

**THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY
MINUTES OF THE AUDIT COMMITTEE MEETING
AUGUST 15, 2011**

The Illinois State Toll Highway Authority held an Audit Committee Meeting on Monday August 15, 2011 at approximately 3:00 p.m. at the Central Administration Building in Downers Grove, Illinois.

Directors on the Committee in attendance were as follows:

Committee Chair James Banks

Chair Wolff

Director Bill Morris (via teleconference)

Committee Chair James Banks called the meeting to order. He then called for a motion to allow Director Morris to participate in the meeting via teleconference. Chair Wolff made the motion; seconded by Committee Chair James Banks. The motion was approved unanimously.

Committee Chair James Banks called for a motion to approve the minutes from the Audit Committee meeting held on April 11, 2011. Chair Wolff moved for approval; seconded by Director Morris. The motion was approved unanimously.

Committee Chair James Banks commended the staff for having no materials findings in the audit and introduced Mike Fudali, Chief Internal Auditor. Mr. Fudali introduced the external auditor, Linda Abernethy from McGladrey & Pullen, to give an overview of the audit results.

Ms. Abernethy indicated that a compliance examination was completed in addition to the financial audit. The compliance examination consisted of testing the Tollway's compliance with mandates that are generally applicable to all state agencies as well as mandates that are specifically applicable to the Tollway.

Regarding the financial statement audit, she indicated that there were a couple of changes in the 2010 report – the treatment of derivatives and intangible assets. In addition to including a footnote with the fair value of interest rate swaps which are derivative instruments, in 2010 the Tollway was required to include that information in the balance sheet as both an asset and a liability. She indicated that Statement 51 requires intangible assets such as easements be reported similar to capital assets i.e., capitalized in the balance sheet and amortized over their useful life. Because the Tollway had already capitalized easements in the past, the new mandate had very little impact on the Tollway's financial statement this year.

Chair Wolff asked why easements would be considered an intangible asset. The auditor responded that easements do not represent current ownership of a property but the right to own the property if needed. Other examples of intangible assets include patents and trademarks.

Regarding the balance sheet on Page 22 and 23 of the [combined report](#), Ms. Abernethy indicated that the fair value of the swaps appeared on the balance sheet as deferred outflow resources under the liability and assets sections. She also indicated that the 2010 total net assets are \$1.9 billion, which represents a 5 percent decrease from the 2009 total net assets. She attributed net asset decrease to a \$100 million decline in capital assets due to depreciation. The decline in capital assets was offset by: 1) decreases in long-term debt by \$10 million; and 2) construction retainage liability by \$30 million due to less construction.

Regarding the operating income statement on page 24 of the [combined report](#), the Tollway's operating income was up 5 percent compared to the previous year due to a 6 percent increase in total toll revenues offset by a 2 percent increase in total operating expenses. She also noted that capital contributions were significantly lower than the previous year.

Regarding the footnotes on Page 55 and 56 of the combined report, Ms. Abernethy indicated that beginning in 2012, Statement No. 60 requires special accounting and financial reporting for service concession arrangements which are a type of public-private partnership e.g., Oases

vendors. Committee Chair Banks asked whether Tollway staff was prepared to incorporate Statement No. 60 in 2012. Mike Colsch, Chief of Finance, indicated that staff is aware of this requirement and will be working on an implementation process. Chair Wolff asked whether staff has worked with the auditor to determine the level of detail needed for Statement No. 60. Mr. Colsch indicated that with respect to past changes in governmental accounting standards Tollway staff has worked with the external auditor and Tom Kizziah of the Auditor General's Office to incorporate the necessary changes.

Committee Chair James Banks asked whether the committee had any questions about the immaterial findings. Regarding Immaterial finding 10-1, Director Morris asked whether there should be a process for the Board to approve write-off bad or uncollectable toll debt. Mr. Colsch indicated that there is a process for Board approval of formal write-offs of uncollectable amounts. The staff has opted to create a reserve for this debt rather than write the debt off to date because a significant portion of that debt is going through the collections process. Mr. Colsch indicated that staff will ask the Board next year to approve write-offs of much of the uncollectable debt. Mr. Colsch indicated that write-offs for less than \$1,000 can be approved by the Board alone but write-offs for more than \$1,000 requires approval from both the Board and the Attorney General.

Ms. Abernethy reviewed a letter that the external auditor is required to send to the Board or audit committee. She encouraged the Audit Committee to review the letter.

Mr. Fudali indicated that the Institute of Internal Audit recommends that a self-assessment of the Internal Audit (IA) function is performed when there is a significant change in IA personnel. The purpose of the self-assessment is to verify IA is in conformance with IIA and Fiscal Control and Internal Auditing Act standards as well as IIA Code of Ethics.

As a result of the change of Tollway audit personal, updates have been made to the following: Internal Audit Charter; Internal Audit manual; job descriptions; audit programs; and work papers serving as guide for next external review.

Mr. Fudali noted changes in the Internal Audit Charter as shown in the [attached presentation](#). He summarized the following goals for IA going forward:

- Audits of major systems of internal accounting and administrative control
- Additional audits based upon risk assessment, management concerns and results of cycle audits
- Coordination of external audits
- Contract compliance reviews and partnership with Tollway Inspector General
- Ensure appropriate staffing to perform assigned duties
- Consultation with Executive Director and Audit Committee on:
 - Internal Audit independence
 - Yearly audit plan
 - Internal Audit purpose, authority and responsibilities
 - Risk exposures and control issues
 - Senior management and Board requests

Mr. Fudali indicated that he will work with the OIG on their requests for investigation assistance as they occur. IA has approximately 300 hours of time each year planned for such investigative assistance.

Regarding the partnership between IA and the Tollway Inspector General, Chair Wolff asked whether there is a formal process for that working relationship. Mr. Fudali indicated that a formal process does not exist at this time but there is open communication between the two departments. At times, communication is initiated by the Inspector General's Office requesting IA assistance on an IG case. Other times, communication is initiated by the IA requesting that the IG follow-up on certain IA findings. Jim Wagner, Inspector General, reminded the committee that prior to the creation of the IG Office, IA and IG functions were combined in one department. He also indicated that he planned to work with Mr. Fudali to establish a formal process that would also be incorporated in the IG Rules and IG Office department charter.

Regarding staffing, Chair Wolff asked how many new positions would be added to IA. Mr. Fudali responded that one staff auditor would be added.

Committee Chair Banks called for a motion to approve the amendments to the Internal Audit Charter. Chair Wolff made the motion; seconded by Director Morris.

Chair Wolff asked about the process for selecting the next external auditor and when the Board will be informed. Mr. Kizziah indicated that a Request for Proposal has been submitted to Procurement and proposals are due at the end of August.

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

Meeting adjourned at approximately 3:45 p.m.

Minutes taken by: _____

Tranece Artis
Board Secretary
Illinois State Toll Highway Authority