



June 13, 2019

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

RSM recently completed an external Quality Assessment Review (QAR) of Cook County's Office of the County Auditor (OCA). The principal objectives of the QAR were to assess the internal audit function's conformance to The Institute of Internal Auditor's (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), in conjunction with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States, and an evaluation of whether internal auditors apply the IIA's Code of Ethics.

Both the Government Auditing Standards and the Institute of Internal Auditor's Standards require that our Office undergo a periodic external quality review and report the results to Audit Committee. The attached report contains the results of the QAR. RSM's overall assessment of our office concluded that the OCA "partially conforms" to the IIA's Standards. RSM provided the OCA with six (6) recommendations related to the standards in which the OCA did not achieve the highest rating of "generally conforms." The OCA concurred with the recommendations and are working on implementing the corrective actions.

Respectfully Submitted,

William J. Carroll
Deputy Auditor

TONI PRECKWINKLE

PRESIDENT
Cook County Board
of Commissioners

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External Quality Assessment Review (QAR)

Cook County

May 10, 2019



EXECUTIVE SUMMARY

Background

RSM recently completed an external quality assessment review (QAR) of Cook County's Office of the County Auditor (internal audit function). The principal objectives of the QAR were to assess the internal audit function's conformance to The Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*, in conjunction with Generally Accepted Governmental Auditing Standards (GAGAS) issued by the Comptroller General of the United States, and an evaluation of whether internal auditors apply the IIA's Code of Ethics.

Overall Summary/Highlights

Our overall assessment concludes that the internal audit function *partially conforms* to the IIA's *Standards*.

Exhibit A provides a detail of the assessment for each individual IIA standard. Exhibit B provides a definition of the ratings, including "partially conforms," as prescribed by the IIA.

Objective, Scope and Approach

The objective of this assessment was to review and assess the current state of the Cook County's Office of the County Auditor with relation to the IIA's *Standards*, *Definition of Internal Auditing* and *Code of Ethics* and GAGAS. Our procedures were performed in accordance with the scope and approach set forth in our Professional Services Agreement, dated October 26, 2016 and were limited to those described therein.

We conducted the QAR, utilizing the following two-phase approach:

1) *Gathering Preliminary Information*

The QAR process began by obtaining and reviewing specific information about the internal audit function including, but not limited to, the following items:

- Background information about Cook County and the internal audit function
- Information about risk management, governance and oversight activities
- Information about the internal audit function's staffing, organization and internal audit practices
- Information about the internal audit function's management, plans, policies, procedures and practices
- Listing of internal audit projects from 2018 for purposes of selecting internal audits for review

We requested the Deputy Auditor to complete applicable background information forms from the IIA's Quality Assessment Manual.

2) *On-Site Visit*

During the on-site visit, we reviewed pertinent documentation provided to us by the Office of the County Auditor. Fieldwork was performed in February and March 2019 and was performed focusing on the four main areas of a QAR including:

1) Internal audit governance; 2) Internal audit staff; 3) Internal audit management; and 4) Internal audit processes. The QAR also included a review of a representative sample of the internal audit function's working papers and internal audit reports.

We conducted interviews with relevant stakeholders to gain a deeper understanding of the internal audit function. We also conducted surveys and assessed responses from key internal and external stakeholders, including the Deputy Auditor, Audit Supervisor, Field Auditor V, Field Auditor IV and the County Commissioner.

We would like to thank all Cook County team members who assisted us throughout this review.



EXECUTIVE SUMMARY (CONTINUED)

Ratings and conclusions

The following is a summary of IIA International Standards for the Professional Practice of Internal Auditing that were noted to be ‘Partially Conforms’ or “Does Not Conform” from the QAR assessment.

Standard Description	Standard Number
1. Proficiency	1210
2. Reporting on the Quality Assurance and Improvement Program	1320
3. Resource Management	2030
4. Reporting to Senior Management and the Board	2060
5. Risk Management	2120
6. Disseminating Results	2440

Improvement Opportunities

1. Employee Feedback
2. Risk Assessment
3. Sample methodology
4. Workprogram Documentation
5. Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”



DETAILED OBSERVATIONS

Ref. 1	1210—Proficiency	Recommendation	Management’s Action Plan
	<p>The IIA standard 1210.A3 states that, “Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.”</p> <p>Given the current staffing composition of the Office of the County Auditor (OCA), as well as the open information technology auditor requisitions, the OCA does not have sufficient knowledge of key IT risks and controls and available technology-based audit techniques to complete the five IT audits scheduled within the 2019 audit plan. The OCA’s IT Auditor position has been vacant since July 2018 and the remaining staff has limited IT audit experience.</p>	<p>The OCA should consider the following potential activities to enhance the current IT audit capabilities:</p> <ol style="list-style-type: none"> 1) Utilize an external recruiter to identify a competent IT Auditor to meet the organization’s IT audit needs. 2) Consider outsourcing the IT audit functions if the IT Auditor position remains vacant. 3) Have existing OCA staff take the Certified Information Systems Auditor (CISA) exam to internally develop the required information technology skillset. 4) Develop a guest auditor/rotation program with Cook County IT Department Staff. 	<p>The OCA concurs. The OCA plans to fill the open IT Auditor position by June 2019. The OCA plans to meet with the CFO and Budget Director to discuss the number of IT positions in the OCA going forward. The OCA will explore the recommendations for functionality within the OCA.</p> <p>Responsible Party: William Carroll</p> <p>Target Date: June and December 2019</p>
Ref. 2	1320—Reporting on the Quality Assurance and Improvement Program	Recommendation	Management’s Action Plan
	<p>The IIA standard 1320 states that, “The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:</p> <ul style="list-style-type: none"> • The scope and frequency of both the internal and external assessments • The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest • Conclusions of assessors • Corrective action plans 	<p>Results of the internal QAIP reviews should be communicated to senior management and/or the audit committee at least annually.</p>	<p>The OCA concurs. Beginning in December 2019, and every December going forward, the OCA will communicate the results of the previous year’s internal QAIP reviews to the President, Board of Commissioners and the Audit Committee.</p> <p>Responsible Party: William Carroll</p> <p>Target Date: December 2019</p>



Ref. 3	2030—Resource Management	Recommendation	Management’s Action Plan
	<p>While the OCA has an internal quality assurance and improvement program (QAIP) which includes a supervisory review of a sample of audits each year, the results of these reviews are not reported or communicated to the Board or Audit Committee.</p>		
	<p>The IIA standard 2030 states that, “The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.”</p> <p>It was noted that OCA was unable to achieve the execution and delivery of the number of internal audits planned over the last couple of years.</p>	<p>The OCA should draft the annual audit plan so that the number of audits are achievable base on the current team’s capacity. Additionally, the OCA should track project completion, resource utilization and adherence to the audit plan throughout the year.</p>	<p>The OCA concurs. The OCA historically has taken a very aggressive approach to its annual audit plan and the number of audits it hopes to initiate during the fiscal year based on both the actual and estimate staffing levels at the time the plan is prepared. Unfortunately, the OCA has lost several skilled auditors the past several years due to resignation.</p> <p>The OCA did reduce the number of audits in its FY 2019 audit plan and will continue to strive towards developing audit plans that are achievable based on the OCA’s staffing and skill level.</p> <p>Responsible Party: William Carroll Target Date: December 2019</p>
Ref. 4	2060—Reporting to Senior Management and the Board	Recommendation	Management’s Action Plan
	<p>The IIA standard 2060 states that, “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. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.”</p>	<p>The board should receive regular communications regarding internal audit’s activity and performance relative to its plan.</p>	<p>The OCA concurs. The OCA will develop a process to communicate the fiscal year activities of the OCA and the status of each audit on that year’s audit plan. The process will include preparing a formal report to be presented to the President, Board of Commissioners and the Audit Committee. The report will be issued each December and will reflect the fiscal years’ activity and the status of each audit on that year’s audit plan.</p>



	Based on our review, it was noted there was no formal reporting to Senior Management or the board on the internal audit's performance relative to its audit plan in 2018.		Responsible Party: William Carroll Target Date: December 2019
Ref. 5	2120—Risk Management	Recommendation	Management's Action Plan
	<p>The IIA standard 2120 states that, "The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes."</p> <p>The OCA does not have a mechanism for capturing and evaluating relevant risk across the organization. The former County Auditor led the Cook County Risk Advisory Committee (CCRAC) which historically met twice per year. The objective of CCRAC was to serve as a mechanism for County leadership to review and discuss systemic risk objectives and to operate as a high-level forum to aid the administration of risk-related programs across the County. There have been no meetings held since the County Auditor's departure in November 2017.</p>	The OCA's role in the CCRAC should be reassessed. The OCA should develop a process to review and discuss systemic risk objectives across the County and monitor and evaluate the risk-related programs across the County.	<p>The OCA will review the County Auditor's previous role in the CCRAC as well as who were members of the committee. Based on our review and the previous goals of the committee, the OCA will evaluate and reassess the County Auditor's and the OCA's role in the CCRAC. The OCA concurs with developing a process to review risk objectives across the County and monitor and evaluate the risk-related programs across the County.</p> <p>Responsible Party: William Carroll Target Date: August 2019</p>
Ref. 6	2440—Disseminating Results	Recommendation	Management's Action Plan
	<p>The IIA standard 2440 states that, "The chief audit executive must communicate results to the appropriate parties."</p> <p>RSM obtained a population of eight audits completed in 2018 and selected a sample of two to review engagement documentation and testing. Based on our review, we noted the following:</p> <ul style="list-style-type: none"> The final communication and distribution of results is not performed in a timely manner. It was noted no final reports were issued in 2018. Furthermore, one of the audits selected for review began in January 2017, however, the draft report was not issued until May 2018 and a final report has not yet been issued to-date. 	Final reports and results should be communicated timely to appropriate parties, including the audited business unit and board of commissioners audit committee, to ensure that the results are given due consideration and any potential observations can be remediated in a timely manner.	<p>The OCA concurs. Due to the vacancy in the County Auditor position since November 2017, the OCA did not have the ability to issue final audit reports during the majority of FY2018. In August 2018, the Deputy Auditor position was resurrected and the position was filled in October 2018. Currently the Deputy Auditor has assumed the role of issuing final audit reports due to the vacancy in the County Auditor position.</p> <p>Responsible Party: William Carroll Target Date: November 2019</p>



IMPROVEMENT OPPORTUNITIES

Improvement Opportunities	
Ref. 1	Employee Feedback
	Performance evaluations are not currently performed by the County Auditor. It is recommended the manual be updated to include a reference that informal feedback is provided to auditors during the review of their work papers and deliverables throughout the year.
Ref. 2	Risk Assessment
	For the annual risk assessment, an overall risk ranking (i.e., high, medium, low) is assigned based on the total rating score assigned to a department. The Risk Assessment Evaluation Criteria document provides an explanation of the points assigned for each element of the risk assessment rankings; however, it does not provide the scale for assigning risk based on the total rating score. We recommend the Risk Assessment Evaluation Criteria be updated to include guidance on the scale used for assigning risk rankings based on total rating score. In addition, the Risk Assessment Evaluation Criteria should include a discussion for the consideration of risks for safeguarding of assets and the occurrence of fraud. Both items are discussed during the risk assessment process; however, they are not documented in the Evaluation Criteria document.
Ref. 3	Sample Methodology
	The Office of the County Auditor Audit Manual currently contains limited guidance for sampling methodology and selection. We recommend the CAE update the manual to include additional language setting expectations for sampling methodology and selection guidelines, including sample methods and sample sizes.
Ref. 4	Workprogram Documentation
	Based on our review of two audits performed in 2018, it was noted one of the audit programs did not have supervisor approval documented for the “Objectives, Audit Procedures & Sample Size” section. While there was evidence of Supervisor review for each of the other stages, we recommend documenting each supervisor approval within the audit program to ensure consistency and accountability.
Ref. 5	Use of “Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing”
	The internal audit reports that were issued do not contain the statement “Conforms with the International Standards for the Professional Practice of Internal Auditing”. We recommend that this statement (or a similar statement) appear on the final reports.



EXHIBIT A—STANDARDS CONFORMANCE EVALUATION SUMMARY

During our review, we analyzed the internal audit function’s activities within the County and evaluated these practices against the *Standards* prescribed by the IIA¹. Our assessment of each standard is identified below (“X”) and outlined in the body of this report. If applicable, references to any specific report observations are included below the *Partially Conforms* and *Does Not Conform* ratings.

Overall Evaluation		GC	PC	DNC
			X	
Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence	X		
1111	Direct Interaction with the Board	X		
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency		X	
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program	X		
1310	Requirements of the Quality Assurance and Improvement Program	X		

¹ <http://www.theiia.org/guidance/standards-and-guidance/>



External Quality Assessment Review (QAR) Report

Attribute Standards (1000 through 1300)		GC	PC	DNC
1311	Internal Assessments	X		
1312	External Assessments	X		
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
1322	Disclosure of Nonconformance	X		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval	X		
2030	Resource Management		X	
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board		X	
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management		X	
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		



External Quality Assessment
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Performance Standards (2000 through 2600)		GC	PC	DNC
2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	X		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X		
2431	Engagement Disclosure of Nonconformance	X		
2440	Disseminating Results		X	
2450	Overall Opinions	X		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks	X		
Code of Ethics		GC	PC	DNC
	Code of Ethics	X		



EXHIBIT B—RATING DEFINITIONS

Rating	Conditions
<p>GC—Generally Conforms</p>	<p>GC—“Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the <u>individual</u> standard or elements of the Code of Ethics in all material respects. For the <u>sections</u> and <u>major categories</u>, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the <i>Standards</i> or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.</p>
<p>PC—Partially Conforms</p>	<p>PC—“Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the <u>individual</u> standard or elements of the Code of Ethics or a <u>section</u> or <u>major category</u>, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the <i>Standards</i> or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.</p>
<p>DNC—Does Not Conform</p>	<p>DNC—“Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the <u>individual</u> standard or element of the Code of Ethics or a <u>section</u> or <u>major category</u>. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.</p>



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