

# State of Illinois

## Internal Audit Advisory Board

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

### MINUTES

#### Board Meeting March 14, 2007

The regular meeting of the State Internal Audit Advisory Board was held on March 14, 2007 at the Capital City Center, Springfield, Illinois, Room 104 with video conferencing available at the James R. Thompson Center (JRTC) Chicago Room 9035 on the 9<sup>th</sup> floor. Chair Lesslie D. Morgan called the meeting to order at 10:05 a.m. Per Ms. Morgan's request, Kathleen Moreno, SIAAB Member, recorded the minutes.

#### Members Present

Lesslie D. Morgan, Chair –Office of the Attorney General (In Person/CMS Video Conference Room #104 Capital City Center, Springfield)  
Barbara Ringler, Office of the Treasurer (In Person/CMS Video Conference Room #104 Capital City Center, Springfield)  
Rusti Cummings, Vice Chair --Office of the Comptroller (In Person/CMS Video Conference Room #104 Capital City Center, Springfield)  
Kathleen Moreno, Eastern Illinois University (Term to 2/1/04) (In Person/CMS Video Conference Room Capital City Center, Springfield)

#### Members Absent

Al DiSilvestro, Office of the Secretary of State  
Carol Kraus, Illinois Office of Internal Audit

#### Minutes

Upon discussion of the minutes, a motion was made by Ms. Ringler and seconded by Ms. Cummings to approve the minutes for the February 22<sup>nd</sup> 2007 meeting as amended (**New Business**—the last sentence in the second paragraph was revised to “The SIAAB recommended that Ms. Moreno consult with the Auditor General’s Office and reiterated its support of the opinion rendered in the most recently released quality assessment report.” All Board members were in favor so the minutes were approved.

#### Reports/Updates

##### *CPE Coordinator – Online Peer Review Training Update*

Ms. Morgan stated that no new requests to take the online training course had been received since the last month's meeting. However, there has been one individual who was notified that their access would be revoked because they had “timed out” hence

cancelled from the training. Ms. Morgan stated that the individual was from out-of-state and was not, to her knowledge, serving as an external validator for the quality assessments for WIU or Secretary of State that were in progress.

### ***Performance Committee***

No reviews update from the Performance Committee (see **New Business** for Performance Committee appointments).

### ***Executive Committee***

Ms. Morgan stated that WIU request for approval of its quality assessment/external validator was signed on February 23, 2007 and returned to WIU's Chief Internal Auditor and cc: to the external validator Kathleen Moreno. Since the last Board meeting, ISBE's report was issued by the Executive Committee with option #1 chosen by the Chief Internal Auditor on March 2, 2007. IHDA's report was released on March 8, 2007. As of the Board meeting, Ms. Morgan has not heard anything further from Secretary of States' Chief Internal Auditor on the status of his external review that was due in December 2006.

The remaining outstanding agencies:

- **Western Illinois University:**  
Ms. Moreno conducted the on-campus visit February 25<sup>th</sup> and 26<sup>th</sup>.
- **Illinois Toll Highway Authority:**  
No response has been received since the Request for extension (received 1/2/07) was denied by the Board—Jan. 10, 2007 minutes.
- **Illinois Supreme Court:**  
No submission for an external quality assurance review.
- **Illinois Army National Guard:**  
No submission for an external quality assurance review.
- **Illinois Comptroller's Office:**  
No submission for an external quality assurance review.

### **Old Business**

Changes to the audit Matrix were discussed at previous SIAAB meetings (see September 13, 2006 and October 11, 2006) and postponed for re-release until after January 2007. Revisions included:

- 1) Implementation Standard 1210.A2 and Practice Advisory 1210.A2-1 Page 7, Audit Step #5. a. through d. will be revised to the following:
  5. The internal auditor should have sufficient knowledge to identify the indicators of fraud but is not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud. Specifically, in conducting engagements, do the internal auditors:
    - a. Consider fraud risks in the assessment of control design and determination of audit steps to perform. While internal auditors are not expected to detect fraud and irregularities, internal auditors are expected to obtain

reasonable assurance that business objectives for the process under review are being achieved and material control deficiencies – whether through simple error or intentional effort – are detected.

- b. Have sufficient knowledge of fraud to identify red flags indicating fraud may have been committed. This knowledge includes the characteristics of fraud, the techniques used to commit fraud, and the various fraud schemes and scenarios associated with the activities reviewed.
  - c. Be alert to opportunities that could allow fraud, such as control weaknesses. If significant control weaknesses are detected, additional tests conducted by internal auditors should be directed at identifying other fraud indicators. Some examples of indicators are unauthorized transactions, sudden fluctuations in the volume or value of transactions, control overrides, unexplained pricing exceptions, and unusually large product losses. Internal auditors should recognize that the presence of more than one indicator at any one time increases the probability that fraud has occurred.
  - d. Evaluate the indicators of fraud and decide whether any further action is necessary or whether an investigation should be recommended.
  - e. Notify the agency's Office of the Executive Inspector General if a determination is made that fraud has occurred.
- 2) Implementation Standard 2010.C1 Page 9 Audit Step #1 will add the following step:
- Whether accepted formal consulting engagements are based on the engagement's potential for improving management of risks, adding value and improving the organization's operations. (IS 2010.C1)
- 3) Performance Standard 2010 Page 9-10 Audit Step #5 b. Determine if actual audits performed during the review period conform to the plan with respect to coverage of major internal control systems. (PS 2010) was moved to FCIAA Section 2003-Question #3. Question #3 revised:
3. Obtain copies of audit programs and review selected workpapers to determine that the conducted audits include testing of the major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. The audits must include testing of:

Ms. Ringler made the motion and Ms. Cummings seconded that the changes take effect immediately following the March 14<sup>th</sup> meeting and would not be applicable for those reviews in progress (WIU/SOS). The motion passed unanimously.

## **New Business**

### ***Performance Committee Appointments:***

In compliance with the SIAAB Bylaws “**4.2 PERFORMANCE COMMITTEE**

The Performance Committee shall be comprised of at least **three (3) members selected by the Chair and approved by the Board**. The Board’s Chair shall appoint the chair of the Performance Committee. All members of the Performance Committee must be members of the Board or the Chief Internal Auditor or Audit Manager of a State Audit Organization. Members shall serve a one year term, but may be reappointed and serve until replaced. “

Ms. Morgan appointed Ms. Cummings as the Performance Committee Chair and recommended Ms. Moreno as the Vice Chair along with Stacy Smith (STRS); Steve Hayward (SURS); and Rick Papuga (ISU) as members. A motion by Ms. Ringler and seconded by Ms. Moreno was made to accept the recommendations. All were in favor therefore motion passed.

### ***External Reviews and SAIV Subsequent Review Process***

A request, from the state agencies with noncompliance designations, for standard verbiage for the “explanatory paragraph” was made. Discussion pertaining to the applicable SIAAB Bylaws’ ensued:

**Section IV. Peer Reviews 4.2 Establishment of Standards** specifically “...Whenever internal or external assessments identify noncompliance with the Standards or FCIAA, audit organizations are required by the SIAAB to include an explanatory paragraph identifying the noncompliance and corrective action to be taken. The explanatory paragraph is required to be included in each report released by the audit organization until a subsequent review has been conducted by an external validator verifying that appropriate corrective action has been taken and approved by the Board.”

The SIAAB decided that the newly appointed Performance Committee Chair, Ms. Cummings should contact the applicable state agencies and remind them of this requirement. Ms. Morgan stated that there were 8 agencies for whom this pertained to and that the agencies received notification regarding this requirement in the cover letter that accompanied their report or from John Cressman. A motion was made by Ms. Moreno and seconded by Ms. Ringler. Motion passed.

Ms. Morgan, Chair, received an inquiry, from the University of Illinois, to the SIAAB March 2, 2007. The inquiry requested clarification of the due date for the UI’s forthcoming Peer Review.

Practice Advisory 1312.3 “ An external assessment is required within five years of January 1, 2002...Organizations that have had external reviews prior to that date are encouraged to have their next external review **within five years of their last review.**”

Since the U/I's most recent Peer Review was issued June 2004 Ms. Morgan advised U. of I's Chief Internal Auditor that their next external quality assessment would need to be conducted and its report released by the Board no later than May 2009.

Discussion regarding the Peer Review follow-up protocol resulted in the following decision by the Board that the agencies whose quality assessment reports were “partially conform” or “does not conform” would need to follow basically the same process as the original quality assessment with a limited scope of only those areas that were not in compliance during the initial review. The Chief Internal Auditors could use the same external validator or a different external validator, however, they would still need to obtain approval of the external validator from the Board in the same manner as the initial request. The Matrix will be utilized to test the noncompliance or outstanding areas only (e.g limited scope) to determine that corrective action has been appropriately completed. A template follow-up report in the form of a table will be created by the Performance Chair and upon approval by the Board will be posted to the SIAAB Peer Review Program website. Upon review, of the applicable external validator, of the supporting documentation and draft report the documents would be sent to the Performance Committee's Chair. Upon the review of the Performance Committee, the report would be forwarded to the Executive Committee for their approval and subsequent release to the CEO and CAE. A motion by Ms. Moreno and seconded by Ms. Ringler to accept the above noted follow-up process was made. All members were in favor of the motion. Motion passed.

### ***Training***

An inquiry from Northeastern Illinois University was received regarding SIAAB Fall training. Generally, organizing training is under the Chair's duties however, with the potential of completing eight follow-up peer reviews and two full peer reviews within the calendar year the SIAAB opted to establish a training committee. A motion was made by Ms. Ringler and seconded by Ms. Moreno to establish a training committee (Ms. Morgan and Ms. Ringler) to coordinate a two-day fall training conference (possibly late October 2007 or early November). All members were in favor of the motion. Motion passed.

### **Announcements**

The next regular meeting will be April 11, 2007 -- 10:00 a.m. at the Capital City Center's Video Conference Room 104, 130 West Mason, Springfield, Illinois. For those attending via video conference in Chicago, the JRTC Room 9035 has been reserved.

### **Adjournment**

A motion to adjourn the Regular Session was made by Ms. Cummings and seconded by Ms. Ringler. Motion was passed at 11:43 a.m.

### **Board Committee Meetings**

Performance Committee—No meeting was held.

Executive Committee—No meeting was held.

The Board Committee Meetings were concluded at 11:58 a. m. a motion was made by Ms. Cummings and seconded by Ms. Ringler.