



November 29, 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).

## Status and Results of Consolidation Activities

**Executive Order 10 (2003) authorized the consolidation of the internal auditing function from 26 designated agencies into a single statewide function covering agencies/boards/commissions that report to the Governor.**

The organizational consolidation occurred on October 1, 2003, with the creation of the Illinois Office of Internal Audit. The physical consolidation was completed in April 2004. Our staff are now located in four locations; 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.**

In an effort to be instrumental to the desired structure, we preformed the first bi-annual statewide risk assessment which resulted in the development of a statewide, risk-based two year audit plan. This plan incorporated the auditable area identified as "high risk" and addressed the statutory requirements of the Fiscal Control and Internal Auditing Act on a statewide basis. We have continued to update the risk assessment based on audit results, new legislation and interviews with agency management.

We are currently in the planning stages of the second bi-annual statewide assessment and will complete the required two-year audit plan based on the results of this effort.

## Recommendation for Future Legislation

CMS recommends that the Fiscal Control and Internal Auditing Act be amended to correct an inconsistency regarding the requirements of the use of audit resources.

- Section 2003 of the Act requires all major systems of internal accounting and administrative controls be audited at least once every two years.

This Language is inconsistent with the following

- Section 2005 of the Act, states the State Internal Audit Advisory Board is charged with the responsibility of "promulgating a uniform set of professional standards and ethics 9based on the standards and ethics of the Institute of Internal Auditors...).

- The Institute of Internal Auditors Performance Standard 2010 states, “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 law requires auditing each major system of internal accounting and administrative controls but then later requires that audit plans be based on risk to the organization goals. Using a risk-based approach to develop audit plans, the audit cycles for the major systems of accounting and administrative control would not necessarily occur every two years. Rather, the cycle would be based on a risk analysis, which would consider such things as potential for harm to the citizens of Illinois, prior audit findings, appropriation levels, changes in staffing, new statutory mandates, etc. The risk-based model provides for more efficient use of scarce resources and focuses our efforts where risk to agency operations is highest.

Respectfully submitted,

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Acting Director