



# Modernizing Internal Control Checklists

in a State or Local Government

BY JACK RAKERS

Internal control checklists aren't the most exciting topic to work on in a government. Frequently, they are left alone unless something goes wrong. If used correctly, however, a comprehensive, well-designed checklist can be the first line of defense to notify management that something is wrong. This article outlines the history of the State of Illinois internal control checklist and lessons learned for the future.

In fall 1989, the Illinois Legislature passed an amendment to the Fiscal Control and Internal Auditing Act [FCIAA] that required all state agencies to establish and maintain a

system or systems of internal fiscal and administrative controls. The act required the Illinois Office of Comptroller [IOC] and the Department of Central Management Services [CMS] to establish guidelines for all state agencies to perform a review of internal controls starting the following spring with an approval by the Legislative Audit Commission.

An internal controls checklist is defined as a series of questions about good internal controls that should be present in an agency. For the State of Illinois, this includes a series of questions broken down into eleven broad categories covering areas from general business items to grant

administration. Agency line managers are given certain sections to review and designate whether the control is present, not applicable, or not present. If it is missing or not applicable, they must explain why. Line managers must also certify the controls to the agency director, who then certifies the controls of the entire agency.

## No more electronic tapes

The state's internal control checklist was created in mid-1991, but it hadn't been touched for nearly 30 years. Even though there might have been a discussion every couple of years about doing an update, the project never

seemed to get off the ground. There were valid concerns about relevance when the project was revisited in earnest nearly three decades later. The checklist was out of date, wasn't tailored to the state's needs, and referenced obsolete processes and technologies. For example, it contained questions referencing "electronic tapes," the primary method for storing and transmitting electronic records at the time. It was clear that the out-of-date checklist was itself obsolete, and the only way to move forward was to align with current times and practices. This timing for the revamp had come, as a changing workforce due to retirements was ushering in a new team, forming the basis of the Bureau of Internal Audit (BIA).

BIA is an independent bureau housed within CMS, the administrative agency for the State of Illinois. It is responsible for many functions (such as personnel, benefits, and procurement) needed by other state agencies. While CMS has always had an internal audit function, it had not traditionally provided audit support for other agencies. As the role of BIA was evolving, the team adopted a customer-service approach and worked to specialize audits into functional areas such as federal and state grants or information technology, providing audit services that were efficient to the taxpayers and allowed depth of knowledge in these functional areas to be greatly expanded. Providing internal audit functions for small- to medium-sized agencies is a challenge for many states and following a responsive model should help address some of these challenges.

## Updating the checklist

Beginning in August 2018, BIA began a project to research checklists in other states. The bureau was fortunate to have staff members on board who delved head-first into the challenge of conducting comprehensive research and identifying best practices from around the country. The findings indicated that the State of Illinois checklist was more cumbersome and had significantly more questions than those of peer governments. BIA also reviewed the internal control standards that different organizations used. For a state or local government, the *Standards for Internal Control in the Federal Government* issued by the U.S. Government Accountability Office was the ideal model.

The BIA team also had the benefit of institutional knowledge. The team was advised by someone who had been instrumental in creating the original checklist 30 years ago and was able to provide a good historical perspective, including the detailed background about how the checklist was created and the stakeholders who had been involved. They also learned that when the original checklist was created, the state provided in-person training, but since that time there had been no additional training.

A major key to developing the revised checklist was the ability to focus auditors in one major functional area such as federal and state grants or information technology. The State of Illinois had grouped overarching basic functions that were common to most



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agencies into 11 major categories for reviewing internal control systems. Internal auditors were assigned to dedicated functional areas, and through practical experience were able to gain a depth of knowledge that was particularly beneficial when updating the checklist. Another key factor that helped the project was that many of the staff were new and therefore reviewing the original checklist with a fresh perspective. They did not have any preconceived notion that the update had been tried before or that the project might be too much to tackle.

As part of the update process, BIA focused on making questions more customized and tailored specifically to the environment at the State of Illinois. Duplicate questions were eliminated, and the remaining questions were updated to ensure modern applicability, especially in the information technology and grant administration sections. The number of citations to state statute, administrative rules, and the state's accounting manual were increased, further validating the relevance and necessity of each question. When the revised checklist was finalized, the original 742 questions had been pared down to 529 questions in a much more user-friendly format.

BIA then focused on tying the updated questions in the checklist to the *Standards for Internal Control in the Federal Government* issued by the Government Accountability Office. Each question references the Objective and Component from that publication. For the information technology section, the checklist was tied to two industry leaders in information security to make sure that each agency would be able to annually benchmark their information technology with industry-leading standards. In the grant section the State Grant Accountability and Transparency Unit collaborated to link the grant controls to uniform administrative requirements and cost principles, as well as audit requirements. Illinois has a statute requiring all state grants to adhere to federal grant requirements, and the collaboration made that section much stronger.

There was an immense amount of back and forth throughout the whole update process. A two-layered internal review process was established to ensure comfort with the quality of the document. It also helped that there were "fresh eyes." The questions the relatively new staff members asked were relevant and on point. It was



an additional challenge to merge overlapping questions together and edit them for better flow and efficiency.

### Moving the checklist forward

BIA was happy with the checklist, but to move forward it needed approval from a number of additional parties, including the Illinois Office of Comptroller and the Legislative Audit Commission, which recommended that all chief internal auditors at the state be afforded the opportunity to provide feedback. All these steps added additional time to the process.

One of the lessons learned was related to the phasing of stakeholder involvement. To move forward with the updates at a quicker, more focused

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pace, the BIA didn't bring all relevant stakeholders in at the beginning of the process. This caused some hesitancy when they were included, and it took them a bit to warm up to the updated checklist. When the draft revised checklist was initially distributed, the chief internal auditors and the IOC needed time to review it.

The onset of the COVID-19 pandemic was what allowed this project to move forward. The IOC's internal audit staff gave some feedback and made contributions to the updated checklist. Interagency staff video conferenced a few times a week for several months to complete a detailed review of every section of the checklist, resulting in valuable changes. Another critical component of the success of the project was the meticulous organizational skills of the BIA team. Dedicating a team member to be responsible for version control was fundamental to keeping on pace, ensuring that daily edits were incorporated accurately and quickly.

Once the IOC was confident with the checklist, BIA reached out to the Office of the Auditor General and to all chief internal auditors—approximately 50 stakeholders—to gather their input.

After all the input and revisions were completed, BIA prepared for a joint hearing with the IOC. The Illinois Legislature was very accommodating in scheduling a hearing around their legislative session and completed an extensive review as well.

Historically, hearings at the Legislative Audit Commission are designed to go over audit findings and ensure that agencies are implementing audit recommendations and making improvements. The Legislative Audit Commission really understood the importance of the checklist and thanked the team for leading the charge. Most importantly, the questions asked were more to gain an understanding of the process, continuing future updates of the checklist, and making sure

that BIA had the resources to continue progress. They issued a legislative resolution commending all the employees who worked on the revised checklist, recognition that meant a great deal to those involved in the process. Many people worked countless hours on the project and were stretched far beyond their comfort zones.

The most important part of this undertaking was the ability to have ongoing updates. BIA was able to work in partnership with the IOC to establish a cadence for updating the checklist regularly and set up a more standardized review process that includes all the stakeholders. This process is expected to help reduce the timeframe for all future updates.

### Additional improvements

In addition, while the revised checklist had 11 categories, none of them specifically covered assessing the risks an entity faces in achieving its objectives, which is specifically addressed in the *Standards for Internal Control in the Federal Government*. Entity risk was not a widely considered concept when FCIAA was established, but since the revised checklist, BIA has conducted significant research into its applicability. An optional process is in development to include entity risk that would be applicable to the state environment, including relevant common objectives and risks. Although most agencies have contemplated entity risk, they are not believed to have a documented process as noted in the *Standards for Internal Control in the Federal Government*. Additionally, with all the emphasis on strengthening federal requirements around cybersecurity and protecting data, there will most likely be a significant amount of time spent on these areas in the near future.

A supplemental issue to the updated checklist was the pressing need for training. Thirty years ago, training was

conducted via in-person seminars with handouts—but more than 100 agencies complete a checklist every year. Anyone who coordinates obtaining answers for the checklist is pummeled with questions, and the number of questions increases any time there is a switch in administrations because that brings new leaders. To deal with this, BIA set up an extensive online training course for those who work with the checklist, the agency chief executive officer, the line manager, and the internal auditor. These training sessions showcased each section individually. If a line manager is only filling out two sections, they could just learn about the applicable sections, rather than all 11. It is hoped that this helps educate users about the importance of the checklist and will eliminate the frustration people feel as they complete this annual process.

Moving forward, the checklist is expected to be updated regularly and in perpetuity. The difficulty now will be ensuring that there are enough staff and additional higher-level positions to retain the now-experienced staff, so they can continue to make proper updates on a routine basis. There appears to be substantial support for continuing the progress and keeping it going.

### Conclusion

In closing, developing a comprehensive, user-friendly, and relevant internal controls checklist can be a very challenging process with multiple stakeholders. But if a checklist is updated regularly and embraced by users, it is the first line of defense to minimizing internal control issues and will be used as an annual reminder of good internal controls. ■

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