

October 13, 1998

The regular monthly meeting of the State Internal Audit Advisory Board was held on October 13, 1998, at the Illinois State Museum Collection Center, Springfield, Illinois. Chairman Mike Moody called the meeting to order at 9:30 a.m.

Members Present:

Mike Moody, Chairman - Office of the Comptroller
Nancy Hilger, Vice Chairman - Department of Commerce & Community Affairs
Stan Brown - Office of the Treasurer
Bill Coons - Department of Professional Regulation
Brad Hammond - Department of Natural Resources
Bob Schwarz - Department of Central Management Services
Dick Traver - University of Illinois
Ben Zemaitis - Department of Revenue
Lori DeShara (on behalf of Jim Reid) - Office of the Attorney General

Members Absent:

John Cain - Office of the Secretary of State

Minutes:

Mike Moody apologized for the short notice of cancellation of the September meeting noting that information on the agenda for that meeting was not available.

Mike Moody gave the members of the Board a few minutes to review the minutes of the August meeting for any changes. Stan Brown moved to accept the minutes of the August 11, 1998 Advisory Board meeting. Bob Schwarz seconded the motion. All were in favor and no opposed.

Mike Moody stated that meeting minutes previously accepted with changes would be reissued to Board members at a later date.

Old Business:

Peer Review

Mike Moody informed the Board that he mailed out a letter on August 27, 1998 to the following chief internal auditors defining a Peer Review Participant. Mike said he informed the chiefs that if they submit a copy of their externally performed peer review report to the Board and if the Board accepts the report, they will be considered a participant in the peer review process:

John Meehan, Chicago State University
Dave Dixon, Governor's State University
Hopey Freeman, Illinois Preservation Agency
Mark Piersall, Illinois Commerce Commission
Catherine Larson, Illinois Racing Board

The following agencies responded by phone and indicated that they now wanted to participate in the Board's program:

John Meehan, Chicago State University
Dave Dixon, Governor's State University
Hopey Freeman, Illinois Preservation Agency
Mark Piersall, Illinois Commerce Commission

Mike Moody said that a letter was sent to the Chairman of the Illinois Racing Board, Gene Lamb, on September 9 notifying him of the agency's need to have an external review performed. Based upon subsequent discussions with the Executive Director of the Racing Board, they have decided to voluntarily participate in the Board's program.

Mike Moody stated that as of this time the only agency not participating in the Board's program is the Illinois Supreme Court, as the Court is not required to per FCIAA. The following agencies have not indicated if they are participating:

IL Department of Transportation (in compliance-1994)
IL Environmental Protection Agency (in compliance-1 997/98)
IL Department of Veteran Affairs (need to contact new Chief)
Eastern IL University (in compliance-1997, need to contact new Chief)
IL Guardianship and Advocacy Commission (need to contact new Chief)
IL Industrial Commission (need to contact new Chief)

Brad Hammond added Banks and Real Estate wanted to participate. Mike Moody said that his notes reflected that.

Ben Zemaitis said the issue is, who is going to be in the program in the future, not whether they had in the past. Mike Moody said it was his understanding that the letter was to go to only those agencies who said they did not want to participate and that agencies without a chief internal auditor would not get the letter. The only exceptions are the Department of Transportation and the Illinois Environmental Protection Agency who are currently in compliance with the Board's requirements. Ben stated that the whole issue is that this Board cannot force an agency to do anything. Those agencies that are not a participant in the Board's peer review program, they should do it on their own. Nancy Hilger said the Board did have a lengthy discussion regarding this issue in August. Ben Zemaitis said he was going back six months, it is their choice. All the Board wants to know is if the agencies are a participant of the pool.

Mike Moody said the letter that went out stated that it was the Board's understanding that they were not participating in our Peer Review program and to remind them that some external review

is required by standards. The letter further defined participation to include agencies who have their external review report approved by the Board. The point was whether to send a letter to EPA when they have had a peer review within the five-year period and were in compliance. Brad Hammond said that EPA has staff that has been on peer review teams. He said he would agree with Ben Zemaitis in the case of Transportation, they have not participated on peer review teams and they have not participated in the peer review program. They have a peer review of their own. Mike Moody acknowledged that he was willing to do what the board wants. Ben Zemaitis stated that the Board is withholding some information of facts, so if the letter we send out is not appropriate, we should send something else. Mike said that an agency that is joining with the teams or has the Board approve their external review is a part of the Board's peer review program - then no letter would be sent out.

Ben Zemaitis said this started when we assumed that everybody was covered. We don't have a responsibility to conduct the peer review process, but coordinate it. Agencies that are not a participant of that pool, we need to make sure that IIA standards are in place and they will take care of it (peer review) themselves.

Mike Moody asked Ben Zemaitis to make a motion as to what action he wanted to take. Brad Hammond said the Board discussed this action in August. Dick Traver indicated that Mike followed up based on the action discussed in August. Ben Zemaitis said that he wanted to get on the record that the Board does not notify the agencies that do not want to get in the program. Dick Traver said the Board doesn't need two different letters, but created one letter for those outside the program.

Ben Zemaitis asked when did the Board start the peer review program. Brad Hammond's response was in 1994. Ben said that after four years we are in the infancy of the program. Brad stated that until last August, a lot of agencies were not participating in the program and now after the peer review training we have a lot of new talent. Mike indicated that he would go back and look at the minutes to clarify the Board's direction in August.

Mike Moody stated that in August, Brad Hammond submitted a list of Peer Review Teams to him and the Executive Committee had taken no action on those recommendations at this time. Mike Moody then requested that Brad Hammond provide the Board the status of all outstanding peer reviews so that the Board could ensure that pending Peer Reviews are completed in a timely manner. Brad presented a list of those agencies whose peer reviews were outstanding and where they were:

Environmental Protection Agency - Bob Schwarz

University of Illinois - Bob Schwarz

Department of Commerce and Community Affairs - Mike Moody

Department of Natural Resources - Jim Reid

Office of the Attorney General - The team leader is no longer an auditor. Sharon Stapleton is putting the peer review together.

Public Health - Deanna Marvin is done with the peer review and is putting the report together.

Bob Schwarz indicated that he couldn't review EPA because one of his staff did the peer review. Mike Moody asked if it goes to Fred Lehrman. Brad Hammond said it goes to Nancy Hilger. Mike asked about the Secretary of State peer review. Brad Hammond stated that it had been turned in. Ed Taylor and Rusti Cummings did that one.

Mike Moody asked if the Board had a process for keeping track of where the peer reviews were. Brad Hammond responded that there had never been a schedule. Nancy Hilger stated that the Board talked about providing some guidance for the time frame or steps the Board ought to take which is why some of this falls in the slots. Mike asked if the Board could talk about this later in the meeting. He asked if any one else had anything at this point.

Mike thanked Nancy Hilger for having her intern organize minutes from all previous Board meetings. He stated that this setup will be updated throughout his term as Chairman and passed on to the next Chairman to help maintain consistency of information.

Mike Moody distributed a copy of the Internal Audit Advisory Board Adopted Motions to each of the members (**IAAB Adopted Motions**). This document was based upon his review of all of the previous minutes. A listing of these motions should answer any questions about whether the Board had done something or not. The dates following the motions signify when the action was taken.

Standards

Mike Moody referred to the proposed changes to the Internal Audit Advisory Board Standards mailed out with the agenda for the October meeting (**Proposed Changes to the IAAB Standards and IIAB Standards**). Mike stated that the changes made to Section I and 11 were updates to the statutory citation.

Mike Moody indicated that when he read Section VI of the Standards, he could not find recognition for time spent by individuals on actual peer review activities for CPD purposes, therefore, he added item (i) *Time spent by individuals on actual peer review activities*. Brad Hammond questioned whether this was only the time spent actually doing the peer review or how much time that was spent on sight. Mike asked for someone to make a motion for the change. Ben Zemaitis moved for Section VI A)1)i) to read: "Time *spent by individuals on actual De review activities on sight*". Brad Hammond seconded the motion. All were in favor and no opposed.

Mike Moody referred to Section VI B)1) Education and noted to be consistent the section should read, "*and actual peer review activities on sight*" and in the second paragraph "*Time spent by individuals on actual peer review activities on sight will be recognized with no limitation.*" Bill

Coons moved to approve the above changes. Nancy Hilger seconded the motion. All were in favor and no opposed.

CPD Standards

Mike Moody handed out to the members CPD **Requirements (Continuing Professional Development Requirements)**. Mike stated that based upon his review of past Board minutes he noticed that a comparison of IAAB CPD Standards and IIA CPD Standards was made at the March 8, 1994 meeting. No action was recorded at that meeting to change IAAB CPD Standards. No action is noted in subsequent meeting minutes.

Ben Zemaitis said that when the Board adopted the IIA Standards, that was what was in here (IAAB Standards), then shortly after, The Institute made a change and the Board said they were not going to make any changes. Brad Hammond said it would be easier to track if we did go with a two-year reporting period. Ben Zemaitis stated that IIA Standards only pertains to CIA's, that is why we are committed. Brad said that the Board did not adopt IIA Standards, the Board modified them. Mike Moody determined based upon these comments no further action was needed.

Mike Moody stated that based upon his review of the Board's past minutes there was a pending motion regarding an auditor's minimum annual CPD that was tabled at the March 10, 1998 meeting. The pending motion was distributed to the members of the Board (**Pending Motion**). Mike stated that in order to act on the motion it had to be "taken from the table". Dick Traver suggested doing so. Nancy Hilger moved to take the motion from the table. Bob Schwarz seconded the motion. All were in favor and no opposed. The pending motion was then voted upon, all were in favor and no opposed. Brad Hammond noted that Section 5(B) of the Standards would need to be updated to reflect this change.

Board of Governor Appointments

Mike Moody informed the Board that on August 24 he notified (by letter) Janell Hilgers, Administrator, Boards and Commission, of the Board's desire for the Governor to reappoint Dick Traver and Ben Zemaitis to the Board. On September 9, he notified (by letter) Janell Hilgers, Administrator, Boards and Commissions, of the Board's desire for the Governor to appoint Mark Krell to the Board. Brad Hammond asked if Mark would be replacing Jack Schoonover. Mike responded, yes.

New Business:

Bylaws

Proposed changes to the Bylaws were previously mailed out with the agenda for the October meeting (**Peer Review Program Bylaws**).

Mike Moody called for a motion to approve the changes in the Bylaws. Bob Schwarz moved to accept the proposed changes. Dick Traver seconded the motion.

Mike Moody pointed out that the Peer Review Acceptance and Performance Committees were reduced from five members to three but the composition of the committees was not included.

The proposed change to Article III, Section 3.4 had two members selected from the Board and one member from the audit managers group.

The proposed change to Article III, Section 3.6 had two members of a three member committee constituting a quorum.

Proposed change to Article III, Section 3.8 -- "Performance Committee" and "Report Acceptance Committee" *Meetings shall be at the call of the Chairperson, the Vice-Chairperson, or at the call of any two (2) members.* Ben Zemaitis stated that it was written this way in case the Chairperson didn't want to call a meeting. Ben amended the main motion so the Article 3.8 would read "Meetings shall be at the call of the *Chairperson or the Vice-Chairperson.* " Nancy Hilger seconded the motion. All were in favor and no opposed.

Proposed change to Article IV, Section 4.2 - Mike Moody said the minimum qualifications for peer review team members were adopted at the November 10, 1992 meeting but were not included in the Bylaws (**Memo of November 9, 1992**). Ben Zemaitis questioned in practice, what is the Board doing to monitor these qualifications. Brad Hammond stated that the Board used to get resumes, this is the old job description of an Auditor 111. Originally, in order to be on the eligibility list a team member had to submit a resume. Mike indicated that when we had training, the Board agreed if the chief auditor thought they had the qualifications, they would be accepted. Nancy suggested that maybe on the peer review the Board should have a one pager to find out qualifications.

Dick Traver pointed out that under Article IV, Section 4.2, Team Member Minimum Qualification second paragraph, the word Chief should be changed to Certified. (This was a typographical error and did not require Board action.)

Proposed change to Article V, Section 5.2 - Mike Moody said his proposal was for the Audit Organization to hold on to the work papers of a Peer Review until completion of the next Peer Review. Dick Traver said he thought we did hold on to them until the next time. Mike said that was not what it stated in the Bylaws. Ben Zemaitis said we are talking about a State record, so we ought to clear it with the Records Commission. Since it deals with State records, we need some communication with the agency. Mike asked if the Board should leave this as is or until completion of the next "Peer Review". Brad Hammond said you cannot throw anything away without a state retention schedule. Bob Schwarz is on the Records Commission and said that if the agency submits a request, and it seems reasonable, it will be accepted. Ben asked if we could, if we could get a blanket clearance. Bob said that blank approval to control the act of other agencies would not be accepted. Mike was directed to notify the Chiefs of the change in retention and for them to amend their agency records schedule. I Bob Schwarz asked about the last sentence in Section 5.2, *Any subsequent request for access to this copy of the working papers must be formally approved in advance by the "SIAAB"* Ben Zemaitis said this was to protect the Board so if you want to do it (request a copy of working papers), why not ask the Board. It was noted that this applied to disputed reports.

Proposed change to Article VI, Section 6.1 -- Mike Moody said the staggering of committee members terms was when a committee started out. He indicated that he wasn't sure if the Board wanted to change this or leave it alone. Nancy Hilger said it would be good to have continuity. Bob Schwarz stated that the committees are past the stage of initial terms so saw no need to change it. Bob Schwarz moved to amend the main motion by removing the changes to Section 6.1. Bill Coons seconded the motion. All were in favor and no opposed.

Nancy Hilger questioned if the Board discussed whether we had the right terminology for the Bylaws. Ben Zemaitis recalled that it was a question. He stated that originally the Board thought it had to go to JCAR and then we found out the Board didn't have to do that so we can call the Bylaws whatever we want without any filing.

Mike Moody asked all of those in favor of the amended revisions to the Bylaws to signify by saying aye. All were in favor and no opposed. Mike stated that he would be mailing a copy of the updated Standards and Bylaws to all of the Chief Internal Auditors in the State.

Committee Appointments

Mike Moody stated that based upon his review of our Bylaws and action noted in the Board's April 14 minutes, he believed that the appointments made to the Board's Report and Performance Committee's are in violation of our Bylaws. Specifically the Chairman does not have the authority to appoint members of these committees, that authority is given to the Board in the case of Board member appointments and to the members of the IAMG in the case of the IAMG member appointments. Additionally, the number and makeup of the committee, as noted in our previous action, was not consistent with the size of each committee. Mike suggested that the Board consider reconstituting the committees at the next meeting and come back with recommendations for committee appointments. Mike stated that he would notify Mark Krell. Mike asked if anybody had any thoughts.

Board members discussed Mike's suggestion and agreed to reconstituting the committees at the next Board meeting.

Mike Moody brought to the table again the process of how the Board can track peer reviews. He asked if the Vice-Chair would meet with the Performance Committee and Acceptance Committee and provide to the board by the January meeting as to how the peer review process should be tracked. Bob Schwarz and Brad Hammond said they would work with Nancy.

Brad Hammond said the Board needs to get going on the new committees. Ben stated that this is something to clarify to make it easier. This is an administrative document - a review of the peer review administration. Bill Coons stated that any action by those committees may be inappropriate. Bill suggested that the Board should go ahead and recognize what the committees have done. Bill Coons moved to approve the current appointments to the Performance Committee and Report Acceptance Committee in the interim. Nancy Hilger seconded the motion. All were in favor and no were opposed.

Announcements:

Bob Schwarz noted that the next LAC meeting is tentatively scheduled for December 8, the date of our next meeting.

Dick Traver said he was to meet tomorrow, October 14, with the faculty member from the University of Illinois to get the training online and said that Ben and he would design an exam form. Dick asked about designing a web sight for the Advisory Board with the Bylaws, Standards, status of the peer reviews, etc. Dick stated that he would be willing to do it on one of U of I's servers. Mike asked if any of the members would be willing to help design a web sight. Nancy Hilger volunteered. Dick said he would have their guy present a few options.

Brad Hammond stated that the Auditor General's compliance booklet on reviews of internal audit shops has changed.

Brad Hammond stated that on January 1 the new State Gift Ban Act will go into effect which says *thou shall not accept any gift at all*, then there are 23 pages of exceptions. Brad asked how the Board's agencies were going to act. Ben said reference to their gift policy was in their handbook. Brad Hammond stated that you shouldn't accept anything that is going to be a conflict of interest. The Act requires a new ethics officer and that all of the ethics statements are reviewed before they are filed.

Mike said he wanted to thank all of the Chief Auditors in supporting the State and Local Government Conference. There will be around 160 attendees.

Bob Schwarz gave his compliments to Mike Moody and Nancy Hilger for putting this package together for today's meeting.

Next Meeting:

The next meeting is scheduled for November 9, 1998 at 9:30 a.m. at the Illinois State Museum Collection Center, Springfield, Illinois.

Adjournment:

A motion to adjourn the meeting was made by Ben Zemaitis. Stan Brown seconded the motion. All were in favor and no opposed. The meeting was adjourned at 10:58 a.m.