Illinois Auditor General

Jane Clark
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State Internal Audit Advisory Board

October 2017

Financial/Compliance Division

- **Decline of State Financial Condition**

- **GASB Statements**

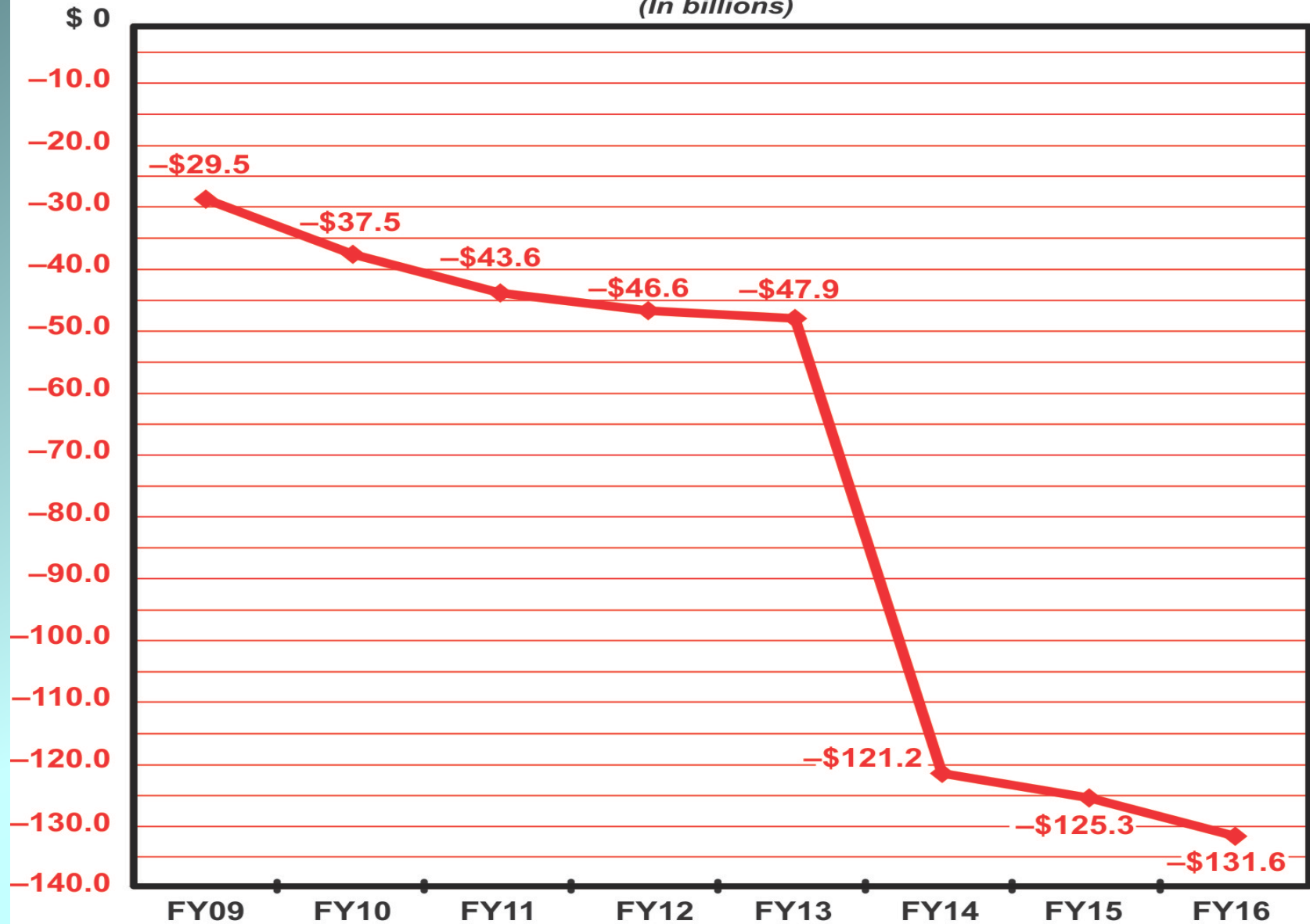- **OAG Audit Guide Update**

- **Meeting with SIAAB Members**

GASB Statements FY17

- **No. 73: Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of Statement No. 68, along with amendments to certain provisions of Statements No. 67 and 68.**

- **No. 74: Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.** *Replaces Statement No. 43 and addresses the financial reports of defined benefit other postemployment benefit (OPEB) plans that are administered through trusts that meet specified criteria.*

GASB Statements FY18

- **No. 75: Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. Replaces the requirements of Statement No. 45. <u>This statement will have a very large dollar impact on the amount that will be reported on the face of the financial statements.</u>**

EXHIBIT 1
STATE OF ILLINOIS
DEFICITS FOR NET POSITION OF GOVERNMENTAL ACTIVITIES
FY09-FY16
(In billions)

5

EXHIBIT 2
STATE OF ILLINOIS
GENERAL FUND <u>DEFICITS</u>
FY09-FY16
(In billions)

6
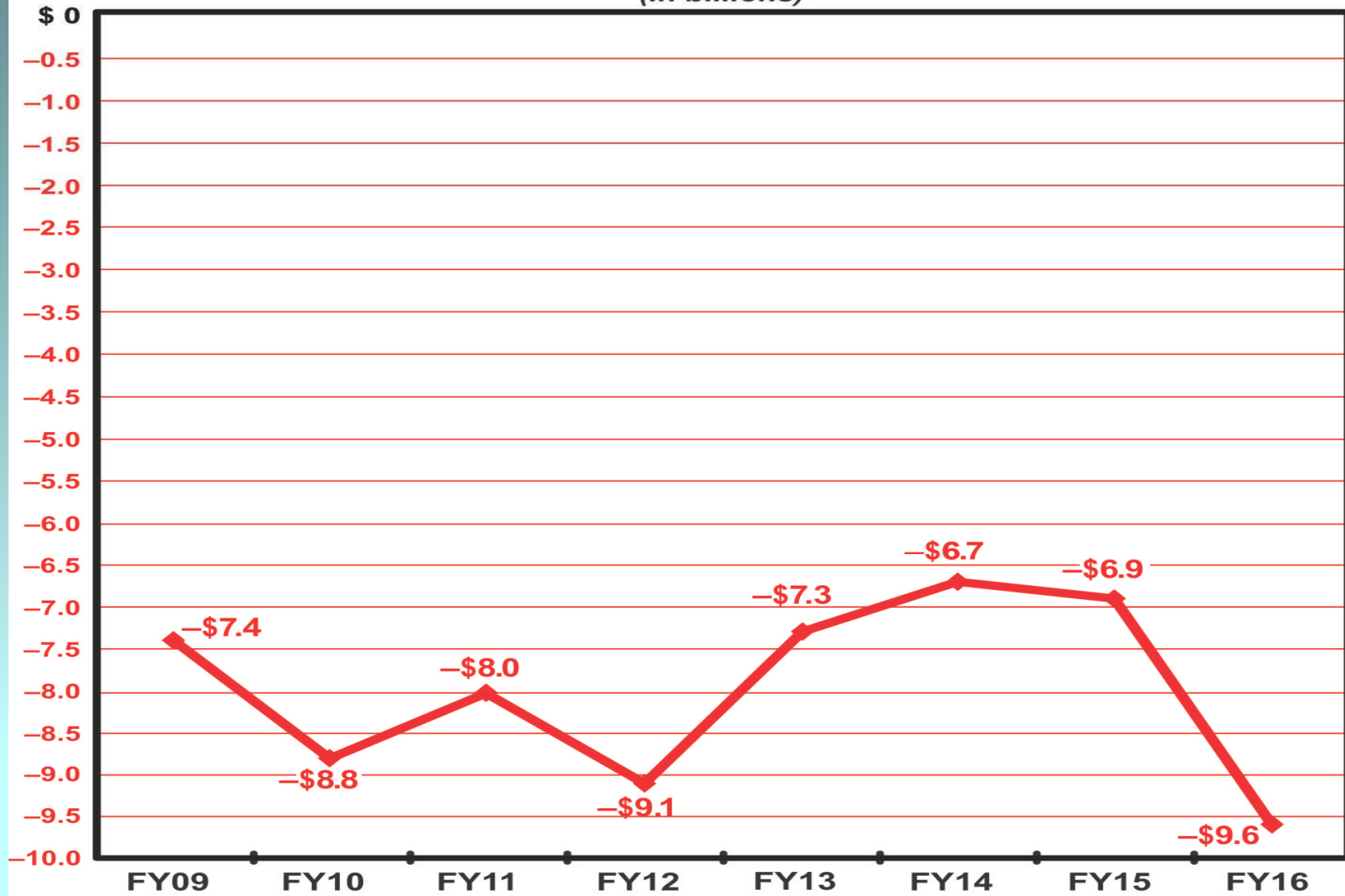
OAG Audit Guide Update

- Several changes in 2017
- Significant changes throughout as a result of SSAE No. 18
  - Attestation Standards Clarification and Recodification
  - Effective for engagements as of May 1, 2017
  - Clarity project designed to make standards easier to read
  - Affects examinations, reviews and agreed-upon-procedures
  - SSAE 18 supersedes SSAE 16 for SOC 1 engagements

OAG Audit Guide Update (cont.)

- **Some Audit Guide areas impacted by SSAE No. 18**
  - **State Compliance Report**
  - **Significant additions through-out Policies and Procedures in Chapter 33**
  - **Agreed-Upon-Procedures**
    - **AUP report**
    - **Assertion Letter (e.g., each statewide single audit AUP)**
    - **Representation Letter**
  - **Summary of Uncorrected Misstatements provided with attestation engagement management representation**

Sharing of OAG Audit Guide

- Upon request, we will share the OAG Audit Guide
- We have been doing this for many years
- We continue to believe this is a beneficial and cooperative process between the OAG and Internal Auditors
- Just send an e-mail to the OAG manager you are working with to obtain a copy

OAG and SIAAB

- **Met with members of SIAAB**

- **Points of Discussion**
  - **SIAAB proposal letter dated August 21, 2017**
  - **Risk-Based internal audit approach in relation to:**
    - **FCIAA (30 ILCS 10/)**
    - **SAMS Procedure 02.50.20**
    - **IIA Standards (2010-Planning)**

Information Systems Audits Division

- **Expanded IS Reviews**
- **EO – 20016-01**
- **DoIT**
- **ERP**

Expanded IS Reviews

The Information Systems Audit Division's primary focus is to review information systems to ensure:

- Security - systems are protected against both physical and logical unauthorized access.

- Availability - systems are available for operation and use as required.

- Processing integrity - system processing is complete, accurate, timely and authorized.

- Confidentiality - information designated as confidential is adequately protected.

Expanded IS Reviews

The Division performs approximately 25 IS reviews each audit cycle as a component of selected Compliance Examinations. Areas routinely reviewed include:

- Logical Security Parameters
- Security and Control of Confidential Information
- Compliance with Payment Card Industry Standards
- Risk Assessments
- Security Policies
- Change Management
- Third Party Service Provider Use
- Project Management and Systems Development
- Application Reviews

The output from an IS review is a Fieldwork Summary (usually classified as confidential as it contains technical information that could jeopardize the security of systems or its data) that outlines the existing control environment; any identified weakness and associated recommendations. If findings are warranted, they are included in the Compliance Examination Report or Immaterial Letter.

Impact of EO 2016-01

- Each agency is responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential systems and data are adequately safeguarded. This **responsibility is not limited** because the process is outsourced to DoIT or another entity.

- Agencies using DoIT services will be responsible for complying with prescribed requirements and for using available security mechanisms to protect the security, availability, and integrity of their data.

- A **signed agreement** that clearly outlines the ownership of data, systems, and the responsibility for controls will help us identify the review areas that specifically apply to the agency and those that are the responsibility of DoIT.

- We expect **due diligence** on every Agency's part to ensure their key systems and data have adequate controls in place regarding Security, Availability, Processing integrity, and Confidentiality.

Use of External Service Organizations

- Agencies are responsible for the design, implementation, and maintenance of internal controls related to information systems and operations to assure its critical and confidential data are adequately safeguarded. This responsibility is not limited because the process is outsourced.

- New area of emphasis as more agencies are utilizing external service organizations.

- DoIT is promoting a cloud first strategy.

Third Party Service Provider Use / Cloud Computing

➢ The cloud computing environment is sufficient to effectively promote security, integrity, and availability of its applications and data.

➢ Roles and responsibilities of both the Department and cloud computing service provider are clearly defined and outlined in a formal agreement.

➢ The cloud computing service provider security policies are adequate.

➢ The cloud computing environment complies with internal and external requirements applicable to the Department.

➢ Adequate procedures are in place for backup and recovery of the application and data.

➢ An independent examination is performed to report on controls at organizations which provide services to user entities.

PCI Audit Issues

- This has been an area of emphasis as millions of dollars of credit card payments are accepted by agencies and universities.

- The Payment Card Industry Data Security Standard (PCI DSS) details security requirements for members, merchants, service providers, and entities that store, process or transmit cardholder data and/or sensitive authentication data.

- Per the Treasurer's Office over 40 State entities use the E-Pay program.

- If a State entity accepts credit cards, a PCI review should be conducted.

DoIT SOC Report

- For many years the Auditor General's Office has annually released a Service Organization Control (SOC) Report for DCMS/BCCS.

- The primary purpose of the examination has been to assist the external auditors of the approximately 100 agencies using IT services in determining if the controls over the IT environment and the common application systems (AIS, CPS, CTAS, and CIS) are operating effectively.

- The Service Organization Control examination is governed by the *Codification of Statements on Standards for Attestation Engagements*, AT-C § 320. These Standards provide detailed guidance on the conduct of the examination, including the importance of the service organization's description of its control environment. The service organization's description must include detailed information regarding its control over the processes/services provided to the users of its services

DoIT SOC Report
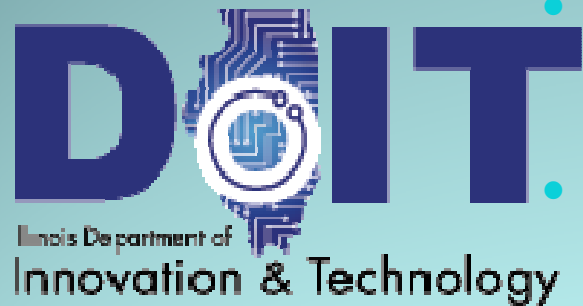
- In the absence of a complete and accurate description of the control environment, we were unable to conduct an examination of the design and operating effectiveness of the controls at DoIT and render an opinion.

- As a result, applicable controls must, instead, be tested at the individual using agency level for fiscal year 2017.

- We generally expect agencies will experience an increase in their effort to provide appropriate and sufficient evidential matter to the auditors and auditors will increase their testing of the major transaction cycles. For example:

  - Additional testing will be necessary for payroll deductions, withholding, and contributions because the electronic calculations of these amounts were not reviewed.

  - Increased sample size over detailed testing of vouchers.

DoIT SOC Report

- Given the significant impact of DoIT's IT controls over financial reporting at the user agencies, we will continue to work with DoIT to promote the development of a complete and accurate description.

- The addition of the State's new ERP system to DoIT's portfolio of services intensifies the need for a complete and accurate description for fiscal year 2018.

- We have received a commitment from DoIT that they will devote the resources necessary to facilitate the completion of a SOC review for fiscal year 2018.

ERP System

- *Background and objectives - Implementation of a single, Statewide ERP Software Package that will enable greater financial transparency and compliance with applicable laws and regulations.*
- *The ERP effort will deliver a modern, integrated IT platform for the State of Illinois that:*
  - *Consistently delivers financial statements in a timely manner*
  - *Enables Statewide transparency, access to information, and swift decision-making*
  - *Enables State operations to receive a clean audit from the Auditor General*
  - *Is a catalyst for the Statewide transformation of administrative services*
- The new projected cost is $282 million over a 6 year period. Over $63 million has been expended.

ERP

Modules in Production as of June 30, 2017

- ❖ General Ledger-Full Accrual, Modified Accrual, and Cash
- ❖ Accounts Receivable
- ❖ Asset Lifecycle Management (Equipment)
- ❖ Accounts Payable
- ❖ Procurement
- ❖ Budgeting (Funds Management)
- ❖ Public Sector Grants Management

ERP Implementation

State Agencies using the ERP by **July 1, 2017**

DES	EPA **	DVA	Governor
Lt. Gov.	CSC	CDB	PPB
HPA	OEIG	GOMB	Revenue **
IEMA			

State Agencies projected to use the ERP by **January 1, 2018**

DHS **	DHFS **	DCFS **	EEC
CDD	ITT		

State Agencies projected to use the ERP by **July 1, 2018**

DCMS **	Lottery **	DCEO	DPH
DNR **	DFPR	AGR	Labor
ICC	IWCC	IRB	IAC
IPA	Insurance	PTAB	IGB
DoIT	ELB	LRB	

** Funds material to CAFR

ERP Implementation

Issues Brought to our Attention

- Agencies have access to other agencies data
- Lack of segregation of duties within the GL (entering vs. approving)
- Depreciation is not calculating correctly within the Asset Life Cycle Module
- Lack of reporting tools
- Data did not always convert correctly and lack of documentation over review of converted data.
- Problems reconciling with IOC/SAMS
- DES hired external consultants with expertise in the ERP package (SAP) to assist with its implementation.
- DHFS entered into a contract with RSM to assist with its ERP implementation.
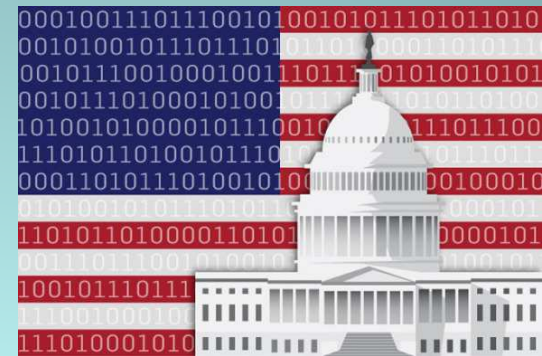
ERP Implementation

Suggestions for User Agencies

- Security - Review access rights (who has access, the type of access, and why the individual has access)

- Changes – Obtain an understanding of the system changes and ensure changes meet your needs.

- Backups - Obtain assurance and verification from DoIT that your data is being properly backed up and stored off-site.

- Data/Reports – Ensure that the content and availability of reports meets your needs.

- Training – Ensure that staff are adequately trained.

- Document communications with DoIT

Performance Audit Division

The Performance Audit Division conducts program and management audits of State agencies and local governments.

- These reports are directed by the General Assembly.

- The following is a summary of findings in some recent Performance Audit Reports.

Office of the Auditor General

Performance Audit

House Resolution No. 55

COLLEGE OF DUPAGE

Frank J. Mautino, Auditor General

AUDIT BACKGROUND

The College awarded the outgoing President a lump sum severance payment of $762,868.

House Resolution No.55 included questions about:

- Total revenues and expenses
- General obligation bonds and construction
- Fiduciary responsibilities of the Board
- Compensation and severance packages of community college presidents in the State
- Transactions with the College's Foundation

OVERALL AUDIT CONCLUSION

Overall the audit concluded that the College of DuPage:

- Needed to improve its operations, and

- The Board of Trustees needed to improve its oversight of the College's operations.

Annual Evaluation

- The College did not evaluate the President's performance each year, as required by policy and the employment agreement.

- The College could not show that the Board was receiving quarterly investment reports, or reviewing its investments annually as required by Board policy.

BOARD FIDUCIARY RESPONSIBILITIES

- The Board had not established permanent standing committees for areas such as finance, budget, and academic affairs.

- The College was violating its investment policies by investing nearly 30 percent of its portfolio in a single fund. In October 2014, this fund revealed a fraud that resulted in a loss of more than $2.2 million to the College.

Procurement

Procurements did not always comply with requirements, such as:

- Getting approval before the purchase;

- Having a Board member or employee open the bids, as required by the Community College Act; and

- Keeping a copy of the signed contract.

BONDS AND CONSTRUCTION

The College issued $366 million in bonds for construction, but lacked:

- A construction committee

- Status reports at Board meetings

BONDS AND CONSTRUCTION (cont.)

Oversight of construction activities needed to be improved. We reviewed 12 building projects totaling $403.7 million for the period FY2003-FY2015 and found that:

- project approval was not always received from the Illinois Community College Board prior to beginning the project
- exemptions from competitive procurement were not always documented,
- there was no system in place to prequalify bidders,
- bid openings were not always documented, and
- contracts were not always signed prior to work beginning

Compensation

- The College President had the highest annual compensation in his peer group of Illinois community colleges (nearly $500,000 in FY14).

  - The College awarded the President a severance payment of $762,868 in 2015.

  - Only 3 of 16 presidents (20%) at the other community colleges we reviewed received a payment upon separation; the highest was $380,000.

Audit Manager: Mike Paoni

RECOMMENDATIONS

The audit made 19 recommendations to the College, which they agreed to implement.

Audit Manager: Mike Paoni

Office of the Auditor General

Performance Audit

Senate Resolution Number 140

Department of Children and Family Services

PLACEMENT OF CHILDREN

Frank J. Mautino, Auditor General

AUDIT BACKGROUND

There was a series of Chicago Tribune articles and legislative hearings regarding DCFS placements and the time it takes.

Senate Resolution No. 140 directed the Auditor General to examine the number of children who remained in the following facilities <u>longer than necessary</u>:

- psychiatric hospitals,
- emergency shelters, and
- detention facilities.

OVERALL AUDIT CONCLUSION

The audit found that the agency could not provide us much of the information needed to address the audit resolution.

- For the information we were provided, auditors were concerned about the completeness and **accuracy** of the data.

- Therefore, this audit provided the **best data that was available**.

OVERSTAYED (in 2015)

In 2015, children stayed longer in facilities specified by the audit resolution:

Psychiatric Hospital:

- 168 children remained in a hospital beyond medical necessity.

- Their *average* stay was 64 days, or 40 days more than medically necessary.

OVERSTAYED (in 2015)

Emergency Shelter:

- 380 children stayed in shelters beyond <u>30 days</u> (which is established in a consent decree signed).
- Their *average* stay was <u>80 days</u>.

Detention Facility:

- Data was not available on the number of children who remained in detention beyond their scheduled release.

Youth Can Be Difficult To Place

- State wards can be difficult to place because of their past history, such as:

  - Criminal records

  - Health issues, or

  - History of running away.

BARRIERS TO PLACEMENT

The audit **sampled** more than 100 cases to determine the cause of the delays, which showed:

- some children did not cooperate with a placement (i.e., went on the run), and

- some parents refused to allow a child to return home.

COMPUTER SYSTEMS

Auditors found that the agency was using **38 different computer systems and applications** . . . some of which did not interface or "talk" with each other.

RECOMMENDATIONS

The audit made 4 recommendations to the agency, which the agency agreed to implement.

Audit Manager: Joe Butcher

Office of the Auditor General

Performance Audit

House Resolution No. 199

Department of Human Services' Forensic Patient Transport Procedures

Frank J. Mautino, Auditor General

AUDIT BACKGROUND

In July 2014, a forensic patient at Elgin Mental Health Center escaped DHS custody while being transported from Elgin MHC to the Lake County Courthouse.

House Resolution No. 199 directed the Auditor General to determine circumstances of the 2014 escape during transport of an Elgin Mental Health forensic patient.

OVERALL AUDIT CONCLUSION

The audit found that:

- Prior to the July 2014 escape, Elgin MHC had few procedures with few specific instructions for handling a forensic patient during transport.

- Following the July 2014 escape, the Department of Human Services (DHS) and Elgin MHC improved the forensic patient transport process significantly. These improvements were made by strengthening policies, upgrading the security of vehicles, implementing a process to identify elopement (escape) risk before the transport, and conducting more training for employees.

COMPUTER SYSTEMS

The audit found:

- Trip information could not be located and various documents were missing including the Trip Log, trip checklist, the Vehicle Maintenance checklist, and the Sally Port Officer Checklist.

- The patient transport checklist was missing information such as the patient's elopement risk assessment, the charges against the patient, or a description of the clothes worn.

- The patients and transport team were not always seated in accordance with Elgin's policy and the DHS Statewide Transportation Directive.

- Security Officers were not receiving all annual training as required by DHS policies.

RECOMMENDATIONS

The audit made 5 recommendations to the agency, which the agency agreed to implement.

Audit Manager: Tricia Wagner

Office of the Auditor General

Performance Audit
House Resolution No. 324

STATE MONEYS PROVIDED TO KOCO
(KENWOOD OAKLAND COMMUNITY ORGANIZATION)

Frank J. Mautino, Auditor General

House Resolution No. 324

Audit Resolution

- The Illinois House directed the Auditor General to conduct a performance audit of State funds provided to KOCO (Kenwood Oakland Community Organization).

- KOCO received nearly $1.5 million in State funds during the audit period.

OVERALL AUDIT CONCLUSION

Lack of Monitoring

- Both KOCO and the State agencies had difficulty providing us with documentation to show how funds were used. For example:

    - There was a lack of fiscal monitoring documents.

    - There was little documentation to show whether the program's goals and objectives were met.

KOCO - Conclusions

Continued. . .

– The State provided over $500,000 for a youth program, but auditors could not determine how most (75% or $375,000) was spent.

– Auditors analyzed available documentation, including the budget, quarterly reports, general ledger, etc. . . but the amounts in these documents were different.

KOCO - Conclusions

Recommendations

- The audit made 4 recommendation that were accepted by the various agencies.

Audit Manager: Scott Wahlbrink

CURRENT AUDITS

Performance audits in progress include:

- Health Facilities and Services Review Board
- All Kids
- DHS Office of the Inspector General (OIG)
- Community Integrated Living Arrangements (CILAs)
- Medicaid Managed Care Organizations (MCOs)
- State Leasing (2410 S. Grand Ave.)
- Long Term Care Eligibility Determinations
- DCFS Child Abuse and Neglect Investigations

Office of the Auditor General

Thanks For Your Time