

STATE OF ILLINOIS
INTERNAL AUDIT ADVISORY BOARD

Web Address: [HTTP://SIAAB.AUDITS.UILLINOIS.EDU](http://SIAAB.AUDITS.UILLINOIS.EDU)

MINUTES

Board Meeting- December 12, 2012

1:00 p.m.

CALL TO ORDER

The regularly scheduled meeting of the State Internal Audit Advisory Board (SIAAB) was held at the Capital City Center, Room 104, Springfield, Illinois, with video conferencing available at the JRTC, Room 9-036, Chicago, Illinois. The meeting was called to order at 1:05 p.m. by Stephen Kirk, Chair.

ROLL CALL

Members Present/Location:

Stephen Kirk, (Chair), Illinois Department of Transportation–Springfield

Tracy Allen, Office of the Comptroller – Springfield

Julie Zemaitis, University of Illinois – by telephone

Barb Ringler, Office of the Treasurer- Springfield

Amy Walter, Central Management Services-Springfield

Marcus Dodd, Illinois Department of Employment Security-Chicago

Gary Shadid-Illinois Department of Commerce and Economic Opportunity- Springfield

Lesslie Morgan-Office of the Attorney General- Springfield

Members Absent

Doug Hathhorn, Department of Revenue

Stell Mallios, Office of Secretary of State

Jane Cullen, Illinois Department on Aging

MINUTES

Chair Kirk noted that he had been contacted by Vice Chair Hathhorn, Ms. Mallios and Ms. Cullen that they would not be able to attend the meeting. Chair Kirk noted that Ms. Cullen asked him to share with the Board that she had temporarily been appointed acting Chief Information Technology Officer for her agency in addition to her duties as Chief Internal Auditor and was unable to attend due to the implementation of a new system.

Chair Kirk welcomed Mr. Shadid who was appointed to SIAAB by the Governor to fill the position vacated by Ms. LaBonte.

The November 14, 2012, meeting minutes were presented to the Board for discussion and approval. Minor wording changes were suggested and accepted. A motion was made by Ms. Morgan and seconded by Ms. Walter to accept the November 14, 2012 minutes as amended. The motion carried unanimously, 8-0.

It was noted that the notes from the Chief Internal Auditor's meeting, as in previous years, would not be posted on the website but sent directly to each Chief Internal Auditor. Ms. Morgan stated that although they would not be posted on the website, they would be subject to the Freedom of Information Act (FOIA).

REPORTS AND UPDATES

CPE Coordinator

Ms. Zemaitis reported that there were no CPE registrations or completions.

FOIA

Ms. Ringler reported there was one FOIA request received for a copy of the letter from their latest QAR report from 2009 from board member Ms. Zemaitis of the University of Illinois. Carol Kraus was the Chair at the time. Although the Report and Matrix were found, no one has been able to locate the letter that was attached. Ms. Zemaitis stated she also had a copy of the e-mail that was sent and the approval of the report was noted in the SIAAB minutes. Ms. Morgan stated she would only have a copy of this if she were Chair or Vice Chair at the time, which she was not. Ms. Walter stated she would also check in a box of SIAAB information that former Board member Mr. Staton had given her.

Ms. Ringler reminded everyone that the FOIA Officer and Assistant FOIA Officer must be copied on all Board communication, which is Ms. Ringler and Ms. Walter. Ms. Morgan stated that she was not aware that Ms. Walters was the secondary FOIA Officer and that she would forward her emails that had not been sent to CMS after Mr. Staton no longer served as the Secondary FOIA Officer. Ms. Morgan also reminded everyone that pursuant to the Open Meetings Act, a record must be made of any conversation that occurs when a majority of a quorum, for SIAAB (4) members, discusses board business regardless of the means, such as emails. If this is not done, the meeting would violate the Open Meetings Act because then a meeting was held without proper notice to the public via Agenda/Minutes Posting.

Guidance Coordinator

Ms. Morgan reported that there was nothing new to report. Chair Kirk stated that there would be a discussion of providing Guidance regarding the request previously received from the former Chief Internal Auditor of the Illinois Emergency Management Agency during Old Business.

Quality Assurance Reviews – Current Reviews and Request

Chair Kirk reported that the Illinois State Board of Education QAR is in progress and noted that it was to have begun in December as reported to the SIAAB previously.

Chair Kirk noted that both Western Illinois University and the Comptroller QAR reports had been issued by Vice Chair Hathhorn.

New Business

Chair Kirk asked if there was any New Business anyone wished to discuss. No SIAAB member indicated any New Business

Old Business

Guidance Process and Response to Request

Chair Kirk asked for comments from SIAAB members regarding the format he utilized in a draft of the Guidance to be issued by SIAAB. Chair Kirk noted that as discussed previously, he separated each issue and began with the first issue noted as an example. He noted that the By-Laws state that each Guidance Memorandum that is issued is required to contain the year and a sequential number; however, it was not clear whether the year was to be the year in which the guidance request was received or the year in which it was issued. Ms. Morgan stated that she thought it should be the year in which the Guidance is issued, as listed in the example provided by Chair Kirk. There was no disagreement noted by any SIAAB member and several noted agreement. Chair Kirk stated that the format he used began with a SIAAB synopsis of the issue, similar to what the Institute of Internal Auditors does in its Practice Advisories, and next is a list of each relevant authoritative source that supports the position. He stated he prepared the summary in the first section, but the remaining sections were mainly copied and pasted from the work previously prepared by Ms. Morgan. Chair Kirk asked SIAAB members if they liked the format or if they thought something should be changed. Ms. Morgan stated that she liked the format that was utilized and thought it made sense to proceed in this manner. Chair Kirk reminded everyone that pursuant to the By-Laws the SIAAB would be developing each of these as an Exposure Draft, which would then be presented to all of the Chief Internal Auditors for comment. Those comments would then be reviewed by the SIAAB and a final version would be developed and approved and then posted on the SIAAB website.

Mr. Dodd stated that he thought it would be helpful to have a label identifying the first section as to what SIAAB is providing as its interpretation and guidance. This is what SIAAB is saying as opposed to the other sections which are the Fiscal Control and Internal Auditing Act, an Institute of Internal Auditors Standard or Practice Advisory or some other source.

Ms. Morgan stated that she created the Draft SIAAB Response for SIAAB's review prior to the adoption of the new Standards of the Institute of Internal Auditors. She stated that since SIAAB adopted the new IIA Standards, we need to look at those references and make any required changes.

Mr. Dodd stated that SIAAB should also make sure they use language consistent with State Operations. For example, the second paragraph discusses a reporting relationship to a "Board", even though most agencies do not have a "Board." Mr. Dodd noted that even though the Institute of Internal Auditors defines a "Board" to include the head of an Agency in the case of a Government entity, it would require utilizing a definition from another source which in this case would be confusing.

Mr. Shadid stated it could say *if applicable*, because some agencies have a Board. Mr. Shadid stated he is speaking of only those agencies with a true Board mandated by law not some Board created by the agency. Mr. Shadid noted that an agency attempted to create an Audit Committee comprised of management and that would not be acceptable here because it is not independent as required. This type of entity cannot have that kind of authority over a Chief Internal Auditor, because their responsibilities cannot be conducted independently and the Chief Internal Auditor must have direct interaction and communication with the head of an agency, not some group that is going to screen the communication first.

Chair Kirk stated he agreed with Mr. Shadid and stated the line could read as follows, "the chief audit executive's functional reporting relationship with the board, *if applicable, or agency head;*"

Ms. Morgan stated that she believed by SIAAB posting its guidance out on the SIAAB website, it will provide a source of information for agency heads. If an issue arises, the Guidance should be helpful in providing clarification independent from the Chief Internal Auditor. SIAAB has also identified some issues during the various QARs and it is not unusual to have the same issue arise at another agency, so clarifying issues like these through the issuance of guidance would be a helpful resource to others.

Chair Kirk asked SIAAB members how they wished to proceed with the project. He stated he would like SIAAB to work through each of these issues as separate guidance and begin the process as soon as possible.

Ms. Morgan said that since Chair Kirk had created the format it would be best if he created additional ones to be sent out to SIAAB. Ms. Morgan stated that she thought it should be tabled until the next meeting when there were specific guidance proposals; SIAAB members could review and provide comments.

Chair Kirk agreed with tabling until the next meeting and stated that he would work on providing some additional ones for discussion at the next meeting so SIAAB could begin to work through the process. Chair Kirk stated he would most likely not get all of them done and after a few examples if someone

wanted to volunteer to also create some, he would be open to that. Otherwise, Chair Kirk will create ones for discussion at future meetings as his time permits. Several SIAAB members noted their agreement with this approach and there was no one that indicated they disagreed.

Review of SIAAB Business Responsibilities SIAAB 2012 Project

Chair Kirk opened the floor for a discussion of SIAAB responsibilities and the preparation of a plan of action for calendar year 2013. He noted that the main issue left for further discussion was SIAAB's QAR responsibilities. He noted that the main disagreement was how extensive SIAAB's involvement should be in the QAR process. The main issue of contention was whether SIAAB should be the one to actually issue a particular agency's QAR report.

Ms. Walter stated that FCIAA lists oversight of QAR as a responsibility of SIAAB.

Ms. Morgan stated that the difference is what does "Coordinate QAR" mean as used in FCIAA. Ms. Morgan noted that there have also been changes to the Institute of Internal Auditor Standards since the QAR process was first instituted years ago. SIAAB should look at the process and see if any of these changes require a change in SIAAB's QAR process. Ms. Morgan stated that some changes were already made, such as a QAR looks at whether there is compliance with a majority of the requirements for an area, it is no longer an all or nothing approach. This approach is consistent with the Standards of the Institute of Internal Auditors. Ms. Morgan stated that in the past, SIAAB has found some agencies that were not in compliance with FCIAA. Had SIAAB not weighed in on the process, a report would have been issued to agency management that did not correctly reflect the facts. In one instance, a reviewer had to state in a letter that they did not agree with the review results. This would have never been brought to the attention of the head of the agency had SIAAB not been involved. SIAAB oversight was definitely critical in at least two specific instances she could recall in recent years.

Chair Kirk noted that even beyond those extreme cases over the last few years he would agree that SIAAB had weighed in on some QARs that required a clarification of the facts.

Mr. Dodd stated that he believed the SIAAB should be there to help mitigate the risks of the QAR process and facilitate a change in process if or how the process was completed if that is necessary. He noted that one way SIAAB mitigates the risks of whether a QAR process is done properly is through the training that is provided as well as the reviews. SIAAB also helps ensure breakdowns in the process do not occur. The real question is should SIAAB conduct its review in order to mitigate the risks.

Ms. Zemaitis noted that part of what has been discussed regarding QAR and SIAAB has been a philosophical discussion about the SIAAB title "Advisory Board" as utilized in FCIAA. However, FCIAA clearly states that SIAAB is responsible for promulgating standards that are to be followed by all State Internal Audit shops. If SIAAB states that an agency must comply with IIA standards and provide training, it seems consistent that coordinating QAR entails some oversight responsibility. At a minimum SIAAB must ensure consistency in the QAR process.

Mr. Shadid stated that focusing on advisory duties of SIAAB, it was his expectation that SIAAB would notify each agency within a reasonable time when their QAR is due and SIAAB would notify any Director of an agency if a QAR that was due was not completed.

Ms. Morgan stated that she believed that SIAAB has been consistent in its QAR approach since at least 2001. SIAAB has been conducting a high level review and providing guidance and training regarding the QAR process. Sometimes there are questions received from a reviewer or validator or disagreement and SIAAB provides a stop gap and resolution. One agency was not conducting a risk assessment and had no disclosure of independence. The External Validator rendered a “Partially Conforms” opinion. However, the SIAAB determined that the deficiencies exhibited were significant such as to seriously impair or preclude the activity from performing adequately in all or significant areas of its responsibilities. SIAAB rendered a “Does Not Conform” opinion. Ms. Morgan stated that she believes that will adhere to a requirement means that you must follow the Standards. Historically, that is why SIAAB has done what it has done to ensure each agency is meeting the requirements. The processes are there, some may be duplicative and need to be looked at, but the need to have SIAAB involvement in the QAR process is still valid.

Mr. Shadid asked if the disagreement was whether SIAAB goes above or beyond statutory authority.

Ms. Walter stated not necessarily.

Mr. Dodd stated that only two reports represent issues that have occurred since 2001. It is never good to have any since we must adhere to a higher level of public trust, but within the context of all of the reviews since 2001, that does not seem too bad.

Chair Kirk noted that the discussion of the QAR process and decision about what the SIAAB should do is not an all or nothing proposition. There is concurrence about a lot of the QAR process and Board involvement and as stated in previous meetings what SIAAB needs to do is walk through each part of the QAR process and see where there is concurrence and where there is disagreement. There really is a lot of concurrence and he wanted to make sure that everyone understood that it was not whether SIAAB should be involved in QAR, it was a discussion of what specific things within the QAR process the SIAAB should and should not do. These discussions and concurrences can be found in the various minutes of the previous meetings that have occurred over the past year. Chair Kirk agreed to forward a complete copy of those minutes so they could be reviewed again by everyone.

Ms. Zemaitis stated that she agreed and believed in past discussions SIAAB members had agreement on at least 90% of the process. One of the big disagreements has been should the SIAAB issue the individual QAR report.

Mr. Shadid stated that he would agree that there is a difference between accepting and approving a QAR report and issuing a QAR report. Is that the core of the disagreement?

Ms. Walter stated that under the current process SIAAB issues a Letter of Acceptance to the head of the agency.

Chair Kirk noted that attached to that letter is a copy of the report and review matrix.

Mr. Shadid asked in the cases where the review was not accepted, did the review team note their exceptions.

Ms. Morgan stated that in the two examples she noted previously, the External Validator agreed with the Chief Internal Auditor's assessment of "Partially Conforms" even though the Chief Internal Auditor was not conducting a risk assessment and there were other issues that existed as well. In the other case, the External Validator brought questions to SIAAB and asked if SIAAB believed what had occurred was an issue or not in compliance with the Standards.

Chair Kirk stated there have been other instances during QAR reviews, even at the report stage where they have been disagreement on some issues or a request for clarification was received and provided by SIAAB.

Mr. Shadid stated it seems appropriate that SIAAB should review the qualifications of each reviewer and approve them. The SIAAB should also track which QARs are performed and when and notify the head of an agency if a QAR is due and it was not completed. He also believes that once completed the QAR should be submitted to SIAAB for review. However, once that is done SIAAB could send the letter of acceptance to the head of the agency and note that they should be receiving the report from their Chief Internal Auditor. It could even state whether it conforms or not.

Ms. Morgan stated that SIAAB is the independent 3rd party so she believes the report should be issued by SIAAB. SIAAB would not know if the Chief Internal Auditor gave the actual report to the agency head or not. Ms. Morgan stated that reviews are different now because they used to be all or nothing and now they are by IIA category, so you need more information than just the overall rating. She noted that most of the time the overall opinion is now "generally conforms" because it is the majority of what was reviewed that determines the overall rating. However, if the information provided to the agency head is not complete, in cases where there are significant issues that were raised they may not get to the agency head. Ms. Morgan stated she knows working for a law enforcement agency she may be more skeptical and she also notes that would be an extreme case and not the norm, but if there is a situation like that the person may want to hide the facts. SIAAB makes sure the process is above board and appropriate disclosure is made. That is what is represented by the issuance of the report by SIAAB and a signed acceptance letter.

Ms. Walter stated the letter could clearly state whether there is conformance or particular issues that were noted, then the agency head would know what to expect.

Mr. Shadid stated that he believed prior to the 2010 changes to FCIAA, Chief Internal Auditors had restrictions to their independence, now they have more freedom and he has more confidence none of them would commit fraud

Ms. Morgan stated she still believes you need to rely on a third party like SIAAB for independence.

Mr. Dodd stated that if you want true third party independence maybe we should require the validator to be a CPA firm and have them give a 3rd party opinion. If the agency head gets a report signed by a firm that was approved by SIAAB, that seems to be the best.

Chair Kirk noted that he believed a QAR was supposed to represent a review by a “Peer”. A CPA firm would not really be a peer because they are not internal auditors. It is much more valuable to receive a review from someone who is in like circumstances and can share their views. Part of a QAR is suggestions for opportunities for improvement or helpful suggestions or new approaches not just issues of non-compliance. A key part is what your “peer” brings to the review from their experience.

Ms. Morgan stated that most of the entities SIAAB is overseeing are very small operations, with the exception of the University of Illinois and even they are small in respect to entities that are typical under the Institute of Internal Auditors. Most state agencies could not hire a CPA firm.

Mr. Dodd stated that he understands that a CPA firm can make mistakes but he just does not want larger issues to arise.

Mr. Shadid asked, “The past two instances were major issues, would those circumstances still be issues now with the FCIAA changes and requirements for Chief Internal Auditors?”

Ms. Morgan stated that nothing has changed regarding the Chief Internal Auditor requirements in FCIAA, they are the same as they were before.

Mr. Shadid asked, who would meet the statutory requirements? Don’t Chief Internal Auditors all have to be certified? It seems like all recent advertisements have required certification.

Ms. Walter stated the postings generally use the statutory language which also allows for someone without a certification who has at least 5 years experience.

Ms. Morgan noted that some of the current Chief Internal Auditors do not have certifications. However, all Chief Internal Auditors are required to adhere to the Standards and that is set by SIAAB. We have a duty to uphold the public trust in this process and make sure the Standards are met by all agencies.

Mr. Allen stated the real question is whether SIAAB’s current function is regulatory in nature and if so, is that allowed by an advisory board or is what we currently do allowed?

Chair Kirk stated that a good discussion had taken place but at the next meeting he wanted to frame the QAR discussion around making decisions about each specific function of the current QAR process, as well as any new duties someone may believe should be performed. Then SIAAB can walk through each of them, vote on whether there is concurrence or where there is disagreement about a duty, and see if we can come to a consensus. Chair Kirk stated that he would like to wrap this process up as soon as possible.

Mr. Allen suggested utilizing the QAR duties that were outlined in a previous memorandum supplied to all Board members.

Chair Kirk noted that was a good idea and asked Mr. Allen to supply a copy to each SIAAB member. Chair Kirk said each member should come to the next meeting prepared to discuss and vote on each of the duties.

Mr. Allen stated he would send the QAR duties to everyone.

ANNOUNCEMENTS

The next regular meeting will be January 8, 2012 at 1:00 p.m., at the Capital City Center's Video Conference Room #104, 130 West Mason, Springfield, Illinois. For those attending via video conference in Chicago, Room 9-036 of the JRTC has been reserved.

ADJOURNMENT

Motion made by Mr. Shadid to adjourn the meeting.

Second: Mr. Dodd

Vote was unanimous, motion passed 8-0 and the meeting was adjourned at 2:20 p.m.