REPORT NO. 2013-172
APRIL 2013

DEPARTMENT OF ENVIRONMENTAL PROTECTION

OFFICE OF INSPECTOR GENERAL'S INTERNAL AUDIT ACTIVITY

Quality Assessment Review

For the Review Period
July 2011 Through June 2012

STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

INSPECTOR GENERAL OF THE DEPARTMENT OF ENVIRONMENTAL PROTECTION

The Secretary of the Department of Environmental Protection appointed the Inspector General. Roy Dickey served as interim Inspector General through August 21, 2011. Candie M. Fuller served as Inspector General from August 22, 2011, through the end of the review period.

The review team leader was Hillman Brannon, CPA, and the review was supervised by Jane Flowers, CPA. Please address inquiries regarding this report to Jane Flowers, CPA, Audit Manager, by e-mail at janeflowers@aud.state.fl.us or by telephone at (850) 487-9136.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF ENVIRONMENTAL PROTECTION

Office of Inspector General's Internal Audit Activity

SUMMARY

In our opinion, except as described in the following paragraph, the quality assurance program related to the Department of Environmental Protection, Office of Inspector General's internal audit activity was adequately designed and complied with during the review period July 2011 through June 2012 to provide reasonable assurance of conformance with applicable professional auditing standards. Also, the Office of Inspector General generally complied with those provisions of Section 20.055, Florida Statutes, governing the operation of State agencies' offices of inspectors general internal audit activities.

For the financial audit of the Clean Water and Drinking Water State Revolving Fund Program special purpose financial statements, the Office of Inspector General's internal audit activity did not document compliance with all applicable professional auditing standards.

BACKGROUND

Section 20.055(2), Florida Statutes, established in each State agency, as defined by Section 20.055(1)(a), Florida Statutes, the Office of Inspector General. The Secretary assigned 20 positions to the Office of Inspector General and the Inspector General dedicated 13 positions to the internal audit activity. As authorized by statute, the Inspector General delegated internal audit responsibilities to the Director of Auditing. The Director of Auditing provided the following information regarding activities performed by these audit positions during the review period:

Internal Audit Activity

Activity Performed	Percentage of Work Effort (1)
Auditing Activities	90
Performance Measure Activities	2
Other Accountability/Oversight Activities	8
	100

(1) Direct time charged to internal audit activities.

Section 20.055(5)(a), Florida Statutes, requires that internal audits be conducted in accordance with current *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* or, where appropriate, *Government Auditing Standards*. *IIA Standards*, issued by The Institute of Internal Auditors, and *Government Auditing Standards (GAS),* issued by the Comptroller General of the United States, generally provide comparable guidance for the conduct of assurance engagements. *IIA Standards* also provide supplemental guidance for the conduct of consulting engagements.

The Director of Auditing identified 34 engagements that had been completed as part of internal audit activity during the review period. For 33 engagements, the Office elected to follow *IIA Standards.* For the audit of the Clean Water and Drinking Water State Revolving Fund, the Office was required to follow *GAS*.

REPORT ON QUALITY ASSESSMENT REVIEW

Pursuant to Section 11.45(2)(i), Florida Statutes, we have reviewed the quality assurance program for the Office of Inspector General's internal audit activity in effect for the period July 2011 through June 2012. We also reviewed compliance with specific provisions of Section 20.055, Florida Statutes, governing the operation of State agencies' offices of inspectors general internal audit activities.

A quality assurance program for the Office of Inspector General's internal audit activity encompasses the charter, organizational environment, and policies and procedures established to provide management with reasonable assurance that the internal audit activity operates in conformity with applicable auditing standards. The design of the quality assurance program and compliance with it are the responsibility of the Office of Inspector General.

In conducting our review, we obtained an understanding of the quality assurance program and performed such tests and other procedures as we considered necessary. Because of inherent limitations in any quality assurance program, departures from the program may occur and not be detected. Also, projection of any evaluation of the quality assurance program to future periods is subject to the risk that the program may become inadequate because of changes in conditions, or that compliance with policies and procedures may deteriorate.

In our opinion, except that the audit methodology employed for one financial audit did not ensure documentation of compliance with all relevant auditing standards, the quality assurance program related to the Office of Inspector General's internal audit activity was adequately designed and complied with during the review period to provide reasonable assurance of conformance to applicable professional auditing standards. Also, the Office of Inspector General generally complied with those provisions of Section 20.055, Florida Statutes, governing the operation of State agencies' offices of inspectors general internal audit activities.

FINDING AND RECOMMENDATION

Finding No. 1: *Government Auditing Standards* for Financial Audits

Pursuant to a grant agreement with the United States Environmental Protection Agency, the Department's Office of Inspector General (OIG) was to conduct, in accordance with *GAS*, a financial audit of the Clean Water and Drinking Water State Revolving Fund (Fund). We examined the working papers for the financial audit of the special purpose financial statements of the Fund for the period July 1, 2010, through June 30, 2011, and noted that the audit methodology did not include all steps required for financial audits. As a consequence, audit documentation did not demonstrate compliance with all relevant auditing standards. For example:

- Documentation of the conditions that allowed the OIG internal audit activity to be considered free of impairments to independence for the financial audit of the Fund was not available and the Independent Auditor's Report was not modified accordingly as required by auditing standards generally accepted in the United States (AU Sections 504.08 through 504.10).
- Documentation was not available to demonstrate that the auditors had requested and received written representations from management confirming representations made during the audit of the Fund. Auditing standards (AU Section 333.05) require that auditors obtain certain written representations for all financial statements and periods covered by the auditor's report.
- There was no evidence that the auditors had inquired of applicable Department management about their knowledge of fraud or suspected fraud affecting the Fund; the risks of fraud, any fraud risk factors, or account balances or classes of transactions for which fraud risks may likely exist; or any programs or controls established to mitigate specific fraud risks identified. Auditing standards (AU Section 316.20), require that

auditors inquire of management about any known or suspected fraud, risks of fraud, and controls and programs designed to mitigate fraud.

- There was no documentation of the auditor's consideration of the need to consult with the Department's legal counsel regarding any existing or potential litigation, claims, or assessments, which might affect the Fund's financial statements. Auditing standards (AU Sections 337.08 through 337.10), address matters that should be covered in a letter of audit inquiry to legal counsel.

Absent appropriate documentation, the OIG internal audit activity could not demonstrate compliance with all the applicable standards. Documentation of compliance with applicable professional auditing standards would provide greater assurance of audit reliability.

Recommendation: To ensure that compliance with all applicable professional auditing standards is documented, we recommend that the OIG internal audit activity ensure that its audit methodology (audit programs) includes steps necessary to document compliance with relevant financial auditing standards.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted this quality assessment review in accordance with applicable generally accepted government auditing standards. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

The objectives of this review were to evaluate the extent to which the Office of the Inspector General's internal audit activity's charter, policies and procedures, quality assurance and improvement program, and work products conform to applicable professional auditing standards; determine compliance with those provisions of Section 20.055, Florida Statutes, that relate to the operation of State agencies' offices of inspectors general internal audit activities; and identify opportunities to enhance the Office of the Inspector General's internal audit activity's management and work processes, as well as its value to Department (agency) management.

Our review included an evaluation of 3 of the 34 engagements completed as part of internal audit activity during the review period for compliance with applicable professional auditing standards. Our review was modeled primarily on the methodology presented in The Institute of Internal Auditors' *Quality Assessment Manual, Sixth Edition.*

AUTHORITY

Section 11.45(2)(i), Florida Statutes, requires that the Auditor General, once every three years, review a sample of internal audit reports to determine compliance by the Office of Inspector General with the current *International Standards for the Professional Practice of Internal Auditing* or, if appropriate, *Government Auditing Standards*. Pursuant to the provisions of Section 11.45(2)(i), Florida Statutes, I have directed that this report be prepared to present the results of our review.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

A written response from the Secretary of the Department of Environmental Protection is included as **EXHIBIT A**.

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EXHIBIT A
MANAGEMENT'S RESPONSE

FLORIDA DEPARTMENT OF
ENVIRONMENTAL PROTECTION
MARJORY STONEMAN DOUGLAS BUILDING
3900 COMMONWEALTH BOULEVARD
TALLAHASSEE, FLORIDA 32399-3000

RICK SCOTT
GOVERNOR
HERSCHEL T. VINYARD JR.
SECRETARY

April 5, 2013

Mr. David W. Martin, CPA
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399

Dear Mr. Martin,

Enclosed is the Department's response to the preliminary and tentative findings for the Department of Environmental Protection Office of Inspector General's Internal Audit Activity – Quality Assessment Review. Thank you for the opportunity to review and comment on this report. If you have questions or require additional information, please contact Candie Fuller, Inspector General, at (850) 245-3151.

Sincerely,

Herschel T. Vinyard Jr.
Secretary

HTV/vjp

Enclosure

cc: Candie Fuller, Inspector General
Mark Thomason, Director, Division of Water Resource Management
Cynthia Kelly, Division, Division of Administrative Services

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

Department of Environmental Protection
Response to Preliminary and Tentative Findings and Recommendations
Office of Inspector General's Internal Audit Activity
Quality Assessment Review

April 5, 2013

Finding No. 1: ***Government Auditing Standards*** **for Financial Audits**

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- Documentation of the conditions that allowed the OIG internal audit activity to be considered free of impairments to independence for the financial audit of the Fund was not available and the Independent Auditor's Report was not modified accordingly as required by auditing standards generally accepted in the United States (AU Sections 504.08 through 504.10).

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- There was no evidence that the auditors had inquired of applicable Department management about their knowledge of fraud or suspected fraud affecting the Fund; the risks of fraud, any fraud risk factors, or account balances or classes of transactions for which fraud risks may likely exist; or any programs or controls established to mitigate specific fraud risks identified. Auditing standards (AU Section 316.20), require that auditors inquire of management about any known or suspected fraud, risks of fraud, and controls and programs designed to mitigate fraud.

- There was no documentation of the auditor's consideration of the need to consult with the Department's legal counsel regarding any existing or potential litigation,

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

claims, or assessments, which might affect the Fund's financial statements. Auditing standards (AU Sections 337.08 through 337.10), address matters that should be covered in a letter of audit inquiry to legal counsel.

Absent appropriate documentation, the OIG internal audit activity could not demonstrate compliance with all the applicable standards. Documentation of compliance with applicable professional auditing standards would provide greater assurance of audit reliability.

Recommendation: To ensure that compliance with all applicable professional auditing standards is documented, we recommend that the OIG internal audit activity ensure that its audit methodology (audit programs) includes steps necessary to document compliance with relevant financial auditing standards.

Agency Response: The Department concurs with the finding and has taken steps to ensure its audit methodology includes steps necessary to document compliance with relevant financial auditing standards.