

**DEPARTMENT OF MILITARY AFFAIRS**

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

---

**Quality Assessment Review**

For the Review Period  
July 2010 Through June 2011



STATE OF FLORIDA  
AUDITOR GENERAL  
DAVID W. MARTIN, CPA

## INSPECTOR GENERAL OF THE DEPARTMENT OF MILITARY AFFAIRS

The Adjutant General of Florida appointed the Inspector General of the Department of Military Affairs. Edward C. Mosca served as the Inspector General during the review period.

The review team leader was Melinda Jones, 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](mailto: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](http://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 MILITARY AFFAIRS**

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 Military Affairs (Department) Office of Inspector General’s internal audit activity was adequately designed and complied with during the review period July 2010 through June 2011 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.

The Office of Inspector General’s internal audit activity did not comply with field work standards regarding the documentation of audit work programs, internal control and fraud risk assessments, audit evidence, and supervisory review. Absent compliance with applicable standards, the risk is increased that the work performed is not sufficient to achieve engagement objectives and does not adequately support audit conclusions.

While not material to overall conformance to professional auditing standards, the internal audit activity can also improve its audit management by ensuring that required disclosures are included in audit reports, information technology is considered during the risk assessment process, and long-term audit plans are documented.

**BACKGROUND**

Section 20.055(a), Florida Statutes, established in each State agency, as defined by Section 20.055(1)(a), Florida Statutes, the Office of Inspector General. The Adjutant General assigned two positions to the Office of Inspector General. One position, excluding the Inspector General position, was dedicated to the internal audit activity. The Inspector General provided the following information regarding activities performed by this audit position during the review period:

<b>Internal Audit Activity</b>	
<b><u>Activity Performed</u></b>	<b><u>Percentage of Work Effort (1)</u></b>
Auditing Activities	59
Investigative Activities	19
Other Accountability/Oversight Activities	<u>22</u>
	<u>100</u>
(1) Estimate of direct time charged to internal audit activities.	

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, *Government Auditing Standards*. The *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. The *IIA Standards* also provide supplemental guidance for the conduct of consulting engagements.

The Inspector General identified four engagements that had been completed as part of internal audit activity during the review period. For these engagements, the Office of Inspector General's internal audit activity had elected to follow both the *IIA Standards* and *GAS*.

---

---

## REPORT ON QUALITY ASSESSMENT REVIEW

---

---

Pursuant to Section 11.45(2)(i), Florida Statutes, we have reviewed the quality assurance program for the Department Office of Inspector General's internal audit activity in effect for the period July 2010 through June 2011. 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 with regard to field work standards as described in Finding No. 1, 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 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.

While not material to overall conformance to professional auditing standards, the internal audit activity can also improve its audit management by ensuring that required disclosures are included in audit reports, information technology is considered during the risk assessment process, and long-term audit plans are documented, as described in Finding Nos. 2 and 3.

---

---

## FINDINGS AND RECOMMENDATIONS

---

---

---

---

### Finding No. 1: Field Work Standards

---

---

As previously noted, the Office of Inspector General's (OIG) internal audit activity elected to follow both *IIA Standards* and *GAS*. Our review included an evaluation of two engagements to determine compliance with applicable professional auditing standards. Our review disclosed instances in which the OIG internal audit activity did not document compliance with certain field work standards.

- *IIA Standards*<sup>1</sup> require that internal auditors develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. Similarly, *GAS*<sup>2</sup> requires auditors to adequately plan and document the planning of the work necessary to address the audit objectives. We noted the following instances in which engagement planning was not documented in a manner consistent with applicable field work standards:
- *IIA Standards*<sup>3</sup> require that internal auditors develop and document work programs to achieve the engagement objectives. *GAS*<sup>4</sup> require that auditors, during audit planning, identify potential criteria needed to evaluate matters subject to audit and prepare a written work plan. Our review disclosed that while the audits were identified in the annual audit plan, the working papers did not include written work plans. In one engagement, the auditor included a copy of the contract under audit and supplement to the contract, but had not clearly documented the contract provisions identified as being significant to the audit objectives and the procedures designed and performed to provide reasonable assurance of detecting violations of contract provisions.
  - *GAS*<sup>5</sup> require that auditors assess audit risk and significance within the context of the audit objectives by gaining an understanding of internal control as it relates to the specific objectives and scope of the audit. For internal control that is significant, auditors should assess whether internal control has been properly designed and implemented, and should plan to obtain sufficient, appropriate evidence to support their assessment about the effectiveness of those controls. For one of the engagements reviewed, the auditor's risk assessment and understanding of internal control were not documented. Additionally, the auditor had not documented an assessment of whether internal control significant to the audit objectives was properly designed and implemented or whether the auditor considered it to be unnecessary, based on the audit objectives, to obtain evidence to support an assessment of internal control effectiveness.
  - *IIA Standards*<sup>6</sup> require internal auditors to consider the probability of fraud when developing the engagement objectives. *GAS*<sup>7</sup> require that auditors assess risks of fraud occurring that is significant within the context of the audit objectives and gather and assess information to identify risks of fraud that are significant to the audit objectives or that could affect findings and conclusions. The auditor's identification and assessment of fraud risks was not documented for either of the engagements reviewed.
- *GAS*<sup>8</sup> require that auditors obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. *GAS*<sup>9</sup> also require that auditors determine the overall sufficiency and appropriateness of evidence to provide a reasonable basis for the findings and conclusions, within the context of the audit objectives. Neither of the engagements reviewed included an evaluation of the sufficiency and appropriateness of audit evidence. For example, as previously noted, the working papers for one engagement did not clearly document the procedures performed or the conclusions as to the sufficiency of those procedures related to significant contract provisions. In the absence of this information, it was not evident whether the auditor obtained sufficient, appropriate evidence for this engagement. For the other engagement, although the objectives were specified, it was not clear from the test documentation whether the test procedures performed met the stated objectives.

---

<sup>1</sup> Section 2200, *IIA Standards*.

<sup>2</sup> Chapter 7, paragraph 7.06, *GAS*.

<sup>3</sup> Section 2240, *IIA Standards*.

<sup>4</sup> Chapter 7, paragraph 7.12, *GAS*.

<sup>5</sup> Chapter 7, paragraph 7.11, *GAS*.

<sup>6</sup> Section 2210.A2, *IIA Standards*.

<sup>7</sup> Chapter 7, paragraph 7.30, *GAS*.

<sup>8</sup> Chapter 7, paragraph 7.55, *GAS*.

<sup>9</sup> Chapter 7, paragraph 7.68, *GAS*.

- *GAS*<sup>10</sup> require that auditors document evidence of supervisory review of work performed that supports findings, conclusions, and recommendations contained in the audit report. Supervisory review was not evidenced in the working papers for one engagement.

Without appropriate audit work plans, internal control and fraud risk assessments, audit evidence, and supervisory review, the risk is increased that the work performed is not sufficient to achieve engagement objectives and adequately support results.

---

**Recommendation:** The **OIG internal audit activity should document work plans for each engagement that include planned audit procedures and significant criteria planned and applied to meet the audit objectives. The OIG internal audit activity should also document compliance with requirements regarding audit documentation of the assessment and consideration of internal controls and fraud risk, criteria applied, and procedures performed, as well as supervisory review.**

---



---

### **Finding No. 2: Reporting Standards**

---

*GAS*<sup>11</sup> require auditors to issue audit reports communicating the results of the audit. Our review disclosed that the OIG generally complied with *GAS* related to reporting. However, we noted the following specific instances in which audit reports could be improved:

- *GAS*<sup>12</sup> state that in reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence gathering and analysis techniques. Such an explanation should be in sufficient detail to allow knowledgeable users of the report to understand how the auditor addressed the audit objectives. In reporting audit methodology, the audit reports for the selected engagements did not adequately explain how the audit work performed supported the audit objectives.
- *GAS*<sup>13</sup> also require that when auditors comply with applicable *GAS* requirements they should state in the audit report that the performance audit was conducted in accordance with *GAS*. When auditors do not comply with all applicable *GAS* requirements, they should include a modified compliance statement in the audit report that indicates the standards that were not followed or that the auditor did not follow *GAS*. As noted in Finding No. 1, one of the selected engagement files did not include documentation of the auditor's risk assessment or understanding of internal control. The working papers for that engagement did not include justification for departures from *GAS*. Consequently, the working papers do not support the unmodified *GAS* compliance statement that was included in the audit report.

Without the inclusion of detailed descriptions described above, the risk is increased that an audit report will be misleading to the reader.

---

**Recommendation:** For reports issued under *GAS*, the **OIG internal audit activity should either incorporate the required elements into audit reports or include a modified compliance statement when all applicable compliance requirements are not followed.**

---

<sup>10</sup> Chapter 7, paragraph 7.80, *GAS*.

<sup>11</sup> Chapter 8, paragraph 8.03, *GAS*

<sup>12</sup> Chapter 8, paragraph 8.13, *GAS*

<sup>13</sup> Chapter 8, paragraph 8.30, *GAS*

---

---

**Finding No. 3: Planning Standards**

---

---

*IIA Standards* provide that the internal audit activity plan of engagements should be based on a documented risk assessment. 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. In addition, Section 20.055(5)(i), Florida Statutes, requires that the inspector general develop long-term and annual plans based on the findings of periodic risk assessments.

The OIG prepared an annual audit plan based upon a risk assessment. The risk assessment included consideration of factors including materiality of expenditures, concerns of management, and previous audits performed; however, the risk assessment did not demonstrate consideration of information technology issues. Additionally, a long-term audit plan had not been prepared.

Without considering information technology systems and related controls in the risk assessment process, the risk is increased that significant systems are not adequately considered during planning. Furthermore, preparing long-term plans would help to ensure the Department has adequate staffing to perform audits and investigations of programs determined to be at high risk of errors, abuse, fraud, or noncompliance with laws, rules, regulations or terms of contracts and agreements. The effective application of audit resources over both the short- and long-term would assist Department management in achieving its goals and objectives by reducing significant risks.

---

---

**Recommendation:** We recommend that significant information technology systems be considered during the risk assessment process, and that long-term planning be incorporated into future audit plans.

---

---

---

---

**OBJECTIVES, SCOPE, AND METHODOLOGY**

---

---

We conducted this quality assessment review in accordance with applicable *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 management.

Our review included an evaluation of two of the four 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)(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 Adjutant General of the Department of Military Affairs is included as Exhibit A.

EXHIBIT A  
MANAGEMENT'S RESPONSE



STATE OF FLORIDA  
Department of Military Affairs  
**Office of the Adjutant General**

St. Francis Barracks, P.O. Box 1008  
St. Augustine, Florida 32085-1008

March 29, 2012

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

Dear Mr. Martin:

In accordance with Section 11.45(4)(d), *Florida Statutes*, we present, herewith, the Florida Department of Military Affairs' (DMA) explanation and actual or proposed corrective actions, concerning the preliminary and tentative findings and recommendations that may be included in a forthcoming report, which were included within your letter of February 29, 2012, relating to your quality assurance review of the DMA Office of the Inspector General's (OIG) Internal Audit Activity for the Fiscal Year Ended June 30, 2011.

**Finding Number 1: Field Work Standards.**

**Recommendation:** The OIG Internal Audit Activity should document work plans for each engagement that include planned audit procedures and significant criteria planned and applied to meet audit objectives. The OIG Internal Audit Activity should also document compliance with requirements regarding audit documentation of the assessment and consideration of internal controls and fraud risk, criteria applied, procedures performed, as well as supervisory review.

**Response:** OIG internal audit programs have been modified to include work steps for the documentation of work plans for each engagement which will include, but not limited to, the planned audit procedures and significant criteria planned and actually applied to meet audit objectives. Additionally, written audit programs have been modified to include appropriate documentation for the compliance with requirements relating to audit documentation of the assessment and consideration of internal controls and fraud risk, the criteria applied, and procedures performed. A procedural step has also been added to audit programs to ensure supervisory and document review.

EXHIBIT A  
MANAGEMENT'S RESPONSE

**Finding Number 2: Reporting Standards.**

**Recommendation:** For reports issued under GAS (US Governmental Auditing Standards, as issued by the Comptroller General of the US), the OIG Internal Audit Activity should either incorporate the required elements into audit reports or include a modified compliance statement when all applicable compliance requirements are not followed.

**Response:** To preclude the possibility that an audit report would be misleading to the reader, for reports issued under GAS, the internal audit activity will either incorporate the required elements into audit reports or include a modified compliance statement when all applicable compliance requirements are not followed.

**Finding Number 3: Planning Standards.**

**Recommendation:** We recommend significant information technology systems be considered during the risk assessment process, and long-term planning incorporated into future audit plans.

**Response:** Future risk assessment processes will include the consideration of significant information technology systems. Additionally, long-term audit planning will be incorporated, and segregated, in future written audit plans.

We believe the aforementioned will enable the DMA to maintain compliance with the requirements of Section 20.055, *Florida Statutes*. We appreciate the courtesy and professionalism of your staff throughout the quality assurance review process.

If you have any questions or require any additional information, please do not hesitate to contact Mr. Edward C. Mosca, CPA, Inspector General, Florida Department of Military Affairs, 904-823-0220.

Sincerely,



EMMETT R. TITSHAW, JR.  
Major General  
Florida National Guard  
The Adjutant General

Copy Furnished:  
Mr. John Duffy, CPA ✓