

STATE OF ILLINOIS
INTERNAL AUDIT ADVISORY BOARD

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

MINUTES

Board Meeting- May 9, 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 2-201, Chicago, Illinois. The meeting was called to order at 1:03 p.m. by Stephen Kirk, Chair.

ROLL CALL

Members Present/Location

Stephen Kirk, (Chair), Illinois Department of Transportation– Springfield
Amy Walter, Central Management Services-Springfield
Lesslie Morgan, Office of the Attorney General
Barb Ringler, Office of the Treasurer- Springfield
Tracy Allen, Office of the Comptroller – Springfield
Kelly Guerero for Jane Cullen, Illinois Department on Aging – Springfield
Lisa LaBonte, Illinois Department of Natural Resources – Springfield
Julie Zemaitis, University of Illinois – Springfield
Marcus Dodd, Illinois Department of Employment Security
Nancy Bowyer, Office of the Secretary of State

Members Absent

Doug Hathhorn, (Vice Chair) Illinois Department of Revenue- Springfield

MINUTES

The April 11, 2012, meeting minutes were presented to the Board for discussion and approval. Some minor changes were proposed by Lesslie Morgan and accepted by the Board. A motion was made by Ms. Zemaitis and seconded by Mr. Allen to accept the April 11, 2012 minutes as amended. The motion carried unanimously.

REPORTS AND UPDATES

CPE Coordinator – Ms. LaBonte reported that since the previous meeting one person, Beth Killam successfully completed the 2011 version of the SIAAB External Quality Assurance Review Training

Course and was issued a training certificate and one person, Randy Martin received an extension until June 9, 2012 to complete the training.

FOIA Officer –

Ms. Ringler reported there had been no FOIA requests.

Guidance Coordinator –

Chair Kirk reported that he had not received any request for guidance since the previous meeting. He noted Lesslie Morgan will be the new Guidance Coordinator who will be reporting beginning or effective with the June meeting.

Board Appointments –

Ms. Walter stated that everyone had signed up with the Governor's Office to renew except Jane Cullen. (The four members with expired terms are Mr Kirk, Mr. Hathhorn, Ms. LaBonte and Ms. Cullen).

OLD BUSINESS

Quality Assurance Reviews – Current Reviews and Requests –

Chair Kirk provided an update.

- **Reports and work papers received and under review**

The QAR Report and work papers were received from the Illinois Housing Development Authority and Chair Kirk submitted the final QAR Report for approval by the Board. A motion was made by Ms. Ringler to accept the QAR Report. Ms. Walter seconded the motion. Ms. Morgan and Ms. Zemaitis abstained, 8 voted yes and 0 no. The motion carried.

- **External Quality Assurance Reviews Due CY12:**

- **Illinois State Board of Education** - No official Request for Team Approval Received – EQA Completion Due March 2, 2012 has been submitted, Ms. Oller has communicated that she plans on submitting a request within the next two months. Chair Kirk reported at a previous meeting that he received a telephone call from Ms. Oller and answered questions about the process and the selection of the independent validator. Ms. Oller indicated she would be requesting someone as an independent validator soon.

- **Illinois Office of the Comptroller** - No external quality assurance review has been conducted or initiated since the IIA five-year external quality assurance review requirements became effective on January 1, 2002. EQA completion will be due following the close of FY2012.

SIAAB 2012 Training –

Chair Kirk provided an update from Vice-Chair Hathhorn regarding the SIAAB Training Conference. Vice-Chair Hathhorn worked with Denise Behl of the Springfield Chapter of the Institute of Internal Auditors (IIA) and Northfield Center. The conference has been set for October 24th and 25th at the Northfield Center in Springfield. It was stated by Ms. Zemaitis that cost was a significant issue noted in the survey that was conducted of the State internal auditors. The survey was conducted in an effort to assist the SIAAB in fulfilling one of its statutory missions to serve as a clearinghouse for the correlation of internal audit training needs, and training designed to meet those needs. The SIAAB has approximately \$2,000 balance with the IIA and all agreed we should take that balance down as low as possible to offset the cost of the conference for each participant.

Slate of Board Positions-

A motion to approve the slate proposed at the last meeting was made by Ms. Zemaitis and seconded by Mr. Allen. The motion carried unanimously. The following slate of positions proposed at the last meeting were therefore approved and adopted:

CPE Coordinator: Ms. LaBonte
Conference Coordinator: Mr. Hathhorn
Guidance Coordinator: Ms. Morgan
FOIA Officer: Ms. Ringler
Assistant FOIA Officer: Ms. Cullen
Quality Assurance Coordinator: Chair Kirk
Assistant Quality Assurance Coordinator: Vice Chair Hathhorn
Webmaster: Eduardo Mascorro

EEC (Executive Ethics Commission) Proposed Rules-

Chair Kirk noted that the SIAAB comment letter concerning the proposed EEC Rules as it pertains to the removal of a Chief Internal Auditor was sent to the EEC on April 11, 2012 as approved at the April 11, 2012 SIAAB meeting.

Chair Kirk agreed to provide a copy of the EEC letter to Eduardo to post on the SIAAB website. It was requested that the SB3794 Comment Letter be posted on the SIAAB website as well.

SIAAB 2012 Projects –

A discussion was held regarding the responsibilities of SIAAB. Chair Kirk asked that everyone frame their points within the context of the specific SIAAB charges outlined in FCIAA. This would allow a framework under which members could discuss specific activities that center around these areas of authority given to SIAAB under FCIAA and those areas members believe are not activities for which SIAAB has responsibility or authority.

- (f) The Board shall be responsible for:
 - (1) promulgating a uniform set of professional standards and a code of ethics (based on the standards and

ethics of the Institute of Internal Auditors, the General Accounting Office, and other professional standards as applicable) to which all State internal auditors must adhere;

(2) serving as a clearinghouse for the correlation of internal audit training needs and training designed to meet those needs; and

(3) coordinating peer review activities among the State's internal audit units.

Chair Kirk noted that SIAAB stated that the discussion should include how a particular subject relates to the statutory mission of SIAAB. Chair Kirk then opened the topic for discussion. Chair Kirk stated in that regard we would start with the first item and flow through each one within FCIAA as time allowed.

1) Promulgating a set of Professional Standards

Chair Kirk noted that he believed that the heart of what SIAAB does is provide guidance to the State Internal Auditors. Mr. Dodd concurred and stated that some of the guidance is outdated with current auditing standards and practices. SIAAB guidance should be brought in line with best practices, especially those regarding fraud. Ms. Zemaitis agreed that fraud and a risk based approach to auditing rather than the major transaction cycle approach is the appropriate direction. Mr. Dodd noted that an agency's risk for fraud should be part of their assessment and SIAAB should give clear guidance on this.

Chair Kirk noted that prior to the consolidation of internal audit the SIAAB in 2002 and 2003 had worked on changing the Fiscal Control and Internal Auditing Act to a Risk Based Approach. Chair Kirk stated that he worked on the changes and that a compromise had been agreed to with the Auditor General for wording changes. However, it stalled when the existing Governor announced he was not running again and although a majority of the Internal Audit shops approved the version, the decision was not unanimous. The administration told SIAAB they would not be willing to pursue a change without a unanimous decision. Therefore, SIAAB decided they would have to wait to move forward after the new administration was in place. Mr. Dodd stated that he believed SIAAB should pursue a risk based approach because that is best practice. He stated he believed SIAAB should work to bring FCIAA up to date in accordance with best practice.

Ms. Labonte stated that she believed the most important point was that whatever is decided that the activity must relate to the statutory mission of SIAAB that is provided for in the law.

Mr. Dodd stated that a true risk based approach must take into consideration any caveats mandated by law, like IRS requirements. Does the agency have mandatory audit requirements? What do statutes require?

Ms. Morgan stated that an agency should always take regulatory requirements into consideration. The audit planning process should be a risk based approach, not just audits of 11 areas. Although the Comptroller's 11 FCIAA areas are stated as guidance, they have been applied to agencies as required. The problem isn't with the development of a 2 year audit plan but of the application of major systems as identified as the 11 areas. Fraud is covered by IIA, AICPA and the GAO. Ms. Morgan stated that SIAAB could look at incorporating language from them but the real issue is the major systems requirement and how that is currently viewed.

Ms. Labonte stated that she can do an audit of things based upon risk that includes the FCIAA areas in coverage but the 11 areas themselves are not an audit.

Ms. Morgan stated that she like others also utilizes a matrix to show compliance with FCIAA. The tests required are listed in each audit program so she can show she tested and evaluated the FCIAA areas.

Mr. Allen stated that Chapter 2 of SAMS supplement where the 11 areas and the FCIAA Questionnaires are listed as optional. Chair Kirk noted that problem is they are often enforced as mandatory by the external auditors. Mr. Allen agreed we should get beyond 11 categories and move to a risk based approach and he noted that any process to change FCIAA would be more likely to be successful if the Auditor General is consulted regarding the new language to be introduced. Several concurred and noted that was the process that was followed before when change was considered and the one that should be followed by SIAAB this time as well. Chair Kirk stated previously it was coordinated with the Auditor General and the LAC.

Ms. Morgan noted that the GAAP component of SB3794 is prescriptive and passage of this bill may open Internal Audit up to more prescriptive language in the future, especially if we want to open up FCIAA.

Chair Kirk noted that the focus should be on what is the right thing to do, not apprehension about what could happen if we pursue a change to FCIAA. Ms. Morgan stated she concurred but was just pointing out the risk of opening up FCIAA.

Mr. Dodd stated that he believed that SIAAB should make sure it does the right thing for all agencies and what will assist them. You can't get to the value for the agency with prescriptive language. Mr. Dodd stated that his agency found no value for them in audits conducted by the Illinois Office of Internal Audit. An agency wants its needs addressed, they want help from Internal Audit. The agency does not just want something to satisfy the Auditor General only but they want something to help them.

Motion by Ms Labonte: SIAAB Chair should contact the Executive Director of the Legislative Audit Commission and the Auditor General regarding revisiting potential changes to FCIAA Section 2003 to move toward a risk-based approach. The motion was seconded by Mr. Dodd. The motion carried unanimously.

Chair Kirk stated that he thought another key area to look at is providing the clear basis for the existing guidance listed in the matrix. This would allow people to see what the position was based upon. Ms Ringler stated that she liked the idea of providing additional information regarding the positions of SIAAB to assist internal auditors. Ms. Morgan stated she agreed that is a good idea but she does not believe we should take the time now and go back on previous positions but just work from this point forward. Chair Kirk agreed SIAAB must make it a practice going forward but that he would still like to see SIAAB begin to capture previous decisions. This would also give SIAAB a chance to look at each of them and reaffirm them as still valid positions or make changes if necessary. Chair Kirk stated that he would like to plan to start adding some to each agenda and begin to work through the matrix. The guidance for each would provide auditors with an additional resource in providing clarification to whatever issue they have.

2) Clearinghouse for the correlation of internal audit training needs

Chair Kirk noted the following that relates to this area from previous information and meetings:

1. Fall Conference- SIAAB provides government specific training, usually 15 hours annually, 30 hours every 2 years for internal auditors. This allows internal auditors to meet the 24 hours government specific training every 2 years. This is a cost effective and efficient way to provide for government related training.
2. On-line Training- SIAAB provides on-line training regarding FCIAA and IIA and other applicable Standards that are to be followed.
3. Repository- SIAAB website provides training and resources and guidance.
4. Conducted a survey of topical areas of training interests of state auditors. Will share with the IIA for industry specific topics.

Mr. Dodd stated SIAAB should provide a mechanism for making internal auditors aware of things that affect our industry. Ms. Morgan stated if SIAAB becomes aware of something we need to make sure it is posted to the website. Ms. Zemaitis stated it could be noted in the "What's New Section". Chair Kirk asked Ms. Zemaitis if that would be difficult for her staff. Ms. Zemaitis stated that should not be a problem, it is not really that labor intensive to post to the website. Ed could handle this if he is told what to post.

Ms. Morgan stated that the Chair could communicate who SIAAB is and what they oversee to each Director. They could also be provided with the link to the website. That would provide a link from SIAAB to each Director or agency head. Ms. Morgan stated that she thought a letter should be sent to each agency head from the Chair regarding SIAAB. She did not feel that specific training for Directors should be provided. Chair Kirk agreed and said that would be the job of each Chief Internal Auditor to inform their Director and staff at their agency but that a message from the Chair might be a good idea if everyone agreed.

Mr. Dodd stated that he agreed with providing some linkage to the Directors. He further stated that having each Chief Internal Auditor reach out to their agency head about SIAAB also makes sense. However, some things are better handled by SIAAB itself. Chief Internal Auditors should also be dealing with what many agencies experience that he called "audit fatigue." There are 4-5 sets of auditors working within his agency. He has made it a point to explain what each does and how they relate and interact.

Chair Kirk suggested SIAAB provide some resources for the Chief Internal Auditors to provide instruction and guidance to their agencies and agency heads. He suggested coming up with some useful aids that could be shared with everyone. Chair Kirk said he had a Powerpoint presentation he had given to his agency management on the responsibilities of internal audit vs. management and FCIAA and he could share it with everyone for a starting point and if anyone else had anything they should do the same. Mr. Dodd and Ms. Ringler both stated they had things they would be happy to share. Chair Kirk suggested taking these ideas and developing some resources. Ms. Morgan stated she had some things as well. Chair Kirk suggested everyone provide copies of whatever they had and we can begin to work on something as a board to provide as a resource to Chief Internal Auditors and their agencies.

Ms. Morgan stated that it is really important that the Governor or the applicable Constitutional head communicate down to the Directors and Agency Management the importance of Internal Audit.

Mr. Dodd stated that Chief Internal Auditors should emphasize the importance of internal audit finding things first and getting management to fix them prior to the Auditor General auditing and finding issues. That is the real value that internal audit adds.

3) Coordinating Peer Review or Quality Assurance Reviews

Ms. Labonte stated the issue is if we are an advisory board as is stated in our name, then there are restrictions to what we do as a board in regards to peer reviews. She further stated that an advisory board does not make binding decisions or take substantive actions. Ms Labonte stated that SIAAB should therefore not actually release a QAR Report that goes beyond advisory. Ms Labonte further noted that by releasing a QAR Report the board is opening itself up to liability that they should not assume.

Ms. Labonte noted that the IIA Global provided some really interesting polling questions in which 50% of the respondents indicated they had not had a QAR. Illinois is certainly ahead of that curve. However, Illinois through SIAAB has also instituted a lot of overkill in regards to the QAR process. SIAAB should provide guidance and track who has had a QAR, but they should not be in the business of issuing the report. That is the responsibility of the Chief Internal Auditor. Ms. Labonte stated that she also agreed with providing the Matrix as a training tool.

Mr. Dodd stated that SIAAB should make sure that QARs happen when they should. He agrees SIAAB should track who has and hasn't had a QAR and when they are due. If a QAR is past due, he believes SIAAB should communicate to the Director or head of the agency or Constitutional Officer. SIAAB should also make sure the validator is independent and track who is doing what for what agency. Providing the Matrix and training are also appropriate and any other tools the auditors need. The communication of the Standards and the QAR framework is also appropriate for SIAAB.

Ms. Labonte stated that once the agency has reported to SIAAB that their QAR is completed, SIAAB should record that and be done. SIAAB also promulgates the Standards that are to be followed. It is the responsibility of each Chief Internal Auditor to ensure their QAR is completed and issued. She further noted that nowhere in the statute does it state that SIAAB is responsible for each agency's QAR. Oversight of this is not listed anywhere, instead the law states SIAAB is an advisory board, we are not a governing board.

Ms. Morgan stated that this has been the practice for the past several years and no one has raised this concern until the new members came on SIAAB. Ms. Morgan stated that she is not an attorney so she does not interpret the law, but we may need to get an interpretation of the board's duties. SIAAB in the past has stood on this basis since at least the 1990's. SIAAB has taken this consistent position which it believes is promulgation and coordination which has not been questioned in the past.

Ms. Labonte stated that we should not just continue doing something because it has always been done that way and as internal auditors she thinks we know that.

Ms. Zemaitis stated that we seem to keep struggling with the legal interpretation of the statutory requirement. She believes the heart of the matter is what is our fiduciary responsibility as a board? She is not comfortable with just checking a box and stating the QAR was completed. She stated she believes we

have a fiduciary responsibility as a board to know what they did in the performance of that QAR. If we allow someone to just check a box and not know what they did but they actually had extreme issues and they noted that they generally conform, that would be a faulty review. Ms. Zemaitis stated that she would have a problem with that and believes SIAAB would not have met its fiduciary responsibility in that case.

Chair Kirk noted the problem with what is reviewed by the SIAAB now is that it does not include all of the work papers anyway it is just did they complete the matrix. He was not sure if SIAAB even receives what it would take to know what was actually done. Chair Kirk noted that ultimately he thinks the QAR results and the internal audit process will be judged by the Auditor General.

Chair Kirk noted that it was about time to wrap up the meeting. He stated that SIAAB would continue this discussion where we left off at the next meeting. He would retain the last part of the next meeting for this continued discussion.

ANNOUNCEMENTS

The next regular meeting will be June 13, 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 2-201 of the JRTC has been reserved.

ADJOURNMENT

A motion to adjourn the regular meeting was made by Ms. Morgan and seconded by Mr. Dodd. The motion carried unanimously and the meeting was adjourned at 2:59 p.m.