



INTERNAL AUDIT

Update and External Audit Results

Shaun Farmer, Chief Internal Auditor
December 16, 2021

AGENDA

Current State of Internal Audit

- Audit Committee schedule
- Internal Audit Charter
- Internal Audit resources
- Audit Plan considerations
- Internal Audit Plan

External Audit Results

- Auditor General/External Auditor relationship
- Auditor General communication commitments
- External Audit core elements
- External Audit notes and takeaways
- Audit findings results

Note: The audit is the work of the external auditors. Some questions may need to be relayed to them in order to obtain a sufficient answer.



2022 AUDIT COMMITTEE

Tentative Meetings and Agendas

March

- Summary of Internal Audit purpose, authority and responsibility
- Internal Audit results relative to approved audit plan
- Results from prior year
- Governance issues/concerns

June

- SOX, ERM and other internal control program updates

Note: This meeting schedule is tentative. Additional meetings may be held if deemed necessary.

September

- Results of the annual external audit

December

- Current state of Internal Audit resources
- Approval of two-year audit plan
- Audit charter review *(if needed)*



INTERNAL AUDIT CHARTER

Purpose

Accountability and authority

Responsibilities

Scope of work

Independence

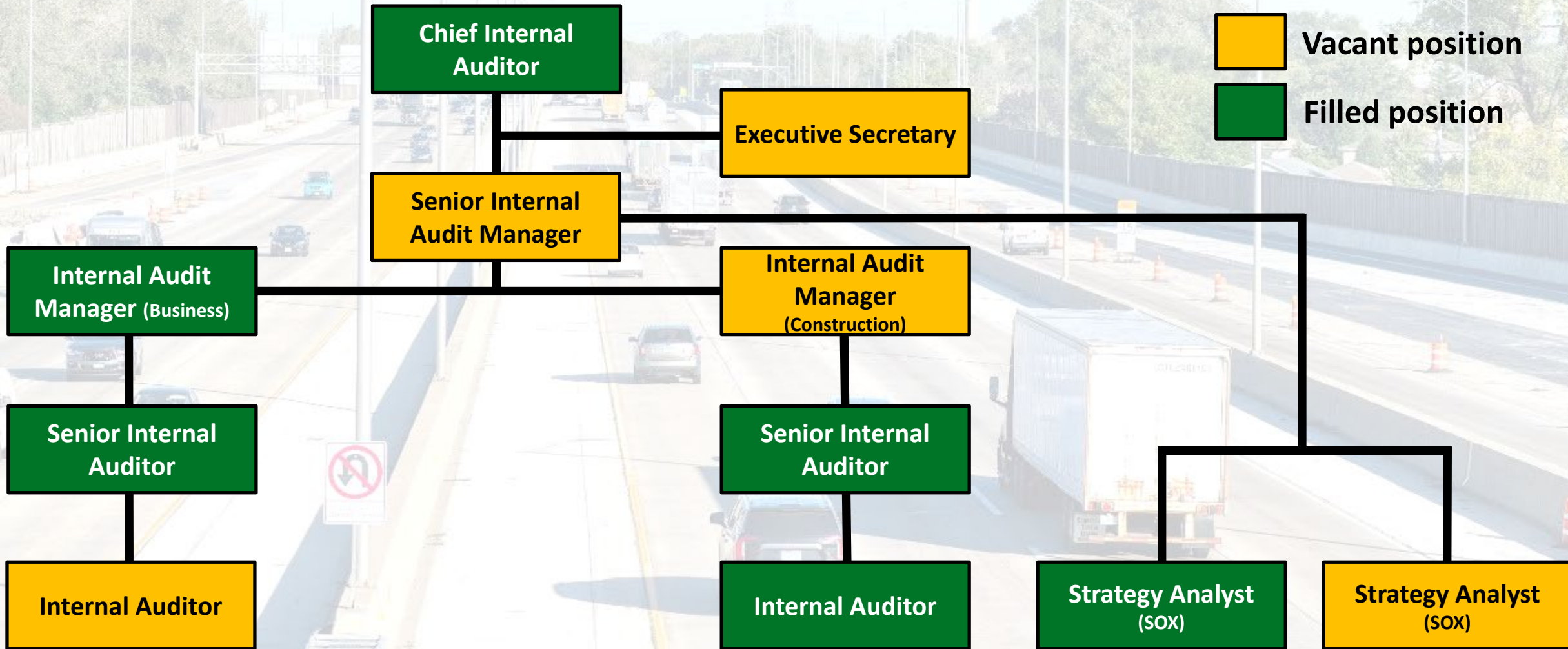
Reporting process

Periodic assessments

Internal Audit confirms that there are no significant facts or matters that impact or impair our independence as auditors



DEPARTMENT ORGANIZATION



AUDIT PLAN

Annual Ongoing Risk-Based Exercise

Determine possible areas of concern

Identify potential risk areas for consideration in annual audit plan

Examine resources/skill set across Internal Audit staff

Key Factors

- ✓ Potential for impact on agency-wide policies and procedures
- ✓ Changes in systems, processes, policies or procedures
- ✓ Results and time since last audit engagement
- ✓ Extent of government regulation
- ✓ Information and communication
- ✓ Transaction volume
- ✓ Staffing levels

CYCLE AUDIT SCHEDULE

2022

Revenues and Receivables

Property, Equipment and Inventory

Budget Accounting and Reporting

Electronic Data Processing

Administrative Support Services

Petty Cash *(if disbursements exceed \$5,000)* or Grants *(if Tollway receives any grants)*

Personnel/Payroll

2023

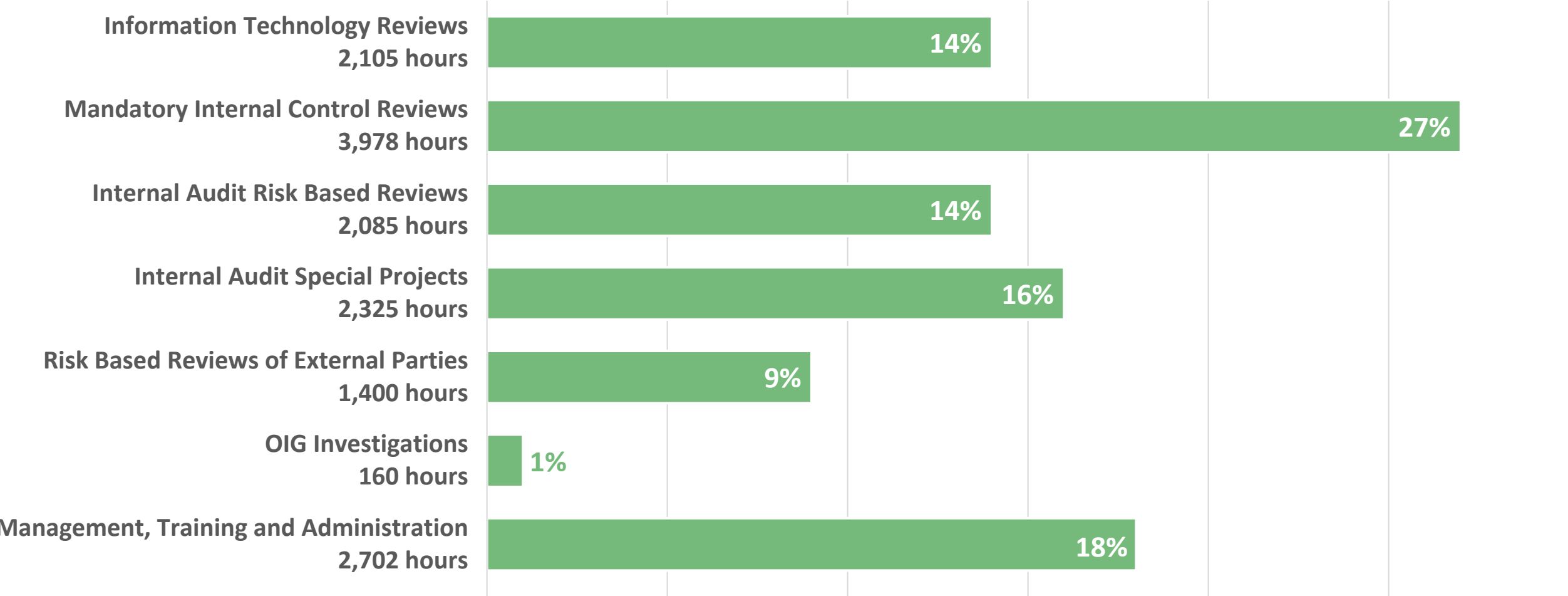
Purchasing and Procurement (Procurement Process)

Agency Organization and Management (AOM) Cycle

Expenditure Cycle

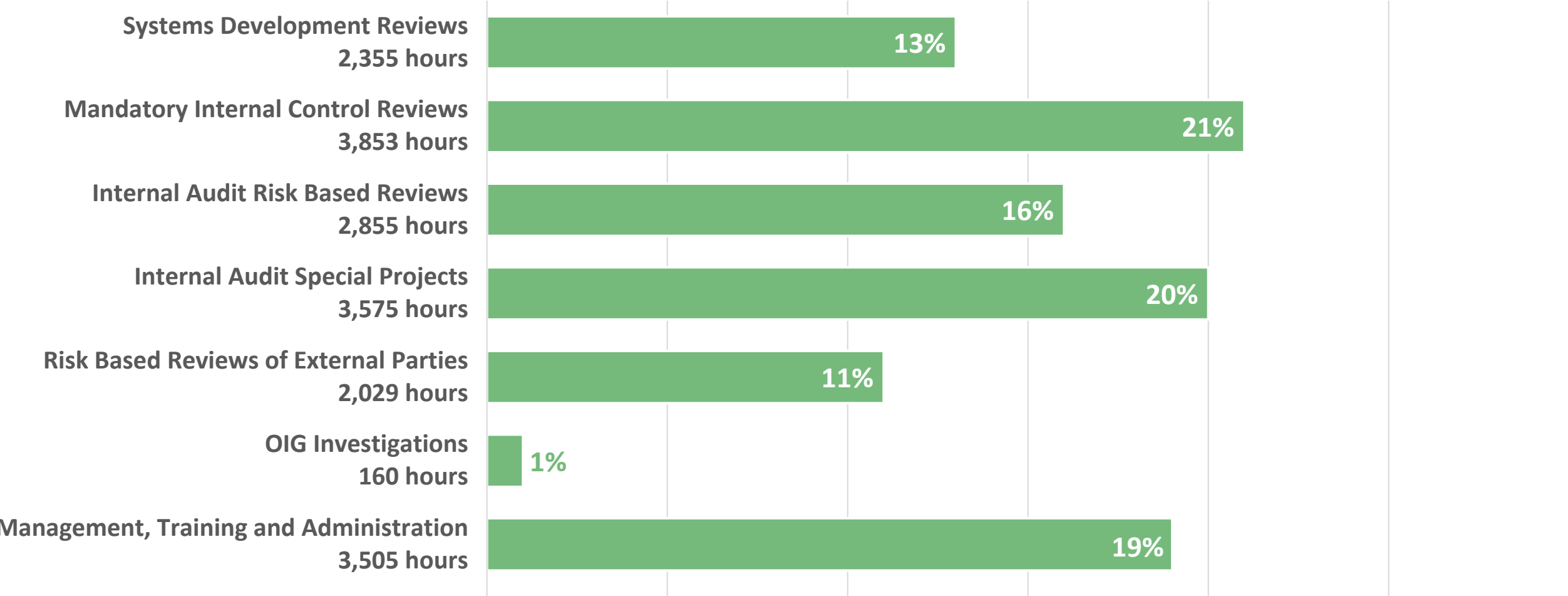
2022 INTERNAL AUDIT PLAN

Allocation of Available Hours



2023 INTERNAL AUDIT PLAN

Allocation of Available Hours



2021 AUDIT ACTIVITY HIGHLIGHTS

- ✓ **Completed all required cycle audits**
- ✓ **Performed reviews of construction processes, vendors and key risk areas**
- ✓ **On-time submittal of annual Internal Control Certification Letter (*Auditor General*)**
- ✓ **Enhanced activity tracking and reporting of audit findings (*internal and LAC/ISL*)**
- ✓ **Partnered with the business for various strategic consulting projects**
- ✓ **Liaison for 2020 annual External Audit (*financial, compliance, IT*)**



2021 AUDIT ACTIVITY HIGHLIGHTS

- ✓ Continued support of the Tollway's ERM and SOX programs
- ✓ Enhanced Risk Assessment process to drive efficiency
- ✓ Oversight of Tollway's annual PCI review
- ✓ Annual September 30 letter to executive management
- ✓ Expanded department structure to create and foster growth opportunities
- ✓ Assisted other state agencies in completion of statutorily required peer review





EXTERNAL AUDIT RESULTS



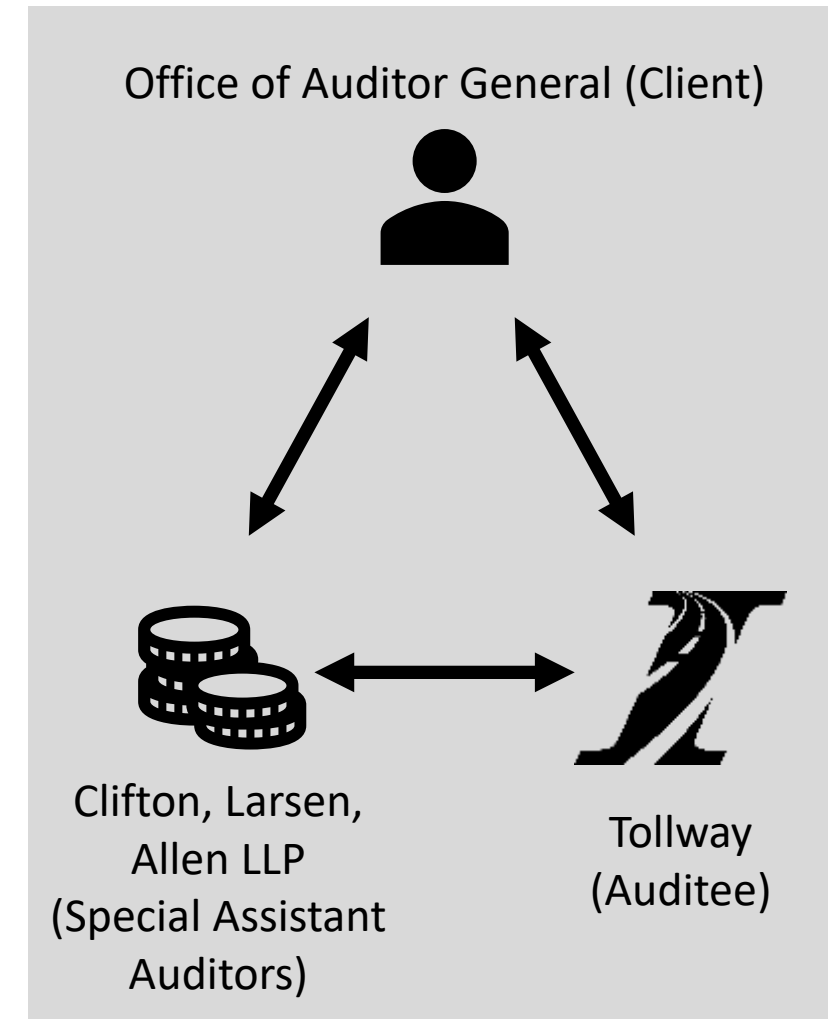
AUDITOR GENERAL/EXTERNAL AUDITOR RELATIONSHIP

Auditor General performs audits of all Illinois state agencies

Competitive bid process for engaging public accounting firms to perform the audit

Engaged Clifton, Larsen, Allen, LLP (special assistant auditors) to execute

- Tollway interacts with Auditor General and CLA for audit
- Procedures provide reasonable assurance that personnel comply with professional standards



EXTERNAL AUDIT KEY AREAS OF FOCUS

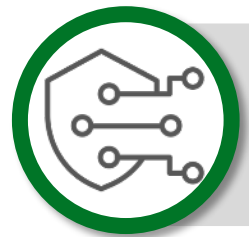
Three Component Areas



Financial



Compliance



Information Technology



AUDITOR GENERAL COMMUNICATION COMMITMENTS

Fraud

Material weaknesses/significant deficiencies

Oversight of financial reporting process

Corrected misstatements

Uncorrected misstatements

Disagreements with management

Other matters requiring communication by U.S. auditing standards



PLANNING THE TOLLWAY'S AUDIT

1 Meet with the Office of Auditor General

- Select members of the Board of Directors
- obtain an understanding of business objectives, strategies, risks and performance with executive staff
 - Strong emphasis on understanding how the Tollway functions
 - Identify key audit components and tailor procedures to the unique aspects of the Tollway

2 Obtain understanding of internal controls

- Assess impacts determining the nature, timing and extent

3 Establish overall materiality limit

4 Inform Tollway executive staff of individual unrecorded misstatements

- Aggregated as a result of test work

FINANCIAL AUDIT OBJECTIVES

Audit of financial statements includes:

- External auditors obtaining understanding of sufficient internal controls
- Determination of nature, timing and extent of audit procedures to be performed

Not designed to:

- Provide assurance on internal controls
- Identify significant deficiencies or material weaknesses in controls

Review and understanding of internal control environment



FINANCIAL AUDIT OBJECTIVES

Audit must comply with:

- U.S. Generally Accepted Accounting Principles (GAAP)
- Governmental Accounting Standards Board (GASB)
- Comptroller General of the United States
- Illinois State Auditing Act



Unavoidable risk exists of some material misstatements going undetected despite proper planning and performance in accordance with GAAP

- Inherent limitations of an audit and internal control



STATE COMPLIANCE OBJECTIVES

Identify whether the Tollway properly reported:

- Revenues and receipts
- Money and other assets in compliance with applicable laws and regulations
 - Statewide Accounting Management System (SAMS)

Designed to obtain reasonable assurance of no material misstatement

Does not provide legal determination of the Tollway's compliance with specified requirements

- Unavoidable risk exists of some material misstatements going undetected

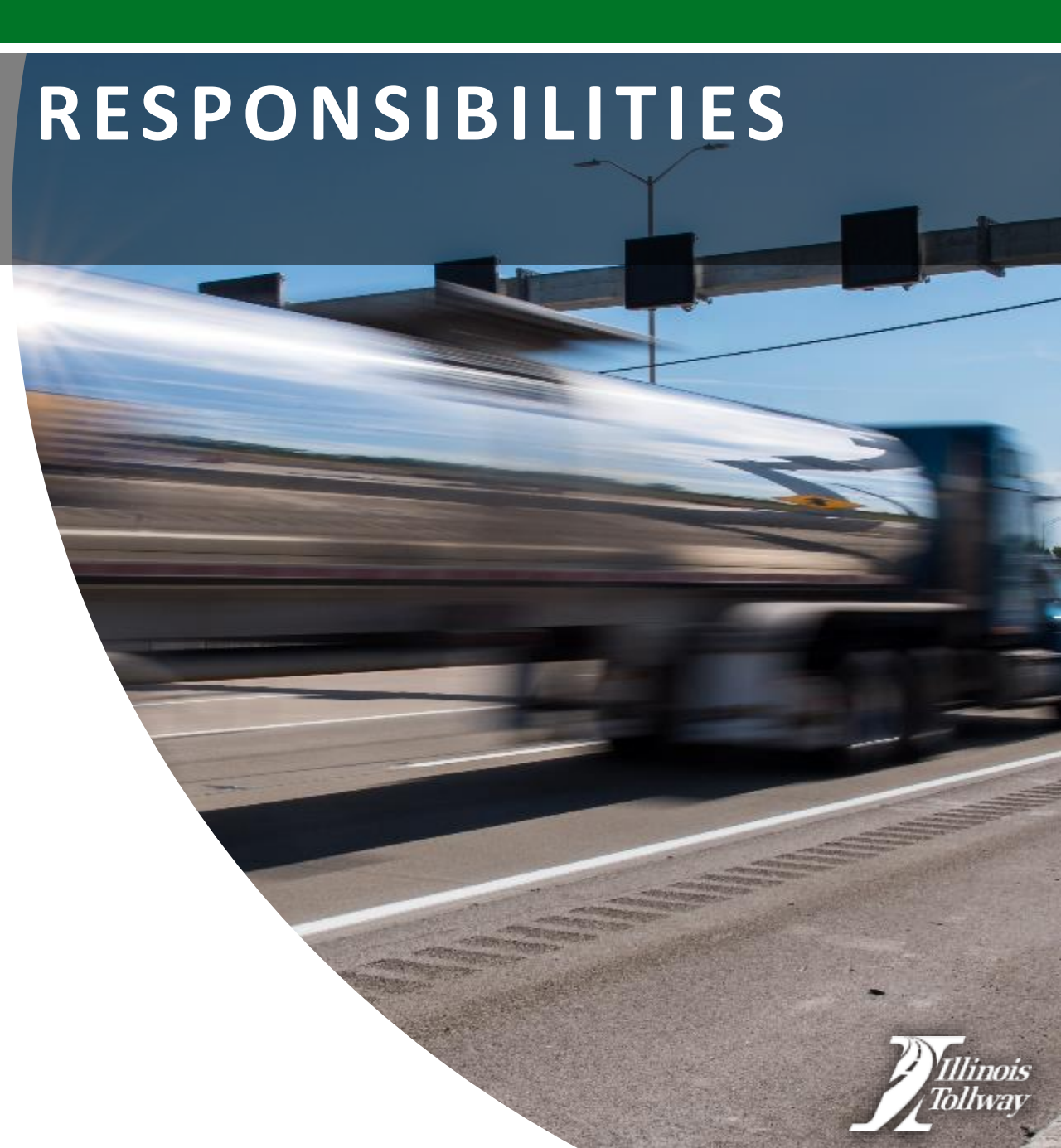
State compliance examination included consideration and testing of Tollway's internal controls over compliance

- In accordance with the Audit guide



TOLLWAY MANAGEMENT RESPONSIBILITIES

- ✓ **Effective internal controls**
- ✓ **Establishment and maintenance of records**
- ✓ **Design and implementation of fraud prevention program**
- ✓ **Prepare supplementary information**
- ✓ **Basic financial statements**
- ✓ **Adjustments or corrections**
- ✓ **Confirm uncorrected misstatements**
- ✓ **Written response of findings**



ENGAGEMENT ADMINISTRATION

Documentation is confidential during audit

- Legal or regulatory information that needs confidentiality must be identified to auditors

Audit Report, supporting documentation are public post-audit

Auditors read minutes of Board meetings to:

- Ensure consistency
- Properly inform the Board (copies of written communication received)

Determine if the Board is informed of the following by management:

- Changes in accounting polices or application
- Methods used for unusual transactions
- Significant accounting policy effects



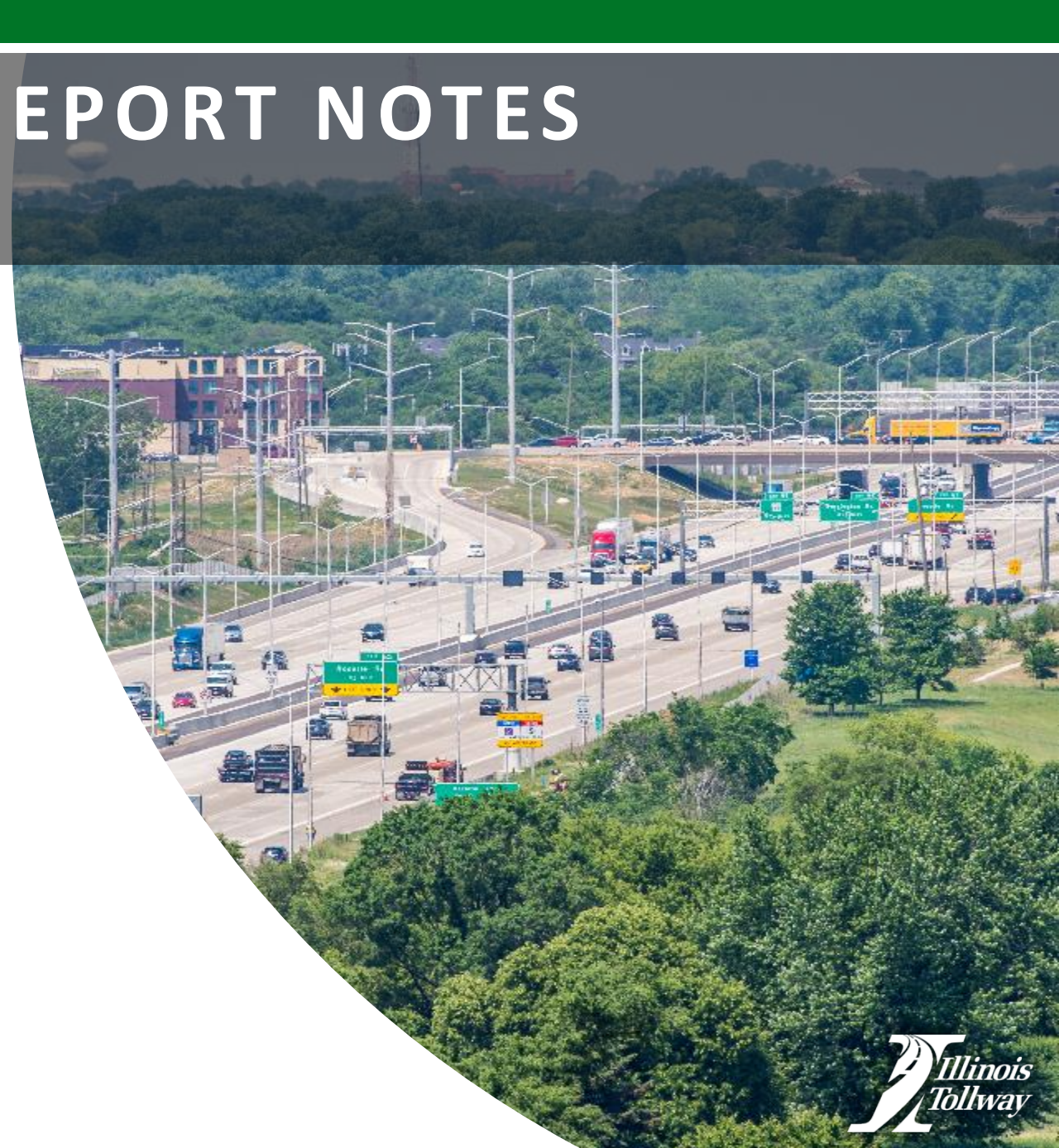
2020 EXTERNAL AUDIT REPORT NOTES

Financial

- Tollway received highest achievable rating (unmodified opinion on the financial statement audit)
- Auditors opined both Tollway financial statements and supplementary information were presented fairly

Compliance

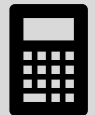
- External auditors opined the Tollway was compliant with requirements
- Instances of noncompliance



2020 EXTERNAL AUDIT TAKEAWAYS



Accounting policies



Accounting estimates



Financial statement disclosures



Uncorrected misstatements



Corrected misstatements



No disagreements with management



EXTERNAL AUDIT FINDINGS

Ratings

Material weakness

- Reasonable possibility a material misstatement in the financial statements will not be prevented, detected or corrected on a timely basis

Significant deficiency

- Less severe than a material weakness, yet important enough to merit attention by those in charge of governance



2020 EXTERNAL AUDIT RESULTS

FINDING #	FINDING TITLE	FINDING RATING	
		Material Weakness	Significant Deficiency
2020-001	Significant Understatement of OPEB Balances	X	
2020-002	Need to Enhance Relationship with the Illinois State Police	X	
2020-003	Noncompliance with the State Employees Group Insurance Act of 1971		X
2020-004	Inadequate Controls over Census Data		X
2020-005	Inadequate Controls Over Completion and Retention of I-9 Forms		X
2020-006	Inadequate Procedures to Approve Timecards		X
2020-007	Failure to Fully Comply with the Toll Highway Act		X
2020-008	Inadequate Controls over Hiring Forms		X



THANK YOU