STATE OF ILLINOIS
OFFICE OF THE
AUDITOR GENERAL
William G. Holland, Auditor General

SUMMARY REPORT DIGEST

DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended: June 30, 2010
Release Date: June 9, 2011

Summary of Findings:

Total this audit:	**23**
Total last audit:	**20**
Repeated from last audit:	**15**

SYNOPSIS

- The Department maintained inaccurate commodities inventory records for the year ended June 30, 2010.
- The Department did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2010.
- The Department did not accurately report deferred revenues to the Illinois Office of the Comptroller for fiscal year 2010.
- The Department failed to report certain significant financial information in fiscal year 2009, resulting in a prior period adjustment affecting the fiscal year 2010 financial statements.
- The Department failed to comply with an interagency agreement and Illinois Commerce Commission Order.
- The Department did not maintain controls to ensure employees' overtime hours were appropriately documented, reasonable, and agreed to the timekeeping system.
- The Department did not exercise adequate controls over employee attendance to ensure employees' work hours and benefit time were properly recorded and documented.
- The Department did not provide supporting documentation for vouchers tested. In addition, vouchers were overpaid and a voucher for services provided in a previous fiscal year was inappropriately paid from a fiscal year 2010 appropriation.
- The Department did not have adequate controls to prevent inappropriate payments to vendors.

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

DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended June 30, 2010

EXPENDITURE STATISTICS	2010	2009
Total Expenditures...	**$ 4,935,663,676**	**$ 4,149,581,073**
OPERATIONS TOTAL..	$ 803,438,716	$ 760,780,904
% of Total Expenditures..	16.3%	18.3%
Personal Services..	391,219,607	379,246,955
Other Payroll Costs (FICA, Retirement)............................	141,472,161	109,166,895
All Other Operating Expenditures....................................	270,746,948	272,367,054
AWARDS AND GRANTS..	$ 1,380,805,278	$ 1,399,099,730
% of Total Expenditures..	28.0%	33.7%
HIGHWAY/WATERWAY CONSTRUCTION.....................	$ 2,744,511,758	$ 1,984,561,054
% of Total Expendiutres..	55.6%	47.9%
PERMANENT IMPROVEMENTS...	$ 6,907,924	$ 5,139,385
% of Total Expenditures..	0.1%	0.1%
Total Receipts..	$ 2,015,363,911	$ 1,525,690,064
Average Number of Employees..	**5,105**	**5,135**

SELECTED ACTIVITY MEASURES (Not examined)	2010	2009
Number of bridges maintained/improved...............................	292	293
Percent of bridges in need of repair..	7.0%	9.0%
Number of lane miles of pavement maintained.......................	42,875	42,875
Construction investment/lane mile...	$61,846	$44,996
Miles of pavement maintained/improved................................	2,620	2,528
Percent of roads in need of repair...	10.8%	13.0%

AGENCY SECRETARY
During Examination Period: Mr. Gary Hannig
Currently: Mr. Gary Hannig

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

NEED TO IMPROVE COMMODITIES INVENTORY RECORDS

The Department of Transportation (Department) maintained inaccurate commodities inventory records for the year ended June 30, 2010.

Entire inventory population was overstated by an estimated $2,840,000

Erroneous reporting of salt resulted in an additional overstatement of $2,793,000

During our physical inventory counts, we counted 183 inventory items and noted discrepancies between audit test counts and Department inventory counts for 30 (16%) items. The errors resulted in an overstatement of the year-end inventory balance of $95,000 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of $2,840,000. The Department was not able to reconcile between audit test counts and Department physical inventory counts for these differences. We further noted one location erroneously reported 7,000 tons of salt rather than the actual quantity on-hand of 7,000 pounds resulting in an additional overstatement of $2,793,000.

Pricing errors resulted in an estimated overstatement of $455,000

During our price testing, we sampled 60 inventory items. We were not provided with price documentation for 1 (2%) item in our sample. Of the documentation provided, 20 (33%) items contained an inaccurate price. It was determined that certain commodities were given equal pricing across the State although actual commodity costs varied by location. In other instances, the inventoried commodities costs did not agree to the actual invoice at the time the commodities were purchased. The discrepancies between final inventory prices and invoice prices, including the item for which no documentation was provided, resulted in an overstatement of the year-end inventory amount of $41,000. When extrapolated over the entire inventory population, this discrepancy resulted in an estimated overstatement of $455,000. (Finding 2, pages 15-17) **This finding was first reported in 1994.**

We recommended the Department strongly emphasize the importance of maintaining accurate inventory quantity and cost records throughout the year. Additionally, the Department should perform periodic physical inventory counts throughout the year and reconcile those to Department records. Finally, we recommended the Department implement a more thorough review at year-end to compare costs assigned per inventory listings to the most recent inventory amounts to ensure accurate unit costs.

Department agrees with auditors

Department officials agreed with the recommendation and stated the Department has made great strides to improve procedures to produce an accurate count and pricing of their commodity inventory and will continue to make improvements to the year-end commodity inventory process. They will strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting the June 30, 2011 commodity inventory count and pricing. (For the previous Department response, see Digest Footnote #1)

NEED TO IMPROVE REPORTING OF CAPITAL ASSETS

The Department did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2010.

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

Intangible assets were not accurately reported

- The Department failed to identify easements required to be reported as intangible assets under Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*. The Illinois Office of the Comptroller developed implementation guidance for State agencies and established a $25,000 threshold for intangible assets which are not internally generated. During our testing, we noted the Department did not originally record intangible assets in compliance with GASB 51. We noted there were permanent and temporary easement costs included in the Right of Way land balance that met this reporting criteria. As a result, the Department subsequently removed $30.8 million of easement costs from the land balance and reported an adjusted basis of $4.1 million in easement related intangible assets at June 30, 2010.

Land improvements were understated by $5 million

- Our testing of capital asset additions noted the Department has not been properly capitalizing demolition related costs as land improvements. The Department estimated total demolition related costs for the past five years that should have been reported as land improvements to be approximately $5 million. The Department did not adjust its financial statements for the $5 million understatement to land improvements as it was considered immaterial to the Department's overall financial statements.

Capital asset balance was understated by $2.1 million

- In our testing of construction-in-progress, we noted that additions and deletions were not being reported at the total amount of expenditures incurred and costs removed. Specifically, costs incurred during the current year on projects completed during the current year were not included in the additions and deletions balances. Further, we noted all projects completed were treated as deletions resulting in the recognition of a loss. No amounts were capitalized resulting in an understatement of the capital assets balance at June 30, 2010 of approximately $2.1 million. The Department did not adjust its financial statements for this as it was considered immaterial to the Department's overall financial statements.

Installation of equipment totaling $18,500 was not capitalized

- We noted the Department was not properly analyzing repair and maintenance expenditures for costs that should be capitalized. During our testing of repairs and maintenance, we noted one expenditure which included the installation of equipment at two rest stops totaling $18,500 which was not capitalized.

Construction-in-progress was understated by $1.6 million

- Accounts payable were understated by $1.6 million due to errors in calculating June 30, 2010 accounts payable for construction-in-progress. As a result, construction in progress was understated by $1.6 million at June 30, 2010. The Department did not adjust its financial statements for this as it was considered immaterial to the Department's overall financial statements. (Finding 3, pages 18-20) **This finding was first reported in 2008.**

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

Department agrees with auditors

Department officials agreed with the recommendation and stated they continued to experience staff turnover during the audit period. They further stated reporting requirements for the implementation of new pronouncements are being addressed in a timely manner. They also stated the process of identifying expenditure classification will be reviewed to determine a method that will promote the proper classification of future expenditures, and written procedures will be reviewed to ensure the proper recording of the capital assets. (For the previous Department response, see Digest Footnote #2)

NEED TO IMPROVE REPORTING OF DEFERRED REVENUES

The Department did not accurately report deferred revenues to the Illinois Office of the Comptroller for fiscal year 2010.

We noted the following errors and weaknesses in the Department's deferred revenue reporting process:

Failed to defer $20 million as unavailable revenue

- The Department failed to defer as unavailable revenue a $20 million lawsuit settlement that was not due to be received until February 2011. This resulted in an understatement of deferred revenue and an overstatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.

- The Department failed to accurately determine the amount of deferred – unavailable revenues in the Road Fund due to the calculations being completed soon after year end. Some of the service dates entered into the Fiscal Operations and Administration system were not final when the data was pulled and were later revised for accuracy after the Department had completed the calculation of deferred – unavailable revenue. These errors resulted in a $7.4 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.

Errors in deferred revenues totaled $7.4 million

- In determining the deferred – unavailable revenues for amounts due from local municipalities related to joint improvement programs in the Road Fund, the Department failed to properly account for all lapse period receipts on these accounts. These errors resulted in an $8.5 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.

Errors in deferred revenues totaled $8.5 million

- The Department failed to accurately record a significant amount of revenues in the Federal Local Airport Fund. These errors resulted in a $9.3 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements. As a result of this error, the Department also determined that the related payables were incorrectly allocated between the local and Federal portions. While total payables were reported correctly, the error in the allocation resulted in a $9.3 million overstatement of Federal revenues and an overstatement of Federal receivables at June 30, 2010. The Department corrected this error in its revised financial statements. (Finding 4, page 21-22)

Errors in deferred revenues totaled $9.3 million

Overstatement of Federal revenues and receivables

We recommended the Department devote sufficient resources to its financial accounting function such that the deferred revenues are properly accounted for to permit the preparation of reliable financial information submitted to the Office of the Comptroller.

Department agrees with auditors

Department officials agreed with the recommendation and stated additional staff had been added to the Fiscal Operations Unit. They further stated this will allow the Department to complete a more thorough review of the financial information prior to submission in order to ensure the necessary financial reports are accurate and timely.

FAILURE TO REPORT CERTAIN FINANCIAL INFORMATION

The Department failed to report certain significant financial information in fiscal year 2009, resulting in a prior period adjustment affecting the fiscal year 2010 financial statements.

Net assets were restated by $58.002 million at June 30, 2009

During fiscal year 2009, the Department failed to report a $61.629 million receivable and $119.631 million payable in the Road Fund due from/to the Illinois Toll Highway Authority for intergovernmental construction contracts. This resulted in the net assets of the Department being restated by $58.002 million at June 30, 2009. (Finding 5, page 23)

We recommended the Department implement procedures to identify and record receivables/payables between the Department and the Illinois Toll Highway Authority at June 30 each year. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure financial information is prepared accurately and completely.

Department agrees with auditors

Department officials agreed with the recommendation and stated they will continue to work with the Illinois State Highway Authority to ensure the proper accounting for the receivable/payable. The Department will also continue to update and revise written procedures as necessary to ensure accurate and timely reporting.

FAILURE TO COMPLY WITH INTERAGENCY AGREEMENT AND ORDER

The Department did not comply with certain requirements of an interagency agreement and an Illinois Commerce Commission (ICC) Order when disbursing payments for a Grade Crossing Protection Fund (GCPF) Project.

50% of project costs to be paid by GCPF

The Department entered into an interagency agreement with the ICC on March 21, 2005 to administer GCPF safety improvement projects. The agreement assigns certain responsibilities to the ICC and the Department. The ICC issued an Order on December 3, 2008 for improving safety by the installation of automatic flashing light signals and gates with light emitting diode (LED) lights and constant warning time control circuitry at several locations in Illinois. The estimated cost was $765,002 with 50% or $382,501 to be paid by GCPF and the railroad carrier paying the remaining 50%.

No GCPF audit since FY07

The interagency agreement and Order assigns the Department the responsibility to ensure the rail carrier provided sufficient documentation for all reimbursements and provided for minimum documentation requirements. The agreement further requires the Department to conduct audits of all GCPF projects. As of June 30, 2010, Department management stated the last such audit was conducted in FY07.

We reviewed payments totaling $87,334 made by the Department to the railroad carrier during FY10 and noted the invoices did not contain sufficient documentation. The following problems were noted:

Inadequate support for labor charges

- The Department was unable to provide adequate supporting documentation for a total of $27,673 paid for labor charges including engineering and supervision and the overhead additive percentage of 82.1%. The interagency agreement and Order require copies of all work hours charged to the project to be provided.

Inadequate support for equipment charges

- The Department was unable to provide adequate supporting documentation for a total of $1,586 paid for equipment charges. The interagency agreement and Order require copies of all equipment rental agreements including the number of hours the equipment was used and the railroad account code.

Inadequate support for travel expenses

- We were unable to determine whether expenditures related to travel totaling $17,176 were related to the GCPF project. The travel expenses included meals, lodging, and mileage reimbursements and lacked supporting documentation for the charges and per diem amounts. (Finding 6, pages 24-25)

We recommended the Department ensure all payments are adequately supported and in compliance with the Order and interagency agreement. We further recommended the Department conduct audits as required by the interagency agreement.

Department agrees with auditors

Department officials agreed with the recommendation and stated they are currently conducting billing reviews for railroad force account projects. They also stated they will continue to work to identify ways to improve the process for assuring that all railroad payments are adequately supported, and that the payments are made in compliance with the ICC Order and Interagency Agreement. The Department further stated they have now secured personnel which will now allow auditing of railroad force account projects to resume.

INADEQUATE CONTROLS OVER EMPLOYEE OVERTIME

The Department did not maintain controls to ensure employees' overtime hours were appropriately documented, reasonable, and agreed to the timekeeping system.

Overtime pay totaled $33,248,173 during FY10

According to Department records, the Department expended $33,248,173 in overtime during FY10.

We tested a sample of 15 employees who received between $13,608 and $67,027 in overtime pay during FY10 and reviewed three months of their sign out sheets, overtime cards, when applicable, and the timekeeping system (TKS) balances. We noted the following during our review:

No documentation for 385 hours of overtime

- One of 15 (7%) employees tested did not have documentation to substantiate the overtime paid. No documentation was provided for an employee who was paid for 385 hours of overtime during the three months reviewed.

Overtime paid when hours were not recorded

- Two of 15 (13%) employees' tested overtime cards did not agree with TKS. The employees were paid for 45 overtime hours when no overtime hours were recorded on the overtime cards. In addition, one of the employees checked compensatory hours but was instead compensated for 6 hours at double time and 6.5 hours at time and one-half.

Purpose given did not appear reasonable

- For 3 of 15 (20%) employees tested who collectively worked 1,287 overtime hours during the three months tested, we could not determine whether the overtime worked was reasonable because there was either no explanation listed in the purpose for overtime worked on the overtime cards or the purpose given did not appear reasonable.

Employee worked 24 and 32 hours consecutively

- One of 15 (7%) employees tested accrued significant overtime hours in short periods of time including one month in which the employee worked 24 hours consecutively and another month in which the employee worked 32 hours consecutively.

Overtime or EET not supported

During our regular testing of personnel files and timekeeping records we noted 8 of 35 (23%) employees tested accrued 43 hours of overtime or EET time that was not supported by sign out sheets or overtime cards. (Finding 7, pages 26-28) **This finding was first reported in 2007.**

We recommended the Department implement controls to ensure employee overtime is adequately documented and all amounts paid are reasonable.

Department agrees with auditors

Department officials agreed with the recommendation and stated a memorandum will be distributed detailing the levels of responsibility in regards to documenting overtime. (For the previous Department response, see Digest Footnote #3)

INADEQUATE CONTROLS OVER EMPLOYEE ATTENDANCE

The Department did not exercise adequate controls over employee attendance to ensure employees' work hours and benefit time were properly recorded and documented.

During testing, we noted the following:

Sign in sheets were not located

- The Department could not locate all employee sign-in sheets for 9 of 35 (26%) employees tested. The Department had no FY10 sign-in sheets or timekeeping records for one employee for the months sampled. We further noted although the employee was being paid, there were no hours entered into the timekeeping system (TKS) during those periods.

Leave requests and sign out sheet did not agree to TKS

- Six of 35 (17%) employees tested had leave requests and sign out sheets that did not agree to TKS. As a result, we noted 4 employees with vacation time discrepancies resulting in an overstatement of 24.75 hours, 2 employees with equivalent earned time (EET) discrepancies resulting in an understatement of 4.5 hours, 2 employees with personal business time discrepancies resulting in an overstatement of 10 hours, and two employees with sick time discrepancies resulting in an overstatement of 9 hours. In addition, one employee recorded a furlough day on the sign out sheet; however, the timekeeping system and the payroll system were not adjusted.

No leave slips for benefit time taken

- For 5 of 35 (14%) employees tested, the Department was unable to provide leave slips for 67 hours of benefit time taken. We noted one of these employees' vacation balance was overstated 7.5 hours.

Arrival and departure times did not agree to timekeeping system

- Eight of 35 (23%) employees tested were arriving and departing at different times other than their official schedules as reported on TKS.

Supervisors did not approve timesheets

- Fourteen of 35 (40%) employees' tested supervisors did not approve their timesheets. (Finding 8, pages 29-30) **This finding was first reported in 2007.**

We recommended the Department implement controls to ensure employees complete leave requests for time off, accurately complete the sign-in sheets and agree those records to the timekeeping system to ensure accrued absence balances are accurate. We further recommended the Department ensure employees are arriving and departing in accordance with their documented work schedules and employee time records are complete and approved by their supervisor. In addition, we recommended the Department correct any employee's accrued balance noted as incorrect and recover any amounts owed by employees.

Department agrees with auditors

Department officials agreed with the recommendation and stated a memorandum will be distributed detailing the levels of responsibility in regards to completion of Leave Requests and sign-in/sign-out sheets. In addition, the memo will clarify proper sign-in/sign-out procedures. The Department will review the documentation provided by the auditors and will ensure the employees' absence balances are corrected and recover amounts owed. (For the previous Department response, see Digest Footnote #4)

LACK OF SUPPORTING DOCUMENTATION AND OVERPAYMENTS

The Department did not provide supporting documentation for vouchers tested. In addition, vouchers were overpaid and a voucher for services provided in a previous fiscal year was inappropriately paid from an FY10 appropriation.

During testing, we noted the following:

Support not provided for vouchers

- For 13 of 453 (3%) voucher tested, totaling $194,060, we were not provided adequate documentation, so we could not determine if the payments were proper.

Vouchers were overpaid

- Five of 428 (1%) voucher tested, totaling $380,663, were overpaid by $17,227. Two invoices for salt shipments were noted by Department employees to be short in quantity but were still paid in full. In addition, the Department failed to withhold a 10% retainer on payments for professional services for an airport project. The grant agreement required the 10% retainer to be held until all agencies approved the plan.

FY08 services paid from an FY10 appropriation

- A payment totaling $95,696 for professional services on an airport project performed during FY08 was inappropriately paid from an FY10 appropriation. (Finding 10, pages 33-34)

We recommended the Department implement internal controls to ensure adequate supporting documentation is maintained for all expenditures and all invoices paid are accurate and in accordance with written agreements. We also recommended the Department ensure all payments are paid out of the proper fiscal year appropriations. We further recommended the Department recoup any overpayments.

Department agrees with auditors

Department officials agreed with the recommendation and stated they are in the process of re-organizing the filing system related to the voucher processing department. The process is expected to be complete by January 2012. In addition, the Department will recoup any overpayments as identified.

INADEQUATE CONTROLS TO PREVENT INAPPROPRIATE PAYMENTS TO VENDORS

$741,324 in duplicate payments issued during FY10

The Department did not have adequate controls to prevent inappropriate payments to vendors. During testing, we noted ten instances where the Department issued $741,324 in duplicate payments to vendors during FY10.

We obtained a report of potential duplicate vouchers using auditing software and the following 2 of 25 (8%) payments tested were issued twice by the Department:

Payments were issued twice

- $513,765 to a vendor for railroad improvement project;
- $188,631 to a local government as reimbursement for its share of construction costs on a joint improvement. The Department later noted this duplicate payment and adjusted a subsequent invoice.

Vendors return duplicate or erroneous payments

We also noted 8 of 25 (32%) refunds tested, totaling $38,928 were a result of duplicate or erroneous payments:

- The Department received checks totaling $5,129 that were paid to the wrong vendor;
- Four vendors returned duplicate checks totaling $33,799.

No review of employee overrides

The Department's accounting system invokes a warning for duplicate payments for invoices if the invoice number already exists or if the payee identification and invoice dollar amount are the same, but the same individual who enters the voucher can override the alert. In addition, there is no centralized report to allow management to review all employee overrides for reasonableness. Further, the system only warns for duplicates within the same accounting entity and fiscal year, and the Department has 35 accounting entities entering vouchers and also has reappropriated accounts that do not lapse at the end of the fiscal year. (Finding 12, pages 38 – 39) **This finding was first reported in 2007.**

We recommended the Department implement controls to review the employee override for duplicate payments. In addition, controls should be implemented to prevent duplicate payments between accounting entities and over different fiscal years for the reappropriated accounts. We further recommended the Department obtain reimbursement for the duplicate payment.

Department agrees with auditors

Department officials agreed with the recommendation and stated they held training on the Fiscal Operations and Administration (FOA) system in May 2011. Duplicate payments were addressed and staff was informed that FOA does warn of duplicate payments across all accounting entities, staff were also reminded of the responsibility to verify accuracy of the invoicing when a duplicate payment warning occurs. The Department does invoice the vendors for reimbursement when duplicate payments are made. (For the previous Department response, see Digest Footnote #5)

OTHER FINDINGS

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

AUDITORS' OPINION

Our auditors state the basic financial statements of the Department as of and for the year ended June 30, 2010 were fairly presented in all material respects.

STATE COMPLIANCE EXAMINATION – ACCOUNTANT'S REPORT

The auditors qualified their report on State Compliance for findings 10-4 through 10-7. Except for the noncompliance described in these findings, the auditors state the Department complied, in all material respects, with the requirement described in the report.

WILLIAM G. HOLLAND
Auditor General

WGH:PH:pp

AUDITORS ASSIGNED

The compliance examination was performed by the Auditor General's staff. Sikich, LLP performed the financial audit as special assistant auditors.

DIGEST FOOTNOTES

#1 – INACCURATE COMMODITIES INVENTORY RECORDS

2009: The Department agreed with the recommendation and stated the Department was committed to resolving the issues involved with the commodities inventory process.

 # 2 – INACCURATE REPORTING OF CAPITAL ASSETS

2009: The Department agreed with the recommendation and stated they had identified errors in the prior year capital reporting and as a result had significant corrections to the capital assets balance during FY 2009. They stated appropriate staff had been assigned to the reporting process and written procedures were being drafted in order to ensure accurate and timely reporting to the Office of the Comptroller.

#3 – INADEQUATE CONTROLS OVER EMPLOYEE OVERTIME

2009: The Department agreed with the recommendation and stated the Personnel Policy Manual had been updated to clarify Employee Overtime and Earned Equivalent Time.

#4 – INADEQUATE CONTROLS OVER EMPLOYEE ATTENDANCE

2009: The Department agreed with the recommendation and stated the Personnel Policy Manual had been updated to state the employees are responsible for submitting leave requests to their supervisors in advance when possible, but no later than one week after the absence.

#5 – INADEQUATE CONTROLS TO PREVENT INAPPROPRIATE PAYMENT TO VENDORS

2009: The Department agreed with the recommendation and stated for FY10 the Department required all Accounting Entities to keep copies of invoices received and sent to the accounting unit.