



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

William G. Holland, Auditor General

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**SUMMARY REPORT DIGEST**

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**DEPARTMENT OF TRANSPORTATION**

**FINANCIAL AUDIT  
For the Year Ended: June 30, 2011**

**Release Date: May 31, 2012**

**Summary of Findings:**

<b>Total this audit:</b>	<b>5</b>
<b>Total last audit:</b>	<b>5</b>
<b>Repeated from last audit:</b>	<b>4</b>

**SYNOPSIS**

- The Department's year-end financial reporting process was untimely and contained numerous inaccuracies.
- The Department maintained inaccurate commodities inventory records for the year ended June 30, 2011.
- The Department did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2011.
- The Department did not accurately report unavailable deferred revenues at June 30, 2011.
- The Department did not accurately report accounts payable at June 30, 2011.

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

**DEPARTMENT OF TRANSPORTATION  
FINANCIAL AUDIT  
For the Year Ended June 30, 2011**

<b>STATEMENT OF ACTIVITIES INFORMATION - GOVERNMENTAL ACTIVITIES (expressed in thousands)</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
<b>PROGRAM REVENUES</b>		
Charges for Services.....	\$ 40,686	\$ 56,675
Operating Grants.....	603,187	712,952
Capital Grants.....	1,558,310	931,742
<b>Total Revenues.....</b>	<b>2,202,183</b>	<b>1,701,369</b>
<b>EXPENSES</b>		
Total Expenses.....	4,958,044	4,369,773
<b>NET (EXPENSES) REVENUES.....</b>	<b>(2,755,861)</b>	<b>(2,668,404)</b>
Total General Revenues and Transfers.....	3,717,995	3,219,414
<b>CHANGE IN NET ASSETS.....</b>	<b>962,134</b>	<b>551,010</b>
Beginning Net Assets, July 1,.....	16,542,185	15,991,175
<b>ENDING NET ASSETS, JUNE 30.....</b>	<b>\$ 17,504,319</b>	<b>\$ 16,542,185</b>

<b>STATEMENT OF NET ASSETS INFORMATION - GOVERNMENTAL ACTIVITIES (expressed in thousands)</b>	<b>Fiscal Year 2011</b>	<b>Fiscal Year 2010</b>
Cash Equity with State Treasurer.....	\$ 105,006	\$ 56,574
Cash and Cash Equivalents.....	2,384	2,978
Receivables, Net.....	404,668	258,264
Inventories.....	51,283	53,671
Capital Assets, Net.....	16,844,192	16,028,359
Other Assets.....	1,697,444	1,480,073
<b>Total Assets.....</b>	<b>19,104,977</b>	<b>17,879,919</b>
Accounts Payable.....	509,934	442,595
Long Term Obligations.....	77,807	81,383
Other Liabilities.....	1,012,917	813,756
<b>Total Liabilities.....</b>	<b>1,600,658</b>	<b>1,337,734</b>
Net Assets, Invested in Capital Assets, Net of Related Debt.....	16,824,224	16,006,729
Net Assets, Restricted for Transportation Programs.....	54,242	23,302
Net Assets, Restricted for Debt Service.....	2,357	2,311
Net Assets, Unrestricted.....	623,496	509,843
<b>Total Net Assets.....</b>	<b>\$ 17,504,319</b>	<b>\$ 16,542,185</b>

<b>AGENCY SECRETARY</b>
During Examination Period: Ann Schneider (beginning 8/1/11), Gary Hannig (through 7/30/11) Currently: Ann Schneider

## **FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS**

### **NEED TO IMPROVE YEAR END FINANCIAL REPORTING**

#### **Financial reporting was untimely and inaccurate**

The Department's year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller (Comptroller) was untimely and contained numerous inaccuracies. These problems, if not detected and corrected, could materially misstate the Department's financial statements and negatively impact the Statewide financial statements prepared by the Comptroller.

#### **Final adjusted financial statements were over 6 months late**

For instance, the GAAP reporting packages and draft financial statements were not submitted to the Comptroller or the auditors in a timely manner. Based on the engagement timetable, the Department should have completed its Statewide GAAP submissions to the Comptroller by September 15, 2011, and completed its draft financial statements and submitted them to the auditors by September 30, 2011. The Road Fund GAAP reporting package was not submitted until November 7, 2011, over one and a half months late. Auditors incurred numerous delays in receiving requested documentation and did not receive final adjusted financial statements until April 12, 2012, over six months late.

Department management cited numerous issues with the functionality of the Comptroller's WEDGE reporting system as the reason for the delays in the ability for the Department to enter financial data into the GAAP reporting packages. Additionally, significant turnover of key personnel and a lack of resources were contributing factors to the untimely and inaccurate financial reporting. (Finding 1, pages 50-52) **This finding was first reported in 2009.**

#### **Department agrees with auditors**

We recommended the Department implement procedures and cross-training measures to ensure GAAP reporting Packages are prepared in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Comptroller in a timely and accurate manner, and that all supporting documentation is maintained in a contemporaneous manner.

Department officials agreed with the recommendation. (For the previous Department response, see Digest Footnote #1)

## **NEED TO IMPROVE COMMODITIES INVENTORY RECORDS**

The Department maintained inaccurate commodities inventory records for the year ended June 30, 2011.

### **Discrepancies in 42% of inventory items counted**

During our physical inventory counts, we counted 195 inventory items and noted discrepancies between audit test counts and Department inventory counts for 81 (42%) items. The errors resulted in a net understatement of the year-end inventory balance of \$19,731 which, when extrapolated over the entire inventory population, resulted in an estimated understatement of \$761,469. Through further analytical procedures, we noted an additional net overstatement of \$1,111,702. Additionally, the Department identified errors prior to audit procedures totaling \$611,099. Combined inventory quantity errors resulted in a net overstatement of inventory of \$961,322 at June 30, 2011.

### **Inventory overstated by \$961,322**

### **Pricing errors in 73% of inventory tested**

During our inventory price testing, we sampled 15 inventory items, which accounted for \$22,434,739 (44%) of the reported inventory value at June 30, 2011. Of the items tested, 11 (73%) were found to have inaccurate costs resulting in a net overstatement of the year end inventory balance of \$35,673 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of \$586,928. Combined inventory pricing errors resulted in a net overstatement of inventory of \$680,688 at June 30, 2011.

### **Inventory overstated by \$680,688**

Department officials acknowledged that discrepancies were noted between the audit test counts and Department physical inventory records which were the result of the inventory process not being accurately implemented. Department officials also acknowledged that discrepancies were noted between commodities prices per Department inventory records and supporting documentation which were the result of a variety of issues due to human error. (Finding 2, pages 53-55) **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. (For the previous Department response, see Digest Footnote #2)

## 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 2011.

Some of the errors and weaknesses we noted in the Department's capital asset process follow:

**Capital assets were understated by \$43.822 million**

- The Department made several errors in the reporting of infrastructure depreciation. As a result of these errors, capital assets being depreciated, net of accumulated depreciation, were understated by \$43.822 million while transportation expenses were overstated by that amount.

**Transportation expenditures overstated by \$2.461 million**

- In our testing of construction-in-progress, we noted the Department failed to accurately calculate current year additions to construction-in-progress. We also noted the Department removed completed projects from its construction-in-progress balance but failed to capitalize those costs as additions to buildings and building improvements. Further, the Department removed certain project costs from its construction-in-progress balance which were part of projects that, when completed, would meet the requirements for capitalization. The Department corrected the errors, and the related \$2.461 million overstatement of transportation expenditures, in its revised financial statements.

**Land overstated by \$16.889 million**

- In our testing of land, the Department improperly recorded the costs of land acquisitions related to the South Suburban Airport project during the current and prior fiscal years. In addition, the Department improperly capitalized certain costs which were not related to the acquisition of land. Further, the Department failed to record certain jurisdictional transfers as disposals from its property records. The Department did not consider the combined \$16.889 million overstatement of land to be material to the financial statements and it has not been corrected at June 30, 2011.

**Infrastructure payables excluded certain costs**

- The Department failed to properly estimate the allocation of accounts payable between capital outlay expenditures and transportation expenditures at June 30, 2011. The Department's estimation of infrastructure payables excluded consideration of railroad and utilities related costs vouchered after June 30, 2011 as well as construction costs vouchered after August 31, 2011. The amount of these estimates could not be determined by the Department as of the date of our report. The Department did not consider the reclassification of expenditures on its governmental funds financial statements or the adjustment of expenditures and capital assets on its government-wide financial statements to be material and no corrections were made as of June 30, 2011.

**Amount could not be determined**

Department officials stated the errors noted were the results of oversight and human errors. (Finding 3, pages 56-58) **This finding was first reported in 2009.**

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. (For the previous Department response, see Digest Footnote #3)

**NEED TO IMPROVE REPORTING OF DEFERRED REVENUES**

The Department did not accurately report unavailable deferred revenues at June 30, 2011.

Some of the errors and weaknesses we noted in the Department's unavailable deferred revenue process follow:

**Errors in deferred revenue totaled \$11.2 million**

- The Department failed to accurately report unavailable deferred revenue in the Federal High Speed Rail Trust Fund. The error resulted in an \$11.2 million understatement of unavailable deferred revenue and an overstatement of federal operating grant revenues at June 30, 2011. The Department corrected this error in its revised financial statements.
- The Department failed to accurately determine the amount of accounts payable in the Federal High Speed Trust Fund and the Federal Mass Transit Trust Fund.

Department officials stated understatements of unavailable deferred revenue were due to oversight in the use of September 2011 receipts and to the use of an early cutoff date for the determination of payables. (Finding 4, pages 59-60)

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.

## **NEED TO IMPROVE REPORTING OF ACCOUNTS PAYABLE**

The Department did not accurately report accounts payable at June 30, 2011. Additionally, the Department failed to establish procedures to determine the continuing validity of its accounts payable methodology.

Some of the errors and weaknesses we noted in the Department's accounts payable reporting process follow:

### **No assessment of the reasonableness of accounts payable estimates**

- In fiscal year 2008, the Department developed a methodology for funds with significant activity which includes the use of a computer spreadsheet model. We noted the Department had not established a procedure to perform a "look back" to determine the continuing validity of the accounts payable estimation methodology and to assess the reasonableness of accounts payable estimates at prior fiscal year-ends in determining current year estimates.

### **Failed to identify payables totaling \$11.7 million and \$849 thousand**

- The Department failed to accurately determine the amount of accounts payable in the Federal High Speed Rail Trust Fund (Fund 0433) and the Federal Mass Transit Trust Fund (Fund 853) due to the failure to consider expenditures made after August 31, 2011. For these funds, the Department failed to consider expenses which had been incurred for goods or services receiving during fiscal year 2011 but for which expenditures would not be processed until after the 60 day time frame. Due to the methodology used, the Department failed to identify payables totaling \$11.7 million in fund 0433 and \$849 thousand in fund 0853. The Department considered the errors in fund 0433 to be material to the financial statements and corrected these errors. The errors in fund 0853 were not considered material and have not been corrected as of June 30, 2011.

### **Accounts payable understated by \$34.2 million**

- During the financial reporting process, the Department revised its classifications of estimated liabilities in the Road Fund (Fund 011) at June 30, 2011. However, the Department failed to revise the related GAAP reporting for, "Summary of Liabilities" (SCO-549), and its financial statements for these changes. As a result of this error, accounts payable were understated by \$34.2 million while amounts due to local governments were overstated by \$34.2 million. The Department considered these errors to be material to the financial statements and corrected the errors in its revised financial statements.

### **Formula errors led to a \$10.6 million overstatement of accounts payable**

- The Department failed to identify formula errors in its accounts payable estimation model spreadsheets which are used to estimate certain liabilities as of year-end. These formula errors led to a \$10.6 million overstatement of accounts payable on a government-wide basis at June 30,

2011. The Department did not consider these errors to be material to the individual funds affected or to the government-wide financial statements and they have not been corrected as of June 30, 2011.

Department management stated the failure to consider payments made after the lapse period for goods received and services performed during the fiscal year was due to completing the accounts payable report shortly after year-end and having to establish a cut-off date to do so. The failure to perform a more thorough review and analysis of prior year accounts payable estimates was due to significant turnover in key positions and a lack of resources. (Finding 5, pages 61-63)

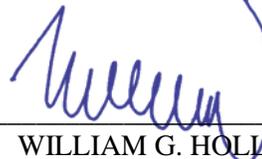
We recommended the Department devote sufficient resources to its financial accounting function such that the accounts payable balances are properly accounted for and reviewed to permit the preparation of reliable financial information. Additionally, we recommend the Department establish procedures to evaluate the reasonableness of prior year accounts payable estimates as well as the overall validity of the accounts payable estimation methodology.

**Department agrees with auditors**

Department officials agreed with the recommendation.

**AUDITORS' OPINION**

Our auditors state the basic financial statements of the Department as of and for the year ended June 30, 2011 were fairly presented in all material respects.



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WILLIAM G. HOLLAND  
Auditor General

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**AUDITORS ASSIGNED**

Our special assistant auditors for this audit were Sikich, LLP.

## **DIGEST FOOTNOTES**

### **#1 – NEED TO IMPROVE YEAR END FINANCIAL REPORTING**

2010: The Department agreed with the recommendation and stated they continued to experience significant staff turnover in the Fiscal Operations Unit during the audit period. Additional staff had been added and cross training was being implemented to ensure that the financial reporting will be accurate and timely. Staff had been instructed on the necessity to properly maintain and organize supporting documentation for all required reporting.

### **# 2 - INACCURATE COMMODITIES INVENTORY RECORDS**

2010: The Department agreed with the recommendation and stated they had made great strides to improve procedures to produce an accurate count and providing of the commodity inventory and would continue to make improvements to the year-end commodity inventory process. They would 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. They would implement a more thorough review at year-end of the commodity inventory records produced by District personnel to ensure accurate unit costs and consistent unit of measures. The Division of Highways was establishing a task force of central and district members to establish consistent guidelines and policies. They anticipated the task force would make its recommendations by December 31, 2011.

### **# 3 – INACCURATE REPORTING OF CAPITAL ASSETS**

2010: The Department agreed with the recommendation and stated they continued to experience significant turnover in the Fiscal Operations Unit during the audit period. Reporting requirements for the implementation of new pronouncements were being addressed in a timely manner. The process of identifying expenditure classification would be reviewed to determine a method that will promote the proper classification of future expenditures. Written procedures will be reviewed to ensure the proper recording of the capital assets.