2001 Annual

Illinois

AuditAdvisory

Emerging and Potential Audit Issues

William G. Holland
Auditor General

AUDITOR GENERAL'S MESSAGE

Over the past year, the Office of the Auditor General has been involved in two major initiatives: the completion of the first Statewide Single Audit and the planning process to implement GASB Statement 34. These two initiatives have likely impacted, or will be impacting, many of you. This issue of the Audit Advisory provides an update on the status of these two important projects. I'd also like to take this opportunity to thank those of you who have assisted us in these efforts.

Many agencies in State government have web-sites to allow the public to better access their services. This issue of the Advisory details the various information which is available from our Office, both the reports we prepare, as well as documents others within State government file with us. I invite you to explore our web-site (www.state.il.us/auditor) to see what information we have available.

Finally, as agency managers, we have the responsibility to ensure that our agencies' activities comply with applicable legal requirements. This issue of the Advisory reviews some basic laws with which agency managers are required to comply.

I hope you find this issue of the Audit Advisory useful and informative.

WILLIAM G. HOLLAND
August 2001

FIRST STATEWIDE SINGLE AUDIT COMPLETED

In Fiscal Year 2000, the Office of the Auditor General converted to a Statewide Single Audit approach to audit federal grant programs. The Single Audit, released on June 22, 2001, was conducted in accordance with the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133. In prior years, audits of federal grant programs were conducted on a department-by-department basis.

There were several benefits associated with converting the Single Audit from a department-by-department to a statewide basis. These included:

- Reduced costs to State agencies;
- Less audit effort for agencies;
- More readily available information; and
- Annual audits of federal programs.

The Statewide Single Audit includes all State agencies that are a part of the primary government and expend federal awards. In total, 37 State agencies expended federal financial assistance in Fiscal Year 2000. The Statewide Single Audit does not include those agencies that are

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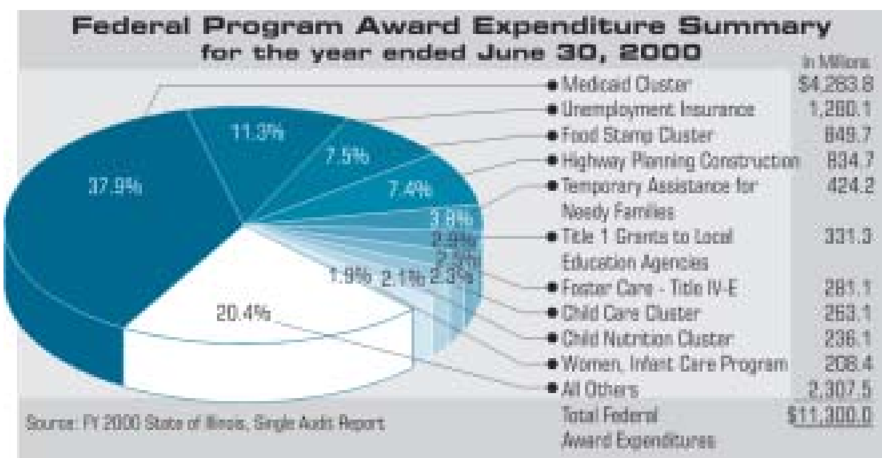

SUBRECIPIENT MONITORING

As noted in the above article on the Statewide Single Audit, the State receives a large amount of funding from the federal government, much of which is passed on to subrecipients in the form of grants and contracts. The State places continuing reliance upon these subrecipients to provide services on behalf of State government. While these services are provided by subrecipients, the State retains the responsibility

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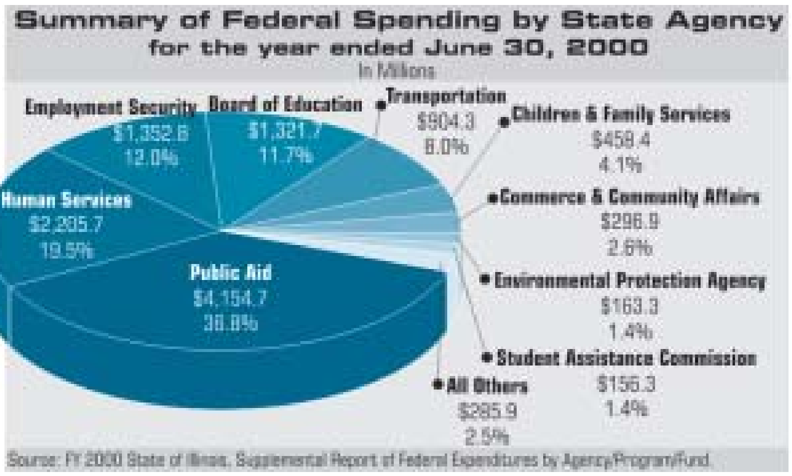
FIRST STATEWIDE SINGLE AUDIT cont.

defined as component units, such as the State universities and finance authorities. The component units continue to have separate OMB Circular A-133 audits.

The Schedule of Expenditures of Federal Awards (SEFA) reflects total expenditures of $11.3 billion for the year ended June 30, 2000. Overall, the State participated in 292 different federal programs; however, 10 of these programs or federal agencies providing more than a billion dollars in funding to the State of Illinois in Fiscal Year 2000 were: U.S. Dept. of Labor ($1.5 billion); U.S. Dept. of Agriculture ($1.4 billion); and U.S. Dept. of Education ($1 billion).

Nine State agencies accounted for approximately 97.5% of all federal dollars spent during Fiscal Year 2000.



program clusters accounted for approximately 79% of the total federal award expenditures.

The funding for the 292 programs was provided by 20 different federal agencies. Over half of the federal funding ($5.97 billion) came from the U.S. Dept. of Health and Human Services. Other

The special assistant auditor conducting the Single Audit was KPMG LLP, which has had prior experience in conducting statewide A-133 audits of several state governments. Work is well underway for the Statewide Single Audit for Fiscal Year 2001.

SUBRECIPIENT MONITORING, cont.

to ensure that the services are provided efficiently and effectively. Consequently, a sound system of management controls over the subrecipients must be in place.

One-third (12 of 36) of the findings in the Statewide Single Audit dealt with inadequacies in State agency subrecipient monitoring or reporting. Deficiencies in agencies' monitoring of subrecipients' programs and expenditures of State funds have also been repeatedly reported in regular financial, compliance, and performance audits conducted by the Auditor General.

Areas cited in audit reports where agencies need to improve their monitoring of subrecipients include:

- Receiving subrecipient audit reports and other required information in a timely manner;
- Performing desk reviews of audit reports and other information;
- Reconciling A-133 reports to financial information in subrecipient files;
- Receiving and reviewing subrecipient expenditure information which is sufficiently detailed to allow for a determination that funds were spent appropriately; and
- Conducting on-site reviews of subrecipients.

We will continue to examine agencies' management controls over subrecipients in upcoming audits.

www.state.il.us/auditor

Recent additions to the Auditor Generalís website:

- **About the Office**
  - A brief description of the Office and a list of the Auditor General's management team
  - The most recent Peer Review letter details the external quality control review of audits conducted by the Auditor General's Office
- **Audits**
  - The latest audit digests for all State agencies
  - The full reports along with digests for recent performance and special audits
  - The Audit Archive contains digests for all agencies audited dating back to 1996
- **Public Documents**
  - Emergency Purchase Filings Report
  - Auditor General's Quarterly Report
  - Late Filing Affidavits
  - Professional or Artistic Affidavits
  - FCIAA Filings
- **Procurement Bulletin**
  - Procurement Opportunities
  - Contracts Awarded
  - Other Notices, such as Emergency Procurement
  - Prequalification Information
- **Annual Report**
  - Annual Report Archive
- **Audit Advisory**
  - Current Advisory in addition to archived editions
- **Career Information**
  - Auditing as a career describes what the Auditor General's office has to offer to potential auditors, sample job descriptions and how to apply
  - Job Openings
  - Application Form

GASB 34 IMPLEMENTATION UPDATE

The Illinois Office of the Comptroller (IOC) is in the process of making accounting and financial reporting changes associated with the implementation of GASB Statement 34. Statement 34 is, "The most significant change in the history of government accounting" according to Tom Allen, Chairman of GASB.

The new financial reporting model dramatically changes the presentation of government's external financial statements to enhance the clarity and usefulness of government financial statements. The clarity and usefulness refers primarily to the new "dual" reporting presentation. This is accomplished by presenting the current "fund level" financial statements as well as an "entity-wide" presentation. The State of Illinois is required to implement Statement 34 for the fiscal year ending June 30, 2002.

The Office of the Auditor General (OAG) is following the IOC implementation process and is providing feedback, when appropriate, on issues with potential audit implications that come to our attention. Also, the OAG is currently evaluating the GASB 34 effect on the post audit program including issues associated with:

- The State of Illinois General Purpose Financial Statement (GPFS);
- Specific State agency audits and related departmental financial statements; and
- Agreed upon procedures performed on the GAAP reporting packages filed by State agencies with the IOC.

The AICPA Task Force continues to work on the revision of the AICPA Audit and Accounting Guide for "Audits of State and Local Governmental Units" due to the issuance of GASB Statements 33, 34, 35, and 36 and expects to issue the revised Guide in the spring of 2002. GASB issued Statements 37 and 38 in June 2001. Statements 37 and 38 made certain technical revisions to Statement 34, as well as revised financial statement note disclosure requirements in conjunction with Statement 34. Both Statements are effective simultaneously with Statement 34, except that certain portions of the disclosure requirements of Statement 38 are deferred one year.

GASB and the AICPA continue to interact on the update on the Audit and Accounting Guide for "Audits of State and Local Governmental Units." We have been informed that departmental financial statement reporting will be permitted and the Guide will contain an illustrative Auditor's Report on Departmental Financial Statements. The OAG will be working with the IOC to make any necessary departmental financial statement changes as a result of the AICPA's revised Guide.

LEGAL REQUIREMENTS

State laws establish the basic framework to guide and direct government operations. Agency managers have the responsibility to ensure that agencies' activities comply with these laws. Recent audits conducted by the Office of the Auditor General have identified several laws with which agencies were not complying.

Examples of violations of these Acts are noted below. In general, agencies should work toward strengthening monitoring controls over these Acts to reduce the risk of report findings.

The State Property Control Act:

The State Property Control Act requires each agency head to adequately control fixed assets. At one agency, annual physical counts of property and equipment were done without a proper segregation of duties. In addition, the agency did not adequately follow up on missing property. Annual physical counts should be done independently, with discrepancies investigated. Items should be reviewed to determine whether they are still in use, should be disposed of, or sent to surplus property. Personnel should complete the required property movement forms before moving any property.

The Illinois Unemployment Insurance Act:

The Illinois Unemployment Insurance Act establishes procedures that agencies must follow regarding unemployment claims. Several agencies lacked controls over the monitoring of unemployment compensation resulting in questionable benefits paid to employees (such as individuals receiving unemployment benefits while they were currently employed by the agency).

The Public Funds Investment Act:

One agency did not have a written investment policy, as required by the Public Funds Investment Act. Also, excess funds (approximately $500,000) could have been invested to obtain a higher rate of return.

The Grant Funds Recovery Act:

One requirement of the Grant Funds Recovery Act is that unused grant funds be returned within 45 days of the end of the grant period. Our audit of one agency disclosed that 5 out of 6 State grant refunds were received between 12 and 85 days late. The late refunds totaled over $125,000.

The State Officers and Employees Money Disposition Act:

The State Officers and Employees Money Disposition Act requires agencies to promptly deposit all cash receipts within established time periods. At one agency, two receipts between $500 and $10,000 were deposited from 3 to 4 business days after receipt (required to be deposited within 48 hours of receipt), and five receipts greater than $10,000 were deposited from 1 to 3 days after receipt (required to be deposited the day of receipt).

FCIAA REVIEWS

Does your agency complete a periodic verification of the existence and condition of its property and inventory? Hopefully, the answer is "yes". This is but one of the many questions agency management needs to ask themselves as they go through the annual FCIAA process.

The Fiscal Control and Internal Auditing Act (FCIAA), enacted in 1989, requires each State agency to establish, maintain, and annually evaluate its internal control systems. Agency internal control systems must reasonably assure compliance with applicable law and effective agency management. By May 1 of each year, each agency is required to certify to the Auditor General on its system of internal fiscal and administrative controls and its compliance with the FCIAA guidelines.

EXAMPLES OF FCIAA QUESTIONS

Do procedures exist to ensure that overtime, compensatory time, etc., is approved in advance by an employee's supervisor?

Are advisory boards, required by statute, functioning and providing guidance to upper management?

Are planning documents used by upper management to communicate and define goals and objectives and outline the methods to be followed by employees in achieving the goals and objectives?

Do written procedures exist for destroying confidential or privileged documents?

Are changes to contracts or purchase orders subject to the same controls and approvals as the original agreement?

The Comptroller's SAMS Manual contains detailed guidance on the FCIAA process (Procedures 02.10 and 02.50). An effective FCIAA program should result in agencies identifying and correcting control deficiencies, thereby reducing the number of findings in OAG external audits of the agency. Agencies' annual FCIAA submissions are on file at the Office of the Auditor General. Summaries can be found at the OAG homepage (www.state.il.us/auditor) in the Public Information section; the complete filings can be viewed at the Auditor General's Office by contacting the OAG Records Manager (782-6046).

NATIONAL AWARD FOR SDU AUDIT

In June 2001, the Office of the Auditor General was awarded the Certificate of Recognition of Impact from the National Legislative Program Evaluation Society (NLPES) for the Management Audit of the Department of Public Aid's Child Support State Disbursement Unit. The NLPES is a section of the National Conference of State Legislatures (NCSL). The award is given annually by NLPES for an audit report that demonstrates significant impact, such as resulting in program improvements or effectively responding to legislative and public need.

The Management Audit documented the causes of the implementation problems associated with the State Disbursement Unit. The Department of Public Aid contracted with the DuPage County Circuit Clerk to operate the SDU. Within days of becoming operational, the SDU had backlogs of checks received from employers for distribution to custodial parents that could not be matched to the correct child support order. The audit concluded that the following contributed to the implementation problems: inadequate planning, computer interface failure, missing information needed to process payments, and insufficient staffing.

The Office previously received the NLPES Certificate of Recognition of Impact for the 1998 Management Audit of Tuition and Fee Waivers, and for the 1999 Management Audit of Pilsen-Little Village Community Mental Health Center, Inc.

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