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VOLUNTEERS IN PUBLIC MANAGEMENT

TO: Paula Wolff, Program Director, Office of The
Governor

FROM: The Project Team for Volunteers in Public Management

RE: Final Report

PROJECT GOAL - To improve the audit process in the State of
Illinois focusing on the management requirements of Exec-
utive Branch Agencies, thereby making the audit an effec-
tive management tool.

INTRODUCTION

Internal auditing provides many benefits as evident in private industry. It verifies the accuracy of financial data and the reliability of control systems and provides management information on the degree of organizational adherence to established policies and procedures. A sound program of internal auditing also provides for greater efficiency of operations and provides timely feedback to management regarding administrative and operational matters. Internal auditing in private industry is an integral part of the management control system.

The State of Illinois, overall, has not yet established a program of internal auditing that will provide these benefits. The Project Team would like to emphasize that it is the responsibility of Executive Branch management to establish a viable program of internal auditing that will meet the needs of management at all levels. The need for such a program state-wide can no longer be ignored.

To assist in establishing a sound program of internal auditing state-wide the Project Team recommended that the Division of Fiscal and Management Systems in the Department of Administrative Services be instituted. The start-up and staffing of this group will require a period of time. However, because of the strong support shown by the Governor's Office and the Department of Administrative Services, the Project Team is assured that the recommendations regarding this group will be implemented as soon as possible.

The Project Team's interpretation of the services offered by the Division of Fiscal and Management Systems is broad.

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It is not meant to be limited to providing services to internal auditors. The role of this division is to aid state management to establish and/or maintain sound management and financial informations systems -- the systems upon which audits, both internal and external are commenting. To do this, the Division of Fiscal & Management Systems will provide training for fiscal, management and audit personnel at all levels, and will provide Executive Branch management with the information necessary to improve agency operations.

The need for proper staffing of this group has been discussed by the Project Team with the Governor's Office and the Department of Administrative Services. We would like to emphasize that the expertise and number of the individuals comprising the staff of this group is directly related to the services that are required to be provided.

Agency management should inform the Department of Administrative Services as soon as possible of the types of services they require, within the context of services outlined in the Project Team's pre-implementation report. To meet the most critical needs as noted in our review, the minimum staffing of the Division of Fiscal & Management Systems will require a manager, three fiscal or accounting individuals, three operations analyst or management individuals, and two computer information systems analysts. We would like to stress that this is a minimum required for start-up. As the Division of Fiscal & Management Systems implements all the recommendations of the Project Team over a period of time, the staffing needs will obviously be expanded in both scope and size.

As pointed out in the pre-implementation report, the Division of Fiscal & Management Systems will be preparing a monthly report of activities and findings for review of agency directors and appropriate personnel in the Executive Branch. The Project Team would like at this time to stress the need for the designation of a specific individual within the Governor's Office who will be the contact for this group. This person should have knowledge of and contact with agency management state-wide. This individual will decide what action, to be taken by the Executive Branch on matters reported by the Division of Fiscal & Management Systems, or agency directors, designating the parties within the Executive Branch who would be responsible for such action.

The use of internal auditing as an effective management tool was stressed at seminars presented by the Project Team. The seminars were presented to directors of agencies with established internal auditing functions, internal audit managers and internal audit staff. The director's seminar emphasized the benefits derived from a good internal audit function and what to expect and require from internal auditing. The seminar also stressed the director's responsibilities in the internal audit process. The material presented to the internal audit managers detailed the types of information they should be providing their director and the types of audits

that should be performed. Also stressed at the seminar was the new importance placed by management on internal auditing. The staff auditors seminars outlined their responsibilities in planning and conducting audits and the types of audits to be performed.

In all the seminars presented, the Governor's office emphasized their acceptance and support of the pre-implementation report prepared by the Project Team as well as their increased support for and interest in internal auditing. The Governor's Office representatives emphasized that it is the responsibility of agency management to establish a viable internal audit function, and it is the expectation of the Governor's Office that they will do so as soon as possible. The Governor's Office also stressed their support for the establishment of the Division of Fiscal & Management Systems within the Department of Administrative Services, and the services that will be provided by this group to upgrade management control systems, especially internal auditing.

The Governor's Office also expressed that internal auditing will receive increased attention in the fiscal year 1982 budget. This requires agency management to begin their evaluation of their present internal auditing function at this time. Agency management must determine what their internal auditing function is presently doing, what it should be doing, and finally if any additional resources such as staffing or training will be required as a result of this evaluation. These determinations must be made in the first quarter of fiscal year 1981 so that internal auditing can receive the necessary attention at the earliest point in the 1982 budgeting process.

The increased attention of the Governor's Office on internal auditing will continue to be stressed at the quarterly meetings of each agency director with the Director of Government Operations, as pointed out in the seminars conducted by the Project Team. It will obviously, be to an agency director's advantage to promptly begin the evaluation of his/her internal audit function and to increase his/her involvement in the audit process.

The pre-implementation report of the Project Team for the Volunteers in Public Management pointed out some of the problems with the internal auditing in the State. The problems addressed were not of any particular department or agency. Rather, they were the summation of problems the Project Team found recurring in many State agencies. Many of the recommendations given for solution of these problems will, by their nature, require implementation over a period of time.

The Project Team has worked with the Governor's Office and the Department of Administrative Services personnel on all aspects of the report which will enable them to follow through on the long range implementation that is necessary in some of the areas. At this time, we would like to briefly review the pre-implementation report

Internal auditing, overall, is not performing comprehensive reviews of agency operations. The present audit schedule in most agencies

does not properly serve the needs of management. In most instances, this is caused by management failing to convey to internal auditors what their needs and concerns are. Internal auditing in some agencies appears to be tolerated as a requirement that must be lived with, rather than viewed as a tool of management. This attitude regarding internal auditing must be changed in order for internal auditing to assume its proper role as a viable part of the management decision making process. This fact was brought out in the seminars presented by the Project Team with recommendations for changing some of the present attitudes towards internal auditing.

In order to inform management on areas of major concern, an agency's internal audit function should perform comprehensive financial and compliance audits on a regular basis. A management or efficiency audit should be performed as well as program reviews. It is the responsibility of the agency director to insure that his/her internal audit function is reviewing areas of prime importance to management with the proper frequency, and to insure that audit programs have the proper emphasis. The internal audit manager must insure that his/her staff is properly trained to perform audits of that particular agency. The Division of Fiscal & Management Systems can assist in the actual training, but the internal audit manager must inform them of the specific training needs of his/her agency.

One point of major concern to the Project Team not addressed specifically in the pre-implementation report was that Electronic Data Processing Auditing is not being performed in the large majority of agencies. The Electronic Data Processing reviews that are being performed do not begin to cover the extensive computer applications used by the State. Electronic Data Processing audit expertise is not presently in place in agency internal audit functions. The Division of Fiscal & Management Systems will provide the necessary skill development in this area as soon as possible. However, to do so, the internal audit managers must inform the Division of Fiscal & Management Systems details regarding the types of facilities and applications utilized by their agency so that the Division of Fiscal & Management Systems can develop specialized training for specific needs.

As pointed out in the pre-implementation report, there is a wide variance in audit practices and techniques both between and within agency audit functions. The Division of Fiscal & Management Systems will provide guidelines for standard audit practices and techniques. It is the responsibility of the internal audit managers to adapt these guidelines into specifics for their agency. These should be included in an audit policy and procedure manual that is provided to all audit staff. The manager should subsequently insure that these guidelines are followed in all agency audits. This will provide for audits that are readily comparable and comprehensible by all interested parties, such as external auditors and management at all levels.

One of the most significant findings of the Project Team in this area was the lack of follow-up on internal audit findings and recommendations. If the recommendations of internal auditing are not given the necessary emphasis by management for implementation then the resources utilized for internal auditing are wasted. Agency directors must assume the

responsibility for establishing a formal system of follow-up within their agency to insure and document the timely implementation of audit recommendations.

In the pre-implementation report, the Project Team noted that audit training on the whole is inadequate to meet agency needs. Institute of Internal Auditors seminars are used by some agencies as well as limited training provided by the internal audit managers group. These types of training, although they may be good, are not specific enough to meet agency needs. An important function of the Division of Fiscal & Management Systems is to provide training that will be tailored to meet state audit training needs in specific areas. The internal audit managers must define the specific areas of skill development needed by their staff and inform the Division of Fiscal Management Systems of these needs. The Division of Fiscal & Management Systems will then assume the responsibility for coordinating and developing training that will enhance audit skills throughout the State.

The last recommendation of the Project Team, which has previously been discussed in this report, is the establishment of the Division of Fiscal & Management Systems within the Department of Administrative Services. We would like to reiterate that the continued active support by the Governor's Office is necessary to make this group the viable and effective resource it can be.

The need for the types of services performed by this group is evident. As indicated in much of the data reviewed by the Project Team, management information systems within the State including internal auditing are not being used to their full potential. Also, there is no ongoing management system for analyzing operations and programs statewide to determine problems that are common to a number of agencies and that need to be addressed on an overall basis by the Executive Branch. This group will review audit reports, both external and internal, to determine these common statewide areas of concern; and to report these to the appropriate personnel in the Executive Branch so that action can be taken before these problems have a major impact on the State, such as the loss of future federal financial participation.

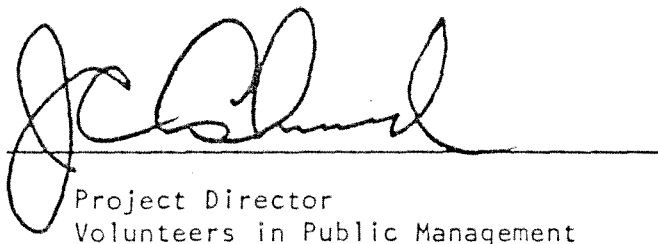
The training services provided by this group will be of major benefit to the State. It will lead to better financial and informational control systems within the State and will provide management, fiscal and audit personnel with training that will meet the specific needs of the State of Illinois.

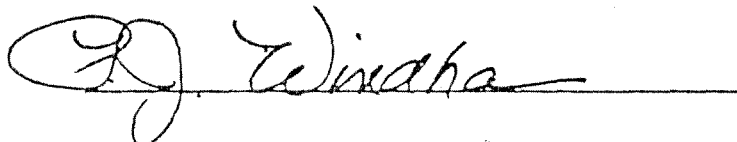
CONCLUSION

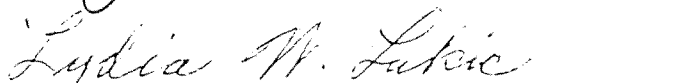
Throughout this audit project, the Volunteers in Public Management team has been careful to base all recommendations on facts gathered during its review, not on opinions. The work of the Project Team, as evidenced in the reports and seminars presented, has brought about a new emphasis on internal auditing. We have shown the benefits derived from internal auditing when properly used as a part of the management control system. The information presented at seminars and the data given to the Depart-

ment of Administrative Services has provided the basis for use of audits as a management tool, which was our original goal.

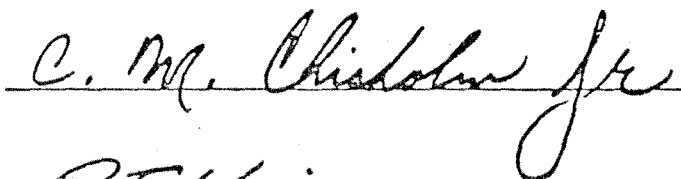
We want to stress that emphasis on implementation of the Project Team's longer term recommendations must continue from the Governor's Office and from the Department of Administrative Services. We appreciate the assistance of these two groups throughout the project and would like to thank the Governor's Office for the opportunity to work on this project. The Volunteers in Public Management would like to reaffirm its commitment to the Governor's Office and stands ready to provide its services at any future time.

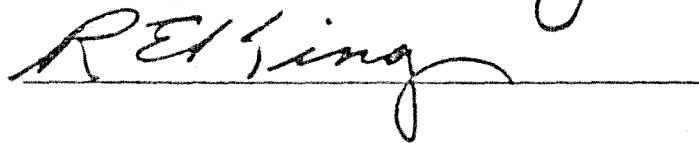

Project Director
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