



May 11, 2005

## Introduction

Pursuant to the Executive Reorganization Act (15 ILCS 15/11) CMS respectfully submits this report that summarizes the consolidation and reorganization activities, status and results of **internal audit** services pursuant to Executive Order 10 (2003).

## Progress and Results of Consolidation Activities

As part of the Governor's continuing effort to streamline state government, eliminate duplicative work and unnecessary cost in order to increase efficiencies, Executive Order 10 (2003) authorized the consolidation of the internal auditing function from 26 designated agencies into a single statewide function covering 46 agencies/boards/commissions that report to the Governor. On October 1, 2003, approximately 90 internal auditors and 10 administrative staff operating out of the 26 designated agencies were formally transferred under the jurisdiction of CMS, into an administrative unit known as the Illinois Office of Internal Audits (IOIA). Beginning in January 2004, IOIA staff and operations consolidated in to four locations to provide statewide coverage.

An analysis of the audits performed by the designated agency auditors for the two year period July 1, 2002 through June 30, 2004 was done to determine the level of compliance with requirements of the Fiscal Control and Internal Auditing Act (FCIAA). An Interim Audit Plan was established to address required FCIAA audit coverage for the period July 1, 2002 thru June 30, 2004. This audit plan encompassed the audits performed at the twenty-six designated agencies for the period of July 1, 2002, through the date of consolidation and audits performed by IOIA staff.

Executive Order 10 (2003) also identified the need for a statewide risk management structure for effective management control, proactive risk management, governance and ongoing business process improvement. Instrumental to that process was the development and implementation of a risk-based audit plan. A risk-based approach to auditing is required by Performance Standard 2000 of the International Standards for the Professional Practice of Internal Auditing. That standard provides:

*The Chief audit executive should establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.*

The result of the statewide risk assessment was the development of a statewide two-year risk-based audit plan which incorporated the auditable areas identified as "high risk" and addressed FCIAA requirements on a statewide basis while focusing limited audit resources on the statewide risk management structure consistent with management's key objectives and responsibilities. The statewide two-year audit plan was approved by the Governor's Office on June 30, 2004.

This consolidation provided cost savings by allowing the State to take advantage of economies of scale, gain efficiencies and share knowledge; provided for consistent standard and procedures for internal audits; and enhanced objectivity and independence in the internal audit function. Targeted savings for the consolidation for FY 2004 were \$2,700,000 less an estimated \$750,000 in Efficiency Initiatives Revolving Fund (EIRF) expenditures. However, actual savings were \$3,083,000 less actual EIRF expenditures of

\$675,351. Savings resulted from the reduction of senior manager positions from 30 to 8, reductions in space requirements (26 locations to 4), and reductions in other operating costs.

**Recommendation for Future Legislation**

CMS recommends that the Fiscal Control and Internal Auditing Act be amended to correct an inconsistency.

Section 2003 of the Act, the requirements for the internal auditing programs are delineated. These requirements included auditing all major systems of internal accounting and administrative controls at least once every two years.

Section 2005 of the Act, the State Internal Audit Advisory Board and its requirements are delineated. Specifically, the Board is charged with responsibility of “promulgating a uniform set of professional standards and ethics (based on the standards and ethics of the Institute of Internal Auditors...). The Board promulgated the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors.

Performance Standard 2000 states that the chief audit plans, the audit cycles for the major systems of accounting and administrative control would not necessarily occur every two years. Rather , the cycle should be based on a risk analysis, which would consider such things as prior audit findings, appropriation levels, changes in staffing, new statutory mandates, etc. the risk-based model provides for more efficient use of scare resources.

Respectfully submitted,

Michael M. Rumman  
Director