

THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
MINUTES OF THE AUDIT COMMITTEE MEETING
December 15, 2011

The Illinois State Toll Highway Authority held an Audit Committee Meeting on Thursday, December 15, 2011 at approximately 8:00 a.m. at the Central Administration Building in Downers Grove, Illinois.

Committee members in attendance:

Committee Chair David Gonzalez

Chair Paula Wolff

Director Tom Weisner

Committee Chair Gonzalez called the meeting to order and requested a motion to approve the minutes from the Audit Committee meeting held on August 15, 2011. Chair Wolff moved for approval; seconded by Director Weisner. The motion was approved unanimously.

Mike Fudali, Chief Internal Auditor, introduced Cathy Bauman, a partner from KPMG to give an overview of the Independent External Audit Services Plan for the fiscal year ending December 31, 2011.

Ms. Bauman reviewed the audit scope and deliverables which will include reports on the following: the Tollway's financial statements; the internal control over financial reporting; the state compliance attestation and supplemental financial information; information systems review; as well as reports to the Audit Committee.

Ms. Bauman reviewed the list of members on the audit engagement team including Tom Kizziah from the Office of the Illinois State Auditor General as shown in the [attachment](#).

Ms. Bauman indicated that the objective of the audit is to enable the auditor to express an opinion on whether the financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The audit is designed to provide reasonable, not absolute, assurance that the financial statements overall are free of material misstatements. She then outlined KPMG's responsibilities as outlined on page 4 of the [attachment](#). Those responsibilities include: (1) communicating all required information to Authority management and the Audit Committee of the Board of Directors and (2) maintaining open lines of communication and responsiveness throughout the year.

Regarding management's responsibilities, Ms. Bauman listed the following: adopting sound accounting policies, establishing and maintaining internal control; fairly presenting financial statements in conformity with GAAP; and compliance with provisions of law, regulations, contracts and grant agreements. She indicated that the Audit Committee should perform an oversight and monitoring role but must rely on senior management, internal and external auditors to provide accurate information.

Ms. Bauman noted that KPMG will work with a subcontractor - E.C Ortiz & Co. The subcontractors focus will be on compliance with state procedures. However, all final reports will be generated by KPMG. She noted that KPMG considers the risk of material misstatement at the overall financial statement level, which refers to risks of material misstatement that relate pervasively to the financial statements as a

whole and potentially affect significant accounts and many assertions.

Ms. Bauman reviewed the timeline for the KPMG engagement which includes: the entrance conference held on November 18, 2011; preliminary fieldwork on December 5, 2011; final fieldwork beginning in April 2012; exit conference in June 2012; Financial Statement Issuance in June 2012; and State Compliance Reports Issuance in June 2012.

Director Gonzalez asked whether KPMG could estimate the total number of audit hours allocated to the Tollway for 2012 and the percentage of those hours allocated to the subcontractor. Ms. Bauman responded that approximately 4900 hours are allocated to the Tollway and approximately 20% of those hours are allocated to the subcontractor. **She committed to confirming the hours allocated to the subcontractor and forwarding that information to the Committee.**

Chair Wolff asked Committee Chair Gonzalez to review the online resources Ms. Baumann referenced to determine whether and how the tools could be useful to the rest of the Audit Committee. Committee Chair Gonzalez agreed to do so. **Ms. Bauman indicated that she intends to send a list of relevant publications to the Committee.**

Ms. Lafleur introduced Mike Fudali, Chief of Internal Audit, to give an overview of the Internal Audit (IA) background, tentative schedules, IA charter updates and the 2012-2013 IA Plan.

Mr. Fudali reminded staff that the Internal Audit performs its activities in conformance with: the Fiscal Control and Internal Auditing Act (FCIAA); International Standards for the Professional Practice of Internal Auditing (IIA Standards); Code of Ethics of the Institute of

Internal Auditors; State of Illinois Internal Audit Advisory Board (SIAAB); and Generally Accepted Government Auditing Standards (GAGAS).

Mr. Fudali indicated that the Internal Audit activities include: participation in data processing systems meetings; FCIAA-mandated audits of business processes (cycle audits); additional risk-based internal audits; external vendor audits; consulting engagements; and assistance to the Office of the Inspector General.

Director Gonzalez noted that the number of hours allocated to risk-based internal audits and external vendor audits increased in the 2012-2013 Audit Plan compared to the previous two-year audit plan. He asked whether the increased allocation of hours was based on prior findings and how the allocations are determined generally. Mr. Fudali responded that there are fewer cycle audits mandated for this time period therefore more hours have been allocated to risk-based internal and external vendor audits.

Director Gonzalez asked whether the external auditor would review the DBE participation goals versus actual DBE commitment. Mr. Fudali responded that reviews of the DBE participation goals are not done routinely. **He committed to checking with the external auditor to determine whether this type of review is planned for 2012.**

Director Gonzalez asked how IA determines which contracts are reviewed by the internal auditor. Mr. Fudali responded that contracts are chosen based on recommendations from the Inspector General and executive management.

Ms. Lafleur added that the creation of the Diversity Unit was recommended in previous audits as a matter of best practice and not due to a finding of wrongdoing.

Mr. Fudali indicated that the tentative 2012 Audit Committee meeting schedule and content would include: in February 2012 – a summary of Internal Audit purpose, authority, responsibilities and performance relative to plan; Internal Audit activity results from prior year, including risk exposure and/or control issues; and review of governance issues/concerns.

Chair Wolff asked for clarification on the governance issues and concerns referenced by Mr. Fudali. He responded that governance concerns related to the internal control structure and management choices would be addressed at each of the Audit Committee meetings. He added that these concerns can be identified through IA's day-to-day interaction with management and executive staff or by issues raised by the Board.

In August 2012, the Audit Committee meeting agenda would include: results of the external audit; results of the semi-annual Internal Audit activities; and governance issues/concerns. In December 2012, the committee agenda would include: current state of IA resources; approval of two-year plan and governance issues or concerns.

Mr. Fudali then gave an overview of the Internal Audit Charter, highlighted proposed updates for the charter, and reviewed the Internal Audit Plan as shown in the [attachment](#). Committee Chair Gonzalez called for a motion to approve the updates to the charter. Chair Wolff

made a motion to approve the updated charter; seconded by Director Weisner. The motion passed unanimously.

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

Meeting adjourned at approximately 8:50 a.m.

Minutes taken by: _____

Tranece Artis
Board Secretary
Illinois State Toll Highway Authority