



Smart decisions. Lasting value.™

Lake County

Internal Audit Consulting Services

Overview

July 27, 2023



Outline

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Internal Audit Environment



State Resolution and County Ordinance

Illinois Statute, Duties of County Auditor:

- Audit all claims against the county and recommend to the county board the payment or rejection of all claims presented.
- Collect, analyze and preserve statistical and financial information with respect to the cost of operation of the various institutions and facilities maintained, operated or owned by the county.
- Approve all orders for supplies issued by the various county officers, before the orders are to be placed with the parties to whom the same are to be given.
- Maintain a file of all contracts entered into by the county board and all authorized county officers, for or on behalf of the county.
- Report quarterly to the county board the entire financial operations of the county including revenues anticipated and received, expenditures estimated and paid, obligations unpaid, the condition of all funds and appropriations and other pertinent information. The county auditor shall publish (in at least one newspaper of general circulation in the county) a notice of the availability of the quarterly report.

State Resolution and County Ordinance

Illinois Statute, Required Audits:

- Audit the receipts of all county officers and departments presented for deposit with the county treasurer as prescribed in Ordinance 55 LCS 5/3-1005 from Chap.34, par.3-1005 (f).
- Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the county. The county auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility as prescribed in Ordinance 55 LCS 5/3-1005 from Chap.34, par.3-1005 (g).
- Audit the inventory of all real and personal property owned by the county under the control and management of the various officers and departments of the county Ordinance 55 LCS 5/3-1005 from Chap.34, par.3-1005 (h).
- Audit the documentation, records, and bases for the amounts billed to the county, as maintained by county vendors. The county auditor shall audit the documentation, records, and bases for the amounts required to be paid to the county under agreements with outside parties as prescribed in Ordinance 55 LCS 5/3-1005 from Chap.34, par.3-1005 (i).



State Resolution and County Ordinance

Lake County, County Board Resolution of May 8, 1979:

Lake County Director of Finance is assigned, in addition to duties assigned to the Director of Finance by previous County Board Resolutions, to perform those duties formerly performed by the Lake County Auditor (and other state ordained duties referencing the County Auditor) in conjunction with the Lake County Administrator and under the supervision of the Financial and Administrative Committee.

State Resolution and County Ordinance

Ordinance §30.20 of Director of Finance “Aside from Audit” Duties*:

- Develop the annual budget and appropriation ordinance for consideration by the Financial and Administrative Committee**.
- Prepare monthly statements reflecting the financial condition of the County**.
- Make studies as to organization, operation, and procedural methods***.
- Develop recommendations for greater efficiency***.
- Assist in the implementation of plans, operating methods, techniques, and procedures as may be approved***.
- Operate and maintain a public administration library prescribed in ordinance***.

* As prescribed in ordinance § 30.20 DIRECTOR OF FINANCE, ESTABLISHED; DUTIES.; ** References Ordinance § 30.20 (B)(1);

*** References Ordinance § 30.20 (B)(2);

Regional County Examples



- Elected Official
- Reports to Board, other elected officials, and department heads
- Additional Services include: "Audit Hotline," "Checkbook Online," and "Transparency Portal"



- Pivoting to Financial Department and external auditing firm for annual audits as of November 2022 vote.
- Additional Services currently include online county checkbook and online fraud reporting form



- Elected Official
- Reports to Board, other elected officials, and department heads
- Additional Services include: "Audit Hotline" and "Open Finance Portal"

Regional County Examples



- Office of the County Auditor
- Reports to Finance and Audit Committee and the Board
- Additional Services include: a fraud hotline, audit and financial reports available online, and monthly check registers for fiscal year available online



- Elected Official
- Reports to Board
- Additional Services include fraud hotlines, an online checkbook, and "Open Government Center"



- Office of the County Auditor
- Reports to County President, Board of Commissioners, and Audit Committee
- Additional Services include: "Performance Management Dashboard"

Internal Audit Best Practices

Attribute Standards

- The purpose, authority, and responsibility of the internal audit activity must be formally defined in an **internal audit policy**, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework.
- The internal audit activity must be **independent**, and internal auditors must be **objective** in performing their work.
- The chief audit executive must develop and maintain a **quality assurance and improvement program** that covers all aspects of the internal audit activity.



Internal Audit Best Practices

Performance Standards

- The chief audit executive must effectively manage the internal audit activity to ensure it **adds value** to the organization.
- The chief audit executive must **report periodically to senior management and the board** on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards.
- The internal audit activity must evaluate the effectiveness and contribute to the improvement of **risk management processes**.



Current – Future State Assessment





Current State Assessment

Governance

- County Board
 - F&A Committee

Management

- County Administrator
- Elected Officials

Policy

- Illinois Statute, 55 ILCS 5/Div. 3-1. Auditor

Future State Recommendations

	Option 1: Adhere to IIA Standards*	Option 2: Establish Traditional County Auditor	RECOMMENDED Option 3: Hybrid (Portions of 1 and 2)
IA Reports to	Board & Senior Management	Board, Dept Heads, and Other Elected Officials	County Administrator and F&A Committee
Policy	IPPF & Illinois Statute, 55 ILCS 5/Div. 3-1 Auditor	Illinois Statue, 55 ILCS 5/Div. 3-1 Auditor	IPPF “Light” & Illinois Statute, 55 ILCS 5/Div. 3-1 Auditor
Role	Strategically Aligned Partner/Third Line of Defense	Complete Statutory Audits	Complete Statutory Audits & Value-added Services

The IIA stands for the Institute of Internal Auditors, which publishes best practices and a globally accepted framework (commonly referred to as “the Standards”) for the practice of Internal Audit.

Internal Audit Policy

The Policy addresses Internal Audit's

- Authority and Key Roles
- Organizational Hierarchy
- Reporting Structure
- Scope of Activities
- Responsibilities



Internal Audit Staff Procedures Manual

The Manual addresses Key Components of the Internal Audit Function

Risk Assessment/Audit Plan

- Based on information gathered from management and on our industry knowledge and experience.
- Results are built upon to identify auditable entities and functions to include in the audit plan.

Executing an Audit

- Process would include 1) establishing objectives, 2) planning, 3) fieldwork, 4) reporting, and 5) follow-up procedures.



Board/Executive Support Project Management, and Unscheduled Activities

- Follow-up on prior audit findings, responding to Board or management requests, attendance/support for audit committee or Board meetings, Statute 55 LCS 5/3-1005 requirements* and other unplanned work.
- Covers unscheduled activities which may require internal audit resources (e.g., fraud investigation or emergency response support).
- Contract management, quality assurance activities, and other administrative duties

Proposed Audit Plan



Statutory Audits Overview



Receipts

Fiscal*

Audit the receipts of all county officers and departments presented for deposit with the county treasurer.



County Records

Operational and Fiscal**

Maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the county. The county auditor shall have access to all records, documents, and resources necessary for the discharge of this responsibility.



Inventory

Operational***

Audit the inventory of all real and personal property owned by the county under the control and management of the various officers and departments of the county.



Vendor Records

Fiscal****

Audit the documentation, records, and bases for the amounts billed to the county, as maintained by county vendors. The county auditor shall audit the documentation, records, and bases for the amounts required to be paid to the county under agreements with outside parties.

Sample Audit Plan Layout: Statutory Audits

YEAR ONE PLAN

Statutory Audits

Audit Area/Name	Budget (Hrs.)	Associated Statute	Resource	Description
Claims Audit	350	55 ILCS 5/3-1005.a	Internal	<p>Objective: To verify that the County's process for the payment or rejection of claims against the County is functioning properly.</p> <p>Scope: This audit will include a sample of all claims made against the County to verify that:</p> <ol style="list-style-type: none">1. Claims approved for payment are sufficiently supported;2. Checks are signed and approved by authorized personnel;3. Claims are itemized appropriately.4. Claims meet legal and policy requirements related to competitive bidding;5. Goods or services paid for were received.
Procurement Audit	350	55 ILCS 5/3-1005.i	Internal	<p>Objective: To validate that the amounts billed by vendors to the County were appropriate under the established agreements.</p> <p>Scope: This audit will review a sample of paid vendor invoices. It will include the verification of the vendor's adherence to contractual terms and conditions, review of documentation, records, and basis for the amounts to be paid, the County's review and approval of amounts paid, and the County's recording and reconciliation of expenses.</p>

Statutory Audits

Associated Statute

Indicates the applicable regulatory requirement for the audit.

Resource

Recommendation to use Internal Audit personnel or contracted resources to complete the audit.

Objective

The purpose and expected outcome(s) for the audit.

Scope

The items, amounts, period, and/or activities which will be audited.

Sample Audit Plan Layout: Additional Audits & Support

YEAR ONE: Additional Audits and Administrative Support

Audit Name	Budget (Hrs.)	Associated Statute/Risk	Resource	Description
Purchasing/ Procurement Audit	350	Cross-Functional Coordination of Operating Activities (High)	Internal	<p>Objective: To evaluate purchasing and procurement activities to verify that goods and services needed for the County to deliver services to constituents are obtained timely, for appropriate business purposes, and in compliance with established rules and regulations...</p> <p>Scope: This audit will include a review of selected contracts across County departments to determine if management has followed purchasing/procurement policies, including:</p> <ol style="list-style-type: none">1. Authorization for budgeted versus non-budgeted items.2. Vendor selection procedures (e.g. purchase requisition, competitive bidding, purchase order or contract formation, etc.).3. Authorization and documentation of sole-sourced or emergency purchases.4. Contract administration5. Cooperative or joint purchasing initiatives6. Debarment and vendor performance monitoring7. Ethics8. Purchasing/Contracting9. Vendor setup and maintenance of authorized vendor profiles/records.

Additional Audits...

Associated Statute/Risk
Indicates the applicable regulatory requirement or related enterprise risk for the audit.

Resource
Recommendation to use Internal Audit personnel or contracted resources to complete the audit.

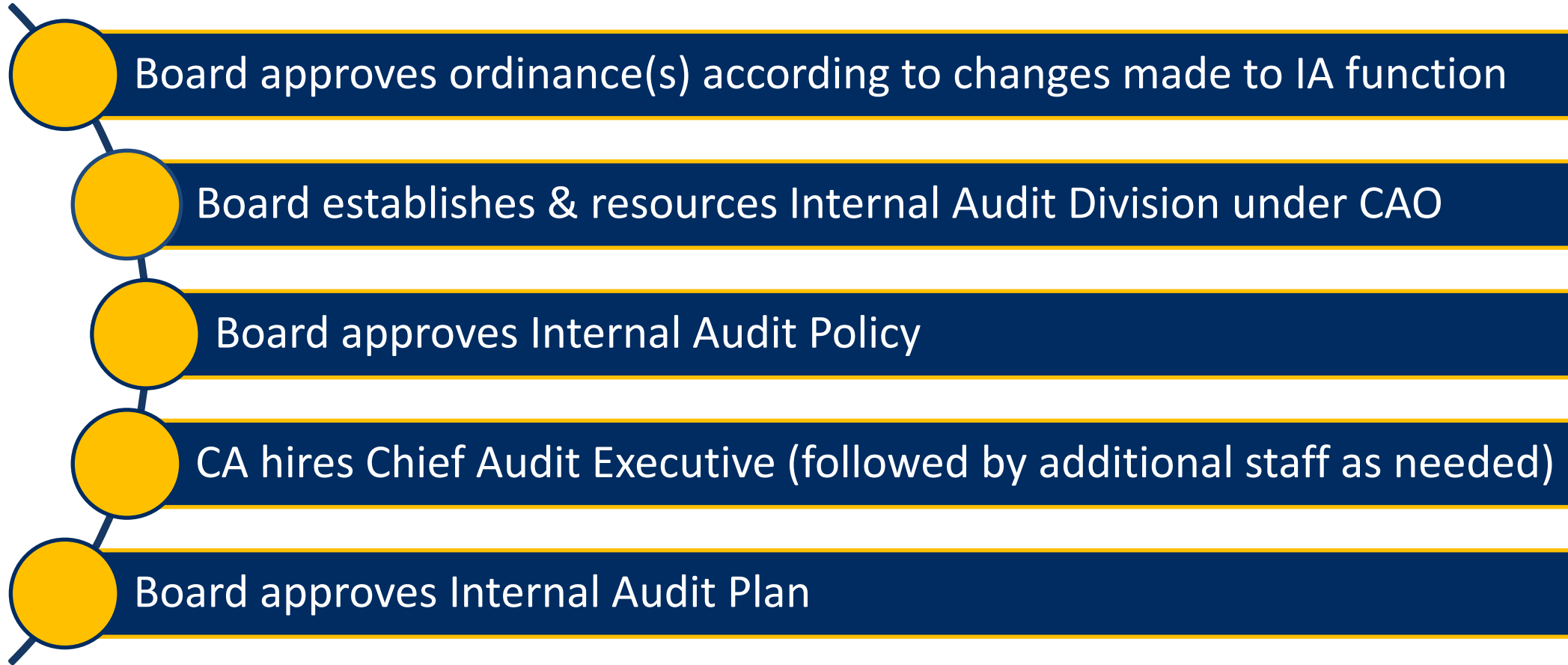
Objective
The purpose and expected outcome(s) for the audit.

Scope
The items, amounts, period, and/or activities which will be audited.

Next Steps/Action Items



Next Steps / Action Items



Please note that the sequence of next steps and actions noted above is subject to change. For example, the need to complete statutory audits may result in the approval and execution of the audit plan occurring prior to other steps.



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Questions?



Thank You

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