



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

William G. Holland, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

**FINANCIAL AUDIT AND COMPLIANCE
EXAMINATION**

For the Year Ended: December 31, 2011

Release Date: September 6, 2012

Summary of Findings:

Total this audit:	11
Total last audit:	0
Repeated from last audit:	0

SYNOPSIS

- The Tollway does not have adequate financial systems to prepare its annual financial statements and significant manual effort is required to prepare the annual financial statements in accordance with generally accepted accounting principles (GAAP).
- Payroll records supporting certain payroll expenditures reimbursed by the Tollway to the Illinois State Police during Fiscal year 2011 could not be located.
- The Tollway did not adequately document the rationale to support scores awarded to vendor proposals.
- The Tollway procurement files lacked written determinations of contract awards for procurements at the Tollway by the State Purchasing Officer (SPO).
- The Tollway allowed vendors to modify key personnel and subcontractors proposed for specific projects during the contract negotiation process.
- The Tollway failed to thoroughly review invoices submitted by a vendor. This resulted in some payments to the vendor that were not supported by timesheets that were certified by the individuals charging hours to the project.

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

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For The Year Ended December 31, 2011

FINANCIAL OPERATIONS (GAAP Basis)	2011	2010
Operating Revenues		
Toll Revenue.....	\$ 652,673,895	\$ 628,753,508
Toll Evasion Recovery.....	33,268,033	34,923,828
Concessions.....	2,421,164	2,387,581
Miscellaneous.....	9,507,791	7,385,229
Total Operating Revenues.....	<u>697,870,883</u>	<u>673,450,146</u>
Operating Expenses		
Depreciation and Amortization.....	\$ 318,165,918	\$ 314,933,275
Services and Toll Collection.....	106,466,995	112,640,323
Insurance and Employee Benefits.....	69,987,945	71,681,922
Engineering and Maintenance of Roadway and Structures..	44,803,170	45,768,938
Traffic Control, Safety Patrol, and Radio Communications.	23,071,556	22,821,776
Procurement, IT, Finance and Administration.....	22,176,542	24,369,106
Total Operating Expenses.....	<u>584,672,126</u>	<u>592,215,340</u>
Total Operating Income.....	113,198,757	81,234,806
Total Non Operating Expenses.....	184,436,363	177,140,745
Change in Net Assets.....	<u>(71,237,606)</u>	<u>(95,905,939)</u>
Net assets, beginning of year.....	<u>1,921,987,538</u>	<u>2,017,893,477</u>
Net assets, end of year.....	\$ 1,850,749,932	\$ 1,921,987,538
SIGNIFICANT ACCOUNT BALANCES (GAAP BASIS)	2011	2010
Cash and Cash Equivalents (Unrestricted).....	\$453,263,176	\$394,796,342
Cash and Cash Equivalents Restricted for Debt Service.....	380,101,771	358,396,822
Cash and Cash Equivalents - IPASS Accounts.....	146,510,701	113,980,783
Accounts Receivable - Current (net).....	15,988,036	23,869,116
Accounts Receivable Less Current Portion.....	115,369,210	58,085,787
Capital Assets.....	5,112,248,814	5,263,500,475
Revenue Bonds Payable and Unamortized Bond Premium.....	4,016,357,373	4,066,927,496
Total Net Assets.....	1,850,749,932	1,921,987,538
EXECUTIVE DIRECTOR		
During Audit Period and Current: Kristi Lafleur		

**FINDINGS, CONCLUSIONS, AND
RECOMMENDATIONS**

INADEQUATE FINANCIAL REPORTING SYSTEMS

Financial systems need to be improved

The Tollway does not have adequate financial systems to prepare its annual financial statements in accordance with generally accepted accounting principles (GAAP).

During our audit, we noted the Tollway uses several stand-alone applications to track its financial transactions in accordance with provisions of the trust indentures. The financial data from each financial application is summarized and manually entered into two applications which are used as a general ledger. Several manual reconciliation procedures are required to ensure the information in the general ledger applications agrees to the various financial applications.

Financial statement preparation is extremely time consuming

Once this information has been reconciled, a data file is generated from the general ledger applications and is imported into another application which is used to create a trial balance. Since the information in the financial applications is recorded based upon the provisions of the trust indentures, several top side entries are required to convert the trial balance to GAAP-based financial statements. As a result, the preparation of the annual financial statements is extremely time consuming and requires significant effort by management to ensure the statements are prepared in conformity with GAAP.

Additionally, we noted several of the applications used in the Tollway's financial reporting process, including one of the general ledger applications, do not have mechanisms to: restrict access for posting transactions, track specific user activity, or evidence supervisory reviews of transactions activity. Therefore, the Tollway's process for approving journal entries is also manual and time consuming.

The manual nature of the Tollway's financial reporting systems and related processes may result in financial reporting errors and untimely preparation of the annual financial statements. (Finding 1, Page 11)

We recommended the Tollway review the adequacy of its existing financial systems and consider automating its financial reporting process.

Tollway agrees with the auditors

Tollway management agreed with the recommendation and stated that they are pursuing an ERP system.

INADEQUATE DOCUMENTATION TO SUPPORT PAYROLL EXPENDITURES

Supporting payroll records could not be located

Payroll records supporting certain payroll expenditures reimbursed by the Tollway to the Illinois State Police during Fiscal year 2011 could not be located.

The Illinois State Police is responsible for highway safety throughout the state, including traffic enforcement. Under a contract with the Illinois State Police dated April 20, 2007, the Tollway is responsible for reimbursing the Illinois State Police for the salaries of police employees assigned to patrol interstate tollways on a full-time basis.

Tollway lacks procedures to verify the Payroll information reported by and reimbursed to the State Police

Under the agreement, the Illinois State Police must supply the Tollway any additional books, records, invoices, bills, or files related to the cost of performing police services. Under the current procedures, each payroll cycle the Illinois State Police prepare a summary payroll voucher of individual employee payroll disbursements, certify the voucher for accuracy on behalf of the Tollway Director, and provide voucher to the Tollway for reimbursement. However, during our procedures over these interagency expenditures reimbursed by the Tollway, we noticed Tollway does not have procedures to verify the payroll information reported by and reimbursed to the Illinois State Police.

Upon our review of 25 individual payroll expenditures (totaling \$55,085) and related personnel files for Illinois State Police employees, we noted the following:

Pay rates could not be verified

- Salary pay rates could not be verified for 11 payroll payments (totaling \$13,722) made to employees classified as police cadets. Total payments made to employees classified as police cadets reimbursed by the Tollway were \$215,511 for the year ended December 31, 2011.

Salary rates did not agree to the employment agreement

- Salary rates did not agree to the employment agreement for 10 fulltime employees with sampled payroll payments (totaling \$40,093) resulting in an overstatement of \$160. Management stated each employee was paid \$16 more than the salary amount per the employee agreement as a uniform and food per diem. Upon further review, we noted \$64,720 of total uniform and food per diems paid to Illinois State Police employees assigned to patrol interstate tollways for the year ended December 31, 2011.

Total payroll expenditures for the Tollway and total payroll expenditures for Illinois State Police employees assigned to patrol interstate tollways on a full-time basis totaled \$101,870,839 and \$17,295,512, respectively, for the year ended December 31, 2011. (Finding 3, Pages 14-15)

We recommended the Tollway implement procedures to periodically verify expenditures reimbursed by the Tollway are accurate and appropriately supported.

Tollway management states they will implement additional procedures

Tollway management stated that they will implement procedures to conduct periodic reviews of reimbursed expenses for accuracy and appropriateness.

PROCUREMENT: LACK OF EVALUATION COMMENTS

Need to improve documentation

The Tollway did not adequately document the rationale to support scores awarded to vendor proposals.

During procurement testing we selected a sample of five general procurements conducted and awarded by the Tollway during the year ended December 31, 2011. The five procurements tested were estimated, with renewals, to be worth over \$92 million. Three of the opportunities (with awards estimated at \$76 million) were procured using a Request for Proposal (RFP) and the other two opportunities (with awards estimated at \$16 million) were procured as State-use contracts.

Evaluators did not document comments to support scores awarded

During our testwork, we noted the forms used by the Tollway to document the evaluation of the technical proposals for two RFP's tested and for Phase I of the third RFP did not require evaluators to provide comments supporting the scores awarded by the evaluator. Accordingly, evaluators did not document comments to support any of the scores awarded. Additionally, the form used for the Phase II evaluation of the third RFP tested included a place for comments; however, comments were only documented for 18% of the criteria evaluated. The Tollway could not provide evidence that scores without supporting comments were returned to evaluators.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls. These controls should include comments to support the points awarded to technical criteria.

Tollway officials reported Evaluation Procedures for Bids and/or Proposals provide specific guidance for procurement at the Tollway. Under the Assignment of Evaluation Points section, guidance states "*Rating points must be supported by*

thorough and appropriate comments. The points given must be consistent with the comments. General statements such as 'good proposal' without something to qualify the statement (i.e., why it is a good proposal) are not acceptable. Evaluations, which are not accompanied by thorough supporting comments, should be returned to the evaluator for further consideration.” (Finding 5, Pages 18-19)

We recommended that the Tollway take the necessary steps to ensure that procurement evaluation criteria are followed and appropriately documented by all evaluators when awarding State contracts.

Tollway management states they are in the process of reviewing internal procurement evaluation procedures

Tollway management stated that they are in the process of reviewing internal procurement evaluation procedures and will take steps necessary to ensure those procurement evaluation procedures are followed.

PROCUREMENT: LACK OF STATE PURCHASING OFFICER DETERMINATION FORM

Procurement files need written determinations of contract awards

The Tollway procurement files lacked written determinations of contract awards for procurements at the Tollway by the State Purchasing Officer (SPO).

During our procurement testing, we selected a sample of five general procurements and five engineering procurements conducted and awarded by the Tollway during the audit period. The ten procurements were estimated, with renewals, to be worth over \$107 million. Two of the procurements were State-use contracts which, according to the Chief Procurement Officer, do not require SPO approval for the award.

All eight procurements lacked completed, written determinations

During testing we reviewed available documentation to determine whether the SPO had approved each award through a written determination of contract award. We found none of the eight applicable procurements requiring a written determination of contract award had a completed determination in the procurement file.

The Illinois Procurement Code (30 ILCS 500/20-155(b)) requires that the procurement file shall contain the basis on which the award is made, all submitted bids and proposals, all evaluation materials, score sheets and all other documentation related to or prepared in conjunction with evaluation, negotiation and the award process. The procurement file shall contain a written determination signed by the chief procurement officer or State purchasing officer, setting forth the reasoning for the contract award decision.

CPO Notice #37 requires that all competitive procurements “be preceded by a written determination recommending the award of a contract to a specific vendor.” The Illinois Administrative Code (44 Ill. Adm. Code 1.7025) states that “Each written determination shall set out sufficient facts, circumstances, and reasoning as will substantiate the specific determination that is made.” (Finding 7, Pages 23-24)

We recommended that the Tollway ensure that its procurement files contain a written determination of contract award signed by the Chief Procurement Officer or State Purchasing Officer.

Tollway agrees with auditors

Tollway management agreed with the recommendation.

PROCUREMENT: PERSONNEL/SUBCONTRACTOR DIFFERENCES FROM PROPOSAL TO AWARD

Modification of key personnel and subcontractors

The Tollway allowed vendors to modify the key personnel and subcontractors proposed for specific projects during the contract negotiation process.

During our procurement testing we selected a sample of five professional services awards for architectural and engineering procurements conducted and awarded by the Tollway during the audit period. The five procurements were estimated, with renewals, to be worth over \$15 million.

During testing we reviewed the proposals of the winning vendors and compared those to the contracts. We found:

Some of the key personnel were not listed on the final agreement

- Twenty-one percent (14 of 67) of the key personnel proposed for the procurements tested were not listed on the final signed Design Section Engineer Agreement.
- Eighty percent (4 of 5) of procurements tested had additional subcontractors added to the final signed Design Section Engineer Agreement that were not originally proposed by the vendors. A total of 13 additional subcontractors were added with a total value of \$432,015. The Tollway reported that one of the subcontractors was added during a project scoping meeting. Documentation showed an addition to the scoping meeting minutes where a Tollway official apparently called the winning vendor and discussed the need to add this subcontractor.

Lack of documentation in the procurement file for changes to key personnel and subcontractors

We found no documentation in the procurement files to show that changes to key personnel and subcontractors were reviewed and approved by the Tollway. (Finding 8, Pages 25-26)

We recommended that the Tollway examine its process for negotiating with vendors and allowing significant revisions to the proposals that have already gone through the evaluation process to ensure that the key personnel identified in the proposal are the same as those in the contract, or otherwise document personnel change approvals.

Tollway management states additional steps will be taken

Tollway management stated that they will take steps to further clarify/document the tracking of key personnel from the statement of interest phase to the final agreement phase.

PROCUREMENT: REVIEW OF BILLING INVOICES

Need to improve review of invoices

The Tollway failed to thoroughly review invoices submitted by a vendor. This resulted in some payments to the vendor that were not supported by timesheets that were certified by the individuals charging hours to the project.

Unsupported payments totaled \$37,420

During procurement testing we selected a sample of five general procurements conducted and awarded by the Tollway during the audit period. We reviewed invoices submitted by the vendors for payments on the projects. For one of the projects, Project Management and Technology Planning Procurement, we found an unsupported payment of approximately \$37,420, which was 3% of the total paid to the contractor, based on timesheets submitted by the Tollway to support the payments. Payments to the vendor were authorized by the Tollway and paid by the Comptroller from the Illinois State Toll Highway Revenue Fund (#0455). (Finding 10, Pages 30-31)

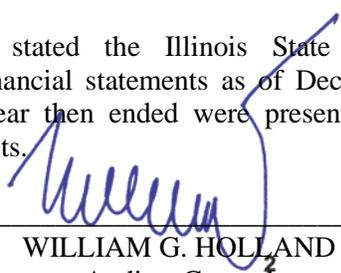
We recommended that the Tollway take steps necessary to verify all vendor billed time is accurate prior to making payment to the vendor. Additionally, the Tollway should seek repayment of overpayments/billings not properly supported.

Tollway agrees with auditors

Tollway management agreed with the recommendation and stated that they are pursuing an ERP system to include improved and automated controls concerning invoice support, approval and payment. Tollway management also indicated it is conducting a review of the invoices submitted and evidentiary documentation to determine if there were unsupported payments.

AUDITORS' OPINION

Our auditors stated the Illinois State Toll Highway Authority's financial statements as of December 31, 2011 and for the year then ended were presented fairly in all material respects.



WILLIAM G. HOLLAND
Auditor General

WGH:TLK:rt

Our Special Assistant Auditors for this engagement were
KPMG LLP