

BOARD OF GOVERNORS
OFFICE OF INSPECTOR GENERAL'S
INTERNAL AUDIT ACTIVITY

Quality Assessment Review

For the Review Period
July 2011 Through August 2012



INSPECTOR GENERAL OF THE BOARD OF GOVERNORS

The Chancellor of the Board of Governors appointed the Inspector General. Derry Harper served as the Inspector General during the review period.

The review team leader was Sabrina Ballew, CPA, and the review was supervised by Lisa Norman, CPA. Please address inquiries regarding this report to Lisa Norman, CPA, Audit Manager, by e-mail at lisanorman@aud.state.fl.us or by telephone at (850) 487-9143.

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BOARD OF GOVERNORS

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 was adequately designed and complied with during the review period July 2011 through August 2012 to provide reasonable assurance of conformance with applicable professional auditing standards. While not material to overall conformance to professional standards, the internal audit activity can better ensure that Office staff maintain and enhance their professional proficiency and technical competence by requiring and maintaining records of appropriate continuing professional development.

In addition, in some instances, the Board and the Office did not demonstrate compliance with the provisions of Section 20.055, Florida Statutes, which governs the internal audit activities of the offices of inspectors general. To enhance compliance with Section 20.055, Florida Statutes, Board management and the Inspector General should address matters related to the conduct of audits and preparation of audit reports; maintenance of an appropriate balance between audit, investigative, and other accountability activities; educational credentials; and the development of a long-term audit plan based on periodic risk assessments.

BACKGROUND

Section 20.155(5), Florida Statutes, established the Office of Inspector General within the Board of Governors and provided that the Office has the powers, duties, and responsibilities authorized in Section 20.055, Florida Statutes. The Chancellor assigned two positions to the Office of Inspector General. One position was established for the Inspector General and the other position was established for a Compliance Analyst.

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*, 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 Inspector General identified one engagement that had been completed in August 2012 as part of the Office's internal audit activity. For this engagement, the Office elected to follow *IIA Standards*. To supplement the Office's auditing capabilities, the Office contracted with a certified public accountant for the performance of specific audit-related tasks required by *IIA Standards*.

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 August 2012. 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, 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. While not material to overall conformance to professional standards, as discussed in finding No. 1, the internal audit activity can better ensure that Office staff maintain and enhance their professional proficiency and technical competence by requiring and maintaining records of appropriate continuing professional development.

We also reviewed the Office of Inspector General's compliance with specific provisions of Section 20.055, Florida Statutes, governing the internal audit activities of the offices of inspectors general. As discussed in finding No. 2, we noted that, in some instances, the Board and the Office did not demonstrate compliance with the provisions of Section 20.055, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Continuing Professional Development

IIA Standards provide a framework for performing and promoting internal auditing. The *Standards* are mandatory requirements that include statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of its performance. Section 1230 of the *IIA Standards* requires that internal auditors enhance their knowledge, skills, and other competencies through continuing professional development. The Office's *Policies and Procedures Manual* provides that, to assist staff in maintaining their professional proficiency, technical competence, and professional certifications, training is to be provided on an on-going basis through various professional organizations, dependent upon funding availability. The Office's *Policies and Procedures Manual* further provides that the Office will maintain a listing of continuing education credits for each staff member.

Our review of Office documentation disclosed that Office staff did not always receive the training necessary to enhance their internal audit knowledge, skills, and competencies. Also, contrary to the Office's *Policies and Procedures Manual*, the Office did not maintain a listing of continuing education credits for each staff member. The documentation provided for our review indicated that, while the Inspector General had received 40 hours of training during the 2011-12 fiscal year that included some training related to audits, the Compliance Analyst had not received any training directly related to the performance of audits or related auditing standards.

Absent the receipt and documentation of appropriate training, the Office cannot demonstrate compliance with *IIA Standards* or ensure that Office staff will maintain and enhance their professional proficiency and technical competence.

Recommendation: To demonstrate compliance with Section 1230 of the *IIA Standards*, we recommend that the Inspector General ensure that appropriate training is obtained and documented in accordance with the Office's *Policies and Procedures Manual*.

Finding No. 2: Noncompliance with Statutory Requirements

Section 20.055, Florida Statutes, includes various provisions that relate to the internal audit activities of offices of inspectors general. To determine the Office of Inspector General's compliance with the provisions of Section 20.055, Florida Statutes, we interviewed the Inspector General and Office staff and reviewed personnel files, the Office's *Policies and Procedures Manual*, and Office documentation and records. We found that the Board and Office records did not demonstrate compliance with the provisions of Section 20.055, Florida Statutes, in some respects. Specifically:

- Section 20.055(5), Florida Statutes, requires that the Inspector General conduct financial, compliance, electronic data processing, and performance audits and prepare audit reports of the findings. Further, Section 20.055(2)(i), Florida Statutes, requires that an appropriate balance be maintained in the Office's work effort between audit, investigative, and other accountability activities.

Contrary to the requirements of Section 20.055(5), Florida Statutes, the Office of Inspector General had not issued any audit reports since the Office's inception in 2007 until the Office issued its audit report on the Board's ethics climate in August 2012. The Office was small in terms of number of staff and, according to the Inspector General, the majority of the Office's activity had been devoted to investigations during the review period. The Office's annual audit plan for the 2011-12 fiscal year indicated that four audits had been planned for completion.

To measure, track, and control the Office's work effort, the Office's *Policies and Procedures Manual* requires that time be tracked for each project, along with specific tasks accomplished for the project. However, the actual amount of time spent on audit, investigative, or other activities during the review period was not available as, contrary to the Office's *Policies and Procedures Manual*, the Office had not established a mechanism to track the time and tasks related to each project. The conduct of audits and the maintenance of records of the Office's work effort would allow the Office to demonstrate a better balance between audit, investigative, and other accountability activities.

- Pursuant to Section 20.055(4), Florida Statutes, to ensure compliance with applicable auditing standards, the Inspector General, or a Director of Auditing within the Inspector General's Office, shall possess a bachelor's degree from an accredited college or university with a major in accounting, or with a major in business that includes five accounting courses. Alternatively, the Inspector General or Director of Auditing shall possess a master's degree in accounting, business administration, or public administration from an accredited college or university.

As mentioned in the **BACKGROUND** section of this report, the Board of Governors' Office of Inspector General was assigned two positions, an Inspector General and a Compliance Analyst. The internal audit activities of the Board were operated under the direction of the Inspector General. Our review disclosed that, while the Inspector General had substantial experience working in the role of an Inspector General, Board records did not contain evidence to demonstrate that the educational background of the incumbent Inspector General met the requirements of Section 20.055(4), Florida Statutes.

- Section 20.055(5)(i), Florida Statutes, provides that the Inspector General shall develop long-term and annual audit plans based on the findings of periodic risk assessments, and Section 2020 of the *IIA Standards* and the Office's charter require that annual audit plans be submitted and approved by the Board's Audit Committee. We reviewed Office internal audit activity documentation, including any audit plans prepared through the 2011-12 fiscal year, and noted that, although periodic risk assessments had been made, no long-term audit plans had been developed since the inception of the Office in 2007. Annual audit plans had been completed for the 2010-11 and 2011-12 fiscal years; however, the annual plan for the 2010-11 fiscal year had not been submitted to or approved by the Board's Audit Committee. The development of long-term and annual audit plans that are subjected to the review and approval by the Board's Audit Committee would better ensure the Office's responsiveness to the accountability needs of the Board.

Recommendation: We recommend that the Board take actions to enhance Office compliance with statutory requirements related to the conduct of audits and preparation of audit reports, maintenance of an appropriate balance of work effort, and educational credentials. Additionally, we recommend that the Inspector General ensure that long-term and annual audit plans are developed and submitted to the Board's Audit Committee for review and approval.

In the Board's response to this finding, it indicated that the Board had accomplished the objectives of Section 20.055(4), Florida Statutes, by contracting with independent audit professionals on an as-needed basis to supplement the Inspector General's experience and qualifications. As noted in our finding, Section 20.055(4), Florida Statutes, requires that the Board's Inspector General possess certain educational credentials. Alternatively, the statute allows the Board to employ a Director of Auditing who possesses the required educational background.

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.

One objective of this review was 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. Our review included an evaluation of the one engagement completed in August 2012 as part of Office's internal audit activity 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*.

Other objectives of this review were to determine Office 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 Board management.

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 Chancellor of the Board of Governors is included as **EXHIBIT A**.

**EXHIBIT A
MANAGEMENT'S RESPONSE**



**STATE
UNIVERSITY
SYSTEM
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MEMORANDUM

To: David W. Martin, Auditor General

From: Frank T. Brogan, Chancellor *(FTB)*

Date: June 3, 2013

RE: Management Response to Preliminary and Tentative Findings
Audit of the Office of Inspector General Internal Audit Activity-
Quality Assessment Review

Thank you for the opportunity to respond to the Preliminary and Tentative Audit Findings related to the Auditor General's Quality Assessment Review of the Board of Governors' Office of the Inspector General. We are pleased your audit team concluded that the **"Inspector General's internal audit activity was adequately designed and complied with during the review period July 2011 through August 2012 to provide reasonable assurance of conformance with applicable professional auditing standards."**

Though not material to overall conformance with applicable standards, we concur that the internal audit activity can better ensure that staff maintain and enhance professional proficiency by engaging in training and maintaining more detailed records of appropriate continuing professional development. In addition, we agree that more robust procedures and processes can be implemented to enhance compliance with Section 20.055, Florida Statutes, related to the conduct of audits, preparation of reports, maintenance of an appropriate balance between audit and investigations, educational credentials and the development of long-term and annual audit plans.

We submit for your consideration, management's response to the two findings set forth in the Preliminary and Tentative Audit Findings.

Finding No. 1:

Absent the receipt and documentation of appropriate training, the Office cannot demonstrate compliance with IIA Standards or ensure that Office staff will maintain and enhance their professional proficiency and technical competence.

Auditor General Recommendation: *To demonstrate compliance with Section 1230 of the IIA Standards, we recommend that the Inspector General ensure that appropriate training is obtained and documented in accordance with the Office's Policies and Procedures Manual.*

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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Board of Governors Response:

We concur with the AG's recommendation "that the Inspector General ensure that appropriate training is obtained and documented in accordance with the Office's Policies and Procedures Manual and Section 1230 of the Institute of Internal Auditing Standards." The Compliance Analyst has become a member of the Institute of Internal Auditors and recently attended a training session sponsored by the IIA for 32 CPE credits. Likewise, the Inspector General will continue to pursue appropriate training as required by the Standards.

In addition, the OIG has created a spreadsheet to document and track the training and CPE credits earned by both the Inspector General and the Compliance Analyst.

Responsible Staff: Inspector General

Finding No. 2:

- *Contrary to Section 20.055, Florida Statutes, which requires that the Inspector General conduct financial, compliance, and performance audits and prepare audit reports of the findings, the Office did not maintain an appropriate balance in work effort between audit, investigative, and other accountability activities or maintain a mechanism to track the time and tasks related to each audit-related activity or project.*
- *Board records did not contain evidence to demonstrate that the educational background of the Inspector General, even though he had substantial experience working in the role of an Inspector General, met the requirements of Section 20.055(4), Florida Statutes.*
- *While Annual Audit Plans had been completed for the 2010-2011 and 2011-2012 fiscal years, the plan for 2010-11 year was not submitted to or approved by the Board's Audit Committee and no long-term audit plans had ever been developed.*

Auditor General Recommendation: *We recommend that the Board take actions to enhance Office compliance with statutory requirements related to the conduct of audits and preparation of audit reports, maintenance of an appropriate balance of work effort, and educational credentials. Additionally, we recommend that the Inspector General ensure that long-term and annual audit plans are developed and submitted to the Board's Audit Committee for review and approval.*

Board of Governors Response:

We concur, in substantial part, with the Auditor General's recommendation and have undertaken the following actions to enhance compliance with professional standards and Section 20.055, Florida Statutes. Specifically:

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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- The OIG is developing a tracking system for audit and investigative projects. The Compliance Analyst recently attended a training session sponsored by the Institute of Internal Auditors and obtained examples of audit programs to use in customizing templates and tracking systems for the OIG. The completion of an audit program, templates, and time-keeping systems is expected to be in place by September 2013.
- We have committed to provide the funds necessary for fiscal year 2013-2014 to obtain audit services for the audits now in progress. In addition, we are exploring other options including, but not limited to, hiring an in-house auditor.
- A systematic risk assessment process has been completed, and a draft Long-Term and Annual Audit Plan for the 2013-2014 fiscal year developed by the Inspector General will be presented for review and approval by the Audit and Compliance Committee as well as to the full Board of Governors at a meeting scheduled for June 10, 2013.

Regarding the educational and qualification requirements in Section 20.055(4), Florida Statutes for an inspector general or director of auditing, we believe the board's records have established compliance.

In order to ensure that audits are performed in accordance with applicable auditing standards, Section 20.055(4) requires that the "inspector general or the director of auditing" possess one of the delineated qualifications in that subsection. Derry Harper was appointed Inspector General and Director of Compliance on July 1, 2007, having served as Chief of Internal Audit and Investigations at Citizens Property and Insurance and as Chief Inspector General for the Executive Office of the Governor from 2002 through 2006. In that role, he supervised a staff that included two auditors, as well as a Director of Audit responsible for internal audit activities conducted in accordance with the Act and applicable professional standards, and participated in the planning and performance of operational audits. Mr. Harper is a Certified Inspector General, and during his 11 years as an inspector general has been responsible for internal audit functions.

In addition, we have utilized the services of outside auditing personnel whose qualifications meet or exceed those set forth in Section 20.055, Florida Statutes. As the chart on the following page depicts, each step in establishing the internal audit function was conducted with the technical assistance and support of well-qualified professional staff.

**EXHIBIT A (CONTINUED)
MANAGEMENT’S RESPONSE**

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Date	Project Description	Provider	Deliverable
October 2007 (beginning)	Task Force on Florida A&M University Operational and Financial Issues	Accretive Solutions	Final report of the review conducted by the Task Force on Florida A&M University Operational and Financial Issues
March 2008	Audit Planning, Risk Assessment, and Audit Committee Charter	Samantha Kramer, Prepare Yourself, LLC, Inc.	Audit and Compliance Committee Charter, Risk Assessment Matrix
June 2011	Development of Policies and Procedures Manual	Kaye Kendrick Enterprises	OIG Policies and Procedures Manual
May 2012	Ethics Climate Audit	Kaye Kendrick Enterprises	Supervision of Ethics Climate Audit

The primary objective of Section 20.055(4) is to ensure that the internal audit function is conducted in accordance with the International Standards for the Professional Practice of Internal Auditing as published by the Institute of Internal Auditors, or applicable standards. The Board of Governors accomplished the objectives of the statute by contracting with independent audit professionals on an as-needed basis to supplement Mr. Harper’s experience and qualifications. Consistent with applicable professional standards and Section 20.055(4), the internal audit activity was conducted by Mr. Harper, who has significant auditing experience, under the supervision of outside auditing professionals whose qualifications met or exceeded the qualifications set forth in the Act.

The board’s Inspector General has been directly involved in the planning and performance of internal audits and the development of annual audit plans based upon a systematic risk assessment of the organization for more than a decade. His background and experience are sufficient to perform these duties under the supervision of an auditing professional with the specific qualifications set forth in Section 20.055(4) – provided the audit activity meets applicable professional standards. We submit that the model adopted by the Board of Governors of retaining the services of competent auditing professionals to supervise and approve the work performed by its Inspector General complies with the requirements of the statute.

Thank for providing such a positive experience during the course of the quality assurance review. We will continue to implement corrective actions as appropriate.

- C: Dean Colson, Chair, Board of Governors
- Alan Levine, Chair, Audit and Compliance Committee, Board of Governors
- Derry Harper, Inspector General, Board of Governors