



Record of Meeting | December 16, 2021

The Illinois State Toll Highway Authority (“Tollway”) held the regularly scheduled Audit Committee meeting on Thursday, December 16, 2021 in the Boardroom of the Tollway headquarters in Downers Grove, IL. The meeting was held pursuant to the By-Laws of the Tollway upon call and notice of the meeting executed by Chairman Willard S. Evans, Jr. and posted in accordance with the requirements of the Open Meetings Act, 5 ILCS 120/1, *et seq.* The meeting was open to the public.

[Bolded entries indicate issues which may require follow-up to present or report to Directors.]

Call to Order / Roll Call

Committee Chair Alice Gallagher called the meeting to order at approximately 9:31 a.m., stating that this is the regularly scheduled meeting of the Audit Committee of the Tollway Board of Directors. She then asked the Board Secretary to call the roll, those Directors present and absent being as follows:

Committee Members Present:
Committee Chair Alice Gallagher
Director James Connolly
Director Jacqueline Gomez
Director Scott Paddock
Director Gary Perinar
Committee Members Not Present:
None

Other Directors in Attendance:
Director Stephen Davis
Director James Sweeney
Director Karen McConnaughay

The Board Secretary declared a quorum present.

Public Comment

Committee Chair Gallagher opened the floor for public comment. No comment was offered.

Committee Chair’s Items



Committee Chair Gallagher entertained a motion to approve **Committee Chair's Item 1**, the Minutes of the regular Audit Committee meeting held on April 22, 2021, as presented. Director Connolly made a motion to approve the minutes, seconded by Director Perinar. Committee Chair Gallagher asked that the roll be called on the motion, the vote of yeas and nays being as follows:

Yeas: Director Connolly, Director Perinar, Director Gomez, Director Paddock, Committee Chair Gallagher (5)

Nays: (0)

The motion PASSED.

Having no further items, Committee Chair Gallagher called on Executive Director José Alvarez.

Committee Business

Internal Audit Department Update: Executive Director Alvarez introduced Shaun Farmer, Chief Internal Auditor, to present to the Committee an update on Internal Audit Department activity. [See attached presentation.](#)

Committee Chair Gallagher noted that while the Audit Charter is reviewed and approved every two years, the department is agile and responsive, addressing issues as they arise. Chair Gallagher also noted the addition of an Audit Committee meeting in 2022, explaining that quarterly meetings will keep the Committee and Board better apprised, particularly with regard to the SOX and ERM projects.

Director Davis inquired if staff is working to resolve noted deficiencies and if staff has the tools necessary tools to do so. Staff responded in the affirmative.

Director McConnaughay inquired about the repeat audit findings. Chair Gallagher suggested deferring discussion of those findings to the Executive Session of the full Board meeting.

Tollway Policies Management and Review: Executive Director Alvarez next introduced Cassandra Rouse, Chief Operating Officer, to present to the Committee an update on the Policies Management and Review project. [See attached presentation.](#)

Chair Gallagher thanked Ms. Rouse and commended the Tollway's effort to review and update its policies.

Items for Consideration



Internal Audit

Executive Director Alvarez asked Mr. Farmer to present to the Committee the following items:

Item 1: Approval of the Two-Year Internal Audit Plan for 2022-2023.

Item 2: Award of Contract 21-0203 to Baker Tilly Virchow Krause, LLP for the purchase of Internal Auditing Services in an amount not to exceed \$3,068,850.00 (Order Against CMS Master Contract).

Upon conclusion of the presentation of items, Committee Chair Gallagher entertained a motion to approve placement of **Internal Audit Item 1** on the December Board of Directors meeting agenda with the Committee's recommendation for approval by the Board. Director Connolly made a motion to approve this item, seconded by Director Perinar. Chair Gallagher asked that the roll be called on the motion, the vote of yeas and nays being as follows:

Yeas: Director Connolly, Director Perinar, Director Gomez, Director Paddock, Committee Chair Gallagher (5)

Nays: (0)

The motion PASSED.

Committee Chair Gallagher entertained a motion to approve placement of **Internal Audit Item 2** on the December Board of Directors meeting agenda with the Committee's recommendation for approval by the Board. Director Connolly made a motion to approve this item, seconded by Director Perinar. Chair Gallagher asked that the roll be called on the motion, the vote of yeas and nays being as follows:

Yeas: Director Connolly, Director Perinar, Director Gomez, Director Paddock, Committee Chair Gallagher (5)

Nays: (0)

The motion PASSED.

Adjournment

There being no further Committee business, Committee Chair Gallagher entertained a motion to adjourn. Director Connolly made a motion to adjourn, seconded by Director Perinar. Chair Gallagher asked that the roll be called on the motion, the vote of yeas and nays being as follows:



ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Minutes of the
Audit Committee Meeting

Meeting Date
December 16
2021



Yeas: Director Connolly, Director Perinar, Director Gomez, Director Paddock, Committee Chair Gallagher (5)

Nays: (0)

The motion PASSED.

The meeting was adjourned at approximately 10:10 a.m.

Minutes taken by: _____

Christi Regnery
Board Secretary
Illinois State Toll Highway Authority



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

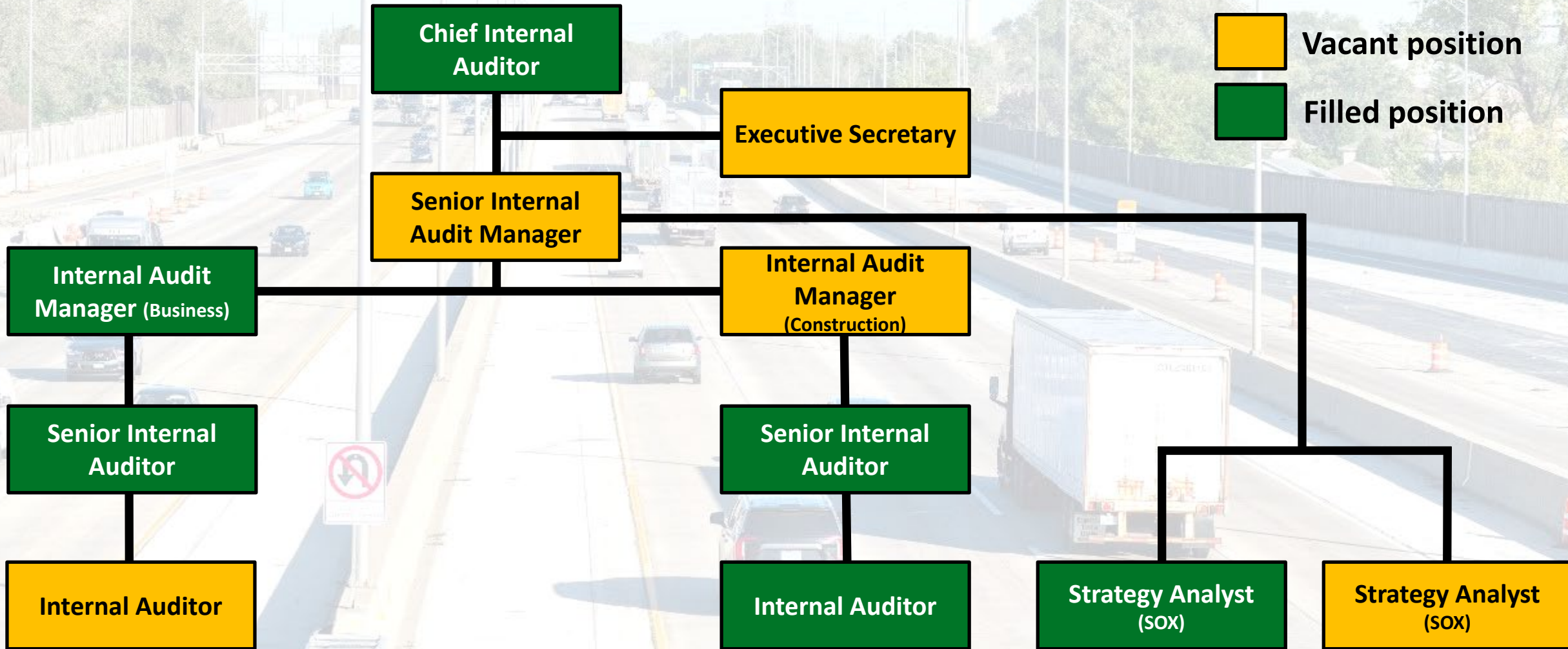
Reporting process

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

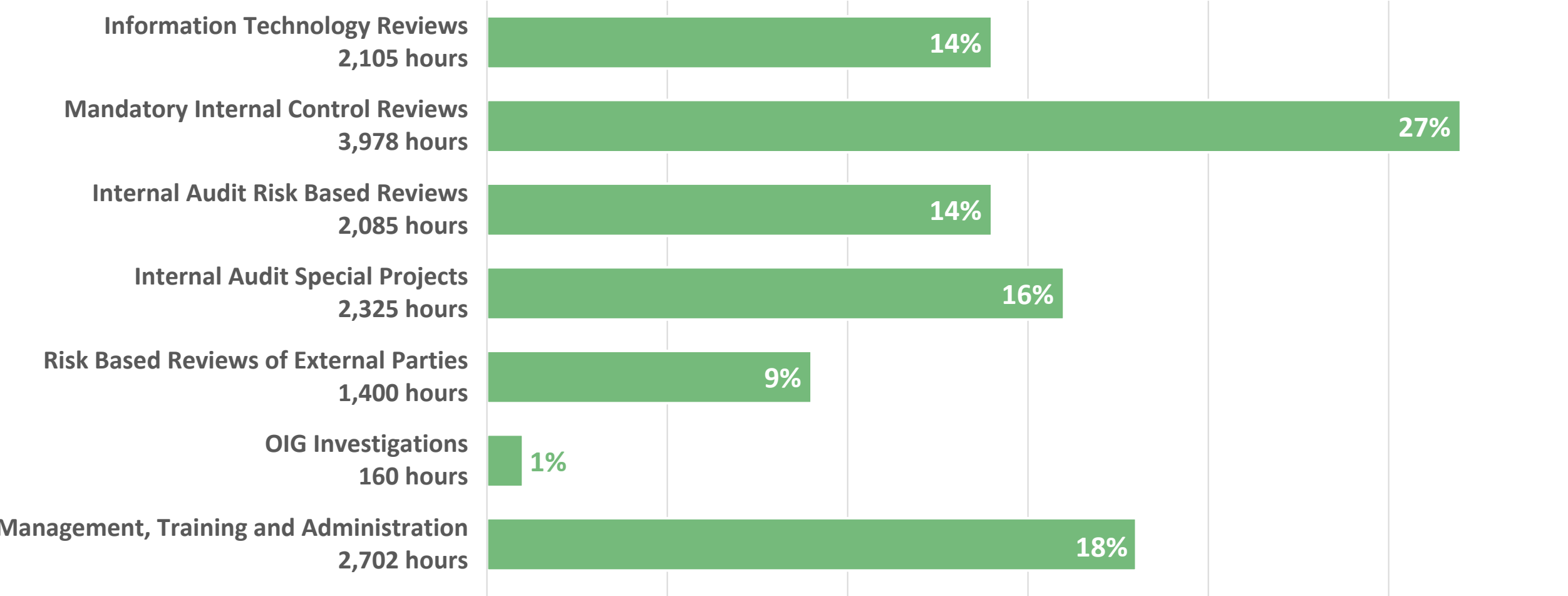
Purchasing and Procurement (Procurement Process)

Agency Organization and Management (AOM) Cycle

Expenditure Cycle

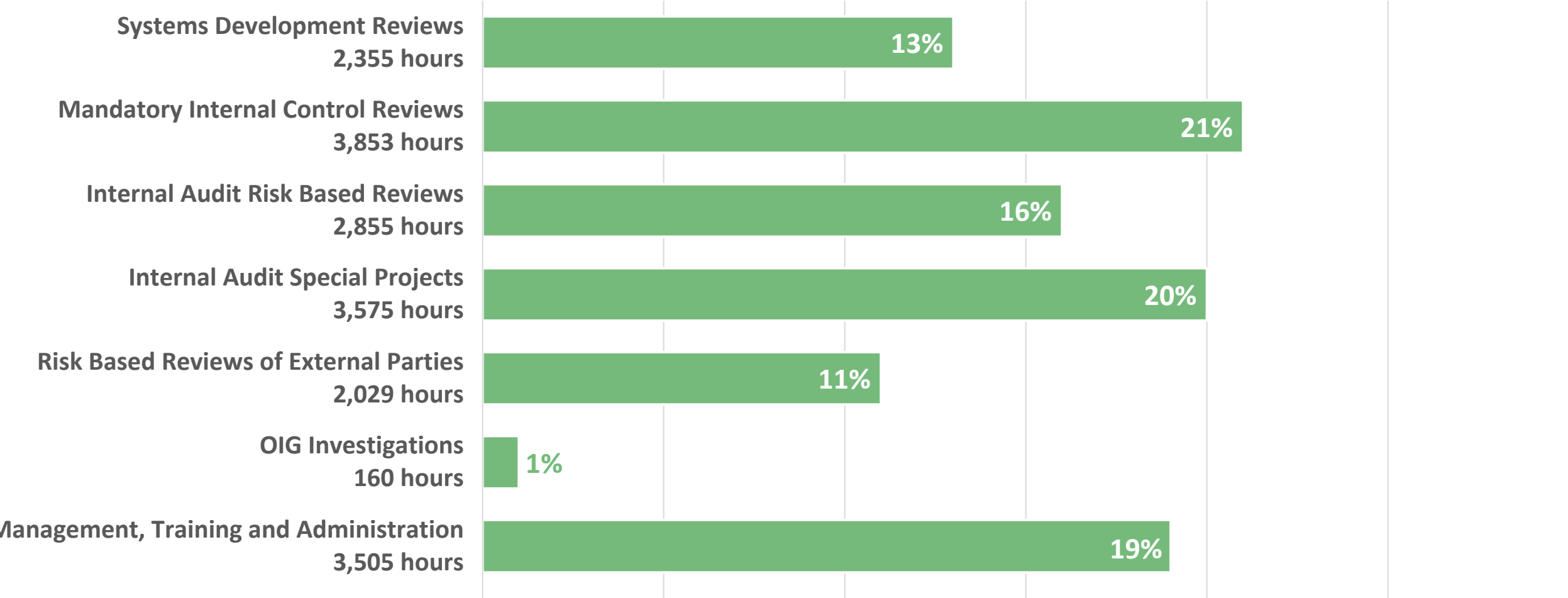
2022 INTERNAL AUDIT PLAN

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



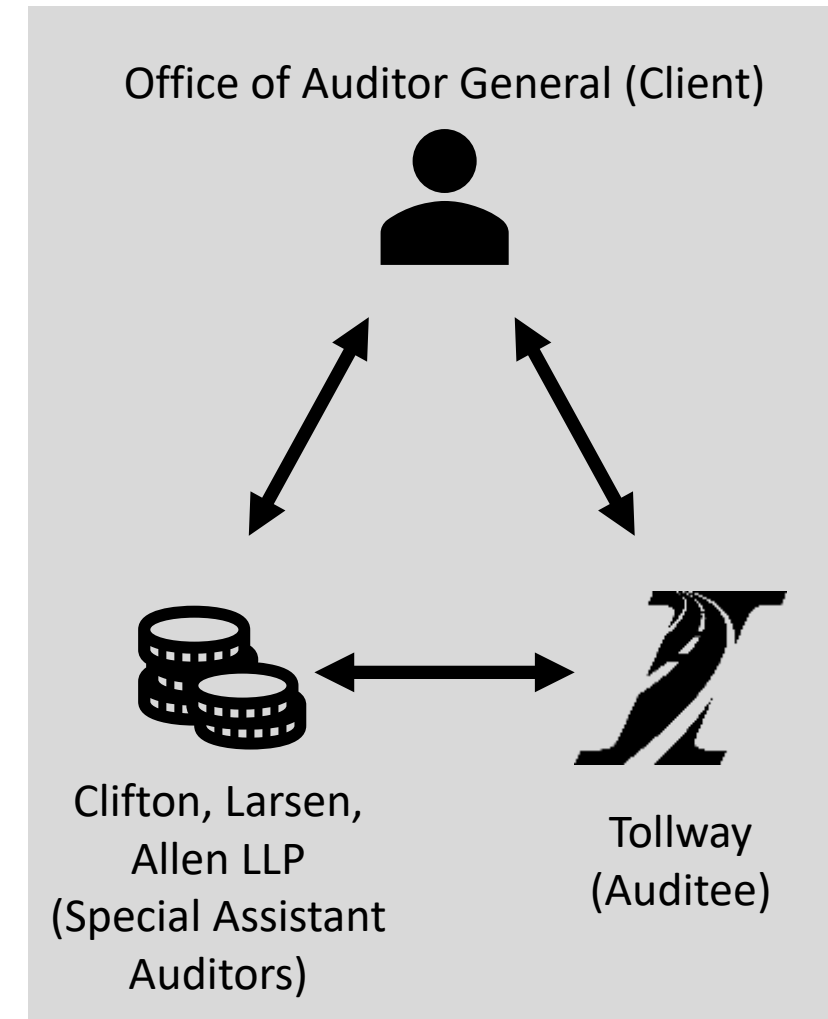
AUDITOR GENERAL/EXTERNAL AUDITOR RELATIONSHIP

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

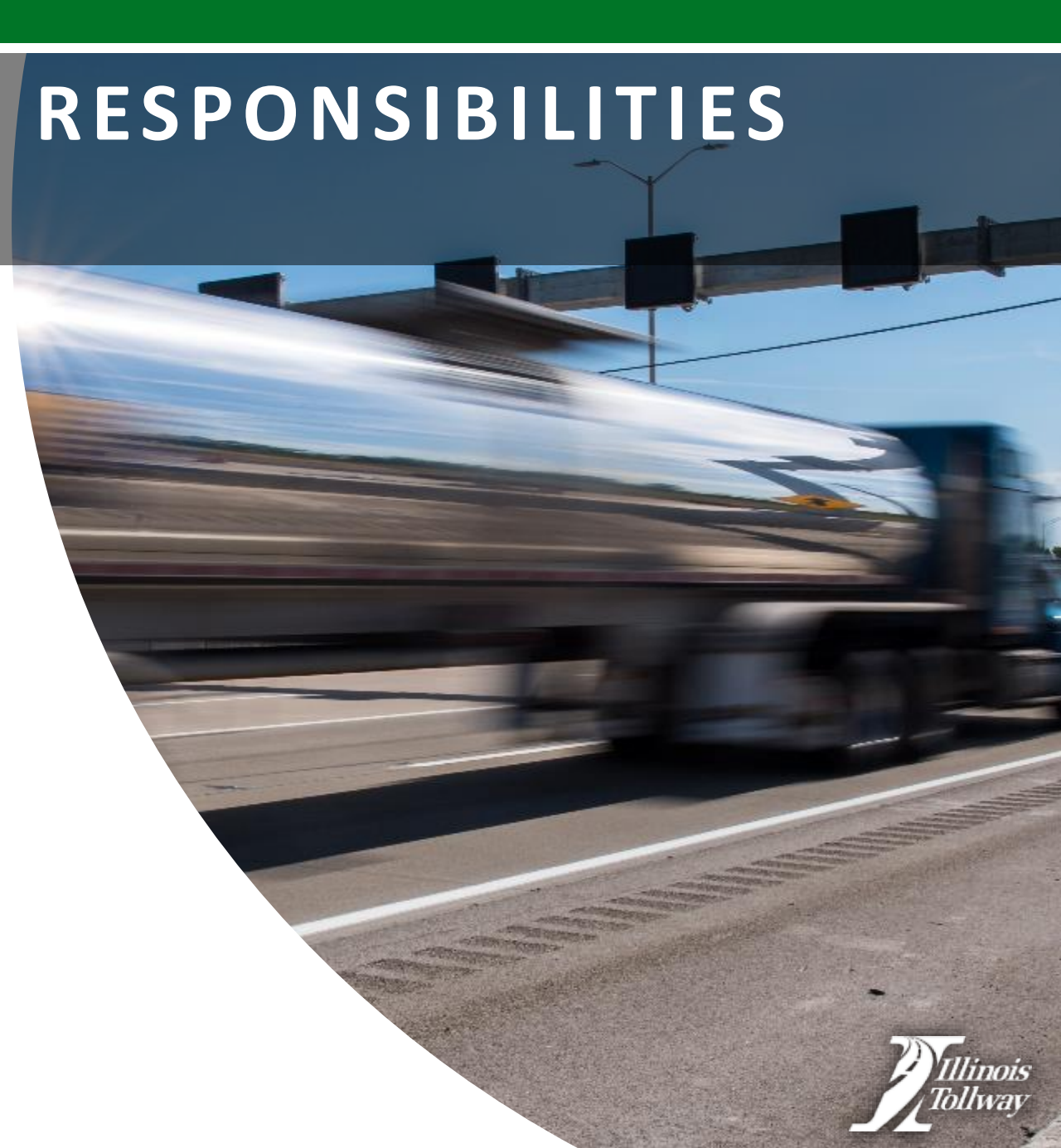
State compliance examination included consideration and testing of Tollway's internal controls over compliance

- 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



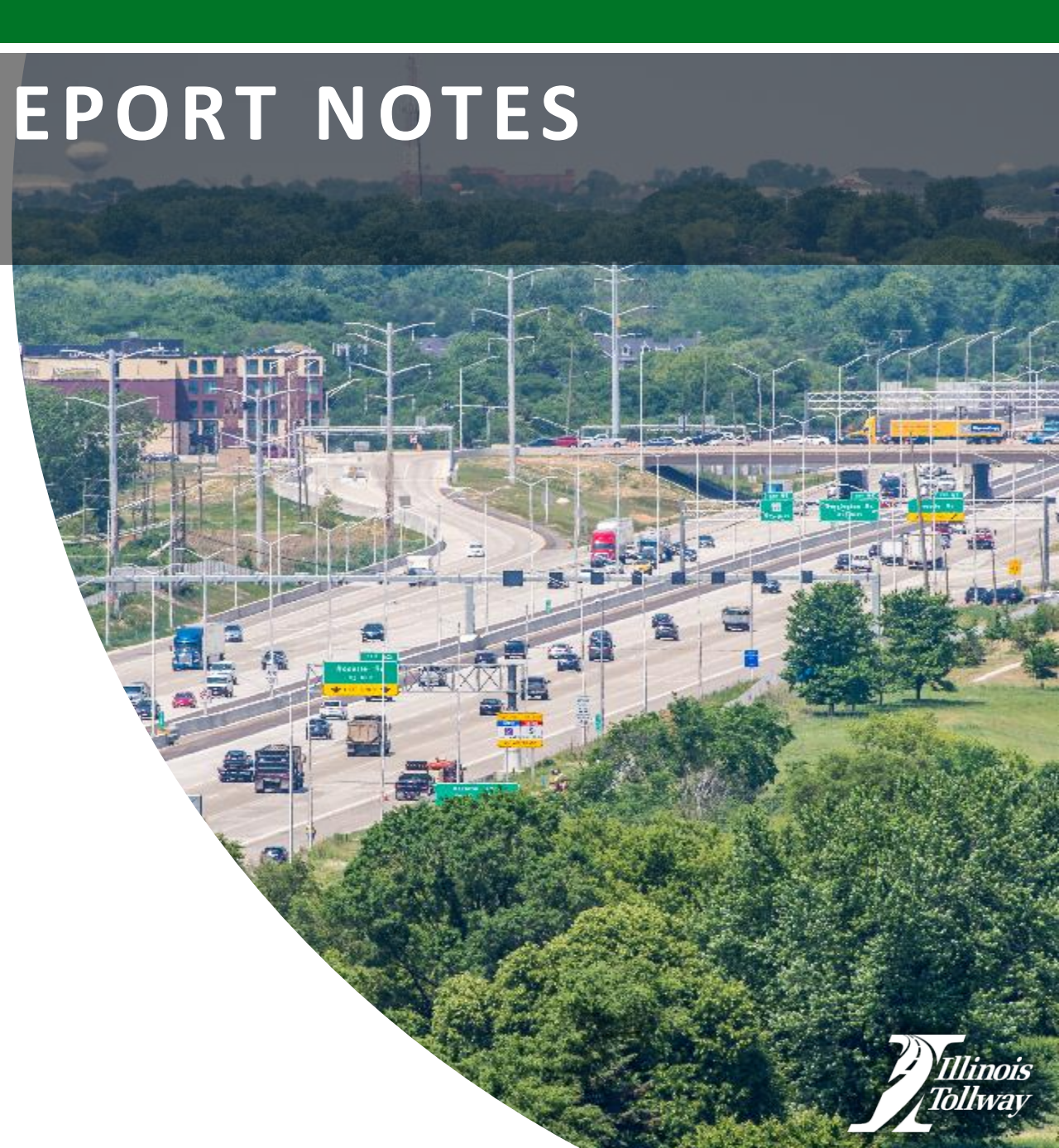
2020 EXTERNAL AUDIT REPORT NOTES

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



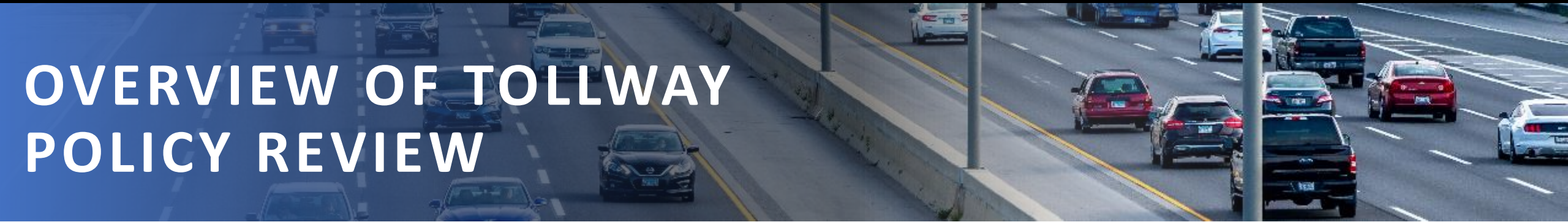
TOLLWAY POLICIES MANAGEMENT AND REVIEW

Reviewing and Approving Tollway Processes

CASSAUNDR A ROUSE

Illinois Tollway Chief Operating Officer

December 16, 2021



OVERVIEW OF TOLLWAY POLICY REVIEW

GOALS AND ACTIONS

- **Provide effective governance structure** for policies across the Tollway
- **Review, revise and approve policies** on a regular basis to ensure accuracy and analyze relevance
- **Ensure transparent review process** and **consistent communication** across executive leadership
- **Implement a uniform process** to effectively track and maintain historical changes
- **Create a centralized repository** of Tollway policies with supporting documentation and tracking

TOLLWAY POLICY, RULES AND REGULATIONS REVIEW (TPRR) PROCESS

OVERVIEW OF PROPOSED PROCESS

- Provide a master change control log on all Tollway policies
- Notification to Department Chief to review relevant policy
- Coordination with department staff to review, revise and recommend policy changes
- Engage Committee and Board Members for review and approval, as needed
- Provide opportunity for public review and feedback upon recommendation review
- Update and maintain in centralized repository
- Update and maintain on Tollway's website

An aerial photograph of a multi-lane highway interchange with several overpasses. The scene is captured during the "blue hour" of sunset or sunrise, with a soft, colorful sky. A semi-transparent blue banner is overlaid across the center of the image, containing the text "QUESTIONS" and "THANK YOU" in white, bold, sans-serif font. The background shows a mix of green trees, some industrial or commercial buildings, and a small pond near the interchange.

QUESTIONS
THANK YOU