William G. Holland
Auditor General

1999 Annual

Illinois AuditAdvisory

Emerging and Potential Audit Issues

AUDITOR GENERAL'S MESSAGE

This has been a year of significant change in State government, and the year is not yet over. Many agencies have new administrators. Other agencies have undertaken new programs or made substantial changes to existing ones. As external auditors, we are keenly aware that such fundamental shifts in State government bring both opportunity and risk.

Our responsibilities as external auditors are heightened by this year of transition. One purpose of the external audit process is to provide a continuum of oversight that is not affected by changes in administration or processes. Our upcoming audits will focus on new and revised responsibilities within each agency of government.

Our audits may also give insight to new administrators about what might be improved in an agency's operations, as well as what has worked well in the past and might be retained. Collectively, our published reports provide a vehicle through which agencies can learn from the experiences of other agencies. In part, this annual Illinois Audit Advisory is intended to summarize problems found during the prior audit cycle that cross agency boundaries and to address challenges—such as Year 2000—that we all face.

William G. Holland
July 1999

OAG PEER REVIEW

Every three years the Office of the Auditor General receives an external quality control review of our audit processes (a peer review). Members of the peer review are audit professionals chosen from across the United States by the National State Auditors Association. The purpose of the review is to examine the quality control policies and procedures used by our Office in performing audits of State agencies. The peer review team selects a representative sample of audits conducted by our Office and evaluates those audits to determine compliance with Government Auditing Standards.

We are happy to report that our most recent peer review conducted in July 1999 resulted in an unqualified opinion. Additionally, the peer review team did not note any deviations from professional standards that would have required a written letter of comments. The prior peer review, conducted in July 1996, likewise resulted in a clean opinion with no letter of comments.

The peer review is an important part of the Auditor General's quality control process and helps to ensure that our procedures meet all required professional standards and produce reliable products for the agencies we audit. ■

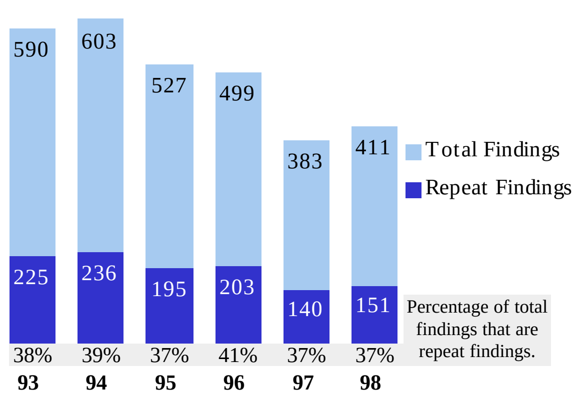
REPEAT FINDINGS

Audit recommendations are intended to improve agency operations. In FY 1998, agencies agreed to implement 83 percent of the recommendations made in the Auditor General's audit reports.

However, not all recommendations accepted are actually implemented. As shown on this bar chart, over the past six years, more than one-third of the findings in our audits were repeated from the prior audit. Repeat findings are those which agencies have not implemented corrective action from the prior audit, and consequently, the auditors repeat the recommendation in the subsequent audit.

Increasingly, the Legislative Audit Commission has been focusing its attention on agencies which are the subject of repeat findings. Timely implementation of recommendations demonstrates agency management's desire to be accountable for, and a willingness to improve, their agency's operations. ■

REPEAT FINDINGS FROM FY 93-98



NEED FOR BETTER MANAGEMENT CONTROLS

Although many audits conducted by the Office of the Auditor General show that State agencies are making good progress in developing necessary management controls, serious deficiencies are still found in this important area.

Management controls include the plan of organization, methods, and procedures established 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].

Significant problem areas identified in audits completed in the past year include the following:

PLANNING, RECORDKEEPING, AND MONITORING

Our audits found instances where even the most basic management controls were lacking:

- there was no reliable and functioning system for keeping management informed of all laws and regulations that affect agency operations;
- management had not formally adopted sufficient internal administrative rules and policies;
- recordkeeping procedures did not allow complete, accurate, and timely presentation of financial statements;
- proper segregation of duties had not been achieved;
- executive signature authority had been inappropriately delegated to lower level staff;
- an effective planning framework was not in place to guide agency operations; and
- an effective internal audit function was not in place.

CONTRACTS AND EXPENDITURES

Proper controls over the spending of resources are essential to proper public accountability. Significant audit findings documented cases where:

- appropriated funds were expended from the wrong year's appropriation or for purposes not directly related to the appropriation;
- controls were not present to safeguard against overpayments and duplicate payments;
- reimbursement was sought from federal programs for unallowable expenditures;
- federal funds were drawn down in excess of immediate expenditure needs in violation of federal cash management requirements;
- salaries were paid for employees who had been assigned to work for other agencies;
- stringing of purchases was used to avoid the need for competitive procurement processes; and
- contractual services began prior to having a signed contract in place.

INVENTORIES AND EQUIPMENT

Since property is a resource that can be readily converted for personal use, management needs a sound control system to limit loss risks. Our audits found that:

- not all equipment items purchased or transferred in were recorded or tagged;
- a complete physical inventory of property and equipment was not conducted, which could lead to failure to detect the loss of property;
- valuable equipment items could not be located; and
- overstocking of inventory occurred which unnecessarily restricted availability of State resources.

ACCOUNTS RECEIVABLE

Collection of amounts due to the State is essential to provide adequate resources to support State operations. Our audit findings showed cases in which:

- timely collection attempts were not made;
- past due accounts were not turned over to a collection agency;
- eligible past due accounts were not placed into the Comptroller's Offset System; and
- adequate skiptracing and litigation procedures were not employed when necessary.

PERSONAL SERVICES AND PAYROLL

Personal Services account for a large portion of overall State expenditures, and human resources are one of the most important State assets. 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:

- salary increases and final termination gross payments were miscalculated, resulting in underpayments and overpayments to employees;
- unemployment benefits were paid to employees who were still receiving a paycheck; and
- employee evaluations were not performed on a timely basis, resulting in delays in salary adjustments, inadequate performance feedback, and possible postponement of necessary training. ■

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

YEAR 2000 READINESS

In the last few years, the term "year 2000 ready" has become part of our standard vocabulary. Year 2000 ready refers to the capability of computers to differentiate the year 2000 from the year 1900. Computer systems have typically represented the year using two digits rather than four in order to conserve data storage space and reduce costs. Thus 1999 would be represented as "99" and both the year 2000 and 1900 would be represented as 00. As a result, computer systems that use dates or perform date- or time-sensitive calculations may generate incorrect results in the year 2000.

As of May 31, 1999, for 60 agencies reporting to the Governor, 83% of overall Y2K effort had been completed.

In the past decade, computers have become an integral component in the delivery of State government services. As a result, computer problems that result from the year 2000 could impede the State's ability to perform mandated duties and provide required services. We have also become increasingly dependent on computer chips which reside in everything from thermostats and elevators to phones, smoke detectors, production lines, and hospital equipment. Since these chips were programmed at factories, no one really knows whether or not these chips will function past the year 2000.

The Department of Central Management Services has taken the lead to help ensure that State agency computer systems are year 2000 ready. DCMS started this process in April 1996. Subcommittees were created; monthly meetings were held with State agency representatives; a central repository of information was developed on the Intranet to share information among the agencies on available tools as well as software and hardware information; and efforts were underway to share testing strategies. Starting in April 1999, monthly Year 2000 status reports were required from State agencies reporting to the Governor. Agencies identified the functions that they perform and the computer systems that support those functions. The Governor recently released a comprehensive State agency report outlining the status of State government in preparing computers and other systems for conversion to the year 2000. The report stated that as of May 31, 1999, for 60 agencies reporting to the Governor, 83 percent of overall Y2K effort had been completed. The reporting State agencies plan to spend $144.8 million and had spent $83 million. Additional information and copies of the Governor's report are available at the Illinois Y2K Web site at http://www.state.il.us/y2k/

In addition, on November 30, 1998, the Year 2000 Technology Task Force Preliminary Report was released. The Task Force was chaired by the Director of the DCMS and its members were from the Legislature, Constitutional Offices, and State agencies, and included the Auditor General. To obtain a copy of the report, please send an electronic mail message to year2000@gov.state.il.us or call 217/782-7355.

Copies of year 2000 audit programs and links to year 2000 sites are available on the Auditor General Homepage at http://www.state.il.us/auditor ■

ILLINOIS FIRST

Governor Ryan's five-year, $12 billion public works program, a Fund for Infrastructure, Roads, Schools and Transit (Illinois FIRST), will impact many major agencies of State government. The program includes $4.1 billion each for transportation and transit, $2.2 billion for schools, and $1.6 billion for local community projects. Included within Illinois FIRST are projects as diverse as highway, roads and bridges, bike trails and sport facilities, and brownfield and landfill mediation and redevelopment.

Each agency with responsibility for implementing a component of the Illinois FIRST program will determine the overall success of the initiative. Within that context, the external audit process will review and report on each agency's Illinois FIRST activities and, in particular, compliance with laws and maintenance of internal controls pertinent to the program. ■

ATTORNEY GENERAL OPINION ON PROCUREMENT CODE

On July 1, 1998, the Illinois Procurement Code replaced the Illinois Purchasing Act as the State's primary purchasing law. Certain questions about the Code have arisen through the audit process. As a result, the Auditor General requested an Attorney General opinion on the Code's applicability to certain agencies and types of contracts.

The opinion(File No. 99-008), dated July 9, 1999, advises that: (1) the Auditor General's Office, as part of the legislative branch, is exempt from the provisions of the Code; (2) university-related organizations such as foundations and alumni associations are not included within the definition of "State agency", for the purposes of the Code, and are excluded from compliance therewith; (3) exclusion from the definition of "State agency" exempts an entity from all provisions of the Code; and (4) the exemption for "purchase of care" contracts does not extend to all related contracts.

Attorney General opinions are available from the Attorney General's Office or on the internet at: http://www.ag.state.il.us/opinions/ ■

www.state.il.us/auditor

Recent additions to the Auditor General's website:

- **Procurement Bulletin**
  - Procurement Opportunities
  - Contracts Awarded
  - Prequalification Information
  - Other Notices
- **Auditor General's Annual Report**
  - Full report in Adobe Acrobat format
- **Online Reports**
  - Performance Audits released in 1999
  - Digests for all 1999 reports

STATEWIDE SINGLE AUDIT PROCESS

Audits of federal grant programs, known as "single audits", will be conducted on a statewide basis rather than a departmental basis starting in FY 2000.

Unless a biennial audit is required by law, the federal Single Audit Act and OMB Circular A-133 now require each non-federal entity expending federal awards of $300,000 or greater to undergo a single audit annually. The Illinois State Auditing Act mandates the Auditor General to conduct a financial audit of each state agency at least once during every biennium, but the statute does not require a biennial audit. Consequently, starting in FY 1999, federal audits must be conducted annually to comply with federal law and regulations.

However, to increase efficiency and decrease the cost that would be associated with performing annual departmental single audits, the State is converting to a Statewide Single Audit as of June 30, 2000. For FY 2000 all larger (or Type A) federal programs for the State will be audited. Subsequent years will use a risk-based approach, so that certain higher risk, smaller federal programs (Type B programs) will be audited in place of any low risk, larger programs that are identified.

There are definite cost savings with a statewide approach. For example, the size cut off for a Type A program at the statewide level is $3 million or 0.3% of federal awards expended, whereas the cut off is $300,000 or 3% on the Department level. Based on the FY 97 Statewide Schedule of Expenditures of Federal Awards, there were only 34 Type A programs that would have to be audited, whereas 140 were identified and audited on a department by department basis in FY 97.

Another advantage of a statewide approach is that financial statement presentation for shared and possibly non-shared funds may not be required for some agencies who now have to prepare financial statements because of federal single audit requirements.

Data needed to prepare the Statewide Schedule of Expenditures of Federal Awards (SEFA) will be gathered through the Comptroller's GAAP submission. Form SCO-563A will be the main form from which the statewide SEFA will be prepared, but SCO-567 and SCO-568 will also be used. The Comptroller's staff have been working on adding the SCO-563A form to the web-based EDGE system for FY 99. It is especially important to submit the proper catalog of federal domestic assistance (CFDA) number when providing data for the statewide SEFA.

To obtain CFDA numbers, agencies may wish to refer to the Internet site - http://www.gsa.gov/fdac ■

Agencies Receiving a Departmental Single Audit in FY 1999 which will be under the Statewide Single Audit Process in FY 2000

- Aging
- Agriculture
- Alcoholism and Substance Abuse
- Arts Council
- Attorney General
- Board of Higher Education
- Children and Family Services
- Commerce and Community Affairs
- Community College Board
- Corrections
- Court of Claims
- Criminal Justice Information Authority
- Emergency Management Agency
- Employment Security
- Environmental Protection Agency
- Governor
- Historic Preservation
- Human Rights
- Human Services
- Insurance
- Natural Resources
- Nuclear Safety
- Planning Council on Developmental Disabilities
- Public Aid
- Public Health
- Secretary of State
- State Appellate Defender
- States Attorney's Appellate Prosecutor
- State Board of Education
- State Police
- Student Assistance Commission
- Transportation
- Veterans Affairs

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