



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, 2012
Release Date: August 6, 2013

Summary of Findings:

Total this audit:	8
Total last audit:	11
Repeated from last audit:	7

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).
- The Tollway did not identify and record capital asset impairment related to an inactive road project development.
- 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).

{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, 2012

FINANCIAL OPERATIONS (GAAP Basis)	2012	2011
Operating Revenues		
Toll Revenue.....	\$ 922,390,189	\$ 652,673,895
Toll Evasion Recovery.....	32,598,735	33,268,033
Concessions.....	2,272,864	2,421,164
Miscellaneous.....	12,569,929	9,507,791
Total Operating Revenues.....	969,831,717	697,870,883
Operating Expenses		
Depreciation and Amortization.....	314,107,807	318,165,918
Services and Toll Collection.....	107,225,405	106,466,995
Insurance and Employee Benefits.....	77,543,643	69,987,945
Engineering and Maintenance of Roadway and Structures.....	40,054,392	44,803,170
Traffic Control, Safety Patrol, and Radio Communications...	22,818,258	23,071,556
Procurement, IT, Finance and Administration.....	21,452,099	22,176,542
Total Operating Expenses.....	583,201,604	584,672,126
Operating Income.....	386,630,113	113,198,757
Total Nonoperating (Expenses).....	(181,278,145)	(184,436,363)
Change in Net Position.....	205,351,968	(71,237,606)
Net Position, beginning of year.....	1,850,749,932	1,921,987,538
Net Position, end of year.....	\$ 2,056,101,900	\$ 1,850,749,932
SIGNIFICANT ACCOUNT BALANCES (GAAP Basis)	2012	2011
Cash and Cash Equivalents (Unrestricted).....	\$ 656,519,154	\$ 453,263,176
Cash and Cash Equivalents Restricted for Debt Service.....	\$ 302,147,119	\$ 380,101,771
Cash and Cash Equivalents - I-PASS Accounts.....	\$ 155,398,888	\$ 146,510,701
Accounts Receivable - Current (net).....	\$ 6,668,496	\$ 15,988,036
Accounts Receivable Less Current Portion.....	\$ 95,210,088	\$ 115,369,210
Capital Assets.....	\$ 5,158,406,316	\$ 5,112,248,814
Revenue Bonds Payable and Unamortized Bond Premium.....	\$ 3,961,730,242	\$ 4,016,357,373
Total Net Position.....	\$ 2,056,101,900	\$ 1,850,749,932
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.

INADEQUATE PROCESS TO ASSESS CAPITAL ASSET IMPAIRMENTS

Review process for construction in progress needs improvement

The Tollway did not identify and record capital asset impairment related to an inactive road development project.

During our review of construction in progress as of December 31, 2012, we noted nine assets (totaling \$23,499,085) in which there was minimal or no activity in the last two fiscal years. Upon further review of one asset for \$11,686,932, we noted the amounts capitalized related to an environmental study procured in 1998 during the planning phase of a road development project.

Construction in Progress was overstated by \$11,686,932

The road development project has not been approved for construction and the environmental study expired. However, the amounts capitalized were not assessed for impairment or recorded as expense when the study expired as required by generally accepted accounting principles. As a result, construction in progress as of December 31, 2012 was overstated by \$11,686,932. (Finding 4, page 16)

We recommended the Tollway review its current procedures to assess capital assets for impairment and consider any changes necessary to ensure such impairment are properly identified and recorded.

Tollway agrees with auditors

Tollway management agreed with the recommendation and stated that they implemented a procedure subsequent to yearend to review the type of costs capitalized in Construction in Progress annually.

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 40 procurements conducted and awarded by the Tollway during the year ended December 31, 2012. The 40 procurements tested were estimated, with renewals, to be approximately \$302 million. Three of the opportunities (with awards estimated at \$13 million) were procured using a Request for Proposal (RFP) and the other 37 opportunities (with awards estimated at \$289 million) were either procured as State-use contracts, small purchases, sole source purchases, or awarded to the lowest bidder.

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 proposal for one RFP tested 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.

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 actions 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, page 17)

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 agrees with auditors

Tollway management agreed with the recommendation and stated that evaluation guidelines have been modified and procurement evaluation procedures were implemented in November 2012.

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 20 general procurements and 20 engineering procurements conducted and awarded by the Tollway during the audit period. The 40 procurements were estimated, with renewals, to be over \$302 million. Sixteen of the procurements were State-use contracts or were not procured through competitive bids which, according to the Chief Procurement Officer, do not require SPO approval for the award.

19 of 24 requiring a written determination did not have one in the procurement file

During our testing we reviewed available documentation to determine whether the SPO had approved each award through a written determination of contract award. We found that 19 of the 24 applicable procurements requiring a written determination of contract award (all of which were engineering contracts) did not have 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. (Finding 7, pages 20)

We recommended 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 management agreed with the recommendation.

OTHER FINDINGS

Tollway agrees with auditors

The remaining findings are reportedly being given attention by the Tollway. Auditors will review the Tollway’s progress towards the implementation of all recommendations in the next engagement.

AUDITORS’ OPINION

Our auditors stated the Illinois State Toll Highway Authority’s financial statements as of December 31, 2012 and for the year then ended were presented fairly in all material respects.



WILLIAM G. HOLLAND
Auditor General

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Our Special Assistant Auditors for this engagement were KPMG LLP.