

# SB3794



## 97TH GENERAL ASSEMBLY

### State of Illinois

2011 and 2012

SB3794

Introduced 2/10/2012, by Sen. Linda Holmes - Thomas Johnson

#### SYNOPSIS AS INTRODUCED:

New Act

Creates the External Auditing and Standards Board Act. Provides that the Board shall consist of 8 members, and sets forth the membership of the Board. Provides that the Board shall assist the Legislative Audit Commission, the Office of the Auditor General, and the Governor in improving the timeliness, transparency, and process of financial reporting by State agencies. Provides that the Board has certain powers, including the power to suspend or dismiss an internal auditor of any State agency who is deemed unqualified by the Board based on current best practices and qualifications. Requires the Board to develop a certification program for all internal and external auditors. Requires the Board to submit certain reports to the Governor, the General Assembly, and the State agency.

LRB097 20441 HLH 65939 b

FISCAL NOTE ACT  
MAY APPLY

A BILL FOR

1 AN ACT concerning State government.

2 **Be it enacted by the People of the State of Illinois,**  
3 **represented in the General Assembly:**

4 Section 1. Short title. This Act may be cited as the  
5 External Auditing and Standards Board Act.

6 Section 5. Findings. The General Assembly finds that:

7 (a) Over the last 9 years, the Auditor General's audits of  
8 the State's financial statements have repeatedly concluded  
9 that the State of Illinois does not have adequate controls to  
10 ensure that information reported by individual State agencies  
11 is fairly stated and compliant with generally accepted  
12 accounting principles (GAAP).

13 (b) In February of 2011, the Auditor General's Management  
14 Audit of the State's Financial Reporting System found that the  
15 State's financial reporting system is comprised of over 250  
16 disparate financial reporting systems that are antiquated,  
17 costly to operate, and, for over 80% of those systems, not  
18 compliant with GAAP. The Management Audit also found that only  
19 slightly more than half of the financial systems were  
20 interrelated, requiring manual intervention to convert data  
21 from one system so that it can be used in another system. These  
22 systems have resulted, and will continue to result, in untimely  
23 financial reporting of the true financial position of the

1 State. Additionally, the Management Audit highlights how the  
2 deficiencies in these systems continues to limit the effective  
3 oversight of State finances, adversely affecting the State's  
4 bond rating, and jeopardizing federal funding.

5 (c) The Management Audit also contained a section on the  
6 standard challenges faced by other states that attempted to  
7 transition from a collection of decentralized systems to a  
8 centralized financial reporting system. The challenges listed  
9 include a lack of experience defining the functional  
10 requirements of financial systems, lack of communication, poor  
11 or no quality assurance processes, and inadequate training and  
12 education.

13 (d) In order to properly facilitate any standardized system  
14 initiation and address the immediate need to produce  
15 GAAP-compliant financial reports in a timely manner requires  
16 clarifying governance structure and utilizing best practices  
17 in project management.

18 (e) Implementing a modern, agile process for the uniform  
19 collection and assembly of financial information so that the  
20 State can produce timely GAAP-compliant financial reports  
21 through a centralized system, is desirable and necessary for  
22 the State but will require changes to the structure and  
23 internal management of State government.

24 Section 10. Definitions. As used in this Act:

25 "Auditor General" means the Auditor General of the State of

1 Illinois.

2 "Board" means the External Auditing and Standards Board  
3 created under Section 10 of this Act.

4 "Comptroller" means the Comptroller of the State of  
5 Illinois.

6 "External auditor" means an auditor employed by the Board.

7 "Internal auditor" means an auditor employed by a State  
8 agency under the Fiscal Control and Internal Auditing Act.

9 "Licensed Certified Public Accountant" has the meaning  
10 provided in Section 0.03 of the Illinois Public Accounting Act.

11 "Registered Certified Public Accountant" has the meaning  
12 provided in Section 0.03 of the Illinois Public Accounting Act.

13 "Schedule of Expenditures of Federal Awards" and "SEFA"  
14 mean the supplemental information required by the federal  
15 Office of Management and Budget, Circular A-133.

16 "State agency" means all departments, officers,  
17 commissions, boards, institutions, and bodies politic and  
18 corporate of the State that are required to submit financial  
19 reporting information to the Office of the Auditor General, the  
20 Office of the Comptroller, or the federal government. The term  
21 does not include: the judicial branch, including, without  
22 limitation, the several courts of the State, the offices of the  
23 clerk of the Supreme Court and the clerks of the Appellate  
24 Court, and the Administrative Office of the Illinois Courts;  
25 the legislature or its agencies, committees, or commissions; or  
26 any unit of local government.

1 Section 15. External Auditing and Standards Board;  
2 creation.

3 (a) There is created the External Auditing and Standards  
4 Board. The Board shall assist the Legislative Audit Commission,  
5 the Office of the Auditor General, and the Governor in  
6 improving the timeliness, transparency, and process of  
7 financial reporting.

8 (b) The Board shall be composed of the following 8 members:

9 (1) the Auditor General, or his or her designee;

10 (2) the Comptroller, or his or her designee;

11 (3) one member of the general public representing State  
12 employees unions, appointed by the Governor; and

13 (4) five members of the general public, each licensed  
14 or registered as a certified public accountant, one  
15 appointed by each of the following: the Governor, the  
16 President of the Senate, the Minority Leader of the Senate,  
17 the Speaker of the House of Representatives, and the  
18 Minority Leader of the House of Representatives.

19 (c) The public members of the Board shall serve for a term  
20 of 2 years and may be reappointed; the Auditor General and  
21 Comptroller shall serve during their respective terms of  
22 office. A vacancy on the Board shall be filled for the  
23 remainder of the unexpired term, in the same manner and by the  
24 same officer who made the original appointment.

25 (d) The members of the Board shall elect from their number

1 a chairperson and such other officers as they may choose. The  
2 Board shall meet at least 2 times each year and at other times  
3 at the call of the chairperson.

4 (e) The members of the Board shall serve without  
5 compensation, but may be reimbursed for actual expenses from  
6 funds appropriated for that purpose.

7 Section 20. Powers. The External Auditing and Standards  
8 Board shall have the following powers:

9 (1) to have a corporate seal, and to alter that seal at  
10 pleasure, and to use it by causing it or a facsimile to be  
11 affixed or impressed or reproduced in any other manner;

12 (2) to use the services of the Office of the  
13 Comptroller necessary to carry out the Board's purposes;

14 (3) to receive and expend funds appropriated to it by  
15 the General Assembly;

16 (4) to employ personnel that are necessary to fulfill  
17 the Board's purposes and to make expenditures for that  
18 purpose within the appropriations for that purpose; the  
19 Board shall employ and train external auditors, who shall  
20 be assigned to specific State agencies to ensure that those  
21 agencies comply with generally accepted accounting  
22 principles (GAAP) for governments as promulgated and  
23 established by the Governmental Accounting Standards Board  
24 (GASB);

25 (5) to maintain an office or offices at such place or

1 places in the State as it may determine;

2 (6) to request information, and to make any inquiry,  
3 investigation, survey, or study that the Board may deem  
4 necessary to enable it effectively to carry out the  
5 provisions of this Act;

6 (7) to engage in any activity or operation that is  
7 incidental to and in furtherance of efficient operation to  
8 accomplish the Board's purposes;

9 (8) to adopt, revise, amend, and repeal rules with  
10 respect to its operations, properties, and facilities as  
11 may be necessary or convenient to carry out the purposes of  
12 this Act, subject to the provisions of the Illinois  
13 Administrative Procedure Act;

14 (9) to freeze spending of federal moneys for programs  
15 with a delayed Schedule of Expenditures of Federal Awards  
16 (SEFA);

17 (10) to suspend or dismiss an internal auditor of any  
18 State agency who is deemed unqualified by the Board based  
19 on current best practices and qualifications;

20 (11) to require remedial training or continuing  
21 education for its employees or for employees of a State  
22 agency;

23 (12) to consult with other states and private  
24 businesses that have successfully modernized and  
25 streamlined their financial reporting systems; and

26 (13) to use current State resources that are already

1 available inside of State government, and to use current  
2 financial reporting principles and practices, including,  
3 but not limited to, principles and practices of the Auditor  
4 General and the Comptroller.

5 Section 25. Reports.

6 (a) As soon as possible after each initial member of the  
7 Board is appointed, the Board shall review the internal  
8 auditing practices of each State agency. Upon completion of its  
9 review, the Board shall generate a report for each State  
10 agency, which shall contain the following information:

11 (1) the identity, tenure, and qualifications of all  
12 agency personnel whose job description directly or  
13 indirectly includes the audit of public funds of the State;

14 (2) whether the agency is or has been delinquent in the  
15 submission of any comprehensive annual financial report  
16 and the number of days during which the report was  
17 delinquent;

18 (3) whether the agency is or has been delinquent in the  
19 submission of any Schedule of Expenditures of Federal  
20 Awards (SEFA); and

21 (4) any errors in any financial report published by the  
22 agency.

23 (b) In addition, the Board shall publish an annual report  
24 on the status of each agency's financial reporting. The report  
25 shall, at a minimum, confer a letter grade in each of the



1 following categories:

2 (1) timeliness of financial reports;

3 (2) transparency in operations; and

4 (3) technology and interagency communication.

5 (c) The Board shall submit the reports created under  
6 subsections (a) and (b) to the Governor, the General Assembly,  
7 and the applicable State agency.

8 (d) Within 6 months after the effective date of this Act,  
9 the Board shall submit a best practices report to the Governor  
10 and each State agency. The report shall contain, but not be  
11 limited to, the following information:

12 (1) recommendations of statewide software and hardware  
13 to be implemented for financial reporting, with the goal of  
14 adopting one centralized statewide system for all State  
15 agencies for external and internal auditors;

16 (2) certification and continuing education  
17 requirements;

18 (3) personnel requirements;

19 (4) transparency and accountability;

20 (5) cost;

21 (6) ease of training;

22 (7) adaptability to current systems.

23 Section 30. Training and certification.

24 (a) The Board shall compile, create, and institute a  
25 required standard curriculum for the certification of all

1 internal and external auditors. The curriculum shall be based  
2 on the following: (i) generally accepted accounting principles  
3 (GAAP); (ii) minimum required accounting skills; (iii) the use  
4 of approved computer software and reporting functions; and (iv)  
5 any other component the Board deems necessary. The curriculum  
6 shall include classroom instruction and a certification  
7 examination administered by the Board. All internal and  
8 external auditors are required to successfully complete the  
9 certification and examination within one year after the Board  
10 adopts the curriculum or within 6 months after being hired,  
11 whichever occurs later.

12 (b) In addition, the Board shall require each auditor to  
13 complete a continuing education program developed by the Board  
14 and administered not less frequently than every 2 years.

15 (c) The Board shall develop a process for waiver  
16 applications for those auditors whose prior training and  
17 experience as auditors may qualify them for a waiver. The Board  
18 may issue a waiver at its discretion, based solely on the prior  
19 training and experience of an auditor.

20 Section 35. Rights under Personnel Code and collective  
21 bargaining agreements. The rights of State employees, the  
22 State, and its agencies under the Personnel Code and applicable  
23 collective bargaining agreements and retirement plans are not  
24 affected by this Act. Any rights of State employees affected by  
25 this Act shall be governed by the existing collective

1 bargaining agreements.

2 Section 40. Cooperation. All State agencies must render  
3 full cooperation to the Board and its employees.