

Review: 4424
Statewide Single Audit
Year Ended June 30, 2013
Illinois Department of Transportation

FINDINGS/RECOMMENDATIONS – 15
Repeated – 12

Accepted and Partially Implemented – 3
Implemented – 12

13-53. The auditors recommend IDOT establish procedures to accurately report federal expenditures used to prepare the SEFA to the IOC. (Repeated-2011)

Findings: IDOT did not accurately report Federal expenditures under the Highway Planning and Construction (Highway Planning) Cluster and the Surface Transportation Discretionary Grants for Capital Investment (TIGER) programs which were used to prepare the schedule of expenditures of federal awards (SEFA) to the Illinois Office of the Comptroller. Specifically, auditors noted the following unreconciled differences for IDOT's major programs for the year ended June 30, 2013:

Program	Expenditures Reported on IDOT's Expenditure Pattern	Expenditures Reported on the Final SEFA	Difference
Highway Planning Cluster	\$1,443,775,000	\$1,429,781,000	\$13,994,000
Surface Transportation (TIGER) Program	34,177,000	28,657,000	5,520,000

Auditors also noted a correction of \$689,000 was necessary to eliminate expenditures reported by IDOT that are not subject to A-133. Further corrections were required to properly identify ARRA and non-ARRA funded expenditures reported under the Highway Planning and Construction Cluster, High Speed Rail, Formula Grants for Rural Areas, and TIGER programs.

In discussing this with IDOT officials, they stated that adjustments necessary for the GAAP packages were flowed through to the SEFA.

Updated Response: Implemented. The initial corrective action was to seek out guidance/training for SEFA preparation, however we discovered this virtually does not exist. In order to address the finding, we have implemented additional reviews throughout the financial reporting process to ensure accuracy and written procedures were developed for the financial reporting process.

13-54. The auditors recommend IDOT establish procedures to ensure weekly payroll certifications are received prior to making payments to the contractors. (Repeated-2011)

Findings: IDOT did not obtain certified payrolls prior to making payments to contractors for the Highway Planning and TIGER programs. Regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid prevailing wage rates established for the locality of the project.

During testwork of 48 Highway Planning contractor payments for regular construction projects, 17 Highway Planning contractor payments for advanced construction projects (totaling approximately \$6,412,000), and three TIGER contractor payments for regular construction projects (totaling approximately \$2,424,000), auditors noted the following:

- The certified payrolls for two Highway Planning contractor payments on advanced construction projects (totaling approximately \$315,100) were received 2 to 235 days after payments were made to the contractors.
- The certified payrolls for 28 Highway Planning contractor payments on regular construction projects (totaling approximately \$17,693,000) and 3 TIGER contractor payments on regular construction projects (totaling approximately \$2,424,000) were not date stamped. As a result, auditors were unable to determine whether they were received prior to making payments to the contractors.
- The certified payrolls for 23 Highway Planning contractor payments on regular construction projects (totaling approximately \$14,601,000) were not signed by either the Resident Engineer, documentation staff, or EEO personnel. As a result, auditors were unable to determine whether the certified payroll was approved prior to making payments to the contractor.

In discussing these conditions with IDOT personnel, they stated that with the reduced staffing coupled with the departure or retirement of experienced staff, specific training has not been adequately provided for the procedure of submission and review of certified payrolls.

Updated Response: Accepted and partially implemented. Direction was provided at the Annual Winter Project Implementation meeting held in January 2014 and will be addressed again at the 2015 Annual Project Implementation meeting as well as the annual spring meetings in each district. The Department's written procedures will be thoroughly reviewed and revised to provide better direction to meet federal and state laws as well as FHWA and state policy requirements.

13-55. The auditors recommend IDOT establish procedures to ensure that: (1) expenditures passed through to subrecipients per IDOT's records are reconciled to the schedule of expenditures of federal awards submitted in the subrecipients' OMB Circular A-133 audit reports, (2) follow up procedures are performed for all delinquent OMB Circular A-133 reports, (3) desk reviews are performed on a timely basis, and (4) management decisions are issued within six months after receipt of the subrecipients' OMB Circular A-133 audit reports. (Repeated-2002)

Findings: IDOT does not have an adequate process to review subrecipient OMB Circular A-133 reports.

During testwork of 27 subrecipients of the Airport Improvement Program, 42 subrecipients of the Highway Planning program, and one subrecipient of the TIGER program, auditors noted the following regarding the desk review process:

- The OMB Circular A-133 audit report for one subrecipient of the Airport Improvement program and one subrecipient of the Highway Planning program were not received timely and IDOT did not perform follow up procedures to obtain the reports.
- The OMB Circular A-133 report for one subrecipient of the Highway Planning program was received on April 11, 2013 but had not been reviewed by IDOT as of November 20, 2013.
- IDOT did not issue a management decision related to findings reported within 6 months after receipt of the audit report for three subrecipients of the Airport Improvement Program, three subrecipients of the Highway Planning program, and one subrecipient of the TIGER program.
- IDOT did not reconcile the SEFA reported by the subrecipient to the amounts passed through per IDOT's records for seven subrecipients of the Airport Improvement program.

In discussing these conditions with IDOT officials, they stated that the majority of the issues noted were due to complex subrecipient audits that required additional processing. These processes were not completely defined until the revised procedure manual was implemented in April 2013.

Response: The Department agrees with the finding. The Department has developed a procedures manual for monitoring subrecipient's OMB Circular A-133 reports. The procedures include the use of an updated checklist that addresses reconciliation of expenditures, follow-up requirements for corrective action plans and established a timeline and workflow processes to ensure timely follow-up and completion of the desk review process. Implementation was in April 2013.

Updated Response: Implemented.

13-56. The auditors recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients. (Repeated-2004)

Findings: IDOT did not provide required federal program information to its subrecipients of the Airport Improvement Program, the Highway Planning program, and the TIGER program for the year ended June 30, 2013.

During testwork of awards to subrecipients of Airport Improvement Program funds, Highway Planning funds, and TIGER funds, auditors noted the following:

- Six grant award notices for the Airport Improvement Program and five grant award notices for the Highway Planning program did not communicate the need for an audit in accordance with OMB Circular A-133.
- Eighteen grant award notices for the Airport Improvement Program, twenty-nine grant award notices for the Highway Planning program, and one grant award notice for the TIGER program included incorrect information regarding the need for an audit in accordance with OMB Circular A-133.
- Eleven grant award notices for the Highway Planning program or the TIGER program did not communicate the specific program or CFDA number and title under which federal financial assistance had been provided.
- One grant award notice for the TIGER program did not communicate (1) the requirement to register with the Central Contractor Registration, and (2) the SEFA and SF-SAC presentation requirements for ARRA-funded awards.

In discussing these conditions with IDOT officials, they stated that corrective action had been implemented in a previous fiscal year, however due to the length of time an agreement is active, the majority of the issues noted were with agreements executed prior to implementation of the corrective action. Due to the number of open agreements and staffing levels, it has not been feasible to amend all open agreements to include the proper language.

Updated Response: Partially Implemented. The Department will provide written notice to all subrecipients with active agreements to notify them of the correct federal program information as required by OMB Circular A-133. This has been completed for the Airport Improvement Program and will be completed for the Highway Planning and Construction Program by June 30, 2015. In addition, a memo will be sent to all business areas processing subrecipient agreements to instruct them to use the revised template when processing all future agreements.

13-57. The auditors recommend IDOT implement procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations. (Repeated-2010)

Findings: IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement.

During a review of eighty (80) expenditures totaling approximately \$25,675,000 auditors noted a warrant was issued for three expenditure vouchers totaling approximately \$8,814,000 within five business days of receiving the federal funds intended to finance these expenditures instead of three business days as required.

In discussing this condition with Department officials, they stated that the Cash Managed Hold procedures had been implemented; however this was the first draw after implementation so the Department's processing of vouchers may not have been timely.

Response: The Department agrees with the recommendation. The Department will coordinate with the Comptroller's Office to review the Cash Managed Hold Program to ensure the Department's vouchering process maximizes the benefit of this program to ensure compliance with the U.S. Treasury Regulations.

Updated Response: Implemented.

13-58. The auditors recommend IDOT review the process and procedures in place to prepare financial status reports required for the Airport Improvement program and implement the additional procedures necessary to ensure the reports are complete, accurate, and agree or reconcile to its financial records.

Findings: IDOT did not prepare accurate financial status reports for the Airport Improvement program.

During testwork of the SF-425 annual financial status reports submitted, auditors noted IDOT has not completed all information required to be reported on the SF-425 report. Specifically, lines 10(d) through 10(o) did not contain information on federal expenditures, obligations, recipient share of program expenditures, and program income were not completed. Additionally, auditors noted the following errors in completed lines on the SF-425 report for the federal fiscal year ended September 30, 2012:

Report Line Items	Reported Amount	Actual Amount	Difference
Line 10a – cash receipts	\$708,185,581	\$236,192,469	\$471,993,112
Line 10b – cash disbursements	\$708,185,581	\$236,192,469	\$471,993,112

In discussing these conditions with IDOT officials, they stated that this was the first time the Department had been required to provide the SF-425 and the instructions were unclear causing the amounts reported to be inaccurate.

Response: The Department agrees with the recommendation. The Department has communicated with the Federal Aviation Administration to obtain accurate instructions for completing their SF-425 annual reporting form. The reporting process will be reviewed and the accurate instructions will be implemented to ensure complete and accurate reporting of the financial status reports.

Updated Response: Implemented.

13-59. The auditors recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA and retain documentation in accordance with federal regulations. (Repeated-2009)

Findings: IDOT did not test materials used for construction activities under the Highway Planning program in accordance with their approved sampling and testing program.

During testwork, auditors selected 65 materials from ongoing (open) construction projects and advanced construction projects and noted the following:

- In one instance, the material was accepted using a method of acceptance that was not in accordance with the Manual.
- In one instance, the testing method of the material was not in accordance with the Manual.
- In one instance, the source documents for the material sampling could not be located and accordingly, auditors were unable to determine whether the proper method of testing was performed.

In discussing these conditions with IDOT officials, they stated that the items identified were due to error, oversight and computer system limitations.

Response: The Department agrees with the recommendation. The Department will review its aggregate inspection data input practices and notify/remind the districts to correctly document/input aggregate inspection in MISTIC. Also, the Department will re-emphasize to the districts the importance of always using the current Manual for Materials Inspection to determine the method of acceptance for all construction materials.

Updated Response: Implemented. No change.

13-60. The auditors recommend IDOT implement procedures to ensure a value engineering analysis is performed for all applicable construction projects in accordance with its approved value engineering (VE) program.

Findings: IDOT did not perform a value engineering (VE) analysis for construction projects under the Highway Planning program in accordance with the approved VE program.

According to IDOT's approved VE program, IDOT is required to perform an analysis during the planning and development stages for applicable projects that utilize federal highway funding to determine whether: (1) the project provides the needed functions, considering community and environmental commitments, safety, reliability, efficiency, and overall life-cycle cost; (2) improvements can be made for the value and quality of the project; and (3) improvements can be made to reduce the time to develop and deliver the project. During testwork, auditors selected 30 applicable construction projects and noted one instance where a VE analysis was required, but was not performed.

In discussing these conditions with IDOT officials, they stated that there were several years between approval of the project for development of contract plans and the actual time plan production commenced for the occurrence in question.

Response: The Department agrees with the recommendation. The Department will first review the existing procedures in place to ensure VE studies are conducted on required projects. If deficiencies in those procedures are identified, the procedures will be revised in order to more effectively assure compliance with 23 CFR 627. Review and any revisions of the Department's VE procedures will be coordinated with the FHWA pursuant to the Stewardship/Oversight Agreement between the Department and FHWA.

Updated Response: Accepted and partially implemented.

13-61. The auditors recommend IDOT implement procedures to ensure ARRA information and requirements are properly communicated to subrecipients and obtain required Buy American certifications. (Repeated-2010)

Findings: IDOT did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the TIGER program.

During testwork of fifteen ARRA disbursements to three subrecipients of the TIGER program, auditors noted one subrecipient agreement did not communicate the requirement to separately report ARRA program expenditures on the schedule of expenditures of federal awards (SEFA) and the data collection form. Additionally, this agreement did not include Buy American Act certifications required for ARRA awards.

In discussing these conditions with IDOT officials, they stated that the business area responsible for processing these agreements was not aware of these requirements prior to the FY12 audit.

Response: The Department agrees with the recommendation. The Department revised the subrecipient agreements to properly communicate the required ARRA information and obtain Buy American certifications for all new subrecipients. In addition, the Department will provide notification to current subrecipients of the required ARRA information.

Updated Response: Implemented.

13-62. The auditors recommend IDOT follow its established procedures to ensure grantees receiving individual awards for \$25,000 or more certify that their organization and its principals are not suspended or debarred or otherwise excluded from participation in federal assistance programs. (Repeated-2012)

Findings: IDOT did not obtain required certifications that subrecipients and their principals were not suspended or debarred from participation in federal assistance programs for the Surface Transportation Discretionary Grants for Capital Investment (TIGER) program.

During a review of five grant agreements with three subrecipients program, auditors noted IDOT did not include a suspension and debarment certification in four of the grant agreements.

In discussing these conditions with IDOT officials, they stated that the business area responsible for processing these agreements was not aware of these requirements prior to the fiscal year 2012 audit.

Response: The Department agrees with the recommendation. The Department confirmed that procedures were being followed to ensure that subrecipients are not suspended or debarred. In addition to the fiscal year 2012 revisions to the State Rail Agreements and the Phase III document, additional documentation of these procedures will be included in Phase II design and/or the Phase III construction documents.

Updated Response: Implemented.

13-63. The auditors recommend IDOT implement procedures to monitor each compliance requirement administered by its for-profit subrecipients of the TIGER program. (Repeated-2012)

Findings: IDOT did not monitor all applicable compliance requirements for subrecipients receiving funding under the TIGER program.

During testwork, auditors noted IDOT has implemented certain procedures to monitor its for-profit subrecipients, which include reviewing supporting documentation for time and material charges incurred by the for-profit subrecipients and its subcontractors and performing site visits to monitor the progress of on-going construction and installation activities. However, IDOT has not established procedures to monitor whether the for-profit subrecipients and their subcontractors have: (1) complied with the Buy American provisions when purchasing materials, (2) procured services relative to the projects in accordance with the Illinois Procurement Code, and (3) complied with Davis-Bacon Act prevailing wage rate requirements. Additionally, IDOT has not established procedures to monitor the accuracy of the financial and other data reported by these organizations which is used by IDOT to prepare reports filed with USDOT.

In discussing these conditions with IDOT officials, they stated that the business area responsible for processing these agreements was not aware of these requirements prior to the FY12 audit.

Response: The Department agrees with the recommendation. Procedures to better monitor the federal compliance requirements applicable to its subrecipients will be implemented. The Department will review the procedures in place for federal grant compliance for TIGER projects and work with appropriate CREATE partners to improve procedures to ensure those federal compliance requirements are implemented.

Updated Response: Implemented.

13-64. The auditors recommend IDOT review the process and procedures in place to prepare financial reports required for the TIGER program and implement the additional procedures necessary to ensure the reports agree or reconcile to its financial records. (Repeated-2012)

Findings: IDOT did not prepare accurate financial reports for the TIGER program.

IDOT is required to prepare financial status (SF-425) and ARRA 1512, reports on a quarterly basis for the TIGER program. During testwork of two SF-425 reports and fourteen ARRA 1512 reports, auditors noted IDOT did not prepare the reports based upon its financial records. Additionally, IDOT could not demonstrate how the information reported agreed or reconciled to its financial records.

In discussing these conditions with IDOT officials, they stated that due to staff turnover, reporting requirements were not fully communicated in order to accurately complete the necessary forms.

Updated Response: Implemented. Multiple sources of reporting information are used for the three federal quarterly reports required for TIGER projects. The Department reviewed the process and procedures in place to prepare the financial reports, and developed and implemented additional quality assurance/quality control measures in September 2014.

13-65. The auditors recommend IDOT implement procedures to verify the High Speed Rail program vendor has complied with the Davis-Bacon Act and the Illinois Procurement Code.

Findings: IDOT did not perform procedures to determine whether a vendor receiving funding under the High Speed Rail program complied with the Davis-Bacon Act or the Illinois Procurement Code.

During testwork, auditors noted IDOT has implemented certain procedures to monitor its vendor, which include reviewing supporting documentation relative to time and material charges incurred by the for-profit organization or vendor and its subcontractors, inspecting materials used in the construction of the rails, and performing site visits to monitor the progress of on-going construction and installation activities. However, IDOT has not established procedures to monitor whether the vendor and its subcontractors have complied with the Davis-Bacon Act prevailing wage rate requirements or procured services in accordance with the Illinois Procurement Code in carrying out their assigned duties.

In discussing these conditions with IDOT officials, they stated that monitoring procedures were put into place during FY13 to ensure compliance with the Davis-Bacon Act. As for monitoring the Illinois Procurement Code, the Department did not provide the auditors with current processes and documentation to support the monitoring activities by the Department.

Response: The Department agrees with the recommendation. The Department developed monitoring procedures for the Davis-Bacon Act requirements during fiscal year 2013 and written procedures were finalized in June 2013. The Department has been monitoring the Illinois Procurement Code requirements since inception of the agreement with the vendor in question; however, we acknowledge the need to revise our procedures to include those processes and ensure proper documentation is retained to support that monitoring requirements are being met.

Updated Response: Implemented.

13-66. The auditors recommend IDOT review the process and procedures in place to prepare financial reports required for the High Speed Rail program and implement the additional procedures necessary to ensure the reports are complete and accurate. (Repeated-2011)

Findings: IDOT did not prepare accurate financial reports for the High Speed Rail program.

IDOT is required to prepare financial status (SF-425) and ARRA 1512 reports on a quarterly basis for the High Speed Rail program. During testwork over two SF-425 reports and two ARRA 1512 reports, auditors noted the Expenditure Amount reported did not agree to the Federal Share of Expenditures reported on the SF-425 Federal Financial Report filed for the applicable quarter. Auditors noted the following differences:

Quarter End	Expenditure Amount (1512 Report)	Federal Share of Expenditures (SF-425 Report)	Difference
September 30, 2012	\$249,566,163	\$254,835,462	(\$5,269,299)
March 31, 2013	319,830,295	322,696,223	(2,865,928)

Upon further review of the supporting documentation, auditors noted that although IDOT indicated federal expenditures on the SF-425 and ARRA 1512 reports were reported using the accrual basis of accounting, the expenditure amounts reflected the best available data at the time the report was prepared, and did not include estimates through the end of the reporting period. Additionally, IDOT did not have a process in place to review the submitted reports and determine if there are any material differences that would require the report to be corrected. IDOT was unable to quantify the amounts that should have been reported on the accrual basis of accounting.

In discussing these conditions with IDOT officials, they stated that the business area responsible for the reporting was unaware of the need to revise the ARRA 1512 to match or reconcile to the SF-425 reports which are generated later in the reporting month.

Response: The Department agrees with the recommendation. The Department reviewed the ARRA 1512 and SF-425 reporting processes and requirements. Corrective action for all deficiencies identified by this review were implemented at the beginning of fiscal year 2014.

Updated Response: Implemented.

13-67. The auditors recommend IDOT implement procedures to ensure all information systems are adequately secured and to generate a list of program changes from the information systems and applications. (Repeated-2012)

Findings: IDOT does not have adequate program change management controls over the IDOT Integrated Transportation Project Management System.

The information technology applications that support the IDOT Integrated Transportation Project Management System include the following:

- The Electronic Contract Management System (ECM)
- The Electronic Letting Management System (ELM)
- The Illinois Construction Records System (ICORS)
- The Bureau of Contract Management System (BCM)
- The Fiscal Operations and Administration System (FOA)
- The Federal Payment Control System (FPC)

During testwork of IDOT's controls over user access to IDOT applications, auditors noted the following:

- Ten terminated employees (out of 25 tested) retained user access after their termination date for the FOA system.
- A shared ID is used by five IDOT employees to complete the federal billing process and access to the account is not logged.

Additionally, during testwork over changes made to IDOT's information systems, IDOT was not able to generate a list of changes made to its information systems from each respective information system or application. IDOT's current procedures include tracking changes made to its information systems in a database; however, the information input into the database is based on manual change request forms. Accordingly, auditors were unable to determine whether the list of changes provided by IDOT from the database during the audit was complete.

In discussing these conditions with IDOT officials, they stated that corrective measures were implemented to address the prior year finding in May 2013. The user access issues are due to oversight by the business area responsible for these functions.

Response: The Department agrees with the recommendation. In May 2013, the Department implemented procedures to address the tracking of changes to information

systems. In addition, IDOT will review our current practices and communication protocols with the Bureau of Personnel Management to ensure that Information Processing is promptly notified when an employee separates from the agency so that their access permissions can be removed. Finally, the agency will issue a policy reminder to all system users that it is in violation of agency security policy to share user accounts and passwords.

Updated Response: Implemented.