

The background of the page features a large, light-colored watermark of the Seal of Kane County. The seal is circular with a serrated outer edge. Inside the seal, the text "SEAL OF THE COUNTY OF KANE" is visible around the top and sides. In the center, there is a diamond shape with a compass rose-like design. Below the diamond, the date "JAN. 16, 1836" is inscribed. The words "ORGANIZED" and "STATE OF ILLINOIS" are also partially visible within the seal's design.

**OFFICE OF THE KANE COUNTY AUDITOR**  
*Terry Hunt, Kane County Auditor*

# **Vendor Application Internal Audit**

March 19, 2020

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# Executive Summary

## Background

Collectively, a system of internal controls is intended to provide reasonable assurance that organizational objectives are being maintained. An effective internal control system establishes policies and procedures to safeguard assets, monitor compliance with prescribed policies and procedures, and establish corrective measures when violations of those policies and procedures are discovered.

Per Kane County's Financial Policies, it shall be the intent of the County to maintain a program of internal controls to safeguard all assets and ensure effective and efficient use of all assets. It shall be the responsibility of the Finance department to establish a formal set of "best practice" internal controls. In addition, the County Auditor shall ensure that all departments comply with those controls.

As a normal part of best practices, internal controls are subject to both ongoing and periodic review to determine if the controls in place are still operating effectively against a backdrop of changing circumstances. In December 2019, the Finance Department reviewed its procedures and controls over the vendor application process and implemented certain revisions to address a potential weakness in the internal controls.

As described below, state statute prescribes certain duties to the County Auditor. Among them is the duty to perform internal audits of operations. The County Auditor performed a limited scope internal audit to review the new procedures and controls, and to assess the design effectiveness of those changes.

## Authoritative Guidance

### State Statute

Illinois State Statute 55 ILCS 5/3-1005 – Duties of Auditor, the County Auditor is mandated to "maintain a continuous internal audit of the operations and financial records of the officers, agents or divisions of the county."

### Kane County Financial Policy

3. Accounting, Auditing & Financial Reporting Policies (b) - The County Auditor shall ensure that all departments comply with controls set and established by the Finance Department.

8. Disbursement Policies (b) - The Kane County Treasurer and Kane County Auditor shall establish disbursement policy procedures.

## Procedures

The County Auditor, Deputy Auditor, County Treasurer, Finance Director, and Assistant Finance Director met to discuss the proposed changes to the existing internal controls. Those changes included implementation of certain GFOA best practices and enhanced security protocols involving interdepartmental crosschecks. To publish any additional details regarding the exact nature of those changes could potentially leave the County's assets more vulnerable. As such, those changes will not be a part of the audit report.

The Office of the Kane County Auditor performed walkthroughs with the Purchasing Department, Finance Department, and Treasurer's Office by conducting inquiries with appropriate personnel, observing the County's operations, and inspecting relevant documentation.

Furthermore, the Office of the Kane County Auditor reviewed and evaluated the new controls to determine:

- 1) The changes to the internal controls satisfy the County's control objectives, and
- 2) The changes to the internal controls improve the County's ability to prevent or detect error that could result in material misstatements in the financial statements, and
- 3) That any person(s) assigned the ability to perform certain function(s) are properly authorized, and
- 4) That any person(s) assigned the ability to perform certain function(s) are sufficiently supervised, trained, and competent to ensure compliance with the controls in place.

## Conclusion

Given the current staffing levels of the Treasurer's Office and the Finance Department, the procedures and controls appear to be designed effectively. However, to more effectively protect the County from increasingly sophisticated attacks on the County's systems and to establish a level of segregated duties intended to enhance existing internal controls, it would be appropriate to consider the addition of a staff person qualified to be responsible for the validation of vendor applications and/or modifications.

The Auditor's Office will continue to review and monitor the controls in place and test the design and operating effectiveness of the County's controls.

## Recommendation

As per the conclusion above - the controls appear to be designed effectively. However due to the constantly changing nature of threats to the County, the Auditor's Office suggests the following recommendations for consideration:

### Countywide

- 1) Annual cybersecurity training to all employees
- 2) Develop a Countywide fraud management action plan
- 3) Review the County's insurance coverage – specifically as it applies our exposure to fraud and to errors and omissions

### Vendor application process

- 4) Remove view access of all employees not required to see / use banking information as part of their authorized responsibility
- 5) Purge outdated vendor information
- 6) Perform an updated vendor audit. The Auditor's Office performed a [Duplicate Vendor Internal Audit](#) in 2017.
- 7) To adequately protect the County from increasingly sophisticated attacks on the County's systems and maintain segregation of duties, it may be appropriate to consider hiring a new staff person to be responsible for reviewing and validating vendor applications.

Other

- 8) In order for the Auditor's Office to effectively address system risks, to test limits, and perform additional data analytics, it is recommended that the Auditor's Office be granted the same unlimited system wide (viewer only) access within the system's test environment. Currently that access is limited and as a result, certain tests and analyses cannot be performed.

The Auditor's Office would like to thank all who assisted us in our review. Your cooperation and assistance is greatly appreciated.

Regards,

**OFFICE OF THE KANE COUNTY AUDITOR**



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