LEGISLATIVE AUDIT COMMISSION

Review of
Department of Transportation
Year Ended June 30, 2010

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REVIEW: 4366
ILLINOIS DEPARTMENT OF TRANSPORTATION
YEAR ENDED JUNE 30, 2010

FINDINGS/RECOMMENDATIONS - 23
ACCEPTED - 10
IMPLEMENTED - 13

REPEATED RECOMMENDATIONS - 15
PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 20

This review summarizes the reports on the Illinois Department of Transportation for the year ended June 30, 2010 filed with the Legislative Audit Commission June 9, 2011. The auditors performed a financial audit and compliance examination in accordance with State law and Government Auditing Standards. The auditors stated that the financial statements were fairly presented.

The Illinois Department of Transportation is responsible for administrating and supervising the State's transportation activities, including highways, public transportation and aeronautics. The Department is accredited by the federal government for receiving federal funds for transportation programs; is responsible for drafting a State Master Plan for transportation facilities; and also provides State assistance to local public transportation agencies. The principal divisions of the Department are the Division of Highways, the Division of Traffic Safety, the Division of Public and Intermodal Transportation, and the Division of Aeronautics.

Mr. Gary Hannig was the Secretary of the Department during the audit period, becoming Secretary in March 2009. When Mr. Hannig retired, Ms. Ann Schneider served as Acting Secretary beginning in July 2011, and was appointed Secretary in October 2011. Previously Ms. Schneider served as IDOT's chief of operations and chief financial officer. The average number of full-time employees at June 30 appears below.

	FY10	FY09	FY08	FY07	FY06	FY05
Admin. & Planning	238	238	317	318	326	346
Information Processing	73	74	77	76	71	77
Division of Highways	394	400	415	434	440	469
Day Labor	16	19	19	21	21	22
District 1	1,134	1,119	1,171	1,206	1,250	1,348
District 2	381	381	392	405	451	469
District 3	339	346	364	374	406	430
District 4	337	346	357	360	359	380
District 5	285	296	311	326	406	421

	FY10	FY09	FY08	FY07	FY06	FY05
District 6	375	378	398	408	429	453
District 7	323	319	329	340	293	304
District 8	503	508	518	530	546	569
District 9	287	291	295	301	279	294
Aeronautics	65	65	65	65	65	67
Public Trans & Rail	35	32	32	31	30	22
Local Roads & Streets	91	91	92	92	93	96
Traffic Safety	85	85	105	106	103	107
Cycle Rider Safety	3	1	2	2	2	2
Intelligent Transportation	1	1	1	1	2	3
Diesel Emissions	-	2	2	2	2	-
Shared Services Center	-	75	-	-	-	-
State Funded Positions	**5,041**	**5,067**	**5,262**	**5,398**	**5,574**	**5,879**
Federal Funded Positions	**64**	**68**	**64**	**71**	**73**	**65**
GRAND TOTAL	**5,105**	**5,135**	**5,326**	**5,469**	**5,647**	**5,944**

Expenditures From Appropriations

Appendix A presents a summary of appropriations and expenditures for FY10 and FY09. The General Assembly appropriated a total of $21,531,338,178 ($78 million from the General Revenue Fund; $6.4 billion from the Road Fund; $4.1 billion from Bond Series B Fund (for aeronautics and public transportation; $3.5 billion from Bond Series D Fund (for construction); and $7.5 billion from 20 other funds to the Department of Transportation during FY10. In FY10, total appropriations were $21.5 billion compared to $12.8 billion in FY09. Appropriations in FY10 were $8.7 billion, or 68%, more than FY09.

Total expenditures were $4,935,663,676 in FY10 compared to $4,149,581,073 in FY09, an increase of $786 million, or 18.9%. The increase was due primarily to an increase in construction due to federal American Recovery and Reinvestment Act (ARRA) funds ($514 million) and a new issue of Bond Series A ($378.9 million). Expenditures from the General Revenue Fund increased from $25.48 million in FY09 to $74.1 million in FY10 due to expenditures of almost $44.9 million in Governor’s Discretionary Funds.

The large difference between appropriations and expenditures was attributed to construction funds being appropriated for the entire project in the first year of construction although, in many cases, it requires more than one year to complete the project.

Unexpended funds necessary to complete the project are then reappropriated in subsequent years.

Lapse period expenditures were $125.8 million, or 2.5% of total FY10 expenditures. The Department reported that it expended $25.2 million on 104 Illinois First Projects in FY10, and $70 million remains in reappropriated funds for Illinois First projects.

Accounts Receivable

Appearing in Appendix B is a summary of the Department's accounts receivable. The Department's gross accounts receivable stood at $294,336,000 as of June 30, 2010 compared to $584,727,000 as of June 30, 2009. The majority of the Department's revenue collection responsibility in FY10 is current ($274.7 million) and due from the federal government ($207 million) for reimbursement for highway and airport construction and the federal share of other programs. The $14.4 million in receivables over 30 days old consists of about $13 million due from various counties and municipalities.

Cash Receipts

Appendix C provides a summary of cash receipts for the Department for FY10 and FY09. Cash receipts increased $489 million, or 32.1%, from $1,525,690,064 in FY09 to $2,015,363,911 in FY10. The increase was due almost entirely to American Recovery and Reinvestment Act (ARRA) funds for construction projects and mass transit.

Property and Equipment

Appearing in Appendix D is a summary of property and equipment transactions of the Department of Transportation for FY10 and FY09. The balance decreased from $665,984,092 as of July 1, 2009 to $658,131,404 as of June 30, 2010.

Service Efforts and Accomplishments

Appearing in Appendix E is a list of several service efforts and accomplishments provided by the Department of Transportation.

Follow-Up on Previous Audits

In January 2007 the Office of the Auditor General released a management audit of DOT's Aeronautics Operations. There were six recommendations and currently four are implemented; one is partially implemented concerning periodic review and publication of rates charged to users. The recommendation not yet implemented concerns flight requests not being made in writing.

In June 2006, the Office of the Auditor General released a management audit of DOT's Disadvantaged Business Enterprise Program. There were six recommendations and currently four are implemented, and two are not yet implemented. The recommendations not implemented concern the timeliness of processing certifications and decertifying vendors that do not file the required applications and affidavits timely.

In March 2006, the Office of the Auditor General released a management audit of DOT's Division of Traffic Safety Programs. There were 11 recommendations and currently three have not yet been fully implemented. Those recommendations concern the Division's staffing and organization; maximizing federal reimbursements; and efficiency and effectiveness reviews.

Accountants' Findings and Recommendations

Condensed below are the 23 findings and recommendations presented in the audit report. There were 15 repeat recommendations. The following recommendations are classified on the basis of updated information provided by Lori A. Beeler, CPA, Unit Chief of Fiscal Operations, Department of Transportation, via electronic mail received on January 4, 2012.

Accepted or Implemented

1. **Implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner. Include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Office of the Comptroller in a timely and accurate manner, and that all supporting documentation is maintained in a contemporaneous manner. Please refer to findings 10-2, 10-3, and 10-4 for specific recommendations concerning inventory, capital assets, and deferred revenue. (Repeated-2009)**

<u>Finding:</u> The Illinois Department of Transportation's (Department's) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller contained numerous inaccuracies.

- One of its 34 GAAP reporting packages was submitted to the Comptroller six days late. Due to discussions and communication between the Department, Comptroller, and other State agencies and universities, the forms did not receive the Comptroller's final review until December 19, 2010. The initial draft of the Department's financial statements was not received until December 10, 2010, 71 days after they were due to the auditors. The final draft of the financial statements, after adjustments for the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes standards for accounting and financial reporting for intangible assets, was provided on March 25, 2011.

- Auditors noted weaknesses in the financial accounting for the Department's inventory balance due to inaccurate commodities inventory records. (See Finding 10-2)

- Auditors noted weaknesses in the financial accounting for, and reporting of, capital assets; most significant of which was the failure to identify easement costs for intangible asset reporting. (See Finding 10-3)

- We noted weaknesses in the financial accounting for, and reporting of, deferred revenues which resulted in significant adjustments in the General Revenue Fund, the Road Fund, and the Federal Local Airport Fund. (See Finding 10-4).

Response: Accepted. The Department continued to experience significant staff turnover in the Fiscal Operations Unit during the audit period. Additional staff has been added and cross training is being implemented to ensure that the financial reporting will be accurate and timely. Staff has been instructed on the necessity to properly maintain and organize supporting documentation for all required reporting.

Updated Response: Implemented. The Department has been consistent in financial reporting including capital asset reporting, monthly reconciliations and year-end financial reporting with proper documentation retained.

2. Strongly emphasize the importance of maintaining accurate inventory quantity and cost records throughout the year. Additionally, perform periodic physical inventory counts throughout the year and reconcile those to Department records. Finally, 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. (Repeated-1994)

Finding: The Department maintained inaccurate commodities inventory records for the year ended June 30, 2010. Inventory counts were performed around June 30, 2010.

Inventory Counts

During physical inventory counts, auditors 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. 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.

Inventory Pricing

During price testing, auditors sampled 60 inventory items, but did not receive price documentation for one item in the 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.

The Department did not adjust its financial statements for these errors totaling $6,088,000 as they were considered immaterial to the Department's overall financial statements.

In response to this continued prior finding, the Department stated it had drafted a written inventory procedure for future counts. Additionally, a written procedure for the inventory pricing was being drafted that would incorporate detailed pricing spreadsheets that would allow for pricing at the district level. The Department implemented these measures, but inventory count and pricing errors continued to ensue.

Department management acknowledged that discrepancies were noted between the audit test counts and Department physical inventory counts which were the result of the revised inventory process not being accurately implemented. Furthermore, due to the high volume of purchases for various commodity items, an extensive overhaul would be required in order to provide multiple unit price information for common items. Therefore, certain commodities were given equal pricing.

Response: Accepted. The Department has made great strides to improve procedures to produce an accurate count and pricing of our commodity inventory and will continue to make improvements to the year-end commodity inventory process. We 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. We will 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 is establishing a task force of central and district members to establish consistent guidelines and policies. We anticipate the task force will make its recommendations by December 31, 2011.

Updated Response: Accepted. The Department continues to refine the commodity inventory process. Staff has met with the internal and external auditors to collaborate ideas to improve the process. The Commodity Inventory Audit Process Overview was

reviewed and the flow process and inventory collection forms have been revised. The Commodity Inventory Working Group Task Force has been established with members from various parts of the state including a variation of job duties and responsibilities.

3. Devote sufficient resources to 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. (Repeated-2009)

<u>Finding:</u> The Department did not accurately report capital assets to the Illinois Office of the Comptroller for FY10.

- 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*. During testing, auditors noted the Department did not originally record intangible assets in compliance with GASB 51 and there were permanent and temporary easements 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.

- 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 overall financial statements.

- In testing of construction-in-progress, auditors noted that additions and deletions were not being reported on the Capital Asset Summary Form (SCO-538) 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, all projects completed were treated as deletions resulting in the recognition of a loss on the SCO-538. 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 overall financial statements.

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

Accepted or Implemented – continued

- Accounts payable on the SAMS to GAAP Reconciliation Form (SCO-537) are understated by $1.6 million due to errors in calculating June 30, 2010 accounts payable for construction-in-progress. The Department did not adjust its financial statements for this as it was considered immaterial to the overall financial statements.

Response: Accepted. The Department continued to experience significant staff turnover in the Fiscal Operations Unit during the audit period. Reporting requirements for the implementation of new pronouncements are being addressed in a timely manner. The process of identifying expenditure classification will 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.

Updated Response: Implemented. The Department held training in May in which the proper identification and classification of asset purchases was covered. Written procedures continue to be reviewed and revised as necessary.

4. Devote sufficient resources to the 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.

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

- The Department failed to defer as unavailable revenue a $20 million lawsuit settlement that was not due to be received until February 2011, which 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 and revised for accuracy after the Department had completed the calculation of deferred revenue - unavailable. 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.

- 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, which 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.

- The Department failed to accurately record a significant amount of revenues in the Federal Local Airport Fund, which 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. 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.

Response: Accepted. Additional staff has been added to the Fiscal Operations Unit. 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.

Updated Response: Implemented.

5. Implement procedures to identify and record receivables/payables between the Department and the Illinois Toll Highway Authority at June 30 each year. Include allocating sufficient staff resources and the implementation of formal procedures to ensure financial information is prepared accurately and completely.

Finding: The Department failed to report significant due to/due from balances in FY09, resulting in a prior period adjustment affecting the FY10 financial statements.

During FY09, the Department failed to report a $61.6 million receivable and $119.6 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.

Response: Accepted. The Department will continue to work with the Illinois State Toll 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.

Updated Response: Implemented. Procedures have been implemented to ensure the accurate reporting of the receivables/payables with the Toll Highway.

6. Ensure all payments are adequately supported and in compliance with the Illinois Commerce Commission Order and interagency agreement. Conduct audits as required by the interagency agreement. (Repeated-2009)

Accepted or Implemented – continued

REVIEW: 4366

Finding: 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.

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%.

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.

Auditors 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 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 Department was unable to provide adequate supporting documentation for a total of $1,586 paid for equipment charges.

- We were unable to determine whether expenditures related to travel totaling $17,176 were related to the GCPF project.

During the prior and current period, the Department stated the invoices were reviewed for reasonableness prior to payment. In addition, Department management stated they were unable to conduct audits and more detailed reviews due to a lack of staffing.

Response: Accepted. The Department is currently conducting billing reviews for railroad force account projects. The Department 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. To further address the concerns stated in this audit, the Department has now secured personnel which will now allow auditing of railroad force account projects to resume.

Updated Response: Implemented.

7. Implement controls to ensure employee overtime is adequately documented and all amounts paid are reasonable. (Repeated-2007)

Finding: The Department did not maintain controls to ensure employees' overtime hours were appropriately documented, reasonable, and agreed to the timekeeping system. The Department expended $33,248,173 in overtime during FY10:

Auditors 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 and noted the following:

- One of 15 employees tested did not have documentation to substantiate 385 hours in overtime paid.

- Two of 15 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.

- For three of 15 (20%) employees tested who collectively worked 1,287 overtime hours during the three months tested, auditors could not determine whether the overtime worked was reasonable because there was no explanation listed in the purpose for overtime worked.

- One of 15 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.

During regular testing of personnel files and timekeeping records auditors noted eight of 35 employees tested accrued 43 hours of overtime or EET time that was not supported by sign out sheets or overtime cards.

In addition, during the prior period, technical employees had accrued EET balances totaling from 219 to 259 hours when the Department's policies required the EET to be capped at 90 hours. During the current period, the Department amended its personnel policy manual and EET time is now capped at 265 hours for technical employees and maintained indefinitely on a rolling basis.

Response: Accepted. A memorandum will be distributed detailing the levels of responsibility in regards to documenting overtime. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Implemented. A memorandum was distributed to all employees in June 2011 detailing the levels of responsibility regarding overtime.

8. 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. 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, correct any employee's accrued absence balance noted as incorrect and recover any amounts owed by employees. (Repeated-2007)

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

- Six of 35 employees tested had leave requests and sign out sheets that did not agree to TKS.

- For five of 35 employees tested, the Department was unable to provide leave slips for 67 hours of benefit time taken. One of these employees' vacation balance was overstated 7.5 hours.

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

- Fourteen of 35 employees' tested supervisors did not approve their timesheets.

Response: Accepted. 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 employee's absence balances are corrected and recover amounts owed. The Department is also in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide

policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Implemented. A memorandum was distributed to all employees in June 2011 detailing the levels of responsibility regarding leave requests and sign-in/sign-out sheets.

9. Implement controls to ensure vouchers are approved timely and signed and dated by appropriate representative and receiving officer. In addition, ensure all required interest payments are made. Also, implement controls to ensure the receipt date of the proper bill is recorded. (Repeated-2003)

Finding: The Department did not exercise adequate controls over voucher processing.

- Sixty-one of 428 vouchers tested, totaling $53,856,784, were approved for payment from 1 to 242 days late. The required interest of $1,973 was not paid on 9 of these vouchers.

- Sixty-eight of 428 vouchers tested, totaling $63,310,144, were not signed by the receiving officer.

- Twenty-eight of 428 vouchers tested, totaling $3,249,020, were not approved by an authorized Department representative.

- Fourteen of 428 vouchers tested, totaling $2,474,852, did not have support for the date received; therefore, auditors could not determine the timeliness of payment.

Response: Accepted. The Department held a training on the Fiscal Operations and Administration (FOA) system in May 2011. Proper voucher processing was addressed, which included proper signatures, proper signature authority and proper bill date. All accounting entities are now required to maintain a list of the appropriate representatives and receiving officers with signatures. Automated interest invoices are created for Department review prior to processing to ensure all required interest payments are made, the Department is waiting for additional guidance from IOC. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Implemented. The Prompt Payment interest payment process has been automated.

10. 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. Ensure all payments are paid out of the proper fiscal year appropriations. Recoup any overpayments.

Finding: 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 FY10 appropriation.

- For 13 of 453 vouchers tested totaling $194,060, auditors were not provided adequate documentation, so they could not determine if the payments were proper.

- Five of 428 vouchers tested totaling $380,663, were overpaid by $17,277. 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.

- A payment totaling $95,696 for professional services on an airport project performed during FY08 was inappropriately paid from a FY10 appropriation.

Department management stated they are in the process of completely reorganizing the filing system for voucher support documentation. Due to the reorganization, it has been difficult to effectively maintain the organizational efficiency needed to timely locate the appropriate supporting documentation requested by the auditors.

Response: Accepted. The Department is 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. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Implemented. Effective for fiscal year 2012, the Department has implemented a procedure to scan all invoices and supporting documents to be electronically filed.

11. Ensure adequate documentation of employees' use of pool vehicles is maintained. Also, report all vehicle accidents to DCMS within the required timeframe. Further, ensure all employees assigned a State vehicle timely submit the required annual certification. (Repeated-2007)

Finding: The Department did not have adequate controls over tracking the usage and approvals for pool vehicles, reporting of vehicle accidents to the Department of Central

Management Services (DCMS), and ensuring all employees assigned a State-owned vehicle were duly licensed and insured.

The Department did not maintain an adequate written record of usage and approvals for 18 of 25 pool vehicles tested and lacked detailed information concerning purpose or destination of trip, time of check-out and return, driver's signature for use in State business, mileage, employee's driver's license, vehicle's inventory number or license plate number, or proper approval of driver's supervisor.

The Motor Pool Administrator is required to schedule vehicle use and preventive maintenance. Short-term assignments of vehicles are to be recorded in a log book or on a vehicle trip ticket with the required information and maintained by the Pool Administrator.

- Seven of 25 vehicle accidents tested were reported to DCMS from 7 to 204 days late.

- Three of 25 employees tested that were assigned a State owned vehicle did not timely submit the annual liability and licensure certification. Two employees filed the 2010 certification 85 and 87 days late, and one employee failed to file the certification.

Response: Accepted. The Department will be implementing an on-line process that will require all necessary information be provided for the vehicle trip ticket (BoBS 3710). The Department will also be providing additional training with the vehicle coordinators to reinforce the correct processes.

In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

The Department will review accident claims and assure they are timely submitted to DCMS as required by the State of Illinois Self-Insured Motor Vehicle Liability Plan. In addition, the Department will review the annual liability and licensure certifications to assure they are current and completed timely.

Updated Response: Accepted. The Department continues to develop an on-line process for vehicle trip tickets. In addition, training was held to discuss deficiencies in motor vehicle trip tickets, accident reporting, vehicle assignment and annual liability and licensure certification.

12. Implement controls to review the employee override for duplicate payments. In addition, implement controls to prevent duplicate payments between accounting entities and over different fiscal years for the reappropriated accounts. Obtain reimbursement for the duplicate payment. (Repeated-2007)

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

The following two of 25 payments tested were issued twice by the Department:

- $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.

Eight of 25 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.

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.

Department management stated during the prior and current engagements that the errors were mainly due to the accounting system's inability to cross check duplicate payments by two separate accounting entities.

Response: Accepted. The Department held training on the Fiscal Operations and Administration (FOA) system in May 2011. Duplicate payments was 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. In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Accepted. In addition to the training held in May, the Department has begun the discussions on the feasibility of a software solution. The duplicate payments identified in the audit have been addressed by the Department.

13. Strengthen controls over property control. Specifically, implement procedures to ensure all equipment additions are recorded timely and accurately. Also, ensure all property control transactions are adequately supported and inventory listing is accurate. Properly account for equipment waiting for surplus. (Repeated-2007)

Finding: The Department did not maintain sufficient controls over its property control and related records.

- The Department did not timely record 15 of 25 equipment additions tested, totaling $110,821 on its property records. These items were recorded from five to 267 days late. In addition, 10 of 50 equipment vouchers tested totaling $119,579 contained property items that were not recorded on the inventory listing as of 7/15/10.

- Ten of 80 equipment items tested, totaling $115,003, were included on the Department's property control records but could not be physically located. In addition, four of 70 equipment items tested were located but did not trace to the inventory listing. Further, two of 25 deletions tested, totaling $34,050, were not properly approved for deletion and supporting documentation for one deletion tested totaling $9,364 could not be located by the Department.

Response: Accepted. Additional staff is being trained to assist with the property control functions. In addition, the Department has been conducting training with all District offices during FY11 to remind staff of the proper processes to ensure accurate and timely reporting of State property. After the close of field work, the Department located and addressed the items noted in the finding.

In addition, the Department is in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Implemented. The Department conducted training for the Central Office and all District offices except District 3 which is scheduled for January 2012.

14. Ensure interagency agreements are approved prior to the effective date of the agreement. Also, ensure terms of the agreements are followed. (Repeated-2007)

Accepted or Implemented – continued

Finding: The Department process to monitor interagency agreements was inadequate.

- Two interagency agreements relating to personnel tested were not signed by all parties prior to the effective date. The agreements were signed 36 and 48 days late.

- Both agreements tested entered into by the Office of the Governor and the Department and other agencies, for the sharing of employee services (“liaisons”), no performance evaluations were available for review. Both agreements required the Department to maintain all documentation related to leave administration, payroll, and other personnel activities.

- One agreement for a “liaison” entered into by the Department (assigned 40% of the $110,004 salary), the Governor’s Office (assigned 0% of the salary), the Department of Central Management Services (assigned 30% of the salary), and the Capital Development Board (assigned 30% of the salary), required the Department to maintain all documentation related to leave administration, payroll, and other personnel activities. The agreement further assigned the approval of all leave requests, verification of sign-in sheets and accurate timekeeping to the Governor’s Office who would forward the records to the Department within 4 working days at the end of each period. Auditors requested timekeeping records for December 2009 and May 2010 and received no sign out sheets for December, and the only timekeeping forms provided for May were monthly leave requests that were approved by the Governor’s Office on 12/30/10.

Response: Accepted. The Department continues to work with the interagency agreement manager in the Governor’s Office to ensure that all interagency agreements are properly executed before the employee begins work and that all terms of the agreements are followed.

15. Continue to monitor and remind employees that economic interest statements must be filed by the May 1st due date.

Finding: The Department did not have adequate controls to ensure economic interest statements were timely filed by employees by May 1st.

- Two of 25 employees tested did not file a statement of economic interest during FY10. The Department added these individuals to the Secretary of State’s listing of employees required to file statements in FY10.
- One of 25 employees tested filed the economic interest statement 33 days late.

Department management stated employees are not always aware of the significance of filing the Economic Interest Statements and penalties have been assessed.

Response: Accepted. On April 15 of each year the list of employees submitted to the Secretary of State requiring the submission of a Statement of Economic Interest will be reviewed for compliance. Any employee that has not filed their statement by that date will receive a series of communications from the Department’s Ethics Officer until they are in compliance.

16. Timely and accurately perform monthly reconciliations as required by SAMS.

Finding: The Department did not perform required monthly reconciliations.

- The Department did not complete 7 of 14 monthly reconciliations of its FY10 agency records to the Comptroller's Monthly Appropriation Status Report (SB01).

- Seven of 14 monthly reconciliations were performed from 64 to 276 days after the end of the month.

- Two of 14 monthly reconciliations were not properly reconciled. The reconciliations had unreconciled differences totaling $149,000,040 and $32,756,155, which were not reported to the Comptroller's Office as required.

- Seven of 12 monthly reconciliations to the Comptroller's Monthly Revenue Status Report (SB04) for the Road Fund were not dated, so auditors were unable to determine if they were performed timely. In addition, 11 of 12 monthly reconciliations to the SB04 for all other funds were performed 49 to 349 days after the end of the month.

Response: Accepted. The Department continued to experience high staff turnover in the unit responsible for the financial reporting and monthly reconciliations. During FY11, new staff has been hired and the monthly reconciliations are now being completed timely.

17. Comply with statute by making timely deposits into the State Treasury and documenting the receipt date. Further, ensure receipt transactions are properly approved. (Repeated-2007)

Finding: The Department did not timely deposit, maintain documentation of timely deposits, or properly approve receipts.

- The timeliness of deposit could not be determined for 7 of 50 receipts tested totaling $356,362 and all 25 refunds tested totaling $353,320 because the Department did not maintain documentation of the date received.
- Six of 50 receipts tested totaling $704,653 were deposited from one to nine days late.
- Auditors could not determine if seven of 50 receipts tested totaling $735,841 were properly approved as the approval signature on the remittance statement was not legible.

Accepted or Implemented – continued

Response: Accepted. The Department will send out a reminder of the deposit requirements and proper documentation needed to comply with the State Officers and Employees Money Disposition Act (30 ILCS 230/2 (a)). In addition, the Department is in the process of developing a uniform revenue and receivables software program. The Department is also in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Updated Response: Accepted. The Department distributed a memo in June that reminded staff of several processes and procedures including deposit requirements and the need to maintain proper documentation. Development of a uniform revenue and receivables software program continues.

18. Maintain data to facilitate the accurate reporting of fees on the Agency Fee Imposition Report.

Finding: The Department did not maintain supporting documentation for the fees reported on its Agency Fee Imposition Report. The Department reported it collected fees totaling $21,217,188 for 27 different fee types on its FY10 Agency Fee Imposition Report but was unable to provide supporting documentation for all the amounts reported.

- The Department did not maintain supporting documentation for 16 of 27 (59%) fees reported totaling $1,611,603.

- Five of 8 (63%) amounts recorded in the Fee Imposition Report did not agree to the Comptroller's Monthly Revenue Status Report (SB04) and no reconciliation was provided.

Department management stated the lack of documentation was due to oversight by staff that were not familiar with the report.

Response: Accepted. The Department continued to experience high staff turnover in the unit for the financial reporting including the Agency Fee Imposition Report. Appropriate staff has been assigned to this reporting and proper documentation will be maintained to ensure accurate reporting.

Updated Response: Accepted. The Department completed the FY2011 Fee Imposition reporting accurately with the proper documentation maintained.

19. Pursue all reasonable and appropriate procedures to collect on outstanding debts as required. Also, ensure all debts over $1,000 and more than 90 days past due are referred to the Comptroller's Offset System. In addition, establish and implement procedures for the tracking and monitoring of complaints related to billings in all districts. (Repeated-2008)

Finding: The Department did not have adequate controls over the administration of its accounts receivables. The Department did not make adequate collection attempts on eight of 25 "other" or miscellaneous accounts receivables.

- The Department failed to timely send demand notices for seven of 25 miscellaneous accounts receivables tested totaling $2,050,498. The demand notices were sent from 3 to 672 days late.

- The Department did not refer two of 25 accounts receivables tested totaling $11,296 to the Comptroller's Offset system as required. One receivable was paid 616 days late and the other receivable was 281 days late as of 6/30/10.

- One of 25 accounts receivable tested was not referred to the Department's Bureau of Claims as required. The account was 315 days late before it was referred to the Department's Bureau of Claims.

- Three of the nine Department districts did not have an adequate method of tracking and monitoring complaints related to billings. The Department collects various fees including overweight fees, sign permits, diesel emissions, and certificates of safety.

Response: Accepted. The Department continues to improve its collection efforts for all outstanding debts. During FY11, new staff has been hired in the unit responsible for the financial reporting as well as accounts receivable reporting. Emphasis is being placed on developing uniform processes to ensure collection efforts are maximized. The Department will be implementing new requirements for Taxpayer Identification Numbers to be obtained for all accounts receivable accounts in order to facilitate the requirement to utilize the Comptroller's Offset System. In addition, a uniform revenue and receivables software program is being developed that will assist the Department in automatically generating the required late notices as necessary.

The Department is also in the process of identifying potential changes in organizational structure, reporting relationships and technology solutions intended to ensure the development of statewide policies and procedures. The Department feels that policy administration changes are necessary to improve upon and/or reduce the probability of future compliance issues.

Accepted or Implemented – continued

20. Continue developing disaster recovery/business continuity program. Formally communicate recovery requirements to DCMS, and establish and document guidelines that outline both the Department's and DCMS responsibilities.

> **Specifically, upgrade recovery documentation to include details specific to applications and data.**
>
> **Also, coordinate with DCMS and perform and document tests of the recovery documentation at least once a year. In addition, continuously update recovery documentation to reflect environmental changes and improvements identified from tests. (Repeated-2006)**

Finding: Although some progress had been made since the prior period, the Department still had not incorporated planning efforts for the recovery of its applications and data. Additionally, recovery testing of the applications had not been performed during the audit period.

Many of the Department's IT functions were consolidated into the Department of Central Management Services (DCMS), with a physical move of equipment in October 2006. As a result, the Department and DCMS have a shared responsibility over disaster contingency planning.

The Department's Emergency Management Team (EMT) maintained a plan to coordinate overall disaster recovery activities, and the Department also maintained more than 100 Business Recovery Plans (BRPs) for individual business units. The Bureau of Information Processing (BIP) handled the maintenance and support of existing mainframe applications and client/server applications for the Department.

Upon review of the BIP Operations Business Recovery Plan (BRP), auditors noted the BRP did not identify, document and provide for communication of DCMS roles and responsibilities. In addition the BRP did not provide for procedures and requirements specific to its applications and data, and the communication of these procedures and requirements, to ensure proper coordination of recovery efforts between the Department, DCMS and the user community. Although the Department shares some responsibility with DCMS, the Department has the ultimate responsibility to ensure it has the capability to recover its applications and data.

Department officials represented that the Department continues to develop and update recovery documentation. However, pursuant to statute, the environment is now owned, managed, and maintained by DCMS and DCMS had not finalized its recovery documentation associated with the Department's environment. Thus, the Department has been unable to ensure all roles and responsibilities are appropriately established and documented within its recovery plans and that these plans are synchronized with the DCMS plans.

Additionally, the Department continues to provide additional documentation for the DCMS Business Application Database related to Disaster Recovery timeframes and needs of the Department. The Department has been working with DCMS since January 2007 to schedule testing of specific BRPs; however, they have been unable to perform recovery testing of specific applications and data.

<u>Response:</u> Accepted. The Department continues to work with Central Management Services (DCMS) pursuant to Public Act 93-0839 in which DCMS has assumed responsibility for the Statewide Information Technology Infrastructure. The Department has begun the process of a comprehensive Disaster Recovery (DR) planning effort. In order for the Department to perform DR Planning, it requires cooperation and work with several offices/agencies. Agency facilities are managed by DCMS and the computer infrastructure is managed by the DCMS-Bureau of Communication and Computer Services (DCMS-BCCS). The Department will be working with both CMS and DCMS-BCCS to coordinate a comprehensive DR planning effort. This effort is extremely important to ensure that we have the ability to continue the functions and operations to meet the mission of the Department. The Department has been working with DCMS since January 2007 to schedule testing of specific IDOT BRPs.

<u>Updated Response:</u> Implemented. The Department has developed procedures for its disaster recovery planning. The procedure has been provided to CMS.

21. Contact the appropriate officials regarding appointments to an advisory committee.

<u>Finding:</u> The Department did not have a member serving on the advisory committee as required by the State Construction Minority and Female Building Trades Act. The Department stated they are unable to take action on the advisory committee because appointments have not been made. The advisory committee had not been established.

<u>Updated Response:</u> Implemented. The Department has contacted DCEO identifying the Department's compliance with Public Act 30 ILCS 577/35-20(d).

22. Continue to collaborate with DCMS on the implementation of the Code requirements and ensure it reports annually to the Governor and General Assembly the progress and any associated costs incurred by implementing the Code's section.

<u>Finding:</u> The Department did not comply with certain provisions of the Highway Code regarding the installation of fiber-optic network conduit where it does not already exist in every new State funded construction project that opens, bores, or trenches alongside a State-owned infrastructure, including, but not limited to, roadways and bridges. DCMS and the Department are further required to take reasonable steps to ensure market-based, non-discriminatory pricing.

Accepted or Implemented – concluded

The Department did collaborate with DCMS during FY10; however, the Department had not been able to convey the need for fiber-optic conduits in its bidding process due to most projects being bid applying to only small stretches of highway. In addition, no annual report had been filed with the Governor and the General Assembly as of the end of fieldwork.

Response: Accepted. After reviewing the scope of the Illinois Broadband Opportunity Partnership regional proposals it became clear that the network being constructed by these partnerships is huge and once implemented will cover a large portion of the State of Illinois. It also became clear that these projects, which will be installing fiber optic cables on IDOT right-of-ways, would make most of our installations of conduit redundant. Our long term strategy now is to identify "gaps" in this emerging network and identify which of our planned road and bridge projects are potential candidates for installation of fiber optic network conduit.

Updated Response: Implemented. The Department submitted the FY2011 Annual report as required. The Department continues to work with CMS on the implementation of the Code requirements.

23. Submit the required report or seek legislation to eliminate this reporting requirement if the Committee no longer exists. (Repeated-2009)

Finding: The Department did not submit a required report to the National Highway Safety Advisory Committee (Committee) on school bus accidents and accidents resulting in personal injury to or the death of any person within 50 feet of a school bus while awaiting or preparing to board the bus or immediately after exiting the bus to the Committee annually or as requested by the Committee. The Department did not submit a report to the Committee during FY10.

Response: Accepted. According to the National Highway Traffic Safety Administration, the National Highway Safety Advisory Committee no longer exists. The Department is working with its Legislative Office to eliminate this requirement from the Illinois Vehicle Code (625 ILCS 5/11-414).

Emergency Purchases

The Illinois Procurement Code (30 ILCS 500/) states, "It is declared to be the policy of the State that the principles of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts...." The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption when there exists a threat to public health or public safety, or when immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage to State Property, to prevent or minimize serious disruption in critical State services that affect health, safety, or collection of substantial State revenues, or to ensure the integrity of State records; provided, however that the term of the emergency purchase shall not exceed 90 days. A contract may be extended beyond 90 days if the chief procurement officer determines additional time is necessary and that the contract scope and duration are limited to the emergency. Prior to the execution of the extension, the chief procurement officer must hold a public hearing and provide written justification for all emergency contracts. Members of the public may present testimony.

Notice of all emergency procurement shall be provided to the Procurement Policy Board and published in the online electronic Bulletin no later than 3 business days after the contract is awarded. Notice of intent to extend an emergency contract shall be provided to the Procurement Policy Board and published in the online electronic Bulletin at least 14 days before the public hearing.

A chief procurement officer making such emergency purchases is required to file an affidavit with the Procurement Policy Board and the Auditor General. The affidavit is to set forth the circumstance requiring the emergency purchase. The Legislative Audit Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During FY10, the Department filed affidavits for eight emergency purchases totaling $696,030.72, as follows:

- $ 216,424.26 for Mississippi River Project Analysis;
- $ 139,050.97 for environmental analysis;
- $ 125,757.75 for monitoring of ARRA spending;
- $ 113,564.39 for repairs; and
- $ 101,233.35 for sludge removal.

Headquarters Designations

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

As of July 2010, the Department of Transportation had 970 employees assigned to locations other than official headquarters.