

**FLORIDA HOUSING FINANCE
CORPORATION**

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

Quality Assessment Review

For the Review Period
January 2013 Through December 2013



INSPECTOR GENERAL OF THE FLORIDA HOUSING FINANCE CORPORATION

The Executive Director of the Florida Housing Finance Corporation appointed the Inspector General, with the advice and consent of the Corporation's Board of Directors. The Inspectors General who served during the review period were:

Christopher T. Hirst	From August 26, 2013
Marvin Doyal, Interim	From April 25, 2013, through August 30, 2013
Stephanie Sgouros	Through April 22, 2013

The review team leader was Lynley B. Trent, CPA, and the review was supervised by Matthew Tracy, CPA. Please address inquiries regarding this report to Matthew Tracy, CPA, Audit Manager, by e-mail at matthewtracy@aud.state.fl.us or by telephone at (850) 412-2749.

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) 412-2722; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

FLORIDA HOUSING FINANCE CORPORATION

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 Florida Housing Finance Corporation (Corporation) Office of Inspector General's internal audit activity was adequately designed and complied with during the review period January 2013 through December 2013 to provide reasonable assurance of conformance with applicable professional auditing standards.

The Corporation's Office of Inspector General's internal audit activity did not ensure that all applicable professional auditing standards were addressed in the internal audit activity policies and procedures. Additionally, the internal audit activity did not document compliance with all applicable professional auditing standards for engagements. Specifically, the Office did not document compliance with engagement planning standards regarding the consideration of significant risks, internal control, and risk management; the probability of significant errors, fraud, and noncompliance; and engagement resource allocation or with the field work and reporting standards related to engagement records retention, engagement supervision, and communication of the engagement results. Also, the internal audit activity can better demonstrate compliance with the professional auditing standards by maintaining records of audit staff's continuing professional development.

In some instances, 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, the Inspector General should address matters related to the preparation and distribution of audit reports.

BACKGROUND

Section 20.055(2), Florida Statutes, established in each State agency, the Office of Inspector General. As defined by Section 20.055(1)(a), Florida Statutes, the term "State agency" includes the Florida Housing Finance Corporation (Corporation). The Corporation's Executive Director assigned six positions to the Office of Inspector General and the Inspector General dedicated three positions to the internal audit activity. As authorized by statute, the Inspector General delegated internal audit responsibilities to an Audit Director. The three audit positions performed internal audit activities and other activities such as accountability and oversight. The Audit Director provided information showing that, during the review period, 50 percent of the direct time recorded for the three audit positions related to auditing 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*, 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 Audit Director identified two engagements that had been completed as part of the Office's internal audit activity during the review period. For these engagements, the Office elected to follow the *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 January 2013 through December 2013. We also reviewed compliance with specific provisions of Section 20.055, Florida Statutes, governing the operation of 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 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 to applicable professional auditing standards. As also discussed in finding No. 1, the internal audit activity can better demonstrate compliance with the *IIA Standards* by maintaining records of audit staff's 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 the Office did not always demonstrate compliance with the provisions of Section 20.055, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Compliance with *IIA Standards*

As noted in the **BACKGROUND** section, the Office of Inspector General's internal audit activity elected to follow *IIA Standards*. The *IIA Standards* provide a framework for performing and promoting internal auditing. The *IIA 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 2040 of the *IIA Standards* requires that the chief audit executive establish policies and procedures to guide the internal audit activity. Our review included an evaluation of the Office of Inspector General's internal audit activity policies and procedures. Such policies and procedures should be established to provide management with assurance that the internal audit activity operates in conformity with applicable auditing standards. Our review disclosed that the Office's policies and procedures, effective during the review period, did not address all the *IIA Standards*. Consequently, the Office's ability to conform to applicable *IIA Standards*, including those for the conduct of audit engagements, was hindered.

As part of our review, we selected one of the two engagements completed as part of the Office's internal audit activity during the review period and evaluated Office compliance with applicable professional auditing standards. According

to Office management, engagement working papers were prepared in hardcopy form. However, in response to our request for engagement documentation, Office management was unable to locate the hardcopy working papers for the selected engagement. In the absence of hardcopy working papers, Office management provided us access to the Office's Intranet to view the available electronic engagement files. Our review of the electronic engagement file records disclosed that the Office did not always document compliance with the *IIA Standards*. Specifically, the Office engagement files did not demonstrate compliance with all the applicable *IIA Standards* for engagement planning, field work, and reporting.

Engagement Planning

- Section 2201 of the *IIA Standards* requires that in planning an engagement, internal auditors consider significant risks to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level. Additionally, internal auditors must consider the adequacy and effectiveness of the activity's risk management and control systems compared to a relevant control framework or model. Our review of the engagement file records disclosed no evidence of the Office's consideration of significant risks, internal control, and risk management in planning the engagement.
- Section 2210.A2 of the *IIA Standards* requires internal auditors to consider the probability of significant errors, fraud, noncompliance, and other exposures when developing engagement objectives. The Office's engagement file records did not demonstrate that the probability of significant errors, fraud, noncompliance, and other exposures were considered in developing the engagement objectives.
- Section 2230 of the *IIA Standards* requires internal auditors to determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints, and available resources. Our review of the engagement file records disclosed no evidence of the Office's resource allocation to the engagement.

Field Work

- Section 2330 of the *IIA Standards* requires internal auditors to document relevant information to support the conclusions and engagement results. As previously noted, the Office was unable to locate the hardcopy working papers for the engagement and the electronic engagement files did not demonstrate compliance with all applicable *IIA Standards*. In addition, Section 2330.A2 of the *IIA Standards* requires the chief audit executive to develop retention requirements for engagement records, regardless of the medium in which each record is stored. We noted that, during the review period, the Office had not established a record retention policy for engagement files, which may have contributed to the absence of hardcopy working papers.
- Section 2340 of the *IIA Standards* requires the engagement be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed. Our review disclosed that the Office's engagement file records contained only limited evidence of supervision. While in response to our inquiry Office management provided e-mails documenting supervision of some elements of the engagement, the Office's records as a whole did not adequately document engagement supervision.

Reporting

- Section 2410 of the *IIA Standards* requires that communications include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. Our review disclosed that, while the objectives, scope, conclusions, and recommendations were included in the engagement report, the action plan was not included.
- Section 2440 of the *IIA Standards* requires the chief audit executive to communicate engagement results to appropriate parties. As also discussed in finding No. 2, Section 20.055(5)(f), Florida Statutes, mandates that the final audit report be submitted to the agency head and the Auditor General. However, our review disclosed that the final audit report had not been submitted to the Auditor General.

Absent appropriate engagement documentation, the Office cannot demonstrate compliance with all applicable *IIA Standards*. Such documentation would provide greater assurance that audits are planned, conducted, and reported in a manner consistent with professional auditing standards.

Our review also included an evaluation of the Office's compliance with the *IIA Standards* related to auditor proficiency and due professional care. 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 provided that staff members were to attend approximately 40 hours of continuing professional education (CPE) classes each fiscal year, as funds permitted. The Office's policies and procedures also specified that staff members with professional certifications were to obtain sufficient CPE hours necessary to maintain their certifications. Office policies and procedures provided that all CPE classes and self-study hours were to be tracked in the Office's CPE database. However, Office policies and procedures did not specifically address maintenance of supporting CPE records.

During the review period, four Office staff members separated from Corporation employment, including the Inspector General who served through April 22, 2013, and the Assistant Inspector General who served through August 27, 2013. These four Office staff members had served from 3 to 13 years with the internal audit activity; however, our review disclosed that the Office did not maintain records documenting the CPE hours obtained by these staff members. Documentation supporting the hours of CPE obtained would better demonstrate the Office's compliance with *IIA Standards* and that staff have enhanced their knowledge, skills, and other competencies through continuing professional development.

Recommendation: We recommend that the Inspector General ensure that all *IIA Standards* are followed during engagement planning, field work, and reporting. To promote and demonstrate the Office's compliance with the *IIA Standards*, we recommend that the Inspector General ensure that all *IIA Standards* are addressed in the Office's policies and procedures, engagement documentation is properly prepared and retained, and documentation supporting staff member CPE hours is maintained.

Finding No. 2: Compliance with Statutory Requirements

Our evaluation of the engagement file also disclosed instances in which Office records did not demonstrate compliance with the provisions of Section 20.055, Florida Statutes. Specifically:

- Section 20.055(5)(e), Florida Statutes, requires that at the conclusion of an audit in which the subject of the audit is a specific entity contracting with the State or an individual substantially affected, if the audit is not confidential or otherwise exempt from disclosure by law, the Inspector General submit findings to such entity or individual, who shall be advised in writing that they may submit a written response within 20 working days after receipt of the findings. The auditee's response and the Inspector General's rebuttal to the response, if any, is to be included in the final audit report. Our review disclosed that, contrary to the requirements of Section 20.055(5)(e), Florida Statutes, the Office did not include the response submitted by the auditee in the final audit report.
- Section 20.055(5)(f), Florida Statutes, provides that the Inspector General shall submit the final report to the agency head and the Auditor General. Our review disclosed that, while a copy of the final report was submitted to the Corporation's Executive Director, a copy had not been submitted to the Auditor General.

Absent the inclusion of the auditee's response in the final audit report and the proper distribution of the report, the Office cannot demonstrate that the results of the engagement were properly communicated in accordance with State law.

Recommendation: We recommend that the Inspector General ensure that audit reports are prepared and distributed as required by Section 20.055, Florida Statutes.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted this quality assessment review in accordance with 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 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 Corporation management.

Our review included an evaluation of one of the two engagements completed as part of the Office’s 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*.

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 Executive Director of the Florida Housing Finance Corporation is included as **EXHIBIT A**.

EXHIBIT A
MANAGEMENT'S RESPONSE



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April 17, 2014

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

RE: Preliminary and Tentative Audit Findings, Quality Assessment Review, Florida Housing Finance Corporation, Office of Inspector General's Internal Audit Activity

Dear Mr. Martin:

In accordance with Section 11.45(4)(d), Florida Statutes, enclosed is our response to the preliminary and tentative findings and recommendations included with your letter dated March 21, 2014, based on your Quality Assessment Review of the Office of Inspector General's Internal Audit Activity.

We appreciate the recommendations and constructive comments provided by your staff and your efforts to improve the operations of Florida Housing Finance Corporation.

If you have any questions, please contact Chris Hirst, Inspector General, at (850) 488-4197.

Sincerely,

Stephen P. Auger
Executive Director

CC: Chris Hirst, Inspector General
Brian Katz, Audit Committee Chair

Rick Scott, Governor

Board of Directors: Bernard "Barney" Smith, Chairman • Natacha Munilla, Vice Chairman
Ray Dubuque • John David Hawthorne Jr. • Brian Katz • Leonard Tylka • Howard Wheeler
Bill Killingsworth, Florida Department of Economic Opportunity

Executive Director: Stephen P. Auger

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Finding No. 1: Compliance with IIA Standards

Finding: Our review of the electronic engagement file records disclosed that the Office did not always document compliance with the *IIA Standards*. Specifically, the Office engagement files did not demonstrate compliance with all the applicable *IIA Standards* for engagement planning, field work, and reporting. Also, our review disclosed that the Office did not maintain records documenting the continuing professional education hours obtained by four staff members.

Recommendation: We recommend that the Inspector General ensure that all *IIA Standards* are followed during engagement planning, field work, and reporting. To promote and demonstrate the Office's compliance with the *IIA Standards*, we recommend that the Inspector General ensure that all *IIA Standards* are addressed in the Office's policies and procedures, engagement documentation is properly prepared and retained, and documentation supporting staff member CPE hours is maintained.

Response: The Office of Inspector General concurs with the finding and recommendations. Upon being hired in August 2013, the current Inspector General began a comprehensive review of the Office's operations which resulted in re-structuring the Office and hiring new staff. One of the first priorities established was upgrading the Office's policies and procedures to ensure the internal auditors have the guidance needed to conduct the planning, fieldwork and reporting phases of each engagement pursuant to the requirements of the *IIA Standards*. The revised procedures also require that engagement documentation is properly prepared and retained and that documentation supporting staff members' CPE hours is maintained in the Office. The revised procedures are currently being implemented.

Finding No. 2: Compliance with Statutory Requirements

Finding: Our evaluation of the engagement file also disclosed instances in which Office records did not demonstrate compliance with the provisions of Section 20.055, Florida Statutes. Absent the inclusion of the auditee's response in the final audit report and the proper distribution of the report, the Office cannot demonstrate that the results of the engagement were properly communicated in accordance with State law.

Recommendation: We recommend that the Inspector General ensure that audit reports are prepared and distributed as required by Section 20.055, Florida Statutes.

Response: The Office of Inspector General concurs with the finding and recommendation. The Office's policies and procedures have been revised to require that internal auditors properly communicate the results of engagements in accordance with Section 20.055, Florida Statutes.