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## Record of Meeting | December 4, 2015

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The Illinois State Toll Highway Authority (the “Tollway”) held the regularly scheduled Audit Committee Meeting on Friday, December 4, 2015 in the Boardroom of 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 Chairman Robert J. Schillerstrom 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

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Committee Chair David Gonzalez called the Meeting to order at approximately 11:00 a.m., stating that this is the regularly 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
Director Nick Sauer
Director James Sweeney

Committee Members Not Present:
Director Earl Dotson, Jr.

The Board Secretary declared a quorum present.

### Public Comment

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

### Committee Chair’s Items

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Committee Chair Gonzalez called for a motion to approve the Minutes of the regular Audit Committee Meeting held on April 27, 2015, as presented. Director Sweeney made a motion for approval; seconded by Director Sauer. Committee Chair Gonzalez then called for a vote. The motion PASSED unanimously.



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## Committee Business

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Committee Chair Gonzalez introduced Cassaundra Rouse, Chief Internal Auditor. Ms. Rouse then introduced Cathy Baumann, KPMG Audit Partner, noting in her introduction that KPMG's engagement by the Illinois Auditor General to examine the Tollway will conclude upon completion of their audit of the agency's fiscal year ("FY") 2016 financial statements.

Ms. Baumann then presented the Independent External Audit Services Plan for the KPMG audit to be conducted on behalf of the Illinois Auditor General of the Tollway's financial statements for the FY ended December 31, 2015. Highlights of the presentation included an overview of the engagement team, the objectives of the audit, responsibilities, KPMG's audit approach and methodology, risk assessment, the audit plan, new accounting pronouncements, independence safeguards, and the resources made available to the Audit Committee through KPMG's Audit Committee Institute. At the conclusion of her presentation, Ms. Baumann advised that field work for the audit will begin in January 2016 and that report issuance is expected in June of 2016.

Committee Chair Gonzalez asked whether KPMG's FY 2015 audit scope includes requirements of Governmental Accounting Standards Board ("GASB") Statement No. 68 *Accounting and Financial Reporting for Pensions*, and, if so, whether this mandate is expected to require additional efforts in the financial reporting and audit processes. Ms. Bauman responded affirmatively, explaining that compliance will entail additional disclosure and reporting requirements for the agency and efforts by KPMG to strengthen its knowledge of the state's determinations for how liabilities to the State Employee's Retirement System are to be measured and recognized.

Ms. Rouse then provided the Committee an update on Internal Audit activities to-date, including the state of Internal Audit staffing resources and an overview of the Annual Risk Assessment conducted. She additionally presented the two-year Internal Audit Plan for FY's 2016 and 2017. [See attached presentation.](#)

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## Items for Consideration

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*Audit Item 2: Approval of 2-Year Audit Plan.*

Committee Chair Gonzalez called for a motion to approve placement of **Audit Item 2**, the two-year Internal Audit Plan for FY's 2016 and 2017, on the December Board of Directors meeting agenda with the Committee's recommendation for approval by the Board. Director Sweeney made a motion for approval; seconded by Director Sauer. Committee Chair Gonzalez asked if



there are any questions, concerns or requests for discussion. Hearing nothing, Committee Chair Gonzalez called for a vote. The motion PASSED unanimously.

### **Adjournment**

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There being no further business, Committee Chair Gonzalez requested a motion to adjourn. Motion to adjourn was made by Director Sweeney; seconded by Director Sauer. The motion PASSED unanimously.

The meeting was adjourned at approximately 11:31 a.m.

Minutes taken by: \_\_\_\_\_

Christi Regnery  
Board Secretary  
Illinois State Toll Highway Authority



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# **Internal Audit Update**

**December 4, 2015**

# Agenda

- **Audit Committee schedule**
- **Internal Audit background**
- **Internal Audit charter**
- **FCIAA requirements**
- **Internal Audit resources**
- **Peer review**
- **Risk assessment**
- **Vendor Management and Service Provider Audits**
- **Internal Audit Plan 2016 and 2017**
- **Audit Committee tentative schedules**
- **Next steps – Approval**

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# Audit Committee

## ■ December Meeting

- Current state of IA resources
- Approval of Two Year Audit Plan
- Governance issues/concerns

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# Internal Audit Background

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

*The Institute of Internal Auditors*

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# Internal Audit Background

The mission of Internal Audit is to assist all levels of the agency in the achievement of the strategic goals and objectives by striving to provide both quality customer service and a positive impact on the efficiency and effectiveness of operational and administrative functions.

Our department achieves this mission by providing ongoing, objective and independent reviews of internal controls and independent appraisals (i.e. audits), analyses and counsel related to the assessment of business risk.



# Internal Audit Background

## 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)
- Generally Accepted Government Auditing Standards (GAGAS)

# IA Charter

- **The IA Charter outlines IA's:**

- Purpose
- Accountability and authority
- Responsibilities
- Scope of work
- Independence
- Reporting process
- Periodic assessments

# Fiscal Control and Internal Auditing Act (FCIAA)

## ■ FCIAA Requirements include:

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

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# Internal Audit Resources

- Chief of Internal Audit
- Internal Audit Manager
- Internal Auditors (three staff auditors)
- Information Systems Auditor
- Construction Auditor (*budgeted for 2016*) – vacant
- Executive Assistant - vacant

# Peer Review – External Quality Assurance Review

- Once every five years, IA undergoes a quality assurance review on its effectiveness as required by the standards of the Institute of Internal Auditors and FCIAA
- Results from the September 26, 2014, External Quality Assurance Report approved by SIAAB in October 2014 indicate:
  - *The Illinois State Toll Highway Authority's Internal Audit Department **generally conforms** with the Institute of Internal Auditors Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing Standards effective January 1, 2013, and complies with the Fiscal Control and Internal Auditing Act (FCIAA)*
- Evaluation resulted in the highest evaluator compliance rating

# Annual Risk Assessment

## ■ Risk assessment objectives

- Gain an understanding of the risks that threaten the Tollway's achievement of strategic objectives
- Document the risks and map them against potential Internal Audit projects to create the auditable risk profile
- Prioritize the auditable risk profile by ranking the risks associated with each auditable unit based on the likelihood of occurrence and severity of impact to the Tollway
- Develop a risk-based, multi-year Internal Audit plan based on audit types

# Annual Risk Assessment

- **Must balance the requirements of the Fiscal Control and Internal Auditing Act (FCIAA) and the International Standards for the Professional Practice of Internal Auditing (IIA Standards), published by the Institute of Internal Auditors (IIA)**
- **Audit activity was identified by using the following methods:**
  - Conducting an agencywide risk assessment
  - Reviewing prior findings from external and internal audits
  - Consulting with executive staff, management and auditor judgement

# Vendor Management and Service Provider Audits

**Vendor audits can identify potential cost recoveries and highlight areas of contractual non compliance**

- **Vendor audit services include service level agreement (SLA) audits, construction audits, joint venture audits and vendor contract audits**
- **Provides appropriate oversight and risk management of significant third party relationships**
  - Vendors with access to customer information
  - Vendors deemed to be mission critical



# 2016 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2016

Allocation of Available Hours		
<b>Mandatory Internal control reviews</b>	<b>3,280</b>	<b>30 percent</b>
<b>Management, training and administration</b>	<b>2,954</b>	<b>27 percent</b>
<b>Risk based reviews of external parties</b>	<b>2,200</b>	<b>20 percent</b>
<b>Internal Audit risk-based reviews</b>	<b>1,230</b>	<b>11 percent</b>
<b>Internal Audit special projects</b>	<b>585</b>	<b>5 percent</b>
<b>Mandatory systems meetings</b>	<b>505</b>	<b>5 percent</b>
<b>OIG investigations</b>	<b>299</b>	<b>3 percent</b>
<b>Total Hours 2016</b>	<b>11,053</b>	<b>100 percent</b>

\* Numbers may not add to total due to rounding

Presented by Cassandra Rouse on December 4, 2015



# 2017 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2017

Allocation of Available Hours		
<b>Risk-based reviews of external parties</b>	<b>2,980</b>	<b>26 percent</b>
<b>Mandatory internal control reviews</b>	<b>2,520</b>	<b>23 percent</b>
<b>Management, training and administration</b>	<b>2,212</b>	<b>20 percent</b>
<b>Internal Audit risk-based reviews</b>	<b>1,430</b>	<b>13 percent</b>
<b>Internal Audit special projects</b>	<b>1,020</b>	<b>9 percent</b>
<b>Mandatory systems meetings</b>	<b>505</b>	<b>6 percent</b>
<b>OIG investigations</b>	<b>300</b>	<b>3 percent</b>
<b>Total Hours 2017</b>	<b>11,102</b>	<b>100 percent</b>

\* Numbers may not add to total due to rounding

# Audit Committee Tentative Schedules

## ■ April/May 2016

- Summary of Internal Audit purpose, authority, responsibilities and performance relative to plan
- Internal Audit activities results from prior year, including risk exposure and/or control issues
- Governance issues/concerns

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# Next Steps

## Audit Committee Approval

- 2016-2017 Internal Audit Plan



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**THANK YOU**



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# Appendix

# 2015-2016 Internal Audit Plan

## Resource Availability and Allocation - 2015

Allocation of Available Hours		
Mandatory systems meetings	480	4 percent
Mandatory internal control reviews	2,270	20 percent
Internal Audit risk based reviews	2,630	24 percent
Internal Audit special projects	960	9 percent
Risk-based reviews of external parties	2,250	20 percent
OIG investigations	300	3 percent
Management, training and administration	2,212	20 percent
<b>Total Hours 2015</b>	<b>11,102</b>	<b>100 percent</b>