

**Presentation to Dallas IIA Chapter
Remembering the Past/Rehearsing the Future
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1. Introduction

- a. **Pleased to be able to address you as members of one of the finest IIA chapters in North America and one of the best IIA organizations in the world!**
- b. **Sincere pleasure to be with you to celebrate the Dallas Chapter's 60th anniversary**
- c. **My theme for today "Remembering the Past/Rehearsing the Future" was chosen for two reasons:**
 - i. **First, my comments are a mix of past remembrances and thoughts and current and future trends and issues**
 - ii. **Second, the title is the theme of ??? (the 1987/8 International Conference that Dallas hosted!)**
 - iii. **By the way, the theme for the last Int'l Conference that Dallas hosted in 1998 was something like "Blazing Trails into the 21st Century". My input into a theme was "Look out, you're stepping in it!"-That theme was understandably not selected.**
- d. **Areas to be covered:**
 - i. **Changes in the internal audit profession the last couple decades**
 - ii. **Audit Committee interactions**
 - iii. **Items to focus to be successful in your career of internal auditing**
 - iv. **Memories and thoughts on the Dallas Chapter**

2. 1st ITEM-Changes in the Internal Audit Profession

When I was Dallas Chapter President in 1990-1991, one of my president's messages in the monthly newsletter was entitled "Wither Internal Auditing"? Basically it discussed whether the internal audit profession had a future-would we be viewed as a dinosaur or as a valuable and needed part of the business landscape in the years and decades ahead of us. I was of the ilk

that we would be the latter and I am pleased to say that we have fulfilled our quest to be an important cog in the corporate infrastructure. BTW, I am not saying in any sense of the word, that since we have arrived, we can in any way rest on our laurels as far as continuing to build the profession. As one of my favorite poets says, “We have promises to keep and miles to go before we sleep”!

A few thoughts on the internal audit profession now versus the past, which as you could say were my more “formative years”.

a. More visible and accepted

- i. Most people in the business world know what internal auditors do and why they do it; was not always so**
- ii. Internal Audit Departments used to come and go-no requirement to have one-that all changed with the Blue Ribbon Committee, Sarbanes-Oxley and the increased importance of the oversight role that Audit Committees play these days. Audit Committees need IA departments to tell them what is really going on within an organization.**
- iii. The IIA has done a great job of being an advocate of the internal audit profession around the world. Being a truly global organization has really helped; sure we can be better (as Patty Miller indicated earlier) but we are truly in an enviable position compared to a number of peer professional organizations that are trying to figure out how to get global in perspective or how to adopt their national standards to a global market.**
 - Just here in the states, all you have to do is look at where the internal audit profession is represented and is many times in a leadership role.**
 - a. The present and past chair’s of COSO**
 - b. We have between 2 and 3 members on the PCAOB Standing Advisory Group (two year appointment)**
 - c. Regularly sought out for or the IIA proactively provides input on control/governance/transparency issues**

- d. **The IIA Inc.’s Chairman and President meet regularly to compare notes with peer organizations like the AICPA, AAA and others to compare notes and discuss mutual topics.**
- iv. **Lastly, nothing like a couple scandals to get the importance of internal audit more recognized; namely:**
 - **WorldCom-where the CAE blew the whistle on the CFO and CEO that they were cooking the books**
 - **Enron-where the internal audit shop was outsourced to the organization’s public accountants and the audit fees were a mere pittance of the fees being raked in the public accountants for performing non-audit services**
 - **Scandals are interesting to read about, dissect, absorb, etc., as long as they do not happen in your organization!! (Lest we hear the dreaded phrase, “Where were the auditors?”)**
- b. **Much more is expected of us as internal auditors**
 - i. **Don’t just tell us what the problems are, tell us what the best solutions are**
 - ii. **We best not have any holes in our audit coverage**
 - **Management and the audit committee expect us to have an audit plan that addresses the key exposures and risks within an organization**
 - **If we don’t have the expertise to audit an area of high risk, we best either get the resources through a 3rd party and/or disclose this “hole” to management and the audit committee**
 - **We best complete the audit plan that the audit committee approved**
- c. **Way more productive than we used to be**
 - i. **In my opinion, the profession has done a tremendous job of using technology to be more productive**
 - ii. **Through data mining, exception analysis, continuous monitoring and the myriad of audit software out there these days, we have progressed from the old**

days of needle-in-the haystack and the terribly sophisticated approach that it's time to audit that area because it has been "x" many years since it was last audited. A couple of examples:

- **At JCPenney, we used our Audit Technology Staff and knowledge of critical controls features that needed to be in place to remotely monitor store compliance with those controls; the stores got a monthly report on just those areas that needed their attention. As long as a store corrected their issues (and we had ways to monitor this), you probably would not get a visit by an auditor.**
- **At Lowe's, where it was both management and the Audit Committee's desire that we continue on-site audits of stores, we used technology to determine which stores most need our visit. In addition, a lot of the non-site observation work was completed before even visiting the store, making the travel hours invested much more productive.**

3. **2nd ITEM-Audit Committee Interactions-How do you have truly meaningful interactions with your organization's Audit Committee? I thought this would be a good topic to share my experiences with you as I interacted extensively with the Audit Committees of JCPenney and Lowe's for 13 years. At JCPenney I reported directly to the General Counsel and indirectly to the Audit Committee Chair; at Lowe's I reported directly to the Audit Committee Chair and administratively to the CEO.**
 - a. **My firm belief is that Internal Audit, 1) with all the "publicity" as to the importance of the internal audit function to the overall effective governance and 2) the in most cases either directly or indirectly reports to the Audit Committee Chair is in the "cat-birds" seat to help the audit committee fulfill their roles and responsibilities these days. If we provide them with "exceptional customer service" (I'll talk more about that term a bit later), then this will help your internal department succeed (and IA will be seen as a valued part of your company's organization).**

- b. Overview of Audit Committee (I'll use Lowe's as example)**
 - i. 5 members (always want an odd number for voting and quorum purposes)**
 - ii. 1 recently retired CFO (chair) and 4 active or retired CEO's)**
 - iii. 10-12 meetings per year**
 - 5 in person (average 3 hours)**
 - 5-7 telephonic (review earnings/Form 10-Q's before filing) (average 1 hour)**
 - iv. Standing management attendees at in-person meetings**
 - CFO**
 - Chief Accounting Officer**
 - General Counsel**
 - Public Accountants**
 - Chief Internal Auditor**
 - Others as invited/required (CEO attended parts of about half of the in-person meetings)**
- c. What do Audit Committees want to help them accomplish their mission?**
 - i. Substantive Meetings**
 - ii. Knowledge of the organization**
 - iii. Productive use of their time**
- d. How can Internal Audit make this happen?**
 - i. Setting the agendas**
 - ii. Conduct of the meetings**
 - iii. Suggesting topics for discussion**
 - iv. Lastly, in a number of ways, making the Audit Committee chair look real good!**
- e. Setting the agendas**
 - i. Use the Audit Committee Charter and specifically the responsibility portion as a guide as to what needs to be covered. As I recall Lowe's had 29 specific responsibilities and JCPenney about 20. Simply stated, this is your roadmap!**
 - ii. Prepare a rolling 12 months worth of upcoming audit committee meeting agendas**
 - Lets the committee see what is coming-no surprises/mysteries (lesson learned over the**

years-no one, management or the audit committee wants surprises or to be left out of the “food chain” as you bring items up the corporate ladder)

- **Have the upcoming agendas as one of the agenda topics for each meeting so the committee reviews**

iii. Conduct of the meeting

- **Ensure there is a pre-read for every topic on the agenda**
 - a. **Helps the audit committee members prepare**
 - b. **Eliminates a whole bunch of “stuff” being handed out at the meeting (doesn’t work well as AC members are trying to absorb both the written and spoken word at the same time)**
- **Keeping the meeting on schedule-A huge item!!**
 - a. **Indicate the length of time for each item on the agenda**
 - b. **Actual lengths will vary but a good guide to both presenters and AC members and most importantly to the AC chair as to when to end conversations**
- **Break agenda topics into two buckets; Presentation and Information items**
 - a. **Presentation topics are the more complicated, perhaps non-recurring items**
 - b. **Information items are more self-explanatory, recurring topics that the typical AC member can grasp by reviewing the pre-read (have the preparer of the topic attend to answer questions, but if none go to the next topic.)**
 - c. **Example-when IA presents their annual internal audit plan, this is a presentation topic; when IA provides an update on the status of completing their audit plan, this is an information agenda topic**

- **Prep the presenters**
 - a. **Especially important for those presenting on a “one off” occasion-if don’t prep them, some will look at it as their “15 minutes of fame”, which quickly turns into 30-40 minutes and throw the entire meeting off schedule**
 - b. **Always suggest that if you are scheduled for 20 minutes, present for 10 and leave the other 10 for questions.**
 - **Protect the private and executive committee time!**
 - a. **None of the presenters care about this**
 - b. **Always use a rule of thumb to allocated one third of the time for the Audit Committee to meet in private session with the public accountants/CFO/General Counsel/Internal Audit and then to meet by themselves in executive session**
 - c. **If this much time is protected and the Audit Committee uses it, fine (they usually do), but if not, they get done early and are as happy “as pigs in mud”!**
- iv. **Suggesting topics**
- Who else is in a better position than Internal Audit to suggest items that should be on the agenda?; I cannot think of a better group! (Audit Committee meetings tend to be more tactical in nature-the full Board meetings are where the issues tend to me more strategic.) Some specifics:**
- **1st-Where satisfactory knowledge is not being made on addressing an area previously communicated to the Committee-call this the “selective club” approach! (examples, include inaction on audit findings, significant control issues, SOX deficiencies, etc.)**
 - **2nd-Where the item may expand the members knowledge of the company**

- a. Many audit committee members are new to the company and you can help them learn
- b. Good news stories on occasion
- c. Need to know areas-in retailing, inventory shrinkage is always a big issue but not readily understood, so schedule occasionally
- d. Major initiatives going on within your organization that significantly streamline/update the corporate infrastructure
- e. IT always a good area-disaster recovery/business continuity/intrusion tests, etc.
- 3rd-Always listen at the meetings for instances where the Audit Committee wants more information and when in private session with them, ask what more they want and also can do without going forward
- v. Last item-Make the Audit Committee chair look real good

On all of the following, the Audit Committee chair may ask for these or sometimes they will not-from my perspective it pays for the Chief Auditor to be proactive in the following items:

 - Keeping the chair informed between and certainly right before meetings
 - a. Figure out how to establish a working rapport with the AC chair
 - b. If you are a new CAE, provide your assessment of the IA function
 - c. If an Audit Committee member or chair is new, provide and orientation about Audit Committee activities
 - Provide crib notes to the chair for use at the full board meeting
 - Provide the chair with an annual recap of Audit Committee responsibilities fulfilled

- a. Remember my earlier comment about using the AC charter as a roadmap as to what should be covered in the agendas
 - b. Well, here is her you recap as to what really transpired
 - c. Do annually and list each responsibility and then list in another column at what meeting(s) the item was covered
 - d. Also, great documentation to help document SOX requirements
 - Finally, assist the chair in the AC annual self assessment of their efforts
 - a. At Lowe's we crafted the self assessment questionnaire (45 questions)
 - b. IA can assist in helping shape the action plan and summarize the results back to the committee
 - i. Typically, most questions are positive and no action needed
 - ii. Where responses are not satisfactory, propose and action plan, give to the chair, get approval and then the chair can use to discuss wit the Committee in executive session.
4. **3rd ITEM-Keys to being successful in the internal audit profession**
 When I was the Chair of the IIA back in 1999-2000, my theme was "Internal Audit-Make it Unique". By that I meant if we were successful in providing our clients (management/audit committee/stakeholders) with exceptional customer service, then we as internal auditors would get everything we want as far as being a valued part of our organizations. My 5 areas of focus to ensure this success were and continue to be as follows (these things are sort of like a company policy-they do not change much over time):
- a. **1st-Possess and exhibit good interpersonal skills**
 - i. Oral communications-figure out way that uses your own personality to effectively interrelate with management-my own style was to try to keep things

pretty informal. One of my best tactics was to run into people in the hall or grabbing a cup of coffee-the best meetings usually occur in the hallway!

- ii. **Written communications in so many forms these days, especially electronic. The tendency is to overuse or be too lengthy**
 - **whatever you communicate, you want it to be read by the recipients**
 - **For audit reports, we came up with a tactic at JCPenney and it also got applied while I was at Lowe's**
 - a. **Used a "stop light" approach to indicate the significance of our audit findings**
 - i. **Green-no issues**
 - ii. **Yellow-O.K., but improvements needed**
 - iii. **Red-Unsatisfactory**
 - b. **Worked very well with both management and the Audit Committees-they were able to get a quick fix on how well an area was operating or the controls were working; believe me the red areas got a lot of attention!**
 - c. **Like everything these days, nothing stays the same forever, and whatever technique you come up with will eventually wear out it's welcome or usefulness**
- b. **2nd-Have excellent project management skills**
 - i. **Firmly believe that this skill is one that makes internal audit such a desirable area to develop future leaders**
 - ii. **We are fortunate that we do not have the daily, weekly, monthly or quarterly deadlines that a lot of our peer departments have in organizations, like having to get so much product out the door or close the books on a rigorous schedule**
 - iii. **However, we have this thing called an audit plan to complete, individual audits to tackle, audit universes to develop and update, and reporting and updating to**

- management and the audit committee to complete on a regular basis.
- iv. If you are going to succeed in the business world, you are going to have to be a good project manager and internal audit, by the nature of the work, gives you an excellent chance to obtain and hone those skills.
 - v. Each of us need to take advantage of this opportunity- I've always said that one of the best things about being in internal audit is that you have time to think!
- c. 3rd-Be knowledgeable about your organization's business-If you are really going to make a contribution in your organization and get people to respect you, you have to really get to know the operations in detail
- i. Another of my best things about being in internal audit is that you get to see how all the individual pieces fit together
 - ii. You need to be able to understand and speak the language
 - iii. Example-having been at JCPenney for almost 29 years thorough osmosis you learn something about some rather unusual things, like the wonderful world of retail inventory, which makes things very complex and you would probably never start up a retailer using that method these days. When I got to Lowe's and was completely out of my comfort zone for a while, I was pleased to find inventory was valued at cost, which made things easier to understand
 - iv. However, I started hearing about this thing called a "due file"-what the heck was a due file and why were the store auditors spending so much time reviewing it on each store audit? It turns out that they were sales rung up but the merchandise was not yet delivered to the customer, so it could not be counted as a completed sale (appliances, installed sales, factory ship orders, etc.)
 - v. Once I understood, we developed a software program to look at those stores that were near making their store sales goals at year end, or were about to have consecutive years of double digit sales gains. Attaining either or both of these items meant a big increase in

bonuses and recognition for store managers. We used the output to go visit the 40 or so stores right on the cusp of making these type of goals to make sure they were not pre-maturely releasing sales from the due file account before the items were delivered and we did these visits the week after year-end. What a deterrent to “cooking the books”!

- d. 4th-Be proactive-If you see an opportunity to help your company jump on it! It does involve taking some risk and every once in a while you will fail, but that’s O.K. A couple examples from my time at JCPenney and I think this is true in a lot of organizations. A lot of time is spent on developing new ways to operate or take cost out of an organization. Current methods are analyzed, new systems and procedures are developed and then tested and rolled out. But who knows if the masses have bought into the new process? Our JCPenney Auditing Staff developed methods to see if key features that had to be implemented properly to be able to call the new process successful actually had occurred. We use that previously mentioned “stop light approach” to inform management as to what was and was not working.
 - e. 5th-Continue your professional development-I do not think you need much preaching on this, as you are aware of the need to continuously update your skill sets throughout your career. You have an excellent resource to do this right here with the Dallas Chapter and all the excellent seminars and conferences that the IIA offers throughout the year.
5. 4th and FINAL ITEM-Memories and thoughts about the Dallas Chapter-to say the least I have many fond memories of working for many years with a large number of individuals in the Dallas Chapter. Many of you are in the room today and I am not going to mention anyone currently active as if I do no matter how hard I try I will leave someone out and that would not be good or kind.
- a. So here is a list of some of the individuals in the Dallas Chapter that I was fortunate to work with in my 17 years here:
 - i. Judy Alberts-for her groundwork in academic relations; she truly lived and breathed getting faculty and students involved with the chapter-and visa-

versa, getting the chapter involved with the local universities

- ii. **Al Davis-former SW Airlines CAE because of his overall involvement with the Dallas Chapter and he was/is always an excellent and entertaining speaker**
 - iii. **Bob Wygal-for the tremendous job he did in leading the fundraising effort to raise over \$300,000 to endow the chair in Internal Auditing at the University of North Texas**
 - iv. **Aaron Saylor- If there ever was a father figure for the Dallas Chapter, it was and is Aaron. He personally got me involved in a leadership role with the Dallas Chapter and also pushed me into IIA activities at the international level. As I recall, Aaron was the chair of the 1987 IIA international conference, then for many years was on and I believe chaired the IIA's International Conference Committee. For the 1998 International Conference, he was an advisor to our team-I labeled him the "Director of Panache", and he truly fulfilled that role very well. He thought of items to make things run smoothly that none of the rest of us would ever have thought about. As I look back I was the IIA Chairman, one of the best things I did was to recognize Aaron and Cecil Brown of the Houston Chapter by awarding them the IIA's Chairman Award for Exceptional Service, which they received at the New York International Conference in June 2000. As many of you recall, Aaron passed away unexpectedly in February 2001.**
- b. A few of my fondest memories and events from my time here:**
- i. **The fun the Dallas and Fort Worth Chapters had working together on the 1998 International Conference**
 - **4 year effort after we got the award**
 - **At the time, Dallas Chapter had 800 members; Fort Worth 200**
 - **The leadership was split almost down the middle between the 2 chapters (we even split the**

profits 50/50); our team stayed largely in tact over those years, which really helped

- For the time, we had a record attendance show up at the Anatole Hotel-1400 people
- WAR STORY about the actor we hired to open the conference (John Wayne imitator that had too much wine at the opening reception) (2nd WAR STORY-Philadelphia Conference Chair and the Mummers Band)

ii. When I was chapter president, we had an event planned to celebrate the 40th anniversary of the Dallas Chapter, somewhat similar to this event today

- Had the IIA Chairman, Hans Spoel, from Alcatel speak to our chapter
- The all internal audit band from JCP played before the meeting
- The evening before the event, I am sitting with Hans having a glass of wine before the Dallas IIA Chapter Board Meeting and we are sitting near a TV and all of a sudden Wolf Blitzer comes on interrupting the regular news and says that the Gulf War had just started.
- Needless to say, we had a bit more somber meeting the next day than planned.
- BTW, Hans' talk centered on the plans on how to make IIA, Inc. more of a global organization, something that is still, as Patty Miller indicated earlier today, a work in progress!

iii. Finally, a few thoughts about the Dallas Chapter from an international perspective

- There is no doubt that the Dallas Chapter is recognized as one of the premier North American Chapters
- A proven record of both outstanding contributions to the growth of the internal audit profession in the fields of:
 - a. Research

- b. Academic relations, including at least two university endorsed internal audit programs**
 - c. Conference, seminars and training**
 - d. Chapter activities-I doubt I am mistaken on this, that the Dallas Chapter has received the Gold Level on the Chapter Achievement Program that has been in existence for over 25 years.**
- **Contributions to IIA, Inc.**
 - a. Member on numerous International Committees and ad-hoc task forces on an on-going basis**
 - b. Member of both the IIA, Inc. and North American Boards**
 - c. Committee Chairs, Executive Committee members Research Foundation Trustees**
 - d. Generous supporter to the IIA Research Foundation**
- **In recognition of this chapter's efforts, you have received many awards both as a chapter and on an individual basis, for your achievements. It seems every time I attend one of the IIA International gatherings, the Dallas Chapter, the chapter or an individual is receiving some type or recognition.**
- **In summary, I sometimes think that you really don't appreciate what you have until you are removed from it; another way to say it is the farther you get away from something the better it looks. From both perspectives, the Dallas Chapter looks great! I want to thank you for inviting me to speak to you today and be part of your anniversary festivities. I have no doubt that the Dallas Chapter will continue to "Blaze trails into the 21st century"!**