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DIVISION OF TRANSPORTATION
AUDIT REPORT
June 6, 2007

As a part of the continuous internal audit responsibilities of the Auditor's Office, an internal audit of specific areas of the County's Division of Transportation was performed. The specific areas are Impact Fee calculation, Intergovernmental Agreements, Tools and Small Parts Inventory Control, Cash and compliance with applicable State Statute and County codes.

AUDIT OBJECTIVES:

Impact Fees:

- Verify that the fee calculation is accurate.
- Evaluate for compliance with the appropriate state statute and county code.
- Ensure that fees collected were processed and deposited on a timely basis.

Intergovernmental Agreements:

- Identify agreements and evaluate for compliance.

Tools and Small Parts Inventory:

- Identify internal control procedures and evaluate for compliance with procedures.
- Verify quantities to inventory control records.
- Determine value of small parts inventory.

Statute and Code Compliance:

- Evaluate for compliance.

Cash:

- Verify petty cash.
- Verify bank account reconciliation.

SUMMARY OF AUDIT FINDINGS:

Impact Fees – No significant findings discovered.

Intergovernmental Agreements – No significant findings discovered.

Tools and Small Parts Inventory – Minor findings discovered.

Statute and Code Compliance – Minor findings discovered.

Cash & Bank Account Reconciliation – Minor findings discovered.

AUDIT FINDINGS – IMPACT FEES:

Statute and Code Compliance:

Illinois State Statute 605 ILCS 5/5-901 entitles the County to levy and collect road improvement impact fees “to supplement other funding sources so that the burden of paying for road improvements can be allocated in a fair and equitable manner.” The intent of the statute is to promote economic growth by assuring that development bears its fair share of the cost of meeting the demand for road improvements.

To comply with this statute, the County approved resolution 04-22 on January 13, 2004, creating the Kane County Road Improvement Impact Fee Ordinance. Section eleven.3 of the ordinance summarizes the formula to calculate the Impact Fee. The ordinance references “Technical Specification” document for details. The Technical Specifications Manual for Impact Fees and Procedures Guide for Road Impact Fees are available to the general public through Transportation’s website.

State Statute 605 ILCS 5/5-913 Impact Fees to be Held in Interest Bearing Account states “All impact fees collected pursuant to this Division shall be deposited into interest bearing accounts designated solely for such funds for each service area.” Our interpretation and that of the Transportation CFO, “for each service area” indicates the funds for each service area are to be held in separate interest bearing accounts (checking). Our understanding of the intent of the statute is to ensure that fees received in a given service area are to be spent in that service area. Separate accounts ensure the accuracy of recordkeeping. The County Finance Director, confirmed by the external audit firm, stated that separate accounts are not needed but separate accounting and the ability to separate interest out by fund complies with the statute. The County Treasurer is in agreement with the Finance Director adding that “determination of when funds are specifically required to be maintained in separate physical accounts is usually made by the County Finance Director.”

Fee Calculation Verification: † (See Endnote)

In order to verify the calculation of impact fees, we used hypothetical data and the ordinance formulas from the Technical Specification Manual and Procedures Guide. We needed the assistance of the Impact Fee Coordinator and the County consultant to verify fee calculation in our sample of hypothetical data. By using the Technical Specification Manual and Procedures Guide instead of the "Schedule of Fees", developers and the general public would have difficulty calculating impact fees even though the Procedures Guide is intended as an aid to assist with compliance for the requirements of the Kane County Road Improvement Impact Fee Ordinance. However, once an impact fee application and accompanying documentation has been received, the Kane County Division of Transportation will calculate the appropriate fee based upon land use and fee district. All impact fees calculated by the Division of Transportation staff are verified by a representative of the consulting firm that created the formulas or, when the consultant is no longer available, by any traffic engineering professional.

According to the Director of Transportation, while it is true that developers/fee payers occasionally need to use the Technical Specifications Manual and/or the Procedures Guide, this is a very rare occurrence. This situation would only occur if the fee payer undertook an "individual assessment" under the ordinance. In these cases, the Division of Transportation Staff, a traffic engineering professional, or both, would be assisting the fee payer in the calculation. These situations are estimated to represent far less than 1% of the applications received.

During our audit it was discovered that the Advisory Committee is considering amending the Impact Fee calculation from its current complex formula to a simpler fee and reduce the number of service areas from 8 to 3. The Auditor's Office supports the consideration for this change.

Collection, Processing and Timely Deposit of Fees:

The Division of Transportation is commended for having written procedures in place and enforced for all sources of revenue. Deposits are made daily to the Treasurer's Office, checks and balances are performed and accounts receivable is properly monitored. We did not perform tests to verify the accuracy of Division of Transportation's accounting system that is separate from the County finance system.

The Division of Transportation does perform a monthly reconciliation of the Fund balance to detailed support provided by the Treasurer for all of Transportation Funds. It was noted that the detail of the checking account (bank) was not provided for the Impact Fee Fund (027) whereas detail is provided for all other Funds. We could not perform any further verification of the Transportation reconciliation worksheet because the worksheet contains year to date data and not monthly data.

IMPACT FEES RECOMMENDATIONS:

- Treasurer should remit a detailed checking account report for Fund 027, similar in format as provided for the other Transportation Funds.
- Discussion between the Finance Director, Treasurer and Transportation Director should continue to be held to improve the efficiency of collection procedures with the implementation of the new finance system.

AUDIT FINDINGS – INTERGOVERNMENTAL AGREEMENTS:

Intergovernmental Agreements – Impact Fees:

The Division of Transportation will enter into intergovernmental agreements with municipalities to ensure that the municipality is compliant with the County's Impact Fee Ordinance.

On a monthly basis the Impact Fee Coordinator will request a copy of the municipality's building permits issued. Once the information is received, the Impact Fee Coordinator compares the data to Division of Transportation's records. If there are any discrepancies, the Impact Fee Coordinator will send a first letter for resolution. If no response within a reasonable period of time (two weeks), then a second letter is sent stating that this is a final request for resolution and any further inaction will result in legal action. A copy of the second letter is sent to the State's Attorney Office.

Internal controls for this process appear adequate.

Easement Payments – Right of Way (ROW):

From the county finance system account activity report, 5 project numbers were randomly selected and traced to the project file. The following was noted:

- File cabinets are very organized and clearly labeled - there was no trouble locating selected files.
- Payments from the selected projects included ROW, housing and rental supplements, property purchases and business relocations. Payments had the proper approvals.

AUDIT FINDINGS - TOOLS AND SMALL PARTS INVENTORY:

Tools Inventory:

During our walk through of the facility it was noted that the tool cage was unlocked and unattended. According to the CFO and confirmation with the Maintenance Superintendent this cage should always be locked. Keys for the cage are issued to the Maintenance Superintendent, two supervisors and six technicians.

The tools cage consists of chainsaws, weed whackers, engine driven tampers, heavy duty power washer, tarps, heavy duty chains and other miscellaneous items such as aerosol spray paint cans and lubricants.

A sign out sheet is attached to the cage door. The completed sheet is not retained. Two scratched out entries were noted on the sign out sheet. The form was not completely filled out. The sign out sheet does not provide for supervisor approval on issue or return. The tools cage is operated using the honor system for issuances and returns.

A test of four "bin" locations revealed the following results:

- Three locations were for weed whackers that were sold in 2003. Proper supporting documentation exists for the sale conducted by auction.
- One location was for a large power washer that was located in the garage. This unit was not signed out.
- A listing of chainsaw inventory is kept in the cage separately from the sign-out sheet. All chainsaws were verified to their locations.

A return visit noted that the cage was properly secured. There are no written procedures for the operation of the tools inventory cage, however, periodic informal discussions are held.

Tools Inventory Recommendations:

- Create written procedures for the tool cage inventory or incorporate written procedure into the Parts Room Operations procedures manual.
- Redesign the sign out sheet to include supervisor approvals and return date of item. Create written procedures for its use.
- Appoint a Cage Inventory Manager to oversee the cage operation. If the manager is a technician then he must obtain Supervisor approval when issuing tools for his (her) usage.
- Reduce the number of keys to access the cage to Maintenance Superintendent, two Supervisors and/or a Cage Inventory Manager.

Small Parts Inventory:

The Division of Transportation is commended for maintaining and controlling the parts inventory in accordance with professionally recognized standards.

The small parts inventory manager maintains and operates a well organized parts "store" and automotive repair shop. Internal controls are written, enforced and adhered to. The inventory is maintained utilizing a specialized software program that tracks location, quantity, costing and purchasing history.

The inventory manager enters receiving data and work orders that relieve inventory. The total value of inventory as of 4-5-2007 is \$348,348.46. Test procedures were not performed to confirm value of inventory. Obsolete items were noted by physical

inspection but are considered immaterial. A test of 6 parts out of an estimated 5,000 to 6,000 parts revealed no discrepancies. The test was performed to verify quantities and location as shown on the computerized system. Physical inventories are performed annually.

Small Parts Inventory Recommendations:

- Physical inventory should be performed by someone independent of inventory manager and independent of maintenance operations.
- In addition to the annual physical inventory, periodic physical inventory checks should be performed on randomly selected items of high dollar value (unit or extended value) and larger quantities.
- A quantity short and over report, with extended dollar values, should be maintained to verify that current controls are adequate. The Maintenance Superintendent or appropriate supervisor shall review report and provide signature of approval. This report shall be retained for examination by County Auditor and the external auditor during their annual audit.

AUDIT FINDINGS – CASH:

Petty Cash:

The petty cash fund is short \$14.35. Audit procedures could not determine the root cause for the difference. It was determined that the cause did not occur in the audit period. Due to small value, no other procedures were performed to determine cause of error. Division of Transportation staff will correct.

The account has very low activity, replenishments occur on average once a year. The fund is appropriately secured and safeguarded. Numeric receipts are manually prepared and were in numeric order. Use of the petty cash fund is appropriate.

Petty Cash Recommendations:

- Write off the \$14.35 shortage and replenish the fund to \$200.00.
- When current receipt stock is depleted, purchase pre-printed numeric receipts.

Bank Account Reconciliation:

We reviewed the bank reconciliations performed by Treasurer's staff on all Funds in their custody for the Division of Transportation. The Treasurer's bank reconciliation did not show any discrepancies. We noted that there were items on the bank statement that we could not trace to the county finance system and transactions in the county finance system that could not be traced to the bank statement. The root cause of this issue is the investing of idle funds by the Treasurer's Office and the netting of these transactions when posted at month end by the Finance Department. We were unable to fully

comprehend the investment activities of the Treasurer's Office and the posting entries made by the Finance Department.

Because the bank reconciliations performed do not have any discrepancies, the Auditor's Office will not pursue this issue further. We may revisit this after the new finance system is in place and/or discuss with the external auditors for the year end annual audit.

AUDIT FINDINGS – OTHER STATUTE AND CODE COMPLIANCE:

Section 605 ILCS 5/5-103 states "the Department shall indicate the highways in each county highway system under the provisions of this Code on such effective date by marking them upon a map which shows the public roads and section lines in the county and shall file such map with the county clerk. It was determined that such map is not on file with the county clerk.

Other Statute and Code Recommendations:

- File the County Highway System map with the County Clerk.

OTHER AUDIT FINDINGS:

During the course of the review of maintenance operations, it was noted that written procedures are available but are not complete. A single copy of the manual could not be produced, however its individual files containing the components were provided. It was noted that the manual had not been updated since 2003.

Certificate of Insurance was not consistently filed in project file. Certificates of Insurance are required at bid proposal – no procedures are in place to follow up when certificate expires. Steps have been taken to create the appropriate procedures.

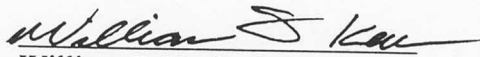
Other Audit Findings Recommendations:

- Division of Transportation should consider updating the maintenance operations manual, as well as division wide operations manual.
- Division of Transportation should adopt follow up procedures to prevent the expirations of insurance coverage.

During our audit we also noted that the Fleet Maintenance Subcommittee was formed to evaluate maintenance of the County fleet in the most effective and efficient manner. Our office will continue to monitor the progress of this subcommittee. Regardless of the outcome, we strongly recommend that written procedures are created to reflect this outcome.

In accordance with KCC Sec. 2-192 (c) (2) "within thirty (30) days of receipt of the internal audit report, each county officer, agent or division shall submit a written response to the county auditor, outlining the action that has been taken in response to the recommendations made by the auditor."

Respectively Submitted,



William F. Keck, C.P.A.
County Auditor



Scott R. Sanders
Deputy Auditor

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Endnote:

[†] The sources for the formula variables are derived from the Chicago Area Transportation Study (CATS) Household Travel Survey 1988-1991, Information Service Division, Chicago, IL, April 1994; Highway Capacity Manual-HCM 2000, Transportation Research Board, National Council, Washington, DC, 2000; and Trip Generation, Sixth Edition, Published 1998, Institute of Transportation Engineers (ITE). The Seventh Edition of the Trip Generation publication is currently utilized. The most up to date information is utilized to calculate the Impact Fee.