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## Record of Meeting | December 10, 2014

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The Illinois State Toll Highway Authority (the "Tollway") held the Audit Committee Meeting on Wednesday, December 10, 2014, 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.]*

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## Call to Order / Roll Call

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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.

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## Public Comment

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

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## Committee Chair's Items

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Committee Chair Gonzalez called for a motion to approve the Minutes of the Audit Committee Meeting held on August 20, 2014. Chair Wolff made a motion for approval; seconded by Committee Chair Gonzalez. The motion was approved unanimously.



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## Committee Business

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Committee Chair Gonzalez then introduced Cathy Baumann, KPMG Audit Partner, to present 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, including limited evaluation of internal control over financial reporting, for the fiscal year ("FY") ended December 31, 2014. Also in attendance was Jason Rosheisen, Senior Audit Manager at KPMG.

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.

Chair Wolff asked Ms. Baumann to discuss the partner rotations described in KPMG's independence quality controls. Ms. Baumann responded that in an effort to ensure independence, KPMG's policy is to rotate the lead engagement partner after a maximum period of ten years, or earlier based on client requirements. Ms. Baumann noted that the Illinois Auditor General typically rotates auditors after a period of six years, therefore KPMG's engagement to examine the Tollway will not likely reach a duration requiring partner rotation.

Committee Chair Gonzalez inquired about the impact of Governmental Accounting Standards Board ("GASB") Statement No. 68 *Accounting and Financial Reporting for Pensions* on Tollway financial reporting. Mike Colsch, Chief of Finance, responded that the Statement will affect how the Tollway measures and recognizes liabilities to the State Employees' Retirement System, adding, however, that a final determination has not been received. Ms. Bauman referenced the effective period of GASB Statement No. 68 and responded that KPMG will not address the requirements of this Statement until the FY 2015 audit conducted on behalf of the Illinois Auditor General.

Committee Chair Gonzalez then introduced Cassandra Rouse, Chief Internal Auditor, to provide a presentation on Internal Audit activity and the two-year Audit Plan for FY 2015 and FY 2016. [See attached presentation.](#)

Chair Wolff explained that examining whether the Tollway was receiving maximum value for construction expenditures was the Board's impetus for requesting a third party audit. She further commented that the key findings of the independent audit of agency construction practices indicate the Tollway's construction processes and procedures are sound. Chair Wolff



emphasized the importance of the audit and resultant key findings and commended management for their support and development of the strategy and successful execution of the audit.

Executive Director Lafleur stated in reference to a construction practices audit finding regarding schedule delays on Congestion-Relief Program projects that it will be useful going forward to identify within contract documentation the relative importance to the agency of substantial completion dates and final completion dates, adding that delivery of road openings (representing substantial completion) is the priority for Tollway customers.

Paul Kovacs, Chief Engineer, reported that having earlier received the construction practices audit findings from the Internal Audit department, the Engineering department has already addressed or is in the process of addressing many of the suggested opportunities for improvement.

Committee Chair Gonzalez highlighted the value provided by external audit work, including those findings that do not reach the thresholds of material, in improving internal controls within the agency.

**Executive Director Lafleur suggested it would be beneficial to plan a discussion for a future committee meeting about how best to implement the opportunities for improvement suggested by the construction practices audit.**

Chair Wolff inquired whether resources actually used were consistent with the total hours allocated for the FY 2014 Internal Audit Plan, and whether the resource allocation for the FY 2015 Internal Audit Plan is consistent with that from FY 2014. Ms. Rouse responded that the resource allocation for FY 2015 is consistent with FY 2014, clarifying that additional hours have been allocated to mandatory internal control reviews, and mandatory systems meetings in preparation for the pending enterprise resource planning (“ERP”) system implementation in FY 2015.

Executive Director Lafleur then introduced Prasad Alavilli, Senior Manager of Strategic Initiatives, to provide a presentation updating the Committee on the ERP system implementation. [See attached presentation.](#)

Chair Wolff asked whether the request for proposal (“RFP”) for ERP Implementation Services is on schedule. Mr. Alavilli responded that the RFP was previously intended for release in November 2014 but has been delayed several weeks for additional review and to avoid conflict with the Holidays. He continued that release is currently targeted for late December 2014 or early January 2015.



Lastly, Executive Director Lafleur emphasized the importance of obtaining end user buy-in to critical Information Technology project rollouts and further asserted that the additional agency time and effort devoted to the development of the requirements documentation will assist in the successful implementation of the ERP suite of applications.

### Items for Consideration

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Committee Chair Gonzalez called for a motion to approve the two-year Internal Audit Plan for fiscal years 2015 and 2016, as presented. Chair Wolff made a motion to approve; seconded by Committee Chair Gonzalez. The motion was approved unanimously.

Committee Chair Gonzalez, after expressing his comfort with the proposed revisions, then called for a motion to approve the Internal Audit Charter. Chair Wolff made a motion to approve; seconded by Committee Chair Gonzalez. The motion was approved 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 Chair Wolff; seconded by Committee Chair Gonzalez. The motion was approved unanimously.

The meeting was adjourned at approximately 12:07 p.m.



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

Christi Regnery  
Board Secretary  
Illinois State Toll Highway Authority



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# Enterprise Resource Planning (ERP) Update

December 10, 2014

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# Agenda

- Quick recap of previous discussions
- 2014 accomplishments



# ERP and Consulting Services

- A major initiative to replace the Tollway's aging mainframe systems and miscellaneous supporting systems with an ERP suite of applications across the Departments of Finance, Administration, Procurement, Engineering and others

## Advisory Services

- Start-to-finish subject matter expertise and assistance with RFP preparation and planning

## Independent Verification and Validation (IV and V)

- Quality and integrity of deliverables, risk mitigation and validation

## Implementation Services

- Prioritized, phased implementation of ERP

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# 2014 Accomplishments

- **January – Secured Board approval for Advisory Services: Information Services Group (ISG)**
- **May – Secured Board approval for IV and V Services: Grant Thornton**
- **ERP program management office and steering committee established; project charter established**
- **Monthly steering committee meetings being held and status report being distributed**





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## **2014 Accomplishments, continued...**

- **Completed requirements documentation and 'as-is' and 'to-be' states of business processes**
- **Initiated business case/return on investment assessment**
- **Drafted Implementation Services RFP with target release in late December/early January**





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**THANK YOU**



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# **Internal Audit Update**

**December 10, 2014**

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# Agenda

- Internal Audit background
- Current state of Internal Audit resources
- Internal Audit charter
- Peer review
- Construction audit
- Risk assessment
- Internal Audit Plan 2015 and 2016
- Audit Committee tentative schedules
- Next steps

# 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)

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# Internal Audit Resources

**During 2014, Internal Audit filled the Internal Audit Manager vacancy bringing the total headcount to six**

- Chief Internal Auditor
- Internal Audit Manager
- Internal Auditors (3)
- Information Systems Auditor
- Construction Auditor (*budgeted for 2015*)

# Internal Audit Charter

- **The *Standards for the Professional Practice of Internal Auditing* state that a formal Internal Audit Charter should define the purpose, authority and responsibility of the internal audit activity**
- **Recommended updates mostly pertain to revisions in GAGAS and IIA Standards**
  - Updates generally relate to internal audit independence, requirements for communication, clarifications, eliminations of redundancy and best practices
- **The updated IA Charter is intended to institutionalize the internal auditing function, reaffirm the principles that underpin the function and define conditions for the effective and efficient delivery of internal audit services**

# Peer Review – External Quality Assurance Review

- Once every five years, the Internal Audit Department 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



# Construction Audit - Background

- **Initiated independent audit of construction practices in 2012**
- **Contracted with Gilbane Building Company in January 2013**
- **Goals**
  - ❑ Benefit from lessons learned during Congestion-Relief Program (CRP)
  - ❑ Ensure we are “getting what we paid for”
  - ❑ Learn about and incorporate the latest industry best practices
  - ❑ Ensure program executed with efficiency and cost effectiveness

# Construction Audit – Scope of Review

- Construction and design manuals
- Errors and omissions
- Value engineering
- Pavement borings
- Ground penetrating radar bridge analysis
- Untimely submittal of ATPs
- Force account work and contractor invoicing
- Project schedules and liquidated damages
- Penny bid items
- Contracting methods
- Site observations

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# Summary of Key Findings

- The Tollway is a “best in class leader in design and construction processes and procedures”
- “Proven construction management methodologies successfully implemented”
- “Design management effectively executed”
- “State-of-the-art material tracking system”
- Opportunities for improvement “do not reflect major flaws”
- Findings indicate that the Tollway is getting what it is paying for

# CRP Project Review Findings

## ■ Value Engineering (VE)

- Less than 6 percent of project reviewed had discrepancies
- 94.4 percent accuracy in payments

## ■ Penny bid items

- 12.5 percent of 151 CRP forms bid tabulation forms had pay item variances.

### **Opportunity for improvement:**

Process and pay VE incentive payments upon completion of work and final project invoice. Revise bid analysis and consider rejecting contractor change order proposals that have penny bid items in the credit portion.

# CRP Project Review Findings

## ■ Force account work

- Untimely submission of force account invoices

## ■ Untimely submittal of ATPs

- Of 30 CRP projects reviewed, 43 percent of force account extra work orders were completed prior to Tollway authorization to proceed (ATP/work order)

## Opportunity for improvement:

When force account work exceeds an established percent of the total project EWOs, an inspector should be identified. Reduce the amount of time the contractor is permitted to submit invoicing and penalize for late submission. Use a log to better track force account work.

# CRP Project Review Findings

## ■ Project schedules and liquidated damages

- ❑ Of 224 CRP projects reviewed, 28 percent of projects had notable schedule delays. Liquidated damages were assessed on three projects.

## ■ Errors and Omissions

- ❑ Of 30 CRP projects reviewed, the Tollway's C5 Committee indicated that further consideration of potential errors and omissions was warranted. The value was less than 1 percent of the overall costs of the CRP projects reviewed

## Opportunity for improvement:

Ensure that all parties are aware of completion dates, enhance communication when delay occurs, increase the accountability of the construction manager by requiring a project scheduler, request live project schedules and commence written notification of delay concerns from the construction manager to the contractor. Consider a more consistent pursuit in assessing liquidated damages in certain cases. Identify an errors and omissions threshold to establish a definitive cut off point for pursuit.

# Review of Contracting Methods – Recommendations

- The Tollway should consider pursuing and implementing the Design-Build method of procurement (not allowed currently by State law)
- The Tollway should consider pursuing and implementing the General Manager/General Contractor method or Construction Manager at Risk method of procurement
- The Tollway should extend the use of A+B contracting and ID/IQ contracting when appropriate

# 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

- Audit Plan for 2015 and 2016 is designed to provide audit coverage across Tollway operations by deploying Internal Audit resources in an effective and efficient manner
- We use a two-year risk assessment model to prioritize audit coverage and ensure timely reviews of high exposure areas
- We began the process by utilizing previous Internal Audit risk assessments as a starting point and identified the risk categories to be considered in the risk assessment

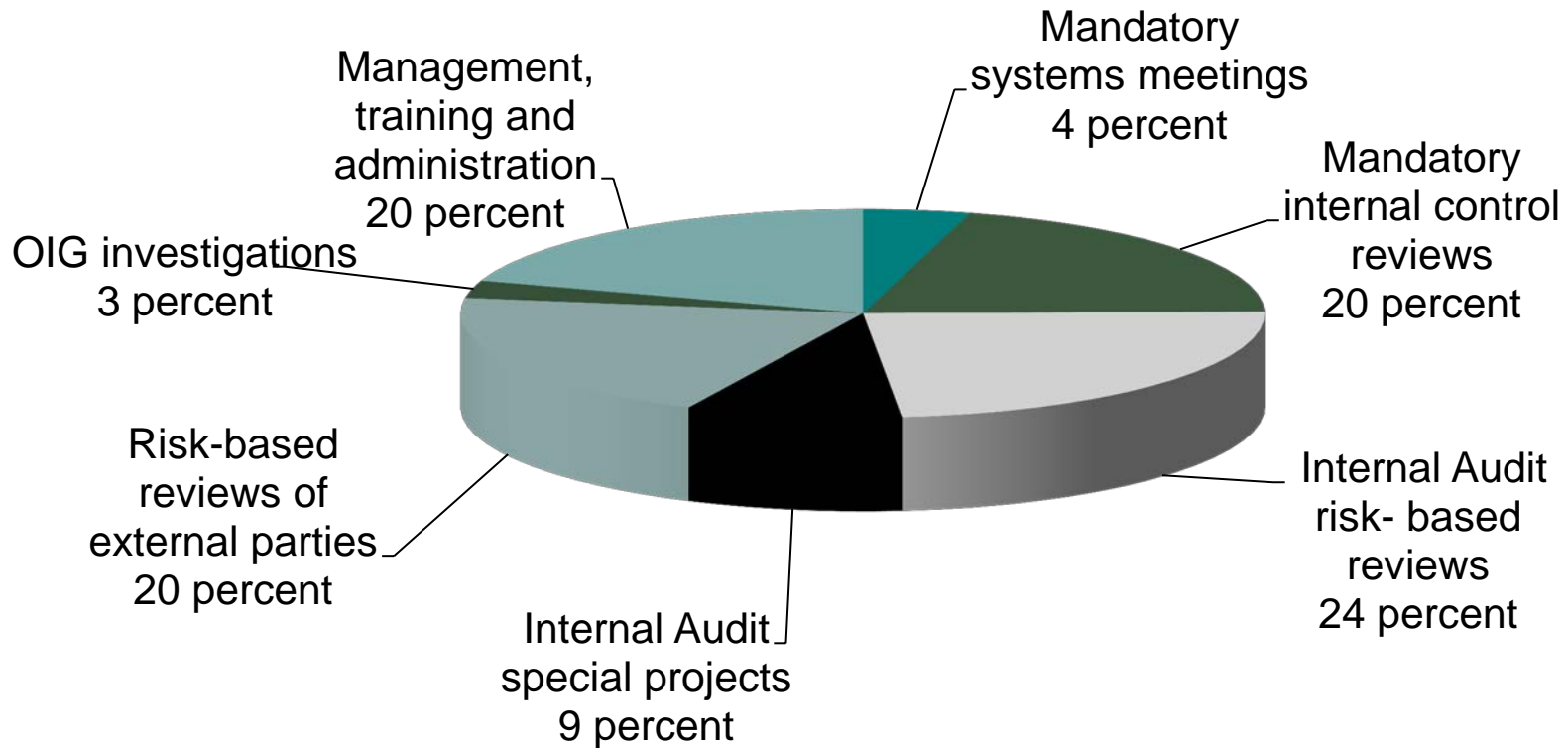
# 2015-2016 Internal Audit Plan

## 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>

# 2015-2016 Internal Audit Plan

## FY 2015 Audit Plan Allocation



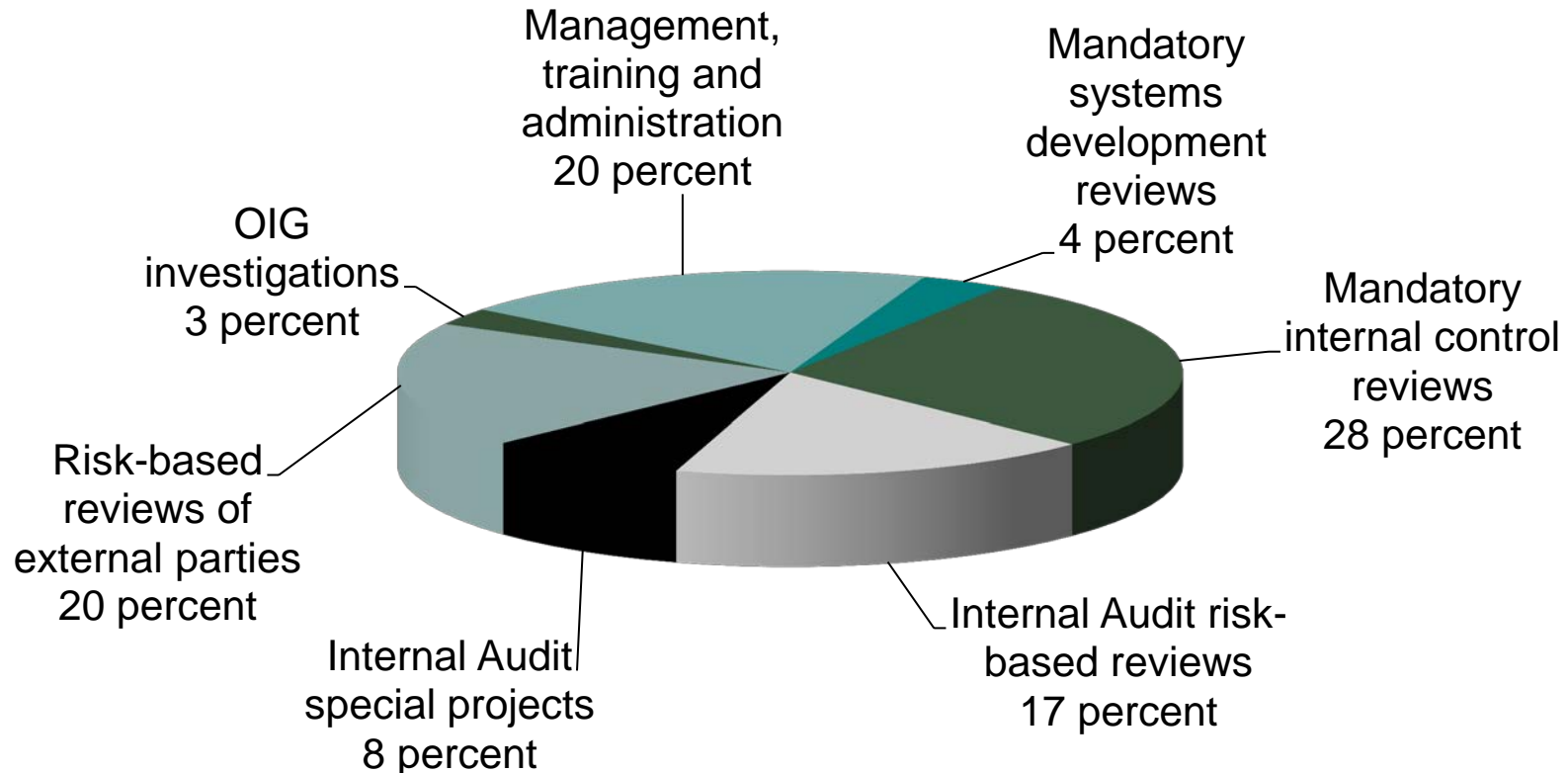
# 2014-2015 Internal Audit Plan

## Availability and Allocation – 2016 Plan

Allocation of Available Hours		
Mandatory systems meetings	388	4 percent
Mandatory internal control reviews	3,120	28 percent
Internal Audit risk based reviews	1,921	17 percent
Internal Audit special projects	920	8 percent
Risk based reviews of external parties	2,200	20 percent
OIG investigations	300	3 percent
Management, training and administration	2,204	20 percent
<b>Total Hours 2016</b>	<b>11,053</b>	<b>100 percent</b>

# 2015-2016 Internal Audit Plan

## FY 2016 Audit Plan Allocation



# Audit Committee Tentative Schedules

## ■ April 2015

- 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

## ■ August 2015

- Results of external audit
- Semi-annual Internal Audit activities' results
- Governance issues/concerns

# Audit Committee Tentative Schedules

## ■ December 2015

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

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# Next Steps

## Audit Committee Approval

- Internal Audit Charter
- 2015-2016 Internal Audit Plan





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**THANK YOU**