

**OFFICE OF THE AUDITOR GENERAL**

**ILLINOIS' INTERNAL AUDITING ACT  
(Proposed replacement)**

September 15, 1988

**INTERNAL AUDITING AND FISCAL AND ADMINISTRATIVE INTEGRITY**

AN ACT relating to internal auditing and the fiscal and administrative integrity of agency management in State government.

**136.1 Title**

§ 1. This Act shall be known and may be cited as the "Internal Auditing and Managers' Fiscal and Administrative Integrity Act".

**136.2 Public Policy**

§ 2. It is the purpose of this Act and is hereby declared to be the policy of the State that the chief executive officer of every State Agency is responsible for the effective and efficient management of the agency and its use of resources, establishing and maintaining effective systems of internal controls to safeguard State resources, and preserving the integrity of the agency's records ; and that agencies with full-time programs of internal auditing shall staff their internal audit units with auditing professionals and employ those units in assisting in the fulfillment of the chief executive officers' responsibilities, as guardian of the State's resources, in a manner consistent with this Act. There is hereby created an Internal Audit Bureau and an Internal Audit Advisory Board.

**136.2a "Chief Executive Officer" defined**

§ 2a. "Chief Executive Officer" means and includes all elective State officers; directors of the executive code departments; presidents of State universities and colleges; chairmen or executive directors of executive boards, bureaus, and commissions; and all other persons in charge of the activities and operations of a State agency.

**136.2b Agency Managers' Fiscal and Administrative Integrity**

§ 2b. Every State agency (as defined by the State Auditing Act)<sup>1</sup> shall establish and maintain a system, or systems, of internal fiscal and administrative controls which shall provide assurance that:

1. Resources are utilized efficiently, effectively, and in compliance with applicable law;
2. Obligations and costs are in compliance with applicable law;
3. Funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation;
4. Revenues, expenditures, and transfers of assets, resources, or funds applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and
5. Funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no such unauthorized funds exist.

<sup>1</sup>Chapter 15, 301-1 et seq.

#### 136.2c Certification Guidelines for Agency Chief Executive Officers

§ 2c. By (month day, year), the Illinois Comptroller, the Department of Central Management Services, and the Internal Audit Advisory Board shall establish guidelines for:

1. the evaluation by agencies of their systems of internal fiscal and administrative controls to determine such systems compliance with the requirements of the preceding section; and
2. the certification, by agency chief executive officers, required in the succeeding section.

Such guidelines must be approved by the Legislative Audit Commission and may be modified, as needed, with the Commission's approval.

#### 136.2d Certification by Agency Chief Executive Officers

§ 2d. By (month day, year), and by (same month day) of each succeeding year, the chief executive officer of every State agency shall, on the basis of an evaluation conducted in accordance with guidelines prescribed under the preceding section, prepare and transmit to the Comptroller, the Director of the Department of Central Management Services, and the Internal Audit Advisory Board a statement which certifies;

1. That the agency's systems of internal fiscal and administrative controls fully comply with the requirements specified in this Act; or
2. That the agency's systems of internal fiscal and administrative controls do not fully comply with such requirements.

In the event that the agency's systems do not fully comply with such requirements, the report shall include and identify any material weaknesses in the agency's systems of internal fiscal and administrative controls and the plans and schedule for correcting such weaknesses.

In the case of an agency with no internal audit unit, the report shall include an explanation of the services requested and provided by the Internal Audit Bureau.

#### **138.2d-1 Untimely, incomplete, or false statement-Penalty**

§ 2d-1 Any agency chief executive officer failing to file a statement, under section 2d, by the specified date will be held personally liable for payment into the State Treasury an amount equal to twenty-five dollars per day for each and every day, past the filing date, that the statement is late. Any chief executive officer who files an incomplete statement, under section 2d, will be held personally liable for payment into the State Treasury an amount equal to two hundred fifty dollars in addition to any amounts owing due to an untimely filing. An incomplete statement will not be considered to have been filed until it has been completed and filed. Any chief executive officer who files a statement, under section 2d, containing one or more false assertions shall be subject to suspension or dismissal in addition to being held personally liable for payment into the State Treasury an amount equal to one thousand dollars and shall be considered to have filed an incomplete statement.

#### **138.2e Internal Audit Bureau, organization and function**

§ 2e. The Internal Audit Bureau (herein called the Bureau) is independent of all other State agencies and shall develop its own rules and criteria for the employment of auditing professionals and support staff. The Bureau shall establish and maintain a code of ethical behavior (based on the Code of Ethics promulgated by the Internal Audit Advisory Board) and a schedule of compensation levels for its staff.

The Governor shall appoint the director of the bureau, by and with the advice and consent of the Senate, who shall possess:

- 1) a graduate degree in business, management, or administration;
- 2) four years of progressively responsible management experience;

and

3) four years of progressively responsible professional auditing experience which may not run concurrently with section 2e.2.

The director of the Bureau shall receive compensation as established by the Compensation Review Board (Ch. 63, par. 901)

The Bureau shall maintain a professional staff of internal auditors to provide internal audit services to those agencies not required to establish a full-time program of internal auditing, will provide technical assistance and/or temporary 'audit specialist' services to any agency's internal audit unit upon request, and the director will be a member of the "Internal Audit Advisory Board" established by § 7. of this Act.

#### 136.2f Information obtained by the Bureau, confidentiality

§ 2f. All information obtained by the Bureau during the course of an audit shall be considered the property of the auditee agency and audit reports shall be directed to the auditee chief executive officer. The director of the Internal Audit Bureau (Bureau) shall establish rules for the preservation of confidential treatment of all data obtained at agencies requiring the Bureau's assistance.

#### 136.3 Program of internal auditing

§ 3. The Secretary of State, the State Comptroller, the State Treasurer, the Attorney General, the Judicial Branch of Government, the State Board of Education, State colleges and universities, all bonding authorities, and any agency designated by the Governor, shall establish a full-time program of internal auditing. The designations shall be made by the Governor not later than April 1 of each odd-numbered year and shall be filed with the Index Division of the Office of the Secretary of State as a public record. The Legislative Audit Commission may make formal recommendations to the Governor that he designate other agencies as being required to have full-time programs of internal auditing.

The fact that an agency is not required to have a full-time program of internal auditing does not release the chief executive officer from the responsibility for maintaining an effective internal control system.

Any State agency with an internal audit function is subject to the provisions of this Act.

#### 136.4 Appointment of chief internal auditor - Qualifications

§ 4. The chief executive officer of any State agency with a full-time program of internal auditing will appoint a chief internal

auditor with a bachelor's degree and:

- a) is a certified public accountant or certified internal auditor possessing four years of progressively responsible professional auditing experience; or
- b) possesses five years of progressively responsible professional auditing experience.

The chief internal auditor will report directly to the chief executive officer of the agency. All chief internal auditors and all full-time internal audit staff shall be free of all operational management duties.

### 136.5 Internal auditing program--Requirements

§ 5. The chief executive officer of any agency with an internal audit function will ensure that the internal auditing program includes:

(a) A two-year audit plan that is complete and approved by the chief executive officer prior to the beginning of the fiscal year, and that a detailed plan exists for the pending fiscal year prior to his/her approval;

(b) Audits of the agency's systems of internal accounting and administrative controls on a periodic basis so that all such systems are reviewed, at least, every two years and must include, on a sample basis, substantive testing of:

(1) the agency's obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether such activities are in accordance with applicable laws and regulations.

(2) grants received or made by the agency to determine that such grants are monitored, administered, and accounted for in accordance with applicable laws and regulations;

(c) Reviews of the design of major new electronic data processing systems and major modifications thereto prior to their installation to ensure these systems provide for adequate audit trails and accountability;

(d) Special audits of the operations, procedures, programs, electronic data processing systems, and activities of the agency as directed by the chief executive officer of the agency; and

Each chief internal auditor, in addition to any other power or duty authorized by law, required by professional ethics or standards or assigned consistent with this Act, shall have the powers necessary to carry out the duties required by this Act.

136.6 Consultations by internal auditor

§ 6. Each chief internal auditor may consult with the Auditor General, the Economic and Fiscal Commission, the Appropriations Committees of the General Assembly, the Bureau of the Budget, the Governor's Bureau of Internal Audits, or the Internal Audit Advisory Board on matters affecting the duties or responsibilities under this Act.

136.7 Internal Audit Advisory Board, organization and function

§ 7. The Internal Audit Advisory Board shall have nine members who shall be appointed for three-year terms. Initial appointments shall be made prior to February 1, 1989. The Board shall select a chairman from its membership who shall serve for a one-year term. Board members shall receive no additional compensation for their service, but shall be reimbursed by their employing agency for expenses necessarily incurred in the performance of their duties as Board members.

1. The composition of the board shall be as follows:

- a) The director of the internal audit bureau;
- b) The chief internal auditor of the Office of the Comptroller;
- c) Seven chief internal auditors appointed by the Governor. At least one of the persons appointed by the Governor must be employed by a State college, university, or university governing board.

1) The Board will be responsible for:

- a) The promulgation of Professional Standards and a Code of Ethics, based on the standards and ethics of the Institute of Internal Auditors and the General Accounting Office, to which all State internal auditors must adhere;
- b) Serving as a clearinghouse for the correlation of internal audit training needs and training designed to meet those needs; and
- c) The coordination of peer review activities among the State's internal audit units.