

**DEPARTMENT OF VETERANS' AFFAIRS**

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

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**Quality Assessment Review**

For the Review Period  
July 2013 Through June 2014



## INSPECTOR GENERAL OF THE DEPARTMENT OF VETERANS' AFFAIRS

The Executive Director of the Department of Veterans' Affairs appointed the Inspector General. During the review period, David Alcorn served as Inspector General through June 5, 2014, and Tim Ferguson served as Inspector General from May 16, 2014.

The review team leader was Ruth G. Pennewell, CPA, and the review was supervised by Lynley Trent, CPA. Please address inquiries regarding this report to Matthew Tracy, CPA, Audit Manager, by e-mail at [matthewtracy@aud.state.fl.us](mailto: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](http://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.

**DEPARTMENT OF VETERANS' 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 Veterans' Affairs (Department) Office of Inspector General's internal audit activity was adequately designed and complied with during the review period July 2013 through June 2014 to provide reasonable assurance of conformance with applicable professional auditing standards.

The Department's Office of Inspector General's internal audit activity did not document compliance with all applicable professional auditing standards for engagements. Specifically, the Office did not document compliance with reporting standards related to the communication of the engagement results.

In some instances, the Office did not demonstrate compliance with those provisions of Section 20.055, Florida Statutes, which govern 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, as defined by Section 20.055(1)(a), Florida Statutes, the Office of Inspector General. The Executive Director assigned four positions to the Office of Inspector General and the Inspector General dedicated two positions to the internal audit activity. As authorized by statute, the Inspector General delegated internal audit responsibilities to the Director of Auditing. The two audit positions performed internal audit activities and other activities such as investigations and other accountability and oversight activities. The Director of Auditing provided information showing that, during the review period, 60 percent of the direct time recorded for the two 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 Director of Auditing identified four 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 *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 2013 through June 2014. 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.

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. 1, we noted that the Office did not always demonstrate compliance with the provisions of Section 20.055, Florida Statutes, related to audit reports.

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## FINDINGS AND RECOMMENDATIONS

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### Finding No. 1: Audit Reports

As noted in the **BACKGROUND** section of this report, 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. Additionally, Section 20.055, Florida Statutes, specifies requirements for the conduct and issuance of audits reports, including a requirement that internal audits be conducted in accordance with current *IIA Standards* or, where appropriate, *Government Auditing Standards*.

Our review of selected engagement files and Office records disclosed instances in which the Office did not demonstrate compliance with all the applicable *IIA Standards* and Section 20.055, Florida Statutes, provisions related to reporting. Specifically:

- We selected two of the four audit engagements completed by the Office's internal audit activity during the review period and evaluated Office compliance with applicable professional auditing standards and State law. Section 20.055(5)(a), Florida Statutes, specifies that all audit reports issued by internal audit staff are to include a statement that the audit was conducted either pursuant to *IIA Standards* or *Government Auditing Standards*. Our review disclosed that, contrary to the requirements of Section 20.055(5)(a), Florida Statutes, the Office did not include a statement in one of the two audit reports identifying the professional auditing standards followed. Additionally, we noted that the other audit report stated that the engagement was conducted in accordance with *Government Auditing Standards*, when in fact it had been conducted in accordance with *IIA Standards*. Subsequent to our inquiry, the Office corrected and reissued both reports.
- Section 2440 of the *IIA Standards* requires the chief audit executive to communicate engagement results to appropriate parties. Section 20.055(5)(f), Florida Statutes, provides that the Inspector General shall submit the final report to the agency head and to the Auditor General. Our review procedures disclosed that, contrary to the requirements of the *IIA Standards* and Section 20.055(5)(f), Florida Statutes, the Office did not submit copies of the four reports issued during the 2013-14 fiscal year to the Auditor General. Subsequent to our inquiry, the Office submitted the four audit reports to the Auditor General.

Absent appropriate statements regarding the applicable professional auditing standards followed and the proper distribution of audit reports, the Office cannot demonstrate that the engagements were conducted and communicated in accordance with State law and professional auditing standards.

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**Recommendation: We recommend that the Inspector General ensure that audit reports are prepared and distributed in accordance with *IIA Standards* and Section 20.055, Florida Statutes.**

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**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 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 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 Department of Veterans’ Affairs is included as **EXHIBIT A**.

EXHIBIT A  
MANAGEMENT'S RESPONSE



Mike Prendergast

State of Florida  
DEPARTMENT OF VETERANS' AFFAIRS

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Commissioner of Agriculture

21 November 2014

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

Dear Mr. Martin:

This letter is in response to your letter dated 03 November 2014, outlining the finding from the Quality Assessment Review. Pursuant to Section 11.45(4)(d), Florida Statutes, we are providing our response to the preliminary and tentative Quality Assessment Review finding and recommendation related to the Department of Veterans' Affairs internal audit activity.

The Office of Inspector General has been proactive in improving the guidance provided since the Quality Assessment Review in December 2011. The Department strives for excellence in internal audit activity and appreciates your efforts in assisting us in further improving our operations.

I would like to thank your staff for their efforts on behalf of Florida Department of Veterans' Affairs. If you have any questions, please contact the Office of Inspector General at 727-518-3202 extension 5570.

Sincerely,

A handwritten signature in cursive script that reads "Mike Prendergast".

Mike Prendergast  
Colonel, USA, Retired  
Executive Director

*"Honoring those who served U.S."*

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

**Finding No. 1: Audit Reports**

The Office of Inspector General did not include appropriate statements regarding the applicable professional auditing standards followed and did not appropriately distribute audit reports in accordance with Section 20.055, Florida Statutes.

**Recommendation:**

The Auditor General recommended that the Inspector General ensure that audit reports are prepared and distributed in accordance with *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* and Section 20.055, Florida Statutes.

**Responses:**

The Auditor General review disclosed that in one of the two audit reports reviewed, the Office did not identify the professional auditing standards followed. For the second report, the report stated that the engagement was conducted in accordance with *Government Auditing Standards*, when in fact it had been conducted in accordance with *IIA Standards*. Subsequent to audit inquiry, the Office corrected and reissued both reports. All future audit reports issued by the FDVA Inspector General will include a statement that the audit was conducted pursuant to *IIA Standards*.

The Inspector General will also submit the final audit reports to the agency head and to the Auditor General. Prior to the exit conference, the FDVA Audit Director submitted corrected copies of the audit reports to the Auditor General and the FDVA Executive Director.