



Internal Audit Update

December 10, 2014

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)

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

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

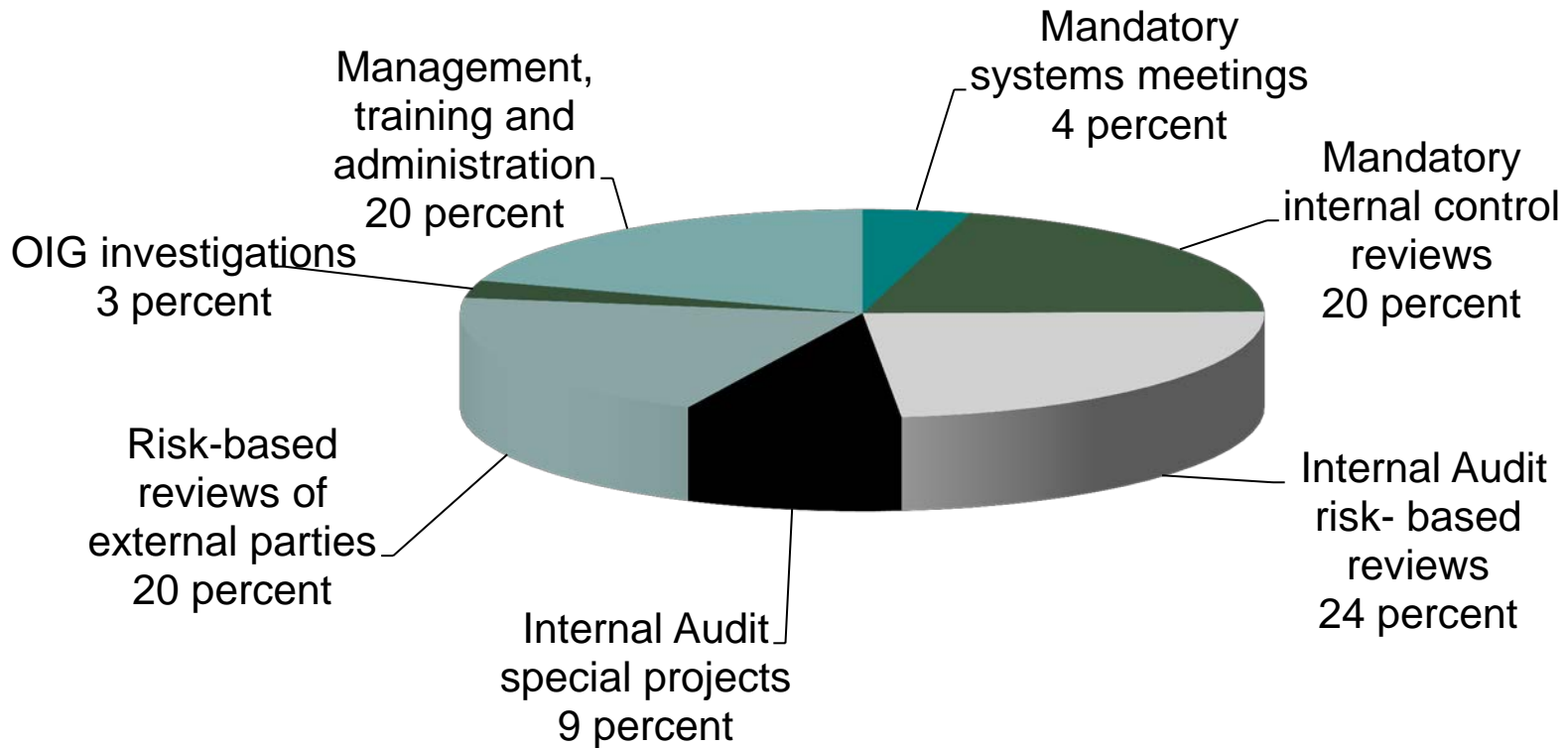
2015-2016 Internal Audit Plan

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
Total Hours 2015	11,102	100 percent

2015-2016 Internal Audit Plan

FY 2015 Audit Plan Allocation



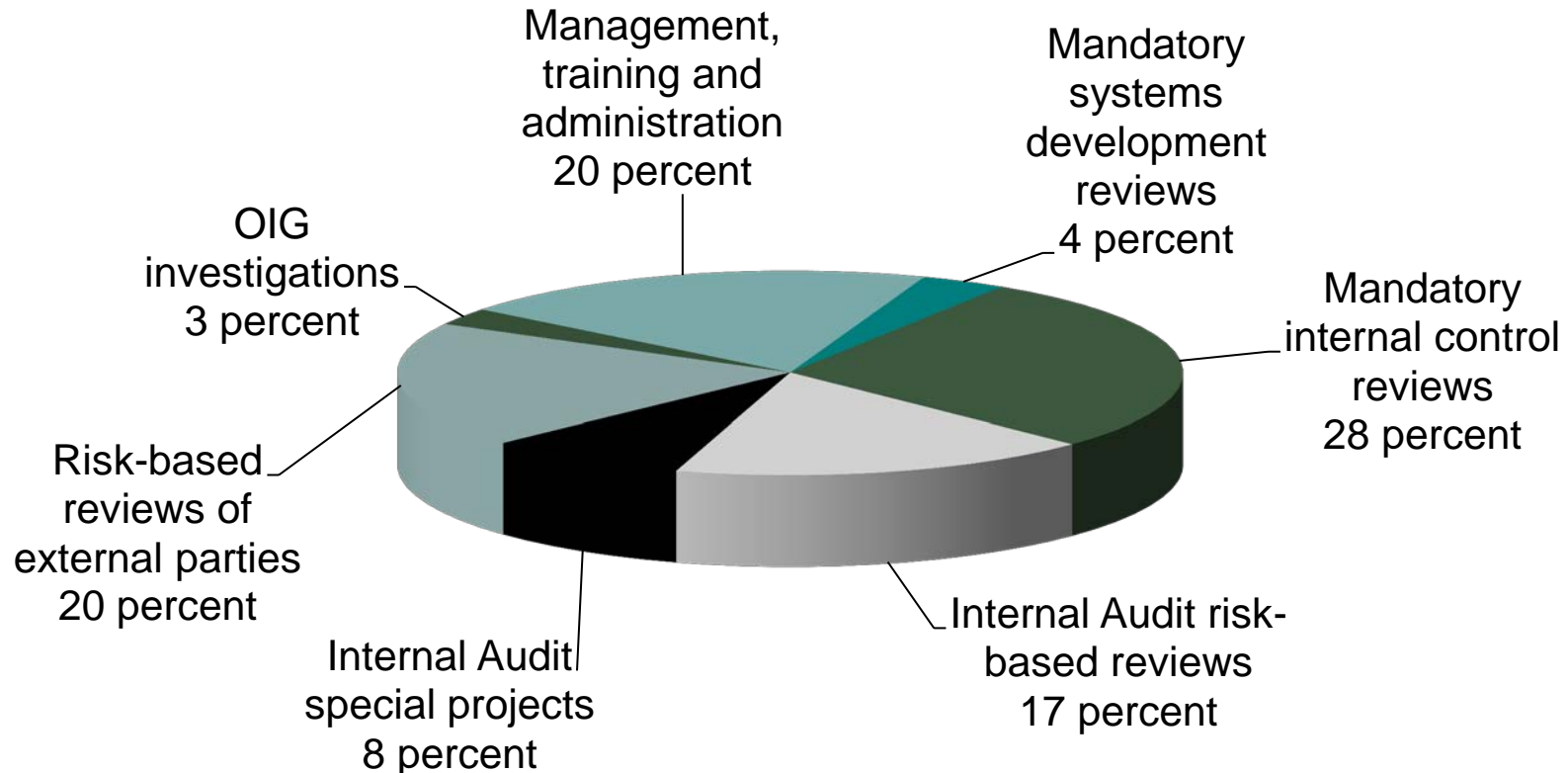
2014-2015 Internal Audit Plan

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
Total Hours 2016	11,053	100 percent

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

Next Steps

Audit Committee Approval

- Internal Audit Charter
- 2015-2016 Internal Audit Plan



THANK YOU