

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

August 26, 2013

The Illinois State Toll Highway Authority held the Audit Committee Meeting on Wednesday, August 26, 2013 at approximately 11:31 a.m. at the Central Administration Building in Downers Grove, Illinois.

Committee Members Present:

Committee Chair David Gonzalez
Chair Paula Wolff

Attending by Teleconference:

Director Tom Weisner

Committee Chair Gonzalez then called for a motion to approve Director Weisner's committee participation by teleconference. Chair Wolff made the motion to approve; seconded by Committee Chair Gonzalez. The motion passed unanimously.

Committee Chair Gonzalez called the meeting to order and opened the floor for public comment. There was no public comment.

Committee Chair Gonzalez then called for a motion to approve the minutes of the Audit Committee Meeting held on April 17, 2013. Chair Wolff made the motion to approve the minutes; seconded by Committee Chair Gonzalez. The motion passed unanimously.

Committee Chair Gonzalez then introduced Cathy Baumann, KPMG Partner, to present the 2012 Financial Audit and Compliance Internal Audit Activity for 2013, as well as a recap of 2012 activities, as shown in the [attached presentation](#). Also in attendance were Jason Rosheisen, KPMG Manager, and Tom Kizziah, Manager from the Office of the Auditor General.

Highlights of the presentation included a review of the State Internal Audit Advisory Board (SIAAB) requirements; the Fiscal Control and Internal Auditing Act (FCIAA) requirements; cycle audits; 2012 internal audit activity recap; and 2013 upcoming internal audit activity. There were no material audit findings reported for cycle audit in years 2011 or 2012.

Director Gonzalez noted the 2012 non-material findings were repeated from 2011 and a number of them have been addressed. Ms. Baumann confirmed some of the non-material findings were addressed but will be reported in 2013 so the new policies can be put in practice. Ms. Baumann confirmed that any outstanding findings that had not been corrected were immaterial.

Director Gonzalez commented that another finding regarding the Tollway Enterprise Resource Planning (ERP) system is being addressed in the August 2013 Board meeting. Kristi Lafleur stated the Tollway has hired a specific lead person to manage the ERP process and provided a summary of the next steps to obtain the system.

Mr. Tom Kizziah from the Office of the Auditor General provided the Audit Committee with a summary of the legislative audit and approval process.

Cassandra Rouse, Chief Internal Auditor, presented the Review of 2013 Audit Activities as seen in the [attached presentation](#).

Highlights of the presentation included results of the 2013 cycle audits, completion of audit annual certification as well as information on compliance and follow up reviews.

Chair Wolff asked how the vendors were selected for the Construction Practices Review. Ms. Rouse responded the firms were included through random selection.

Chair Wolff asked about the purpose of the Construction Practices Review. Ms. Rouse responded that the review will enable the Tollway to ensure various services and materials are being provided according to contract terms. Ms. Lafleur added the information gathered from the review will inform the Tollway on the effectiveness of current processes and policies going forward. It also provides an opportunity to address any issues early in the current Move Illinois capital construction program.

Chair Wolff stated since the scope of the Construction Practice Review is in-depth and complex, it may benefit the committee to have a summary with mid-level detail on the type and number of documents reviewed. Ms. Rouse committed to providing the information to the committee at the conclusion of the review.

Chair Wolff requested further information on the audit management system. Ms. Rouse provided detailed information on the benefits of a system-wide audit management system such as streamlined processes. Ms. Rouse responded three reviews were conducted in 2012.

Committee Chair Gonzalez asked if each department has a risk assessment conducted and based on the risk level is a review then conducted. Ms. Rouse confirmed that risk assessments are conducted and provided further detail on the risk assessment process.

Director Weisner asked whether there is an audit relative to the quality of services and product provided. Ms. Rouse explained there is a phase in the audit that includes materials testing through a third party vendor that will address this area.

Committee Chair Gonzalez commented he was pleased the Tollway is proactively looking to improve existing processes early on in the Move Illinois capital construction program.

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

The meeting was adjourned at approximately 12:03 p.m.

Minutes taken by:



Marlene Vick

Assistant Board Secretary

Illinois State Toll Highway Authority



ILLINOIS STATE TOLL HIGHWAY AUTHORITY
(A Component Unit of the State of Illinois)

Auditors Communication with Those Charged with
Governance – Statement on Auditing Standards No. 114

Year ended December 31, 2012

Performed as Special Assistant
Auditors for the Auditor General,
State of Illinois



KPMG LLP
Aon Center
Suite 5500
200 East Randolph Drive
Chicago, IL 60601-6436

July 12, 2013

The Audit Committee and Board of Directors
The Illinois State Toll Highway Authority

Ladies and Gentlemen:

As Special Assistant Auditors for the Auditor General of the State of Illinois, we have audited the financial statements of the Illinois State Toll Highway Authority (the Tollway) as of and for the year ended December 31, 2012, and have issued our reports thereon dated July 12, 2013. The Tollway is a component unit of the State of Illinois. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit.

Our Responsibility under Professional Standards

We are responsible for forming and expressing opinions about whether the financial statements, which have been prepared by management with the oversight of the Audit Committee and Board of Directors, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the Audit Committee and Board of Directors of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Tollway's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tollway's internal control. However, during the course of our audit, we identified certain deficiencies in internal control that we consider to be significant deficiencies. Our required communications to you in writing, under professional standards, of all significant deficiencies and material weaknesses in internal control identified during our audit were provided to you under separate cover in a report dated July 12, 2013.



The Audit Committee and Board of Directors
The Illinois State Toll Highway Authority
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We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of the Audit Committee and Board of Directors in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the Tollway's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the Tollway's Comprehensive Annual Financial Report, and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

Accounting Practices and Unusual Transactions

Significant Accounting Policies

The significant accounting policies used by the Tollway are described in note 1 to the financial statements.

Unusual Transactions

We noted no transactions entered into by the Tollway during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Qualitative Aspects of Accounting Practices

We have discussed with Tollway management our judgments about the quality, not just the acceptability, of the Tollway's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the Tollway's accounting policies and their application, and the understandability and completeness of the Tollway's financial statements, which include related disclosures.

Management Judgments and Accounting Estimates

The preparation of the financial statements requires management of the Tollway to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.



The Audit Committee and Board of Directors
The Illinois State Toll Highway Authority
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Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

Workers' Compensation Self-Insurance Liability

The Tollway is primarily self-insured for workers' compensation claims made against the Tollway. Management's estimate of the workers' compensation self-insurance liability is based on a review of reported incidents, consultation with outside legal counsel, analysis of historical claim and settlement patterns, and actuarial computations prepared by consulting actuaries. The workers' compensation self-insurance liability presented in the financial statements is the estimated present value of existing claims (both known and an estimate of those that have been incurred but not yet reported) that will be settled in the future, and considers anticipated payout patterns prior to payment. We evaluated the key factors and assumptions used to develop the estimated liability in determining that the recorded workers' compensation self-insurance liability is reasonable in relation to the financial statements of the Tollway taken as a whole.

Valuation of Derivative Instruments

Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53) requires the Tollway to recognize the fair value of its hedging derivative instruments and report changes in fair value as deferred inflows or deferred outflows in the statement of net assets if there is an effective hedging relationship. The Tollway has hired an external specialist as the external expert to determine the fair value of the derivative instruments. The valuation of the derivative instruments was performed using the zero-coupon method. The valuation includes accrued interest and it also considers any embedded component transactions such as options. We evaluated the key factors and assumptions used by management to determine the fair value of the hedging derivative instruments and determined the approach is reasonable in relation to the financial statements of the Tollway taken as a whole.

Uncorrected and Corrected Misstatements

In connection with our audit of the Tollway's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the Tollway's books and records as of and for the year ended December 31, 2012. We have reported such misstatements to management in a Summary of Uncorrected Audit Differences. We have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements.



The Audit Committee and Board of Directors
The Illinois State Toll Highway Authority
July 12, 2013
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Attached to this letter is a copy of the summary that has been provided to, and discussed with, management.

In addition, during the course of our audit, we identified no financial statement misstatements that were corrected by the Tollway.

Disagreements with Management

There were no disagreements with management on any material financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' report on the Tollway's financial statements.

Management's Consultation with Other Accountants

To the best of our knowledge, management has not consulted with or obtained opinions, written or oral, from other independent accountants during the year ended December 31, 2012.

Significant Issues Discussed, or Subject to Correspondence, with Management

Major Issues Discussed with Management Prior to Retention

Our audit was contracted through the office of the Auditor General of the State of Illinois. We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with the office of the Auditor General, Tollway management, and the Audit Committee and Board of Directors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Material Written Communications

Attached to this letter please find copies of the following material written communications between Tollway management and KPMG:

1. Communications letter
2. Management representation letter and
3. Summary of Corrected and Uncorrected Audit Differences.

Significant Difficulties Encountered during the Audit

In order to complete our audit, management must complete its closing schedule on a timely basis, prepare audit related reports, answer questions, and provide documentation where required. These tasks were accomplished by the Tollway's personnel and no significant difficulties were encountered in performing our audit. Our audit of the Tollway's financial statements was completed according to the schedule set forth in our audit plan presented to the Audit Committee and Board of Directors on December 12, 2012.



The Audit Committee and Board of Directors
The Illinois State Toll Highway Authority
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This letter to the Audit Committee and Board of Directors is intended solely for the information and use of the Audit Committee, Board of Directors, and Tollway management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



KPMG LLP
Aon Center
200 East Randolph Drive, Suite 5500
Chicago, IL 60601-6436

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Fax +1 312 665 8000
Internet www.us.kpmg.com

November 1, 2012

Illinois State Toll Highway Authority
Audit Committee of the Board of Directors
Attention: Kristi Lafleur
2700 Ogden Avenue
Downers Grove, IL 60515

Ladies and Gentlemen:

We have been engaged as Special Assistant Auditors for the Office of the Auditor General of the State of Illinois to conduct a financial statement audit and a State compliance examination of the Illinois State Toll Highway Authority (Authority) as of and for the year ended December 31, 2012. This letter (the Communications Letter) communicates matters related to KPMG's engagement with the Illinois Office of the Auditor General to provide these professional services.

Objectives and Limitations of Services

Financial Statement Audit Services

We will issue a written report upon our audit of the Authority's financial statements for the year ended December 31, 2012.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing opinions as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, to provide a reasonable basis for our opinions on the financial statements. We also will assess the accounting principles used and significant estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements is planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Therefore, there is a risk that material errors, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements performed in accordance with the auditing standards generally accepted in the United States of America. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective,



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Government Auditing Standards does not expect auditors to provide reasonable assurance of detecting abuse.

Our report will be addressed to the Honorable William G. Holland, Auditor General of the State of Illinois, and the Board of Directors of the Authority. We cannot provide assurance that unqualified opinions will be rendered. Circumstances may arise in which it is necessary for us to modify our report or withdraw from the engagement.

While our report may be sent to the Authority electronically, for your convenience, only the hard copy report is to be relied upon as our work product.

Internal Control over Financial Reporting and Compliance and Other Matters

In planning and performing our audit of the financial statements, we will consider the Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing opinions on the financial statements and not to provide opinions on the effectiveness of the Authority's internal control over financial reporting. In accordance with *Government Auditing Standards*, we are required to communicate that the limited purpose of our consideration of internal control may not meet the needs of some users who require additional information about internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the Authority's compliance with certain provisions of laws, regulations, contracts and grant agreements, violations of which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report 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* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the Authority's internal control over financial reporting and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include illegal acts and fraud, unless clearly inconsequential, and material violations of provisions of contracts and grant agreements and abuse. It will indicate that it is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of the State of Illinois, the Board of Directors and



management of the Authority and federal awarding agencies and pass-through entities and that it is not intended to be and should not be used by anyone other than these specified parties.

In accordance with *Government Auditing Standards*, we will also issue written findings to communicate violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential that come to our attention.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud or illegal acts directly to parties outside the auditee.

State Compliance Examination Objectives

The objective of our State compliance examination is the expression of an opinion as to whether the Authority complied with certain State requirements relating to the obligation, expenditure and use of public funds, the collection of revenues and receipts, the handling of money or negotiable securities or other assets and compliance with applicable laws and regulations including the Statewide Accounting Management System. Our examination will be conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Illinois State Auditing Act (Act), and the Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General pursuant to the Act. Our examination will include examining, on a test basis, evidence about the Authority's compliance with the aforementioned requirements and performing such other procedures as we consider necessary in the circumstances to enable us to express an opinion regarding the Authority's compliance with the aforementioned requirements. Our examination does not provide a legal determination of the Authority's compliance with specified requirements.

Our examination will include consideration and testing of the Authority's internal control over compliance in accordance with the Audit Guide. We will report (but not opine) on internal control related to the Authority's compliance with laws and regulations. Supplementary Information for State Compliance Purposes will be presented for purposes of additional analysis and, except for that portion marked "unaudited" on which we will express no opinion, it will be subjected to the auditing procedures applied in the audit of the basic financial statements and we will express an opinion that such information is fairly stated in all material respects in relation to the financial statements taken as a whole. This compliance examination report for State compliance purposes will include a statement that the report is intended solely for the information and use of the Illinois Auditor General, the Illinois General Assembly, the Illinois Legislative Audit Commission, the Governor of the State of Illinois, the Board of Directors and management of the Authority and is not intended to be, and should not be used by anyone other than these specified parties.



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Offering Document

Should the Authority wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our reports on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the Authority wish to include or incorporate by reference these financial statements and our audit reports thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our reports on such financial statements, and we are not otherwise associated with the offering document, then the Authority agrees to include the following language in the offering document:

“KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement.”

Our Responsibility to Communicate with the Board of Directors and the Office of the Illinois Auditor General

We will report to the Board of Directors and the Office of the Illinois Auditor General, in writing, the following matters:

- Corrected misstatements arising from the audit that could, in our judgment, either individually or in aggregate, have a significant effect on the Authority’s financial reporting process. In this context, corrected misstatements are proposed corrections of the financial statements that were recorded by management and, in our judgment, may not have been detected except through the auditing procedures performed.
- Uncorrected misstatements aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in aggregate.
- Any disagreements with management or other significant difficulties encountered in performance of our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.



We will also read minutes, if any, of Board of Directors and Audit Committee of the Board of Directors (Committee) meetings for consistency with our understanding of the communications made to the Committee and determine that the Committee has received copies of all material written communications between ourselves and management. We will also determine that the Committee has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

If, in performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the Committee our reasons for modification or withdrawal.

Management Responsibilities

The management of the Authority is responsible for the fair presentation, in accordance with U.S. generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for establishing and maintaining effective internal controls and procedures for financial reporting to maintain the reliability of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls.

In relation to compliance, management is responsible for:

- Identifying the Authority's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the Authority administers state programs in compliance with the compliance requirements.
- Evaluating and monitoring the Authority's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.
- Informing us of any known material violations of compliance requirements.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

KPMG and the Office of the Illinois Auditor General are aware that such matters may be the subjects of inquiry by the Office of the Executive Inspector General or the Office of the Inspector General of the Authority (collectively, the Inspectors) and, as such, you may have been advised to



Illinois State Toll Highway Authority

November 1, 2012

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keep such matters confidential. Please note that you are still required to respond to the auditor's inquiries about suspected fraud, illegal acts, or noncompliance in a forthright and truthful manner. If necessary, you may coordinate your response with the Inspectors.

Management of the Authority also agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of the Authority's personnel. The Illinois State Auditing Act (the Act) requires State agencies to make available to the Auditor General or his designated representative any record of information requested without delay. The Act also requires agencies to provide for examination or copying all records, accounts, papers, reports, vouchers, correspondence, books and other documentation in the custody of that agency including information stored in electronic data processing systems. (30 ILCS 5/3-12).

As required by the auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming opinions on the financial statements.

In accordance with *Government Auditing Standards*, as part of our planning of the audit we will evaluate whether the Authority has taken appropriate corrective action to address findings and recommendations from previous engagements that could have a material effect on the financial statements. To assist us, management agrees to identify previous audits and attestation engagements, including whether related recommendations have been implemented, prior to January 31, 2013.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon taken as a whole.

In accordance with Illinois Auditor General's Administrative Rules and *Government Auditing Standards*, management is also responsible for providing us with written responses for any findings included in the GAGAS, State Compliance. If such information is not provided on a timely basis prior to release of the reports, the reports will indicate the status of management's responses.

Management is responsible for the distribution of the reports issued by KPMG as Special Assistant Auditors for the Office of the Illinois Auditor General.



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Other Matters

This letter shall serve as the Authority's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the Authority and between KPMG and outside specialists or other entities engaged by either KPMG or the Authority. The Authority acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

For purposes of the services described in this letter only, the Authority hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all names, logos, trademarks and service marks of the Authority solely for presentations or reports to the Authority or for internal KPMG presentations and intranet sites.

KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

The Authority agrees to provide prompt notification if the Authority or any of its subsidiaries currently are or become subject to the laws of a foreign jurisdiction that require regulation of any securities issued by the Authority or such subsidiary.

The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to regulatory agencies upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to regulatory agencies pursuant to authority provided by law or regulation. Access to the requested work papers will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to regulatory agencies. Such regulatory agencies may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

* * * * *



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We shall be pleased to discuss this letter with you at any time. Please sign and return it to us.

Very truly yours,

KPMG LLP

Catherine A. Baumann
Partner

cc: Tom Kizziah, OAG

ACCEPTED:

Illinois State Toll Highway Authority

Authorized Signature

Exec. DIRECTOR

Title

1-14-13

Date



System Review Report

To the Partners of KPMG LLP
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 2, 2011

December 8, 2011

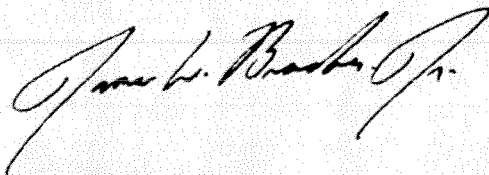
John B. Veihmeyer, CPA
KPMG LLP
345 Park Ave Bsmt LB6
New York, NY 10154

Dear Mr. Veihmeyer:

It is my pleasure to notify you that on December 8, 2011 the National Peer Review Committee accepted the report on the most recent system peer review of your firm. The due date for your next review is September 30, 2014. This is the date by which all review documents should be completed and submitted to the administering entity.

As you know, the report had a peer review rating of pass. The Committee asked me to convey its congratulations to the firm.

Sincerely,



James W. Brackens, Jr.
Vice President—Ethics and Quality Practice
+1.919.402.4502
nprc@aicpa.org

cc: Betty Jo Charles, CPA

Firm Number: 10054128

Review Number: 320334

*Administered by the
National Peer Review Committee*



July 12, 2013

KPMG LLP
200 E. Randolph Dr., Suite 5500
Chicago, IL 60601

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the business-type activities and the related notes to the financial statements of the Illinois State Toll Highway Authority as of and for the year ended December 31, 2012, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit(s):

1. We have fulfilled our responsibilities, as set out in the terms of the audit communications letter dated November 1, 2012, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
 - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
 - b. Additional information that you have requested from us for the purpose of the audit(s).
 - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of the meetings of the Board of Directors, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no:
 - a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113.
 - d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements.
 - e. Events that have occurred subsequent to the date of the statement of net position and through the date of this letter that would require adjustment to or disclosure in the financial statements.
5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.
6. The effects of the uncorrected financial statement misstatements summarized in the accompanying schedules are immaterial, both individually and in the aggregate, to the financial statements.
7. We acknowledge our responsibility for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud; for adopting sound accounting policies; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity's assets where the effect of the theft causes the financial statements not to be presented in conformity with U.S. generally accepted accounting principles.

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2700 Ogden Avenue | Downers Grove, IL 60515 | p. 630.241.6800 | TTY 630.241.6988
www.illinoistollway.com

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the Tollway's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, *Communicating Internal Control Related Matters Identified in an Audit*.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the Tollway involving:
 - a. Management
 - b. Employees who have significant roles in internal control over financial reporting, or
 - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the Tollway received in communications from employees, former employees, analysts, regulators, or others.
12. We have no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or director of the Tollway, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
 - a. Related party relationships and transactions of which we are aware in accordance with the requirements of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the Tollway is contingently liable.
 - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements.
 - d. Agreements to repurchase assets previously sold, including sales with recourse.

- e. Changes in accounting principle affecting consistency.
 - f. The existence of and transactions with joint ventures and other related organizations.
15. The Tollway has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
 16. The Tollway has complied in all material respects with applicable laws, regulations, contractual agreements, and grants that could have a material effect on the financial statements in the event of noncompliance.
 17. Management is responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to the Tollway. Management has identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
 18. The Tollway has no component units.
 19. The financial statements properly classify all funds and activities.
 20. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
 21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 22. Receivables reported in the financial statements related to intergovernmental agreements with the Illinois Department of Transportation represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
 23. Deposits and investment securities are properly classified and reported.
 24. The Tollway is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. The amounts reported represent the Tollway’s best estimate of fair value of investments required to be reported under the Statement. The Tollway also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

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25. The Tollway has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Tollway complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the Tollway has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
26. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the Tollway has disclosed the methods and significant assumptions used to estimate those fair values.
27. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
 - a. Extent, nature, and terms of financial instruments with off-balance-sheet risk;
 - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
 - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
28. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
29. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
30. The Tollway has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
31. The Tollway has no:
 - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss.
 - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values.

ILLINOIS TOLLWAY

- c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
-
- 32. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, have been met.
 - 33. The Tollway has complied with all tax and debt limits and with all debt related covenants.
 - 34. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
 - 35. The Tollway has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
 - 36. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
 - 37. The Tollway has identified and properly accounted for all nonexchange transactions.
 - 38. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
 - 39. Special and extraordinary items are appropriately classified and reported.
 - 40. The financial statements disclose all of the matters of which we are aware that are relevant to the entity's ability to continue as a going concern, including significant conditions and events, and our plans.
 - 41. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the Tollway's current period financial statements and our assessment of internal control over financial reporting,

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and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these policies and practices on the financial statements and our assessment of internal control over financial reporting is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

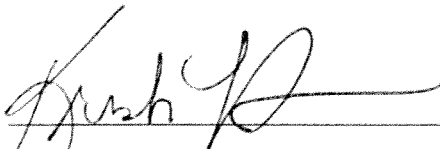
42. We agree with the findings of specialists in evaluating the fair value and hedge effectiveness of interest rate swaps and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
43. We acknowledge our responsibility for the presentation of the supplementary information for Trust Indenture Agreement Schedules and for State Compliance Purposes in accordance with the applicable criteria and/or prescribed guidelines and:
 - a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
 - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period except for the toll evasion recovery revenue measurement method which was changed from a non-GAAP policy.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
44. We acknowledge our responsibility for the presentation of the required supplementary information which includes management's discussion and analysis, in accordance with the applicable criteria and prescribed guidelines established by the *Governmental Accounting Standards Board* and:
 - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines.
 - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period.
 - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
45. The Tollway has complied with all applicable laws and regulations in adopting, approving, and amending budgets.

46. In accordance with *Government Auditing Standards*, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.
47. KPMG assisted management in drafting the financial statements and notes. In accordance with *Government Auditing Standards*, we confirm that we have reviewed, approved, and accept responsibility for the financial statements and notes.
48. The Tollway is not subject to the requirements of OMB Circular A-133 as it did not expend more than \$500,000 in federal awards during the year ended December 31, 2012.
58. Cash held for customers in prepaid I-PASS accounts and presented as *Current Restricted Assets* is legally restricted by the customer I-PASS agreements and can be spent only for the specific purposes outlined in the agreement because the funds are held in trust by the Tollway who is acting as a fiduciary for the I-PASS customer in an implied trust in accordance with 760 ILCS 65/1.


Further, we confirm that we are responsible for the fair presentation in the financial statements of the business-type activities and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,

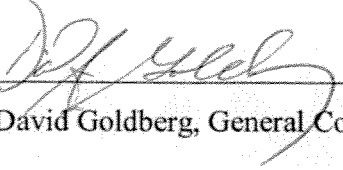
Illinois State Toll Highway Authority



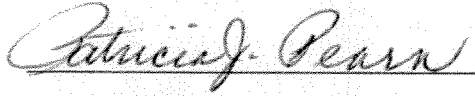
Kristi Lafleur, Executive Director



Michael Colsch, Chief of Finance



David Goldberg, General Counsel



Patricia Pearn, Controller



**Internal Audit
Update**

December 12, 2013

Agenda

- **Internal Audit background**
- **Current state of Internal Audit resources**
- **2014-2015 Internal Audit Plan**

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)

Internal Audit Resources

Internal Audit team resources include:

- Chief Internal Auditor
- Internal Audit Manager (vacant)
- Internal Auditors (three)
- Information Systems Auditor
- Construction Auditor (new position budgeted for 2014)

2014-2015 Internal Audit Plan

Internal Audit conducted a business risk assessment to develop the annual Internal Audit Plan

The risk assessment included the following major components:

- Input from executives and management
- Consideration of the current operating environment and management control structure
- Evaluation of issues identified during prior audits

2014-2015 Internal Audit Plan

IA met with key management staff to obtain input on areas of concern or risk

Executives and managers provided input that included:

- Validation of the most significant processes, activities and functions within operational areas
- Identification of risk factors that have the highest potential to prevent achievement of objectives
- Assessment of the effectiveness of the management control structure to mitigate identified risks

2014-2015 Internal Audit Plan

- Assessment of the effectiveness of services supporting operational areas, including functions such as human resources, information technology, procurement and finance
- Evaluation of the risk of fraud and awareness of fraud referral requirements and processes
- IA reviewed FCIAA requirements to determine which mandatory cycle audits will be required in each of the two fiscal years

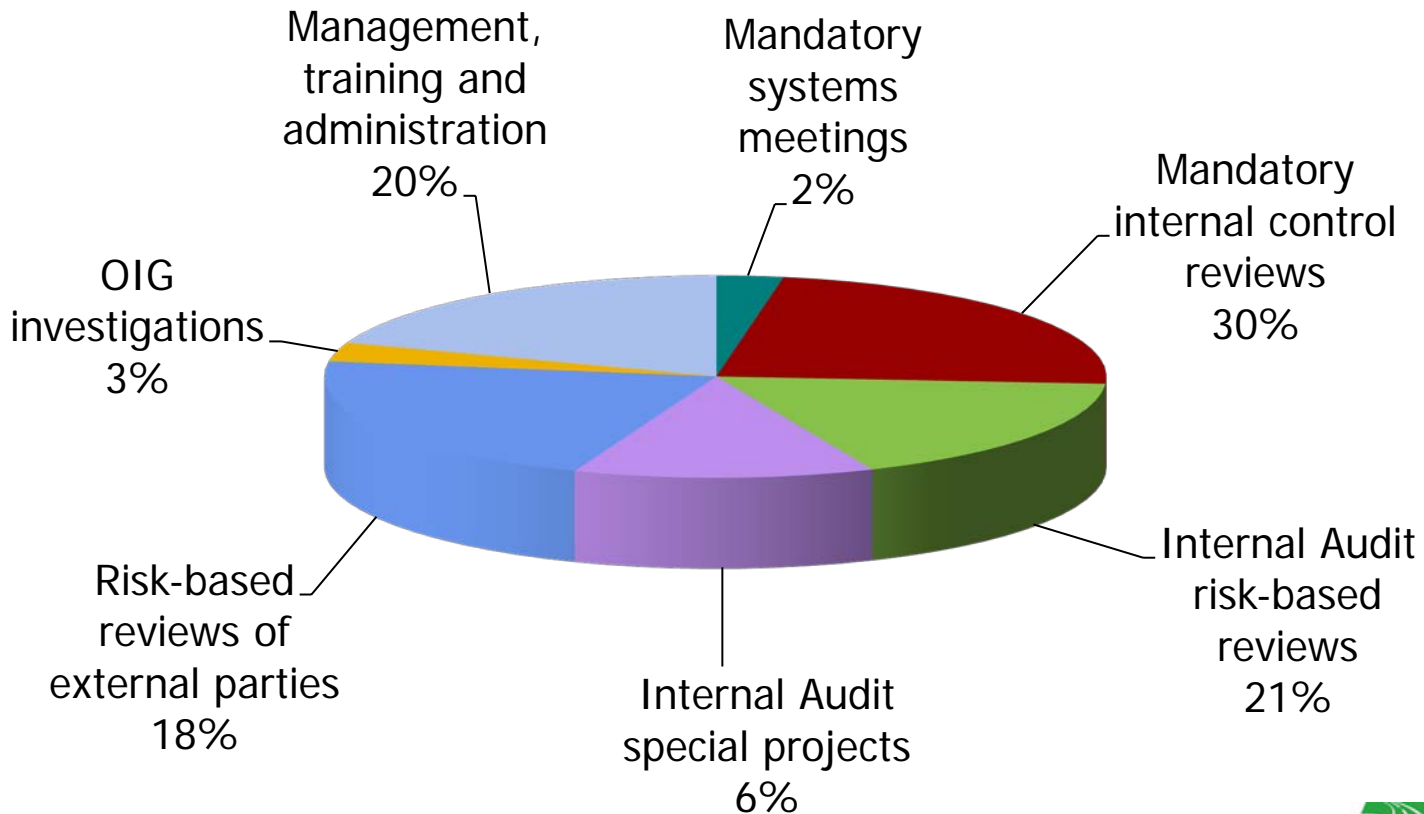
2014-2015 Internal Audit Plan

Internal Audit Resource Availability and Allocation – 2014 Plan

Allocation of Available Hours		
Mandatory systems meetings	272	2 percent
Mandatory internal control reviews	3,270	30 percent
Internal Audit risk based reviews	2,295	21 percent
Internal Audit special projects	669	6 percent
Risk based reviews of external parties	2,043	18 percent
OIG investigations	300	3 percent
Management, training and administration	2,204	20 percent
Total Hours 2014	11,053	100 percent

2014-2015 Internal Audit Plan

FY 2014 Audit Plan Allocation



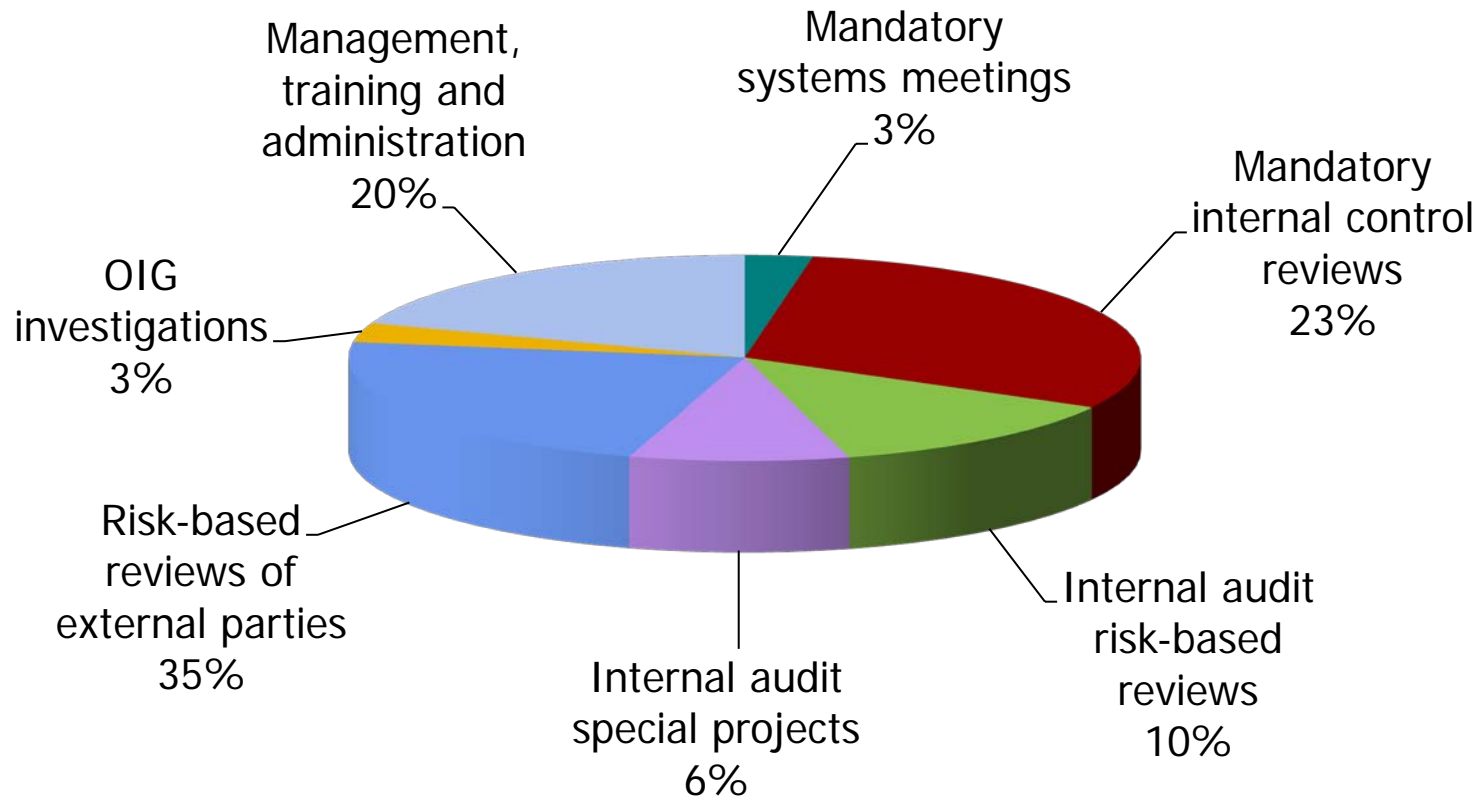
2014-2015 Internal Audit Plan

Internal Audit Resource Availability and Allocation – 2015 Plan

Allocation of Available Hours		
Mandatory systems meetings	328	3 percent
Mandatory internal control reviews	2,610	23 percent
Internal Audit risk-based reviews	1,155	10 percent
Internal Audit special projects	656	6 percent
Risk-based reviews of external parties	3,840	35 percent
OIG investigations	300	3 percent
Management, training and administration	2,213	20 percent
Total Hours 2015	11,102	100 percent

2014-2015 Internal Audit Plan

FY 2015 Audit Plan Allocation



Next Steps...

Audit Committee approval

- 2014-2015 Internal Audit Plan

THANK YOU

