

**THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
MINUTES OF THE AUDIT
COMMITTEE MEETING**

August 20, 2014

The Illinois State Toll Highway Authority (the “Tollway”) held the Audit Committee Meeting on Wednesday, August 20, 2014 at approximately 10:46 a.m. at the Central Administration Building in Downers Grove, Illinois.

Bolded entries indicate issues which may require follow-up to present or report to the Board.

Committee Members Present:

Committee Chair David Gonzalez

Chair Paula Wolff

Committee Members Absent:

Director Tom Weisner

PUBLIC COMMENT

Committee Chair Gonzalez called the meeting to order and opened the floor for public comments. No public comment was offered.

CHAIR’S ITEMS

Committee Chair Gonzalez called for a motion to approve the minutes of the Audit Committee Meeting held on December 12, 2013. Chair Wolff made the motion to approve the minutes; seconded by Committee Chair Gonzalez. The motion was approved unanimously.

Committee Chair Gonzalez then introduced Cathy Baumann, KPMG Partner, to present the required communications relative to the KPMG audit conducted on behalf of the Illinois Auditor General of the Tollway's financial statements and internal control over financial reporting for the year ended December 31, 2013. [See attached KPMG Auditor's Communication](#). Also in attendance were Jason Rosheisen, KPMG Manager, and Tom Kizziah, Office of the Auditor General.

Committee Chair Gonzalez requested confirmation that the findings presented do not represent material weaknesses, per audit standards. Ms. Baumann confirmed.

Chair Wolff inquired if the auditors were satisfied with the Tollway's responses to each of the findings. Ms. Baumann replied that KPMG does not audit provided responses because many are forward looking but KPMG will follow up on the responses as part of their audit process going forward. Ms. Baumann reiterated that there were no disagreements with Tollway management on any material financial accounting and reporting matters. Cassandra Rouse, Chief Internal Auditor, added that the Tollway's Internal Audit department also performs detailed follow up of management responses to the external audit findings.

Chair Wolff inquired of staff the anticipated timetable for implementation of the enterprise resource planning ("ERP") system that

will provide the functionality to assist in addressing some of the audit findings. Executive Director Lafleur responded that the ERP system will be implemented in stages, prioritizing some of the financial functionality. Ms. Lafleur approximated that it will be 18 months before the first components of the ERP system are brought online. Executive Director Lafleur noted that Prasad Alavilli, Senior Manager of Strategic Initiatives, is scheduled to provide an update on the ERP system implementation at the next Audit Committee meeting.

Chair Wolff asked whether, based on the ERP implementation timeline described, some of the current audit findings are anticipated to appear on next year's external audit. Mike Colsch, Chief of Finance, responded affirmatively, explaining that some of the findings are difficult to address absent the new ERP system.

Chair Wolff expressed her appreciation for the external audit work conducted, noting that external audits provide an important safety check to the agency.

Cassandra Rouse, Chief Internal Auditor, then presented an update on Internal Audit Activity. [See attached presentation.](#)

Chair Wolff asked for clarification of the number of findings reported in the 2011 vs. 2013 Internal Audit Activity comparison. Ms. Rouse responded that separate cycle audits are performed on each of the categories listed every other year as required by the Fiscal Control and Internal Auditing Act. Ms. Rouse further explained that engagement level risk assessments are performed to determine which aspects within each category are to be audited, and therefore the focus in each category

may vary between cycle audits and that should be considered when making comparisons between the numbers of findings reported.

Executive Director Lafleur expressed her appreciation for the work of the Internal Audit department, noting that internal audits provide management the opportunity to address potential issues at an early stage.

Chair Wolff asked how the reported vendor audit was identified for review by the Internal Audit department. Ms. Rouse responded that the vendor audit may have been identified by management or by the Internal Audit department's audit plan, developed through an annual risk assessment process.

Chair Wolff inquired if the third party engaged to assist the Internal Audit staff with construction site observations has construction expertise. Ms. Rouse responded affirmatively, noting the partnership has enhanced the Internal Audit staff's knowledge and ability to identify risks while monitoring on-site safety practices and the progress of contractors in meeting construction schedules.

Chair Wolff asked with which safety standards are the construction sites being reviewed for compliance. Ms. Rouse replied that the construction sites are being monitored by the Internal Audit department for compliance with internal Tollway safety standards. Ms. Rouse noted that there is a separate agency review of construction site compliance with Occupational Safety and Health Administration ("OSHA") standards.

Committee Chair Gonzalez asked how long the State Internal Audit Advisory Board approved Peer Review team would be on-site at the

Tollway to conduct the Peer Review. Ms. Rouse responded approximately one week.

Ms. Rouse then introduced a recent addition to the Internal Audit department staff, Shaun Farmer, Internal Audit Manager. Chair Wolff asked Mr. Farmer to share with the Committee some of his background. Mr. Farmer provided an overview of his work history.

Ms. Rouse stated that the construction auditor position is still vacant and the Internal Audit department is looking to identify a candidate with the industry subject matter expertise needed to perform this role.

Committee Chair Gonzalez asked for confirmation that the continuing construction auditor vacancy is a contributing factor to budget allocation requests made by the Internal Audit department for third party assistance. Ms. Rouse confirmed that the third party engaged to assist the Tollway with construction site observations is currently fulfilling job duties of the vacant construction auditor position.

Chair Wolff asked Ms. Rouse if she is receiving appropriate cooperation from staff when conducting internal audit work and whether she is satisfied with management response to the department's internal audit findings. Ms. Rouse responded affirmatively, noting her experience of positive interdepartmental cooperation and adding that both management and staff have been receptive to internal audit recommendations.

There being no further business, Committee Chair Gonzalez requested a motion to adjourn. Motion to adjourn was made by Chair Wolff; seconded by Committee Chair Gonzalez. The motion was approved unanimously.

The meeting was adjourned at approximately 11:15 a.m.

A handwritten signature in black ink that reads "Christi Regnery". The signature is written in a cursive, flowing style.

Minutes taken by: _____

Christi Regnery
Board Secretary
Illinois State Toll Highway Authority



Internal Audit Activity
Update

August 20, 2014

Agenda

- Purpose, authority, responsibility
- Required communication
- Fiscal Control Internal Auditing Act (FCIAA)
- Internal Audit activity
- Peer review
- Continuous improvement
- Internal Audit Department resources

Purpose, Authority, Responsibility

- ❑ **Internal auditing is an independent, objective assurance and advisory activity**

- ❑ **The Tollway Internal Audit Department**
 - Provides consulting activity
 - Adds value
 - Improves operations and helps accomplish objectives

Required Communications

- 1000 Purpose, authority and responsibility
- 1010 Recognition of the definition of internal auditing, the code of ethics and the standards in the internal audit charter
- 1110 Organizational independence
- 1111 Direct interaction with the board
- 1312 External assessments
- 1320 Reporting on the Quality Assurance and Improvement Program
- 2020 Communication and approval
- 2060 Reporting to senior management and the Board

Source: International Standards for the Professional Practice of Internal Auditing (The Institute of Internal Auditors)



Fiscal Control and Internal Auditing Act

□ The Fiscal Control and Internal Auditing Act (FCIAA) requirements include

- Two-year audit plan
- Cycle audits
- Special audits/vendor audits
- System pre-implementation reviews
- Agency certification letter to Auditor General

2013 Internal Audit Activity

- Annual certification letter
- Follow-up audits
- External audit coordination
- Oases fuel audit
- Construction practices review and audit
- Payment Card Industry annual assessment
- Vendor and risk-based audits
- Consulting services
- Pre-implementation reviews

2013 Internal Audit Activity

- Recommendations were made to improve internal controls/operational efficiency**
- All recommendations were accepted by management and are actively tracked and implementation verified by Internal Audit during follow-up reviews, where applicable**

Internal Audit Activity Comparison

<i>FCIAA/Compliance Required Cycle Audits Completed - Reports Issued</i>	2013 Audit Findings	2011 Audit Findings
Purchasing and contracting	4	1
Expenditures	0	-
Personnel and payroll	6	-
Agency organization and management	0	-
GAAP process	0	n/a
Total	10	1



Internal Audit Activity Comparison

Risk-Based and Vendor Audit Reports Issued	Findings	Vendor Findings
Vendor audit	-	4
Money room audit	0	
Land acquisition audit	0	
Operational dimensional vehicle audit	0	
Total	0	4

2014 Internal Audit Activity

Cycle and compliance audits

- Administrative support services
- Budgeting, accounting and reporting
- Revenues and receivables
- Property, equipment, inventory
- Electronic data processing
- Grant administration
- GAAP process audit (*compliance*)
- Petty cash

2014 Internal Audit Activity

Other audit activity

- Annual certification letter
- Pre-implementation reviews
- External audit coordination
- Payment Card Industry Annual Assessment
- Risk-based audits
- Contract and vendor audits
- Construction site observations
- Audit planning/risk assessment – Two-year audit plan

Peer Review - Quality Assurance Assessment

Peer review: A quality assurance review

- Mandatory that every internal audit department have an external quality assessment every five years
 - Starts August 25

- Designated Internal Audit staff have obtained peer review certification

Peer Review - Quality Assurance Assessment

- **Purpose - Required to determine whether the Internal Audit Department is in**
 - Compliance with the Institute of Internal Auditors Definition of Internal Auditing, Code of Ethics and International Standards for the Professional Practice of Internal Auditing (Standards)
 - Compliance with the Fiscal Control and Internal Auditing Act (FCIAA)

Peer Review - Quality Assurance Assessment

Scope

- Covers the entire spectrum of audit and consulting work performed
- Interviews with Internal Audit staff, Executive Director and Audit Committee

Reporting

- Due prior to November 2014
- The External Quality Assurance Report, matrix and supporting documentation are exempt from Freedom of Information Act [5 ILCS 140/7]

Continuous Improvement

- ❑ **Enhance Internal Audit manual to include a Quality Assurance and Improvement Program**
 - The internal assessments comprise ongoing internal evaluations of the internal audit activity, coupled with periodic self-assessment and/or reviews
 - IIA Attribute Standard 1300 - Quality Assurance and Improvement Program
- ❑ **Update Internal Audit Charter which defines Internal Audits activity, purpose, authority and responsibility**

Internal Audit Department - Resources

Cassandra Rouse

Chief Internal Auditor

Shaun Farmer

Internal Audit Manager

Vacant

Construction Auditor

Michael Pustelnik

Internal Auditor

Chad Hayden

Internal Auditor

Aldrenza Wright

Internal Auditor

Art Lemke

Information Systems Auditor



THANK YOU