



Record of Meeting | December 7, 2016

The Illinois State Toll Highway Authority (the “Tollway”) held the regularly scheduled Audit Committee Meeting on Wednesday, December 7, 2016 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

Committee Chair David Gonzalez called the Meeting to order at approximately 11:32 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 being as follows:

| Committee Members Present: | Committee Members Not Present: |
|--------------------------------|--------------------------------|
| Committee Chair David Gonzalez | None |
| Director Earl Dotson, Jr. | |
| Director James Sweeney | |

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 regular Audit Committee meeting held on April 20, 2016, as presented. Director Dotson made a motion for approval; seconded by Director Sweeney. Committee Chair Gonzalez then called for a vote. The motion was PASSED unanimously.



Committee Business

Executive Director Bedalov introduced Cassandra Rouse, Chief Internal Auditor, to present to the Committee an update on Internal Audit activity. [See attached presentation.](#)

Ms. Rouse's presentation included an overview of the Internal Audit Charter; annual risk assessment, cycle audit schedule, and Internal Audit Department resources, including resource availability and allocation for the 2017/2018 internal audit plans. During the presentation, Ms. Rouse noted that a scheduling conflict precluded KPMG from attending the Meeting to provide an update on the independent external audit they are conducting of the Tollway's financial statements on behalf of the Illinois Auditor General. She further noted that the Illinois Auditor General typically rotates auditors after a period of six years and KPMG's engagement to examine the Tollway will conclude upon completion of the FY 2016 audit, at which time a new firm will be engaged.

Director Dotson asked the implication of three vacant positions in Internal Audit to execution of the two-year internal audit plan, and when these positions are anticipated to be filled. Ms. Rouse responded that the 2017 audit plan hours are presented with the assumption that vacant positions will be filled by mid-year 2017 and the 2018 audit plan hours assume a fully staffed audit team. She further responded that to ensure completion of the internal audit plan while hiring efforts continue, Internal Audit is recommending co-sourcing (through the issue of a request for proposal) audit services on an interim basis to supplement existing in-house internal audit functions and provide additional expert knowledge in the areas of IT, audit and construction.

Committee Chair Gonzalez, observing the sizable allocation of hours for the two-year internal audit plan, commented that some urgency should be felt to procure supplemental audit services and to fill the Internal Audit vacancies, in particular the longstanding vacancy in the construction auditor position.

Director Sweeney asked whether additional Internal Audit responsibilities are foreseen to result from the recent approval by Illinois voters of the Transportation 'Lockbox' Amendment. Executive Director Bedalov noted that the Illinois *Toll Highway Act* already precludes Authority funds from being spent for purposes not reasonably related to toll highway operations and improvements. He advised, however, that the agency will review and address fully the requirements of the amendment prior to its effective period.

Items for Consideration



Audit

Item 1: Approval of 2-Year Internal Audit Plan.

Committee Chair Gonzalez called for a motion to approve placement of **Audit Item 1**, the two-year internal audit plan, 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 Dotson. 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 was PASSED unanimously.

Adjournment

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

The meeting was adjourned at approximately 11:54 a.m.

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

Minutes taken by: _____

Christi Regnery
Board Secretary
Illinois State Toll Highway Authority

The background of the slide features a photograph of a large, modern, curved office building with many windows. In the foreground, there are two flagpoles. The left one has the United States flag, and the right one has a white flag with a logo. The sky is clear and blue. A green horizontal band is overlaid across the middle of the image, containing the title text.

Internal Audit Department Update

December 7, 2016

Cassandra Rouse



Agenda

Audit Committee schedule

Internal Audit charter

Internal Audit resources

Risk assessment

Internal Audit Plan 2017 and 2018

Next steps – Approval

Audit Committee Schedule

December 2016

- Current state of Internal Audit resources
- Approval of two-year audit plan
- Governance issues/concerns

April 2017

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



Internal Audit Charter

The Internal Audit Charter outlines:

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

Risk Assessment

Audits are selected and prioritized using a risk-based approach

Risk assessment used to identify and prioritize audits based on

- Risk factors related to the quality of internal controls
- Estimated liability and level of exposure to the Tollway

Annual risk-based audit plan is a dynamic and continuous process

Risk Assessment

Internal Audit techniques to identify and prioritize audits in the annual plan include:

- Utilization of risk assessment criteria
- Analysis of operations and internal controls derived from previous internal audits, audit follow-up and outstanding recommendations
- Assessment of operations and controls derived from previous external audits
- Input from the Board of Directors, Audit Committee and operational management
- Benchmarking audit priorities of other governmental entities
- Consideration of current local events and public policy issues

Cycle Audit Schedule

| Title | Scheduled Completion | |
|--|----------------------|------|
| Agency Organization and Management | 2017 | - |
| Purchasing, Contracting and Leasing | 2017 | - |
| Expenditure Control | 2017 | - |
| Personnel and Payroll | 2017 | - |
| Petty Cash (if disbursements exceed \$5,000) | 2017 | 2016 |
| Grant Administration | | 2016 |
| Administrative Support Services | - | 2016 |
| Budget, Accounting and Reporting | - | 2016 |
| Property, Equipment and Inventory | - | 2016 |
| Revenues and Receivables | - | 2016 |
| Electronic Data Processing | - | 2016 |



Internal Audit Resources

Chief of Internal Audit

Internal Audit Manager

Internal Auditors (two staff auditors)

Vacancies – three unfilled positions

- Construction Auditor
- Information Technology (IT) Auditor
- Internal Auditor

Recommendation:

- Internal Audit Co- Sourcing Services will provide resources to supplement existing staff to assure completion or to expand the coverage of the established internal audit plan.

Action:

- To help execute certain areas of the audit plan, issue an RFP for co-sourced Internal Audit services to supplement existing in-house Internal Audit functions to provide additional expert knowledge in the areas of IT, Audit and Construction.

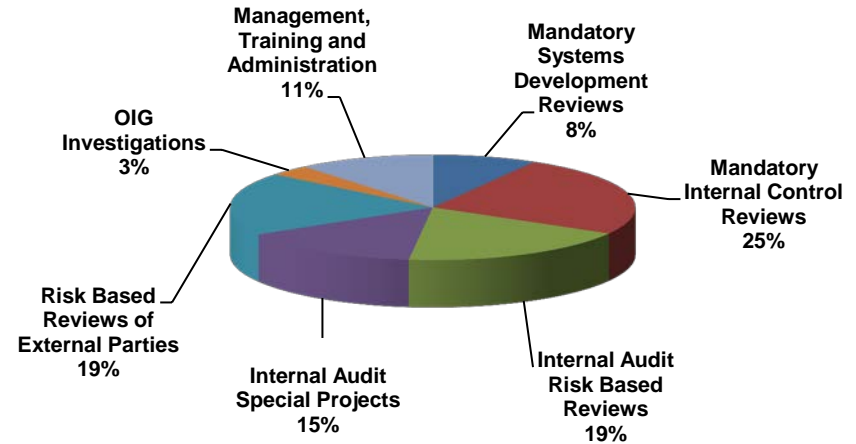


2017 Internal Audit Plan

Internal Audit Resource Availability – 2017

| Allocation of available hours | |
|---|--------------|
| Mandatory internal control reviews | 2,258 |
| Risk-based reviews of external parties | 1,754 |
| Internal Audit risk-based reviews | 1,690 |
| Internal Audit special projects | 1,320 |
| Management, training and administration | 992 |
| Mandatory systems development reviews | 760 |
| Inspector General investigations | 300 |
| Total hours 2017 | 9,074 |

2017 Audit Plan Allocation

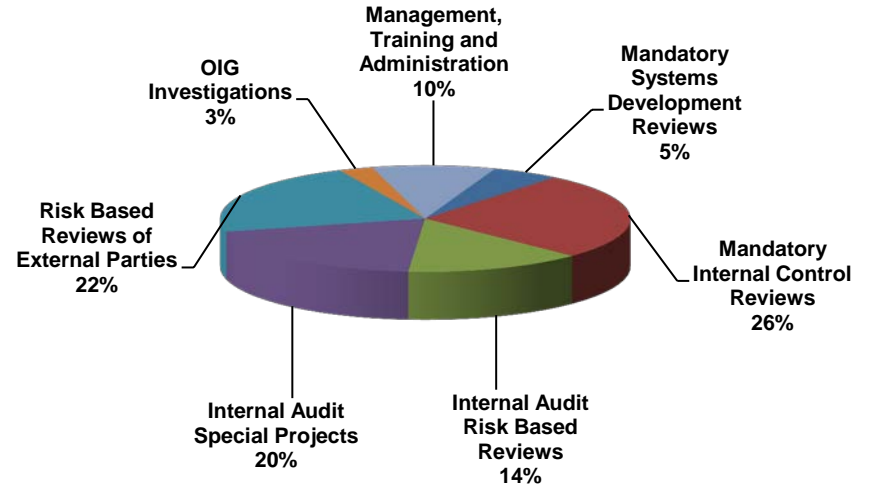


2018 Internal Audit Plan

Internal Audit Resource Availability and Allocation – 2018

| Allocation of available hours | |
|---|---------------|
| Mandatory internal control reviews | 2,988 |
| Risk-based reviews of external parties | 2,494 |
| Internal Audit special projects | 2,230 |
| Internal Audit risk-based reviews | 1,580 |
| Management, training and administration | 1,101 |
| Mandatory systems development reviews | 600 |
| Inspector General investigations | 300 |
| Total hours 2018 | 11,293 |

2018 Audit Plan Allocation



Next Steps

Audit Committee approval

- 2017-2018 Internal Audit Plan



THANK YOU

