LEGISLATIVE
AUDIT
COMMISSION

Review of
Illinois State Toll Highway Authority
Financial Audit and Compliance Examination
Year Ended December 31, 2005

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REVIEW: 4271
STATE TOLL HIGHWAY AUTHORITY
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
YEAR ENDED DECEMBER 31, 2005

FINDINGS/RECOMMENDATIONS - 9
ACCEPTED - 4
IMPLEMENTED - 5

REPEATED RECOMMENDATIONS - 3

PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 10

This review summarizes the auditors' reports of the Illinois State Toll Highway Authority filed with the Legislative Audit Commission November 16, 2006. The auditors performed a financial audit and compliance examination for the year ended December 31, 2005 in accordance with G*overnment Auditing Standards* and State law. The auditors stated that the financial statements were fairly presented.

The State Toll Highway Authority was established in 1968 to provide for the construction, operation, regulation and maintenance of a system of toll highways to accommodate the traveling public through and within the State. The Authority has the power and responsibility to establish and collect tolls sufficient to pay for maintenance, repairs, regulation, and operation of the toll highway system and to meet the principal and interest bond funding requirements. The Authority does not receive any governmental appropriations. It was awarded a federal grant for value pricing and may receive up to $360,000 in cost reimbursement. Under the provisions of State law, no bond issue of the Authority, or any interest thereon, is an obligation of the State.

The Authority's predecessor, the Toll Highway Commission, issued revenue bonds totaling $493 million to finance the original three toll highways. Since 1985, the Authority has issued almost $2.8 billion in bonds.

The operations of the Authority are administered by an 11-member Board of Directors, which includes the Governor and Secretary of the Illinois Department of Transportation. The other nine members are appointed by the Governor with the advice and consent of the Senate. Mr. Jack Hartman resigned as the Executive Director effective February 23, 2006. He had served as Executive Director since January 2003. Ms. Marilyn Johnson was Acting Executive Director from February 24, 2006 through March 29, 2006. Mr. Brian McPartlin was appointed Executive Director on March 30, 2006. He continues to serve in that position. Since early 2003, Mr. McPartlin had served as the Tollway's Chief of Administration.

The number of employees during the years indicated appears on the following page.

	Full Time	Part Time	Temporary	Total
2005	1,717	82	6	1,805
2004	1,625	251	17	1,893
2003	1,617	277	26	1,920
2002	1,680	276	64	2,020
2001	1,724	317	31	2,072

The 2005 data includes 148 State troopers, 527 full-time toll collectors, 10 full-time lane walkers, and 48 plaza supervisors and assistants.

Financial Information

Appendix A provides a summary of toll revenue by class of vehicle and other revenue sources. Average daily transactions represent the average daily number of vehicles passing through toll plazas. Although the number of vehicles dropped by 6.7% or 150,263 vehicles, total revenue rose from $427,885,781 in FY04 to $631,577,823, an increase of $203.7 million, or 47.6%. This was due almost entirely to changes in certain rates based on the principles of "Congestion Pricing," which charges higher rates for commercial vehicles using the Tollway system during peak time periods of daily travel in order to reduce congestion and expedite travel times. Toll evasion recovery increased to almost $27 million as a result of consistent collection efforts.

Net receivables were almost $43 million in 2005, up 35.6% from 2004, and comprised primarily of overdue tolls ($21 million) and tolls ($10 million).

Appendix B presents the statement of net assets for year ended December 31, 2005 and 2004. Total assets were $3,647,279,040 as of December 31, 2005 compared to $2,416,131,036 as of December 31, 2004. Capital assets comprised the largest portion of the Authority's assets, which included the historical cost of land, roadway, and structures, buildings and related improvements and equipment. Expenses for the maintenance and repairs of the roadway and related improvements are charged to operations when incurred. The largest 2005 liability of the Authority totaled $1.4 billion for outstanding revenue bonds.

Changes in Net Assets

Appendix C is a summary of the revenues, expenditures, and other changes in net assets for the two years ended December 31, 2005 and 2004. Operating revenues increased 46.2%, or $193.5 million, in 2005 when compared to 2004, primarily due to charging higher rates to vehicles using cash and commercial vehicles using the Tollway during peak travel hours. Operating expenses increased by 7.2%, or $24.6 million in 2005 due to increased depreciation and higher toll collection costs. Net assets increased approximately $228 million from 2004 to 2005.

Capital Assets

Appendix D summarizes the changes in capital assets for which the Authority was accountable during 2005 and 2004. Capital assets increased from $4,153 million as of December 31, 2004, to $4,715 million as of December 31, 2005, an increase of $562 million, or 13.5%. The Tollway added almost $182 million in infrastructure and $358.6 million in construction in progress as of December 31, 2005.

State Administrative Chargeback

The FY2004 budget included a provision to charge an administrative fee to offset costs borne by the general funds for services provided to agencies or programs financed by special funds. When the Governor's Office of Management and Budget (GOMB) first initiated a transfer of $19 million from the Tollway in FY04, the Attorney General raised concerns about the legality of the transfer and the State Comptroller suspended action on the transfer pending a legal determination from the Attorney General on whether the money belonged to Tollway bondholders. The Tollway's general counsel, an Assistant Attorney General along with bond counsel, a Special Assistant Attorney General, concluded that the Tollway could pay operating expenses of this kind to the State as long as they were reasonable and necessary, and were not in excess of aggregate amounts provided in the Tollway's annual budget.

The Governor's Office of Management and Budget and the Tollway worked cooperatively to determine a methodology to determine a reasonable basis for calculating the value of services provided to the Tollway which were borne by State general funds. The Tollway and GOMB settled on a cost allocation methodology that summed all costs borne by the general funds for types of services provided to the Tollway by numerous State agencies and offices, and then allocated a pro-rata portion to the Tollway.

Collectively, the parties agreed to an allocation based upon the Tollway's portion of State headcount. For FY04, the portion of costs owed by the Tollway was determined to be 2.46% (number of Tollway employees divided by total active SERS employees) of the total cost of identified shared services. Using this methodology, it was agreed the Tollway would remit payment of $11,653,100 to the State for reimbursement of Tollway costs borne by the general funds. Using the same methodology, it was agreed the Tollway would remit $11,046,900 for FY05. The Tollway's share of the cost of identified state services was 2.51% for 2005.

Accountants' Findings and Recommendations

Condensed below are the nine findings and recommendations presented in the auditors' report. There were three repeated recommendations. The following recommendations are classified on the basis of information from the report as well as updated information provided by Patricia Pearn, Fiscal Operations Manager, Illinois State Toll Highway Authority, in a memo received via email dated August 21, 2007.

Accepted or Implemented

1. **Assign responsibility for reconciling all significant balance sheet accounts, including those that are quantitatively significant and those that are qualitatively significant or susceptible to fraud (cash and investments). All adjustments that result from the reconciliation process should be approved and documented in writing by supervisory personnel prior to posting them to the general ledger. Adjustments that are only recorded at year-end in connection with producing the audited financial statements should also be reviewed and approved by supervisory personnel.**

   Also, maintain detailed support for all balance sheet accounts and review and reconcile the account detail on a monthly basis in order to ensure accurate financial reporting, safeguard assets, and strengthen internal controls over financial reporting.

   Further, investigate all balances recorded in the "Stale Dated Warrants" account balances and remit all appropriate unclaimed property to the State in accordance with the Uniform Disposition of Unclaimed Property Act.

Finding: The Tollway is not completing timely reconciliations for some of their significant general ledger accounts.

The auditors noted that certain significant general ledger account balances were not timely reconciled to supporting documentation or subsidiary ledgers. As a result, adjustments to the books and records were being recorded more than six months after the Tollway's fiscal year end. In addition, numerous corrections were being made to the general ledger, as the audit was ongoing which led to inefficiencies and delays in completing the audit. The auditors noted the following:

- Book adjustments to cash of approximately $28 million were posted after the draft financial statements were provided to the auditors. Some of the adjustments were posted as late as July 2006, seven months after year-end. The adjustments were to adjust year-end general ledger balances to reconciled cash balances, and to correct posting entry errors in the year-end cash reported in the general ledger.

- Adjustments to investments of approximately $2.8 million were identified by the auditors and classified as passed adjustments at year-end.

- Adjustments to accrued interest receivable amounting to approximately $9.4 million were identified by the auditors and recorded in July 2006. The adjustment related to deep discount investments that were reported at fair value and had a reported amount for accrued interest receivable. The adjustment was necessary to correct the accrued interest receivable for these non-interest paying investments.

- The balance reported as “Other Accrued Expenses” in the general ledger, consisting principally of construction related liabilities, was overstated by approximately $2.5 million compared to the supporting documentation provided during the audit. The auditors proposed an adjustment for this amount.

- During review of Accounts Payable the auditors noted three “Stale Dated Warrant” accounts, totaling $528,595, which were not substantiated with support. Tollway personnel stated that the stale dated warrants are old outstanding checks that the Tollway believes have been reissued or never cashed. At some point these outstanding checks were reversed from cash to a payable until further investigation could be done to determine if they should appropriately be written off.

- In addition, the Tollway has a balance of approximately $1.5 million in the “Due to From” account (a component of accounts payable in the financial statements) that is unsubstantiated as of December 31, 2005. The auditors proposed an adjustment to write-off this amount.

Tollway management stated that their financial reporting systems are over 20 years old and extremely cumbersome to work with. Further, several key employees were on leaves during the year-end close, and one accountant previously integral to the preparation of financial statements resigned during the audit, resulting in delays in closing the books and the use of newly hired, inexperienced staff. Additionally, in late 2005 there was a banking change to improve the accounting for Tollway cash. This change resulted in 9 additional bank accounts established by the State Treasurer, requiring reconciliation. As the Tollway worked to obtain all the necessary bank statements from the Treasurer, put processes in place, and staff vacant positions, they were delayed in fully reconciling every balance in their financial statements.

Several of the Tollway’s accounts were misstated in the trial balances initially presented to the auditors. Most of these misstatements were identified by the auditors during the audit process and were not detected by employees or management while performing their assigned duties. Without a process whereby all significant balance sheet accounts are reconciled and adjusted on a regular basis, the amounts reported by the Tollway may be materially misstated in interim financial statements and reports as well as at year-end. In addition, identifying and posting entries during the audit process delays issuance of the audited financial statements.

Updated Response: Implemented. A process whereby all general ledger accounts are assigned to specific employees and monthly reconciliation workpapers are prepared and approved by supervisors. This approval is noted on the workpaper. The monthly

Accepted or Implemented – continued

workpapers contain documentation to support all balance sheet accounts the Tollway continues to standardize and improve this process as we go along.

We filed the Unclaimed Property report by the November 1, 2006, deadline and remitted unclaimed funds to the State.

2. Continue to implement controls to identify any violations resulting from improper transponder usage. (Repeated-2002)

<u>Findings:</u> The Tollway did not have the proper internal controls in place to classify all I-PASS transactions properly in some of the lanes.

The lane equipment is able to read the I-PASS transponder and "collects" the revenue based on the classification of the transponder as it was originally issued. The number of axles determines the classification of a vehicle. The toll collection and I-PASS system reports the transaction by the original transponder class. A violation is only recorded in the lanes affected if there is no transponder to read or if a transponder that was read is identified as insufficient, invalid, lost/stolen, etc. A violation would not be recorded if a vehicle passed through the lane with a transponder that does not correlate to the class of the vehicle.

According to Tollway management, a decision was made to delay installation of the vehicle identification system in old roads. The Tollway waited to install the system in conjunction with the conversion to open road tolling lanes.

<u>Response:</u> Accepted. The Tollway expects to complete implementation in 2007 with the completion of Open Road Tolling and plaza reconstruction.

3. Follow established procedures to ensure all bank accounts are reconciled in a timely manner. In addition, all bank reconciliations should be initialed and dated by the preparer and reviewer. Finally, reconcile the ending cash balance to the Tollway's cash balances on a monthly basis. (Repeated-2003)

<u>Finding:</u> The Tollway did not complete bank reconciliations in a timely manner and the cash balance was not reconciled with the Comptroller's SB05 cash report for the months of January through November 2005. In addition, the auditors could not determine the dates that the reconciliations were prepared or approved.

During the review of 28 bank reconciliations, the auditors noted the reconciliations did not contain the initials and dates of the individuals that prepared the reconciliations on a monthly basis.

Tollway officials stated that the current Tollway computer systems (all of which are in excess of 20 years old) do not allow for general ledger balances in the current year to be viewed until the prior year's activity has been audited, any necessary adjustments have been made, and the previous year file on the general ledger is locked and closed. As a result of this limitation, formal and final reconciliations between the general ledger and bank statements are postponed until the completion of the prior year's audit—normally occurring each year in the late spring. Until this general ledger system is replaced by modern, flexible software, monthly bank reconciliations in the first 4-6 months of each year will be prepared several months late.

Response: Accepted. The Tollway has amended our processes to complete bank reconciliations and reconcile the SB-05 every month.

The Tollway has assigned responsibility for specific general ledger accounts to specific employees. We have also implemented daily on-line viewing of bank account information and more frequent recording of cash activity. This has permitted us to reconcile our bank accounts to subsidiary ledgers on a timely basis. All bank reconciliations now require preparer's initials and date, as well as supervisor approval.

The system limitations will not be easily cured. A replacement ERP system has been budgeted and the Tollway is developing an RFP to acquire the system. Until a new system is acquired, we will continue to be unable to complete final, formal reconciliations during the early part of each fiscal year. But the work to transition cash accounting from one general ledger account to a basis in which each bank account has its own GL account has been completed, and staff and procedures are in place to do reconciliations on a timely basis.

4. Prepare a formal written process and procedure document to clearly define the criteria for capitalization of individual capital assets for financial reporting purposes in accordance with generally accepted accounting principles (GAAP).

In addition, the processes and procedures should:

- **Act as the source document for determining the useful lives for those assets that will be capitalized.**
- **Address how frequently the useful lives will be reviewed and adjusted, if necessary.**
- **Specify the level of detail to be maintained in support of capital assets.**
- **Address the capitalization threshold amounts for capital assets.**
- **Address the depreciation method used for capital assets.**
- **Address responsibility for determining which expenditures are capital in nature versus an expense item (engineering personnel versus accounting personnel).**

Accepted or Implemented – continued

- **Specify who is responsible for maintaining capital asset records on an ongoing basis, and who is responsible for reviewing and approving amounts reported.**
- **Address capital asset retirements, sales and other disposals, including infrastructure assets.**

The processes and procedures document should be approved by management.

Further, install comprehensive software to inventory and depreciate capital assets. The general ledger should then be adjusted to reflect the inventory records after physical inventories are conducted. If the capital asset system is not integrated with the general ledger, then records should be reconciled at least monthly.

In addition, transfer construction in progress projects to infrastructure when they are substantially complete and in use, and begin depreciating these assets at that time.

Finally, implement policies and procedures to ensure the policy of capitalizing only amounts greater than or equal to $5,000 is followed.

Finding: The Tollway's practices and procedures for recording and maintaining capital asset records needs improvement.

During the audit of the capital assets records, the auditors noted the following:

- Beginning of the year accumulated depreciation for infrastructure capital assets was overstated by approximately $45.6 million. During fiscal years 2003 and 2004, depreciation expense was recorded for infrastructure assets that were already fully depreciated. As a result of this error, the December 31, 2004 net assets of the Tollway required a $45.6 million restatement (increase in net assets).
- Although the Tollway has a formal written capitalization policy addressing items such as the capitalization threshold and useful lives, there are no detailed written processes and procedures documenting other aspects of capital asset reporting and controls.
- Under current Tollway practice, capital asset additions are added to an electronic spreadsheet in pools. Each year a new pool is created for each category of capital asset additions (infrastructure, infrastructure facilities, Fiber Optics system, buildings and machinery and equipment). Deletions of capital assets are not assigned to these annual pools. Instead, they are applied to the category as a whole (i.e. machinery and equipment). The Tollway depreciates its assets using pools rather than at a detailed level. As a result, there is not a detailed listing of

capital assets on hand as of year-end that supports the amounts reported on the year-end financial statements.

- The Tollway does not have an effective system to identify completed construction projects that should be moved from construction in progress to depreciable infrastructure. There are items on the construction in progress (CIP) listing and included in the reported CIP balance, that are substantially complete and in use. At December 31, 2005, these amounts totaled approximately $65 million, out of approximately $520 million total CIP, or 12%. Since these projects are essentially complete and the assets are in use, these infrastructure assets should be depreciated. The estimated amount of unrecorded depreciation expense for December 31, 2005 is $3.1 million. An adjustment to the Tollway's financial statements was proposed. The balance of accumulated depreciation at December 31, 2005 is also understated due to the cumulative effect of this practice over several years.
- The supporting documentation for the 2005 beginning balance reported for accumulated depreciation did not agree to the amount reported as ending accumulated depreciation in the 2004 financial statements. The beginning balance per the 2005 financial statements was $1,085,065 million less than the depreciation roll forward schedule provided to the auditors for 2005. In addition, depreciation expense reported in the roll forward schedule varied from amounts recorded in the financial statements by $453,785 (roll forward was understated). Year-end accumulated depreciation per the roll forward schedule was understated by $631,280 compared to the financial statements. The Tollway was unable to account for the difference and, accordingly, an adjustment to their financial statements was proposed.
- The Tollway is capitalizing assets with a historical cost less than $5,000; however their policy states that only capital assets with a cost in excess of $5,000 should be capitalized.

Tollway management stated that their financial reporting system was designed to fulfill the requirements of its Trust Indenture, which does not require that capital assets be accounted for in any way. When the GAAP capitalization requirement was introduced, the Tollway initially relied on "stop-gap" systems to fulfill GAAP requirements. In more recent times, the expectation has been that an Enterprise Resource Planning systems project would be initiated and that new Tollway financial software would handle the capitalization and depreciation of capital assets.

Updated Response: Implemented. A written process document was developed to define the procedures for capital asset accounting. This was approved by management.

A depreciation software program was purchased and capital assets are now set up as individual items and depreciated on an asset by asset basis. This software program also aids in assuring that no assets costing less than $5,000 are inadvertently capitalized.

Substantially completed projects were properly transferred from construction in progress to infrastructure.

Accepted or Implemented – continued

5. Maintain a detailed record of all receivables, including the violation penalties. The detailed record should be reviewed by a supervisor on a monthly basis, with supervisor approval clearly documented in writing.

Finding: The Tollway does not maintain a detailed record of the outstanding violation penalties receivable. In addition, the Tollway's service provider did not engage an independent auditor to review the control objectives and control activities in place at the outside service provider.

The Tollway currently uses an outside service provider to maintain all records pertaining to violation penalties. Tollway management indicated that the violation system does not currently have the ability to generate a report that produces the detail to support the summarized aged receivable, which would include the individual's name, transaction date and amount. The receivable, net of the allowance for uncollectible amounts as of December 31, 2005 is approximately $21 million.

According to the Tollway, during 2005, the violation system did not have the capability to produce a detailed report of the individual accounts comprising the receivable balance. However, the detail of the individual invoices is available within the system. In lieu of this report, the Tollway requested the vendor to have a SAS 70 review of internal controls performed but the vendor refused to do this at a reasonable cost to the Tollway.

Response: Accepted. Tollway agrees that the violation system should produce a detailed listing that reconciles to a system aging report. This service provider and the violations system will be replaced in 2006 with a new system that has the capability to provide the detail of the aged receivable balance. On August 24, 2006, the current service provider was able to produce a detailed listing to support the 12/31/05 receivable balance that exactly matched the aging report from their system.

Updated Response: Accepted. We are transitioning to a new violation system that will produce a detailed accounts receivable aging report.

6. Review policies and procedures for ensuring that required forms are filed in a timely manner and for all correct, final adjusted balances. (Repeated-2004)

Finding: The Tollway was delinquent in filing the fourth quarter C-17 (Report of Locally Held Fund) and the report submitted was not accurate.

The fourth quarter C-17 was due on January 30, 2006 and was filed on February 15, 2006. In addition to being filed late, the C-17 was submitted prior to all journal entries being posted. The amounts reported on the C-17 were not indicative of the final balances reflected in the December 2005 financial statements. The fourth quarter C-17 has not been resubmitted with the actual numbers as of June 2006.

According to Tollway management, the failure to file the C-17 in a timely manner was due to several employees being on leave at that time of the year. The workload for the remaining employees was increased. As a result of an oversight, this form was filed 2 weeks late.

Response: Accepted. The new process now in place to reconcile the general ledger balances monthly will result in timely posting of journal entries; hence, the C-17 reports will be accurate.

Updated Response: Implemented. All C-17's – Report of Locally Held Funds – were submitted timely and accurately for 2005.

7. Adequately review and properly approve all vouchers and process them in a timely manner.

Finding: The Tollway did not approve vendor invoices within 30 days of receipt or pay vendors within 60 days after receipt of the invoices. Twenty-one of 200 (11%) vouchers sampled for testing were not approved within 30 days after receipt of vendor invoices. Twenty-three out of 200 (12%) vouchers sampled for testing were not paid within 60 days after receipt of vendor invoices. In addition, two vouchers were not properly approved by the appropriate department head. Finally, two invoices totaling $21,839 were not signed by the Department Chief. These invoices were above the Tollway's approval threshold of $10,000, and required approval by the Department Chief.

According to Tollway management, every effort is made to approve invoices timely; however, there are cases where additional information, such as a pending credit memo, may delay the process. Also, it is sometimes necessary to route invoices through numerous approvers prior to payment.

Response: Accepted. As stated above, there are instances where invoices received require further information/documentation from the vendor. As the Tollway has begun implementing the Congestion-Relief Program, they are working with more vendors than before, many of which are working with the Tollway for the first time and are unfamiliar with our invoicing processes. As a result, they are initiating a process to better document these exceptions and working to better educate new vendors about the Tollway's invoicing process.

Updated Response: Implemented. As we have progressed with our Congestion Relief Plan, newer vendors have become more familiar with the Tollway's invoicing process. As a result, the instances of untimely invoice approval and processing have been reduced.

Accepted or Implemented – continued

8. **Revise the current I-PASS Financial Policies and Procedures manual as necessary, then approved by appropriate management personnel and issued to those employees working in the department. In addition, the policy and procedures manual should clearly indicate that approvals from the department managers, or other authorized individuals, should be documented in writing. All payments to the E-ZPass Interagency Group (IAG) should be supported by statements that indicate written manager approval.**

<u>Finding:</u> The Tollway does not have an approved manual for I-PASS financial policies and procedures. In addition, the current version of the manual does not specify which manager approvals should be documented in writing.

The review of the "I-PASS Financial Policies and Procedures" manual indicated that the current manual in use by the Tollway is in draft form. Additionally, two of the four monthly E-ZPass Interagency Group reconciliations (50%), totaling $2,201,974, did not have written approval from the department manager.

Tollway management stated the manual was recently amended in draft form to include procedural changes associated with new I-PASS processes and systems, including changes resulting from the addition of the IAG and the Chicago Skyway. In addition, although the IAG reports were verified by the proper personnel, the signature was overlooked.

<u>Updated Response:</u> Accepted. The IPASS Financial Policies and Procedures manual was finalized and approved by management. The policy indicates what approvals need to be documented in writing and requires all IAG payment requests to be approved in writing by management.

9. **Complete all required internal audits on a timely basis. Further, the Chief Internal Auditor should report directly to the Chief Executive Officer at the Tollway.**

<u>Findings:</u> The Tollway failed to audit the required major systems of internal accounting and administrative controls of the Tollway for the year ended December 31, 2005.

The auditors noted the Tollway did not complete any internal audits of major systems of internal accounting and administrative controls during fiscal year 2005. Required audits would include the following areas of internal accounting and administrative controls:

- Tollway organization and management
- Budgeting, accounting and reporting
- Property, equipment and inventory
- Revenues, receivables and cash
- Personnel & Payroll

- Roadway Maintenance & Property Rehab & Improvements
- Expenditure control
- Administrative Support Services
- Purchasing & procurement
- Petty Cash & Local Funds
- Electronic Data processing

Tollway management stated that Executive Order # 10 specified that the internal audit function of the Tollway, along with other state agencies be transferred within the Illinois Office of Internal Audit (IOIA), a division of the Department of Central Management Services. IOIA prepared a risk assessment and tentative audit plan for the Tollway for 2005 and 2006. However, after a period of negotiation between the Tollway and IOIA, the Tollway was notified by IOIA that due to the timing of the negotiations they would not be able to carry out the proposed 2005 audit plan.

The Tollway's Internal Audit Department was reorganized as the Enterprise Control & Compliance Unit, reporting to the Tollway's Inspector General. The Enterprise Control & Compliance Unit did conduct pre-implementation, internal control and operational reviews of various functions within the Tollway during 2005. Areas reviewed included:

- Compliance reviews of oases leases
- Unannounced verifications of revenue day counts by Tollway money room
- Unannounced plaza change fund verifications
- Pre-implementation reviews of new computer systems, including violations, IPASS and lane host systems.

Response: Accepted. The Internal Audit Department was re-established in June 2006 when a Chief Internal Auditor, who will report to the Executive Director, was hired. The Internal Audit Department intends to perform the required reviews of major systems of internal controls.

Updated Response: Accepted. In 2006, the Tollway began to rebuild their Internal Audit Department. However, the department was not fully staffed early enough in the year to complete all required audits, although this process was begun. In 2006, an audit of petty cash was performed. So far in 2007, two of the required cycle audits have been completed (Agency Organization and Management and Expenditures). Two more required audits are currently in process (Procurement and Personnel & Payroll).

In addition, the following required audits are on the 2007 audit plan:

- Property, Equipment and Inventories
- Administrative Support Services
- Revenues, Receivables and Cash
- Electronic Data Processing
- Budgeting, Accounting and Reporting

This plan should result in the completion of 9 of the 10 required audits by the end of 2007.

Accepted or Implemented – concluded

The Chief Internal Auditor reports to the Executive Director of the Tollway.

Emergency Purchases

The Illinois Purchasing Act (30 ILCS 505/1) states, "The principle 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 for emergencies, "Involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records. The chief procurement officer may promulgate rules extending the circumstances by which a purchasing agency may make "quick purchases", including but not limited to items available at a discount for a limited period of time.

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The 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 calendar 2005, the Authority filed five affidavits for emergency purchases totaling $844,806.25. Of that amount, $561,444.00 was for building and pavement repairs, $243,762.25 was for fuel, and $39,600.00 was for message signs to direct traffic.

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 its officers and employees for whom official headquarters have been designated at any location other than that at which official duties require them to spend the largest part of their working time. In January 2006, the State Toll Highway Authority reported it had no employees assigned to locations other than official headquarters.