

DEPARTMENT OF MILITARY AFFAIRS

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

Quality Assessment Review

For the Review Period
July 2013 Through June 2014



INSPECTOR GENERAL OF THE DEPARTMENT OF MILITARY AFFAIRS

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

Effective July 1, 2014, Chapter 2014-144, Laws of Florida, specified that for State agencies under the jurisdiction of the Governor, the inspector general is to be appointed by the Chief Inspector General, be under the general supervision of the agency head, and report to the Chief Inspector General.

The review team leader was Millicent Burns, 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 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.

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 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. Specifically, the Office did not document compliance with planning standards related to developing a documented risk assessment and documenting the scope of the engagement in relationship to the engagement objectives.

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 developing audit plans based on the findings of periodic risk assessments, tracking hours spent by staff on various Office activities, and ensuring written responses regarding the status of corrective actions taken with respect to reports issued by the Auditor General are timely submitted to the Department head and Legislative Auditing Committee.

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 (Office). The Adjutant General assigned two positions to the Office of Inspector General and the Inspector General dedicated one position to the internal audit activity. The one audit position performed internal audit activities and other activities such as consulting and investigative 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 Inspector General identified two engagements that had been substantially 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 for the absence of an adequately documented risk assessment and engagement planning documents that did not sufficiently address the engagement scope, 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 State agencies' offices of inspectors general. As discussed in findings No. 1 and 3, we noted that the Office could enhance compliance with the provisions of Section 20.055, Florida Statutes.

FINDINGS AND RECOMMENDATIONS

Finding No. 1: Risk Assessment

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 2010.A1 of the *IIA Standards* specifies that the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The risk assessment process should consider elements such as the input of senior management, organizational structure, major information technology (IT) systems, entity programs, legal requirements, the results of previous audits performed, and the potential for fraud. Section 20.055(5)(i), Florida Statutes, requires the Inspector General to develop long-term and annual audit plans based on the findings of periodic risk assessments.

As part of our review, we requested documentation for the risk assessment applicable to the review period July 2013 through June 2014, as well as the long-term and annual audit plan required by State law. However, in response to our request, the Inspector General was unable to locate documentation of the risk assessment performed by the internal audit activity, with the exception of documentation to support senior management input regarding potential auditable topics. Consequently, while the Office's 2013-14 annual and long-term audit plan listed various auditable topics and prioritized them by low, medium, or high risk, no documentation was available to support the criteria or approach used to identify and assess the auditable topics. Additionally, as similarly noted in our report No. 2012-173, finding No. 3, the Inspector General indicated in response to our inquiry that the risk assessment process did not include an assessment of significant IT systems, as many of the systems utilized by the Department were other State agency and Federal systems.

To demonstrate that the internal audit activity's plan of engagements is based on a risk assessment conducted in accordance with *IIA Standards* and State law, it is critical that the Office maintain documentation of its risk assessment process, including the criteria and approach used. Additionally, without considering IT systems and related controls in the risk assessment process, the risk is increased that significant systems are not adequately considered during planning.

Recommendation: We recommend that the Inspector General ensure that adequate supporting documentation for the risk assessment process is maintained, including support for the criteria and approach utilized to identify auditable topics included in annual and long-term audit plans. Additionally, we again recommend that significant IT systems be considered during the risk assessment process.

Finding No. 2: Engagement Planning

Section 2200, *Engagement Planning*, of the *IIA Standards* requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing, and resource allocations. Section 2220 of the *IIA Standards* specifies that the established scope must be sufficient to achieve the objectives of the engagement and that the scope of the engagement must include consideration of the relevant systems, records, personnel, and physical properties, including those under the control of third parties.

As part of our review, we examined the working papers for one of the two engagements substantially completed as part of the Office's internal audit activity during the review period and evaluated Office compliance with applicable professional auditing standards. Our review procedures disclosed that the planning working papers for the selected engagement did not adequately document the scope of the engagement as it related to the achievement of the engagement's objectives.

Absent appropriate documentation of the scope for audit engagements, there is an increased risk that the scope will not be sufficient to achieve the objectives of the engagement.

Recommendation: We recommend that the Inspector General ensure that the engagement planning process includes documentation of the scope of the engagement in accordance with *IIA Standards*.

Finding No. 3: Compliance with Statutory Requirements

Our review included an evaluation of the extent to which the Office complied with those provisions of Section 20.055, Florida Statutes, which govern the internal audit activities of the offices of inspectors general. Our review disclosed instances in which the Office could enhance compliance with the provisions of Section 20.055, Florida Statutes. Specifically:

- Section 20.055(2)(i), Florida Statutes, specifies that the Inspector General is to ensure that an appropriate balance be maintained between audit, investigative, and other accountability activities. Although the Office provided information indicating the percentage of time spent on various activities, including audits and investigations, the Office could not provide support for that information as the Office did not track the number of hours actually spent on the various activities. Consequently, the percentage of work effort information provided by the Office could not be used to demonstrate that an appropriate balance of work activities was maintained.
- Section 20.055(5)(h), Florida Statutes, requires the Inspector General to monitor the implementation of the Department's response to any report on the Department issued by the Auditor General. No later than 6 months after the Auditor General publishes a report on the Department, the Inspector General is to provide a written response to the Department head on the status of corrective actions taken. The Inspector General is to file a copy of the response with the Legislative Auditing Committee.

On April 4, 2012, the Auditor General released report No. 2012-173, related to the quality assessment review of the Department's Office of Inspector General's internal audit activity. Our current review procedures disclosed that while the Office prepared a memorandum addressing the 6-month status of corrective actions,

the status memorandum was provided to the Department head and filed with the Legislative Auditing Committee on January 16, 2013, or over 9 months after the prior quality assessment review report was issued.

By tracking the hours spent on the Office's various activities, the Office could enhance its ability to demonstrate that an appropriate balance is maintained between audit, investigative, and other accountability activities. In addition, the timely submission of written responses to the Department head and Legislative Auditing Committee regarding the status of corrective actions taken with respect to reports issued by the Auditor General, is necessary to demonstrate that the results of engagements were appropriately monitored by the Office in accordance with State law.

Recommendation: To better demonstrate that an appropriate balance of work activities is maintained, we recommend that the Inspector General develop a mechanism to track time spent on the Office's various activities. Additionally, we recommend that the Inspector General ensure that written responses regarding the status of corrective actions taken with respect to reports issued by the Auditor General are timely submitted to the Department head and the Legislative Auditing Committee.

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 one of the two engagements substantially 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 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

December 19, 2014

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' (FDMA) 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 December 09, 2014, relating to your review of the quality assurance program for the Department of Military Affairs' Office of the Inspector General's (OIG) Internal Audit Activity in effect for the period July 2013 through June 2014.

Finding No. 1: Risk Assessment

Recommendation: We recommend that the Inspector General ensure that adequate supporting documentation for the risk assessment process is maintained, including support for the criteria and approach utilized to identify auditable topics included in annual and long-term plans. Additionally, we again recommend that significant IT systems be considered during the risk assessment process.

Response: OIG will establish checklists of documentation necessary to ensure that adequate supporting documentation for the risk assessment process is maintained, including support for the criteria and approach utilized to identify auditable topics included in annual and long-term plans. We recognize the importance of the consideration of IT systems during the risk assessment process and will adequately document such consideration in our future audit planning process.

Finding No. 2: Engagement Planning

Recommendation: We recommend that the Inspector General ensure that the engagement planning process includes documentation of the scope of the engagement in accordance with *IIA Standards*.

Response: We will review Section 2200, Engagement Planning, of the *IIA Standards* and develop a format to use in the engagement planning process to provide adequate documentation for the scope of each engagement to achieve its objective.

Finding No. 3: Compliance with Statutory Requirements

Recommendation: To better demonstrate that an appropriate balance of work activities is maintained, we recommend that the Inspector General develop a mechanism to track time spent on the Office's various activities. Additionally, we recommend that the Inspector General ensure that written responses regarding the status of corrective actions taken with respect to reports

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

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issued by the Auditor General are timely submitted to the Department head and the Legislative Auditing Committee.

Response: The OIG will develop an improved time reporting system that will adequately track time spent on the Office's various activities and, also, ensure that responses regarding the status of corrective actions taken with respect to reports issued by the Auditor General, and other regulatory agencies, are timely submitted to the Department head and the Legislative Auditing Committee.

We believe that the aforementioned will enable the FDMA to maintain compliance with the requirements of *IIA Standards* and 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 Edward C. Mosca, CPA, Inspector General, Florida Department of Military Affairs, at (904) 823-0220.

Sincerely,



EMMETT R. TITSHAW, JR.

Major General
Florida National Guard
The Adjutant General

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