

ILLINOIS STATE TOLL HIGHWAY AUTHORITY MINUTES OF THE AUDIT COMMITTEE

September 17, 2010

The Illinois State Toll Highway Authority Audit Committee met on Friday, September 17, 2010 at approximately 10:00 a.m. in the Board Room of The Illinois State Toll Highway Authority's Administration Building in Downers Grove, Illinois.

Chair Wolff stated that regular Audit Committee members Director Roof and Director Banks were unable to attend the meeting. Chair Wolff appointed Director Canham and Director Morris to serve on the Audit Committee for the day. Directors on the committee in attendance were as follows:

Chair Paula Wolff

Director Tom Canham

Director Bill Morris

Chair Wolff called the meeting to order. Director Morris moved to approve the Minutes of the Audit Committee Meeting held on August 26, 2010; seconded by Director Canham. The motion was approved unanimously.

Chair Wolff called upon Tom Kizziah, Office of the Illinois Auditor General, and Linda Abernathy, of McGladrey and Pullen, to present the findings of the annual audit. Mr. Kizziah explained the audit process, and that the audit is published on the Auditor General's website. The Auditor General's office reports to the Legislative Audit Commission. The Legislative Audit Commission determines if it wants to call a state agency up for a hearing regarding the audit. The Auditor General's office hires the auditors.

Chair Wolff stated that the Directors could meet with the Auditor General's office in executive session to discuss staff-auditor communication during the audit. Mr. Kizziah stated that such a meeting would not be necessary and that any communication problems are relayed to the Executive Director during the

audit. Mr. Kizziah feels that there is a good working relationship with the Tollway. Director Morris stated that next year he would like to have a meeting with the Audit Committee and the Auditor General's office a few months before the end of the audit to discuss the progress. Mr. Kizziah stated that they would be able to discuss if there was a communication problem at that time, but not the results of the audit. Chair Wolff stated that in the future Executive Director Lafleur could have a formal meeting with the auditors 60 days before the release of the audit and discuss any communications issues.

Ms. Abernathy addressed the three audit findings. The first finding was regarding the audit of the financial statements. The Tollway was not able to provide the auditors with a detailed accounts receivable aging for its toll evasion receivable account. The toll evasion accounts receivable detail provided did not agree to the amount recorded in the financial statements as of year-end. The Tollway improperly accounted for two intergovernmental agreements. This finding was first reported in 2005. Director Morris inquired if this was the same specific finding as 2005 or a general finding, and Ms. Abernathy stated that it was not the same specific finding, but is the same financial reporting process. Mr. Kizziah stated that in previous years, this finding was classified as a material weakness. This year it has decreased to a significant deficiency. Ms. Abernathy stated that a correction would require all departments involved in the intergovernmental agreements working together.

The second finding addresses the toll violation Hardship Program. The auditors concluded that Tollway is not adequately documenting its reasons for granting settlements to certain toll violators. 25 out of 25 of the files tested did not adequately document the reason it was in the best interest of the Tollway to settle for less than the full amount owed. Out of the 25 files sampled, 18 contained settlements that were \$1,000 or more below the toll and fine amount. None of these 18 cases was provided to the Board for its review. Ms. Abernathy stated that the recommendation includes that the Tollway update its hardship procedure to require documentation in each file explaining the conclusions reached for granting a hardship settlement amount, and that the Tollway adopt a formal write-off policy that addresses all types of debt forgiveness, including settlements. Director Canham inquired what the

auditors want to see in the files. Ms. Abernathy stated that a few sentences in the file stating the core reason for the determination is recommended.

The third finding stated that the Tollway is not requiring vendors to provide certain certifications in accordance with state law. Certification is not printed on the invoices. The auditor recommendation is that the Tollway either enforce vendor compliance with the statute or seek legislative remedy that rescinds the requirements to have the statement included on all invoices. Chair Wolff inquired why this requirement is specific to the Tollway. Mr. Bamonte stated that the statutory requirement predates the Tollway's inclusion under the Procurement Code. Tollway staff will review how to address this issue.

Chair Wolff stated that she appreciates the comment that the Tollway has made considerable improvement in correcting the Master Vendor List, which was a finding for the past two years.

Ms. Abernathy reviewed the communications letter. Auditing standards require the audit firm to discuss this information with the Tollway. Ms. Abernathy stated that some of the highlights include that the Tollway changed the estimated useful life for certain of its infrastructure from 20 years to 40 years to more adequately reflect the actual use pattern; there were three audit adjustments made to the original trial balance presented after the beginning of the audit, which is a reasonable number. There is a summary of the accounting estimates used and the process. Director Morris inquired if the 50% reserve for outstanding toll evasion notices is normal. Ms. Abernathy stated that there is no normal number; it is a case-by case basis.

Director Morris inquired if the auditors find theft or fraud do they notify the Tollway Inspector General right away or do they wait until the audit is completed. Ms. Abernathy stated that the auditors would immediately notify the Office of the Auditor General, who would determine what course of action should be taken.

Patty Pearn, Fiscal Operations Manager, gave a presentation on financial reporting finding. Ms. Pearn stated that due to the patchwork of aging systems

the Tollway is using it is challenging and time consuming to prepare the Tollway's financial statements. The Directors discussed that the Board had allocated money for the new financial reporting computer system. There has been a delay in procuring a new Electronic Reporting Program (ERP) computer system through CMS because the State of Illinois is also looking into procuring one new system platform and require that the systems of all State agencies be compatible. Director Canham inquired as to how long it would take to change over to a new system. Mr. Colsch advised that it would take approximately two years because the Tollway would need to change its processes to adapt to a new system. Mr. Kizziah stated that the Tollway should have the Tollway's internal auditors sign off on the system that is chosen. Mr. Murillo advised that this is an active procurement. Executive Director Lafleur advised that a presentation will be made to the Board regarding the ERP system.

Ms. Pearn then stated that the Aging Report was not available to detail age of the receivables for toll violations. The \$2.6 million variance in violation reports was a policy in which some of the escalating fines were not booked as a receivable. The fines are correct in the database, but it must be manually checked and the ledger adjusted. Director Morris asked if the \$2.6 million is missing. Mr. Colsch responded that the Tollway is owed the \$2.6 million. The intergovernmental agreements improperly classified project costs on preliminary financial statements. Ms. Pearn stated after the statements had been turned over to McGladrey, the Tollway accounting department found that it had misclassified some of the costs of an intergovernmental agreement. An item had been classified as infrastructure, but should have been classified as a receivable. This item has been corrected. Actions taken to correct these problems include that the aged receivable report is now available for violations. Also, the Finance Department has improved coordination with the Engineering Department to monitor intergovernmental agreements and costs.

Stan Ryniewski, Chief of Business Systems, and Tom Bamonte, General Counsel, gave a presentation on the Tollway's Hardship Program. The program was implemented in 2008 due to many violators who owed large outstanding balances, and installment payment plans were not available at that time through the Tollway. The program was developed to give customers,

who needed help, a way to settle their bills. Mr. Bamonte explained that Section 10(a-5) of the Toll Highway Act is the enabling legislation for the Hardship Program, and in consultation with the Attorney General, the Tollway may settle an administrative fine or penalty if it is in the best interests of the Tollway. The Tollway must consider five factors in assessing the best interests of the tollway: merits of the Tollway's claim, collectable amount relative to the fine or penalty owed, cost of pursuing collection action, likelihood of full collection, and burden on judiciary. Mr. Kizziah stated that it was unclear which of the five factors was used in the documentation.

Mr. Bamonte distributed and reviewed the revised Policy and Procedure for Hardship Requests, including the new request form and evaluation form. The new request form includes an area to allow the Violator to propose a settlement amount, and a declaration area that the information provided is true and correct. Executive Director Lafleur advised that the policy will be brought to the Board for their review. Director Canham inquired how many people are involved in the decision process. Mr. Ryniewski advised that three employees are involved in the process, two from Business Systems and one from the Law Department. Mr. Bamonte advised that the guidelines are still under review for which settlements should be brought before the Board, and which would have management authority to sign off on. Chair Wolff inquired how a violator would know to apply to the hardship program. Mr. Ryniewski advised that violators who ask about the program are told to submit a letter. Executive Director Lafleur stated that the Tollway will look into getting the hardship program information out to the public in a fair manner.

Albert Murillo, former Chief of Procurement and Acting State Purchasing Officer, gave a presentation on audit finding regarding certification not printed on invoices. Mr. Murillo stated that the statement was discontinued in 2004 because payments were being significantly and routinely delayed. The senior procurement staff at the time determined that no contract remedies were being waived by not requiring the statement, and that invoice processing would be enhanced by discontinuing the statement. Tollway action taken in response to last year's audit included utilizing the cleaned-up Master Vendor List to contact all active vendors and notify them of the Seller Statement requirement on their invoices after September 1, 2010. Tollway Contract Administrators

called the accounts payable departments in the Tollway's largest vendors to separately notify them of the requirement. As of today, only approximately 5-10% of invoices submitted since September 1, 2010 have had to be sent back. Contract Administrators are contacting vendors still omitting the seller statement to make corrections quickly. The Tollway is reserving the option to seek a legislative remedy to rescind the requirement, so that no invoices will be delayed due to the seller statement.

Chair Wolff stated that there may be additional areas that would need legislative clean up. Executive Director Lafleur stated that the Tollway is compiling a list of items for potential legislative clean up. Mr. Kizziah stated that his office does compile a mandate list and that is turned over to the Tollway.

Mike Colsch thanked his staff for their work on the financial information. Mr. Colsch then gave a presentation on the Tollway's 2009 GAAP financial statements. Mr. Colsch stated that revenues declined slightly due to lower toll evasion recovery, and depreciation and financing costs increased as CRP project were placed in service. Net assets declined 4%, but the Tollway maintains a healthy balance sheet with over \$2 billion of net assets. Director Morris stated that the debt service schedule for the revenue bonds shows two payments of approximately \$289 million for a total of \$567, 169,400 in 2034. Mr. Colsch stated that there are two principal payments in 2034 on January 1st and December 1st. Director Morris requested that a footnote be added to all future schedules showing that there are two payments in 2034.

Executive director Lafleur thanks the Auditor General's office and stated that the Tollway appreciates the work of the auditors.

Chair Wolff asked that the four presentations be sent to all members of the Board. Chair Wolff also requested that deadlines be set for the corrective actions and shared with the Audit Committee.

There being no further business, Chair Wolff called for a motion to adjourn. Director Rooff moved to adjourn; seconded by Director Canham. The motion was approved unanimously.

Meeting adjourned at approximately 11:45 a.m.

Minutes taken by: _____
Dawn Sirianni