



Office of Executive Inspector General for the Agencies of the Illinois Governor

www.inspectorgeneral.illinois.gov

OEIG and Internal Auditors – Crossroads

Order of Topics

Relevant Updates

Crossroad – Jurisdiction

Crossroad – Authority

Crossroad – Potential or Actual Obstacles

Crossroad – Released Report Examples

Relevant Updates

- OEIG Newsletter
 - 12 Monthly Newsletters
 - 2 Special Editions
 - December 17, 2012 – Mary Lee Leahy & *Rutan* Legacy
 - April 29, 2013 – New OEIG Offices (Open House)



Office of Executive Inspector General
69 West Washington, Suite 3400
Chicago, Illinois 60602

Relevant Updates – Cont'd

- 21 OEIG Founded Reports Released
- 3 EEC Decisions Involving OEIG Investigations Issued
- 8 EEC Revolving Door Decisions Issued
 - 2 Employee Appeals Denied
 - 3 of 6 AG Appeals Denied

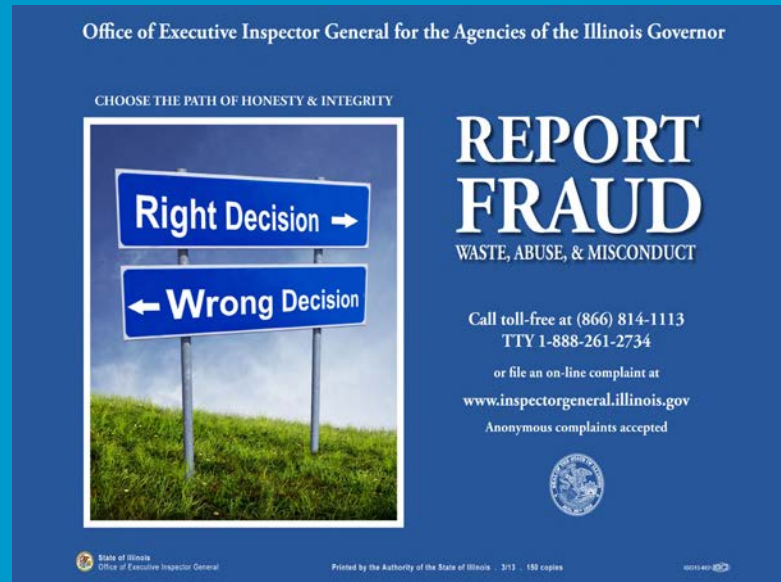
Relevant Updates - Cont'd

Grant Review Initiative Team (GRIT)



Relevant Updates - Cont'd

“Report Fraud ...” Poster Created



Relevant Updates - Cont'd

- Online Applications Launched
- Re-Introduction of 2 Bills
 - HB 970 – Public Disclosure of Reports
 - HB 971 – Minimum Fine re: Ethics Training
- New Leadership in RTB Division
- Updated Website Format
- FY 2013 Annual Report

Crossroad(s) - Definitions

cross·road

noun 1. a road that crosses another road, or one that runs transversely to main roads. 2. a by-road. 3. often, crossroads. (used with a singular or plural verb) a. the place where roads intersect. b. a point at which a vital decision must be made. c. a main center of activity.

Origin: 1710–20; cross + road

Source: Dictionary.com Unabridged (Based on the Random House Dictionary, © Random House, Inc. 2013.)

crossroads

n 1. an area or the point at which two or more roads cross each other. 2. the point at which an important choice has to be made (esp. in the phrase “*at the crossroads*”)

Source: Collins English Dictionary - Complete & Unabridged 10th Edition 2009

Crossroad – Jurisdiction

OEIG

“[T]o investigate allegations of fraud, waste, abuse, mismanagement, misconduct, nonfeasance, misfeasance, malfeasance, or violations of this Act or violation of other related laws and rules.” 5 ILCS 430/20-10(c).

Crossroad – Jurisdiction, Cont'd

Internal Auditors

Fiscal Control and Internal Auditing Act, 30 ILCS 10/1001, *et seq.*

ARTICLE 1. GENERAL PROVISIONS.

Sec. 1002. Public policy. It is the policy of this State that the chief executive officer of every State agency is responsible for effectively and efficiently managing the agency and establishing and maintaining an effective system of internal control.

Sec. 1003. Definitions.

(a) "Designated State agencies" include . . . the State Board of Education, the State colleges and universities, the Illinois Toll Highway Authority, the Illinois Housing Development Authority, the public retirement systems, the Illinois Student Assistance Commission, the Illinois Finance Authority, the Environmental Protection Agency, the Capital Development Board, the Department of Military Affairs, the State Fire Marshal, *and* each Department of State government created in Article 5, Section 5-15 of the Civil Administrative Code of Illinois. (Emphasis added).

Crossroad – Jurisdiction, Cont'd

Internal Auditors

ARTICLE 2. INTERNAL AUDITING.

Sec. 2001. Program of internal auditing.

(a) Each designated State agency as defined in Section 1003(a) shall maintain a full-time program of internal auditing. . . .

. . .

(b) The chief executive officer of a State agency is not relieved from the responsibility for maintaining an effective internal control system merely because that State agency is not designated and required to have a full-time program of internal auditing under this Act. Agencies which do not have full-time internal audit programs may have internal audits performed by the Department of Central Management Services.

Crossroad – Jurisdiction, Cont'd

Internal Auditors

Sec. 2003. Internal auditing program requirements.

(a) The chief executive officer of each designated State agency shall ensure that the internal auditing program includes:

(1) A two-year plan, identifying audits scheduled for the pending fiscal year, approved by the chief executive officer before the beginning of the fiscal year. By September 30 of each year the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.

(2) Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years. The audits must include testing of:

(A) *the obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations; and*

(B) *grants received or made by the designated State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations. (Emphasis Added).*

Crossroad – Authority

OEIG:

In addition to duties otherwise assigned by law, each Executive Inspector General shall have the following duties: To receive and investigate allegations of violations of this Act. . . . The Executive Inspector General shall have *the discretion to determine the appropriate means of investigation as permitted by law*. 5 ILCS 430/20-20 (emphasis added).

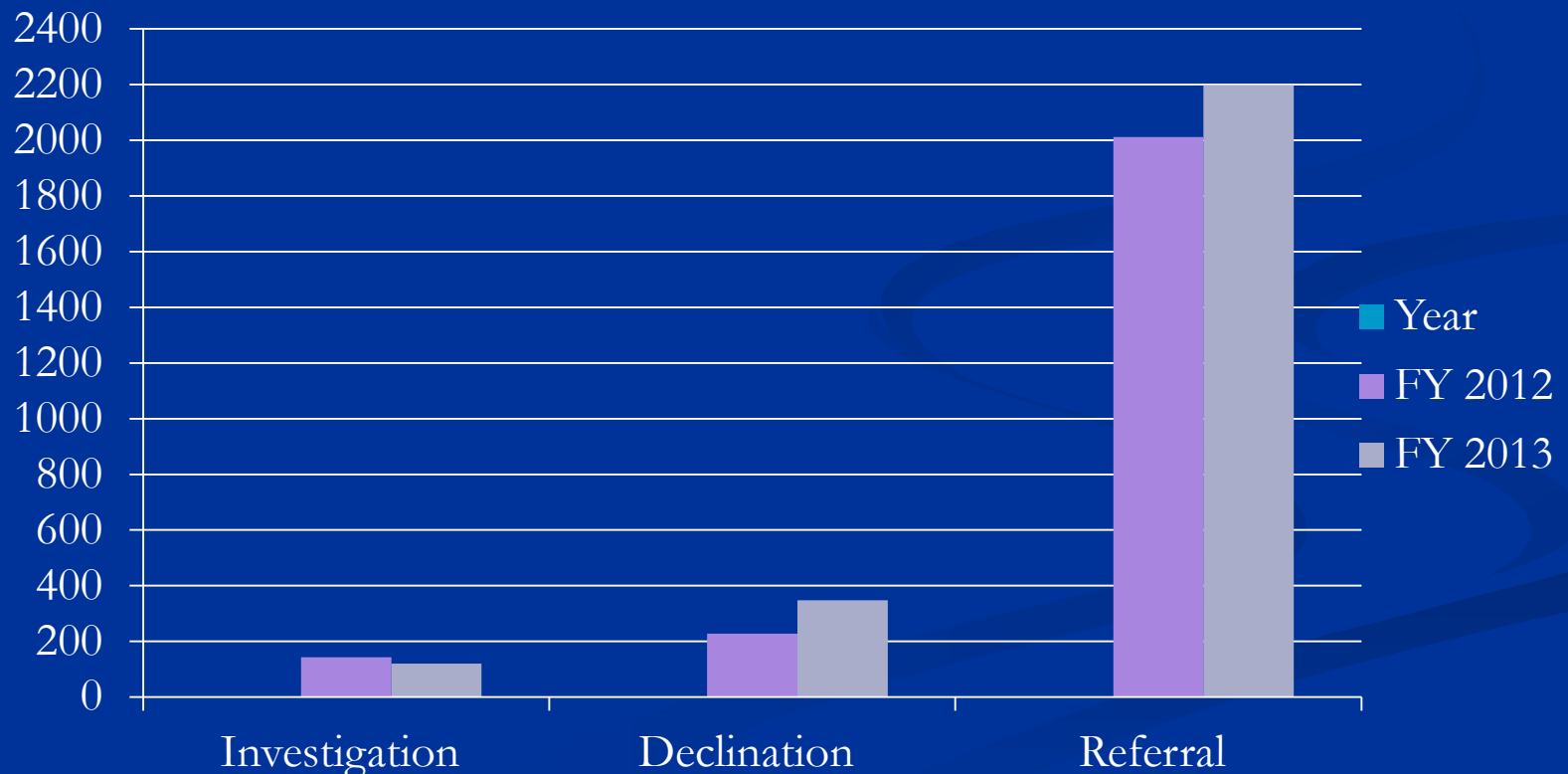
Internal Auditors:

(b) Each chief internal auditor shall have, *in addition* to all other powers or duties authorized by law, required by professional ethics or standards, or assigned consistent with this Act, *the powers necessary to carry out the duties required by this Act*. 30 ILCS 10/2003(b) (emphasis added).

Crossroad – Authority, Cont'd

OEIG Complaint Disposition Process

Complaints Received: FY 12 – 2492; FY 13 – 2809



Crossroad – Authority, Cont'd

Investigation

- Specific and general deterrence
- Expose systemic misconduct
- Complex and involve major fraud or misconduct
- Abuse of authority or resources
- Violations of the Ethics Act

Crossroad – Authority, Cont'd

Declination

- No jurisdiction
- No violation of agency policy, rule, or regulation apparent on its face
- Time limitations
- Pending criminal matter

Crossroad – Authority, Cont'd

Referral

- Appropriate resolution rests with agency
- More appropriately resolved by another entity, e.g., a law enforcement authority

Crossroad – Authority, Cont'd

Referral

- Most common disposition
- Referral with response requested on findings or action taken – over 300 complaints
 - Often results in action taken that we would have recommended had we opened and completed investigation

Crossroad – Potential or Actual Obstacles

Independence

Executive Inspectors General

“Each Office [of Executive Inspector General] shall be under the direction and supervision of an Executive Inspector General and shall be a fully independent office with separate appropriations.” 5 ILCS 430/20-10(a).

“...[E]ach Executive Inspector General has full authority to organize his or her Office ... including the employment and determination of the compensation of staff” 5 ILCS 430/20-10(d).

Chief Internal Auditors

“The chief internal auditor shall report directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities. All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties.” 30 ILCS 10/2002(b).

Crossroad – Potential or Actual Obstacles, Cont'd

Independence

International Standards for the Professional Practice of Internal Auditing
(2010), Institute of Internal Auditors

- 1100 – Independence and Objectivity
 - “The internal audit activity must be independent, and internal auditors must be objective in performing their work.”
- 1110 – Organizational Independence
 - “The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.”
- 1120 – Individual Objectivity
 - “Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.”

Crossroad – Potential or Actual Obstacles, Cont'd

Independence – Example

Assignment – This audit engagement involved the review of a contractor's indirect and other direct cost internal control system (which processed \$708 million in FY 2007).

Crossroad – Potential or Actual Obstacles, Cont'd

Independence – Example

■ Facts:

- The contractor objects to citing a deficiency because certain travel costs had not yet gone through the contractor's review process for unallowable costs prior to certification of its incurred cost submission.
- In response, the audit supervisor tells the senior auditor to supersede working papers documenting unallowable travel cost identified during a review of the travel expense reports because of the contractor's complaint.

■ What should have occurred?

Crossroad – Potential or Actual Obstacles, Cont'd

Independence – Example

- Audit Agency should have still cited the contractor for an internal control deficiency because controls should exist in the travel system to screen out the majority of unallowable costs.
- The contractor should not rely on its screening process prior to certifying its incurred cost submission as the primary internal control against claiming unallowable costs.

Crossroad – Potential or Actual Obstacles, Cont'd

Independence – Example

■ Issues Found:

- The failure to address the deficiency resulted in the contractor potentially billing unallowable costs on progress payments or using unallowable costs as a basis for proposals.
- Documentation of the supervisory auditor's decision to supersede the working papers did not include information regarding the contractor's objection.

Crossroad – Potential or Actual Obstacles, Cont'd

Independence – Example

■ Finding:

- The supervisory auditor allowed the contractor to improperly influence the examination engagement. Thus auditor violated 3.03 and 3.10 of GAGAS, which require the auditor and audit organization to be free from personal, external, and organizational impairment to independence, and to avoid the appearance of impairment.

Crossroad – Potential or Actual Obstacles, Cont'd

Removal

Executive Inspectors General

“An Executive Inspector General *may be removed only for cause* and may be removed only by the appointing constitutional officer. At the time of the removal, the appointing constitutional officer must report to the [EEC] the justification for the removal.” 5 ILCS 430/20-10(f) (emphasis added).

Chief Internal Auditors

“The chief internal auditor shall serve a 5-year term beginning on the date of the appointment. A chief internal auditor *may be removed only for cause* after a hearing before the [EEC] concerning the removal ... The annual salary of a chief internal auditor cannot be diminished during the term of the chief internal auditor.” 30 ILCS 10/2002(c) (emphasis added).

Crossroad – Potential or Actual Obstacles, Cont'd

Removal of Chief Internal Auditors

“Cause for discharge consists of some substantial shortcoming that renders the respondent’s continuance in his or her position in some way detrimental to the discipline and efficiency of the service and that the law and sound public opinion recognize as good cause for the respondent no longer holding the position.” Ill. Admin. Code tit. 2, § 1620.1360(a).

Crossroad – Potential or Actual Obstacles, Cont'd

Complaints and Reports of Misconduct

- *International Standards for the Professional Practice of Internal Auditing (2010)*, Institute of Internal Auditors defines “Fraud” as:

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.
- Favor over- versus under-reporting.

Crossroad – Potential or Actual Obstacles, Cont'd Retaliation

■ Ethics Act Whistle Blower Protection

“An officer, a member, a State employee, or a State agency shall not take any retaliatory action against a State employee because the State employee does any of the following:

(1) Discloses or threatens to disclose to a supervisor or to a public body an activity, policy, or practice of any officer, member, State agency, or other State employee that the State employee reasonably believes is in violation of a law, rule, or regulation.

(2) Provides information to or testifies before any public body conducting an investigation, hearing, or inquiry into any violation of a law, rule, or regulation by any officer, member, State agency, or other State employee
....5 ILCS 430/15-5.

Crossroad – Released Report Examples

Sherry Johnson (10-00929)

- 8/26/10: Employee receiving gift cards in exchange for activities
- 3/14/11 & 09/30/11: Employee admits to activity
- 10/12 to 6/12: Investigation to determine access and security
- Auditor General failed to identify physical security of files as an issue; instead, focused on electronic file security

Crossroad – Released Report Examples, Cont'd

John Hastings (12-00447)

- 11/29/12: 225 sexually explicit images and sexually explicit video
- 11/30/12: Interview, photos sent to co-worker, inappropriate video taken at work, video of man engaging in inappropriate activity was one he took, used state computer every couple days to view explicit images
- 12/04/12: Report issued, recommendation of immediate termination

Crossroad – Released Report Examples, Cont'd

Charles Parton (12-01551)

- DJJ employee falsely certified that he administered drug tests when he had not
- Recommended termination; agency imposed 25-day suspension (later reduced to 15-day suspension) after employee review hearing in which hearing officer stated,
 - “Even though common practice does not justify falsification of state forms, there is no proof this was a malicious act by Supervisor Parton nor did Mr. Parton gain financially from this action. Mr. Parton was attempting to ensure the drug program *was not jeopardized by an audit finding* for not conducting the drug test upon a youth’s exit from the program.” (Emphasis added).

Resources

- DOD OIG report on the quality of the DCAA's fiscal year 2010 audits. *See* <http://www.dodig.mil/pubs/documents/DODIG-2013-044.pdf>.
- DCAA response (memorandum for regional directors ("MRD")) *See* <http://www.dcaa.mil/mmr/13-PAS-014.pdf>.
- OEIG website
<http://www2.illinois.gov/oeig/Pages/default.aspx>

QUESTIONS ?