



Record of Meeting | April 27, 2015

The Illinois State Toll Highway Authority (the "Tollway") held the Audit Committee Meeting on Monday, April 27, 2015 at the Tollway's Central Administration Building in Downers Grove, Illinois. The Meeting was held pursuant to By-Laws of the Tollway upon call and notice of the Meeting executed by Chair Paula Wolff and posted in accordance with the requirements of the *Illinois Open Meetings Act*. 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 David Gonzalez called the Meeting to order at approximately 10:30 a.m. and stated that this is a scheduled meeting of the Audit Committee of the Tollway Board of Directors. He then asked the Board Secretary to call the roll. Those Directors present and absent were as follows:

Committee Members Present:
Committee Chair David Gonzalez
Chair Paula Wolff

Committee Members Not Present:
Director Tom Weisner

The Board Secretary declared a quorum present.

Public Comment

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

Committee Chair's Items

Committee Chair Gonzalez called for a motion to approve the Minutes of the Audit Committee Meeting held on December 10, 2014. Chair Wolff made a motion for approval; seconded by Committee Chair Gonzalez. The motion was approved unanimously.



Committee Business

Committee Chair Gonzalez then introduced Cassaundra Rouse, Chief Internal Auditor, to present to the Committee an update on Internal Audit Activity. [See attached presentation.](#)

The presentation included an overview of Internal Audit's purpose, authority and responsibility; Tollway requirements pursuant to the *Fiscal Control and Internal Auditing Act* ("FCIAA"), including cycle audits performed and findings; Internal Audit activity including the construction audit program; current external audit activity; Internal Audit tools and management software; and department resources.

Chair Wolff asked whether the external quality assurance review conducted of the Tollway was accepted by the State Internal Audit Advisory Board ("SIAAB"). Ms. Rouse responded affirmatively, explaining that the External Quality Assurance Report issued from the external assessment conducted was accepted in a letter conveyed by the SIAAB in November, 2014. Ms. Rouse noted that the next external quality assurance assessment of the Tollway will be conducted in another five years, performed in accordance with the FCIAA.

Chair Wolff, referencing the cycle audits and the generally accepted accounting principles ("GAAP") process audit performed by the Internal Audit department in 2014, asked whether two findings is in accordance with what might be expected. Ms. Rouse responded affirmatively, clarifying that other than the Property, Equipment and Inventory cycle audit finding, which was appropriately addressed by management through enhanced controls and subsequently confirmed by Internal Audit follow up in 2015, and the GAAP process audit finding, no other material deficiencies on internal controls were identified.

Chair Wolff inquired whether the previously completed independent external audit also identified either of the issues reported in the Internal Audit findings for 2014. Ms. Rouse responded affirmatively, explaining that the independent external audit conducted by KPMG on behalf of the Illinois Auditor General also identified deficiencies related to the age and capabilities of Tollway financial reporting systems. She noted that the Finance department, through software addition, has since implemented measures to better automate financial reporting processes until the implementation of the Tollway's enterprise resource planning ("ERP") system, which is expected to strengthen internal controls and fully address audit findings.

Chair Wolff asked if the independent external audit identified issues within any of the other major systems of which cycle audits are conducted. Ms. Rouse responded in the negative, clarifying that the annual independent external audit conducted on behalf of the Illinois Auditor General is



of the Tollway's financial statements, including limited evaluation of internal control over financial reporting, and that a number of the major systems on which cycle audits are conducted fall outside of the scope of the audit performed by the Illinois Auditor General.

Committee Chair Gonzalez requested confirmation that the deficiency identified in the Property, Equipment and Inventory cycle audit did not result in financial loss to the Tollway. Ms. Rouse confirmed.

The Committee and staff then discussed the methods and scope of the construction audit program. Of particular focus was discussion of Internal Audit's review of current and past audit findings to identify patterns in both process and vendor audits on which attention might be placed to most efficiently maximize the number of identified cost recovery opportunities and to ensure these are pursued by relevant Tollway departments. Ms. Rouse stated that recently acquired data analytical software is being implemented that will allow Internal Audit to summarize large data populations, increasing the probability of detecting trends, errors and omissions, fraud, anomalies, policy violations and other unusual transactions if they occur.

Committee Chair Gonzales commented that a primary objective of the construction audit program should be to perform risk assessments which will identify opportunities to strengthen internal controls and thereby minimize the occurrence of missed cost recovery opportunities, rather than a focus on identification of each potential occurrence.

Chair Wolff asked what is examined during the construction site observations performed as a component of the construction audit program. Ms. Rouse responded that a number of checks are performed, including: work site safety compliance, schedule performance, a reconciliation of onsite workforce to payroll documentation and a review of the construction manager's daily diary.

Chair Wolff asked if the construction sites identified for observation are selected at random. Mr. Rouse responded affirmatively, clarifying that trends discerned and findings from previous examinations may also be considered in the selection process for site visits.

Chair Wolff, referencing the request for proposal recently advanced for new Internal Audit management software, inquired about the availability in the marketplace of products and vendors which can meet Tollway needs. Ms. Rouse responded that a limited number of software solutions are available to the Tollway. She emphasized that the addition of this tool, allowing for automation of the Internal Audit processes, will be of substantial benefit to the department.



Committee Chair Gonzalez commented favorably on the addition of management software for the Internal Audit department, noting that the accounting and consulting firm in which he is a partner uses a similar tool. He highlighted that the software utilized by his firm includes ongoing automatic updates which reflect any changes resulting from the latest pronouncements and asked if the software solicited in the Tollway's RFP would include such a feature. Ms. Rouse responded affirmatively, adding that the software would also allow for more fluid conversations with the user departments regarding policy and procedure updates, providing efficiencies at both ends.

Committee Chair Gonzalez, referencing the listing provided of current Internal Audit department resources, inquired about the remaining vacancy in the construction audit manager position and whether the position responsibilities will continue to be fulfilled through outside contract until the position is filled. Ms. Rouse responded that consideration is being given to the use of an outside consultant while the position is vacant.

Executive Director Lafleur proposed that due to the magnitude of the agency's capital construction program, it may be of benefit to procure an outside resource for supplemental construction audit services on an ongoing basis, even after the construction audit manager position is filled. Ms. Rouse concurred and suggested that procuring an outside resource with expertise in construction management and highway engineering would be of value to the construction audit program.

Chair Wolff requested confirmation that the Tollway's internal auditors would work alongside any external construction audit services provider with forethought to developing within the department the competency to perform these functions internally. Ms. Rouse confirmed, noting that knowledge transfer was also an element of the collaboration with the provider of these services in 2014.

Committee Chair Gonzalez inquired whether there is flexibility within audit schedules to allow for the prompt consideration in the Internal Audit planning process of any findings resulting from external audits. Ms. Rouse responded that Internal Audit works closely with the external auditors, allowing for the prompt inclusion of any identified areas of risk exposure into the audit plans for those systems scheduled for review within the current fiscal year. She continued that hours are also available within the annual plans to accommodate special audits of any identified areas which are not already planned for review, emphasizing that appropriate and timely attention is devoted to any issues identified by external auditors.

Items for Consideration

[There were no items presented to the Committee for consideration]



Adjournment

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 11:39 a.m.

A handwritten signature in cursive script that reads "Christi Regnery".

Minutes taken by: _____

Christi Regnery
Board Secretary
Illinois State Toll Highway Authority



Internal Audit Activity
Update

April 27, 2015

Agenda

- Internal Audit (IA) purpose, authority and responsibility
- Fiscal Control and Internal Auditing Act (FCIAA)
- Cycle audits
- Internal Audit activity
- Construction audit program
- External audit
- Internal Audit tools
- Internal Audit software RFP
- Department resources



Fiscal Control and Internal Auditing Act

INTERNAL AUDIT

Work during 2014 continued to focus on the integrity of the Tollway's financial reporting, the independence and effectiveness of the external and internal audit activities, the Tollway's risk management processes and assessing the Tollway's system of internal controls



IA Purpose, Authority and Responsibility

- Perform engagements proficiently and with due professional care pursuant to applicable standards
- Examine and evaluate the Tollway's policies, procedures and systems of internal control
- Ensure the reliability and integrity of information, compliance with policies, plans, laws and regulations
- Safeguarding of Tollway assets
- Ensure the economical and efficient use of resources



IA Purpose, Authority and Responsibility

- The Chief Internal Auditor and internal audit staff shall be free of all operational duties
- Full and free access to the Audit Committee
- Unrestricted access to the Tollway's records, documents, property and personnel
- Authority to discuss initiatives, policies and procedures regarding risk assessment, internal controls, compliance, financial reporting and governance processes with management and other corporate governance participants



Fiscal Control and Internal Auditing Act

FCIAA Requirements

- A two-year plan, identifying audits scheduled for the pending fiscal year, approved by the Executive Director before the beginning of the fiscal year
- Every five years - complete a quality assurance review accepted by SIAAB
- Frequently complete an internal quality assurance review
- Continuing professional education



Fiscal Control and Internal Auditing Act

FCIAA Requirements

- **System Pre-Implementation** - Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability
- **Special audits** of operations, procedures, programs, electronic data processing systems and activities as directed by the chief executive officer or by the governing board
- **Certification letter** - By May 1 of each year, the Executive Director shall prepare and transmit to the Auditor General a certification that the systems of internal fiscal and administrative controls of the state agency fully comply (or not comply) with the requirements of this Act

Fiscal Control and Internal Auditing Act

FCIAA Requirements

- **Cycle Audits** - Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every two years

- **Key internal control activities** reviewed during cycle audits
 - Separation of duties
 - Documentation
 - Authorization and approvals
 - Security of assets
 - Reconciliation and review



Cycle Audits Schedule

Title	Completed	Current
Administrative Support Services	2014	-
Budgeting, Accounting and Reporting	2014	-
Property, Equipment, and Inventories	2014	-
Revenues and Receivables	2014	-
Electronic Data Processing	2014	-
Agency Organization and Management	-	2015
Purchasing, Contracting and Leasing	-	2015
Expenditure Control	-	2015
Personnel and Payroll	-	2015
Petty Cash (If 2009 disbursements exceed \$5,000) 2007, 2008 and 2009 did not exceed \$5,000	2014	2015



Internal Audit Activity

Cycle Audits / Other Audits	2014 Audit Findings	2012 Audit Findings
Revenues and Receivables	-	-
Grant Administration	-	-
Property, Equipment and Inventory	1	-
Electronic Data Processing	-	-
Administrative Supportive Services	-	-
Budgeting, Accounting and Reporting	-	-
GAAP Process Audit	1	-



Internal Audit Activity

2014

- Annual certification letter
- Risk-based reviews
- External audit coordination
- Cycle audits
- Oases fuel audit
- Construction practices review and audit services
- Contract and vendor audits
- PCI audit coordination



Internal Audit Activity – Construction

2015 Construction Audit Program

Vendor Audits

- Compliance with contract terms
 - DBE program requirements
- Cost recovery opportunities identified in the audit are pursued with the contractor

Process Audits

- Designed to evaluate the efficiency and effectiveness of the bid and evaluation process with established policy and procedures

Construction Site Observations

- Ongoing site visits throughout construction season

Internal Audit Tools

Data Analytical Software – *New*

- Allows auditors to extract and analyze data independent of auditees
- Summarizes large amounts of data
- 100 percent testing of large populations
 - Increases probability of detecting errors and omissions
 - Increases probability of detecting fraud
 - Looks for anomalies, policy violations and other unusual transactions

Internal Audit Tools

Data Analytical Software

- Allows auditors to extract and analyze data independent of auditees

Summarizes large amounts of data

- 100 percent testing of large populations
 - Increases probability of detecting errors and omissions
 - Increases probability of detecting fraud
- Identification of separation of duties
- Sharing of passwords
- Account reconciliations
- Minimal account reviews



Internal Audit Software RFP

Internal Audit management software is a tool that automates the entire Internal Audit process

Planning

- Risk assessment, annual planning and budgeting
 - Saves time on administrative tasks
 - Improves overall department efficiency

Project management

- Timekeeping, staffing and scheduling, audit histories
 - Increases audit quality
 - Standardizes the audit approach among all auditors
 - Prevents inconsistencies in audit reports over time and across auditors
 - Simplifies follow-up tracking and other Audit Committee reporting needs
 - Tracks departmental controls in one place

Internal Audit Software RFP

Fieldwork

- Work papers (integration with Word, Excel and other tools), audit program templates
 - Reduces time spent on workpaper documentation

Reporting

- Audit report generation, tracking of findings, recommendations, due dates, management responses and action plans

The audit software will maintain all of the internal audit departments data into one integrated database solution

RFP Status

- Addendum published
- Bids due April 24, 2015



2015 External Audit

- External auditors are on site performing fieldwork
- The review includes the financial statement, compliance and Information Systems audit
- Internal Audit is the lead department coordinating the External Audit with Finance and Information Systems
- External Audit report is tentatively scheduled for release by July 31, 2015

Internal Audit Department - Resources

Cassandra Rouse

Vacant

Shaun Farmer

Chad Hayden

Michael Pustelnik

Aldrenza Wright

Art Lemke

Chief Internal Auditor

Construction Audit Manager

Audit Manager

Internal Auditor

Internal Auditor

Internal Auditor

Information Systems Auditor