

**Review: 4356**  
**Statewide Single Audit**  
**Year Ended June 30, 2010**  
**Illinois Department of Transportation**

**FINDINGS/RECOMMENDATIONS – 9**  
**Repeated – 6**

**Accepted – 5**  
**Implemented – 4**

**10-81. The auditors recommend IDOT establish formal criteria for determining which subrecipients will be subject to periodic on-site reviews on an annual basis. (Repeated-2005)**

**Findings:** IDOT is not adequately performing on-site monitoring procedures for subrecipients receiving federal awards under the Airport Improvement Program.

IDOT passed through approximately \$25,358,000 to 39 subrecipients of the Airport Improvement Program during the fiscal year ended June 30, 2010. The majority of the subrecipient grants pertain to construction projects for airport improvement or noise abatement projects. Effective in FY10, IDOT developed standardized checklists for conducting on-site reviews of its subrecipients receiving federal awards under the Airport Improvement Program. The auditors noted IDOT has not established criteria for determining which subrecipients will be subject to on-site monitoring procedures on an annual basis. Only one subrecipient was subject to an on-site review during the fiscal year ended June 30, 2010.

In discussing these conditions, IDOT officials stated they monitored subrecipients by reviewing grant applications, receiving periodic expenditure reports, reviewing invoices for noise abatement projects, and reviewing OMB Circular A-133 audit reports.

**Response:** The Department agrees with the finding. Although the Department believes that they have documented reasonable assurance of federal AIP grant compliance for local let projects in accordance with OMB Circular A-133, the Department will expand its on-site monitoring efforts to include auditing 20% of the projects that are let locally each year. As such, the 'Administrative Bulletin 2010-01' will be revised to establish formal criteria for determining which subrecipients will be audited.

**10-82. The auditors recommend IDOT review its current record retention policies and procedures and implement the changes necessary to ensure documentation is retained in accordance with federal regulations.**

**Findings:** Contractors must receive advance approval from IDOT to bid on construction projects. As a condition of obtaining IDOT's advance approval, contractors are required to submit an affidavit of availability, which identifies the total value of work previously awarded but not yet complete by the contractor, the contractor's commitment of equipment and personnel on payroll for the planned project, any proposed work on which the contractor is the low bidder which has not yet been awarded, all subcontractors used by the contractor on its projects, and the value of work sublet by the contractor. This affidavit is used by IDOT to determine whether the contractor has available capacity to complete the project.

During testwork over 40 contractor payments (totaling \$74,578,444), auditors noted the affidavit of availability for eight contractors (with sampled payments of \$11,085,747) could not be located. These projects were originally bid prior to FY05 and the affidavits of availability were purged in accordance with IDOT's record retention policy which only requires documentation of this nature to be retained for a five year period. Accordingly, IDOT has purged the affidavits of availability for all projects which were bid prior to July 1, 2004. Federal regulations require records to be retained for a period of three years after final payments and all other pending matters are closed.

In each of the procurement files missing the affidavit of availability, each of the advance approval criteria was verified through additional supporting documentation in IDOT's electronic records.

**Response:** The Department agrees with the finding. The Department will review the current record retention policy and revise as necessary.

**10-83. The auditors recommend IDOT establish procedures to ensure the provisions requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations are included in all executed contracts. (Repeated-2009)**

**Findings:** IDOT did not include provisions in the construction contracts requiring the contractors and subcontractors to comply with the Davis-Bacon Act and Department of Labor Regulations for the Highway Planning and Construction Cluster Program.

The regulations require, in part, that all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid prevailing wage rates established for the locality of the project. IDOT's process to comply with these requirements includes informing their contractors of the applicability of these requirements through communications in the bid documents and obtaining weekly certified payroll reports from contractors. However, IDOT did not include in all of their contracts a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and related DOL regulations.

**Response:** Implemented. The Contracts Office of the Bureau of Design and Environment has been including the required provisions for the Davis-Bacon Act and U.S. Department of Labor regulations in the proposals/contracts subject to those requirements since the November 6, 2009 letting.

**10-84. The auditors recommend IDOT implement procedures to ensure amounts reported by subrecipients in the schedule of expenditures of federal awards are reconciled to departmental records. (Repeated-2002)**

**Findings:** During testwork, auditors noted the checklist used by IDOT to perform A-133 desk reviews does not include procedures to reconcile federal funds spent by IDOT to the schedule of expenditures of federal awards reported by the subrecipient. As a result, IDOT is not able to determine whether federal awards passed through to subrecipients have been properly included in the subrecipients' OMB Circular A-133 audits.

In discussing these conditions with IDOT officials, they stated reconciliation procedures were being developed.

**Response:** Implemented. During fiscal year 2011, a process of reconciling the amount of federal awards passed through IDOT and reported by subrecipients in the schedule of federal awards has been implemented. The new protocol has been adopted and included as part of the subrecipient monitoring programs.

**10-85. The auditors recommend IDOT implement procedures to ensure ARRA information and requirements are properly communicated to subrecipients.**

**Findings:** IDOT did not communicate American Recovery and Reinvestment Act (ARRA) information and requirements to subrecipients of the Airport Improvement Program and the Highway Planning and Construction Cluster Program.

During testwork over five ARRA disbursements totaling approximately \$1,732,000 to three subrecipients of the Airport Improvement Program and four ARRA disbursements totaling approximately \$4,834,000 to two subrecipients of the Highway Planning and Construction Cluster Program, auditors noted IDOT did not identify the federal award number, catalog of federal domestic assistance (CFDA) title and number, or the amount of the award attributable to the ARRA at the time of each disbursement. Additionally, IDOT's grant agreements did not identify the requirement for their subrecipients to separately report the ARRA program expenditures on the schedule of expenditures federal awards (SEFA) and the data collection form.

In discussing these conditions with IDOT officials, they stated the Department implemented a web application by which subrecipients could retrieve the Federal Award number, CFDA title number and the amount of the award attributable to the ARRA. However, the use of this application was not required in order to receive payment.

**Updated Response:** Implemented. The Department has notified all staff of the requirement to provide subrecipients with ARRA information in accordance with 2 CFR 176.210 (c) and (d).

**10-86. The auditors recommend IDOT review its current process for preparing subrecipient funding notifications to ensure all required information is properly communicated to its subrecipients. (Repeated-2004)**

**Findings:** IDOT did not provide required program information relative to federal funds passed through to the subrecipients of the Airport Improvement Program and Highway Planning and Construction Cluster Program for the year ended June 30, 2010.

During testwork of 25 grant awards to 17 subrecipients who received approximately \$23,502,000 in Highway Planning and Construction Cluster Program funds and 25 grant awards to 19 subrecipients who received approximately \$8,956,000 of the Airport Improvement Program funds, auditors noted the following:

- Twelve grant award notices for the Highway Planning and Construction Cluster Program and eighteen grant award notices for the Airport Improvement Program did not communicate the need for an audit in accordance with OMB Circular A-133.
- Thirteen grant award notices for the Highway Planning and Construction Cluster Program and seven grant award notices for the Airport Improvement Program included incorrect information regarding the need for an audit in accordance with OMB Circular A-133.
- Six grant award notices for the Airport Improvement Program did not communicate the specific program or CFDA number and title under which federal funding had been provided.
- Twenty-five grant award notices for the Highway Planning and Construction Cluster Program did not communicate the specific program or CFDA number and title under which federal funding had been provided.

In discussing these conditions with IDOT officials, they stated that the projects identified were initiated before the prior year corrective action that revised the agreements had been fully implemented.

**Response:** The Department agrees with the finding. As of the previous audit finding, the Department has modified the agreements to include notification of the CFDA number and federal funding program for the grant award notices. The Department will revise the current award notices to reflect the correct OMB Circular A-133 language.

**10-87. The auditors recommend IDOT implement procedures to ensure all materials are tested in accordance with the sampling and testing program approved by the FHWA. (Repeated-2009)**

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

IDOT utilizes the Materials Integrated System for Test Information and Communication (MISTIC) system to track which materials require testing and the method of testing to be used. This system is integrated with IDOT's construction billing system in which resident engineers enter quantities used during construction to generate payments to the contractors. If quantities entered do not have a test number which conforms to the type of testing required by the Guide assigned in MISTIC, it is the resident engineer's responsibility to ensure the proper test is completed before payment is made.

During testwork, auditors selected 115 materials from ongoing (open) construction projects and advanced construction projects and noted the following exceptions:

- In five instances, materials were accepted using a method of acceptance that was not in accordance with the Manual.
- In two instances, documentation could not be located to support the testing completed over the materials sampled.

In discussing these conditions with IDOT officials, they stated that the 2009 Manual had been just recently published when two to three of the exceptions happened. The methods of acceptance for the materials involved were changed in the 2009 Manual. This may have lead to some confusion for the IDOT field staff. Another exception occurred in 2005, well before the 2009 Manual was published, and the material involved was seldom used and is no longer specified or used by IDOT. Only one to two items were true exceptions to a long-standing method of acceptance and these items were the same material selected twice from the same contract. The separately denoted items that involved not being able to find the source documents on microfilm are considered non-issues by IDOT since the correct method of acceptance information was retrieved from IDOT's official database, MISTIC.

**Response:** The Department agrees with the finding. The Bureau of Materials and Physical Research (BMPR) will notify the districts of these audit findings and encourage improvement in the materials areas involved in the identified exceptions. At this time, BMPR believes that continued use of the updated Manual and Project Procedures Guide will reduce the exceptions in the future.

**Updated Response:** Accepted. The Manual for Materials Inspection was updated as of 03/25/11. The Project Program Guide is scheduled to be updated prior to the FY12 construction season.

**10-88. The auditors recommend IDOT implement procedures to ensure cash draws are performed in accordance with U.S. Treasury Regulations.**

**Findings:** IDOT does not have procedures to ensure cash draws are performed in accordance with the Treasury-State Agreement. During review of 50 expenditures totaling approximately \$16,252,500, auditors noted warrants were not issued for two expenditure vouchers totaling approximately \$406,000 within three business days of receiving the federal funds intended to finance these expenditures. The number of days between the receipt of federal funds and the issuance of warrants for these two expenditures was four and five business days.

In discussing this condition with Department officials, they stated this was the result of an oversight.

**Response:** Implemented. The Department has implemented procedures to ensure cash draws are performed in accordance with current U.S. Treasury Regulations by not drawing down federal funds until such time as the State's financial systems indicate the payment has been vouchered. This finding results in a 97.5% success on the expenditures and 96% success on the number of expenditures.

**10-89. The auditors recommend IDOT account for and remit interest earned on the Homeland Security Cluster Program funds to the U.S. Treasury. (Repeated-2006)**

**Findings:** IDOT did not account for and remit interest earned on advance funding received under the Homeland Security Cluster Program.

During the year ended June 30, 2010, IDOT received approximately \$797,300 in advance funding under the Homeland Security Cluster Program. Auditors noted IDOT deposited the advance funding into an interest-bearing account with the State Treasurer which is commingled with other funds. However, IDOT did not account for and remit interest earned on the Homeland Security Cluster Program funds to the U.S. Treasury.

In discussing these conditions with IDOT personnel, they stated the corrective action for this repeat finding had not been fully implemented in 2010.

**Response:** The Department agrees with the finding. A separate appropriation was created in 2009 to reimburse Homeland Security expenditures to vendors prior to drawing down any federal funds. This corrective action had unfortunately not been fully implemented during the audit period. We believe that the new appropriation and protocols will alleviate the concern noted in the finding.