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*Information Systems
Audit and Control
Association*

DATABYTE

NEWSLETTER OF THE DETROIT AREA CHAPTER

VOLUME 16, #9

REGION 2, CHAPTER 8

MAY, 2002

*Monthly Meeting
Wednesday, May 15, 2002*

Pre-Dinner Topic: "Management Concerns in Auditing Systems Development Life Cycle (SDLC)"

After-Dinner Topic: "BEA Weblog"

**Location: Big Fish Seafood Bistro
1111 W. 14 mile, Madison Heights
Corner of 14 mile/ Stephenson Hwy.
248/585/5933**

Date: Wednesday, May 15, 2002

**Time: 4:30-5:00 Registration/Networking
5:00-6:00 Before-Dinner Presentation
6:00-7:00 Dinner
7:00-8:00 After-Dinner Presentation**

**Cost: \$30.00 Members
\$35.00 Others
\$20.00 Students and Retirees**

Reservations---Make your reservation by 4:00PM Friday, May 10th. You can make your reservation online at isaca-det.org. If you do not have access to the Internet, e-mail your reservation to Art Abruzzo at aabruzzo@amerisure.com or call him at (248) 426-7944. Please include your name, company, telephone number, and whether you are a member.

Visit our web site at: isaca-det.org

Message from your President...

Dear Members,

It is difficult to believe that another year has passed and we now bring our program year to a conclusion. I am personally grateful for the opportunity to serve you as the President of our Chapter. This position has given me a chance to work with many of you in a manner that would not have been possible otherwise.

Recognition should be given to our departing Board members: Marci Klain, Ray Kaslik, Karen Cordes, Brent Wylie, Michael Tomasek, Don Ledwith and Bill Garvey. I would like to thank these seven individuals for their dedication and service to our Chapter over the past few years and hope to see them remain active in some fashion within our Chapter. I would also like to thank the returning and prospective Board members for taking on the tasks that lie ahead of us. To those individuals who helped our Chapter in other ways, I would also like to say thank you and hope that at some future time you may choose to serve on the Board.

I believe, this year, we continued on a trend started a number of years back that has our Chapter providing good quality programs (whether they are Dinner meetings, Seminars or the CISA review course) to our Membership. As I have talked to other Chapter Presidents from around the country, I am proud that our Chapter is so active and further developed than most other chapters. The challenge for the incoming Board will be to continue on this track and make additional advancements so that we can become one of the premier chapters not only in our region but in the entire country. I believe they will be up to the challenge.

I would once again like to stress to you, our members, that we (the Board) are here to serve the membership. If you do not believe we are adequately doing that or have a suggestion you think will help us do it better, please feel to contact me or any other Board member. You can reach me through e-mail me at aabruzzo@amerisure.com or call me at (248) 426-7944. You can also contact us through the website at www.isaca-det.org.

I look forward to seeing all of you at the May dinner meeting. It has been a pleasure serving as your President.

Art Abruzzo

Pre-Dinner Topic:

Management Concerns in Auditing Systems Development Life Cycle (SDLC)

Speaker: *Judith Condon*

Many concerns exist for performing audits of the SDLC. The audit team must define the level of participation, remain independent, make judgements of the project team, and provide value. To make substantive comments, the team needs to attend meetings. If they only attend meetings, it will appear as not adding value. If they participate on the team, it will appear to cause conflicts with independence. If they evaluate risk and suggest controls, it will appear to cause conflicts with independence, or the team may see little value. Judith has several ideas and some concerns that she will share with the meeting attendees.

Speaker:

Judith Condon has 14 years experience in Internal Auditing and Information Systems Security. She is a CISA, and has been a chapter member since 1988. She served on the Board of Directors for several years, and was Chapter President in 1993-1994. Currently Judith is the Audit Manager for Blue Cross Blue Shield of Michigan, and she is responsible for overseeing both operational and IT auditors, with a staff of 26 people. In the past year, Blue Cross has dramatically increased the number of SDLC reviews that are done as part of the annual audit plan.

After Dinner Topic:

BEA Weblogic

Speaker: *Paul Bauerschmidt*

BEA Weblogic Platform 7.0 is a unified platform for developing and running enterprise applications and Web services. Consisting of an application server, portal technology, comprehensive integration services and easy-to-use Web services and J2EE development framework, WebLogic Platform 7.0 provides a productive and cost-effective IT environment. This IT environment contains considerable security implications. Paul Bauerschmidt will address the security features of Weblogic Server. These include access control list and permissions, single signon, authentication, and auditing. Advance information can be obtained by reviewing the whitepaper available at http://www.bea.com/products/security/security_wp.shtml.

Speaker:

Paul Bauerschmidt is a Software Engineer in the WebLogic Security Team at BEA Systems. Paul has spent the last 3 years planning, developing and supporting the security features of the WebLogic Server. Prior to joining BEA Systems, Paul worked at Intel, on the Java port of the Common Data Security Architecture (CDSA), an Open Group standard. He received his B.S. in Computer Engineering from the University of Michigan.

CANAUDIT PERSPECTIVE NEWSLETTER

Volume 3

Number 4

April 2002

GORDIE SPEAKS OUT!

By: Gordon Smith, President, Canaudit Inc.

The reaction to my Enron article in the February issue of the Canaudit Perspective was overwhelming (www.canaudit.com/Articles_Pubs/past_articles/Feb02_perspective.htm). I received over 800 emails, many of which had common themes. Many of the respondents wanted to know the best reporting structure for an internal audit department. Others wanted to know the best way to configure the audit department. Still others were concerned because they had outsourced the IT audit function and wanted to know the best way to bring it back in house. A few (very few) said that words were cheap, and what was I, Gordon Smith, going to do to start rejuvenating internal audit. I started by responding to each and every one of them, usually within 24 hours. Then I started to summarize their comments so that I could identify the items that concerned them most. At the end of this article, you will see that I am willing to put some of my money on the line to kick off the **Century of the Internal Auditor**.

Many of those responding wanted me to write more articles on similar topics. Since we try to listen to our customers, several issues of the Canaudit Perspective each year will be dedicated to this or a similar topic. In addition, we will do one or two special editions a year on “hot topics” that require immediate dissemination to the audit community. So much for the preamble, now onto the issues!

Reporting Structure

The majority of the respondents indicated that the audit department reported to the Chief Financial Officer (CFO), and they were concerned about independence. In general, reporting to the CFO results in a lack of independence, particularly if the internal audit department focuses on auditing financial systems. That said; let us look at the major areas in the audit universe so that we can determine if reporting to the CFO causes a conflict of interest. Please stick with me while I go through the audit universe. Once we examine it, then the suggested reporting structure will become clear.

At least **20 percent** of an internal audit department’s audit efforts should be directed towards **information technology**. These audits include, but are not limited to, system development, operations, operating systems, networks, databases, help desk and call centers, telephone systems (PABX’s etc.), business continuance and disaster preparedness. The audit reports are normally addressed to the CIO or one of the CIO’s key managers.

Another **20 percent** of audit time should be spent on **operational audits**, which we call auditing for profit. These audits include procurement, distribution, inbound and outbound logistics, manufacturing, customer service and support, product research and development, operations, facilities and executive security, travel and entertainment, and item (or transaction) processing, just to name a few. The audit reports will normally be directed to operations management, the Chief Technology Officer (CTO), manufacturing VP or the Chief Operating Officer (COO).

Another **20 percent** of the internal audit budget should focus on business operations. These audits include **financial applications**, such as disbursements, sales and receivables, payroll, asset protection, cash management, treasury, and other financial activities. These audit reports will be directed to the CFO and as such, could result in a loss of independence.

Another **10 percent** of the audits should be **corporate services**. This includes legal, human resources, mergers and acquisitions (including due diligence), investments, shareholder affairs, public relations, advertising, and regulatory issues. The audit reports are normally directed to the head of each business unit; however, it could also go to the CEO.

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Special projects should account for about **20 percent** of the audit workload. These are usually projects that are conducted at the direct request of the CEO, the COO, the CFO or the Board of Directors. This is an area where auditors can really shine, particularly since Enron. Senior executives now realize that the advice they paid so dearly for was shallow, as consultants skimmed the surface to identify issues that everyone already knew. They may have incorporated the work of the internal auditors, often without giving the internal auditors credit for their work. In some cases, these consultants use staff only a few months out of university with very little experience, yet billed out at over \$200 per hour. I'm sure you have seen some of these consultant reports. I have too, and let me tell you, a few good internal auditors, who understand the business and who are independent and empowered, could **outrun these consultants any day of the week!**

Special projects are where we put the best and most experienced internal auditors. We can team them with less experienced auditors who can extract data, build spreadsheets and format presentations. The audit reports that result from special projects normally go to the CEO or the Board of Directors and can have an immediate impact on the business. No one understands your business like your internal auditors. They span the company, visiting far-flung locations, following business data as it is transformed into management information. The auditors on these projects must be the most independent of all.

Well, now I'm at 90 percent, and you are probably wondering where doing **work for the external auditor** comes in. I say, give them **5 percent or less**. Yes, I said 5 percent or less. And it had better result in a significant fee reduction! After all, if the General Auditor or Chief Audit Officer (CAO) is to divert valuable resources to the external audit, then we have to see a substantial return on investment. Also, the external auditors normally bid a fixed fee for the audit, so why should internal audit do the labor-intensive tasks when they can be auditing for profit and finding new sources of cash flow for the corporation.

The last **5 percent** of audit resources should be spent on **fraud prevention and investigation**. Fraud drains capital resources and, if uncontrolled, can lead to a general erosion of control. Also, finding and investigating fraud gives the audit department a high profile with executives. After all, everyone suffers if dishonest employees or, even worse, senior executives drain cash intended for the shareholders from the company.

So, now that we have gone through this long list, where should internal audit report? **The answer is – where it fits best and is properly empowered to perform the required duties.** My first choice will always be directly to the audit committee of the Board of Directors. This provides visibility and ensures that serious issues will be properly presented. I understand that sometimes there needs to be a dotted line to a senior executive for administrative purposes. The COO would be a good person for the General Auditor to report administratively because, as we can see from my breakdown of the audit universe, the COO is best placed to handle any issues arising from the audits.

The Chief Legal Counsel (CLC) is also another good place for the administrative reporting. There normally are very few conflicts between the General Auditor or Chief Audit Officer (CAO) and the CLC. In some cases, this may also permit audit reports to be restricted due to client attorney privilege. In some cases, the CFO is the best place for the CAO to report. This depends on the attitudes of the CAO and the CFO. As long as the CAO is independent, then the auditors will likely also be independent. Just remember that independence is a frame of mind: **A good CAO will be independent regardless of the reporting structure.**

While I would like to cover the structure of the internal audit department at this point, this topic deserves a full newsletter. Therefore, I will cover it in my next issue of the Canaudit Perspective. In this issue, I would like to cover restoring IT audit, as it was the greatest victim in the outsourcing battles. While many companies outsourced internal audit over the last decade, even more decimated the IT audit function as they outsourced or cosourced the function. To me, it makes sense to have a strong and viable internal IT audit group.

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Restoring the IT Audit Function

Companies succeed or fail on their ability to provide timely information to management. Just about every function in an organization uses information technology. Therefore, to me, it makes more sense to insource this function as soon as you can. If your IT audit function has been decimated, now is a good time to hire. There are many good IT auditors walking the streets right now because of the tech meltdown, mergers and corporate layoffs. This is the time to hire the cream of the crop and get them working for you. You should start with a good IT audit manager. A good IT manager is current on technology, has good people skills, yet is comfortable making presentations to the Board of Directors. I know several people who fulfill this description and are currently between positions. I'm sure you know a few of these people as well.

Once you have located the IT audit manager, it is time to hire staff. My advice here depends on the size of your organization and the audit department itself. In the average company, 20 to 30 percent of the internal auditors should be IT auditors. In a large bank or financial services institution, the ratio should be even higher. Personally, I prefer what I call a salt and pepper IT audit group. What I mean by this is that there should be several highly seasoned IT auditors, who know the company and have good IT audit skills. These are the salt. The pepper (or the fire, depending on the analogy) comes from IT professionals, IT auditors with less than three years experience, and financial auditors who are cycling through IT audit as part of their career development.

In larger audit departments, I would like to see several staff devoted to data extracts or "programming." These should be interns or recent college or university grads with a major in information systems or IT auditing. The idea here is to lower the overall cost of audit software while ensuring that the skilled IT auditors are not saddled with this responsibility. This follows Gordie's first law. "Work flows to the lowest level willing to accept it." It also ensures that your high cost IT auditors are deployed where their specific skills provide the highest return. If you would like to experiment with this, call your local college or university to establish an intern program. Start with one person and if you are satisfied with the results, expand the program.

Now I would like to address the **issue of under-skilled IT auditors**. This is particularly troubling for me, as I have known some of these people for a very long time. These are the IT auditors who survived the purges, outsourcing, and co-sourcing in recent years. Not only are they battle-weary, but they are often under-trained. For years, they have watched as budgets were cut, staff positions eliminated, and training reduced. Somehow they coped with this, getting their training by reading books and articles, going to low cost chapter events or by investing their own money in college courses.

You truly have to give these dedicated individuals credit! Despite their efforts, their skills are old. Worse yet, management may not realize just how much these people contribute and more importantly, how much more they could contribute if they were given a chance. Now is the time to **review their existing skill sets** and design training programs for them. Every cent you invest in these IT auditors will provide an excellent return on investment. They will be able to do more audits, bring co-sourced audits back in-house and save money in the long run.

This does not mean that they will be able to do all IT audits. Some audits are just so specialized that it is not realistic to retain the resources on staff to perform them. There still will be a need to use consultants to perform certain IT audits. I do not consider this co-sourcing, rather, it is skills management. If you cannot perform the audit at reasonable cost with your staff, then use consultants when they are cost effective. Then make sure that the consultants transfer their skills to your internal IT audit staff as part of the project. This ensures that the IT auditors will get to work alongside the consultants, learning new skills as they manage the consultants. Yes, I said **manage the consultants**. They are internal audit consultants, not outsourcers or cosourcers.

The Year At A Glance

Meetings will resume in September. Have a great Summer!

Menu - May 15, 2002

When making your reservation, please indicate which entree you prefer. Attendees not specifying a choice will be served entree #2.

The following entrees will be served:

Entree #1 New York Strip

Entree #2 Chicken Cordon Bleu

Entree #3 Broiled Whitefish

A vegetarian plate is available for those on special diets.



All meals include:

- Specialty Bread
- Rice or Potato of the Day
- Tossed Salad with Raspberry Dressing
- Fresh Seasonal Vegetable
- Dessert: Ice Cream Sundae
- Coffee or Tea
- Cash Bar Available

The Chapter must provide the number of reservations by the Monday before the meeting. To ensure that we can accommodate those who wish to attend and the restaurant can provide the best service possible, please make your reservations early. If you have made a reservation and cannot attend, please call in a cancellation. Your cooperation is greatly appreciated.

Monthly Drawing Winners!!

Lance Giannola

Linda Kearney

Jamshid Sadaghiyani

Doug Wahr

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