



ILLINOIS AUDIT ADVISORY

Emerging and Potential Audit Issues

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AUDITOR GENERAL'S MESSAGE

As we pass the halfway mark of 1998 and draw closer to the end of the century, agency managers face new challenges, as well as old, familiar challenges which will never go away.

The newest challenge which will continue to receive attention is the year 2000 issue. Will the transition from 1999 to 2000 be uneventful? I doubt if anyone knows for sure. However, as agency managers, we have the responsibility to ensure that our information systems are ready to handle the year 2000. This Audit Advisory examines the year 2000 issue in greater detail.

As the end of the 20th century draws closer, we are also faced with age-old management challenges – those being

to simply run our organizations in the most efficient, effective manner possible. This Audit Advisory examines various related topics, including agency management's responsibilities, indicators of fraud, and ways to increase the efficiency of our agencies.

As always, I hope you find the information in this issue of the Advisory to be useful in our goal of providing efficient, effective, and accountable State government services.

WILLIAM G. HOLLAND
July 1998

YEAR 2000 COMPLIANCE

In the last few years, the term "year 2000 compliance" has become part of our standard vocabulary. Year 2000 compliance refers to the capability of computers to differentiate the year 2000 from the year 1900. Computer systems have typically represented the year – using two digits rather than four – in order to conserve data storage space and reduce costs. Thus 1998 would be represented as 98 and both the year 2000 and 1900 would be represented as 00. As a result, computer systems that use dates or perform date- or time-sensitive calculations may generate incorrect results in the year 2000.

As we reviewed the status of year 2000 compliance efforts at State agencies in conjunction with financial and compliance audits, we determined that significant future efforts were needed to ensure that the year 2000 would not adversely impact State government operations. In all cases additional work was required to ensure year 2000 compliance, and in some cases very little progress had been made. We plan to review the status of year 2000 compliance activities in all financial and compliance audits conducted in fiscal year 1999.

It is well documented that the year 2000 will cause problems in date sensitive computer applications; however, there are three additional areas that will also be extremely important.

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NEW PROCUREMENT CODE ESTABLISHED

Public Act 90-572, which established the Illinois Procurement Code, repealed various purchasing laws. The Act generally applies only to executive agencies and does the following:

- Creates a five-member Procurement Policy Board.
- Designates Chief Procurement Officers for CDB, DOT, higher education, and CMS.
- Excludes some purchases, such as grants, purchase of care, real estate purchases, and certain legal services.
- Generally requires purchases by competitive sealed bids with

exemptions that include: supplies/services up to \$10,000; construction up to \$30,000, sole source purchases, and emergency purchases.

- Establishes a competitive request for proposal process for professional and artistic services.
- Allows contracts for up to 10 years.
- Requires bidders or proposers to disclose financial interests if annual contract exceeds \$10,000.

Our audits will be reviewing agencies' compliance with these mandates.

RESPONSIBILITIES OF STATE MANAGERS

As managers of State agencies, we have a vast array of important responsibilities. It is commonly understood that we are responsible for planning, organizing, staffing, directing, and controlling.

The accomplishment of these responsibilities is subject to independent review by auditors. Therefore, it may be helpful to delineate what these responsibilities encompass.

The Office of the Auditor General (OAG) conducts audits in conformance with Government Auditing Standards established by the U.S. General Accounting Office. These standards note the following:

1. Public officials are responsible for applying resources efficiently, economically, and effectively to achieve the purposes for which the resources were furnished.
2. Public officials are responsible for complying with applicable laws and regulations and implementing systems designed to achieve that compliance.
3. Public officials are responsible for establishing and maintaining effective controls to ensure that goals and objectives are met; resources are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed.
4. Public officials are accountable to the public and to other levels and branches of government; consequently, they should provide

appropriate reports to those to whom they are accountable.

5. Legislators and citizens need information to assess the integrity, performance, and stewardship of government's activities. Therefore, unless legally restricted, audit reports should be available to the public.

Management should assure itself that these responsibilities are being fulfilled through active monitoring which includes obtaining and maintaining complete, accurate, and reliable information.

ACCESSING HISTORICAL SAMS DATA

Fiscal Year 1998 was the initial year agency transactions were processed through the SAMS system. Fiscal Year 1998 data is currently being audited at many agencies. The Comptroller's Office has requested us to remind agencies that historical data is archived to maximize the volume of transactions processed through SAMS. To research information regarding older transactions, agency personnel may need to use the on-line archive tables. Detailed information regarding current and archive tables is addressed in SAMS Bulletin #10 issued May 4, 1998.

PERFORMANCE AUDITS CONDUCTED UPON REQUEST

Performance audits are conducted at the request of legislators to assist them in their oversight function. Based on the scope specified in the resolution or the law requesting the audit, State agencies' programs, functions, and activities are reviewed to determine if they are efficient, economical, and/or effective in providing services which the General Assembly intended. The General Assembly uses performance audit information to develop legislation, deal with budgetary issues, and direct agencies to improve programs.

Several performance audits are released each year. This year's performance audits examined nursing home prescreening, road construction, and tuition waivers. Audits in progress are listed below. For more information about the performance audit program, contact Jim Schlouch, Performance Audit Director.

PERFORMANCE AUDITS IN PROGRESS

Audit	Authority	Primary Agencies
Chicago Airports	PA 89-386	City of Chicago
Comptroller's Offset System	LAC 110	Comptroller, CMS, DCFS, DES, DOT, ISAC, Public Aid, Revenue, SIU, Teachers' Retirement, U of I
Delta Dental Program	LAC 113	Public Aid
Fire Investigations	HR 486	State Fire Marshal
Home Health Care	LAC 114	Public Aid
Inspector General	PA 89-507	Human Services
Pilsen Mental Health Center	HR 385	Human Services
Provider Cost Survey	HR 504	Aging, Corrections, DCFS, Human Services, Public Aid

ASSESSING THE RISK OF FRAUD

In all organizations, both public and private, the possibility exists that employees may be diverting agency resources for personal gain. As managers, we need to assess the likelihood or risk that such actions may occur and design controls to minimize such risk. These controls may include:

- Established responsibilities
- Segregated job duties
- Documented procedures
- Independent internal verifications
- Established physical, mechanical, and electronic controls

No management control system is infallible. The following may indicate fraudulent conduct:

- Unauthorized transactions
- Unexplained cost increases
- Unusually large inventory losses
- Purchases exceeding the contracted amount
- Inadequate documentation of transactions

Indicators are not always found through paper transactions. Other warning signs are when an employee:

- Expresses pronounced criticism of others, attempting to divert suspicion.
- Becomes annoyed with reasonable questioning.
- Replies to questions with unreasonable explanations.
- Refuses to leave custody of records during the day; working overtime regularly.
- Refuses to take vacations and shuns promotions.

Awareness of fraud indicators, however, can lead to early detection

and avoid the potentially damaging ramifications of fraudulent acts.

MONITOR UNEMPLOYMENT COSTS

Over the past several years, audits have found that agencies are not properly monitoring unemployment benefits paid to current or former State employees. As a result of a recent audit, the Department of Employment Security (DES) conducted a special review which identified \$885,000 in overpayments of unemployment benefits to current and former State employees.

When DES receives a request for unemployment benefits from a former State employee, DES sends unemployment benefit information to agencies. It is the agencies' responsibility to verify the accuracy of the information (such as the last date of employment and the reason for separation). If a problem with the information is noted, the agency has an obligation to immediately protest the claim.

Audits have also reported findings concerning agencies' use of part-time or intermittent employees. Since intermittent employees may become eligible for unemployment benefits when laid off, the unemployment cost to the State should be considered by the agency when deciding the type of employment method to use to get needed help, such as full-time staff, intermittent staff, or some contractual arrangement.

For further information, contact Mike Maziarz, Audit Manager.

AUDITOR GENERAL'S HOME PAGE

The Auditor General's Internet Home Page allows users to obtain information about the OAG. The Home Page includes:

- The Requests and Comments Section which lists information available for review and contains an online version of the Emergency Purchase Affidavit.
- The Agencies Audited Section which lists all of the agencies audited and has an online version of the digest from the most recently released audit for each agency.
- The Special Audits Section which has information on program and management audits, including the audit resolution and digest for audits released after December 1996, and an online version of the full audit report for special audits released after April 1998.

The Home Page also contains information about career opportunities with the Auditor General's Office, as well as links to other audit-related Internet sites.

If you have any comments or suggestions regarding our Home Page, please contact us. Our Home Page address is:

<http://www.state.il.us/auditor>

You can e-mail us at:
auditor@pop.state.il.us

Year 2000 Compliance

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Computer System Interdependency –

Data exchanges between organizations may lead to vulnerabilities as non-compliant data from external sources may affect compliant systems. Thus, agencies must not only be concerned with their systems, but also with organizations with which data is exchanged.

Embedded Systems –

Problems may be caused by embedded chips in devices. Computer chips reside in everything – thermostats, elevators, phones, smoke detectors, production lines, and hospital equipment. Since they were programmed at factories no one really knows if they will function past the year 2000.

Contingency Plans – Time and resources are not available to transform all systems by the immovable deadline. As a result, contingency plans are needed to ensure that critical services can be provided if computer systems fail.

Since year 2000 compliance will impact State agencies, we recommend they assess the effectiveness of their compliance process. If compliance has not been achieved, resources must be allocated to implement and test the required changes. For more information, please contact Bill Sampias, Director of Information Systems Audits. Copies of year 2000 audit programs and links to sites are available on the OAG Home Page at:

<http://www.state.il.us/auditor>

EFFECTIVE CONTROLS

Effective controls are at the core of well-managed organizations. Weak controls can lead to problems, including the types of findings below.

TRAVEL

- Inadequate procedures to ensure certain travel reimbursements were not taxable by IRS.
- Lack of prior approval for out-of-state travel.
- Not filing required reports, including vehicle assignments and travel headquarters.
- Approving unallowable travel expenses based on an improper designation of headquarters and improperly reimbursing employees for commuting mileage.

GRANTS

- Payments made before receiving supporting documentation.
- Cost reports not received.
- Site visits not performed.
- Subgrantee audit reports not reviewed.
- Agency records and sub-recipients' audited financial statements not reconciled.

TRAINING ON AUDITING STANDARDS

On August 6 and 7, 1998, the Office of the Auditor General (OAG) will present "1998 Auditing Standards Update and OMB Circular A-133" by Joseph Delaney at the Ramada Inn South Plaza in Springfield. Mr. Delaney is a Senior Financial Management Associate for the Governmental Training Division at the Carl Vinson Institute of Government, a public service unit of the University of Georgia.

Recently, the OAG sent a letter to agency directors inviting them to send a representative to this training. There is no charge to agencies. However, enrollment is limited and reservations will be taken on a first come basis. If your agency is interested in sending a representative to attend this course, contact Jody Ohm, OAG Training Administrator.

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