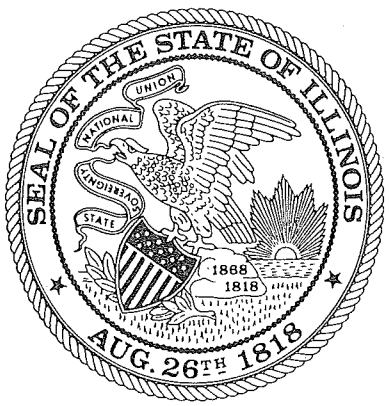
MANAGEMENT AUDIT

ILLINOIS' STATE PROGRAMS
OF INTERNAL AUDITING

MAY 1988

State of Illinois

Office of the Auditor General



Robert G. Cronson

Auditor General

STATE OF ILLINOIS
OFFICE OF THE AUDITOR GENERAL
509 SOUTH SIXTH STREET
SPRINGFIELD
62701

ROBERT G. CRONSON
AUDITOR GENERAL

To the Legislative Audit Commission, the Speaker and Minority Leader of the House of Representatives, the President and Minority Leader of the Senate, the members of the General Assembly and the Governor:

This is our report of the Management Audit of Illinois' State Programs of Internal Auditing.

We conducted this audit at the direction of Legislative Audit Commission Resolution Number 78, adopted April 9, 1987. The audit was conducted in accordance with generally accepted government auditing standards and the audit standards promulgated by the Office of the Auditor General at 74 Ill. Adm. Code 420.310. The report is transmitted in conformance with Section 3-14 of the Illinois State Auditing Act.

Robert G. Cronson

ROBERT G. CRONSON
Auditor General

Springfield, Illinois

May 1988

STATE OF ILLINOIS
OFFICE OF THE AUDITOR GENERAL
SPRINGFIELD

ROBERT G. CRONSON
AUDITOR GENERAL

REPORT DIGEST

MANAGEMENT AUDIT OF ILLINOIS' STATE PROGRAMS OF INTERNAL AUDITING

MAY 1988

SYNOPSIS

- Internal auditing in Illinois is not adequately supported or used to attain effective and efficient management of State agencies.
- Only 8 percent of the State's internal audit units are in full compliance with the Internal Auditing Act.

INTRODUCTION

To help ensure effective systems of internal controls, promote efficient State government operations, and provide agency management with the information necessary to effectively oversee agency operations, the General Assembly passed the Internal Auditing Act in 1967. The Act requires certain State agencies to establish internal audit programs and sets out specific internal audit staffing, reporting, planning, and performance requirements.

During two recent audit cycles, the Office of the Auditor General reported 96 compliance audit findings involving State agencies' programs of internal audits. In Fiscal Years 1984 and 1985, the Auditor General reported over 2,000 compliance audit findings concerning internal controls, irregularities, inadequate accounting systems, and excessive levels of inventory. Many of the problems leading to these findings could have been promptly identified and corrected by effective programs of internal auditing.

Recognizing that the State's internal audit programs were not fulfilling the General Assembly's intent, the Legislative Audit Commission, on April 9, 1987, adopted Resolution Number 78 (Appendix A) which directed the Auditor General to conduct a management audit of the State's programs of internal auditing to determine:

1) whether the programs were effective, complied with the Internal Auditing Act, and met professional standards;

2) whether personnel, resources, and training provided acceptable audit coverage and quality; and

3) whether findings and recommendations were implemented and followed up.

CONCLUSIONS

Most internal audit programs do not comply with the requirements of the Internal Auditing Act and internal audit coverage is inadequate to achieve effective and efficient management of State agencies.

- Reporting and coordinating structures are inadequate.
- Agency managers misunderstand and do not properly use the internal audit function.
- Uniform professional audit standards have not been adopted.

- Chief internal auditor qualifications and staff training are inadequate.

- The number of full-time internal auditors is insufficient.

BACKGROUND

In the private sector, where profit is the bottom line, internal auditing is an established, valued function. Private sector managers recognize that internal auditing is an invaluable management tool needed to improve efficiency, safeguard corporate assets, and effectively control operations.

In the public sector, however, the profit motive is absent and an agency director's success is generally measured more in terms of the success of programs administered and not in dollars saved. As a result, public managers make less use of the skills and services of the internal auditor. However, while the cost savings provided by auditors in the public sector may be less visible than those in the private sector, in 1987 the U.S. General Accounting Office reported achieving $59 in financial benefits for every audit dollar spent.

For internal auditing to be truly effective, the agency director must trust the internal auditor and both must share a mutual commitment to improving agency operations. In government, there has been an attempt to make the internal auditor both a whistle blower and a management resource. We believe that this dual role is contradictory and undermines the trust and loyalty necessary for an effective manager-auditor relationship.

Furthermore, the chief internal auditor must report directly to the agency director to ensure that audit findings are communicated fully to the director and not altered or kept from the director entirely. Without a direct reporting relationship, the director cannot be certain that all potential deficiencies and barriers to agency operations are being brought to his or her attention.

In this audit we examined the operations of 50 agencies' internal audit units and tested their compliance with the requirements of the Internal Auditing Act and auditing standards.

PROGRAMS OF INTERNAL AUDITING

The State lacks a mechanism which ensures that all agencies which are large enough to benefit from an internal audit program actually establish one. The Internal Auditing Act requires 16

agencies to establish internal audit programs and allows the Governor to designate additional agencies under his jurisdiction. The Governor has required 30 additional agencies to have internal auditors. However, seven of the State's 27 departments subject to the "Civil Administrative Code" are not required to have internal auditing. These seven agencies spent over $510 million in Fiscal Year 1987.

Approximately 100 other State agencies, boards, and commissions do not have any internal audit program. While many of these agencies are not large enough to justify a full-time internal audit program, they would benefit from internal audit services.

MATTERS FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to:

- **Require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs which comply with the requirements of the Internal Auditing Act;**
- **Require other large, "non-code" agencies such as the Toll Highway Authority and the Housing Development Authority to become subject to the Act; and**
- **Make provisions for the Legislative Audit Commission to recommend for the Governor's consideration any other agencies which should be designated to have internal auditing.** (Pages 7-10.)

The General Assembly may also wish to consider amending paragraph 136.1 of the Internal Auditing Act to establish an office under the Governor ("Governor's Chief Internal Auditor") to provide internal audit services for those agencies and departments under the Governor which are not required to have their own internal audit programs and to interact with the advisory audit board. (Page 12) [Establishment of the advisory board is recommended elsewhere in this report.]

COMPLIANCE WITH THE INTERNAL AUDITING ACT

Only four internal audit units fully complied with the requirements of the Internal Auditing Act. Two agencies which were required to have internal audit programs had no internal auditors. The following are examples of noncompliance found in the remaining 46 agencies:

- 40 internal audit units did not complete all statutorily required audits;
- 14 chief internal auditors did not report directly to their agency's chief executive officer;
- 12 chief internal auditors performed operational duties which decreased the time they had available to perform audits and impaired their independence;
- 7 internal audit units did not meet the Act's requirements for developing an annual audit plan; and
- 2 chief internal auditors did not meet the qualifications stated in the Act when they were hired. (Pages 15 - 25.)

Throughout the audit report we make recommendations that the agency directors take the actions necessary to correct these deficiencies.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to amend the Internal Auditing Act to include a provision requiring that directors certify that their internal audit units have prepared and followed a two-year audit plan, that the agency has adequate internal controls, and that they have complied with the provisions specified in the Internal Auditing Act. (Page 24.)

Audit Coverage

The Internal Auditing Act requires internal audits of accounting and administrative controls every two years. The Act requires the performance of other types of audits and reviews, but not within a specific time frame. Test audits of expenditures, obligations, receipts, and grant monitoring should be conducted within a specific time frame to ensure a timely review of agency operations.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise the Internal Auditing Act to require that audits on a test basis of expenditures, obligations, receipts, and grants be conducted within a two-year time frame. The General Assembly may also wish to revise the Internal Auditing Act to reflect the need to plan audits within a two-year time frame. (Page 22.)

Auditor Qualifications

The qualifications for chief internal auditors specified in the Internal Auditing Act may not be adequate to ensure optimum audit proficiency. The Act allows a certified public accountant, who may have little or no experience in government, management, or auditing, to serve as a chief internal auditor. Because governmental auditing is a very specialized field requiring more than an understanding of financial accounting, a certified public accountant with little or no government experience may not possess the proficiency necessary to effectively serve as a chief internal auditor.

The Act also does not recognize all the professional designations and academic disciplines which might be valid in promoting audit proficiency. Governmental auditing standards recognize that a variety of experience and professional proficiency is necessary to adequately address governmental audit issues.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise paragraph 136.2 of the Internal Auditing Act to make the requirements for the position of chief internal auditor more responsive to current governmental auditing requirements. An amendment might include such language as:

> **"The chief executive officer of any State agency with a full-time program of internal auditing shall appoint a chief internal auditor with appropriate certification: Certified Public Accountant, Certified Internal Auditor, or appropriate academic degrees, and five years of managerial, governmental, and auditing experience; or seven years experience in government, management, and auditing".** (Pages 18, 19.)

Auditor Responsibilities

Although the Act requires chief internal auditors to be free from operational duties which would impair their independence, it does not mention internal audit staff. It is as important for the internal audit staff to be free from operational duties as it is for the chief internal auditor. Performing managerial and operational activities reduces internal auditor objectivity in reviewing agency operations and limits the time staff has for internal auditing.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise the Internal Auditing Act so that the chief internal auditor and his or her staff are free of all operational duties. Currently, the Act stipulates only that "the chief internal auditor. . . shall be free of all operational duties which would impair the auditor's ability to make independent reviews of all aspects of the agency's operations." (Pages 16, 17.)

PROFESSIONAL STANDARDS

State internal auditors do not consistently follow professional auditing standards. Audit standards provide criteria and guidance beyond that contained in the statutes to help auditors effectively conduct internal audits.

Thirty-two of the fifty State agencies with internal audit functions did not meet one or more of the standards for independence, professional proficiency, and fieldwork. Training was insufficient for continued professional development, and peer reviews, in which the quality of each unit's work and work products are evaluated by other internal auditors, were not conducted.

We judgmentally sampled and reviewed audits and supporting work for 141 audits at 48 agencies and found numerous violations of generally accepted auditing standards. These exceptions included such deficiencies as: 1) audit conclusions were not supported by working papers; 2) audit programs lacked written sampling plans and methodologies; 3) audit programs and work plans were not approved or completed; 4) working papers were not identified, reviewed, or indexed; and 5) audit findings and recommendations were not followed up.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider creating an advisory audit board comprised of State agency chief internal auditors to interact with the "Governor's Chief Internal Auditor." The audit advisory board could:

- **recommend a uniform set of professional auditing standards and ethics for use by State internal audit units,**
- **facilitate training by acting as a clearinghouse for information on training opportunities, and**
- **coordinate peer review activities.** (Pages 30-32.)

RESOURCES

Agency directors are responsible for ensuring that their internal audit units receive sufficient management support and sufficient resources to fulfill programmatic and statutory mandates. Although effective internal audit programs are the result of both quantitative and qualitative factors, internal audit program effectiveness largely depends upon the adequacy of resources allocated to the audit function and management's willingness to use internal auditing to improve the efficiency and effectiveness of agency operations.

Over the past five years, an average of seven hundredths of one percent (.0007) of agency budgets was allocated to internal auditing (at the 27 agencies where data was available). In addition, 63 percent of these internal audit units had a decrease in their share of the agency budget over the five-year period.

Agency directors, chief internal auditors, our special assistant auditors, and our statistical model concurred that more internal auditors are needed. These four sources estimated that from 41 to 58 percent more internal auditors are needed. (Pages 35 - 39.)

AGENCY RESPONSES

Sixteen of the fifty agencies covered by this audit submitted written comments. We received additional comments from the Office of the Governor and the State Internal Audit Managers, a representative group of internal auditors concerned with internal audit matters within Illinois State government.

The State Internal Audit Managers concurred with our "Matters for Consideration by the General Assembly." The Governor's Office concurred, concurred in principle, or concurred with qualifications, explanations, or alternative suggestions to six of the seven Matters for Consideration. The Governor's Office did not support the concept of establishing an audit office directly under the Governor but instead indicated that such an office should be located in the Department of Central Management Services.

In general, agencies concurred with our four agency recommendations and our seven "Matters for Consideration by the General Assembly," except that five agencies indicated that requiring the chief internal auditor to administratively report to someone other than the agency director did not constitute improper reporting, and two agencies, the Department of Employment Security and the Department of Conservation indicated existing offices (such as the Department of Central Management Services) could be used to coordinate internal auditing. The Department of Conservation also felt that only "major" internal

control systems should require an audit every two years, and that line managers, rather than agency directors, should certify to the adequacy of internal controls.

Appendix E of this report lists individual agencies and their compliance with major provisions of the Internal Auditing Act. It also shows that 7 of the 50 agencies listed disagreed with one or more classification of noncompliance. We believe, however, that our classifications of noncompliance remain valid. (See Appendix I for full texts of all responses received.)

Robert G. Cronson

ROBERT G. CRONSON, Auditor General

RYR:jw

May 1988

TABLE OF CONTENTS

TABLES

APPENDICES

CHAPTER I

INTRODUCTION

On April 9, 1987, the Legislative Audit Commission adopted Resolution Number 78 directing the Auditor General to conduct a management audit of the State's programs of internal auditing. (See Appendix A for Resolution.) The Resolution directed the Auditor General to determine:

1. Whether policies, procedures, and practices of agency programs of internal auditing comply with statutes and meet professional standards for quality, fieldwork, reporting, and ethics;

2. Whether internal audit personnel, resources, and training provide acceptable audit coverage and quality;

3. Whether internal audit programs are effective; and

4. Whether findings and recommendations are implemented and followed up.

BACKGROUND

Internal auditing in Illinois' State agencies was first statutorily required in 1967. In the 20 years since the first Internal Auditing Act (Ill. Rev. Stat. 1987, ch. 127, par. 136.1 et seq.) was enacted, the development of full-time programs of internal auditing within State agencies has progressed. Internal audit recommendations have resulted in monetary savings, improved internal controls, and improved operations. Despite the internal auditors' many contributions to improved agency operations, however, serious problems confront Illinois' programs of internal auditing.

The Legislative Audit Commission recognized that there were problems with internal auditing. When adopting Resolution 78, they cited 96 Auditor General compliance audit findings for 36 different State agencies over two recent audit cycles. The resolution, in addressing the types of findings reported, recognized that virtually every facet of the internal audit function was involved. The Commission also noted that an improved internal audit function might have significantly reduced the number of other compliance audit findings in Fiscal Years 1984 (1,043) and 1985 (1,003) and strengthened agency management. These findings concerned internal controls, irregularities, inadequate accounting systems, and excessive levels of inventory.

The results of this audit demonstrate that most internal audit units do not comply with the requirements of the Internal Auditing Act. Internal audit coverage is inadequate to achieve effective and efficient management of State agencies. We attribute these problems to the following conditions:

1. Reporting and coordinating structures are inadequate;

2. Agency managers misunderstand and do not properly use the internal audit function;

3. Uniform professional audit standards have not been adopted;

4. The number of full-time auditors is insufficient; and

5. Chief Internal Auditor qualifications and staff training are inadequate.

The solutions to most of these problems are not complicated. Overall, Illinois has a reasonable Internal Auditing Act and a sound internal audit structure. Some changes to both, however, would improve the State's programs of internal auditing.

A more complicated matter is obtaining maximum benefit from an internal audit function once it has been established at an agency. This necessarily involves trust between the agency director and auditor and a mutual commitment to improving operations.

In the private sector this is usually not a problem. Internal auditing is normally integrated high into the company structure and supported by top management because it is cost effective and contributes to profits. In government, where the profit motive is absent, the benefits of internal auditing are not as well understood. We believe, however, that once recommended changes are made, greater understanding and use of internal auditing in Illinois will follow.

CONTEMPORARY INTERNAL AUDITING

The function of internal auditing is to provide management with an independent appraisal of the organization's operations and controls. The internal audit unit also helps management effectively discharge its duties and responsibilities by providing analyses, appraisals, recommendations, counsel, and information on the activities reviewed. Internal auditors determine that accounting and administrative controls are functioning properly, policies and procedures are followed, established standards are met, resources are used efficiently, and the organization's objectives are being achieved.

Fraud, abuse, and other improprieties are sometimes discovered during the internal review process. The organization must, therefore, ensure a channel of open communication between the internal auditor and the chief executive officer so that any illegal conduct is immediately brought to the highest attention.

It is important that management ensure that audit direction is meaningful and that audit results are acted upon. Also, to facilitate the role of the internal audit unit and to maximize its utility, management must provide the necessary degree of support.

The role of the internal auditor is very different from that of the external auditor. While the internal auditor's sole responsibility is to management, the external auditor's responsibility is to users who are often outside the organization.

Internal Auditing in Government

Internal auditing has its origins in the private sector where management's main concern is profit. In government, a manager's success is not usually determined by such readily measurable terms. When some form of "bottom line" criterion is used to measure performance, it is frequently a goal such as dollars expended per client, improved educational achievement, a reduction in the crime rate, or better health care for the elderly.

Historically, government has placed more emphasis on its service functions than on the efficient and effective use of available resources. While there is some push for government to behave in a more businesslike manner, it is not at all clear that this has been the primary focus of public administrators. Private sector managers generally give their internal audit units autonomy, support, and organizational status because they believe internal auditing will enhance profits. In the public sector, however, many administrators view internal auditing as a drain on already scarce resources. Internal auditing, though, normally generates more in savings than it costs. This is true for government as well as business. On June 10, 1981, for example, the General Accounting Office (GAO) testified before the Subcommittee on Intergovernmental Relations and Human Resources that the Offices of Inspector General reported seven dollars saved for every dollar spent on audits and investigations. In his 1987 Annual Report, the Comptroller General of the United States reported that GAO had "identified $59 in financial benefits for each dollar of GAO's budget spent."

A further problem in government is that there has been an attempt to make the internal auditor both a whistle blower and a management resource. At the federal level and in some states, internal audit reports are made public and the internal auditor

has responsibilities to people outside the agency. These two roles are contradictory and, to the extent they are imposed on the same person, the effectiveness of each is diminished. A manager is not likely to develop a close working relationship with an internal auditor who has the responsibility of broadcasting his or her deficiencies to the public.

Internal Auditing in Illinois

At the close of fieldwork in January 1988, 48 State agencies employed 208 internal auditors and two agencies relied on contractors for their internal auditing. Two other agencies were required to have internal audit programs but had not established them. Each internal audit unit functions independently under the direction of its agency's chief executive officer (or a designee). There is no mandate for external reporting that diminishes the management-team concept of internal auditing.

We found the Act to be reasonable in its requirements. It places responsibility on management for the adequacy of internal controls and the direction of the internal audit unit. It places responsibility on internal auditors for conducting audit and review activities in a professional manner. At the conclusion of fieldwork, we conducted follow-up interviews with senior chief internal auditors at nine large State agencies. The consensus was that the Act should be strengthened.

We found, however, that despite the reasonableness of the Act, only eight percent of the internal audit units were in full compliance with the Act as it is now written. This may be more indicative of the internal audit environment in Illinois than a breakdown of auditing. Generally, internal audit units do not have the support from management necessary to carry out their charges.

"The Governor's Cost Control Task Force 1985-1986" cited internal auditing as a major problem area common to administrative agencies. The task force concluded there was "little or no operational auditing conducted," and "the lack or type of training available to internal auditors needs to be addressed." The Task Force recommended: "The Governor's Office should direct all agencies to include an internal auditing function which has both financial and programmatic components and increase training for internal auditors under the aegis of CMS." Two previous reports, "The Governor's Cost Control Task Force" (1978) and the "Volunteers In Public Management" (1980), also cited overall deficiencies in the State's use of its internal audit programs. The latter report went so far as to recommend the development and presentation of "seminars for Directors of Agencies, Boards, Commissions and/or Administrators in the use of internal or external audit as a management tool."

REPORT ORGANIZATION

Chapter II of this report discusses those agencies that have and do not have internal audit functions. Chapter III covers compliance with the Internal Auditing Act; Chapter IV addresses the need for uniform professional audit standards; Chapter V addresses audit resources; and Chapter VI recaps conclusions and recommendations.

The report recommendations are directed at improving, not changing, the State's existing internal audit structure. We firmly believe that internal auditing must remain internal or its long-term benefits will be greatly diminished.

As previously noted, some states and the federal government have introduced external reporting requirements into their internal audit structures. We believe this undermines the trust and loyalty necessary to the manager-auditor relationship. We recognize differing views on this issue, but this report does not address, except in passing, the many alternatives for changing the reporting requirements of internal auditing in Illinois.

SCOPE AND METHODOLOGY

This audit was conducted in accordance with generally accepted government audit standards and the audit standards promulgated by the Office of the Auditor General in the Illinois Administrative Code (74 Ill. Adm. Code 420.310).

In performing this audit, we interviewed directors (or designees), chief internal auditors, and EDP managers of 50 State agencies. We reviewed a sample of working papers, audit plans, internal audit reports, and other documentation available at internal audit units. We assessed agency electronic data processing (EDP) environments and the complexity of agency EDP missions and programs. We reviewed statutes, regulations, and applicable policies. We surveyed other states, researched literature and professional standards, and collected other data as appropriate. We used statistically based computer programs to assist us in our analysis.

We were assisted in this audit by Special Assistant Auditors General who were concurrently conducting compliance audits of specific agencies. We were also assisted by Spectrum Consulting Group, Inc., who aided us in assessing EDP environments at State agencies.

Fieldwork began in August 1987 and concluded in January 1988.

Audit Independence

The staff of the Auditor General and contractors engaged by this Office are bound by generally accepted government audit standards. Many of the staff and contractors also hold professional designations as Certified Public Accountants or Certified Internal Auditors which bind them to the standards and codes of ethics of those respective organizations. In addition, most staff members and contractors belong to various audit associations and professional organizations, such as the American Institute of Certified Public Accountants, the Institute of Internal Auditors, the Association of Government Accountants, and the EDP Auditors Association. Many of the State's internal auditors (who were auditees) hold similar professional designations and belong to the same professional associations and organizations. We did not consider these factors to constitute a significant impairment to our independence or to our ability to conduct a fair and objective audit.

CHAPTER II

PROGRAMS OF INTERNAL AUDITING

The statutory requirement governing which State agencies must establish an internal audit program is clear, but not sufficient, as most large State agencies are not statutorily required to have internal auditing. Further, the State does not have an effective mechanism to supply internal audit services to agencies whose budgets and size do not warrant having a full-time internal audit program.

REQUIREMENT TO ESTABLISH AN INTERNAL AUDIT PROGRAM

Illinois is one of seven states that requires state agencies to establish internal audit programs. Illinois' criteria for requiring internal auditing in individual agencies, although similar to, are not as specific or as comprehensive as those in the other six states.

We surveyed other states to determine which had legislation, rules, or directives requiring internal auditing at agencies. Six states require internal auditing; other states have legislation or directives dealing with internal auditing but do not require agencies to establish internal audit programs. Five of the other six states' criteria are listed in Table 1, along with some requirements relating to internal auditing in California and Pennsylvania.

Illinois' agencies are required to have internal audit programs in one of two ways. The Act specifically requires the Comptroller, the Treasurer, the Secretary of State, the Attorney General, the State Board of Education, and the State colleges and universities to have full-time programs of internal auditing. In addition, the Governor is authorized to require agencies to establish internal audit programs. The Governor can also revoke this requirement.

In 1983, the Governor designated 33 agencies to have internal auditing. Five did not establish internal audit functions. Since 1985, the Governor has removed designation from three of those five agencies: Emergency Services and Disaster Agency, the Department of Nuclear Safety, and the Department of Labor. Although the fourth agency, the Department of Mines and Minerals, hired an internal auditor after the end of fieldwork for this audit, the fifth, the Industrial Commission, still has no internal audit function.

At present, 46 of Illinois' 150 agencies are required to have internal audit programs; they include 16 agencies named in

TABLE 1
OTHER STATES' INTERNAL AUDITING CRITERIA

STATE	CRITERIA	AUTHORITY	INTERNAL AUDITS REQUIRED
California	agencies with expenditures over $50 million must consider need for internal auditing	legislation	no
Florida	agencies named in Act	legislation	yes
Michigan	all principal agencies	legislation	yes
New York	Division of the Budget determines which agencies will have internal auditing after reviewing directors' evaluations on the agencies' need for internal auditing	legislation	yes
Pennsylvania	all agencies under the Governor must develop an audit plan; however, if they do not have an internal audit program, the Comptroller will provide auditors	Governor	no
Texas	expenditures over $10 million, or more than 200 employees, or revenues over $5 million, or 12 offices, or recommendation of State Auditor	Governor's directive	yes
Virginia	Department of the State Internal Auditor provides for the development and maintenance of internal audit programs and provides audit services for others	legislation	yes

Source: OAG Survey of State Internal Audit Requirements; 45 States responding.
Note: Maine also requires state agencies to have an internal audit program but did not provide us with the administrative rules specifying the requirements.

the Act and 30 agencies designated by the Governor. These agencies accounted for 77 percent of the State's $20.6 billion expenditures in Fiscal Year 1987 and 86 percent of the State's 114,661 employees. The 104 agencies not required to have internal auditing include 7 of the State's 27 departments subject to the "Civil Administrative Code" (code departments). While these 7 departments make up only 5 percent of all code department expenditures, they had 4,221 employees and spent over $510 million in Fiscal Year 1987. Although not designated, the Department of Employment Security has established an internal audit program. With 3,058 employees and over $200 million in Fiscal Year 1987 expenditures, Employment Security is not required by the Internal Auditing Act to continue its internal audit program.

Alternatives for Designating Agencies

Objective and consistent criteria for requiring agencies to establish internal audit programs would provide a more rational framework for ensuring adequate internal audit services in State agencies.

The Institute of Internal Auditors has developed a "model statute" (see appendix D) which requires agencies with a specified expenditure level to have internal audit programs. Similar criteria, such as amount of annual receipts, number of employees, or number of facilities or offices, might also be appropriate for objectively identifying agencies which should be required to have an internal audit program. Two other states have adopted these types of criteria in their internal audit requirement.

The General Assembly could exercise more control over which agencies are required to have internal auditing either by specifying those agencies in the Act or by giving the Legislative Audit Commission the authority to recommend to the Governor those agencies which should have an internal audit function. The Commission is responsible for reviewing the Auditor General's audit reports of all State agencies, which include biennial reviews of the agencies' internal audit functions and internal control systems. Therefore, the Commission is in a position to know which agencies have effective internal audit programs and which agencies could benefit from an internal audit program.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to:

1. Require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs which comply with the requirements of the Internal Auditing Act;

2. Require other large, "non-code" agencies such as the Toll Highway Authority and the Housing Development Authority to become subject to the Act; and

3. Make provisions for the Legislative Audit Commission to recommend for the Governor's consideration any other agencies which should be designated to have internal auditing.

Agency Responses

Governor's Office - We concur in principal with the desire to formalize criteria for the designation of agencies to establish internal auditing programs. The Governor needs the discretion the Internal Auditing Act grants him to determine which state entity should have a full-time internal audit function to respond to changes in agency size or duties more promptly than through a statutory revision process.

1. To arbitrarily require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs would mandate full time internal audit functions in several agencies with less than 150 employees.

2. No change is required since other large "non-code" agencies have been and are designated by the Governor.

3. The Governor will consider mandating an agency establish a full-time internal auditing program if the Legislative Audit Commission recommends the agency to have one.

State Internal Audit Managers - We concur.

Department of Employment Security - We suggest that changes in coverage be based on documented and objective criteria.

OVERSIGHT OF AGENCIES

Officials of agencies required to have internal audit programs are responsible for ensuring that the internal audit unit receives sufficient support to implement the Internal Auditing Act. Agencies which do not require a full-time internal audit program may need some internal audit services. Directors of agencies which are not required to have internal audit programs must still ensure that adequate internal control systems are maintained.

Agencies with Internal Audit Programs

All agencies named in the Act have an internal audit function. Prior to 1987, the Attorney General developed formal policies, procedures, and planning strategies, but had performed limited audit work and had not been in compliance with the Internal Auditing Act since its enactment in 1967. Since 1987, the Attorney General has hired a chief internal auditor and has begun performing audits.

As previously noted, two agencies designated by the Governor have not established an internal audit function. Four other agencies designated by the Governor have internal audit staff, but they do not perform internal audits. The Department of Public Health and the Environmental Protection Agency perform only audits of grant recipients. Public Health had five staff members assigned to the internal audit unit during the two years covered in our fieldwork, yet 96 percent of their audit time was spent on audits of grants; internal audits of operations or procedures were virtually nonexistent. The internal auditors at the Department of Alcohol and Substance Abuse and the Illinois Racing Board are assigned nonaudit-related duties and have not met most of the Act's internal audit requirements.

In Illinois, there is no specific monitoring structure for the Governor to ensure that agencies under his jurisdiction are receiving adequate funding and management support for an effective internal audit program. Other states have requirements to ensure that internal auditing is implemented, not just required. In Michigan, the Governor's budget recommendation must include plans for internal audit programs; Michigan's budget director may require departments which receive state grants to use up to ten percent of their grants to support internal auditing. Virginia's Department of the State Internal Auditor assists agencies in implementing internal audit programs. The Department then assesses each agency's program on adherence to audit requirements and reports on the status of internal auditing to the Governor, the Auditor of Public Accounts, and agency heads.

Agencies With No Internal Audit Programs

Agencies whose budgets or size do not justify having a full-time internal audit program must still ensure that internal controls are functioning adequately and that the agency is in compliance with applicable laws and rules. Small agencies can also benefit from programmatic and operational audits which allow them to correct problems before they become critical and to manage the agency more effectively. Other states have addressed small agency needs by creating a central pool of internal auditors from which to provide services.

An audit pool concept was used previously in Illinois. The Bureau of Audits of the Department of Administrative Services provided audit services to agencies that did not have internal audit programs. The program was dropped, reportedly, because some agency directors felt uncomfortable with auditors from another agency auditing them. If in the future, however, audit reports were given only to the director of the agency being audited, the concept of sharing auditors through an audit pool might be more acceptable.

The state of Virginia uses a similar approach. The Department of the State Internal Auditor must ensure that all state agencies have an effective internal audit program. The State Internal Auditor must develop a plan to provide internal audit services for agencies which do not require a full-time auditor. The auditors, however, report to agency heads.

Agencies could also contract for internal audit services. One State agency which is not required to have an internal audit program hires CPA firms to perform internal audits. Four agencies which are required to have full-time programs of internal auditing also contract for some of their internal audit work. Contracting, however, could be viewed as an external audit, and agency directors may not have the control necessary for effective internal auditing. For agencies required to have full-time programs of internal auditing, contracting is not a viable option, except for specialized areas such as EDP, because of expense.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to establish an office under the Governor ("Governor's Chief Internal Auditor") to provide internal audit services for those agencies and departments under the Governor which are not required to have their own internal audit programs and to interact with the advisory audit board (See "Matter for Consideration by the General Assembly" on page 26).

Agency Responses

Governor's Office - The recommendation duplicates an existing statute, which allows the Department of Central Management Services, an office under the Governor, to develop guidelines for establishment of internal audit functions and provide continuing instructions in auditing. The Department has conducted audits of several agencies without full-time internal audit functions, assisted in establishing an internal audit function, and provided internal auditor training. If the Legislature believes these activities should be increased, then the Legislature should provide the necessary resources to the Bureau of Audits.

State Internal Audit Managers - We concur with amending paragraph 136.1 of the Internal Auditing Act to establish a professional group of Internal Auditors under the Governor to provide training, peer reviews and technical audit support to agencies required to have a full time internal audit function and to provide the internal audit function for agencies, boards and commissions without full-time, internal audit functions.

Department of Central Management Services - Portions of the actions recommended by the report already exist within the statutes - delgating the responsibilities to the DCMS. Ch. 127, Par. 35.4, Sec. (d) provides for our agency to "examine the accounts of any organization" and Section (e) states "provide continuing instruction in auditing." Only due to lack of funding have these two initiatives not been fully exercised and I do encourage the General Assembly to consider adequate funds for expanding our professional services within the DCMS structure.

Department of Conservation - Since the Department of Central Management Services is statutorily authorized to provide this service, creation of a new function would appear to be duplicatory.

Department of Employment Security - Creation of additional offices and review boards should be undertaken only after a careful needs assessment is made and a determination is reached about using currently established groups. We would suggest that already existing offices be used for coordination, training, standards, ethics, and peer reviews. Many of these functions are assigned to CMS. Coordination of training programs, peer reviews, and assistance to smaller agencies would be useful roles which can be performed though such a centralized operation.

The Industrial Commission and Sangamon State University have not established full-time programs of internal auditing as required under the Act. Sangamon State University has not had an internal auditor since October 1986, and that auditor was on leave of absence from January through August 1986. The University has been contracting audits to outside firms but has not yet filled the internal auditor position. Another agency,

the Department of Mines and Minerals, has hired a chief internal auditor, established internal audit policies and procedures, and completed its first audit since our fieldwork was completed in January 1988.

Recommendation Number 1

The Industrial Commission and Sangamon State University should create and/or fill the position of chief internal auditor. These agencies should also ensure that the chief internal auditor be given the support and resources needed to carry out the requirements of the Internal Auditing Act.

CHAPTER III

COMPLIANCE WITH THE INTERNAL AUDITING ACT

The Internal Auditing Act has the criteria against which internal audit programs must be evaluated. The Act sets out requirements for the chief internal auditor, organizational reporting, planning, and performance. The Act also explicitly makes agency directors responsible for ensuring that the Act's provisions are met and that agencies maintain necessary internal controls.

Only 4 out of 50 internal audit units in Illinois' agencies are in full compliance with all provisions of the Internal Auditing Act: Housing Development Authority, Revenue, State Scholarship Commission, and Teachers Retirement System. Non-compliance is evident for every requirement stated in the Act. (See Appendix E for agency compliance with specific provisions of the Act.)

REPORTING

The Internal Auditing Act requires chief internal auditors to report directly to agency chief executive officers. Three chief internal auditors did not report audit findings and recommendations to their agencies' directors. Ten other chief internal auditors did not report administratively to the heads of their agencies. Subsequent to our fieldwork, another agency, the Department of Public Aid, altered its reporting relationship, and the chief internal auditor now reports to an inspector general.

The Act holds agency directors accountable for the adequacy of internal controls and operations. To ensure that the agency director is fully aware of audit findings, the chief internal auditor must report directly to the agency's chief executive. Without this reporting relationship with the chief internal auditor, the director cannot be certain that all potential deficiencies and barriers to agency operations are being brought to his or her attention. Furthermore, in most instances only the director has full authority to respond to audit findings and take remedial action.

Recommendation Number 2

The directors of the following agencies should change their agencies' reporting structures to comply with paragraph 136.1 of the Internal Auditing Act, which requires chief internal auditors to report directly to agencies' chief executive officers:

Attorney General	Commerce and Community Affairs
Conservation	Mental Health and Developmental Disabilities
Corrections	Northeastern Illinois University
Public Aid	Rehabilitation Services
Public Health	Secretary of State
State Police	Illinois State University
Transportation	University of Illinois

Agency Responses

The Attorney General's Office, the Department of Conservation, and the Secretary of State concurred with this recommendation. The Department of Commerce and Community Affairs, Northeastern Illinois University, the Department of Public Aid, the Department of Public Health, the Department of Rehabilitation Services, and the University of Illinois disagreed.

Agencies generally disagreed because they stated it is acceptable to report to others in management for administrative matters as long as auditing activities are reported to the director. (See Appendix I for complete responses.)

Auditor Comment

Administrative matters can affect auditing activities since budgeting, staffing, training, travel, and employee evaluations can have an impact on the operations of the internal audit unit. Thus, when the chief internal auditor reports administratively to another individual in management, it can impair the auditor's objectivity and independence.

OPERATIONAL DUTIES

Paragraph 136.2 of the Internal Auditing Act requires that chief internal auditors be free of operational and management responsibilities which might impair the auditor's ability to make independent reviews. Chief internal auditors in 12 agencies performed operational duties during the two-year audit period. For example, the Racing Board's chief internal auditor, since being appointed in January 1987, has spent all her time performing operational duties and has yet to perform audit duties. The Department of Agriculture's chief internal auditor

spent three months managing the Meat Inspection Program. Chief internal auditors at two other agencies, Alcoholism and Substance Abuse and Board of Higher Education, helped develop agency budgets and prepare financial reports.

Performing managerial and operational activities reduces internal auditor objectivity in reviewing agency operations. Operational duties limit the time the auditor has to conduct all audits required, which detracts from the effectiveness of the internal audit program.

Recommendation Number 3

The directors of the following agencies should ensure that chief internal auditors at their agencies perform only audit duties:

Agriculture	**Board of Higher Education**
Public Health	**Community College Board**
Racing Board	**Rehabilitation Services**
Secretary of State	**University Retirement Systems**
Treasurer	**Alcoholism and Substance Abuse**
Professional Regulation	**State Community College of East St. Louis**

Agency Responses

The Department of Public Health, the Department of Rehabilitation Services, the Secretary of State, and the State University Retirement System concurred with this recommendation. No other responses were received. (See Appendix I for complete responses.)

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise the Internal Auditing Act so that the chief internal auditor and his or her audit staff are free of all operational duties. Currently, the Act stipulates only that "the chief internal auditor . . . shall be free of all operational duties which would impair the auditor's ability to make independent reviews of all aspects of the agency's operations."

Agency Responses

Governor's Office - Due to fiscal constraints, it is sometimes necessary for agency management to have their internal auditors perform some operational tasks. We expect this practice occurs infrequently, if not, agency management should reclassify the internal auditors they use for operational duties into more

appropriate operating titles. In addition, we expect agency management to allow their internal auditors to comply with professional auditing standards. The Institute of Internal Auditors' Professional Internal Auditing Standards restrict internal auditors from assuming operating responsibilities; however, the Standards allow "if on occasion management directs internal auditors to perform nonaudit work, it should be understood that they are not functioning as internal auditors".

State Internal Audit Managers - We concur.

Department of Employment Security - We concur that chief internal auditors as well as their staff should be free from operational responsibilities.

CHIEF INTERNAL AUDITOR QUALIFICATIONS

The Internal Auditing Act requires that chief internal auditors be certified public accountants, or auditors or accountants with five years audit experience. Two chief internal auditors did not have the necessary qualifications at the time they were hired, although one has acquired the necessary five years of audit experience since being hired. Two other agencies hired internal auditors but did not designate them as chief internal auditors.

A chief internal auditor must plan, supervise, and evaluate audit activities. Chief internal auditors must also understand governmental auditing and possess a broad range of experience. Such qualities are necessary if chief internal auditors are to implement and guide effective internal audit programs.

The qualifications specified in the Internal Auditing Act, however, may not be effective in ensuring optimum audit proficiency. First, the Act states that a chief internal auditor may be a certified public accountant or an auditor or accountant with five years audit experience. Thus, it is possible for a CPA to meet the Act's requirements but have limited experience or background in auditing. Governmental auditing has become a very specialized field requiring more than a knowledge and understanding of financial accounting standards. A certified public accountant with limited experience may not possess the knowledge and understanding of governmental auditing necessary to effectively serve as a chief internal auditor of a state agency.

Second, the Act does not recognize other professional designations and academic disciplines which might be equally valid in promoting audit proficiency. Governmental audit standards recognize that a variety of experience and professional proficiency, including certification programs such as the Certified Internal Auditor and Certified Information

Systems Auditor, and academic training in areas such as business administration, public administration, or finance, are necessary to adequately address governmental audit issues.

Although now inconsistent with the Internal Auditing Act, the minimum requirements described in the DCMS Internal Auditor position descriptions partially address this issue. A chief internal auditor may be classified as an "Internal Auditor III", a position which requires a certification (CPA or CIA) and four years of audit experience, or five years of audit experience. DCMS requirements for internal auditors are more desirable than the qualifications specified in the Act.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise paragraph 136.2 of the Internal Auditing Act to make the requirements for the position of chief internal auditor more responsive to current governmental auditing requirements. An amendment might include such language as:

> **"The chief executive officer of any State agency with a full-time program of internal auditing shall appoint a chief internal auditor with appropriate certification: Certified Public Accountant, Certified Internal Auditor, or appropriate academic degrees, and five years of governmental, managerial, and audit experience; or seven years experience in government, management, and auditing."**

Agency Responses

Governor's Office - While we concur with the need to strengthen the Statutory requirement for chief internal auditor, we question whether the recommendation's requirements will meet that objective. We propose to add the Department of Central Management Services' Internal Auditor Job Specification Series, as minimum expectations, to part of the recommended requirements. Thus the Chief Internal Auditor position would require a bachelor's degree, 6 years of professional government internal auditing experience, with 3 years at a supervisor or manager level, and certification as a Certified Internal Auditor or as a Certified Public Accountant or, requires 7 years of professional government internal auditing experience, with 4 years at a supervisor or manager level.

State Internal Audit Managers - We concur with the need to strengthen the internal auditor requirements and propose the adoption of the current Department of Central Management Services Internal Auditor requirements.

Department of Central Management Services - Your statement

that our specifications are "now inconsistent with the Internal Auditing Act" is followed by a conclusion that our "requirements are more desirable than the qualifications specified in the Act." Your audit suggests that the Act be modified to add experience requirements and to recognize the Certified Internal Auditor designation, we concur.

Department of Conservation - We agree with the need to strengthen internal audit requirements and suggest the adoption of the CMS job specifications for the Internal Auditor V position.

Department of Employment Security - We concur that the requirements for the position of chief internal auditor should be revised to reflect realistic and meaningful standards. (See Appendix I for complete responses.)

AUDIT PLANNING

Paragraph 136.3 of the Internal Auditing Act requires the development of an audit plan which identifies the individual audits to be conducted each year. Of the 50 agencies which had an internal audit function, 7 did not have an audit plan; 22 used an annual plan, as required by the Internal Auditing Act; 21 used a two-year plan, which we considered as fulfilling the statutory requirement. In fact, a two-year plan may be more useful than an annual plan in ensuring that all audits of administrative and accounting controls are completed within the required two-year cycle. (See Chapter 4 for a full discussion of standards and planning.)

Internal auditors should prepare an annual or biennial audit plan for director approval. In preparing the plan, the chief internal auditor should discuss with the chief executive officer which areas need immediate attention to comply with statutory requirements and to ensure agency effectiveness and efficiency. In approving the plan, the chief executive officer can ensure that agency priorities are met and that resources are appropriately allocated.

Recommendation Number 4

Directors of the following agencies should ensure that the internal audit unit prepares and follows an audit plan which meets the needs of the agency and the requirements of the Internal Auditing Act:

Chicago State University
Alcoholism and Substance Abuse
Environmental Protection Agency
Rehabilitation Services
Public Health
Racing Board
University Retirement System

Agency Responses

The Department of Public Health and the Department of Rehabilitation Services concurred with this recommendation. The State University Retirement System disagreed. (See Appendix I for complete responses.)

PERFORMANCE OF AUDITS

The Internal Auditing Act requires internal auditors to perform audits of accounting and administrative controls every two years. The Act requires the performance of other types of audits and reviews, but not within a specific time frame. During the two years we examined, 40 of 50 agencies which had an internal audit function did not conduct all audits or reviews required by the Act. Table 2 summarizes the types of audits required and shows the number of agencies completing each type.

During the two-year period under examination, 33 agencies did not perform audits of all systems of accounting and administrative controls. While many of these agencies conducted some type of review in this area, the internal auditors either did not review all major areas within a control system or did not review all major systems of administrative and accounting controls.

Regular examinations of administrative and accounting controls are important since they provide assurance that: 1) policies and procedures are being followed; 2) work is being performed and documented in a verifiable manner; and 3) State resources are utilized and protected according to appropriate laws and regulations.

Table 2
Mandated Audits Completed

Types of Audits	Number of Agencies Completing	Number of Agencies Not Completing
Internal Controls	17	33
Expenditure/ Obligation	42	8
Grant Reviews*	28	12
EDP Reviews	21	29

Source: OAG analysis.
* Not all agencies received grants, thus the total does not equal 50.

Eight agencies did not complete audits on a test basis of expenditures, receipts, or obligations within the two years under examination. Although the Act does not explicitly require such audits to be completed within a two-year cycle, a test audit of expenditures or obligations within such a time frame is necessary to ensure a timely review of agency operations and to provide reasonable assurance that public funds have been properly expended and accounted for.

For the two-year period under analysis, 12 agencies did not complete audits on a test basis of grants received or made. Grant reviews are necessary to ensure that the agency has monitored, administered, and accounted for such grants according to applicable laws and regulations. Failure to conduct timely grant audits of federal programs could jeopardize reimbursements and future grants.

Finally, 29 agencies did not conduct reviews of major electronic data processing systems. Electronic data processing systems must be reviewed before new systems or major modifications to existing systems are implemented.

As key financial and administrative applications have become computerized, it has become increasingly important for internal auditors to examine electronic data processing systems. Internal controls which have been inherent in manual systems are no longer present in computerized systems and the opportunity for error, fraud, and loss of state assets and information is increased. Auditors must ensure that compensating controls are built into electronic data processing systems before they are used, particularly when agencies do not use centralized systems like the General Accounting System at the Bureau of Information and Communications Services. (See Appendix H for full discussion of EDP environments and the need for EDP auditors.)

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to revise the Internal Auditing Act to require that audits on a test basis of expenditures, obligations, receipts, or grants be conducted within a two-year time frame. The General Assembly may also wish to revise the Internal Auditing Act to reflect the need to plan audits within a two-year time frame.

Agency Responses

Governor's Office - We suggest that the first part of the recommendation, requiring "audits on a test basis of expenditures, obligations, receipts, or grants be conducted on a two-year time frame", be reconsidered. We believe it is important to recognize that expenditures, obligations, receipts, or grants are transactions that occur within an agency's systems

of internal controls. In effect, an agency's system of internal control governs these transactions. Thus these transactions (expenditures, obligations, receipts, or grants) are reviewed on a two-year time frame during the internal auditor's reviews of the agency's systems of internal accounting and administrative controls. If the Internal Auditing Act is revised we suggest that paragraphs 136.3(c) and (d) be removed with the expectation that these transactions would be reviewed during the internal accounting and administrative controls reviews required by paragraph 136.3(b).

For the second part of the recommendation, addressing multi-year audit plans, we suggest the statutory requirement for bi-annual audits of internal accounting and administrative control systems has caused many internal auditing offices to have audit plans that already reflect at least a two-year time frame. In support of the concept to standardize some internal auditing tasks, we concur with the recommendation to formalize the requirement for multi-year plans.

The Governor's Office also requests that the Legislature address the issue of whether internal auditors are required to audit the major or all systems of internal controls. The Governor's Office states this issue has caused different interpretations within the Auditor General's Office, with the expectation ranging from the impractical "every and all" systems of internal control be reviewed to the realistic "major" internal control systems be reviewed. (See Appendix I for complete response.)

State Internal Audit Managers - We concur.

Department of Conservation - We recommend the two year requirement be applied to "major" internal control systems.

Department of Employment Security - We concur. However, this is already done if an agency complies with the requirement to perform reviews of major internal control systems every two years.

SUMMARY OF DEFICIENCIES AND SOLUTIONS

Among the 50 agencies which had an internal audit function, there was a wide variety of deficiencies and statutory violations. We found instances of noncompliance with every statutory requirement of the Internal Auditing Act; many agencies were deficient in more than one area.

Improving compliance with the Act will require more involvement by agency directors in the internal audit program. The director should approve audit plans and audit reports and direct the implementation of audit recommendations.

Some states have taken measures to ensure director participation in the audit process. In Pennsylvania, the agency director is required to prepare an annual audit plan before each new fiscal year. In Florida, the Legislative Audit Committee holds directors responsible for implementing internal audit findings and may ask a director to explain the reasons for inaction if similar findings are reported in auditor general audit reports.

Other states and the federal government have created legislation which requires directors to attest to the completion of internal audits and the existence of appropriate internal controls. Such legislation, often in the form of a "Fiscal Integrity Act," also ensures the involvement of agency directors in the internal audit process.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to amend the Internal Auditing Act to include a provision requiring that directors certify that their internal audit units have prepared and followed a two-year audit plan, that the agency has adequate internal controls, and that they have complied with the provisions specified in the Internal Auditing Act.

Agency Responses

Governor's Office - We qualify our acceptance of the auditors premise that additional involvement by agency directors in the internal audit process will reduce non-compliance with the Internal Auditing Act. We believe the agency directors' involvement needs to be more than a cursory action. Obviously, adding a statutory requirement that agency directors certify their internal auditors comply with the Internal Auditing Act, would require significant involvement and should go far to reduce non-compliance with the Act.

The auditors do not explain how the recommendation's additional requirements, for agency directors to certify their internal auditors use a two-year plan and that the agency has adequate internal controls, will significantly increase involvement by the director in the internal audit process with the expected reduction of non-compliance with the Internal Auditing Act. Neither of these requirements exist within the Internal Auditing Act, thus they are not compliance issues.

Department of Conservation - We concur with the two-year audit plan, but believe that line managers should certify to the agency head that adequate controls are in place in their respective operations.

Department of Employment Security - IDES monitors the internal audit function against an approved two-year work plan as well as against the provisions of the Act. We have conducted a review of the adequacy of our internal control system and are using the results of this review to monitor our operation. However, in implementing this recommendation, care should be taken to ensure that management accountability is maintained. The establishment and maintenance of the system of internal controls is the responsibility of management. Agency directors should require certification from managers as to the functioning of that system. The function of internal audit is to review that management certification.

CHAPTER IV

PROFESSIONAL STANDARDS

Internal audit units in Illinois do not consistently follow professional audit standards. Training is generally not sufficient for continued professional development. Peer reviews, recommended in professional standards, are not being conducted.

INTERNAL AUDIT STANDARDS

Audit standards provide criteria beyond those contained in the statutes to help auditors effectively conduct internal audits. Although the Internal Auditing Act does not require State internal audit units to follow specific standards, adherence to a code of professional standards is essential to effective internal auditing.

The American Institute of Certified Public Accountants (AICPA), the General Accounting Office (GAO), and the Institute of Internal Auditors (IIA) have each promulgated standards on conducting audits, reporting findings, and maintaining independence. No one set of standards is sufficient to cover all audit situations facing the State's internal auditors. The GAO's standards, however, must be applied to audits of federal grants, and the AICPA's standards are used by external accounting firms that issue opinions on financial statements.

In this audit the IIA standards, where appropriate, were used as the measurement criteria because they directly address the management of the internal audit function and the unique independence and reporting requirements of internal auditors. The IIA standards also provide more specific criteria with which to assess internal audit units. California, Florida, and Tennessee have adopted legislation to require internal audit units to follow the IIA standards.

ADHERENCE TO PROFESSIONAL STANDARDS

The Internal Auditing Act does not require internal audit units to follow any particular set of auditing standards. Thus, 45 chief internal auditors said their units followed IIA standards, while one followed GAO standards, and one followed AICPA standards.

Of the fifty State agencies with internal audit functions, 32 did not meet one or more of the standards for independence, professional proficiency, and fieldwork. Adherence to a

recognized set of standards would make all internal audit units more efficient and effective. Furthermore, a uniform set of standards would provide assessment criteria for determining the quality of internal audit units.

Independence and Planning

Professional standards require internal auditors to maintain independence. Additionally, the Internal Auditing Act requires the chief internal auditor to maintain independence. Independence is essential to the proper conduct of audits because it permits internal auditors to render impartial and unbiased judgments. Chapter III included recommendations to 23 agencies whose chief internal auditors did not comply with the statutory requirements for independence (reporting and operational duties); we also suggested that the General Assembly consider amending the Internal Auditing Act to require all internal audit personnel to be free from operational duties.

Audit planning is also addressed in professional standards and the Internal Auditing Act. Audit plans are tools for the internal audit unit to use in ensuring that all required audits are completed. In Chapter III we recommended that seven agencies prepare and follow an audit plan which meets the requirements of the Internal Auditing Act.

Performance of Audit Work

Professional standards recommend that working papers should be reviewed by managerial or supervisory personnel, that a signed, written report should be issued after the audit examination is completed, and that follow-up should be conducted to ascertain that appropriate action is taken on reported audit findings. Five agencies were not in compliance with these standards for the preparation, distribution, and follow-up of audit reports.

Internal audit units must have management support, even if all audits are performed according to statutes and standards. Recommendations must be implemented by management for the internal audit unit to be effective; consequently, agencies which benefit from internal auditing generally implement a high percentage of recommendations. Sixteen agencies which provided adequate data reported implementing more than 60 percent of internal audit recommendations. Some agencies, such as the Departments of Public Aid, Revenue, and Employment Security, had implementation rates of 95 percent or higher.

Inconsistencies in the performance of audit work indicate that Illinois agencies do not universally follow the same set of internal audit standards. The quality of audits could be improved if all agencies performed their audit work by the same

set of internal audit standards. External and internal reviews of agency internal audit units would also be more effective if all agencies were required to follow the same set of standards.

Professional Proficiency

Professional audit standards require internal auditors to possess the knowledge and skills necessary to carry out audit responsibilities. As government programs and systems become increasingly more complex and as the methodology of the internal audit profession evolves, internal auditors must continually upgrade their skills, especially in the technical and rapidly changing field of electronic data processing. Therefore, once internal auditors are hired, their continuing professional development is essential for effective auditing.

Training represents a long-term investment and should be managed systematically to ensure relevancy and consistency with organizational strategies. The current and projected skills and knowledge needed by internal auditors should be assessed and compared with their existing skills. Quality learning experiences should be chosen to bridge the gap between current and projected needs and the existing pool of skills, knowledge, and attitudes.

A three-year research project conducted by the Council on the Continuing Education Unit concluded that:

> "All programs/activities offered should be designed to meet the educational needs of the intended audience; have clear goals and learning outcomes; employ appropriate content, methods, and delivery systems; have effective learning assessment procedures; and have an appropriate administrative organization to guide and be responsible for the continuing education operation in carrying out its purpose and mission in a responsible manner".

Consequently, a viable internal auditor training program should include a written training plan, a periodic assessment of staff training needs, and participation by staff in courses, seminars, and self-study courses. Table 3 shows that a majority of agencies do provide some training to internal auditors; however, there is no organized method to determine and to fulfill the training needs of internal audit personnel.

Table 3
Internal Auditor Training

Training Characteristics	Yes	No	No Response	Total
Written Training Plan	5	44	1	50
Training Needs Are Assessed	27	12	11	50
Staff Participation in Continuing Ed. Courses	33	13	4	50
Staff Participation in Self-Study Courses	29	18	3	50

Source: OAG Review of State Agency Training Files

Ethics

Professional standards also recommend that internal auditors follow a written code of ethics. The AICPA, GAO, and IIA standards provide guidance for ethical conduct in the auditing profession; however, nine internal audit units did not follow a specific code of ethics.

COORDINATION OF PEER REVIEW AND TRAINING

Internal audit units in Illinois do not undergo peer review. Peer reviews are the only systematic way to attest to the quality of an internal audit unit's work. The AICPA, GAO, and IIA standards recommend periodic peer reviews to identify areas where an audit unit is not adhering to the requirements of the statutes or standards. The IIA standards recommend an independent external review at least once every three years, but they do not provide detailed peer review guidelines. The National State Auditors Association (NSAA) has, however, developed a set of administrative policies and procedures to guide peer reviews at governmental audit organizations. The NSAA's "Peer Review Manual" describes peer review as "an essential ingredient to the performance of effective audits." NSAA further notes that "the private sector has recognized the importance of a peer review process and implemented extensive efforts in this area. Peer review is also important for state and local governmental units." NSAA's policies and procedures could be used as a model to

establish a formal peer review process for internal audit units at Illinois agencies.

The OAG did not conduct peer reviews to systematically assess the quality of audits performed by Illinois internal audit units. We did, however, judgmentally sample and review audits and supporting work in four audit areas: administration and accounting; expenditures, receipts, and obligations; grants; and EDP reviews. We reviewed a total of 141 audits at 48 agencies and noted indications of non-adherence to generally accepted audit quality standards. For example, 65 audits did not contain auditee responses; conclusions were not supported by audit working papers in 26 audits; written audit programs were missing for 23 audits; 54 audit programs lacked written sampling plans and methodologies; and the audit scope for 14 audits was inadequate. Other common problems noted were:

- Audit programs and work plans were not approved or completed;
- Audit tasks were not documented;
- Working papers were not identified dated, reviewed or indexed;
- Timekeeping and audit administration records were not kept;
- Quality assurance reviews were not undertaken;
- Audit findings and recommendations were not followed up; and
- Reports were issued without exit conferences.

We conclude from the above that a formal peer review system is needed in Illinois to improve the quality of internal audit work.

An effective peer review system may require a full-time administrator to properly coordinate review activities. The National Association of State Auditors, Comptrollers and Treasurers (NASACT), which is responsible for the day-to-day operation of the peer review process under the auspices of the NSAA Peer Review Committee, designates an individual to manage the daily conduct of the peer review process. The following is a list of some activities required to coordinate a peer review program:

1. Ensure that the review process is conducted in accordance with current laws, rules, policies, procedures, and standards;

2. Select and assign review team members;

3. Coordinate the review team and the agency to be reviewed;

4. Train and guide the review team on proper review procedures;

5. Ensure appropriate distribution of reports; and

6. Ensure that working papers related to reviews are properly stored and retained.

Peer review teams could also effectively identify inadequacies in the area of continuing professional development; thus, the training needs in internal audit units could be identified. If internal auditor training needs at all agencies are known, training classes and seminars could be coordinated for large groups of state auditors to reduce costs, improve quality, and increase the consistency of continuing professional development programs.

In our view, the most feasible way to administer a peer review process in Illinois is to create an audit advisory board. This board would consist of representatives from existing internal audit units who possess the requisite professional audit background. Since board representatives would have other full-time responsibilities, the board should meet quarterly or as needed. This board could also assist in promulgating standards and identifying training needs.

MATTER FOR CONSIDERATION BY THE GENERAL ASSEMBLY

The General Assembly may wish to consider creating an advisory audit board comprised of State agency chief internal auditors to interact with the "Governor's Chief Internal Auditor." (See Matter for Consideration by the General Assembly on page 12.) The audit advisory board could:

- **recommend a uniform set of professional auditing standards and ethics for use by State internal audit units,**
- **facilitate training by acting as a clearinghouse for information on training opportunities, and**
- **coordinate peer review activities.**

Agency Responses

Governor's Office - We concur with the recommendation and suggest the State Internal Audit Managers organization be considered as the group from which the advisory audit board be drawn. Perhaps, the State Internal Audit Managers should be assigned responsibility to designate the individuals to serve on the advisory audit board. (See Appendix I for additional comments.)

State Internal Audit Managers - We concur.

Department of Employment Security - The State Internal Audit Managers could constitute an advisory audit board.

CHAPTER V

INTERNAL AUDIT RESOURCES

Internal audit programs, as with any State program, must receive adequate resources to fulfill programmatic and statutory mandates. Past Auditor General compliance audits and evidence discussed in previous sections of this report indicate that internal audit programs have generally not fulfilled statutory requirements.

Quantitative factors, such as the allocation of resources, are important if internal audit units are to fulfill their mandates; however, other factors, such as auditor experience and dedication, must not be ignored in understanding why internal audit programs may (or may not) fulfill statutory mandates.

Highly effective internal audit programs are the result of both quantitative and qualitative factors which have an interactive effect on the internal audit program. Resources for staffing and training can enhance qualitative factors such as thorough or expanded audit coverage and auditor proficiency. Without adequate resources the internal audit unit may not be able to retain experienced and capable auditors. Further, the effectiveness of internal audit programs is largely dependent upon management's receptivity to providing sufficient resources and then using the program to improve the efficiency and effectiveness of agency operations.

RESOURCES

The aggregate percentage of resources allocated to the State's internal audit function remained a relatively constant seven hundredths of one percent (.0007) of agency budgets over the past five years (for 27 agencies where data was available). The aggregate figure is misleading because, during those five years, the percentage of resources spent for six large internal audit units increased significantly (more than 90 percent) while the percentage spent for 17 agencies decreased.

Most directors (32) of State agencies that have internal audit functions said their internal audit budget was sufficient. Only 14 of 50 agency directors said internal audit resources were insufficient. On the other hand, half of the State's chief internal auditors felt the internal audit budget was insufficient.

TABLE 4
RESOURCES ALLOCATED TO INTERNAL AUDIT UNITS

Respondent	Sufficient	Insufficient	No Response	Total
	#	#	#	#
Directors	32	14	4	50
Chief Internal Auditors	17	25	8	50

Source: OAG Survey of Directors and Chief Internal Auditors in Agencies with Internal Audit Units.

While directors and chief internal auditors tend to disagree about resources, they have similar perceptions about the staffing levels needed at each agency. At the close of our fieldwork in January 1988, 208 auditors worked in the State's 50 internal audit units. Table 5 shows information about 37 agencies where the director, chief internal auditor, OAG assistant auditors, and an OAG constructed model estimated the number of internal auditors needed. (See Appendix F for estimates of internal auditors needed at each agency.)

OAG Model

Using a statistical model, we estimated that 239 auditors were needed at these 37 agencies. The statistical model was a baseline attempt to objectively estimate internal audit staffing needs. We examined 22 agency characteristics to determine factors most closely related to the number of internal auditors required to meet minimum statutory requirements. We identified four primary characteristics: 1) level of annual expenditures; 2) number of agency employees; 3) number of operating divisions within the agency; and 4) hours required to perform regularly scheduled OAG compliance audits.

In developing criteria for use in the model, we identified nine State agencies having adequate internal audit functions. These agencies served as the base measurement to predict the needs of all the other agencies. (The next section describes the criteria used to select the nine agencies.) It is possible that the estimates from our model are understated since we used staffing levels at nine agencies where four chief internal auditors said they were understaffed. Further, some chief internal auditor's estimates of the optimum number of auditors needed were much higher than the estimates created by the model.

TABLE 5
ESTIMATES OF OPTIMUM NUMBER OF STAFF NEEDED FOR EFFECTIVE INTERNAL AUDITING

SOURCE OF ESTIMATE	37 AGENCIES Current = 155 auditors	
	Total	Increase
OAG Model	239	84 (54%)
OAG Asst. Auditors	231	76 (49%)
Agency Directors	215	60 (39%)
Chief Internal Auditors	245	90 (58%)

Source: OAG Statistical Model; OAG Agency Director Survey; OAG Chief Internal Auditor Survey; and Estimates of OAG Special Assistant Auditors

Table 5 shows that between 60 and 90 additional auditors are needed at the 37 agencies where we were able to gather estimates from all four sources. All sources affirmed that additional auditors are needed. Moreover, all four estimates indicated that the optimum number of auditors for these 37 agencies (215 to 245) exceeds the current number of auditors (208) at all 50 agencies.

Summary

Internal audit units have not received a sufficient share of agency funds to hire enough staff. When we collected estimates to determine optimum staffing levels, all sources agreed that more staff is needed for internal audit programs. Additionally, while chief internal auditors and directors disagreed as to the sufficiency of internal audit budgets, a high percentage (about 63%) of internal audit units for which data was available have seen a decrease in their proportionate share of the budget.

Considering the many OAG compliance audit findings and the deficiencies noted earlier in this chapter, resource allocation must be considered if internal audit programs are to improve their performance.

EFFECTIVE INTERNAL AUDIT UNITS

In constructing our model to estimate the number of internal auditors needed at each agency, we selected certain internal audit units to use as a base measurement. We selected these internal audit units because they, more than others:

1. generally complied with all or most statutory requirements;
2. maintained their independence;
3. attended to the training needs of audit staff;
4. followed up on audit recommendations.

Moreover, managers at these agencies were receptive to implementing internal audit recommendations. The nine agencies selected were:

Employment Security
Housing Development Authority
Northern Illinois University
State Scholarship Commission
Teachers Retirement System
Comptroller
Public Aid
Revenue
Transportation

While four of the nine chief internal auditors said their audit units were understaffed and two said their units were underfunded, all nevertheless have been able to establish adequate internal audit programs.

At these nine agencies, all major audits were consistently performed. We found only three instances where the internal audit unit did not conduct all required audits: Northern Illinois University did not review all internal controls; the Comptroller's office did not review grants; and the Department of Transportation did not conduct EDP reviews, although EDP reviews are now being conducted. We found no evidence that chief internal auditors at these agencies were performing operational duties which would have impaired their independence. Seven of these internal audit units had a direct reporting relationship with their agency director.

The Department of Revenue and the Department of Transportation were the only two agencies which had a written training plan, but all nine internal audit units address training needs through the completion of courses or seminars. Moreover,

eight of the nine agencies were evaluated as having an adequate budget for training and all nine chief internal auditors said their training budget was sufficient.

All nine audit units performed follow-up reviews that were supported by documentation. Moreover, their recommendations were implemented, on an average, over 85 percent of the time. Eight of the nine directors reported that the internal audit programs had improved the agency's internal controls, increased efficiency of operations, and improved program effectiveness.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

The State's full-time programs of internal auditing have made progress since the statutory requirement was first adopted in 1967. Illinois has a reasonably good Internal Auditing Act and a relatively sound internal audit structure.

The results of this audit demonstrate that most internal audit units are not complying with the requirements of the Act. Currently, internal audit units are not adhering to a uniform set of audit standards; continuing professional education and training is inconsistent from agency to agency; and some auditor qualifications are inadequate. In addition, some internal auditors are performing operational duties which impair their independence, and at some agencies, the chief internal auditor does not report directly to the director of the agency as required by statute and recommended by professional standards.

We recommend that the General Assembly consider the following changes to the Internal Auditing Act:

1. Require all departments subject to the "Civil Administrative Code" and other large non-code agencies to establish internal audit programs;

2. Provide a formal procedure by which the Legislative Audit Commission may recommend for the Governor's consideration any other agencies which should be designated to have internal auditing;

3. Establish an office under the Governor to provide internal audit services to those agencies which are accountable to the Governor and which are not required to have a full-time internal audit program;

4. Require that chief internal auditors and their staffs be freed of all operational duties;

5. Revise the requirements for the position of chief internal auditor to reflect current governmental audit requirements;

6. Require that audits on a test basis of expenditures, obligations, receipts, and grants be conducted within a two-year time-frame and require audit plans to cover a two-year period;

7. Require directors to certify that their internal audit units have prepared and followed a two-year audit plan, that the agency has adequate internal controls, and

that they have complied with the provisions specified in the Act;

8. Create an advisory audit board to interact with the Governor's office of internal audits in the areas of audit standards, ethics, training, and peer review.

We believe that these changes will overcome most of the problems in Illinois' internal audit programs and will significantly enhance the use of internal auditing in the future.

APPENDICES

APPENDIX A

Legislative Audit Commission

RESOLUTION NO. 78
Presented at the request of the Auditor General

WHEREAS, the Internal Auditing Act specifies that certain State agencies shall establish a full-time program of internal auditing to audit internal accounting and administrative controls; electronic data processing systems; grants; obligations, receipt, and use of public funds; and such other operations and activities as required in accordance with applicable laws and regulations and professional standards and ethics; and

WHEREAS, the Auditor General has reported 96 internal audit compliance findings for 36 different State agencies over a recent four-year period; and

WHEREAS, these reported findings involve virtually every facet of the internal audit functions, including unqualified auditors, failure to establish internal audit functions, failure to carry out statutory duties and responsibilities, lack of audit positions and resources, lack of quality in audits performed, lack of follow-up on recommendations made, and organizational reporting impairments, among others; and

WHEREAS, the problems noted with the internal audit function reduce reliance on agency systems and controls and increase the scope of work required by independent auditors; and

WHEREAS, the number of compliance audit findings reported by the Auditor General (1,043 in FY 1984 and 1,003 in FY 1985) might be greatly reduced and agency management significantly strengthened with an improved internal audit function;

THEREFORE BE IT RESOLVED, by the Legislative Audit Commission of the State of Illinois that the Auditor General is directed to conduct a management audit of the policies, procedures, and practices of the State's programs of internal auditing; and

BE IT FURTHER RESOLVED that this audit shall include, but need not be limited to, the following determinations:

1. Whether the policies, procedures, and practices of agency programs of internal auditing comply with statutes and meet professional standards for quality, fieldwork, reporting, and ethics; and

2. Whether internal audit personnel, resources, and training provide acceptable audit coverage and quality; and

3. Whether internal auditing programs are effective and whether findings and recommendations are implemented and followed-up.

BE IT FURTHER RESOLVED that the Auditor General shall commence this audit immediately and shall report his findings and recommendations as soon as possible in accordance with the provisions of the Illinois State Auditing Act.

Adopted this 9th day of April, 1987.

Aldo A. DeAngelis
Cochairman

James F. Keane
Cochairman

Sam M. Vadalabene
Secretary

INTERNAL AUDITING

AN ACT relating to internal auditing in State government. Laws 1967, p. 2938, approved and eff. Aug. 11, 1967.

136.1. Program of internal auditing

§ 1. All Departments of State government designated by the Governor subject to "The Civil Administrative Code of Illinois",[1] the Secretary of State, the State Comptroller, the State Treasurer, the Attorney General, the State Board of Education, State colleges and universities, and any other State agency designated by the Governor, shall establish a full-time program of internal auditing.

The fact that an agency is not required to have a full-time program of internal auditing does not release an agency from its responsibility to maintain an adequate internal control system.

Amended by P.A. 83-301, § 1, eff. Sept. 14, 1983.

[1] Paragraph 1 et seq. of this chapter.

136.2. Appointment of internal auditor—Qualifications

§ 2. The chief executive officer of any State agency required to have a full-time program of internal auditing under this Act shall appoint a chief internal auditor who is a certified public accountant or an auditor or accountant with 5 years auditing experience. The chief internal auditor shall report directly to the chief executive officer of a State agency, in the exercise of auditing activities, and shall be free of all operational and management responsibilities which would impair the auditor's ability to make independent reviews of all aspects of the agency's operations.

Amended by P.A. 83-301, § 1, eff. Sept. 14, 1983.

136.3. Internal auditing program—Requirements

§ 3. The chief executive officer of any State agency required to have a full-time program of internal auditing under this Act shall ensure that the internal auditing program includes:

(a) An audit plan which identifies the individual audits to be conducted during the year;

(b) Audits of the agency's systems of internal accounting control and internal administrative control on a periodic basis so that all such systems are reviewed every 2 years;

(c) Audits on a test basis of the agency's obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether such activities are in accordance with applicable laws and regulations;

(d) Audits on a test basis of grants received or made by the agency to determine that such grants are monitored, administered and accounted for in accordance with applicable laws and regulations;

(e) Reviews of the design of major new electronic data processing systems and major modifications thereto prior to their installation to ensure these systems provide for adequate audit trails and accountability;

(f) Special audits of the operations, procedures, programs, electronic data processing systems, and activities of the agency as directed by the chief executive officer of the agency; and

(g) Any other audits necessary to maintain an adequate program of internal auditing as required by professional ethics and standards.

Each chief internal auditor, in addition to any other power or duty authorized by law, required by professional ethics, or assigned consistent with this Act, shall have the powers necessary to carry out the duties required by this Act.

Amended by P.A. 83-301, § 1, eff. Sept. 14, 1983.

136.4. Consultations by internal auditor

§ 4. Each chief internal auditor appointed under this Act may consult with the Auditor General, the Department of Central Management Services, the Illinois Economic and Fiscal Commission, the Appropriations Committees of the General Assembly and the Bureau of the Budget on matters affecting the duties or responsibilities under this Act.

Amended by P.A. 83-301, § 1, eff. Sept. 14, 1983.

136.5. Short title

§ 5. This Act shall be known and may be cited as the "Internal Auditing Act".

Added by P.A. 83-301, § 1, eff. Sept. 14, 1983.

Source: Illinois Revised Statutes 1987, State Bar Association Edition, West Publishing Company, St. Paul, MN. 1988.

APPENDIX C

SUMMARY OF SURVEY OF OTHER STATES

We surveyed the other 49 states to find out which states require internal auditing at their agencies. Survey questionnaires were sent to legislative auditors, state auditors, and/or state fiscal officials in each state. The questionnaires were designed to find out whether the state requires internal auditing at agencies and, if so,

- the source of that requirement,
- the types of audits required,
- the organization of internal auditing,
- the standards that are followed, and
- the qualifications internal auditors must have.

We received 44 responses. Hawaii, Indiana, Massachusetts, and Oklahoma did not respond. Five of the 44 states which responded said that they require some or all of their agencies to have an internal audit program. These five states were Florida, Maine, Michigan, New York, and Virginia. The Governor of Texas, however, issued a directive requiring internal auditing at some agencies after their survey was returned.

Seven states responded that they have internal auditing at some agencies, even though there is no requirement for the agencies to do so. Two of these seven states (California and Pennsylvania) have some requirements regarding internal auditing at those agencies which have an internal audit function.

Four states require that specific types of audits be conducted. Those audits and the number of states requiring them are shown in Appendix Table 1.

APPENDIX TABLE 1
AUDITS REQUIRED BY OTHER STATES

STATE	FINANCIAL	COMPLIANCE	PERFORMANCE OPERATIONAL	EDP
California	X	X	X	X
Florida	X	X	X	X
Maine	X	X		X
Virginia	X	X	X	X

Nine states said that they rely on internal audit reports. Three rated their states' internal audit units as very effective, six gave ratings of somewhat effective, and two states rated their internal audit programs as not effective. No respondant said that they would not rely on internal audit reports.

We asked the officials surveyed to rate how effective they thought internal audit programs had been in four different areas. Their responses are given in Appendix Table 2.

All states which had internal auditing said that internal auditing in their state was decentralized. In other words, internal auditors are physically located within individual agencies and report to agency directors (some report to others in government as well). One state's internal audit structure was both centralized and decentralized. In Virginia, internal auditing at agencies that have their own programs is decentralized, and internal auditing at agencies without internal audit programs is performed by a group of auditors in the Department of the State Internal Auditor. Two other states said agencies contracted with firms outside of state government to perform audits.

APPENDIX TABLE 2

EFFECTIVENESS OF INTERNAL AUDIT PROGRAMS

AREA	BENEFICIAL	SOMEWHAT BENEFICIAL	NOT BENEFICIAL
Program Effectiveness	Michigan South Carolina	New Jersey Virginia Tennessee	Missouri California North Carolina Iowa
Internal Controls	South Carolina Maine Tennessee Virginia Michigan New Jersey	California Missouri North Carolina	Iowa
Efficiency of Operations	Michigan South Carolina	North Carolina California Tennessee New Jersey	Missouri Iowa
Financial Reporting	Maine Michigan South Carolina Virginia	North Carolina Missouri	California Iowa New Jersey Tennessee

Note: More than one official was surveyed in some states, and different responses were given for some of the categories. The most favorable response was used for those states.

Ten states responded that chief internal auditors must meet some requirements for their position. Qualifications for chief internal auditors are given in Appendix Table 3.

APPENDIX TABLE 3

QUALIFICATIONS FOR CHIEF INTERNAL AUDITORS

STATE	QUALIFICATIONS
California	Bachelor degree
Florida	Bachelor degree, 4 years experience (3 years, if any one of the following: MBA, MA (Accounting), MPA, CIA, or CPA
Iowa	Bachelor degree
Maine	Bachelor degree, 6 years experience
Michigan	Bachelor degree
New Jersey	Bachelor degree (or equivalent experience), 3-7 years experience
North Carolina	Bachelor degree 4 years experience
South Carolina	Some college (minimum 15 hours in accounting), 6 years experience
Tennessee	Bachelor degree 5 years experience or 4 years with CPA
Virginia	Bachelor degree, 7 years experience, and CIA, CPA, or CISA

We asked which set of professional auditing standards internal audit units generally followed. Information on the types of standards followed by each state is given in Appendix Table 4.

APPENDIX TABLE 4 PROFESSONAL STANDARDS USED					
STATE	INSTITUTE OF INTERNAL AUDITORS	GENERAL ACCOUNTING OFFICE	AMERICAN INSTITUTE OF CPAs	OTHER	REQUIRED
California	X				yes
Florida	X	X	X		yes
Iowa					no
Maine	X	X			yes
Michigan	X				no
Missouri	X	X	X		no
New York	X	X			yes (IIA)
Pennsylvania		X			yes
New Jersey	X	X	X	X	no
North Carolina	X	X			no
South Carolina	X	X	X		no
Tennessee	X	X		X	yes
Virginia	X	X	X		yes

APPENDIX D

MODEL LEGISLATION FOR THE ADOPTION BY STATE AND LOCAL GOVERNMENT AUDITORS OF THE STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING PUBLISHED BY THE INSTITUTE OF INTERNAL AUDITORS

DIGEST

1. **Existing Law:**

   Except where audits are performed upon Federal Grant programs under the Single Audit Act of 1984, existing law does not specify the standards that the state and local governments must follow during the conduct of an audit.

2. **Adoption of Standards:**

   This bill would require all public agency auditors to utilize as standards of internal auditing the "Standards for the Professional Practice of Internal Auditing", as published by The Institute of Internal Auditors, Inc., in its seventh printing, dated February 1984, and subsequent authoritative pronouncements on Internal Auditing Standards and Statements on Internal Auditing published by The Institute of Internal Auditors, Inc. ("Standards").*

3. **Audit Reports:**

   All audit reports would be required to include a statement as to whether the audit was conducted pursuant to the "Standards".*

4. **Recommendation to Establish an Internal Audit Function:**

   This bill would recommend that all state and local governments with $_____ or more annual spending to consider establishing an ongoing internal audit function.

5. **Enforcement/Oversight:**

   This bill would require the [Director of Finance] [Controller] [Auditor General] to conduct an annual review in conjunction with the annual audit of state or local government financial statements, or when otherwise directed by the [legislative audit committee], of all state or local government auditing functions, for variance from the general practice.

DIGEST (continued)

Further, it would require the [Director of Finance] [Controller] [Auditor General] to submit reports to the Legislature and appropriate entities regarding significant variances from the general practice.

6. Waiver from Compliance:

This bill would also give local governments the option to comply with the standards, as indicated, and would authorize the [legislative audit committee] to grant waivers to any local government from compliance with the standards.

[SECTION 1.] The [Director of Finance] [Controller] [Auditor General], and respective staffs thereof, all state and local governments that have their own internal auditors, or that have internal audits conducted under contract, or that conduct internal audit activities, shall utilize as standards of internal auditing and audit activities, shall utilize as standards of internal auditing the publication entitled "Standards for the Professional Practice of Internal Auditing", as published by The Institute of Internal Auditors, Inc. in its seventh printing, dated February 1984, and subsequent authoritative pronouncements on Internal Auditing Standards and Statements on Internal Auditing Standards published by the Institute of Internal Auditors, Inc. ("Standards").*

[SECTION 2.] All audit reports issued by internal auditors enumerated in SECTION 1. must include a statement as to whether the audit was conducted pursuant to the "Standards".*

[SECTION 3.] All state and local entities with an aggregate spending of _____ million dollars ($_____) or more annually shall consider establishing an ongoing internal audit function.

[SECTION 4.] The [Director of Finance] [Controller] [Auditor General] shall, in coordinating the internal auditors of state entities, insure that these auditors utilize the "Standards".

The [Director of Finance] [Controller] [Auditor General] shall, in conjuction with his annual audit of state financial statements, or when otherwise directed by the [legislative audit committtee], test compliance with this section and report to the Legislature and the respective governmental entities on any significant variances from the general and specific standards for the professional practice of internal auditing.

[SECTION 5.] Notwithstanding the provisions of SECTION 1., the [legislative audit committee] may, by a majority vote, grant a waiver to any entity that petitions the committee from compliance with any standard prescribed in SECTION 1.

[SECTION 6.] Notwithstanding the provisions of SECTION 1., if an entity determines that the implementation of any specific standard enumerated in SECTION 1. would result in net additional costs which exceed any potential savings, the governing body of that entity shall have the option to determine the degree of implementation of the specified standard.

DEFINITIONS AND NOTES RELATED TO THE MODEL LEGISLATION

DEFINITIONS:

As a convenience, the words "state", "entity" and "local entities" are use in the model legislation.

The word "state" may be interchanged with "province" or any appropriate entity.

The words "entity" and "local entities" apply to any and all such state, county and municipal governments, agencies, authorities, districts, and related bodies. Each state would choose the appropriate wording, such as:

> "Local governments, counties, tax districts, utility districts, political subdivisions, state departments, boards, commissions, institutuions, agencies, authorities, or other entities of the state", or,
>
> "Controller, Department of Finance, state agencies, cities, counties, and districts."

NOTES:

* The wording "...and/or to other such standards as directed or appropriate" may be added to allow for the adoption of such standards as the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions", published by the United States General Accounting Office.

The titles in brackets, [Director of Finance], [Controller], [Auditor General], and [legislative audit committee] vary from state to state. Each state would choose the appropriate offices for the various sections of the legislation.

APPENDIX E
NON-COMPLIANCE WITH STATUTES

Non-Compliance Denoted by X

AGENCIES NAMED IN STATUTE	Administrative & Accounting Audits	Expenditure Receipts Audits	EDP Reviews[11]	Grant Reviews	Audit Plan	Chief Auditor Qualified When Hired	Operational Duties	Report to Director
Attorney General	X		X					X
Board of Education	X							
Chicago State			X[5]		X	N/A[2]		
Community College of East St. Louis	X		X			N/A[3]	X	
Comptroller				X[12]				
Eastern Illinois Univ.	X			X				
Governors State Univ.	X	X	X[5]	X				
Illinois State Univ.			X					X
Northeastern Ill. Univ.			X[5]	X				X
Northern Illinois Univ.	X							
Sangamon State Univ.	X		X			N/A[1]	N/A[1]	N/A[1]
Secretary of State	X						X	X
Southern Illinois Univ.	X		X					
Treasurer			X	N/A[4]			X	
University of Illinois	X[14]							X
Western Illinois Univ.			X[6]					
AGENCIES DESIGNATED BY THE GOVERNOR								
Aging	X		X	X				
Agriculture						X	X	

APPENDIX E
NON-COMPLIANCE WITH STATUTES

Non-Compliance Denoted by X

AGENCIES DESIGNATED BY THE GOVERNOR	Administrative & Accounting Audits	Expenditure Receipts Audits	EDP Reviews[11]	Grant Reviews	Audit Plan	Chief Auditor Qualified When Hired	Operational Duties	Report to Director
Alcohol & Substance Abuse	X	X	X	X	X		X	
Board of Higher Education			X				X	
Capital Development Board	X[9]			X				
Central Management Svcs.	X	X	X	X				
Children and Family Svcs.	X							
Commerce and Community Affairs	X		X					X
Conservation								X
Corrections	X			X				X
State Employees' Retirement System	X			N/A[4]				
Energy and Natural Resources	X		X[16]	X				
Environmental Protection Agency	X	X	X	X	X	N/A[2]		
Industrial Commission	Does not have an internal audit function.							
Insurance	X			N/A[4]				
Mental Health	X		X					X
Mines and Minerals	Did not have an internal audit function.[8]							
Public Aid								X[7]
Public Health	X	X	X		X		X	X
Racing Board[10]	X	X	X	X[13]	X		X	

APPENDIX E
NON-COMPLIANCE WITH STATUTES

Non-Compliance Denoted by X

AGENCIES DESIGNATED BY THE GOVERNOR	Administrative & Accounting Audits	Expenditure Receipts Audits	EDP Reviews[11]	Grant Reviews	Audit Plan	Chief Auditor Qualified When Hired	Operational Duties	Report to Director
Professional Regulation Formerly Registration and Education	X		X	N/A[4]			X	
Rehabilitation Services	X		X		X		X	X
Revenue				N/A[4]				
State Scholarship Commission								
State Police	X		X					X
Teachers' Retirement System				N/A[4]				
Transportation			X					X
State University Retirement System				N/A[4]	X		X	
Veterans Affairs	X							
Commerce Commission	X[15]		X					
AGENCIES WHICH VOLUNTARILY CREATED PROGRAM								
Community College Board	X		X				X	
Employment Security						X		
Housing Development Authority								
Financial Institutions	X	X	X	N/A[4]		N/A[1]	N/A1	N/A[1]

APPENDIX E
NON-COMPLIANCE WITH STATUTES

Non-Compliance Denoted by X

AGENCIES WHICH VOLUNTARILY CREATED PROGRAM	Administrative & Accounting Audits	Expenditure Receipts Audits	EDP Reviews[11]	Grant Reviews	Audit Plan	Chief Auditor Qualified When Hired	Operational Duties	Report to Director
Lottery	X	X	X	N/A[4]				
Toll Highway Authority	X		X	N/A[4]				
TOTAL FOR AGENCIES HAVING INTERNAL AUDIT FUNCTION (50)	33	8	29	12	7	2	12	14

1 No chief internal auditor or audit staff at agency.
2 Auditor not designated as chief internal auditor.
3 No qualifications necessary when chief internal auditor was hired.
4 Agency did not receive or make grants.
5 Part of computer consortium, but still need to conduct EDP reviews to ensure audit trails.
6 No documentation that EDP systems were thoroughly reviewed.
7 Subsequent to completion of fieldwork, reporting changed. Internal auditor does not have full access to agency information.
8 Subsequent to completion of fieldwork, program established.
9 Only EDP portion of Audits not completed.
10 Program established in January 1987.
11 The results for EDP reviews shown in Appendix E focus solely on the review of new systems or major modifications to existing systems as required by the Internal Auditing Act. For an analysis of EDP audit coverage, using the Act and professional standards as criteria, see Appendix G.
12 Grant program established 11-25-85, audit included in FY88 audit plan.
13 The Racing Board disagreed that the Race Track Improvement Fund is a grant. According to the Comptroller's Uniform Statewide Accounting System (CUSAS), however, these funds are appropriated, expended, and classified as grant funds.
14 University of Illinois responded that internal audit unit has received permission from the LAC to determine audit coverage by risk analysis, thereby relieving them from the responsibility to audit all systems. This agreement, however, was not in effect during the period we examined.
15 The Commerce Commission disagreed with our finding since they use OAG Internal Control Survey to develop "risk factors" and subsequent workplans for internal control audits. Completing only this survey form, however, does not constitute an adequate and thorough audit of internal controls.
16 The Department of Energy and Natural Resources disagreed with our finding that they failed to conduct EDP or grant reviews for the two-year period. Agency responses obtained during fieldwork, however, indicate that no EDP audits or grant reviews were conducted.

APPENDIX F
ESTIMATES OF AUDITORS NEEDED

Agency	Chief Auditor Estimates	Director Estimates	OAG Asst Auditor Estimates	OAG Model Estimates	Actual Number
Aging	2.0	1.0	1.0	3.5	1.0
Agriculture	2.0	1.0	1.5	5.5	1.0
Alcohol Substance Abuse	2.0	4.0	Missing	1.5	1.0
Attorney General	3.0	2.0	2.0	3.5	2.0
Board of Education	11.0	Missing	10.0	14.5	8.0
Board of Higher Education	1.0	1.0	1.0	0.5	1.0
Capital Development Board	4.0	4.0	3.0	2.0	3.0
DCMS	6.0	5.0	7.0	8.5	2.0
Chicago St. Univ**	2.0	2.0	2.0	2.0	1.0
DCFS	12.0	13.0	25.0	17.0	7.0
DCCA	8.0	8.0	7.0	8.0	2.0
Community College Board	1.0	1.0	1.0	1.5	1.0
Comm. College of E. St. Louis	1.0	2.0	1.0	1.0	1.0
Comptroller*	5.0	5.0	5.0	4.5	5.0
Conservation	7.0	Missing	6.0	6.5	6.0
Corrections	13.0	13.0	11.0	30.5	9.0
Eastern Illinois Univ.	3.0	2.0	3.0	2.5	1.0
St. Employee Retire. System	1.0	1.0	1.0	1.0	1.0
Employment Security*	10.0	10.0	9.0	10.0	9.0
Energy Natural Resources	4.0	4.0	4.0	4.0	2.0

APPENDIX F
ESTIMATES OF AUDITORS NEEDED

Agency	Chief Auditor Estimates	Director Estimates	OAG Asst. Auditor Estimates	OAG Model Estimates	Actual Number
EPA	Missing	4.0	5.0	5.0	1.0
Financial Institutions	Missing	1.0	1.0	3.0	0.0
Governors State Univ.	2.0	Missing	1.0	1.5	1.0
Housing Devlpmnt Auth.*	3.0	2.0	2.0	1.0	1.0
Industrial Commission	Missing	Missing	1.0	1.0	0.0
Insurance	2.0	2.0	2.0	3.0	1.0
Lottery	3.0	Missing	2.0	2.0	1.0
Mental Health	Missing	Missing	20.0	35.5	12.0
Mines and Minerals	Missing	Missing	Missing	3.5	0.0
Northeastern IL Univ.	2.0	Missing	2.0	2.5	1.0
Northern IL Univ.*	7.0	5.0	5.0	5.0	4.0
Public Aid*	38.0	32.0	34.0	22.0	22.0
Public Health	8.0	8.0	9.0	6.0	5.0
Racing Board	Missing	1.0	Missing	2.5	1.0
Professional Regulation (formerly Registration and Education)	5.0	4.0	4.0	5.0	2.0
Rehab. Services	4.0	4.0	4.0	9.0	3.0
Revenue*	19.0	15.0	15.0	12.5	12.0
Sangamon St. Univ.	Missing	1.0	1.0	1.5	0.0
St. Scholarship Comm.*	3.0	2.0	3.0	3.0	2.0
Sec. of State	6.0	7.0	6.0	6.5	6.0

APPENDIX F
ESTIMATES OF AUDITORS NEEDED

Agency	Chief Auditor Estimates	Director Estimates	OAG Asst Auditor Estimates	OAG Model Estimates	Actual Number
Southern IL Univ.	15.0	11.0	13.0	11.5	10.0
State Police	7.0	5.0	5.0	7.5	3.0
Teachers Retirement*	2.0	1.0	1.0	1.5	1.0
Toll Highway Auth.	8.0	4.0	6.0	2.5	4.0
Transportation*	25.0	26.0	24.5	22.5	22.0
Treasurer	3.0	2.0	2.0	2.5	1.5
Univ. of Illinois	24.0	20.0	Missing	31.5	20.0
Univ. Retire. System	1.0	1.0	1.0	1.0	1.0
Veteran Affairs	5.0	2.0	3.0	3.5	2.0
Western IL Univ.	3.0	Missing	2.5	2.5	1.0
Illinois State Univ.	3.0	4.0	4.0	4.5	2.0
IL Commerce Commission	3.0	3.0	3.0	4.0	2.0
Total	299.0	246.0	282.5	354.0	208.5
Number of Agencies	45.0	43.0	48.0	52.0	52.0

Notes

Missing - Data unavailable or individual did not respond or did not know a suitable estimate.

* - Agency was used as criteria in OAG model. Thus, model estimates for these agencies will reflect actual numbers and should not be considered as an estimate. See other estimates for optimum number of auditors needed at these agencies.

** - Response provided by staff auditor; no designated chief auditor.

See Appendix H for estimates of EDP auditors needed.

APPENDIX G

MODEL METHODOLOGY

We estimated the number of auditors needed at each agency by applying regression equations to a theoretical model. The model was built after identifying quantitative factors which might affect the internal audit unit's workload and then selecting agencies to use in the initial regression equation.

The dependent variable used in the initial regression equation was the number of auditors at nine agencies with adequate internal audit programs. After identifying several independent variables and testing for multi-collinearity, the following were found to significantly effect the dependent variable:

1. number of agency employees
2. amount of expenditures
3. number of divisions
4. number of audit hours by OAG contract auditors

These five variables (one dependent and four independent) were used in the regression equation to create coefficients for the formula. The formula was constructed in the following format:

$$\text{Internal Auditors Needed at Each Agency} = \text{Constant} + B(\text{Div}) + B_2(\text{Cont Hrs}) + B_3(\text{Exp}) + B_4(\text{Emps})$$

Div = number of divisions,
Cont Hrs = number of contract audit hours,
Exp = amount of expenditures,
Emps = number of employees, and
B = the coefficient for each variable.

The summary statistics generated by the initial equation are listed below.

Adjusted R^2 .99092

F = 219.29584
Signif F = .0001
Standard Error of Estimate = 1.1316
T-Score (90% Confidence Interval) = 1.533

Variable	Unstandardized Coefficient(B)	T Score	Sig of T
Divisions	.39736	8.515	.0010
Contract Hours	.00027	2.824	.0477
Expenditures	.00020	4.950	.0078
Employees	.00082	4.568	.0103
Constant	-.5741		

The high value (close to 1) for the coefficient of determination (R^2) indicated that the independent variables did have explanatory power in accounting for the changes in the values of the dependent variable. A high R^2 signifies a "goodness of fit", that is, to what degree the independent variables can explain the variation in the dependent variable.

The significance levels for the coefficients verified that multi-collinearity among the four independent variables could be ruled out. Moreover, the significance levels indicated that all four variables have an effect on the variation of the dependent variable.

Each of the four independent variables affected the dependent variable in a positive direction and the constant (or intercept) in the equation is close to the point of origin (a value of 0 on a regression line); thus, the statistics are appropriate for use in a formula which will estimate the number of auditors in each agency. Since the constant is close to the point of origin, and theoretically, all agencies would begin at a point of origin (0), we decided not to use the constant within the equation.

A high estimate was obtained by using this formula and adding the product of the T-Score and the Standard Error of the Estimate. A low estimate was calculated by subtracting the product of the T-Score and the Standard Error of the Estimate. We chose to use the average of the high and low estimates for our final estimate.

The dependent variable was the actual number of auditors at the nine agencies and not the number the chief internal auditors, the directors, and our special assistant auditors said were needed by the agencies. At eight of these agencies, the chief internal auditors estimated that they needed additional auditors to perform all the audits necessary to maximize the benefits of having internal auditing. Therefore, the model may underestimate the number of auditors at some agencies.

I INTRODUCTION

Legislative Audit Commission Resolution No. 78 directed the Auditor General to conduct a management audit of the State's programs of internal auditing. Spectrum Consulting Group was assigned to assess the current capacity of State agencies to conduct EDP audits which are explicitly or implicitly required by the Internal Auditing Act (Ill. Rev. Stat. 1985, ch. 127, par. 136) and professional standards. This report presents our conclusions and recommendations.

II BACKGROUND

To comply with the Internal Auditing Act (the Act), internal auditors within State agencies must study, evaluate and test electronic data processing (EDP) systems for the following reasons: First, the Act requires internal auditors to review newly installed EDP systems or major modifications to existing systems prior to their installation to ensure that these systems provide for adequate audit trails and accountability. Second, EDP systems must be reviewed to effectively evaluate internal accounting and administrative controls. Third, the Act requires internal audit units to conduct any audits which are necessary to maintain professional standards. Professional standards issued by the U.S. General Accounting Office ("Standards For Audit of Governmental Organizations, Programs, Activities, and Functions") and by the American Institute of Certified Public Accountants (AU Section 320 of Statement of Auditing Standards) clearly require EDP audits when an automated system is used in agency operations.

Internal controls over computer processing include both manual procedures and procedures designed into computer programs. These internal control procedures affect the EDP environment (general EDP controls) and the specific controls over accounting applications (EDP application controls). General EDP controls establish a framework to control EDP activities and to assure that the overall objectives of internal control are achieved. EDP application controls establish specific control procedures over accounting applications in order to assure that all transactions are accurately and expeditiously authorized, processed and recorded.

State agencies with relatively complex data processing systems must have EDP auditors within their internal audit units. The actual number, experience, and skills required of EDP auditors at each agency depends on the complexity of their EDP environment and on their reliance on EDP systems

for administrative and accounting functions. The frequency and magnitude of EDP installations or modifications must also be considered. Overall, the internal audit unit must have knowledge and experience in EDP environments to effectively audit automated systems.

III APPROACH

In order to assess the capability and performance of State agencies in conducting internal EDP audits, we developed an EDP Manager Survey and an EDP Environmental Form to gather information about EDP systems and EDP staff at each agency. These data, along with selected responses from the Director and Chief Internal Auditor Surveys, were used to identify EDP areas which need to be audited.

To calculate the number of EDP auditors needed at each agency, we determined the complexity of each applicable audit area and estimated the number of hours required to audit the area based on a defined level of auditor expertise and the scope of audit work desired (see Appendix A). This information was compared to the number of existing EDP auditors to draw conclusions (see Appendix B).

The Internal Auditing Act and three sets of professional standards (American Institute of Certified Public Accountants, General Accounting Office, Institute of Internal Auditors) were used to determine the EDP areas needing audit coverage and the scope of such coverage. The Office of the Auditor General's 1986 Third Party Review of the Bureau of Information and Communications Services (BICS) provided a guide to defining general and application controls within an agency's EDP environment.

The conclusions presented in the next section were derived from analyzing data from selected State agencies. Of 58 agencies designated as auditees by the Office of the Auditor General, 48 agencies provided a completed EDP Environmental Form and 50 agencies participated in the EDP Managers Survey.

IV RESULTS OF SURVEY ANALYSIS

GENERAL CONCLUSIONS

Overall, we found EDP audit coverage by State of Illinois internal audit units to be deficient. No agency performed all EDP audit work mandated by the Internal Auditing Act; however, some internal audit units audited EDP general controls even though they had no designated EDP

internal auditor. While internal auditors in 26 agencies indicated they had an EDP audit position or assigned auditors responsibility for general controls work, only ten agencies have designated EDP auditors, as determined through review of responses to survey questions and by reading resumes to confirm qualifications, of which nine (Departments of Children & Family Services, Commerce and Community Affairs, Corrections, Public Aid, and Revenue, and the Office of the Comptroller, Secretary of State, Southern Illinois University and the University of Illinois) have full-time EDP auditors.

Deficient EDP auditing at Illinois State agencies illustrates the need for additional resources and for standardized EDP audit guidelines. These guidelines should be published and made available to State agencies by a designated State organization such as the Department of Central Management Services. It would also be desirable for internal EDP auditors conducting general controls reviews to follow the guidelines established by the Office of the Auditor General in its BICS Third Party Review.

Internal audit units have not regularly participated in the review of new EDP systems or major modifications to existing systems as required by the Internal Auditing Act. These reviews are important to ensure that appropriate internal controls and audit trails are included in the systems and are not inadvertently eliminated by on-going changes. Studies indicate that it costs significantly more (some suggest 20 times as much) to design a control into a system after it is operational than it would to include the control in the initial system design.

Survey results reveal that during the system development process 47 of 50 (94%) data processing departments have user participation. However, only 13 of 50 (26%) internal audit units signed off on new development projects and only 12 of 50 (24%) data processing departments informed internal audit units of major system modifications.

Agencies which use automated systems for accounting and administrative functions must maintain certain EDP controls. The existence and effectiveness of these controls must be verified by auditing EDP general and application controls. However, among the agencies responding to the EDP questionnaires, only 26 of 50 (52%) indicated they had performed an audit of computer operations.

Computer security audits are also important to maintain general controls. Among the 50 agencies responding, 56% had conducted an audit of computer security. For audits of

communication administration, 30% of the agencies responding stated that such an audit had been completed. Finally, only 26% of the agencies responding had audited distributed computer processing.

In summary, few EDP audits are being performed, primarily because of an inadequate number of EDP audit staff in internal audit units. This inadequacy could be overcome by providing additional training to auditors who have not been trained in EDP auditing, by transferring EDP staff to internal audit units and training them as auditors, or by hiring more EDP auditors.

PROJECTED EDP AUDITOR REQUIREMENTS

None of the 48 agencies that responded to the EDP environmental questionnaire have sufficient numbers of internal EDP auditors to perform all required EDP audit work (see Appendix C). Our estimates of the additional number of EDP auditors needed are based on complexity of EDP environments, scope of audit work desired, and our professional judgment.

Table 1 summarizes the number of auditors needed at 48 responding State agencies if they were to maintain minimum audit coverage for EDP areas. Minimum audit coverage consists of audits of general controls and application controls, special investigations as needed, and reviews of new EDP systems or modifications of existing systems, as required by the Internal Auditing Act.

Table 1.

MINIMUM LEVEL OF COVERAGE BY EDP AUDITORS

Number of EDP Auditors	Number of Agencies	Current No. EDP Auditors	Additional EDP Auditors Required
Less than 1	18		18
1	12		12
2	8	3	13
3	6	2	16
4	1	1	3
5	3	6	9
	48	12	71

Since in many instances a part-time EDP auditor could satisfy part or all of an agency's requirements, it will not be necessary to hire 71 full-time EDP auditors for these agencies to comply with professional standards and the Internal Auditing Act. Where part-time EDP auditors are needed, regular internal auditors could be provided with EDP audit training on how to conduct control reviews and audit special EDP functions. This approach will reduce the need for additional full-time EDP auditors at these agencies to 39.

The number of auditors needed at the 48 agencies if they were to conduct EDP audits which were expanded in scope is set forth in Table 2. We consider this expanded scope coverage to be the desirable level of EDP audit performance. The desirable audit coverage includes: 1) the same coverage as the minimum coverage (i.e., audits of general and application controls, special audits, and review of new systems or modifications of systems); 2) performance of extended audit tests on microcomputers and distributed sites; 3) performance of expanded compliance and substantive testing using computer assisted audit techniques; and 4) review of high risk areas on an annual basis.

Table 2.

DESIRABLE LEVEL OF COVERAGE BY EDP AUDITORS

Number of EDP Auditors	Number of Agencies	Current No. EDP Auditors	Additional EDP Auditors Required
Less than 1	6		6
1	11		11
2	13		26
3	8	3	21
4	5	2	18
5	1		5
6	1	1	5
7	0		0
8	3	6	18
	48	12	110

Applying the approach of using part-time EDP auditors described for Table 1, the number of additional full-time EDP auditors needed to achieve this level of coverage would be reduced to 86.

While we recommend that each State agency have a sufficient number of qualified EDP auditors to perform expanded scope EDP audits, we also realize budgetary constraints make this an ideal scenario. Nevertheless, the costs attached to expanded audit coverage often are appropriate given the resultant benefits.

APPENDIX I

Agency Responses

STATE OF ILLINOIS

OFFICE OF THE GOVERNOR

SPRINGFIELD 62706

JAMES R THOMPSON
GOVERNOR

May 18, 1988

Mr. Robert G. Cronson
Auditor General
509 South Sixth Street
1st Floor
Springfield, IL 62701

Dear Bob:

Enclosed are responses from the Office of the Governor to the recommendations made in the Auditor General's Management Audit of Illinois' State Program Of Internal Auditing. It is my understanding that these responses will be included in the final report. Thank you for the opportunity to participate. Please contact me if you need anything further.

Sincerely,

Phillip M. Gonet
Deputy Chief of Staff

PMG:cs765

cc: Jim Reilly
Jeff Miller
Bob Schwarz
Karen Anderson

GOVERNOR'S OFFICE RESPONSE
to the
AUDITOR GENERAL'S MANAGEMENT AUDIT
ILLINOIS' STATE PROGRAM OF INTERNAL AUDITING

RECOMMENDATION (REVISED)

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to:

1. Require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs which comply with the requirements of the Internal Auditing Act;

2. Require other, large, "non-code" agencies such as the Toll Highway Authority and the Housing Development Authority to become subject to the Act; and

3. Make provisions for the Legislative Audit Commission to recommend for the Governor's consideration agencies which should be designated to have internal auditing.

RESPONSE

We concur in principal with the desire to formalize criteria for the designation of agencies to establish internal auditing programs. However, the Governor needs the discretion the Internal Auditing Act grants to him to determine which state entity should have a full-time internal audit function to respond to changes in agency size or duties more promptly than through a statutory revision process.

1. To arbitrarily require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs would mandate full time internal audit functions in several agencies with less than 150 employees.

2. No change is required since other large "non-code" agencies have been and are designated by the Governor.

3. The Governor will consider mandating an agency establish a full-time internal auditing program if the Legislative Audit Commission recommends the agency to have one.

RECOMMENDATION (REVISED)

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to establish an office under the Governor to provide internal audit services for those agencies and departments under the Governor which are not required to have their own internal audit programs and to interact with the advisory audit board.

RESPONSE

The recommendation duplicates an existing statute, which allows the Department of Central Management Services, an office under the Governor, to develop guidelines for establishment of internal audit functions and provide continuing instructions in auditing. The Department has conducted audits of several agencies without full-time internal audit functions, assisted in establishing an internal audit function, and provided internal auditor training. If the Legislature believes these activities should be increased, then the Legislature should provide the necessary resources to the Bureau of Audits.

RECOMMENDATION

The General Assembly may wish to revise the Internal Auditing Act so that the chief internal auditor and his/her audit staff are free of all operational duties. Currently, the Act stipulates only that "the chief internal auditor ... shall be free of all operational duties which would impair the auditor's ability to make independent reviews of all aspects of the agency's operations."

RESPONSE

Due to fiscal constraints, it is sometimes necessary for agency management to have their internal auditors perform some operational tasks. We expect this practice occurs infrequently, if not, agency management should reclassify the internal auditors they use for operational duties into more appropriate operating titles. In addition, we expect agency management to allow their internal auditors to comply with professional auditing standards. The Institute of Internal Auditors' Professional Internal Auditing Standards restrict internal auditors from assuming operating responsibilities; however, the Standards allow "if on occasion management directs internal auditors to perform nonaudit work, it should be understood that they are not functioning as internal auditors".

RECOMMENDATION (REVISED)

The General Assembly may wish to revise paragraph 136.2 of the Internal Auditing Act to make the requirements for the position of chief internal auditor more responsive to current governmental auditing requirements. An amendment might include such language as:

"The chief executive officer of any State agency with a full-time program of internal auditing shall appoint a chief internal auditor with appropriate certification, such as Certified Public Accountant, Certified Internal Auditor, or appropriate academic degrees, and five years of governmental, managerial, and audit experience; or seven years experience in government, management, and auditing."

RESPONSE

While we concur with the need to strengthen the Statutory requirements for chief internal auditor, we question whether the recommendation's requirements will meet that objective. We propose to add the Department of Central Management Services' Internal Auditor Job Specification Series, as minimum expectations, to part of the recommended requirements. Thus the Chief Internal Auditor position would require a bachelor's degree, 6 years of professional government internal auditing experience, with 3 years at a supervisor or manager level, and certification as a Certified Internal Auditor or as a Certified Public Accountant or, requires 7 years of professional government internal auditing experience, with 4 years at a supervisor or manager level.

RECOMMENDATION

The General Assembly may wish to revise the Internal Auditing Act to require that audits on a test basis of expenditures, obligations, receipts, or grants be conducted within a two-year time-frame. The General Assembly may also wish to revise the Internal Auditing Act to reflect the need to plan within a two-year time-frame.

RESPONSE

We suggest that the first part of the recommendation, requiring "audits on a test basis of expenditures, obligations, receipts, or grants be conducted on a two-year time-frame", be reconsidered. We believe it is important to recognize that expenditures, obligations, receipts, or grants are transactions that occur within an agency's systems of internal controls. In effect, an agency's system of internal control governs these transactions. Thus these transactions (expenditures, obligations, receipts, or grants) are reviewed on a two-year time-frame during the internal auditor's reviews of the agency's systems of internal accounting and administrative controls. If the Internal Auditing Act is revised we suggest that paragraphs 136.3(c) and (d) be removed with the expectation that these transactions would be reviewed during the internal accounting and administrative controls reviews required by paragraph 136.3(b).

For the second part of the recommendation, addressing multi-year audit plans, we suggest the statutory requirement for bi-annual audits of internal accounting and administrative control systems has caused many internal auditing offices to have audit plans that already reflect at least a two-year time-frame. In support of the concept to standardize some internal auditing tasks, we concur with the recommendation to formalize the requirement for multi-year audit plans.

In addition, we request the Legislature address a related, continuing question, whether an internal auditor is expected to audit the "major" or "all" systems of internal controls. In this report, on bottom of page 17, the Auditor General states "the internal auditors either did not review all major areas within a control system or did not review all major systems of administrative and accounting controls" (underlining added). The Legislative Audit Commission's 1988 Annual Report refers to internal audit program elements, such as, testing of major internal control systems. The recently issued draft audit report of the compliance audit of the Department of Mental Health and DD recommends the review of major internal control systems. The Internal Auditing Act, paragraph (e) refers to major new edp systems and major modifications. However, the Internal Auditing Act specifies "audits of the agency's systems of internal accounting control and internal administrative control on a periodic basis so that all such systems are reviewed every 2 years"(underlining added). This issue has caused different interpretations within the Auditor General's Office, with the expectation ranging from the impractical "every and all" systems of internal control be reviewed to the realistic "major" internal control systems be reviewed.

RECOMMENDATION

The General Assembly may wish to amend the Internal Auditing Act to include a provision requiring that directors certify that their internal audit units have prepared and followed a two-year audit plan, that the agency has adequate internal controls, and that they have complied with the provisions specified in the Internal Auditing Act.

RESPONSE

We qualify our acceptance of the auditors premise that additional involvement by agency directors in the internal audit process will reduce non-compliance with the Internal Auditing Act. We believe the agency directors' involvement needs to be more than a cursory action. Obviously, adding a statutory requirement that agency directors certify their internal auditors comply with the Internal Auditing Act, would require significant involvement and should go far to reduce non-compliance with the Act.

The auditors do not explain how the recommendation's additional requirements, for agency directors to certify their internal auditors use a two-year audit plan and that the agency has adequate internal controls, will significantly increase involvement by the director in the internal audit process with the expected reduction of non-compliance with the Internal Auditing Act. Neither of these requirements exist within the Internal Auditing Act, thus they are not compliance issues.

RECOMMENDATION

The General Assembly may wish to consider creating an advisory audit board comprised of State chief internal auditors to interact with the Governor's "Chief Internal Auditor. The audit advisory board could:

1. recommend a uniform set of professional auditing standards and ethics for use by State internal audit units,

2. facilitate training by acting as a clearinghouse for information on training opportunities, and

3. coordinate peer review activities.

RESPONSE

We concur with the recommendation and suggest the State Internal Audit Managers organization be considered as the group from which the advisory audit board be drawn. Perhaps, the State Internal Audit Managers should be assigned responsibility to designate the individuals to serve on the advisory audit board.

The advisory audit board would develop policy as well as provide continuing advice and guidance. The advisory audit board would review and report to the Department of Central Management Service's Director whether adequate resources are provided to that function. The Auditor General would review, during their bi-annual audits of the Department of Central Management Services, the effectiveness of this process as well as the adequacy of support provided the function.

Edward T. Duffy
Director

Illinois Department of Public Aid

Jesse B. Harris Building
100 S. Grand Avenue East
Springfield, Illinois 62762

88 MAY 11 AM 8 53

May 11, 1988

Mr. Richard Rowe, Audit Manager
Office of the Auditor General
509 South Sixth Street, 1st Floor
Springfield, Illinois 62701

Dear Mr. Rowe:

Attached is the State Internal Audit Managers' response to the OAG's Management Audit Illinois' State Programs of Internal Auditing.

If you have any questions, please contact me at 782-1156.

Regards,

Robert J. Schwarz, Chairman
State Internal Audit Managers

Chief, Bureau of Internal Audits
Illinois Department of Public Aid

STATE INTERNAL AUDIT MANAGERS

We, the State Internal Audit Managers, the professional auditors charged with implementing the State's Internal Act, offer our comments to the Auditor General's "Matters for consideration by the General Assembly".

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to:

1. Require all departments subject to "The Civil Administrative Code of Illinois" to establish internal audit programs which comply with the requirements of the Internal Auditing Act;
2. Require other, large, "non-code" agencies such as the Toll Highway Authority and the Housing Development Authority to become subject to the Act; and
3. Make provisions for the Legislative Audit Commission to recommend for the Governor's consideration agencies which should be designated to have internal auditing.

State IA Mgrs. We concur

The General Assembly may wish to consider amending paragraph 136.1 of the Internal Auditing Act to establish an office under the Governor to oversee internal audit programs for those agencies and departments which are accountable to the Governor and which are required to have internal audit programs, and to provide internal audit services for those agencies and departments which are not required to have their own internal audit programs.

State IA Mgrs. We concur with amending paragraph 136.1 of the Internal Auditing Act to establish a professional group of Internal Auditors under the Governor to provide training, peer reviews and technical audit support to agencies required to have a full time internal audit function and to provide the internal audit function for agencies, boards and commissions without full-time, internal audit functions.

The General Assembly may wish to revise the Internal Auditing Act so that the chief internal auditor and his/her audit staff are free of all operational duties. Currently, the Act stipulates only that "the chief internal auditor . . . shall be free of all operational duties which would impair the auditor's ability to make independent reviews of all aspects of the agency's operations."

State IA Mgrs. We concur

The General Assembly may wish to revise paragraph 136.2 of the Internal Auditing Act to make the requirements for the position of chief internal auditor more responsive to current governmental auditing requirements. An amendment might include such language as:

"The chief executive officer of any State agency with a full-time program of internal auditing shall appoint a chief internal auditor with appropriate certification, such as Certified Public Accountant, Certified Internal Auditor, or appropriate academic degrees, and five years managerial and auditing experience, or seven years experience in government management and auditing."

State IA Mgrs. We concur with need to strengthen the internal auditor requirements and propose the adoption of the current Department of Central Management Services Internal Auditor requirements.

The General Assembly may wish to revise the Internal Auditing Act to require that audits on a test basis of expenditures, obligations, receipts, or grants be conducted within a two-year time-frame. The General Assembly may also wish to revise the Internal Auditing Act to reflect the need to plan audits within a two-year time-frame.

State IA Mgrs. We concur

The General Assembly may wish to consider creating an advisory audit board comprised of State chief internal auditors to interact with the Governor's "Chief Internal Auditor". The audit advisory board could:

1. recommend a uniform set of professional auditing standards and ethics for use by State internal audit units,
2. facilitate training by acting as a clearinghouse for information on training opportunities, and
3. coordinate peer review activities.

State IA Mgrs. We concur.

STATE INTERNAL AUDIT MANAGERS

The State Internal Audit Managers (State IA Mgrs.) have functioned as an informal organization since 1975. Its membership is open to all State government chief internal auditors, including the internal auditors from the offices of separately elected officials, universities, colleges, boards and commissions. The State IA Mgrs. organization provides professional internal auditors with a self-support group.

The State IA Mgrs. most typical activity is to identify training needs of internal audit staffs. We attempt to provide this training by having other internal auditors conduct the training or by contracting with professional training providers to offer the training at reduced cost. In the past year our activities included coordinating an effort to counter a bargaining units petition to absorb junior internal auditors into a bargaining unit and conducting a two-day seminar for the State IA Mgrs. Attendance at the two 1987 meetings represented over 70% of the IA Mgrs. and governmental organizations.

Submitted by
Robert Schwarz, Chairman
State Internal Audit Manager

NEIL F. HARTIGAN
ATTORNEY GENERAL
STATE OF ILLINOIS
SPRINGFIELD
62706

May 10, 1988

Honorable Robert G. Cronson
Illinois Auditor General
Marriott Commerce Building
509 South Sixth Street
Springfield, Illinois 62701

Dear Auditor General Cronson:

In response to the draft audit report on internal auditing received from your office on memorandum dated April 25, 1988, would you please consider the comment noted below in connection with the audit report.

Chapter III, page 13, under the heading of Reporting, cites the Attorney General's Office for noncompliance with the Internal Auditing Act in that the chief internal auditor does not report administratively to the agency head.

Although we concur with the finding as presented, the reporting relationship has changed subsequent to the audit fieldwork. The chief internal auditor now, not only reports to the Attorney General on audit matters, but also reports administratively to the Attorney General.

This response is provided to present the current status of the agency's reporting structure. Thank you for your review and attention to this matter.

Sincerely,

Jim Reid
Chief Internal Auditor

JR/mw

STATE OF ILLINOIS

Illinois Commerce Commission

'88 MAY 10 PM 1 55

MARY B. BUSHNELL
Chairman

527 East Capitol Avenue
P.O. Box 4905
Springfield, Illinois 62708

May 10, 1988

Mr. Ric Rowe, Audit Manager
Office of the Auditor General
Marriott Commerce Building, Room 151
509 South Sixth Street
Springfield, Illinois 62701-1878

Dear Mr. Rowe:

Attached please find a response to page 49 of your report draft on internal auditing which indicates that the Illinois Commerce Commission's internal auditors are not in compliance with the Statutes with regard to administrative and accounting audits.

Sincerely,

Mary B. Bushnell
Chairman

MBB:sh
Attachment

An annual internal control survey of accounting and administrative controls is an integral part of the internal audit function of the Illinois Commerce Commission. The surveys are conducted using the criteria in the Audit Guide for CPA firms under contract to the Office of the Auditor General who perform compliance audits of Illinois State agencies. The survey is designed to locate internal control weaknesses in an agency under audit for use in developing audit programs.

Commerce Commission Internal Auditors use the surveys for developing "risk factors" for annual Internal Audit Workplans from which priorities and frequencies for individual internal audits of accounting and administrative controls are established.

Our policy has been not to issue a formal audit report on the entire survey as the checklist in the "Audit Guide" of the Office of the Auditor General is designed to support audit programs and assist in determining sample sizes and the extent of testing rather than a comprehensive audit report. The portion of the survey pertaining to each audit is incorporated in the workpapers of the particular audit from which a formal audit report is issued. This again is a take off of the procedure used by firms following the guidelines of the Office of the Auditor General.

We have reported on the Commission's systems of internal accounting and internal administrative control in each individual audit report.

Illinois Department of Commerce and Community Affairs

Jay R. Hedges
Director

James R. Thompson
Governor

Steven D. McClure
Assistant Director

May 5, 1988

Mr. Ric Rowe
Audit Manager
Office of the Auditor General
Marriott Commerce Building, Room 151
509 South Sixth Street
Springfield, IL 62701-1878

Dear Mr. Rowe:

Thank you for the opportunity to respond to the management audit draft report referencing the Department of Commerce and Community Affairs.

I'd like to thank the Auditor General's staff for their constructive recommendations made during the audit review. My internal audit chief has implemented many of the suggestions for improvements in audit performance. I support internal auditing for its objective analysis of agency operations and programs. Their recommendations have resulted in improved internal controls and improved operations within the Department.

However, I do not concur with the reporting weakness discussed on pages 13 and 14. The Chief Internal Auditor has a direct reporting relationship with the Director. I am responsible for internal controls and operations and act immediately on all deficiencies and recommendations reported by the internal audit chief. I see no barriers to open communications or reporting relationships between myself and the chief internal auditor.

I agree that we need additional internal auditors. I also wish to point out that my SFY'89 budget request contains an additional internal auditor in the Agency. This is made at the expense of an offsetting reduction elsewhere in our budget.

620 East Adams Street
Springfield, Illinois 62701

217/782-7500

State of Illinois Center
100 West Randolph Street, Suite 3-400
Chicago, Illinois 60601

312/917-7179
Telex:910-221-5559

Tourist Information Center
310 South Michigan Avenue, Suite 108
Chicago, Illinois 60604

312/793-2094

I appreciate the Office of the Auditor General's interest in strengthening internal controls in state government. I am available to discuss the contents of this letter and/or other questions on internal auditing in the Department of Commerce and Community Affairs.

Sincerely,

Jay R. Hedges
Director

Illinois Department of Conservation
life and land together

LINCOLN TOWER PLAZA • 524 SOUTH SECOND STREET • SPRINGFIELD 62701-1787
CHICAGO OFFICE • ROOM 4-300 • 100 WEST RANDOLPH 60601
MARK FRECH, DIRECTOR

May 9, 1988

The Honorable Robert G. Cronson
Auditor General
Merriott Commerce Building
509 South Sixth Street
Springfield, Illinois 62701

Dear Auditor General Cronson:

Thank you for the opportunity to comment on your draft report concerning Illinois' State Programs of Internal Auditing. While we concur with most of your conclusions and recommendations on pages 31 and 32 of the report, there are a few exceptions which I wish to bring to your attention:

Recommendation #3: Since the Department of Central Management Services is statutorily authorized to provide this service, creation of a new function would appear to be duplicatory.

Recommendation #5: We agree with the need to strengthen internal audit requirements and suggest the adoption of the CMS job specifications for the Internal Auditor V position.

Recommendation #6: We recommend the two year requirement be applied to "major" internal control systems.

Recommendation #7: We concur with the two-year audit plan, but believe that line managers should certify to the agency head that adequate controls are in place in their respective operations.

Your report cites the Department for non-compliance to the Internal Audit Act, in that the Chief Internal Auditor does not report directly to the Director. It is our intention to strengthen reporting practices as necessary to fully comply with the Internal Auditing Act.

If you have any questions on our stated position, please feel free to call.

Sincerely,

Mark Frech

Mark Frech
Director

MF:CE:mr

Illinois Department of Employment Security

401 South State Street • Chicago, Illinois 60605

May 10, 1988 '88 MAY 12 AM 10 39

Ric Rowe, Audit Manager
Office of the Auditor General
509 South 6th Street - Rm. 151
Springfield, Illinois 62701

Dear Mr. Rowe:

We are in receipt of the draft report of the Management Audit on Internal Auditing. IDES does not request an exit conference on this draft report but we are glad to provide our response to you.

This is a very professional report and contains valuable and useful information. This agency, has had an internal audit function from the beginning of IDES in 1984. I believe strongly in the importance of internal auditing as a management tool for effective monitoring and control of operations and as an aid to more efficient and cost-effective management. Your review provides useful guidelines for improving our use of the internal audit function.

IDES is pleased to be recognized as one of the nine agencies selected for use as a base measurement. Our responses to the eight recommendations follow.

Recommendations 1 and 2 refer to the coverage of the Internal Audit Act. We suggest that changes in coverage be based on documented and objective criteria.

Recommendations 3 and 8 concern establishing both an office under the Governor to provide internal audit coordination and services to agencies accountable to the Governor and an advisory audit board. Creation of additional offices and review boards should be undertaken only after a careful needs assessment is made and a determination is reached about using currently established groups. We would suggest that already existing offices be used for coordination, training, standards, ethics, and peer reviews. Many of these functions are included in Illinois Revised Statutes, Chapter 27, Section 35.1 through 35.4 and are assigned to CMS. Coordination of training programs, peer reviews, and assistance to smaller agencies would be useful roles which can be performed through such a centralized operation. The State Internal Audit Managers could constitute an advisory audit board.

Recommendation 4. We concur that chief internal auditors as well as their staffs should be freed from operational responsibilities.

Recommendation 5. We concur that the requirements for the position of chief internal auditor should be revised to reflect realistic and meaningful standards. The current requirements do not reflect those qualifications which are necessary to staff this position with the proper individuals. Your review lists this Agency as out of compliance with the statutory requirements in spite of the fact that you found IDES to have one of the better internal audit operations. Our chief internal auditor has twelve years of accounting and auditing experience and a Masters of Business Administration degree in addition to being a Certified Internal Auditor. The requirement in the current statute for a CPA certificate is not reflective of the kind of functions performed by an internal auditor. IDES is in agreement with your findings that this section of the law be revised.

Recommendation 6. We concur. However, this is already done if an agency complies with the requirement to perform reviews of major internal control systems every 2 years.

Recommendation 7. IDES monitors the internal audit function against an approved two-year work plan as well as against the provisions of the Act. We have conducted a review of the adequacy of our internal control system and are using the results of this review to monitor our operation. However, in implementing this recommendation, care should be taken to ensure that management accountability is maintained. The establishment and maintenance of the system of internal controls is the responsibility of management. Agency directors should require certification from managers as to the functioning of that system. The function of internal audit is to review that management certification.

I am requesting that you make one correction to the draft report. In Appendix F IDES is shown as estimating a need for 15 internal auditors. The estimate of 15 is for the entire staff and would include a secretary, an administrative assistant and supervision of auditors. The correct number for "auditors needed" would be estimated at 10 by both our chief auditor and myself.

Thank you for the opportunity to respond to the draft report. If you have any questions, please call Jan Hamilton at 312/793-9240.

Sincerely,

Sally A. Jackson

Sally A. Jackson
D I R E C T O R

Illinois Department of Energy and Natural Resources

325 W. Adams Street, Room 300
Springfield, IL 62704-1892
217/785-2800

88 MAY 10 AM 10 33

May 6, 1988

Office of the Auditor General
Ric Rowe, Audit Manager
509 S. Sixth Street
Springfield, IL 62701-1878

Dear Mr. Rowe:

During the course of ENR's fiscal and compliance audit of this agency by Sikich, Gardner & Co., we provided Jerry Gardner additional information regarding the Internal Audit Section's auditing of grant agreements and we were able to satisfy him that this agency does regularly and routinely audit its grant and contractual agreements. Therefore, we are requesting that you delete this finding from your report.

The second area we would like to note is the finding on the lack of EDP auditing. Sikich & Gardner's report on ENR's internal audit function did not identify this area as a weakness. While ENR does not have an EDP auditor on staff, we do, on a limited basis, review new developing systems, major changes to existing systems, and some existing systems. We believe that this limited audit activity fulfills the EDP audit needs of this agency and, therefore, request that you delete this finding from your report.

Thank you for the opportunity to respond to your report.

Sincerely,

Don Etchison,
Director

cc: Nancy J. Hilger, CPA
Chief Internal Auditor

Tom Pigati, CPA
Director of Administration

NORTHEASTERN ILLINOIS UNIVERSITY
5500 N. ST. LOUIS AVENUE ● CHICAGO, ILLINOIS 60625 ● (312) 583-4050

'88 MAY 10 PM 1 45

PRESIDENT OF THE UNIVERSITY

May 9, 1988

Ric Rowe
Audit Manager
Office of the Auditor General
Marriott Commerce Building, Room 151
509 South Sixth Street 62701-1878

Dear Mr. Rowe:

This letter is in response to the draft report of the Management Audit of Illinois' State Programs of Internal Auditing issued in May, 1988. As requested it contains comments and clarifications pertaining to the findings of noncompliance with statutes cited in the draft report.

REPORTING

At Northeastern Illinois University (the University) the chief internal auditor reports directly to the President of the University in the exercise of auditing activities as well as administratively. She reports all audit findings and recommendations in their entirety directly to the President. While the Vice President for Administrative Affairs may be called upon by the President to assist him in day-to-day supervision, control over the activities of the internal auditor is ultimately retained by the President. The chief internal auditor is accountable to the President and it is he who evaluates her performance and grants pay raises accordingly. The University believes itself to be in compliance with the Internal Auditing Act (the Act) with respect to its reporting structure.

PERFORMANCE OF AUDITS

Grants

The University's internal auditor will perform reviews of grants made and received every two years in order to effectively evaluate internal accounting and administrative controls, as required by par.136.3 part (b) of the Act. The University's current internal audit plan includes a grant review.

EDP Reviews

The University's internal auditor has reviewed the design of major new EDP systems and major modifications to existing systems prior to their installation, as required by par. 136.3, part (e) of the Act. Funding constraints have precluded the University from obtaining the resources required to perform a review of all EDP systems every two years. Future consideration will be given to reallocation of resources.

Sincerely,

Gordon H. Lamb
President

GHL:mb

Edward T. Duffy
Director

Illinois Department of Public Aid

Jesse B. Harris Building
100 S. Grand Avenue East
Springfield, Illinois 62762

'88 MAY 13 PM 3 16

May 10, 1988

Mr. Richard Rowe, Audit Manager
Office of the Auditor General
509 South Sixth Street
Springfield, Illinois 62701

Dear Mr. Rowe:

This letter transmits the Department's response to it's only relevant recommendation in the Management Audit Illinois' State Programs of Internal Auditing.

Recommendation: The directors ... should change their agencies' reporting structure to comply with paragraph 136.1 of the Internal Auditing Act, which requires chief internal auditors to report directly to agencies' chief executive officers.

Response: The Department of Public Aid complies with the Internal Auditing Act (127/136.1), which mandates "The chief internal auditor shall report directly to the chief executive officer of a State agency, in the exercise of auditing activities", by having the Chief Auditor prepare and submit the annual audit plan for the Director's approval, submitting all final reports directly to the Director, and by having full, unrestricted access to the Director to discuss significant findings. For day-to-day administrative functions, the Chief Auditor reports to the Department's Inspector General.

If you have any questions, please contact my Chief Auditor Robert J. Schwarz, 782-1156.

Regards,

Edward T. Duffy

Edward T. Duffy

ILLINOIS DEPARTMENT OF
PUBLIC HEALTH
A Healthier Today For A Better Tomorrow

Bernard J. Turnock, M.D., Director

'88 MAY 11 AM 8 57

May 10, 1988

Mr. Rick Rowe, Manager
Office of the Auditor General
Marriott Commerce Building
509 South Sixth Street
Springfield, Illinois 62701

Dear Mr. Rowe:

Enclosed are the Department of Public Health's responses to the findings and recommendations contained in the Management Audit of Illinois' State Programs of Internal Auditing in which the Department was specifically mentioned. The responses are organized in order of the appearance of their corresponding findings and recommendations in the audit report.

Sincerely,

Bernard J. Turnock, MD

Bernard J. Turnock, M.D.
Director of Public Health

Enclosure

535 West Jefferson Street • Room 450 • Springfield, Illinois 62761
100 West Randolph Street • Suite 6-600 • Chicago, Illinois 60601

FINDING: **THE INTERNAL AUDIT UNIT HAS NOT PERFORMED AUDITS OF THE AGENCY'S OPERATIONS OR PROCEDURES.** (page 10)

IDPH Response:

The Department concurs with the finding and recommendation. To better define and segregate its duties and responsibilities, the Division of Audits has been divided into separate internal and external audit sections. Improvements include the development of a comprehensive audit plan and enhanced audit and report writing procedures. In addition, the Division of Audits has undertaken the development of a policies and procedures manual, long range planning goals and objectives and is aggressively pursuing training opportunities for professional staff. Increased emphasis and resources will be placed in the Division of Audits in the forthcoming fiscal year, which will enable the Division to meet its professional responsibilities and the statutory requirements of the Internal Auditing Act.

FINDING: THE CHIEF INTERNAL AUDITOR OF THE AGENCY DOES NOT REPORT DIRECTLY TO THE CHIEF EXECUTIVE OFFICER. (page 14)

IDPH Response:

The Department of Public Health does not concur with the auditor's finding that the Chief Internal Auditor of IDPH does not report directly to the Director. On all significant audit issues, the Chief Internal Auditor reports directly to the Director of the Department. This reporting relationship has been formally established in the Department's organization chart and is also set forth in the position description for the Chief of the Division of Audits. In addition, at the Director's request, the Chief of the Division of Audits attends all senior staff meetings which is utilized as a forum for raising significant issues including relevant audit issues.

Subsequent to the completion of field work for this audit, the Division of Audits has prepared an audit charter which has been reviewed and approved by the Director. It is only for very routine administrative matters that the Division Chief makes requests of and seeks approval from the Department's Deputy Director. Therefore, we believe the information contained in the audit report does not accurately portray the organizational relationship for the Chief Internal Auditor.

FINDING: **THE CHIEF INTERNAL AUDITOR AND INTERNAL AUDIT STAFF PERFORM OPERATIONAL RESPONSIBILITIES.** (page 14)

IDPH Response:

The Department of Public Health concurs with the finding and recommendation. The Chief Internal Auditor and all internal audit staff have been relieved of all operational duties.

FINDING: THE INTERNAL AUDIT UNIT HAS NOT PREPARED A BIENNIAL AUDIT PLAN IN ACCORDANCE WITH THE REQUIREMENTS OF THE INTERNAL AUDITING ACT. (page 17)

IDPH Response:

The Department of Public Health concurs with the finding and recommendation. The Division of Audits is in the process of developing a two-year audit plan which will identify the individual audits to be conducted each year. The biennial audit plan, when completed, will be submitted to the Director for approval.

SUITE 11-100
STATE OF ILLINOIS CENTER
100 WEST RANDOLPH STREET
CHICAGO, IL 60601
312-917-2600

May 11, 1988

ILLINOIS RACING BOARD

Mr. Robert Cronson
Auditor General
State of Illinois
c/o Richard Rowe
509 South Sixth Street, Fl. 1
Springfield, Illinois 62706

Dear Mr. Rowe:

I am writing in response to your recent audit finding concerning the failure of the Illinois Racing Board's internal auditor to comply with the Illinois Internal Audit Act. In that report, our internal auditor--Venice Meyer was cited for non-compliance with the Act relative to the performance of a grant review of Race Track Improvement Funds (RTIF).

It is staff's opinion that the (Board) does not administer grants. The (Board) is responsible to monitor the collection of breakage monies by organization licensees at Illinois racetracks. One half of the breakage is allotted to the State's General Revenue Fund, while the other half is deposited directly into the organization licensee's (RTIF) account in the State Treasurer's office. Separate accounts are maintained by the State Treasurer for each organization licensee conducting a race meeting at an Illinois track.

The Illinois Revised Statutes require that the (RTIF) be utilized to maintain the physical structure of Illinois racetracks. The Bureau of the Budget annually appropriates a funding level to the (Board) based upon prior expenditure levels by organization licensees. (RTIF) appropriated to the (Board) merely pass through the agency's account in order to insure the integrity of the process.

The organization licensee maintains an account where these monies generated by breakage are shown as income. The funds available in the organization licensee's account are based solely on monies earned as breakage during race meetings. If a (RTIF) project exceeds breakage monies earned, the licensee is only entitled to receive partial payment for the project based upon the amount of funds in the licensee's account.

The (Board) cannot expend (RTIF) on its own nor can they direct that any portion of these funds improve the physical structure of any racetrack where the breakage was <u>not</u> earned. Therefore, we do not believe that these funds can be considered grants to the (Board) under the terms of the Internal Audit Act.

Thank you for the opportunity to respond to these audit findings. If you have any questions concerning the above, please feel free to call.

Very truly yours,

ILLINOIS RACING BOARD

William J. Bissett
Executive Director

WJB:cmc

ILLINOIS DEPARTMENT OF REHABILITATION SERVICES
Philip C. Bradley, Acting Director

623 East Adams
P.O. Box 19429
Springfield, Illinois 62794-9429
(217)782-2093 (voice)
(217)782-5734 (TDD)

100 West Randolph
Suite 8-100
Chicago, Illinois 60601
(312)917-2934 (voice)
(312)917-3040 (TDD)

May 4, 1988

Mr. Ric Rowe
Audit Manager
Office of the Auditor General
Marriott Commerce Building
1st Floor
509 South Sixth Street
Springfield, Illinois 62701

Dear Mr. Rowe:

Attached are the Department's responses to the compliance exceptions noted in your Management Audit Report on Illinois' State Programs of Internal Auditing.

Thank you for providing us with an opportunity to comment. We do not believe that a formal exit conference will be necessary.

Sincerely,

Phil Bradley
Acting Director

Recommendation

The directors of the following agencies should change their agencies' reporting structures to comply with paragraph 136.1 of the Internal Auditing Act, which requires chief internal auditors to report directly to agencies' chief executive officers:

Attorney General	Commerce and Community Affairs
Conservation	Mental Health and Developmental Disabilities
Corrections	Northeastern Illinois University
Public Aid	Secretary of State
Public Health	Rehabilitation Services
State Police	Illinois State University
Transportation	University of Illinois

Department Response

Recommendation not accepted.

The Department's Chief Internal Auditor does (and has) report to the Director. We have attached a copy of the Department's organizational chart (exhibit 1) which was included in the Department's Human Services Plan for the 1986 state fiscal year. We believe that we are (and were) in compliance with paragraph 136.1 of the Internal Auditing Act.

Recommendation

The directors of the following agencies should ensure that chief internal auditors at their agencies perform only audit duties:

Agriculture	Board of Higher Education
Public Health	Community College Board
Racing Board	Rehabilitation Services
Secretary of State	Treasurer
University Retirement System	Alcoholism and Substance Abuse
State Community College of East St. Louis	
Professional Certification (formerly Registration and Education)	

Department Response

Recommendation accepted.

In November 1986, the Department revised its policies and procedures relieving the Internal Audit Unit of its responsibility for participating in the collection and monitoring of misspent funds cases. Since this represented the only operational responsibility of the Internal Audit Unit, the Department believes that it now complies with paragraph 136.2 of the Internal Auditing Act.

Recommendation

Directors of the following agencies should ensure that the internal audit unit prepares and follows an audit plan which meets the needs of the agency and the requirements of the Internal Auditing Act.

Chicago State University
Alcoholism and Substance Abuse
Environmental Protection Agency
Rehabilitation Services
Public Health
Racing Board
University Retirement System

Department Response

Recommendation accepted.

The Department's Internal Audit Unit currently prepares and follows a plan which meets the requirements of the Internal Auditing Act. This was confirmed and reported on in the Department's Special Report on Selected Internal Controls in Accounting, Grant Activities, and Operational Areas for Fiscal Year 1987 (see exhibit 2).

Recommendation

The General Assembly may wish to revise the Internal Auditing Act to require that audits on a test basis of expenditures, obligations, receipts, or grants be conducted within a two-year time-frame. The General Assembly may also wish to revise the Internal Auditing Act to reflect the need to plan audits within a two-year time-frame.

Department Response

The Department's internal audit plan coincides with the biennial period scheduled by the Office of the Auditor General (even cycle). Furthermore, the Department's Internal Audit Unit is in the process of completing the audits in the plan which will provide coverage on a test basis of expenditures, obligations, receipts, and grant activities.

(Additional response material supplied by the Department of Rehabilitation Services is on file at the Office of the Auditor General.)

JIM EDGAR
SECRETARY OF STATE

932 South Spring Street
Springfield, Illinois 62704
(217) 524-7300

OFFICE OF THE SECRETARY OF STATE
DEPARTMENT OF THE INSPECTOR GENERAL

May 9, 1988

Honorable Robert G. Cronson
Auditor General - State of Illinois
Marriott Commerce Building
509 South Sixth Street
Springfield, IL 62701-1878

Attention: Ric Rowe, Audit Manager

Dear Mr. Rowe:

The draft of the management audit of the State's Programs of Internal Auditing has been reviewed by me and my staff.

We have also reviewed the comments applicable to "Matters for consideration by the General Assembly" which were furnished to your office by the State Internal Audit Managers organization. We are generally in agreement with the State IA Managers' on those matters. I would like to comment on those Agency Recommendations specific to the Office of the Secretary of State.

> **The directors of the following agencies should change their agencies' reporting structures to comply with paragraph 136.1 of the Internal Auditing Act, which requires chief internal auditors to report directly to agencies' chief executive officers.**

A reorganization within this office, effective April 15, 1988, (see Illinois Register, Vol. 12, Issue 18, April 29, 1988, Code Citation: 2 Ill. Adm. Code 550) created the Inspector General Department. Quoting the Code, "The Inspector General Department performs two functions: it investigates all allegations of wrongdoing involving personnel of the Office of the Secretary of State, and presents reports on its findings to the Secretary, Deputy Secretary, and appropriate Directors for possible disciplinary action, and it, through its Internal Audit Division, conducts fiscal and compliance audits of Secretary of State operations. The Chief Internal Auditor has access to the Secretary and Deputy Secretary regarding audit matters."

Subsequent to the audit, and in conjunction with this reorganization, the Chief Internal Auditor of this Office now reports directly to the Secretary of State in the exercise of auditing activities.

The directors of the following agencies should ensure that chief internal auditors at their agencies perform only audit duties.

Prior to the audit, the Chief Internal Auditor of this Office served on the Agency Policy Committee in an advisory, non-voting position. While this was considered by some to be good management practice, he has been removed from the committee to eliminate the auditor concern.

Appendix E. Non-compliance with Statutes. Administrative & Accounting audits.

Since 1983, an internal audit plan has been prepared each year; audits were conducted during the ensuing year in accordance with that plan to the extent possible. Plans and audits have been reviewed by external auditors with no prior exceptions of this type noted.

To eliminate the audit concern, the FY-89 and subsequent audit plans will be two-year plans, and will provide more specificity as to audits scheduled, ascertaining that major accounting and administrative controls will be reviewed minimally every two years.

Please consider this letter to be our response to the findings and recommendations as presented in the draft report. We do not request an exit conference. If you have any questions, please do not hesitate to contact me.

Sincerely,

James E. Redenbo
Inspector General

JER:wm

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS

50 GERTY DRIVE · P.O. BOX 2710 — STATION A · CHAMPAIGN, IL 61820 · Telephone: (217) 333-3860

May 6, 1988

'88 MAY 9 PM 12 22

Mr. Ric Rowe
Audit Manager
State of Illinois
Office of the Auditor General
Marriott Commerce Building, Room 151
509 South Sixth Street
Springfield, Illinois 62701-1878

Dear Mr. Rowe:

I have received and reviewed your report on the management audit of "Illinois' State Programs of Internal Auditing". By way of this letter, I am responding only to specific findings on the internal audit function at the State Universities Retirement System (SURS).

The first finding indicated that I was performing operational duties. Through telephone conversations with your office, three areas from my job description were indicated as being operational: claims, cash balance and checking account, EDP system (act as coordinator for inquiry system designed for SURS staff). I will address each area separately.

Claims duties. Through a misunderstanding, I stated on your "Bio" sheet that I performed operational duties in this area. Since the "Bio" sheet summarized functions as either audit duties or operational duties, I mistakenly put down the time I am involved with the computer Systems Development Life Cycle (SDLC) as operational instead of audit. My duties during the SDLC are limited to attending preliminary and detail design meetings, reviewing internal controls to be implemented, approving users' testing plans and testing results. To clarify my work in the Claims area, I am enclosing an audit program from a recent survivors claims audit which is typical of the work I perform in all claims audits. In addition to my SDLC work, the claims audits are the only work I have ever done in this area.

Cash balance and checking account duties. I have been reconciling the bank account for the following reason: Since SURS is in charge of its own fund, it has a master trust account as well as a checking account. This unique situation causes the bank reconciliation process to be very technical and complicated which reduces the number of persons in this Office technically able to perform this duty. Of the technically able persons, I was the only one independent enough to complete it (all other personnel had day-to-day duties in the receipts or disbursements cycles). As a result of your finding, I will no longer reconcile the bank account. In order to ensure adequate separation of duties of the new person completing the bank reconciliation, SURS will be reassigning the duties of two staff members.

EDP system (act as coordinator for inquiry system designed for SURS staff. The data base inquiry system in place at SURS is designed to be used by nontechnical staff in order to generate reports given a set of simple parameters or limits. I use the inquiry system extensively in selecting sample sizes and determining audit populations. Since I know more about the inquiry system than any other staff member I will, on occasion, generate informational reports for other staff members. I estimate that I spend less than two hours per month performing this duty. Since these reports are informational they are not subject to audits. In light of this fact, I feel that I maintained my audit independence while performing this operational duty. SURS management will encourage other staff members to learn the query system and generate their own reports.

The second finding indicated that SURS does not have an internal audit plan. Because of an error in communication, my internal audit plan, which has been used for many years, was never asked for by the accounting firm performing the review. I have enclosed a copy of this document for your review. To prove that the document was not written as a result of your finding, you may check with our external auditing firm. I have given them a copy of the plan several times over the years. Upon reviewing Section 136.3 of the Internal Auditing Act, I realize that the plan may not be structured exactly as you would like; therefore, I will revise this document in the near future to meet your standards and make it a "stand alone document". I agree that my audit plan is not entirely in accordance to Section 136.3; however, I feel that your statement that SURS does not have an audit plan is untrue and I ask that you remove the finding.

Steve Hayward
Internal Auditor

Approved by:
Donald E. Hoffmeister
Executive Director

SH:pls
Encs.

(Additional response material supplied by the State Universities Retirement System is on file at the Office of the Auditor General.)

UNIVERSITY OF ILLINOIS
OFFICE OF
Vice President for Business and Finance, Comptroller
CHICAGO URBANA · CHAMPAIGN
349 Administration Building · 506 South Wright Street · Urbana, Illinois 61801

May 9, 1988

Mr. Ric Rowe, State Auditor
Office of the Auditor General
Marriott Commerce Building, Room 151
509 South Sixth Street
Springfield, Illinois 62701-1878

Dear Mr. Rowe:

The report on the management audit of the State's programs of internal auditing deals with two noncompliance areas for the University of Illinois and I believe these findings merit a response.

The Internal Auditing Act requires the chief internal auditors to report directly to agency chief executive officers. The objectives of the Act, as stated in your report, are to ensure that audit findings are communicated fully to the director; to hold the agency director accountable for adequacy of internal controls and operations; use the authority of the director to ensure remedial action.

Our chief internal auditor reports functionally to the president of the university. He reports administratively to me. All audit reports are addressed to me and copied to the president. He receives all audit reports directly from the audit office and this ensures that all audit findings are communicated without any opportunities to alter or stop the audit findings from reaching the president's office.

The president is involved in the planning process and meets with the chief internal auditor to review and approve the annual audit plan and the long range audit plan. The president is also included in the audit recommendation follow-up process. All unimplemented audit recommendations are followed up semiannually and a report of the project is directed to me with a copy to the president. The president has supported the audit staff to ensure remedial action will be taken in the rare instances when it was necessary. We believe, then, that the university has met the intent of the Act by including the president in the planning, auditing, and follow-up process at an appropriate level of detail to ensure compliance with the objectives intended.

The second area of noncompliance is titled administrative and accounting audits. This appears to address the fact that the internal audit program does not include biennial reviews of each internal control system at each operating department of the university. The number of operating departments of the university is between 600 and 700 departments, depending on the definition of department. This finding was stated in the 1986 compliance audit and we, subsequently, addressed this finding with the Legislative Audit Commission.

Our response to the compliance audit finding and our response to the finding in your report are the same:

> The audit office will conduct a risk analysis by visiting each department, the purpose being to determine the level of business risk associated with the department financial activity. This will be an important input in the development of future audit plans. Those plans will incorporate a stratified random sample approach to determine which departments to review. We do not believe it is a prudent use of audit resources to review every department every two years, nor do we interpret the intent of the Act is to perform 100 percent audit coverage. It has been an accepted practice in the audit profession to review major internal control systems and use management judgement as to the appropriateness of the identity and frequency of review of the minor internal control systems.

The Legislative Audit Commission agreed with our response to the internal audit plan and the incorporation of a risk analysis to determine audit coverage.

It is important to be results oriented. When one is not, there is always an opportunity to get lost in a process noncompliance problem when the results are meeting the objectives. I recommend that in future audits you review not only the process but the results as well. There are many good observations in your report, and we do support your recommendations in Chapter VI.

Sincerely,

Craig S. Bazzani

Craig S. Bazzani
Vice President for
Business and Finance

STATE OF ILLINOIS
DEPARTMENT OF VETERANS' AFFAIRS
P.O. Box 19432 208 West Cook Street Springfield, Illinois 62794-9432 217/782-6641

JOHN W. JOHNSTON
DIRECTOR

JAMES D. ROSAS
ASSISTANT DIRECTOR

'88 MAY 12 AM 9 32

May 9, 1988

Robert G. Cronson
Auditor General
Marriot Commerce Building
Room 151, 509 South Sixth
Springfield, Illinois

ATTN: Mr. Ric Rowe

Subject: Management Audit Illinois State Program of Internal Audit

Dear Mr. Cronson:

Your letter of April 25, 1988, covering the management audit of Illinois State Audit Programs, mentioned the Department of Veterans' Affairs twice. In Appendix F, in the "Estimates of Auditors Needed", not being conversant with the "Model" used in the estimation of internal auditor staff, I can only reiterate my previous assessment that our current staff of two auditors is adequate.

In Appendix E, Non compliance with Statutes, Accounting and Administrative Audits, the reference is to the audit of internal fiscal and administrative controls. The audit of fiscal and administrative controls for the Central Office was in process when your Auditor was here, and has now been completed.

Sincerely,

John W. Johnston
Director

JWJ:VWJ:jal
0663A

ILLINOIS
DEPARTMENT OF
CENTRAL MANAGEMENT SERVICES

Michael E. Tristano, Director

Rose Mary Bombela, Assistant Director
Daniel R. Long, Assistant Director

'88 MAY 16 AM 8:45

May 13, 1988

Honorable Robert G. Cronson
Auditor General
State of Illinois
509 South Sixth Street
Springfield, Illinois 62701

Dear Mr. Cronson:

Re: Management Audit, Illinois' State Programs of Internal Auditing

While the management audit does not specifically call for a response, there are several issues that I feel are appropriate to comment on due to the uniqueness of the Department of Central Management Services (DCMS) statutory responsibilities:

. Chief Internal Auditor Qualifications (Pages 15-16)

In the draft report, a point was raised concerning the differences between DCMS's qualifications for chief internal auditors as cited in the Internal Auditor series specifications. The finding indicates that the statutes (Internal Auditing Act) would allow a Certified Public Accountant (CPA) and no experience to qualify, whereas our specification, pursuant to the IL Personnel Code (Chapter 127, Paragraph 636108), for a Internal Auditor III requires at least four years of experience even if a candidate has a CPA. Experience is necessary for this responsible position (Chief Internal Auditor), and our Internal Auditor class specifications recognize this. The audit also concludes that the Act does not recognize other professional designations and that these might be equally valid in promoting auditing efficiency. Our standards recognizes the Certified Internal Auditor designation as well.

Your statement that our specifications are "now inconsistent with the Internal Auditing Act" is followed by a conclusion that our "requirements are more desirable than the qualifications specified in the Act." Your audit suggests that the Act be modified to add experience requirements and to recognize the Certified Internal Auditor designation, we concur.

. Agencies With No Internal Auditing Programs (Pages 11-12)
. Coordination of Peer Review and Training (Pages 24-26)

It should be pointed out that portions of the actions recommended by the report already exist within the statutes - delegating the responsibilities to the DCMS. Chapter 127, Paragraph 35.4, Section (d) provides for our agency to "examine the accounts of any organization ..." and Section (e) states "provide continuing

715 Stratton Office Building, Springfield, Illinois 62706

instruction in auditing." Only due to lack of funding have these two initiatives not been fully exercised and I do encourage the General Assembly to consider adequate funds for expanding our professional services within the DCMS structure

If I may be of further assistance, please contact me or William B. Winberg, Chief Internal Auditor.

Sincerely,

Michael E. Tristano

MET:WBW:hs

cc: William B. Winberg