

June 22, 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. Due to further consolidations we now provide internal audit coverage to 36 agencies/boards/commissions. We have offices in Springfield, Chicago, Marion and Rockford.

During FY05, we completed 184 audits for the 36 agencies/boards/commissions we serve. Within 151 of the audits issued, there were 518 findings reported, with the most common categorized as expenditure control weaknesses and concerns with management and organization of agencies. The remaining 33 audits issued did not include any material control weaknesses.

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. We have continued to update the risk assessment based on audit results, new legislation and interview with agency management.

The required annual submission of a two year audit plan and annual report were prepared, approved and submitted to the Office of the Governor on June 30 and September 30, 2004 respectively.

As previously reported this consolidation provided gross cost savings of \$3,083,000 which after an investment of \$675,351 yield a net savings of \$2,400,000. Savings resulted from the reduction of senior manager positions from 3- to 8, reduction 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,

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