



1997 ANNUAL ILLINOIS AUDIT ADVISORY

Emerging and Potential Audit Issues

WILLIAM G. HOLLAND

AUDITOR GENERAL

Illes Park Plaza, 740 East Ash Street, Springfield, Illinois 62703-3154
Thompson Center, Suite 4-100, 100 West Randolph Street, Chicago, Illinois 60601

PHONE: 217-782-6046 FAX: 217-785-8222 TDD: 217-524-4646
E-mail: auditor@pop.state.il.us Web Site: http://www.state.il.us/auditor

AUDITOR GENERAL'S MESSAGE

As agency managers and public officials, we have the responsibility to efficiently and effectively use agency resources. To ensure proper use of such resources, a sound system of management controls is of primary importance. This third edition of the Illinois Audit Advisory focuses on management controls, with articles on what a sound system of controls should entail, management control findings from recent OAG audits, and some red flags which may indicate misuse of funds by contractors.

The technology age continues to dramatically impact the way we do business. This Advisory contains a listing of some Internet resources which can help us perform our administrative, financial, and

auditing operations more efficiently. Another technological development is the Comptroller's implementation of the SAMS accounting system. One goal of SAMS is to reduce the use of paper to complete financial transactions. This issue of the Advisory provides guidance on the need to keep documentation to support electronic transactions.

I hope these and other articles in the Advisory continue to be of interest and help as we serve the people of Illinois.

WILLIAM G. HOLLAND
July 1997

MANAGEMENT CONTROL AUDIT FINDINGS

Over one-third of the audits completed by the Office of the Auditor General in the past year contained no material findings. Many of the remaining audits, however, identified instances where management controls were weak, absent, or not followed. Below are areas where wasteful or improper use of State resources can occur if management controls are not adequate.

Personnel – Management is responsible for ensuring that the correct wages and benefits are paid to eligible employees. Our auditors found that control weaknesses resulted in the following:

- employees continued to remain on the payroll even after they were terminated;
- employees received unemployment benefits while still working at the agency;

(continued on page 2)

(continued on page 3)

SAMS AND SUPPORTING DOCUMENTATION

On July 1, 1997, the Comptroller implemented the new Statewide Accounting Management System (SAMS). To maintain independence required by audit standards, the Auditor General was not actively involved in the development of SAMS. However, the Auditor

General was apprised of the project through meetings and the receipt of documentation. The Auditor General plans to review SAMS during Fiscal Year 1998.

One of the goals of SAMS was to significantly reduce the use of paper to complete financial

SAMS AND SUPPORTING DOCUMENTATION

(continued from page 1)

transactions. Until SAMS and the user agencies' accounting procedures are thoroughly reviewed, agencies should retain the same level of supporting documentation as they have retained in the past to document and substantiate financial transactions.

The Comptroller provides the following guidance in the SAMS manual (Procedure 17.10.20, page 2 of 2).

State agencies must maintain all supporting documentation necessary to substantiate their encumbrances, expenditures and other transactions. Although paper is no longer submitted to the Comptroller's Office in all transactions, individual agencies are still responsible for maintaining supporting documentation as if the transaction was submitted on paper.

If you have any questions regarding SAMS, please contact Bill Sampias, Director, OAG Information Systems.

TRAINING ON AUDITING STANDARDS

On August 7 and 8, 1997, the Office of the Auditor General will present "Auditing Standards Update" by David Ricchiute at the Northfield Center in Springfield. Mr. Ricchiute is a professor at the University of Notre Dame and an

CONTRACTOR MISREPRESENTATIONS

The use of contractors brings with it special considerations from a management control perspective. Agencies should be alert for and have controls in place to detect intentional false statements by vendors. Some examples of false statements include:

- Misrepresentation of contractor qualifications
- False certifications or assurances
- Invoices from non-existent companies
- Duplicate claims or altered invoices
- Billing for fictitious employees
- Billing for goods and services not provided
- Inflated costs
- False invoices from subcontractor to primary contractor

Agencies should be alert to the possibility of false statements if any of the following red flags are present:

Inadequacies in reporting - Incomplete, unsatisfactory, or late reports may indicate that the source documentation is either not available, nonexistent, or cannot be retrieved. If the source documentation is false, then attempting to summarize the information becomes problematic.

Altered or missing documents - Fraud is often concealed by altering

or misplacing the supporting documentation.

Photocopied or duplicate documents - Transactions should be supported by original documentation. Photocopied and duplicate documents are easily altered.

Significant variations in costs - Fluctuations in costs from month-to-month or year-to-year may be an indication that some questionable action is occurring or that costs are being misrepresented.

Noncompliance with agency requirements - Contractors may request a waiver from, or simply not comply with, contract terms or agency rules, policies, or procedures with the intention of defrauding the agency.

Failure to have adequate supporting documentation for reports and summary data - When reviewing source documents, be aware of unusual items, such as dollar amounts which appear to be too high or too low, odd times or places, or unknown or unidentified contractual staff.

Should you have questions regarding contractor misrepresentations, contact Karen Stauffer, OAG Audit Manager.

acclaimed speaker on accounting and auditing.

Recently, the Office of the Auditor General sent a letter to agency directors inviting them to send representatives to this training.

There is no charge to agencies. However, enrollment is limited; reservations will be taken on a first come basis. Should your agency be interested in sending a representative to attend this course, contact Jody Ohm, OAG Training Administrator.

MANAGEMENT CONTROL AUDIT FINDINGS (continued from page 1)

- employees received pay increases to which they were not entitled; and
- employees were overpaid or underpaid lump sum, sick and vacation payouts because of miscalculations.

Contracts – Regarding contract administration, audits concluded that management control weaknesses contributed to the following:

- payment of unallowable or questioned costs;
- contractor selection was not adequately documented;
- documentation, such as hours worked or services provided, was lacking;
- services began prior to a signed contract; and
- contracts were not filed with the Comptroller's Office.

Property and Inventory – Because property is a resource that can be readily converted for personal use, management needs a sound control system to limit loss risks. Audits found that:

- inventory susceptible to theft, such as computers and small printers, was not appropriately tagged;
- property could not be located; and
- property was deleted from inventory records without any documentation.

Conflict of Interest – To ensure impartial and accountable agency

operations, controls are needed to prevent personal or other interests from affecting decisions made by State employees. Audits reported that:

- policies were not established requiring employees and vendors to disclose potential conflicts which could impact their job duties; and
- free goods were provided to staff from vendors who also did business with the agency.

MANAGEMENT CONTROLS

Management controls include the plan of organization, methods and procedures to ensure that resource use is consistent with laws, regulations, and policies, that resources are safeguarded against waste, loss, and misuse, and that

reliable data is obtained, maintained, and fairly disclosed. They include the processes for planning, organizing, directing, and controlling program operations, and the systems for measuring, reporting, and monitoring program performance [see inset].

Occasional instances of fraud, waste, and abuse in State government demonstrate the need for a strong system of management controls. A sound system of management controls would make the commission of such wrongful acts more difficult.

Management controls should not be looked upon as a separate, distinct system within an agency. Rather, they need to be an integral part of each system that management uses to regulate and guide its operations.

GENERAL AND SPECIFIC CONTROL STANDARDS

- Control systems should provide *reasonable assurance* that the system objectives will be accomplished.
- Managers and employees need to demonstrate a positive and *supportive attitude* toward management controls at all times.
- *Competent personnel*, with professional integrity, are needed to accomplish their assigned duties.
- For each major agency activity, management should develop *control objectives*, which are goals to eliminate or reduce the risks of adverse results to an acceptable level, and *control techniques*, which are specific methods or procedures to ensure that control objectives are accomplished.
- Controls systems, all transactions, and other significant events are to be clearly *documented*.
- *Transactions and other significant events* are to be authorized and executed only by persons acting within the scope of their authority and should be promptly *recorded* and classified.
- Management should ensure *separation of duties* in authorizing, processing, recording, and reviewing transactions.
- Qualified and continuous *supervision* is to be provided to ensure control objectives are achieved.
- *Access to and accountability for records and resources* should be limited to authorized individuals.

Source: Comptroller General of the United States

USEFUL TOOLS ON THE INTERNET

The Internet is a powerful information gathering tool. What previously took hours of poring through periodical listings and reference books can now be accomplished in a matter of seconds. The Internet sites listed in the inset link directly to various financial, audit, and administrative resources. The immediate availability of information provided by computer technology offers the opportunity for increased efficiency and accountability in agency operations.

A Guide to Internet Addresses

The addresses for Internet sites can be long and complex. Below is a summary of some of the source abbreviations used in Internet addresses.

.gov	Federal Government
.state.[state code].us	State Govt.
.edu	Educational Institution
.com	Commercial Site
.org	Non-Profit Org.

SELECTED INTERNET SITES

- **Illinois Auditor General**
www.state.il.us/auditor/
Provides a list of audited agencies, report digests, and links to other sites, including those listed in this inset.
- **State of Illinois Home Page**
www.state.il.us/
Provides a search vehicle of all Illinois authorized sites, a listing of Illinois agencies with links to their home pages, listings and links to "wired" Illinois communities, and information on Illinois attractions.
- **Finance Net**
www.financenet.gov
Provides information on state, federal, and international financial administration resources, as well as other financial topics, such as job training information, surveys and statistics, and various search tools.
- **GARP, The Government Auditor's Resource Page**
www.netaxs.com/~edoig/GARP.html
Provides links to many auditing tools available on the Internet, including comprehensive lists of government resources, government documents, audit resources, and search engines.
- **GPO Access**
www.access.gpo.gov/su_docs/aces/special.html
An excellent source of federal government resources, providing links to frequently updated searchable sites, including: the Federal Register, the Code of Federal Regulations, and Supreme Court decisions.
- **General Accounting Office**
www.gao.gov
Includes a searchable index of full text GAO reports and Comptroller General decisions.
- **IGnet**
www.sbaonline.sba.gov/ignet/ig.html
IGnet includes articles, tools for writing audit reports, an interactive Yellow Book, and a library for Inspector General related research and reports.
- **Rutgers Accounting Web**
www.rutgers.edu/Accounting/raw/main1.htm
Offers a fully searchable resource and provides comprehensive links to other accounting resources worldwide.

**Office of the Auditor General
State of Illinois
Iles Park Plaza, 740 E. Ash Street
Springfield, IL 62703-3154**