

# The Illinois State Toll Highway Authority

## Minutes of the Special Audit Committee Meeting

October 14, 2009

The Illinois State Toll Highway Authority held a Special Audit Committee Meeting on Wednesday, October 14, 2009 at approximately 8:00 a.m. at the Central Administration Building in Downers Grove, Illinois. Those in attendance were as follows:

Chair Paula Wolff	Mr. Ron Cuma
Director Tom Canham - phone	Mr. John Benda
Director Bill Morris	Ms. Leslie Savickas
Director George Pradel	Ms. Patricia Pearn
Director Jim Roof	Mr. Scott Sims
Director Carl Towns	Ms. Leslie Savickas
Director Tom Weisner	Mr. Mike Lewandowski
Mr. Mike King	Ms. Trudy Steinhauser
Lt. Cindy Benson	Mr. Tom Morache
Mr. Paul Kovacs	Mr. Joe Fivelson
Mr. Albert Murillo	Ms. Joelle McGinnis
Mr. Tom Bamonte	Mr. Thomas Kizziah
Mr. Jeff Redding	Ms. Linda Abernethy
Mr. Mike Colsch	Mr. Andrew Boron
Mr. Ed Vargas	

Chair Wolff called the meeting to order and stated that Director Canham would be joining the meeting by phone. She then called for a motion approving Director Canham's participation. Director Morris moved to approve; seconded by Director Roof.

Chair Wolff called for a voice vote, and there being "Ayes" and no "Nays", declared the motion carried.

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Ms. Linda Abernethy from McGladrey & Pullen, LLP and Mr. Tom Kizziah from the Office of the Auditor General discussed the Annual Financial Audit and State Compliance Examination which was performed for the Auditor General (copy attached).

Mr. Kizziah went through the accounting and auditing standards that the Authority is subject to and Ms. Abernethy went through each of the audit findings.

Audit Finding 08-1 - Interest Not Properly Capitalized. There is a FASB statement that is applicable to the Tollway that requires capitalization of interest expense during the construction period for capital assets. When the auditors got into the details of the capital asset additions, they found that that was not being done. Management went back to the year 2000 and did a calculation of what should have been capitalized beginning with that period and coming forward and that was capitalized during this audit. This was not previously found because the Tollway's systems are outdated.

Director Roolf stated that the Tollway was more aggressive in addressing the interest expense than it needed to be.

Chair Wolff asked if the Auditor General's Office informs management when new requirements come on-line. Mr. Kizziah stated that they do update management on changes that are coming.

Finding 08-2 - Financial Reporting. The Tollway entered into projects with other local governments as well as other state agencies such as IDOT. Some of the agreements have IDOT performing work on a Tollway; and in other situations, the Tollway will perform work on a road owned by IDOT or a local government. These intergovernmental

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agreements deal with the accounting for revenues and expenses in these types of projects. In this instance, it pertains to transactions with IDOT to record revenues and expenses related to those projects. The way it was accounted for was these items were tracked but they were tracked in the capital assets software as additions that the expenses were incurred and not that the reimbursement was received by IDOT and removed from the capital asset records. It's not that there was no accounting for this; it's just that it wasn't accounted for in the income statement. This is revenue off-set by an equal expense so it has no impact on the net assets but previously it was an asset off-set by a counter-asset so it didn't appear at all.

This was corrected in the financial statements for 2008 and management is now aware of it. Records were kept and management will now put it in the proper position for 2009.

Ms. Abernethy then explained the second bullet under this finding. Leases receivables in the asset section of the balance sheet is equally off-set by deferred revenue and the liability section of the balance sheet, with the initial trial balance that the auditors were given to perform the audit, each of those were over-stated in the amount of \$1.6 million. The effect on that asset was zero but they needed to write down each of those balances in order to be correct.

Ms. Abernethy stated that there were no findings where Tollway money was missing.

The third bullet, draft financial statements, is for footnote disclosure pertaining to investments and she did say that footnote disclosure is difficult to put together. This pertains to a repurchase agreement and the credit rating that was initially disclosed to the

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auditors being inaccurate. The other item was that some of these items are really held by the Treasurer's office so there has to be communication with them.

Finding 08-3 - Capital Assets. This finding has been repeated for several years. Costs incurred by the Tollway for repairs and maintenance were improperly capitalized. Capital Assets and Accounts Payables were each understated by approximately \$770,000. This was an instance where there was a check that was voided and the entry to void the check removed it from the capital assets and then when the check was reissued, it wasn't re-added. Again, there was no money missing.

With regard to the second bullet under Capital Assets, two out of ten equipment items selected from the capital asset inventory listing were recorded on the listing at the incorrect cost. The Tollway did not include freight charges in the recorded cost. Ms. Abernethy believes this is also a system problem.

Finding 08-4 - Master Vendor List. The auditors did notice two years in a row that there are some duplicate vendors. The recommendation is that every vendor on the list should be reviewed. It was noted that this is a fraud risk.

Mr. Albert Murillo explained that there are currently 4,215 vendors currently on active status, with approximately 208 duplicate vendors on the list. Some of these vendors have multiple locations and that's why they're on the list multiple times and there are also joint ventures listed.

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Mr. Murillo recommended the Authority have a policy and procedures on how often to check the list for duplicate vendors and to change the status from active to inactive. Mr. Murillo will also look at joint ventures having separate FEIN numbers.

Finding 08-5 relates to the procurement process. It is a repeat finding from last year. During testing the auditors sampled 25 purchase orders. Four were placed in the SUN system after the invoice and goods were received from the vendor as opposed to policy that requires that that be done prior to receipt.

One out of 25 was for a vendor with cumulative purchases over the small purchase threshold. The auditors looked at this to see if there was any potential stringing of purchases. One was identified but the auditors don't believe it was intentional stringing of purchases. They recommended that the Authority follow its own procurement policy and those of the State.

Director Morris asked if the next time the audit is presented to the Board at the Board Meeting that there be a representative of the auditing firm and maybe the Auditor General's office.

Ms. Abernethy stated that there is a formal process to request their presence through the Auditor General's office. As long as they are given notice, she saw no reason they couldn't be at the meeting when the audit is released.

Chair Wolff stated that from this meeting she is taking away that we want to be conscious of what changes in policies and standards are going to be coming up in the next year and the other is how processes

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and controls can be improved if we improve our systems. She asked that the staff present the board with some information about the cost and timetable for upgrading the systems, which would have to be weighted against other priorities in the budget.

Chair Wolff then addressed another issue, which she also asked for advice on from the other directors about creating several working groups composed of two or three directors to look at two issues that she feels need more Board attention.

One working group would be to examine the oases in which a group of directors working with management would be staffed to understand the short term and long term oases issues from the legal perspective, the financial perspective the operations perspective, and the contracting perspective.

The other working group would look at how the Tollway deals with outstanding fines and get to know the whole process, from the time that someone isn't paying a toll until the time that we either settle with them or take them off the books and understand again, from the legal, the financial, operating and contracting perspective how that process works. The objective of this group would be to balance the need to enforce the tolling system and use it as a deterrent against future financial losses with the need to treat our customers with fairness and respect.

Directors' Roolf and Canham volunteered for the Oases Sub-Committee and Directors' Pradel and Towns volunteered for the Customer Service Sub-Committee.

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Chair Wolff then requested that the Board enter into Executive Session.

Mr. Bamonte stated that there has been a request for Executive Session pursuant to Section 2(c)(1) of the Open Meetings Act to discuss the performance of specific employees of the public body.

Director Morris moved to enter into Executive Session; seconded by Director Towns.

Chair Wolff called for a voice vote, and there being “Ayes” and no “Nays”, declared the motion carried.

There being no further business, Chair Wolff called for a motion to adjourn the Audit Committee Meeting. Director Morris moved to adjourn; seconded by Director Roof.

Chair Roof called for a voice vote, and there being “Ayes” and no “Nays”, declared the motion carried.

Meeting adjourned at approximately 9:20 a.m.

Minutes taken by: \_\_\_\_\_  
Trudy Steinhauser