

**THE ILLINOIS STATE TOLL HIGHWAY AUTHORITY  
MINUTES OF THE AUDIT  
COMMITTEE MEETING**

**December 12, 2012**

The Illinois State Toll Highway Authority held the Audit Committee Meeting on Wednesday, December 12, 2013 at approximately 10:30 a.m. at the Central Administration Building in Downers Grove, Illinois.

Committee Members Present:

Chair Wolff

Committee Chair Gonzalez

Director Weisner

Not Present:

Committee Chair Gonzalez called the meeting to order and opened the floor for public comment.

CHAIR – AUDIT

Committee Chair Gonzalez then called for a motion to approve the minutes of the Audit Committee Meeting held on September 13, 2013. Director Weisner made the motion to approve the minutes; seconded by Chair Wolff. The motion passed unanimously.

Committee Chair Gonzalez then introduced Tollway external auditors, KPMG, to present their External Audit results for the period ending December 31, 2012 as shown in the [attached presentation](#).

Discussion ensued regarding the new GASB pronouncements and impacts to the Tollway.

Committee Chair Gonzalez then introduced Cassaundra Rouse, Chief of Internal Audit, to present the 2013/2014 Internal Audit Plan as well as the Audit Schedule as shown in the [attached presentation](#).

Committee Chair Gonzalez asked if there were hours in the Audit Plan that may be added should there be issues that require attention that were not anticipated. Cassaundra Rouse responded the plan built in additional hours to allow for special requests or issues.

Discussion ensued on the staffing and its possible effects on the audit plan.

Director Weisner asked how internal and external audits groups coordinate tasks and audit schedules. Cassaundra Rouse responded the staff is in communication and the schedules do not interfere with audit task completion.

Discussion ensued on the progress of the Tollway obtaining an ERP system that would assist the Audit department's workload.

Committee Chair Gonzalez called for a motion to approve the 2013/2014 Internal Audit Plan. Motion to approve was made by Director Weisner; seconded by Chair Wolff. The motion passed unanimously.

There being no further business, Committee Chair Gonzalez requested a motion to adjourn. Motion to adjourn was made by Director Weisner; seconded by Director Gonzalez. The motion was approved unanimously.

The meeting was adjourned at approximately 11:00 a.m.

A handwritten signature in black ink, appearing to read "Marlene Vick", written over a horizontal line.

Minutes taken by: \_\_\_\_\_

Marlene Vick  
Assistant Board Secretary  
Illinois State Toll Highway Authority



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# Illinois State Toll Highway Authority

Independent External Audit Services Plan  
For the fiscal year ended December 31, 2012

Presentation to the Audit Committee  
December 12, 2012

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# Audit scope and deliverables

## Audit Scope for the year ended December 31, 2012:

- Independent auditors' reports on the financial statements of the Illinois State Toll Highway Authority
- Independent Auditors' Reports on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* (Yellow Book Report) of the Illinois State Toll Highway Authority
- Illinois State Compliance Attestation report and Supplemental Financial Information
- Information Systems (IS) Review
- Reports to the Audit Committee on required auditor communications

# Engagement team

Name	Role	Contact details
<b>Tom Kizziah</b>	<b>Office of the Illinois State Auditor General</b> serves as audit manager with responsibility for oversight of the Authority's external audit.	Phone: (312) 814-4073 E-mail: <a href="mailto:oag57@mail.state.il.us">oag57@mail.state.il.us</a>
<b>Cathy Baumann</b>	<b>Financial Statement Engagement Partner</b> with responsibility for the financial statement audit , Information Systems Review, and State Compliance examination of the Authority.	Phone: (312) 665-8980 E-mail: <a href="mailto:cbaumann@kpmg.com">cbaumann@kpmg.com</a>
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# Objective of an audit and responsibilities

## Objective of an Audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with generally accepted accounting principles (GAAP)
- An audit of financial statements is designed to provide reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement
- Reasonable assurance relates to the accumulation of sufficient appropriate audit evidence necessary for the auditor to conclude that there are no material misstatements in the financial statements taken as a whole

## KPMG's Responsibilities

- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with GAAP
- Conducting an audit in accordance with professional standards and complying with the Code of Professional Conduct adopted by the American Institute of Certified Public Accountants
- Complying with the ethical standards of state CPA societies, state boards of accountancy, and *Government Auditing Standards*
- Planning and performing an audit with an attitude of professional skepticism
- Communicating all required information to Authority management and to the Audit Committee of the Board of Directors
- Maintaining open lines of communication and responsiveness throughout the year



# Objective of an audit and responsibilities (continued)

## Management's Responsibilities

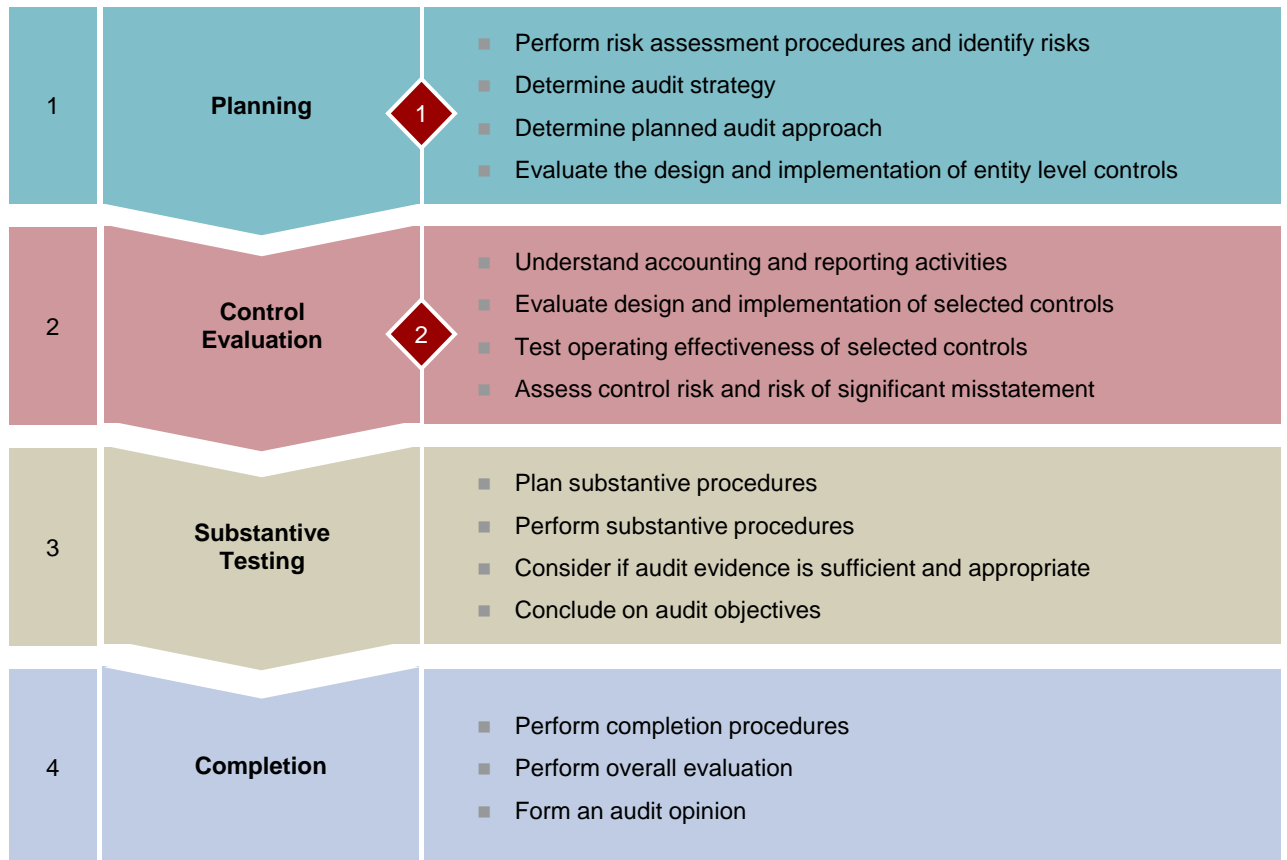
- Adopting sound accounting policies
- Establishing and maintaining internal control
- Fairly presenting the financial statements in conformity with GAAP
- Compliance with provisions of laws, regulations, contracts, and grant agreements

## Audit Committee's Responsibilities

- Role is one of oversight and monitoring
- Must rely on senior management, internal and external auditors

# Audit methodology

## Four-phase Audit Workflow



**Preliminary** decision on controls or substantive approach for each audit objective



**Confirm** decision on controls or substantive approach for each audit objective

# Involvement of others

## Subcontractor Firm

- Our engagement team will also include professionals from the subcontractor firm of E. C. Ortiz & Co.

# Preliminary risk assessments

Financial statement level risks	Description of financial statement level risk	Planned audit approach
Overall economic conditions	The overall economic conditions have had an impact on the State and Local Government industry, including declines in revenues and earnings, created a decreased market for tax-exempt bonds, and resulted in the evaluation of various cost saving measures.	We will remain mindful of the impact of the overall economic conditions and the impact on the Authority. In particular, we will evaluate whether such conditions have resulted in any changes to the overall control environment of the Authority.
Credit Market Conditions	The Authority's investments and bonds may be exposed to valuation risks associated with the current credit market conditions.	We will update our understanding of management's process used to determine the estimated fair value of investments (including alternative investments), the availability of information used in determining estimated fair value of investments, and exposure related to valuation associated with the illiquid credit market conditions. Additionally, we will obtain an understanding of credit risks associated with outstanding debt of the Authority.
Revenue and Receivables	Revenues and receivables are recognized at the time of service according to established rates. As a result of contractual agreements in place with third-party service providers and reimbursement will differ from these established rates.	We will perform procedures related to the revenue process to ensure controls are properly designed and operating effectively to ascertain the completeness, existence, and valuation of revenues and receivables, and related to the charge capture to ensure charges exist and are accurate. Additionally, we will perform substantive procedures over the valuation of revenues and receivables.
Information Technology General Controls	Information technology general controls have a pervasive impact on controls throughout the Authority.	The engagement team includes KPMG Information Risk Management professionals, who will perform walkthroughs and tests of design and operating effectiveness related to information technology general controls related to Information systems. Specific procedures will be performed related to access to programs and data, program changes, program development, computer operations, and end-user computing.

# Illinois state compliance attestation and supplemental financial information

- Objective: To determine whether the Authority has established effective internal control over compliance and has complied with the following compliance assertions as defined in the Office of the Auditor General's Audit Guide:
  - The Authority has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
  - The Authority has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions, or mandatory directions imposed by law upon such obligation, expenditure, receipt, or use.
  - The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
  - State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
  - Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and record keeping relating thereto is proper, accurate, and in accordance with law.
- Our responsibility (in addition to those on page 4)
  - To examine and report on the Authority's compliance with the requirements fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General

# Engagement timing

- Entrance Conference – October 26, 2012
- Preliminary Fieldwork – November 5, 2012
- Final Fieldwork – Begins January 2013
- Exit Conference – June 2013
- Financial Statements Issuance – June 2013
- State Compliance Reports Issuance – June 2013

# New accounting pronouncements

**GASB Statement No. 60 *Accounting and Financial Reporting for Service Concessions***

Effective for periods beginning after December 15, 2011 (FY12)

**GASB Statement No. 61 *The Financial Reporting Entity: Omnibus***

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# KPMG's Audit Committee Institute (ACI)

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- Recognizing the challenges that boards and audit committees face in meeting their demanding responsibilities, KPMG created the Audit Committee Institute (ACI) to serve as a resource for board and audit committee members and senior management. ACI's primary mission is to communicate with boards and audit committee members to enhance their awareness of, commitment to, and ability to implement effective audit committee processes.
- Wholly sponsored by KPMG International, the ACI provides complimentary guidance and engages in a variety of initiatives to assist boards and audit committee members. Board members can turn to the ACI at any time for help and advice or to share knowledge.

## Resources

- ACI website: [www.kpmg.com/aci](http://www.kpmg.com/aci)
- ACI mailbox: [auditcommittee@kpmg.com](mailto:auditcommittee@kpmg.com)
- ACI hotline: 1-877-KPMG-ACI





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## **Internal Audit Update**

**December 12, 2012**

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# Agenda

- 2012 External Audit
- Internal Audit background
- Audit Committee tentative schedules
- 2013-2014 Internal Audit Plan

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# 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)

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# Internal Audit Background

Internal Audit activities include:

- Participation in data processing systems meetings
- FCIAA-mandated audits of business processes (cycle audits)
- Additional risk-based internal audits
- External vendor audits
- Consulting engagements
- Assistance to Office of the Inspector General

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# Internal Audit Background

Internal Audit team resources include:

- Acting Chief Internal Auditor
- Internal Audit Manager (open)
- Three Internal Auditors
- Information Systems Auditor

# Audit Committee Tentative Schedules

- February meeting
  - 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 meeting
  - Results of external audit
  - Semi-annual Internal Audit activities' results
  - Governance issues/concerns

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# Audit Committee Tentative Schedules

- December meeting
  - Current state of Internal Audit resources
  - Approval of two-year audit plan
  - Governance issues/concerns



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# 2013-2014 Internal Audit Plan

Sources of input into Internal Audit Plan:

- FCIAA requirements
- SIAAB requirements
- IIA Standards
- Board and Executive Office
- Risk assessment process
- Internal Audit resource availability

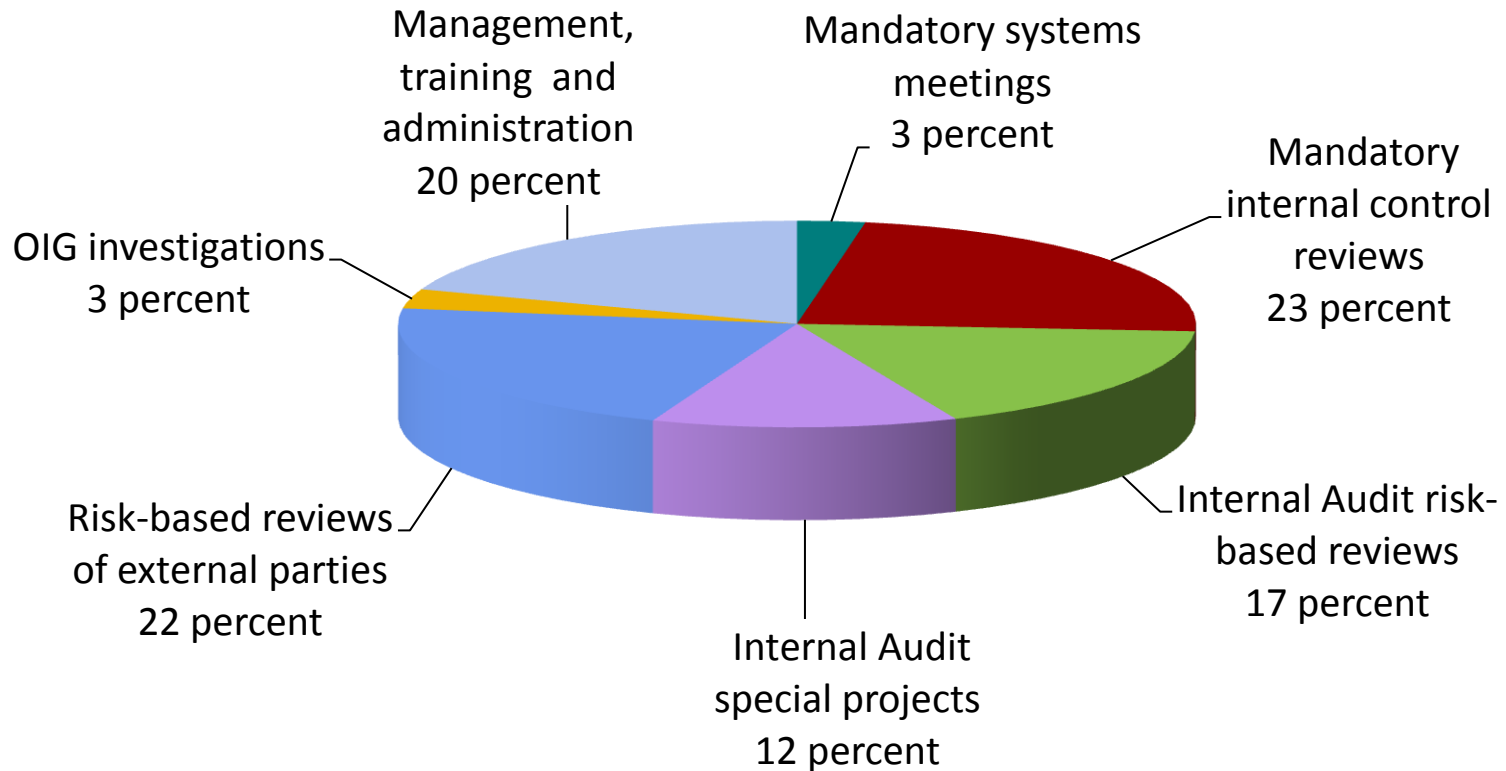
# 2013-2014 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2013

Allocation of Available Hours		
Mandatory systems meetings	273	3 percent
Mandatory internal control reviews	2,320	23 percent
Internal Audit risk-based reviews	1,720	17 percent
Internal Audit special projects	1,227	12 percent
Risk-based reviews of external parties	2,135	22 percent
OIG investigations	300	3 percent
Management, training and administration	1,941	20 percent
<b>Total Hours 2013</b>	<b>9,916</b>	<b>100 percent</b>

# 2013-2014 Internal Audit Plan

## FY 2013 Audit Plan Allocation



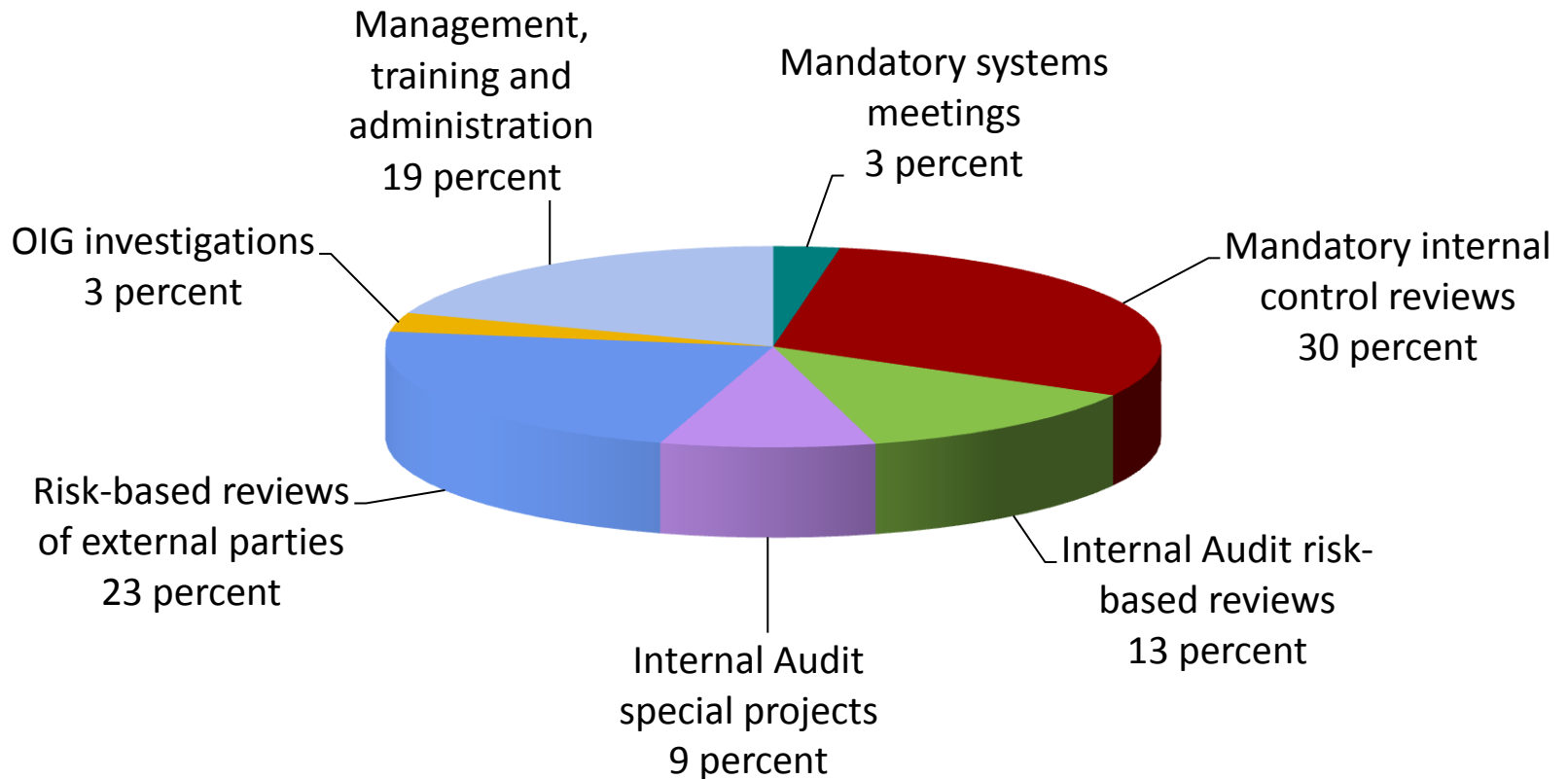
# 2013-2014 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2014

Allocation of Available Hours		
Mandatory systems meetings	273	3 percent
Mandatory internal control reviews	2,990	30 percent
Internal Audit risk-based reviews	1,255	13 percent
Internal Audit special projects	883	9 percent
Risk-based reviews of external parties	2,240	23 percent
OIG investigations	300	3 percent
Management, training and administration	1,933	19 percent
<b>Total Hours 2014</b>	<b>9,874</b>	<b>100 percent</b>

# 2013-2014 Internal Audit Plan

## FY 2014 Audit Plan Allocation



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# Next Steps...

Audit Committee approval of:

- 2013-2014 Internal Audit Plan



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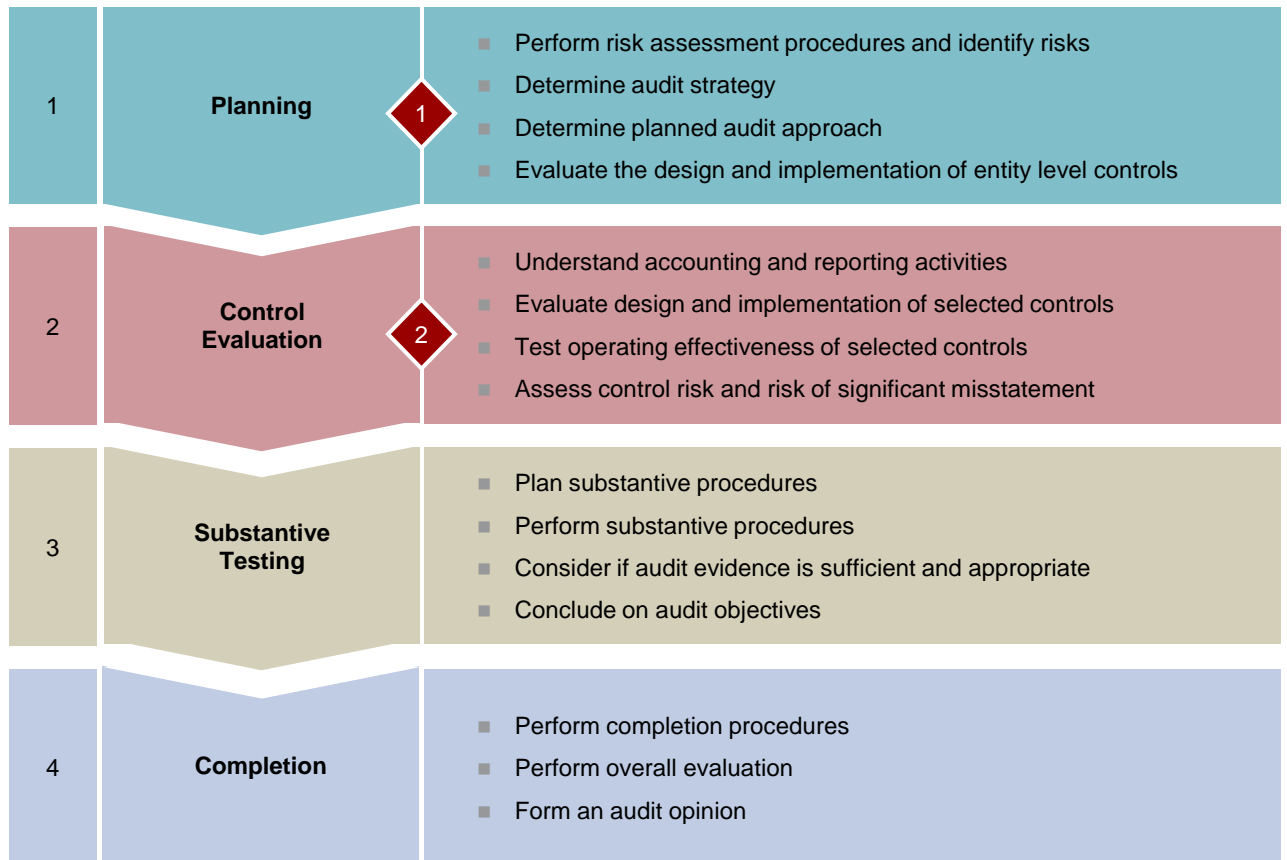
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## Four-phase Audit Workflow



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  - The Authority has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
  - State revenues and receipts collected by the Authority are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate, and in accordance with law.
  - Money or negotiable securities or similar assets handled by the Authority on behalf of the State or held in trust by the Authority have been properly and legally administered, and the accounting and record keeping relating thereto is proper, accurate, and in accordance with law.
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## **Internal Audit Update**

**December 12, 2012**

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# Agenda

- 2012 External Audit
- Internal Audit background
- Audit Committee tentative schedules
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  - Governance issues/concerns
- August meeting
  - Results of external audit
  - Semi-annual Internal Audit activities' results
  - Governance issues/concerns

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# Audit Committee Tentative Schedules

- December meeting
  - Current state of Internal Audit resources
  - Approval of two-year audit plan
  - Governance issues/concerns

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# 2013-2014 Internal Audit Plan

Sources of input into Internal Audit Plan:

- FCIAA requirements
- SIAAB requirements
- IIA Standards
- Board and Executive Office
- Risk assessment process
- Internal Audit resource availability

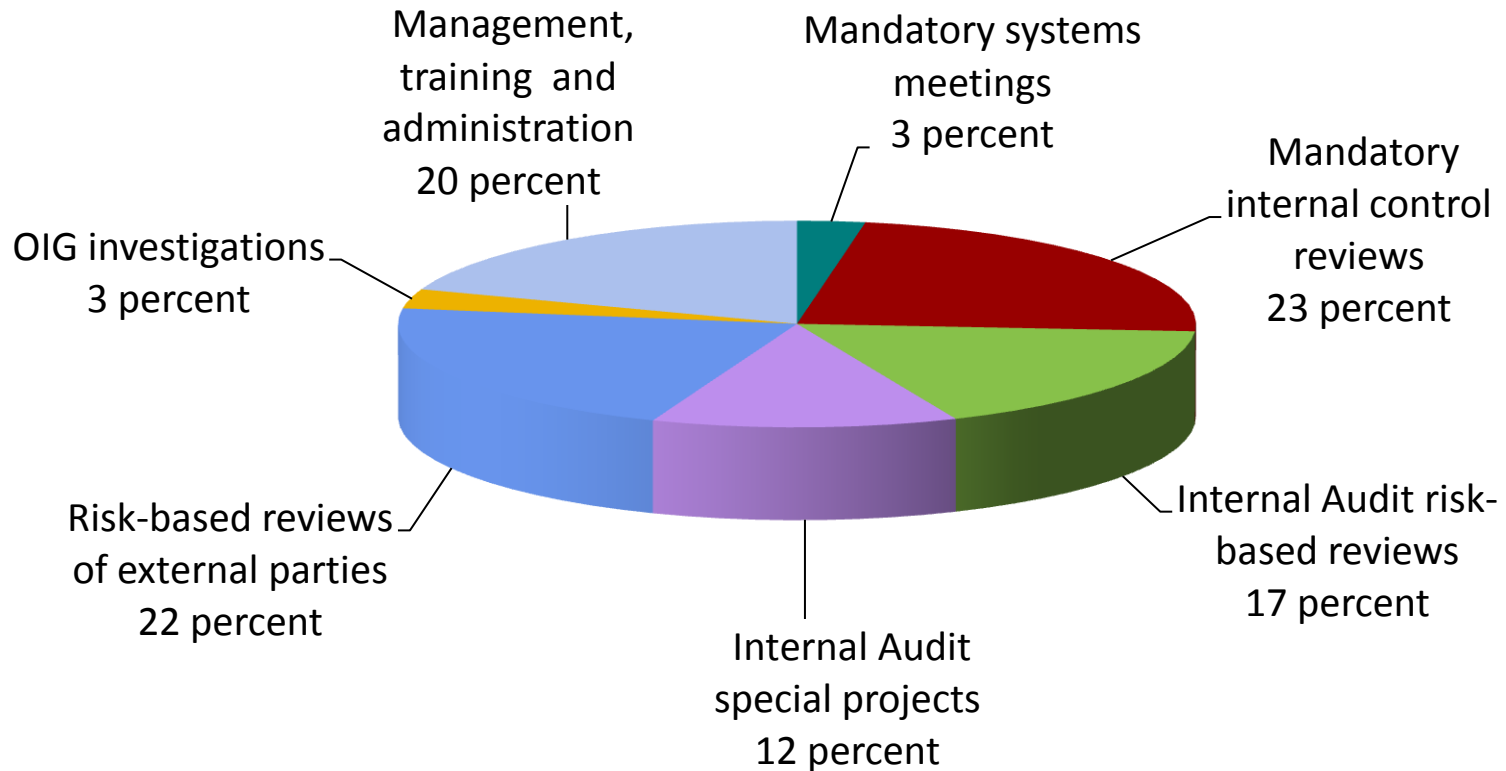
# 2013-2014 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2013

Allocation of Available Hours		
Mandatory systems meetings	273	3 percent
Mandatory internal control reviews	2,320	23 percent
Internal Audit risk-based reviews	1,720	17 percent
Internal Audit special projects	1,227	12 percent
Risk-based reviews of external parties	2,135	22 percent
OIG investigations	300	3 percent
Management, training and administration	1,941	20 percent
<b>Total Hours 2013</b>	<b>9,916</b>	<b>100 percent</b>

# 2013-2014 Internal Audit Plan

## FY 2013 Audit Plan Allocation



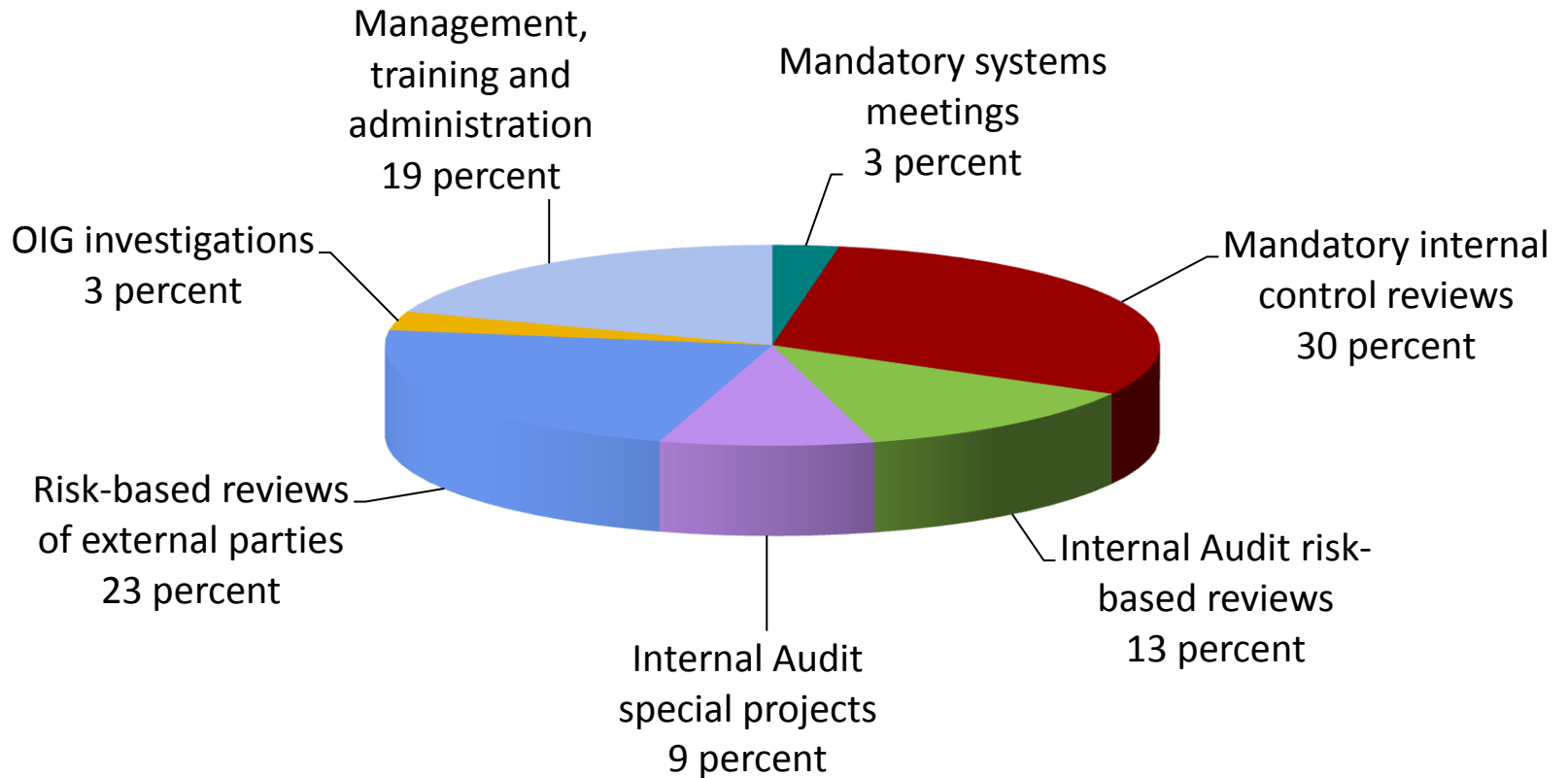
# 2013-2014 Internal Audit Plan

## Internal Audit Resource Availability and Allocation – 2014

Allocation of Available Hours		
Mandatory systems meetings	273	3 percent
Mandatory internal control reviews	2,990	30 percent
Internal Audit risk-based reviews	1,255	13 percent
Internal Audit special projects	883	9 percent
Risk-based reviews of external parties	2,240	23 percent
OIG investigations	300	3 percent
Management, training and administration	1,933	19 percent
<b>Total Hours 2014</b>	<b>9,874</b>	<b>100 percent</b>

# 2013-2014 Internal Audit Plan

## FY 2014 Audit Plan Allocation





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# Next Steps...

Audit Committee approval of:

- 2013-2014 Internal Audit Plan