

THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
MINUTES OF THE AUDIT COMMITTEE MEETING
April 11, 2011

The Illinois State Toll Highway Authority held an Audit Committee Meeting on Monday April 11, 2011 at approximately 3:30 p.m. at the Central Administration Building in Downers Grove, Illinois.

Directors on the Committee in attendance were as follows:

Chair Wolff

Director James Banks

Director Jim Roof

Chair Wolff called the meeting to order. Director Roof moved to approve the Minutes of the Audit Committee Meeting held on March 24, 2011; seconded by Director Banks. The motion was approved unanimously.

Chair Wolff introduced Ariana Jaupi, Internal Audit Manager, to present a summary of the 2010 Internal Audit Findings. Ms. Jaupi explained the internal audit process and highlighted the number and type of findings (material and immaterial) cited in the 2010 audit. There were 11 material findings, 14 immaterial findings, and 4 contractor findings. Five of the material findings have been completely resolved and two are works in progress. Eleven of the immaterial findings have been completely resolved and 3 were in process.

Director Roof asked whether there was a healthy debate between management and Internal Audit on how to resolve the findings. Ms. Jaupi responded yes. Chair Wolff asked Ms. Jaupi whether the findings she deemed as works in progress were more complicated than the other findings. Ms. Jaupi responded that some required development of new policies and procedures that require several approvals. Other findings

are listed as work in process because the Internal Auditors have not returned to verify complete resolution.

Chair Wolff asked Ms. Jaupi to describe: (1) each of the material findings, (2) the Internal Auditor's recommendation to remedy the finding and (3) management's response to the finding/recommendation. Chair Wolff also invited management to provide input on each finding as needed. The findings (material and immaterial) are found in the attached [2010 Summary of Internal Audit Findings](#).

Ms. Jaupi described the first of seven material findings in the Engineering Department as the failure of the Diversity Unit to respond in writing to a vendor's request to change its Disadvantaged Business Enterprise (DBE) utilization plan. Internal Audit recommended that the Diversity Unit respond in writing to all requests from vendors to make changes to their utilization plans and maintain a copy of the correspondence. In response, management created a DBE Plan Approval form for the DBE Manager to use in recording any and all approved revisions to the DBE Utilization Plan. As a matter of practice, all correspondence is now responded to in writing with a copy placed in the file. Ms. Jaupi indicated that this finding had been resolved.

The second finding was regarding monitoring or tracking DBE contracts. In 2010, the Diversity Unit only reviewed DBE contracts for compliance during the partial and final release of retainage. Internal Audit recommended that the DBE monitoring and tracking procedures be improved to ensure continuous monitoring throughout the life of the DBE contract.

Paul Kovacs, Chief Engineer, acknowledged that it is important to monitor DBE performance throughout the life of the contract. However, he indicated that staffing and technology challenges made it difficult to do so consistently. Mr. Kovacs stated that the following actions should lead to improved tracking of the DBE goals in 2011: (1) adding DBE data to the Catapult database; (2) involving construction managers in

interim DBE performance tracking; and (3) adding another person to the Diversity Unit. Chair Wolff asked Ms. Jaupi whether management's response would result in the Tollway knowing about the vendor's DBE performance prior to the near completion of the project. Ms. Jaupi and Mr. Kovacs agreed that management's response would lead to better overall DBE performance tracking. Director Roolf asked whether monitoring DBE performance throughout the life of the contract is a self-imposed or industry standard. Ms. Jaupi indicated that the recommendation represented best practices.

The third finding addresses the language used in the Tollway's Special Provision for DBE participation. The provision lacks language for imposing liquidated damages or specific sanctions against the Contractor for failure to meet and/or adhere to DBE regulations, goals and procedures. Internal Audit recommended that the Legal Department review the language and make appropriate adjustments.

Tom Bamonte, General Counsel, noted that the existing language has been used successfully to issue sanctions on several occasions. He also commented that with the Engineering Department's input, an amendment to the language had been drafted. The draft was under review by a DBE consultant to provide recommendations based on best practices. Mr. Bamonte indicated that the Legal Department is actively considering the appropriate balance between the flexibility offered by using open-ended language versus the certainty of using specific fines and therefore the appropriate response to the finding. Chair Wolff asked whether the Tollway is balancing flexibility and clarity differently from other agencies. Mr. Bamonte indicated that the Illinois Department of Transportation uses specific calculations as well as some open-ended language. Mr. Bamonte is seeking a national perspective on this issue through the DBE consultant.

Ms. Jaupi outlined the fourth finding, which was regarding the use of the word "backcharge" on one line of the DBE final payment form. Internal Audit recommended replacing the term "backcharge" with

“adjustments” on the form to eliminate possible confusion regarding the use of the line. Chair Wolff asked why use of the word “backcharge” would cause a material finding. Ms. Jaupi responded that the wording was confusing for vendors. The basic intent for the line was to account for situations in which the prime contractor had to adjust payments to the subcontractor. Some of the adjustments could qualify toward the DBE utilization goals and others cannot. However, to most vendors/contractors the term “backcharge” denotes a charge by the prime contractor to the subcontractor for completing work assigned to the subcontractor such as cleaning up after the subcontractor or other similar incidences.

Chair Wolff asked whether there were any financial implications to changing the wording from “backcharge” to “adjustments”. Stephanie Stephens, Diversity Manager, responded yes because anything classified as a backcharge cannot be applied to the contractor’s DBE utilization.

The fifth finding involved the reporting structure for the Diversity Unit. In 2010, the General Manager of Diversity reported to the General Manager of Engineering. This posed a conflict of interest since most Tollway DBE contracts are engineering contracts. There needs to be clear independence of the Diversity function from the department where the contracts originate. Internal Audit recommended that senior management evaluate transferring the Diversity Unit to a separate department to ensure independence. Ms. Jaupi noted that no specific incident of undue influence was cited.

Executive Director Kristi Lafleur indicated that this Internal Audit recommendation is under consideration. Chair Wolff added that a change in reporting relationship does not preclude the Diversity team from working in close proximity of the Engineering team.

The sixth finding stated that the prime contractor employed subcontractors that were not approved by the Tollway as required in the Construction Manager’s manual. Internal Audit recommended that project managers and construction managers should assure that the

contractors adhere to all contractual requirements regarding certification and approval of subcontractors.

The seventh material finding in the Engineering Department involved the improper approval and maintenance of Vehicle Assignment Request forms. In certain instances, required signatures were not obtained for Permanently Assigned Vehicles. Internal Audit recommended that the forms be approved and signed by the appropriate department chief and the Executive Director. They also recommended that the form be updated to indicate the date the vehicle was returned and when the approval for the vehicle is no longer valid.

Chair Wolff asked whether Internal Audit randomly chose the engineering contracts reviewed during this audit. Ms. Jaupi responded the contracts were chosen based on a request from the Diversity team. Chair Wolff asked how many referrals the Internal Audit receives annually. Ms. Jaupi responded that last year they received four referrals.

Ms. Jaupi mentioned that there was only one material finding in the Finance Department. That finding was due to a lack of written procedure for administering out-of-state travel and corresponding travel Credit Card accounts. A new procedure has been written and therefore the finding is considered resolved. Director Roolf asked whether the new process applies to credit card use for out of state travel only. She responded that the Tollway only has one credit card and it is only authorized to be used for travel purposes only. This is a guideline issued by the Governor's Office.

Ms. Jaupi described three material findings related to personnel review. The first finding stated that individuals were hired that did not meet the required background for original positions. The second finding involved the appearance of improper equitable disciplinary proceedings. The third finding stated that changes of status given to hired personnel were noncompliant with Tollway policy and procedure.

Michael Stone, Chief of Administration, commented that formal hiring guidelines, featuring segregation of the hiring functions to different people during the hiring process, have been adopted to lessen the likelihood of the findings reoccurring. Chair Wolff asked Mr. Stone whether he had a sense of the cause for this happening. Mr. Stone stated that since this occurred prior to his tenure he cannot speak to the full scope of the root causes. Chair Wolff asked whether the lack of staff contributed to this problem. Mr. Stone commented that staffing is always an issue but not likely the root cause of this problem. Director Roof commented that management should be mindful of that.

Chair Wolff asked whether Ms. Jaupi was comfortable with how the material findings had been resolved or otherwise addressed. Ms. Jaupi responded that she was satisfied with the progress to date.

Regarding immaterial findings, Chair Wolff asked Ms. Jaupi whether she had general comments about the immaterial findings. Ms. Jaupi responded that many of them are due to simple human error.

Chair Wolff invited the committee members to ask questions about immaterial findings that needed additional clarification from their perspective. Director Roof requested additional information about an immaterial finding related to documentation for approved administrative function movements. Although all budget transfers were completed with proper authority, documentation noting the approvals for the budget transfers were found for budget stop transactions but were not found for other administrative actions that included budget transfers. He asked whether the Acting Executive Director referenced in the written management response referred to the current Executive Director. Ms. Jaupi responded that it referred to the Acting Executive Director that held the position prior to Ms. Lafleur's tenure. **Ms. Lafleur commented that future Internal Audit reports should note the time period for each finding and management response.**

Director Rolff asked for clarification about the immaterial finding addressing the lack of documentation confirming the communication of financial data. Mike Colsch, Chief of Finance, responded that Internal Audit recommended that the Finance department request confirmation from the Consulting and Traffic Engineers that they received the quarterly reports required in section 717(2) of the Trust Indenture from the Tollway Finance department.

Chair Wolff asked Chiefs whether they disagreed with any of the findings from the Internal Audit department. Ms. Jaupi indicated that there were disagreements initially with some of the findings but after in-depth discussions of the findings with each Department Chief common ground was found. Mr. Kovacs agreed with her response.

Chair Wolff asked that future reports include specific dates for the resolution of each finding when applicable.

Chair Wolff asked Executive Director Lafleur whether she had any closing comments. Ms. Lafleur added that she views the Internal Audit function as a valuable management tool. She does not anticipate ever receiving an audit without any findings because there is always room for improvement.

Chair Wolff asked Jim Wagner, current Inspector General for the Tollway, whether he had any comments. As the former manager for the Internal Audit for a portion of 2010, Mr. Wagner commended the Internal Audit Department for their work. He emphasized that there were no serious material economic findings discovered that have negatively impacted the operation of the Tollway.

Chair Wolff asked Mr. Wagner whether he has continued access to the Internal Audit team to assist him in his current role. Ms. Lafleur and Mr. Wagner agreed that the Internal Audit function is available to the Office of the Inspector General as needed.

There being no further business Chair Wolff requested a motion to adjourn. Director Banks moved to adjourn; seconded by Director Roof. The motion was approved unanimously.

Meeting adjourned at approximately 4:30 p.m.

Minutes taken by: _____

Tranece Artis
Board Secretary
Illinois State Toll Highway Authority

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