



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

Frank J. Mautino, Auditor General

SUMMARY REPORT DIGEST

ILLINOIS STATE TOLL HIGHWAY AUTHORITY

**Financial Audit and Compliance Examination
 For the Year Ended December 31, 2016**

Release Date: July 6, 2017

| FINDINGS THIS AUDIT: 8 | AGING SCHEDULE OF REPEATED FINDINGS | | | | | | |
|------------------------|-------------------------------------|----------|----------|----------------|------------|------------------|------------|
| | New | Repeat | Total | Repeated Since | Category 1 | Category 2 | Category 3 |
| Category 1: | 0 | 0 | 0 | 2014 | | 16-6 | |
| Category 2: | 3 | 5 | 8 | 2013 | | 16-5 | |
| Category 3: | <u>0</u> | <u>0</u> | <u>0</u> | 2011 | | 16-1, 16-2, 16-3 | |
| TOTAL | 3 | 5 | 8 | | | | |
| FINDINGS LAST AUDIT: 6 | | | | | | | |

SYNOPSIS

- (16-1) 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).
- (16-3) The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.
- (16-7) The Tollway did not comply with the electronic vehicle charging station requirements of the Toll Highway Act.

Category 1: Findings that are **material weaknesses** in internal control and/or a **qualification** on compliance with State laws and regulations (material noncompliance).

Category 2: Findings that are **significant deficiencies** in internal control and **noncompliance** with State laws and regulations.

Category 3: Findings that have **no internal control issues but are in noncompliance** with State laws and regulations.

{Financial data is summarized on the reverse page.}

ILLINOIS STATE TOLL HIGHWAY AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Year Ended December 31, 2016

| FINANCIAL OPERATIONS (GAAP Basis) | 2016 | 2015 |
|---|-------------------------|-------------------------|
| Operating Revenues | | |
| Toll Revenue..... | \$ 1,216,298,044 | \$ 1,146,629,436 |
| Toll Evasion Recovery..... | 64,490,869 | 64,323,149 |
| Concessions..... | 2,253,646 | 2,117,517 |
| Miscellaneous..... | 20,240,108 | 15,493,528 |
| Total Operating Revenues..... | <u>1,303,282,667</u> | <u>1,228,563,630</u> |
| Operating Expenses | | |
| Depreciation and Amortization..... | 370,336,593 | 328,650,467 |
| Services and Toll Collection..... | 179,818,194 | 160,233,841 |
| Engineering and Maintenance of Roadway and Structures.... | 106,920,897 | 98,064,006 |
| Traffic Control, Safety Patrol, and Radio Communications... | 58,315,004 | 50,307,156 |
| Procurement, IT, Finance and Administration..... | 48,533,427 | 42,135,110 |
| Total Operating Expenses..... | <u>763,924,115</u> | <u>679,390,580</u> |
| Operating Income..... | 539,358,552 | 549,173,050 |
| Total Nonoperating (Expenses), net..... | <u>(220,120,918)</u> | <u>(201,705,716)</u> |
| Change in Net Position..... | 319,237,634 | 347,467,334 |
| Net Position, beginning of year..... | <u>2,192,922,497</u> | <u>1,845,455,163</u> |
| Net Position, end of year..... | <u>\$ 2,512,160,131</u> | <u>\$ 2,192,922,497</u> |
| SIGNIFICANT ACCOUNT BALANCES (GAAP Basis) | 2016 | 2015 |
| Cash and Cash Equivalents (Unrestricted)..... | \$ 1,030,866,417 | \$ 938,208,030 |
| Cash and Cash Equivalents Restricted for Debt Service..... | \$ 129,389,157 | \$ 183,467,919 |
| Cash and Cash Equivalents - I-PASS Accounts..... | \$ 177,917,639 | \$ 174,903,373 |
| Accounts Receivable - Current (net)..... | \$ 17,574,197 | \$ 14,181,437 |
| Intergovernmental Receivable - Less Current Portion..... | \$ 217,997,002 | \$ 222,856,244 |
| Capital Assets..... | \$ 8,203,957,718 | \$ 7,379,283,872 |
| Deferred Outflows of Resources..... | \$ 503,057,417 | \$ 438,355,405 |
| Revenue Bonds Payable..... | \$ 6,353,678,438 | \$ 6,150,137,340 |
| Deferred Inflows of Resources..... | \$ 30,155,237 | \$ 31,954,133 |
| Total Net Position..... | \$ 2,512,160,131 | \$ 2,192,922,497 |
| EXECUTIVE DIRECTOR | | |
| During Audit Period and Current: Gregory Bedalov | | |

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 and significant manual effort is required to prepare the 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) **This finding was first reported in 2011.**

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 they are pursuing an ERP system. *(For the previous Tollway response see Digest Footnote #1.)*

INADEQUATE YEAR END PAYABLES PROCESS

Need to improve controls over the reporting of accounts payable

The Tollway has not established adequate internal controls over accurately identifying and recording period end payable transactions for financial reporting purposes.

During our audit we noted the Tollway's year end accounts payable procedures include specifically reviewing cash disbursements made subsequent to year end to determine which accounting period the related expense transaction pertained through the end of January. Additionally, each Tollway department works with its vendors to obtain estimated or actual fiscal year end billings prior to the end of January.

The auditors reviewed 126 cash disbursements subsequent to year end (totaling \$104,300,378) and 120 cash disbursements during fiscal year 2016 (totaling \$101,457,317). During our review of these transactions, some of the items the auditors noted that were not recorded to the proper accounting period are as follows:

Expenses were not recorded in the proper fiscal year

- Five highway construction and improvement expenditures (totaling \$6,302,798) that pertained to fiscal year 2016 were recorded as expenses in fiscal year 2017.
- One land and relocation expenditure (totaling \$110,741) that pertained to fiscal year 2016 was recorded as an expense in fiscal year 2017.
- One highway architectural and engineering expenditure (totaling \$28,720) that pertained to fiscal year 2016 was recorded as an expense in fiscal year 2017.
- Two auditing and management services expenditures (totaling \$27,681) that pertained to fiscal year 2015 were recorded as expenses in fiscal year 2016.
- Two highway construction and improvements expenditures (totaling \$412,571) that pertained to fiscal year 2015 were recorded as expenses in fiscal year 2016.

Failure to accurately identify and record period end accounts payable transactions may result in the misstatement of the Tollway's financial statements. (Finding 3, pages 14-15)
This finding was first reported in 2011.

We recommended the Tollway review its current process to assess the completeness of its expense accruals at year end and consider changes necessary to ensure all period end accounts payable are accurately identified and recorded.

Tollway agrees with the auditors

Tollway management agreed with the recommendation. (*For the previous Tollway response see Digest Footnote #2.*)

FAILURE TO FULLY COMPLY WITH THE TOLL HIGHWAY ACT

The Tollway did not fully comply with the electric vehicle charging station requirements of the Toll Highway Act (Act).

3 of 6 oasis locations did not have the electric vehicle charging stations

The Tollway is required by the Toll Highway Act (605 ILCS 10/11(e)) to construct and maintain at least one electric vehicle charging station at each location in which the Tollway has contracted with third parties to provide auto and truck fueling stations, garages, stores, or restaurants, as required. During our testing we noted three of six Tollway oasis locations did not have electric vehicle charging stations as of the date of our testwork (May 15, 2017).

Failure to construct and maintain electric vehicle charging stations at locations required by the Act results in noncompliance with the Act. (Finding 7, page 21)

We recommended the Tollway fully comply with the requirements of the Act or seek legislative remedy.

Tollway agrees with the auditors

Tollway management agreed with the recommendation.

OTHER FINDINGS

The remaining findings are reportedly being given attention by the Authority. We will review the Authority's progress towards the implementation of our recommendations in our next financial audit and compliance examination.

AUDITOR'S OPINION

The auditors stated the financial statements of the Authority as of and for the year ended December 31, 2016, are fairly stated in all material respects.

ACCOUNTANT'S OPINION

The accountants conducted a compliance examination of the Authority for the year ended December 31, 2016, as required by the Illinois State Auditing Act. The accountants stated the Authority complied, in all material respects, with the requirements described in the report.

This financial audit and compliance examination was conducted by KPMG LLP.

SIGNED ORIGINAL ON FILE

Jane Clark
Division Director

This report is transmitted in accordance with Section 3-14 of the Illinois State Auditing Act.

SIGNED ORIGINAL ON FILE

FRANK J. MAUTINO
Auditor General

FJM:TLK

DIGEST FOOTNOTES

#1 - INADEQUATE FINANCIAL REPORTING SYSTEMS

2015: The Tollway concurs with the auditors' recommendation and is pursuing an ERP system which will consolidate and integrate information across our agency and bring our financial systems up to date.

#2 - INADEQUATE YEAR END PAYABLES PROCESS

2015: The Tollway concurs with the auditors' recommendation and is pursuing an ERP system that will include improved and automated controls concerning accounts payable.