

REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY COMPLIANCE AUDIT FOR THE TWELVE MONTHS ENDED JUNE 30, 1995

SYNOPSIS

- The Authority's automated Human Resources/Payroll software system required extensive manual calculations and adjustments and was highly dependent upon human intervention and control.
- Significant problems were noted in control procedures over attendance, including the failure to detect and investigate employee absences.
- The Authority failed to establish adequate controls over the attendance of employees in its mobile telecommunications unit.
- We tested records of 25 employees who had taken leaves. Fifteen of the employees' leaves ranged from seven to sixteen months while Authority personnel regulations generally limit such leaves to six months.
- The Authority's security over its computerized Local Area Networks (LANs) was not adequate.
- As of September 8, 1995, the Authority had not delivered the financial statements for the year ended December 31, 1994.
- The Authority's helicopter flight charges per hour appeared insufficient to offset operating expenses.

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

INTRODUCTION

This report represents the results of our state compliance testing for the year ending June 30, 1995. A financial audit of the year ending December 31, 1994 was performed concurrently, and that report will be issued under a separate cover. The next state compliance audit report will cover the eighteen months ended December 31, 1996.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

LIMITED PAYROLL SYSTEM

The Authority's automated Human Resources/Payroll software system required extensive manual calculations and adjustments and was highly dependent upon human intervention and control. **This finding has been repeated since 1986.**

Manual errors in the gross pay computations of hourly employees occurred because calculators and/or mental computations were used to determine the number of hours for which each employee should be paid. Because the State Comptroller prepared the checks, payroll check stubs for hourly employees did not contain sufficient information for them to recompute gross pay. Thus, the Authority could not rely on hourly employees to discover errors in their gross pay.

Recurring payroll computations for shift incentive pay, leave without pay, uniform cleaning, etc., were calculated and processed manually. The system used by the Authority was not designed to process multiple pay rate computations needed for the multiple types of incentive pay or to process specific information required to properly track garnishments, health claims, or individual daily attendance records. For the biweekly payroll period ended December 5, 1994, we noted that incentive pay and other items required 141 manual calculations.

The Authority brought a new payroll system on-line in July 1995. Authority management believes the new system will eliminate many recurring manual procedures and controls when all programs are fully implemented. (Finding 7, page 16)

We recommended all manual payroll recordkeeping and computation tasks (i.e. manual timecards and timekeeping) be automated as much as possible in the new payroll system. The Authority expressed agreement with our recommendations and described plans to adopt a new automated payroll system which the Authority plans to implement in 1997. The new payroll system, although not fully implemented, was reviewed during this audit. We identified some control deficiencies (see Finding 8, page 18); however, the Authority has agreed to implement the appropriate security features. (For previous agency responses, see Digest Footnote 1.)

INADEQUATE SUPERVISION OF EMPLOYEE ATTENDANCE

The Authority needed to more strictly enforce its existing control procedures over attendance and employee leave time. We noted significant problems, including the failure to detect and

investigate employee absences.

To increase accountability for employee attendance, the Authority has designed several controls. All employees are required to submit leave request forms for vacation, personal, and other leaves. The employee's supervisor is required to sign the leave request form. For any planned leave time, salaried employees are to submit the form by the first day of the leave to the payroll department. Salaried employees must also submit a daily attendance report at the end of the pay period; this report is due within three business days after the end of the reporting period. The daily attendance report is also to be signed by the employee's supervisor.

Between August 14, 1995 and November 30, 1995, we made unannounced visits to Authority worksites, observed employees at work, and asked to examine identification badges which Authority employees are required to carry. We also tested Authority records of employee attendance and employee use of leave time. We found numerous attendance problems as described below.

- Attendance reports did not match observed attendance. In nine instances, we noted that employees were absent on August 14 but the attendance report submitted to payroll showed the employees as present. Each employee's supervisor had signed the attendance report.
- Employees were not charged for leave time used. In three instances, salaried employees were noted as absent at toll plazas but were not charged for the time.
- Employees did not submit their attendance reports on time. As of September 1, 1995, 42 employees had not submitted an attendance report for the period ending August 15, 1995. These reports were due within three days after the reporting period.
- Leave request forms were not timely submitted. On August 14, 1995, 29 employees who were on leave had not submitted the request form to the payroll department.
- Supervisors were not always aware of current work schedules for employees. We received information from authority officials on the work schedules of all employees. When we attempted to locate salaried employees at the Central Administration building, we found 4 employees on a four-day work schedule that was not indicated by the Authority.
- Accountability was lacking for employees temporarily working at other locations. During testing at the Central Administration building, we were told by supervisors and co-workers that 14 employees were working at other locations or attending conferences. We could find no documentation that the employees were actually at these other locations.
- Supervisors did not properly document their review of the attendance reports of employees. One department director reviewed and signed the attendance sheets for the entire department under his supervision. However, the signature on 103 such reports we examined appeared to be a signature stamp. Another director's apparent stamped signature appeared on 19 reports.

Failure to require salaried employees to timely and accurately report their attendance reduces

employee accountability and increases the possibility that employee absences will not be charged to the employees' accumulated leave benefits. When the Authority's work schedules are in error, it clearly reduces the Authority's ability to ensure employee attendance and to exercise supervisory authority over salaried employees. (Finding 17, page 30)

We recommended the Authority enforce its existing control procedures over attendance and leave liability. We specifically recommended:

- The Authority should require closer review and scrutiny of salaried employee attendance sheets and leave request forms documented by a handwritten signature of a supervisor personally familiar with and accountable for those employees.
- The Authority should establish sign-out sheets for Authority personnel who have job duties that require them to leave the assigned work location.

The Authority responded that it agreed that controls over attendance are important and described plans to issue a memorandum to remind employees and supervisors of their responsibility regarding accountability for attendance.

INADEQUATE CONTROLS OVER TELECOMMUNICATIONS EMPLOYEE ATTENDANCE

The Authority failed to establish adequate controls over the attendance of employees in its mobile telecommunications unit. Employees recorded their own attendance on hand written timecards.

Technical personnel who work in repair and maintenance of the existing telecommunication system are paid on an hourly basis and are required to submit timecards in order to be paid. However, because these employees often work at remote locations, they keep the timecards with them and recorded their own starting and ending times. The workers are required to call in to their assigned location each day and report their starting time to a supervisor who logs the time. However, these timecards were actually approved by a different supervisor in the Central Administration building.

These employees are also required to submit written work orders as evidence of work performed at the remote locations. However, during our examination, the Authority was unable to produce reports for 7 of 15 employees for the week prior to our testing. The reports that were submitted did not clearly describe the work performed. One such report showed seven hours of working time described as "miscellaneous", which was further explained as "worked on site drawings-prepared for next site". None of the reports were signed by the person for whom the work was performed.

Good internal controls require that employee timecards be signed by a supervisor who is familiar with the daily activities of the employees, particularly when the employees are responsible for recording their own working hours. Further, Authority procedures and good internal controls

require that employees submit descriptive reports of work performed when working away from the assigned work location. Failure to implement such controls reduces employee accountability and could result in payments for work not actually performed. (Finding 18, page 32)

We recommended the Authority improve internal controls over mobile telecommunications employees by requiring daily written reports of work performed, the date and time work was completed, and a description of work actually performed. We also recommended timecards be reviewed by a supervisor who is familiar with the daily activities of the telecommunications employee. We also recommended the Authority implement procedures requiring mobile telecommunication repair persons to obtain a signature indicating satisfactory completion of the work.

The Authority responded it believes its current control procedures over mobile telecommunications employees are reasonably adequate. The response also described plans to enhance controls over the employees in question.

EXTENDED LEAVES OF ABSENCE

We sampled records of 25 employees with leaves of absence and noted 15 employees had extended leaves of absence over six months. The employees' leaves ranged from seven to sixteen months. The Toll Highway Authority's personnel manual requires explicit approval by the Executive Director for leaves in excess of six months. However, records supporting the extended leaves of absence for six of the fifteen employees did not bear written evidence of authorization by the Executive Director. Because the Authority did not effectively monitor extended leaves of absence, it may have allowed employees to collect excessive fringe benefits. (Finding 5, page 14)

We recommended the Authority more effectively document and monitor its review of leave requests. The Authority responded that it will more effectively document approval of extended leaves and control the process more effectively.

INADEQUATE LOCAL AREA NETWORK SECURITY

The Authority's security over its computerized Local Area Networks (LANs) was not adequate.

Virtually all information, whether it was confidential, sensitive, or otherwise was accessible through the Authority's LANs. We reviewed three of the Authority's ten LANs and identified some common deficiencies that exist due to network administrators' decisions to operate the LANs without implementing common security features governing its potential utilization over the LAN. Our findings included problems with password change intervals and password content, timely deletion of inactive accounts, locking accounts after unsuccessful access attempts, and the setting of reasonable time restrictions for network use.

Without the implementation of adequate controls and procedures for the LAN, there is a greater

risk that unauthorized access to Authority resources may result in information being read, modified, and/or destroyed. Once established, compliance with developed security procedures must be monitored to protect assets. (Finding 10, page 21)

We recommended a series of specific security improvements that if properly implemented should correct the deficiencies we noted.

The Authority accepted our recommendation. The Authority has recently established a MIS Steering Committee. The initial task of this committee will be to establish guidelines for security of the LAN systems to be completed by the third quarter of 1996.

FINANCIAL STATEMENTS NOT ISSUED IN A TIMELY MANNER

As of September 8, 1995 the Authority had not delivered the financial statements for the year ended December 31, 1994.

The Toll Authority failed to deliver financial schedules and related reconciliations to its independent auditors to allow them to timely complete their examination of the audited financial statements. This delay was caused by both a lack of communication between the Toll Authority and its auditors and a lack of monitoring by upper management at the Toll Authority. It is a prudent business practice to produce audited financial statements in a timely manner after the annual close of business. These statements give management and investors the necessary information to make crucial decisions.

In addition, the bond covenants for the Toll Authority state in Section 717.3 that "the Authority further covenants that not later than April 30 of each year it will cause an audit to be made of its books and accounts relating to the Tollway System for the fiscal year having just ended.

Promptly thereafter, reports of each such annual audit, signed by an accountant, shall be filed with the Authority and the Trustee" (emphasis added). (Finding 12, page 25)

We recommended the Authority comply with the provisions of its bond covenants by providing for timely audit coverage of its financial statement. The Authority expressed agreement with our recommendation and announced its intent to take all necessary measures to issue the Authority's financial statements.

HELICOPTER REIMBURSEMENT RATE

The flight charges per hour for the Authority's helicopter were insufficient to offset the operating expenses.

The reimbursement rate charge of \$403.11 was based on the 1995 helicopter expense budget and the 1995 budgeted flight hours. The expense budget underestimated the helicopter's insurance costs by \$10,000. Also, the budget failed to estimate maintenance labor which was approximately \$8,000 a year.

Budgeted flight hours of 270 were based on 1994's actual usage of 214 hours. Actual usage for the first half of 1995, however, totaled only 55 hours. Of these 55 hours, 16 were for non-Authority business. The Authority followed its written procedure to base its estimate on prior year's actual usage. While the Authority's action was in compliance with its policy, it was clear that flight hours budgeted were too high.

By underestimating expenses and overestimating flight hours, the rate charged to customers was too low to cover costs of operating the helicopter. The Authority should charge, at a minimum, the actual cost to operate the helicopter. By not charging at least the cost of operating the helicopter, the Authority is, in effect, subsidizing the use of the helicopter for non-Authority passengers. (Finding 15, page 28)

We recommended the Authority charge users a rate sufficient to cover the costs of the helicopter's use.

The Authority responded that it is in agreement with the audit finding and has taken steps to establish a rate that accurately reflects the actual costs of helicopter operation and maintenance.

OTHER FINDINGS

The remaining findings are of lesser significance and are being given attention by the Authority. We will review the Authority's progress toward implementation of our recommendations in our next audit.

Responses to our findings were provided by Nicholas W. Jannite, Chief of Finance.

WILLIAM G. HOLLAND, Auditor General

WGH:JTD:pp

SUMMARY OF AUDIT FINDINGS

Number of This Audit/Prior Audit

Audit findings 18 15

Repeated audit findings 7 4

Prior recommendations implemented
or not repeated 8 6

SPECIAL ASSISTANT AUDITORS

Clifton Gunderson & Co. were our special assistant auditors for this engagement.

DIGEST FOOTNOTES

#1: LIMITED PAYROLL SYSTEM - Previous Agency Responses.

1994:"As of January 1, 1995, the Authority had implemented the parallel testing of a new payroll system, which has reduced the number of manual calculations required for the determination of an employee's pay. Although the Authority will be reviewing all manual tasks related to the payroll process, a blanket conversion of all manual tasks to an automated system may not be reasonable, practical, or cost effective. A work plan and schedule is being developed for the evaluation of automating the time cards and time keeping tasks."

1992:"The Authority agrees with the recommendation to perform an analysis of the Human Resources/Payroll system. The Authority's current computerized system has approached the end of its useful life-cycle. The Authority has initiated a review and analysis of the Payroll/Personnel system and is evaluating the functionality of three (3) payroll/personnel computer systems. In addition the Authority has scheduled the review of the capabilities of three (3) time and attendance system providers. This review will assist the Authority in addressing the use of technology for these functions and should provide for the evaluation of the cost/benefit of enhancing the automation of the timekeeping process."

1991:"The Authority agrees with the recommendation to perform an analysis of the Human Resources/Payroll system. The Authority's current computerized system has approached the end of its useful life-cycle. The Authority intends to initiate a review and analysis of the Payroll/Personnel system later this year. This review will assist the Authority in addressing the use of technology for these functions."

