

DEPARTMENT OF COMMUNITY AFFAIRS

**OFFICE OF INSPECTOR GENERAL'S
INTERNAL AUDIT ACTIVITY**

Quality Assessment Review

For the Review Period
July 2009 Through June 2010



INSPECTOR GENERAL OF THE DEPARTMENT OF COMMUNITY AFFAIRS

The Inspector General was appointed by the Secretary of the Department of Community Affairs. Candace M. Fuller served as the Inspector General during the review period.

The review team leader was Lisa M. Strickland, CPA, and the review was supervised by Jennifer B. Barineau, CPA. Please address inquiries regarding this report to Jennifer B. Barineau, CPA, Audit Supervisor, by e-mail at jenniferbarineau@aud.state.fl.us or by telephone at (850) 414-0832.

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) 487-9024; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

DEPARTMENT OF COMMUNITY AFFAIRS
Office of Inspector General’s Internal Audit Activity

SUMMARY

In our opinion, the quality assurance program related to the Office of Inspector General’s internal audit activity, as designed and implemented during the review period July 2009 through June 2010, provided 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.

While not material to overall conformance to professional auditing standards, the internal audit activity could improve its risk assessment process.

BACKGROUND

Section 20.055, Florida Statutes, requires that each State agency, as defined by Section 20.055(1)(a), Florida Statutes, establish an office of inspector general. The Department’s Office of Inspector General was assigned nine positions. Seven positions, excluding the Inspector General position, were dedicated to the internal audit activity. As authorized by statute, the Department’s Inspector General delegated internal audit responsibilities to the Director of Auditing and six other positions. The Inspector General provided the following information regarding activities performed by these audit positions during the review period:

The Office of Inspector General	
Activity Performed	Percentage of Work Effort (1)
Auditing Activities	58
Consulting Activities	23
Investigative Activities	<u>19</u>
	<u>100</u>
(1) Direct time charged to engagement activities.	

The Inspector General identified one engagement that had been completed as part of internal audit activity during the review period within the Office of Inspector General’s quality assurance program. For the engagement completed during the review period, the Office of Inspector General’s internal audit activity had elected to follow the *International Standards for the Professional Practice of Internal Auditing* and generally accepted government auditing standards.

REPORT ON QUALITY ASSESSMENT REVIEW

Pursuant to Sections 11.45(2)(k) and 20.055, Florida Statutes, we have reviewed the quality assurance program for the Office of Inspector General’s internal audit activity of the Department of Community Affairs in effect for the period July 2009 through June 2010. 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 auditing 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. Section 20.055(5)(a), Florida Statutes, requires that internal audits be conducted in accordance with the current *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* or, where appropriate, generally accepted government auditing standards. The *IIA Standards*, as promulgated by The Institute of Internal Auditors, and generally accepted government auditing standards generally provide comparable guidance for the conduct of assurance engagements. The *IIA Standards* also provide supplemental guidance for the conduct of consulting engagements.

In conducting our review, we obtained an understanding of the quality assurance program and performed such tests and other review 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, the quality assurance program related to the Office of Inspector General's internal audit activity of the Department of Community Affairs, as designed and implemented during the review period, provided 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.

While not material to overall conformance to professional auditing standards, the internal audit activity can improve its risk assessment process as described below.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Risk Assessment

IIA Standards provide that the internal audit activity plan of engagements should be based on a documented risk assessment, undertaken at least annually. The risk assessment process should consider elements such as input of senior management, organizational structure, major information technology systems or applications, entity programs, and legal requirements.

The Office of Inspector General performs a documented risk assessment every three years, rather than annually as is required by IIA Standards. The risk assessment conducted in May 2009 included consideration of factors, including materiality of expenditures, legal requirements, concerns of management, and previous audits performed; however, the risk assessment did not include consideration of information technology issues. A three-year work plan is developed based on the results of the risk assessment. The work plan is updated annually based upon informal input from management. In response to our inquiry, the Inspector General indicated any changes to the risk assessment would be documented in the work plan; however, no apparent changes were noted during our review.

The completion of comprehensive risk assessments on an annual basis provides assurance that changes in circumstances be considered on a timely basis. In addition, the inclusion of information technology systems in the risk assessment process would help ensure that significant systems are adequately considered during planning.

Recommendation: We recommend that the Department's Office of the Inspector General ensure that audit plans are based on annual risk assessments that are conducted in accordance with *IIA Standards*. We also recommend that consideration of significant information technology systems be documented during the risk assessment process.

Follow-up to Management's Response:

In response to this finding, the Department questioned the need for a documented annual risk assessment. The Department also questioned the need to consider information technology risks, noted that the Department lacked the resources to conduct information technology audits, and indicated that the Auditor General often audits the Department's information technology controls. The purpose of our finding was to report an instance in which governing auditing standards had not been followed. As noted in the finding, IIA Standards provide that a documented risk assessment should be undertaken at least annually and major technology systems should be considered in the risk assessment process. The Inspector General's consideration of the extent to which particular risks have been addressed by external auditors, such as the Auditor General, can be reflected in the documented annual risk assessment.

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; assess the Office of the Inspector General's internal audit activity's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of agency management); 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 agency management.

Our review included an evaluation of the one engagement 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* and generally accepted government auditing standards.

AUTHORITY

Section 11.45(2)(k), Florida Statutes, requires that the Auditor General, once every three years, evaluate the extent of compliance by the office of inspector general with the current *International Standards for the Professional Practice of Internal Auditing* or, if appropriate, generally accepted government auditing standards. Pursuant to the provisions of Section 11.45(2)(k), 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 Community Affairs is included as EXHIBIT A.

EXHIBIT A
MANAGEMENT'S RESPONSE



STATE OF FLORIDA

DEPARTMENT OF COMMUNITY AFFAIRS

"Dedicated to making Florida a better place to call home"

CHARLIE CRIST
Governor

THOMAS G. PELHAM
Secretary

December 10, 2010

David W. Martin, Auditor General
Auditor General, State of Florida
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Re: Quality Assessment Review of the Department of Community Affairs - Office of
Inspector General's Internal Audit Activity for the period July 2009 through June
2010

Dear Mr. Martin:

This letter is to provide the Department's response to the preliminary and tentative finding dated December 3, 2010, regarding the Quality Assessment Review of the Department of Community Affairs, Office of Inspector General's Internal Audit Activity.

Finding No. 1: The internal audit activity could improve its risk assessment process.

Auditor General Recommendation: We recommend that the Department's Office of the Inspector General ensure that audit plans are based on annual risk assessments that are conducted in accordance with IIA Standards. We also recommend that consideration of significant information technology systems be documented during the risk assessment process.

Department Response: While we do not document the annual risk assessment in the same manner as the three year risk assessment, we did perform an annual risk assessment, consisting of input from the divisions regarding changes or new concerns. Due to the relatively small size of the Agency, the Inspector General is kept apprised of agency issues on a timely basis, via meetings, consultations and technical assistance engagements and as such, the Inspector General is aware of the significant factors impacting the Agency. To ensure sufficient coverage for funding, expenditures, legal requirements, management concerns, an information request is sent to the appropriate Agency personnel soliciting such information. The Office of Inspector General is one of the primary contacts for external audits performed on the Agency and as such, the Office of Inspector General is informed of that information. Since there were no

EXHIBIT A
MANAGEMENT'S RESPONSE (CONTINUED)

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material or significant changes from the previous year, to simply copy the previous year's risk assessment and attach the current year responses would have been a fruitless endeavor.

Currently, we do not have the staffing ability to address information technology audits and due to budgetary constraints, we are unable to hire staff with the information technology skill set needed to conduct information technology audits that would arise from the annual risk assessment. Furthermore, we believe that to devote time to the information technology systems within the Agency is duplicative of the Office of the Auditor General efforts since they already regularly audit the various programs, which includes an assessment of the internal controls over the information technology systems within the Agency.

Should you have any further questions, please contact Candie Fuller, Inspector General, at 850-487-4658.

Sincerely yours,



Thomas G. Pelham
Secretary

TGP/cmf