an accurate subsidiary ledger.

During the current year, our testing indicated that the sick and vacation payroll records were properly recorded in the subsidiary ledger. Due to a change in the timekeeping system the amounts are tracked electronically and appear to be accurate as of year end. (Finding Code No. 04-07)

**Illinois State Toll Highway Authority
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**Prior Year Finding Not Repeated – Continued
For the Year Ended December 31, 2005**

State Compliance

05-15 Cash Handling Procedure Manuals and Forms Out of Date and Procedures Not Followed

The Illinois State Toll Highway Authority (Tollway) did not update its "Cash Handling Policy and Procedure Manual" or certain money room forms. In addition, procedures were not consistently complied with and errors were made in executing certain procedures..

During the current year, the Tollway updated its manual and had no material errors or inconsistencies in executing procedures. (Finding Code No. 04-08)

05-16 Inadequate Contract Reconciliation with State Comptroller's Documentation

The Illinois State Toll Highway Authority (Tollway) did not complete reconciliations between the individual contracts, the Agency Contract Report and the Obligation Activity Report on a monthly basis.

During the current year, the Tollway completed the reconciliations on a timely basis. (Finding Code No. 04-09)

SUPPLEMENTARY INFORMATION

Illinois State Toll Highway Authority
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Supplementary Information for State Compliance Purposes

Summary

Supplementary Information for State Compliance Purposes Presented in this section of the report includes the following:

Fiscal Schedules and Analysis:

- Schedule of Cash and Cash Equivalents Balances
- Schedule of Investment Depositories
- Schedule of Commodities Inventory
- Schedule of Accounts Receivable
- Schedule of Changes in Capital Assets
- State Administrative Chargeback
- Analysis of Significant Variations in Asset and Liability Accounts
- Analysis of Significant Variations in Revenues and Expenses

Analysis of Operations

- Tollway Functions and Planning Program
- Average Number of Employees by Function
- Illinois First (Unaudited)
- Emergency Purchases
- Service Efforts and Accomplishments (Unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the auditors' opinion, except for that portion marked "unaudited," on which they express no opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Schedule of Cash and Cash Equivalents Balances
December 31, 2005 (with summary totals for 2004)

	Carrying Amount	Financial Institution Balances
Cash (Unrestricted):		
Currency and Coin on Hand		
Change funds at toll plazas and Administrative Building	\$ 565,418	\$ -
Petty Cash	1,400	-
Cash in Banks		
Bank of America - New Segments Account	2,592,776	3,396,290
Bank of America - Revolving Accounts	12,534,126	13,912,069
Bank of America - Treasurer Accounts *	(2,813,757)	1,401,139
Bank of America - Risk Management Account	19,226	19,226
Cole Taylor Bank - Revolving Accounts	44,009	44,009
Cole Taylor Bank - Treasurer Accounts *	88,583	88,583
LaSalle Bank	54,590	54,590
Cash Equivalents (Unrestricted):		
Certificates of Deposits - Treasurer Accounts *	38,216,396	38,216,396
Wells Fargo - Repurchase Agreements - Treasurer Accounts *	361,755,000	361,755,000
Goldman Sachs Money Market Account	10,000,000	10,000,000
Illinois Funds	2,087,047	2,087,047
All Other	28,326	28,326
Total cash and cash equivalents (Unrestricted)	425,173,140	431,002,675
Cash (Restricted):		
Bank of America - Restricted for IPASS Accounts	1,642,227	659,748
Cash Equivalents (Restricted):		
Restricted for Debt Service		
JP Morgan Money Market Accounts:		
Priority Debt Reserve	16,912,671	16,912,671
Debt Reserve	20,472,254	20,472,254
Priority Debt Service	3,211,164	3,211,164
Debt Service	73,418,910	73,418,910
Total Restricted for Debt Service	114,014,999	114,014,999
Restricted for Construction		
JP Morgan Money Market Accounts	2,519,384	2,519,384
JP Morgan Guaranteed Investment Contract	570,499,709	570,499,709
Total Restricted for Construction	573,019,093	573,019,093
Illinois Funds - Restricted for IPASS Accounts	94,677,974	96,892,796
Total cash and cash equivalents (Restricted)	783,354,293	784,586,636
Total Cash and Cash Equivalents at December 31, 2005	\$ 1,208,527,433	\$ 1,215,589,311
Total Cash and Cash Equivalents at December 31, 2004	\$ 496,936,744	\$ 495,981,539

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Schedule of Investment Depositories
December 31, 2005 (with summary totals for 2004)

	Year End Interest Rates	Carrying Amount (Fair Value)
Locally Held at		
JP Morgan	4.0% - 8.625%	
U.S. Treasury and Agency issues:		
Priority Debt Reserve		\$ 9,436,462
Debt Reserve		<u>79,059,971</u>
Total Investments at December 31, 2005		<u><u>\$ 88,496,433</u></u>
Total Investments at December 31, 2004		<u><u>\$ 29,571,262</u></u>

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Schedule of Commodities Inventory
December 31, 2005 and 2004

Location	2005	2004
Central Warehouse	\$ 727,729	\$ 684,835
Maintenance Buildings	5,135,663	4,517,504
Electrical Shops	305,183	301,536
Central Sign Shop	892,592	618,175
Carpenter Shop	141,802	141,883
Telecommunications	405,243	397,614
Central Garage	217,223	184,232
Helicopter	20,159	13,985
Total Commodities Inventory at December 31	\$ 7,845,594	\$ 6,859,764

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Schedule of Accounts Receivable
December 31, 2005 and 2004

	AGING			Gross Total	Allowance for Doubtful Accounts	Net Receivables
	0-180 Days	180-365 Days	Over One Year			
Tolls	\$ 10,250,007	\$ -	\$ -	\$ 10,250,007	\$ (175,000)	\$ 10,075,007
Concessions	570,302	-	-	570,302	-	570,302
Insufficient IPass	747,048	-	-	747,048	-	747,048
Overweight Tickets	108,526	31,731	825,046	965,303	(489,713)	475,590
Overdimension Vehicle Permits	26,170	-	2,115	28,285	-	28,285
Damage Claims	68,422	142,988	1,162,744	1,374,154	(755,924)	618,230
Emergency Services	120,409	97,189	1,106,461	1,324,059	(1,034,622)	289,437
Toll Evasion	728,339	29,843,621	4,243,496	34,815,456	(13,823,012)	20,992,444
Other	1,490,564	-	-	1,490,564	(11,000)	1,479,564
Transponder Fees	275	-	6,566	6,841	(2,507)	4,334
IPass	960	-	360	1,320	-	1,320
Due to/from IAG Agencies	2,816,634	-	-	2,816,634	-	2,816,634
Collections - GCS	151,124	-	-	151,124	-	151,124
Collections - LineBarger	194,810	-	-	194,810	-	194,810
Total Accounts Receivable	17,273,590	30,115,529	7,346,788	54,735,907	(16,291,778)	38,444,129
RTA	-	-	10,528	10,528	-	10,528
State of Illinois	4,513,522	-	-	4,513,522	-	4,513,522
Illinois Department of Transportation	175	-	-	175	-	175
Total State Agency Receivables	4,513,697	-	10,528	4,524,225	-	4,524,225
Total Receivables at December 31, 2005	<u>\$ 21,787,287</u>	<u>\$ 30,115,529</u>	<u>\$ 7,357,316</u>	<u>\$ 59,260,132</u>	<u>\$ (16,291,778)</u>	<u>\$ 42,968,354</u>
Total Receivables at December 31, 2004	<u>\$ 47,474,736</u>	<u>\$ 3,258,394</u>	<u>\$ 9,088,468</u>	<u>\$ 59,821,598</u>	<u>\$ (28,081,628)</u>	<u>\$ 31,739,970</u>

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Schedule of Changes in Capital Assets
Year Ended December 31, 2005

Acct #	Fixed Assets by Type	Balance January 1	Additions	Deletions	Balance December 31
8100	Office Furn. & Fixtures	\$ 4,330,568	\$ 4,080	\$ (75,374)	\$ 4,259,274
8200	Data Proc. Equipment	57,045,548	13,178,139	(186,212)	70,037,475
8250	Photographic Equipment	338,834	-	(338,834)	-
8300	Cash Handling	254,323	-	-	254,323
8350	Telecommunication	2,699,727	-	-	2,699,727
8400	Toll Collection	1,844,723	4,659,517	-	6,504,240
8500	Garage and Shop	689,441	283,258	(53,973)	918,726
8520	Bldg. & Bldg. Maintenance	53,415	-	-	53,415
8550	Bldg. & Bldg. Maintenance	165,641	-	-	165,641
8600	Passenger Auto	637,029	13,460	(40,776)	609,713
8700	Police Auto	3,461,501	867,663	(352,635)	3,976,529
8750	Police Car Equipment	101,420	-	(36,514)	64,906
8800	Trucks	22,334,163	1,095,562	-	23,429,725
8900	Roadway Equipment	8,882,847	645,199	(32,216)	9,495,830
Total Equipment		102,839,180	20,746,878	(1,116,534)	122,469,524
	Buildings and Infrastructure	3,603,779,560	181,628,653	-	3,785,408,213
	Land & Land Improvements	194,814,195	2,620,451	(1,004)	197,433,642
	Toll Collection Equipment	14,190,155	-	-	14,190,155
	Transponders	28,811,462	-	-	28,811,462
	Capital Leases	26,470,510	-	-	26,470,510
	Construction in Progress	182,362,914	358,257,785	-	540,620,699
	Reciprocity Server (IAG)	-	285,000	-	285,000
Total Capital Assets		<u>\$ 4,153,267,976</u>	<u>\$ 563,538,767</u>	<u>\$ (1,117,538)</u>	<u>\$ 4,715,689,205</u>

**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

Compliance Report

State Administrative Chargeback

The State of Illinois Budget for fiscal year 2004 included a provision to charge an administrative fee to offset costs borne by the general funds for services provided to agencies or programs financed by special funds.

Pursuant to this provision, the Governor's Office of Management and Budget (GOMB) initiated a transfer from the Illinois State Toll Highway Authority Trust Fund in the amount of \$19,039,920. Attorney General Madigan raised concerns about the legality of the transfer, and the Office of the Comptroller suspended action on the transfer pending a legal determination from the Attorney General on whether the money belonged to Tollway bondholders.

The Tollway's General Counsel, an Assistant Attorney General along with bond counsel, a Special Assistant Attorney General, concluded that the Tollway could pay operating expenses of this kind to the State as long as they were reasonable and necessary, and were not in excess of aggregate amounts provided in the Tollway's annual budget.

The Governor's Office of Management and Budget and the Tollway worked cooperatively to determine a methodology to determine a reasonable basis for calculating the value of services provided to the Tollway which were borne by the State general funds.

The Tollway and GOMB settled on a cost allocation methodology that summed all costs borne by the general funds for types of services provided to the Tollway by numerous state agencies and offices, and then allocating a pro-rata portion to the Tollway.

Collectively, the parties agreed to an allocation based upon the Tollway's portion of state headcount. The portion of costs owed by the Tollway was determined to be 2.46% (number of Tollway employees divided by total active SERS employees) of the total cost of identified shared services.

Using this methodology, it was agreed the Tollway would remit payment of \$11,653,100 to the State for reimbursement of Tollway costs borne by the general funds. The Tollway Board of Directors approved a resolution authorizing reimbursement to the State in the amount of \$11,653,100, for fiscal year 2004.

Using the same methodology for the preceding fiscal year, it was agreed the Tollway would remit \$11,046,900 for the Tollway's fiscal year 2005. The Tollway's share of the total cost of identified state services was 2.51% for 2005.

Please see Spreadsheet on the next page detailing the calculation. Please note the reimbursement represents reimbursement of the costs in total, and are not intended to identify specific amounts reimbursed to each agency.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

State Administrative Chargeback
For the Year Ended June 30, 2005

Page*	State Agency	FY 2005 Total GRF w/o Grants (\$ in 000's)	Allocation to Tollway at 2.51%** (\$ in 000's)
9-9	Office of the Secretary of State (SOS)	\$ 98,926	\$ 2,483
7-29	Department of Natural Resources (DNR)	87,818	2,204
9-48	Central Management Services (CMS)	58,688	1,473
9-36	General Assembly	44,628	1,121
6-37	Illinois State Police (ISP)	36,469	915
9-13, 17	Office of the State Comptroller (OSC)	29,000	728
9-20	Office of the State Treasurer (OST)	23,470	589
8-34	Illinois Historic Preservation Agency (IHPA)	12,917	324
7-17, 19	Department & Commission of Human Rights	8,623	216
9-2	Office of the Governor	8,141	204
9-33	Office of the Auditor General (OAG)	6,001	151
9-39	Legislative Information System (LIS)	5,884	148
6-15	Illinois Emergency Management Agency (IEMA)	5,476	137
8-47	Illinois Department of Transportation (IDOT)	4,406	111
9-69	Office of Management and Budget (GOMB)	3,164	79
9-40	Legislative Reference Bureau (LRB)	2,528	63
9-38	Government Forecasting and Accountability Comm.	1,471	37
9-38	Joint Committee on Administrative Rules	1,077	27
7-6	Environmental Protection Agency (EPA)	796	20
7-22	Illinois Commerce Commission (ICC)	392	10
9-39	Legislative Audit Commission (LAC)	238	6
Total		<u>\$ 440,113</u>	<u>\$ 11,046</u>

* Source: Illinois State Budget Book released 02/16/05

** Active Tollway Employees as a percentage of All Active SERS Employees.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Asset Accounts
December 31, 2005 and 2004

	December 31,			Percentage
	2005	2004 (as Restated)	Increase	Change
Assets				
Cash and Cash Equivalents	\$ 1,208,527,433	\$ 503,193,302	\$ 705,334,131	140%
Investments Restricted for Debt Service	88,496,433	29,571,262	58,925,171	199%
Accounts Receivable, less allowance for doubtful accounts	38,444,129	31,738,214	6,705,915	21%
Intergovernmental Receivable	4,524,225	1,756	4,522,469	257544%
Accrued Interest Receivable	3,560,068	597,171	2,962,897	496%
Prepaid Expense	4,969,494	3,010,692	1,958,802	65%
Construction in Progress	540,620,699	182,362,914	358,257,785	196%
Deferred Bond Issuance Costs	5,582,479	1,839,161	3,743,318	204%

Cash and Cash Equivalents	The increase is due to \$570 million of bond proceeds deposited in the account as of 12/31/05. The I-PASS Escrow balance increased by approximately \$30 million due to the toll rate increase. The remaining increase is due mainly to increased toll revenues collected.
Investments Restricted for Debt Service	The increase is due to invested bond proceeds from the 2005 issue that are restricted under the Trust Indenture.
Accounts Receivable, less accounts for doubtful accounts	The increase is due to new receivables of \$2.8 million from IAG agencies and approximately \$4 million due to new cash rates being charged to the violators.
Intergovernmental Receivable (Receivable from Illinois State Agency)	The increase is due to the Tollway recording the reimbursement amount from the Comptroller for the Locally Held Fund. The Tollway pays the Locally Held Fund monies and then is to be reimbursed by the Comptroller with the Tollway's funds. There is a liability on the books as well for the amount due to the Treasurer.
Accrued Interest Receivable	The increase is due to the interest rates increasing and the Tollway having more cash invested throughout the year.
Prepaid Expense	The increase is due to the Tollway incurring \$1.9 million in prepaid expenses relating to the new bond issue, and an increase of .6 million in prepaid insurance.
Construction in Progress	The increase is due to new improvement projects such as the Open Road Tolling and the I-355 extension.
Deferred Bond Issuance Costs	The increase is due to \$4.1 million of issuance costs for the 2005 bond issue.

Note: Variances over 20% are considered significant.

Certain December 31, 2004 balances have been reclassified to conform to the current presentation.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Liability Accounts
December 31, 2005 and 2004

	December 31, 2005	2004	Increase (Decrease)	Percentage Change
Liabilities and Fund Balance				
Accounts Payable	17,596,147	11,266,598	6,329,549	56%
Accrued Liabilities	150,690,822	56,505,009	94,185,813	167%
Capital Lease Obligations	6,289,417	10,728,497	(4,439,080)	-41%
Risk Management Claims Payable	6,328,224	3,882,782	2,445,442	63%
Accrued Interest Payable	37,046,915	14,516,369	22,530,546	155%
Deposits and retainages	33,613,448	10,640,269	22,973,179	216%
Revenue Bonds Payable	1,473,114,718	656,974,338	816,140,380	124%
Deposits and deferred revenue-IPASS	96,320,201	71,110,876	25,209,325	35%

Accounts Payable	The increase is due to an increase in construction costs of approximately \$2.4 million. In addition, an agreement with the Skyway began in 2005 which caused a \$4.1 million payable at the end of 2005.
Accrued Liabilities	There was an increase in construction projects due to Open Road Tolling happening the entire year.
Capital Lease Obligations	The decrease is due to the Violation Enforcement System being fully capitalized as of the end of fiscal year 2005.
Risk Management Claims Payable	The increase is due to requirements actuarially determined.
Accrued Interest Payable	The increase is due to \$770 million bond issue in June 2005.
Deposits and retainages	There was an increase in construction projects due to Open Road Tolling happening the entire year.
Revenue Bonds Payable	The increase is due to the issuance of bonds (\$770 million) in 2005.
Deposits and deferred revenue-IPASS	The increase is due to the cash toll increase in the I-PASS escrow account.

Note: Variances over 20% are considered significant.

Certain December 31, 2004 balances have been reclassified to conform to the current presentation.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Explanation of Significant Variations in Revenues and Expenses
Years Ended December 31, 2005 and 2004

Debt Group of Accounts Construction Fund	2005	2004 (as Restated)	Increase (Decrease)	Percentage Change
Toll Revenue	\$ 580,441,697	\$ 391,586,232	\$ 188,855,465	48%
Toll Evasion Recovery	26,737,437	21,034,678	5,702,759	27%
Miscellaneous	2,266,957	3,445,212	(1,178,255)	-34%
Investment Income	32,298,872	6,966,085	25,332,787	364%
Net (decrease) in Fair Value of Investments	(2,092,025)	(72,859)	(2,019,166)	2771%
Net gain on Disposal of Property	175,863	1,776,272	(1,600,409)	-90%
Interest Expense and Amortization of Financing Costs	(62,796,040)	(39,768,842)	(23,027,198)	58%

Toll Revenue	The increase is due to the toll rate increase for trucks and cash paying passenger vehicles.
Toll Evasion Recovery	The increase is due to the toll rate increase for trucks and cash paying passenger vehicles. Violators are charged at the higher cash rates.
Miscellaneous	In 2004 there was an auction to sell unused and obsolete Tollway assets. There was also a decrease in transponder fees during 2005.
Investment Income	Interest rates continued to rise during 2005 compared to 2004. \$14 million of interest was earned on unspent bond proceeds.
Net (decrease) in Fair Value of Investments	The decrease was for the Treasury note debt reserve investment held by bond trustees.
Net gain on Disposal of Property	In 2004, the Tollway sold the helicopter for approximately \$1 million. The Tollway did not hold an auction in 2005.
Interest Expense and Amortization of Financing Costs	The increase is due to the issuance of bonds in 2005.

Note: Variances over 20% are considered significant.

Certain December 31, 2004 balances have been reclassified to conform to the current presentation.

**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

Analysis of Operations

TOLLWAY FUNCTIONS AND PLANNING PROGRAM

The Illinois State Toll Highway Authority (Tollway) was established in 1968 as an instrumentality and administrative agency of the State of Illinois. The Tollway was created to provide for construction, operation, regulation, and maintenance of toll highways to accommodate the traveling public through and within the State of Illinois.

The Tollway's predecessor, the Illinois State Toll Highway Commission, issued revenue bonds totaling \$493,250,000 to finance the original three toll highways. During 1981, the Tollway completed the Ronald Regan Memorial Tollway (formerly East-West Extension) of the toll highway system. Subsequently, the following bonds were issue:

- 1985, \$167,200,000, Advance refunding bonds to retire the original outstanding bonds;
- 1986, \$400,825,000, Priority revenue bonds to pay the cost of construction of the North-South Tollway, an expansion of the State toll highway system;
- 1987, \$139,145,000, Refunding revenue bonds to advance refund \$117,115,000 of the 1985 refunding bonds;
- 1992, \$459,650,000, Priority revenue bonds to pay the cost of construction of the Tri-State Tollway Widening Project;
- 1993, \$387,345,000, Refunding revenue bonds to advance refund \$342,290,000 of 1985, 1986, and 1992 series bonds;
- 1996, \$148,285,000, Refunding revenue bonds to advance refund \$144,300,000 of 1986 and 1987 series bonds;
- 1998, \$325,135,000, Refunding revenue bonds to advance refund \$313,105,000 of 1992 series bonds; and
- 2005, \$770,000,000, Priority revenue bonds to pay the costs of the Congestion Relief Plan.

The operations of the Tollway are administered by a Board of Directors, which includes the State Governor and Secretary of the Illinois Department of Transportation.

The Tollway has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet the principal and interest bond funding requirements. The Tollway did not receive any governmental appropriations. The Tollway was awarded a Federal grant for value pricing. This is a \$450,000 cost reimbursement grant whereby the Tollway will be reimbursed for 80% of costs incurred, up to a total of \$360,000. To date, \$274,741 has been expended and \$152,145 has been received as reimbursement.

**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

Analysis of Operations

TOLLWAY FUNCTIONS AND PLANNING PROGRAM (Continued)

The Trust Indenture and the First, Second, Third, Fourth, Fifth, Sixth and 1996 and 1999 Amendatory Supplemental Indentures securing the 1985, 1986, 1987, 1992, 1993, 1996, 1998 and 2005 bond issues, respectively, prescribe much of the investment and accounting requirements for the Tollway. The accounting records of the Tollway are maintained on an accrual basis.

The office of Mr. Brian McPartlin, the Tollway's Acting Executive Director, for the fiscal year being audited, is located at the Tollway's Administration Building, 2700 Ogden Avenue, Downers Grove, Illinois, 60515.

The Trust Indenture dated December 1, 1985 requires the Tollway to prepare a tentative budget of the operating expenditures for the ensuing calendar year on or before October 31. The budget is required to include recommendations of the consulting engineers as to the Renewal and Replacement deposit for the budget year. The final budget must be approved by the Board of Directors of the Tollway prior to January 31 of the calendar year budgeted. The Tollway complied with these budgetary requirements for the current calendar year.

Annual detailed departmental budgets are prepared for all Tollway expenditures. The Controller of the Tollway and each department manager monitor expenditures and analyze budgetary variances.

The consulting engineers also develop long-range improvement programs for the toll highway system. The Chief Engineer of the Tollway uses the long range plan with traffic studies and physical inspections to develop annual improvement programs and budgets.

The Tollway has developed an adequate and comprehensive planning program to meet its objectives of providing for the construction, operation, regulation, and maintenance of the toll highway system. The Tollway's monitoring of its expenditures and its monitoring of the physical condition of the roads is adequate to meet Tollway's goals related to its operating expenditures and improvement programs.

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

Analysis of Operations

Average Number of Employees by Function

For the Year Ended December 31, 2005 and 2004

	Full-time		Part-time		Temporary and Temporary Replacements		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Tollway Employees								
Executive Director	4	4 *	-	-	1	-	5	4
Directors	10	10	-	-	-	-	10	10
Inspector General	7	7	-	-	-	-	7	7
Legal	12	11	-	-	-	-	12	11
State Police	14	16	-	-	-	-	14	16
Finance	49	43	-	-	1	-	50	43
Administration	81	83	-	-	3	-	84	83
Operations					-		-	-
Toll Collectors	527	395	72	220	-	17	599	632
Lane Walkers	10	57	8	31	-	-	18	88
Plaza Supervisors and assistants	48	59	-	-	-	-	48	59
Other	195	183	1	-	-	-	196	183
Office of Info Tech	64	66	-	-	1	-	65	66
Engineering:							-	-
Maintenance:							-	-
Roadway	379	375	-	-	-	-	379	375
Transportation	72	73	-	-	-	-	72	73
Engineers	34	28	-	-	-	-	34	28
Others	37	27	1	-	-	-	38	27
Planning	9	10	-	-	-	-	9	10
Communications	7	6	-	-	-	-	7	6
Violation Enforcement	10	7 *	-	-	-	-	10	7
Total Authority Employees	1,569	1,460	82	251	6	17	1,657	1,728
State Troopers	148	165	-	-	-	-	148	165
Total Personnel	1,717	1,625	82	251	6	17	1,805	1,893
Hourly base payroll	\$ 51,762,537	56.92% *	* The Violation Enforcement function was added during 2005. The employees were included in the Executive Director function during 2004. The amounts have been restated to reflect this change.					
Overtime	5,987,507	6.58%						
Salaries	33,190,619	36.50%						
2005 Total Payroll	\$ 90,940,663	100.00%						
Hourly base payroll	\$ 51,792,191	59.03%						
Overtime	4,443,331	5.06%						
Salaries	31,507,049	35.91%						
2004 Total Payroll	\$ 87,742,571	100.00%						

Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)

ILLINOIS FIRST (Unaudited)

According to Tollway officials, there were no Illinois First projects involving the Tollway during the audit period.

EMERGENCY PURCHASES

The Tollway reported the following emergency purchases to the Office of the Auditor General during the fiscal year ended December 31, 2005:

Description	Cost
Two month rental of portable changeable message signs.	\$ 39,600
Intermittent pavement repairs	38,480
Chiller replacement parts and upgrade	137,964
Warehouse roof replacement	385,857
Purchase of gasoline and diesel fuel for 11/01/05 through 12/01/05.	<u>243,762</u>
Total	<u>\$ 845,663</u>

**Illinois State Toll Highway Authority
(A Component Unit of the State of Illinois)**

**Service Efforts and Accomplishments
For the Year Ended December 31, 2005
(Unaudited)**

Agency Mission

The Illinois State Toll Highway Authority is dedicated to providing and promoting a safe and efficient system of toll supported highways while ensuring the highest possible level of customer service.

Strategic Priorities

- Reduce traffic congestion
- Implement Congestion Relief Plan (10 year capital construction plan)
- Improve operational efficiency and effectiveness

Summary of Agency Operations

The Illinois State Toll Highway Authority maintains and operates 274 miles of interstate tollways in 12 counties in Northern Illinois, including the Ronald Regan Memorial Tollway (formerly East-West Tollway) (I-88), the North-South Tollway (I-355), the Northwest Tollway (I-90) and the Tri-State Tollway (I-94, I-294, I-80/I294). In addition, an Office of the Inspector General is maintained with the agency, but functions as a separate, independent entity reporting directly to the governor's office.

Key Performance Measures

All performance measures are as of December 31, 2005.

1. The percentage of vehicles using I-PASS during rush hour: 83%
2. Overall I-PASS transaction percentage: 76%
3. Number of I-PASS express lanes: 43
4. The average accident response time: 8.56 minutes.
5. The average accident clearance time: 57.43 minutes.