



Record of Meeting | April 19, 2017

The Illinois State Toll Highway Authority (the “Tollway”) held the regularly scheduled Audit Committee Meeting on Wednesday, April 19, 2017 in the Boardroom of 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 Chairman Robert J. Schillerstrom 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.]

Call to Order / Roll Call

Committee Chair David Gonzalez called the Meeting to order at approximately 11:32 a.m., stating that this is the regularly 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 being as follows:

Committee Members Present:
Committee Chair David Gonzalez
Director Earl Dotson, Jr.
Director James Sweeney

Committee Members Not Present:
None

The Board Secretary declared a quorum present.

Public Comment

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

Committee Chair’s Items

Committee Chair Gonzalez called for a motion to approve the Minutes of the regular Audit Committee meeting held on December 7, 2016, as presented. Director Sweeney made a motion for approval; seconded by Director Dotson. Committee Chair Gonzalez then called for a vote. The motion was PASSED unanimously.

Committee Business



External Audit Update: Executive Director Bedalov introduced Cassaundra Rouse, Chief Internal Auditor. Ms. Rouse then introduced Cathy Baumann, KPMG Audit Partner and Jason Rosheisen, KPMG Audit Senior Manager.

Ms. Baumann then presented 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 for the fiscal year ended December 31, 2016. Highlights of the presentation included an overview of the engagement team, the objectives of the audit, 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.

Director Dotson inquired if the external audit to be conducted is required by statute. Ms. Baumann responded affirmatively, explaining that KPMG is hired by the state Auditor General's Office which is charged by statute to perform audits of all state agencies.

Director Dotson inquired about the process for identifying audit findings. Mr. Rosheisen responded that initial KPMG findings are shared with Mike Colsch, Chief Financial Officer, Patti Pearn, Controller, and Cassaundra Rouse, Chief Internal Auditor, for further investigation. He explained that if designated a Potential Audit Finding it is related to management and, if confirmed, is then included in the external audit report.

Director Sweeney inquired about target setting for fraud audits conducted as part of the external audit, and whether random projects are selected. Ms. Bauman responded that targets for fraud audits are identified through general risk assessment. Committee Chair Gonzalez noted that Internal Audit cycle audits do target specific projects.

Directors and staff then discussed the process for information exchange between the Internal Audit Department and the Tollway's Office of Inspector General when either identifies potential fraud. Also discussed were revisions in the standards of financial reporting for pension plans (Governmental Accounting Standards Board Statements No. 68 and No. 71) which currently mandate recognition by the Tollway of its proportionate share of unfunded liabilities of the State Employee's Retirement System (SERS), in which Tollway employees participate.

Director Sweeney asked the amount of the Tollway's net pension liability. Mr. Colsch responded that approximately \$900 million of the state pension system's liability is allocated to the Tollway's financial statements. Mr. Sweeney asked for confirmation that this liability is reflected in the Tollway's financial statements when working with the investment community. Mr. Colsch confirmed.



Director Dotson asked the Tollway's proportionate share of unfunded liabilities of the State Employee's Retirement System (SERS). Mr. Colsch responded that the Tollway's share is approximately 2.6%.

Director Sweeney asked what percentage of the state's pension system is currently funded. Mr. Colsch responded that approximately 31 percent of SERS total pension liability is currently funded.

Committee Chair Gonzalez thanked Ms. Bauman and Mr. Rosheisen for their report to the Committee.

Internal Audit Activity: Executive Director Bedalov then introduced Cassandra Rouse, Chief Internal Auditor, to provide the Committee an update on Internal Audit Activity. [See attached presentation.](#)

Ms. Rouse's presentation included an overview of Internal Audit's purpose, authority and responsibility; Internal Audit activity, 2016 cycle audits performed and findings; 2017 cycle audits, current external audit activity; Internal Audit and ERP pre-implementation; and Internal Audit resources. Ms. Rouse then provided the Committee an update on Internal Audit activities to-date, including the state of Internal Audit staffing resources and an overview of the Annual Risk Assessment conducted.

Director Dotson inquired if \$5,000 is the ceiling for Tollway departmental petty cash. Mr. Rouse responded affirmatively, noting that the standard is set by the Statewide Accounting Management System Procedures Manual and is a requirement across all state agencies.

Director Dotson asked about the vacant positions and if there has been difficulty filling the positions. Ms. Rouse stated that the department is actively pursuing candidates and hopes to have the positions filled within the next six months, noting that the three open positions include an IT Auditor, Internal Auditor, and a Senior Construction Manager.

Committee Chair Gonzalez asked if follow up has begun on the 2016 cycle audit findings. Ms. Rouse responded that staff have begun reviewing implementation of new procedures with regard to previous findings.

Director Gonzalez inquired if KPMG reviews findings from Tollway Internal Audit staff. Ms. Bauman responded affirmatively, explaining that these findings are considered in KPMG's Risk Assessment.

Adjournment



ILLINOIS STATE TOLL HIGHWAY AUTHORITY

Minutes of the
Audit Committee Meeting

Meeting Date
April 19
2017



There being no further business, Committee Chair Gonzalez requested a motion to adjourn. Motion to adjourn was made by Director Sweeney; seconded by Director Dotson. Committee Chair Gonzalez then called for a vote. The motion was PASSED unanimously.

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

A handwritten signature in cursive script that reads "Christi Regnery".

Minutes taken by: _____

Christi Regnery
Board Secretary
Illinois State Toll Highway Authority



Internal Audit Department



April 19, 2017



Agenda

Internal Audit (IA) purpose, authority and responsibility

Internal Audit activity

Cycle audits

Internal Audit and ERP pre-implementation activity

Department resources

Purpose, Authority and Responsibility

Statement of Responsibilities

Purpose:

- Independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization
- Assists members of the organization in the effective discharge of their responsibilities
- Promotes control at a reasonable cost

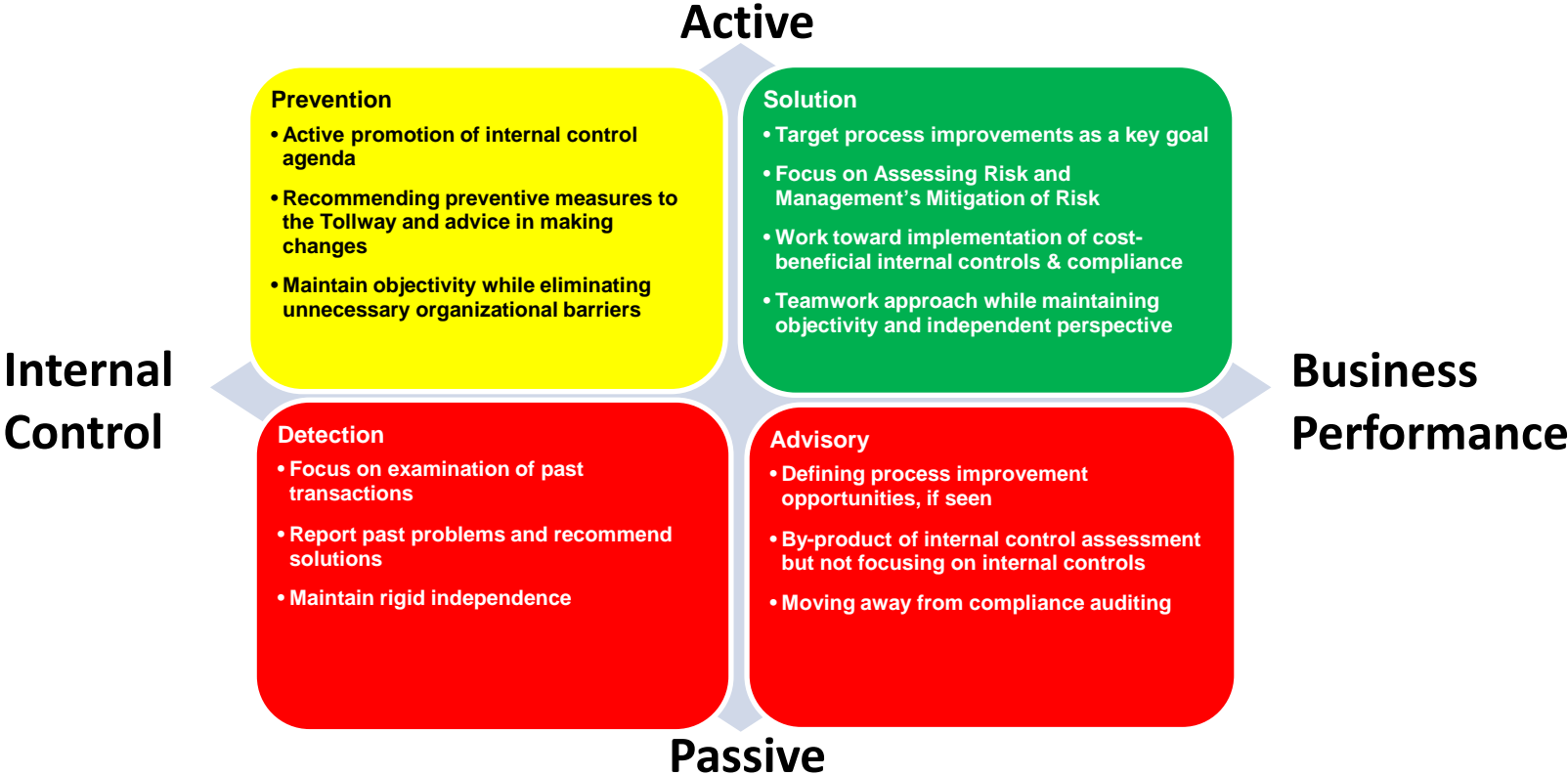


Purpose, Authority and Responsibility

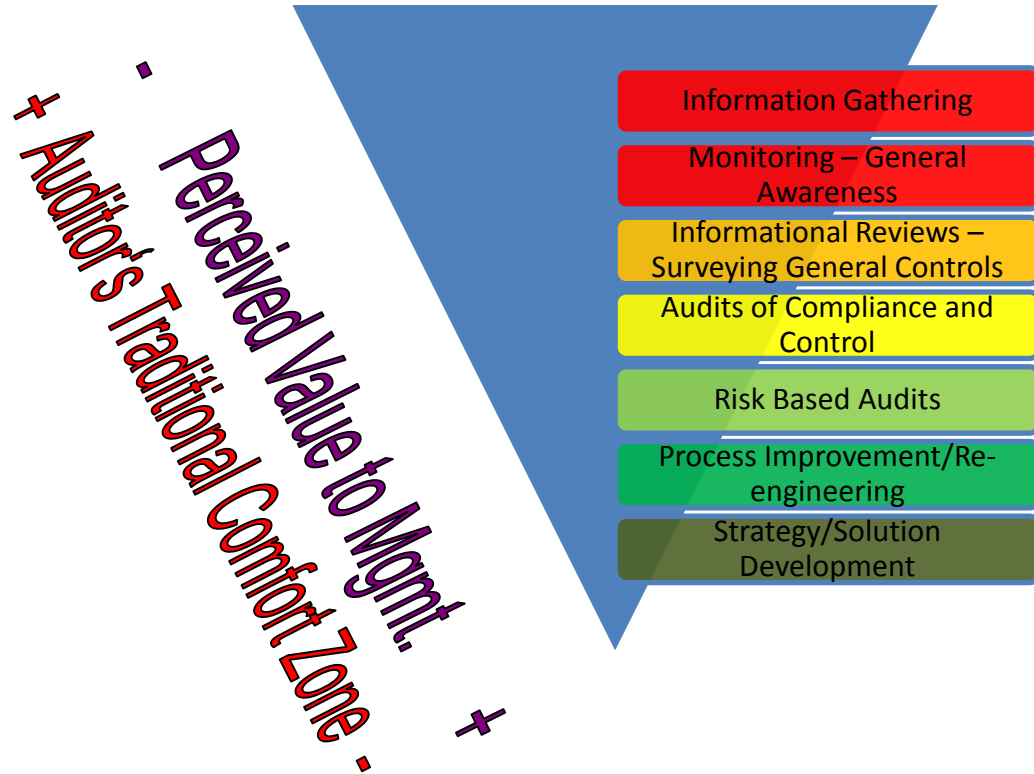
Responsibility:

- Review the reliability and integrity of financial and operating information
- Review fiscal, operational and administrative operations
- Review systems established to ensure compliance with policies, plans, procedures, laws and regulations that could significantly impact operations
- Evaluate the effectiveness and efficiency with which resources are employed

Primary Mission - Four Potential Orientations



Audit Focus - Peeling the Onion



Internal Audit Activities

Interviewing key staff and management

Observing established procedures

Examining supporting documentation and evidential materials

Documenting organizational control activities

Performing analytical reviews

Internal Audit Activities

Compile supporting workpapers

Preparing the audit report and recommendations

Holding a closing conference to discuss the audit and obtain responses to the recommendations

Issuing the final audit report including management responses

Performing a follow-up review in six months

Resulting Value of Our Audit Approach

Tollway management had a direct hand in identifying key areas of risk and setting the scope of reviews through our risk assessment methodology = BUY-IN

Audit plan and program seen as valuable, useful, on-target, focusing on what matters

Action plan becomes a management tool, not just an audit report

Guiding the organization in developing a plan to manage its risks



2016 Cycle Audits Completed

Title of Audit	Findings
Electronic Data Processing	2
Administrative Support Services	7
Budget, Accounting and Reporting	0
Property, Equipment and Inventory	3
Revenues and Receivables	2
Petty Cash (If disbursements exceed \$5,000)	N/A



2017 Cycle Audits

Title of Audit

Agency Organization and Management

Purchasing, Contracting and Leasing

Expenditure Control

Personnel and Payroll

Petty Cash (if disbursements exceed \$5,000)

Internal Audit Activity

2016

- Annual certification letter
- Risk-based reviews
- External audit coordination
- Cycle audits
- Payment card industry audit coordination
- Pre-implementation review of critical system



Internal Audit Activity

Audit recommendations and observations are being appropriately addressed by management and have been implemented or are scheduled for implementation in 2017

Internal Audit is organizationally independent and no restrictions have been placed on Internal Audit work



Internal Audit and ERP Pre-Implementation

Internal Audit must address ERP environment in several respects

- Training
- Staffing
- Implementation approach
- Audit methodology
- Roles for auditor

Internal Audit Resources

Chief of Internal Audit

Internal Audit Manager

Internal Auditors (two staff auditors)

Vacancies – *three positions*