

STATE OF FLORIDA AUDITOR GENERAL

Quality Assessment Review

Report No. 2024-082
December 2023

DEPARTMENT OF VETERANS' AFFAIRS

Office of Inspector General's
Internal Audit Activity

For the Review Period
July 2022 Through June 2023



Sherrill F. Norman, CPA
Auditor General

Inspector General of the Department of Veterans' Affairs

The Executive Director of the Department of Veterans' Affairs appointed the Inspector General. David Marzullo served as the Inspector General during the review period.

The review team leader was Vanessa Fernandez, CPA, and the review was supervised by Barry Bell, CPA.

Please address inquiries regarding this report to Matthew Tracy, CPA, Deputy Auditor General, by e-mail at matthewtracy@aud.state.fl.us or by telephone at (850) 412-2922.

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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 and improvement program related to the Department of Veterans' Affairs, Office of Inspector General's internal audit activity was adequately designed and complied with during the review period July 2022 through June 2023 to provide reasonable assurance of conformance with applicable professional auditing standards and the Code of Ethics issued by The Institute of Internal Auditors. 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 internal audit activity did not demonstrate compliance with professional auditing standards by appropriately restricting access to engagement working papers, ensuring engagement work programs were approved prior to implementation and promptly upon adjustment, and communicating engagement results to the appropriate parties. Additionally, while not material to overall conformance with statutory requirements, the Inspector General could enhance compliance by submitting engagement reports to the required parties.

BACKGROUND

Section 20.055(2), Florida Statutes, established in each State agency, as defined by Section 20.055(1)(d), Florida Statutes, the Office of Inspector General. The Executive Director assigned five 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 the Audit Director. The three audit positions performed internal audit activities and other accountability and oversight activities.

Section 20.055(6)(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 eight engagements that had been completed or 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 and improvement program for the Office of Inspector General's internal audit activity in effect for the period July 2022 through June 2023. 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 and improvement 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 and the Code of Ethics issued by The Institute of Internal Auditors. The design of the quality assurance and improvement 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 and improvement program and performed such tests and other procedures as we considered necessary. Because of inherent limitations in any quality assurance and improvement program, departures from the program may occur and not be detected. Also, projection of any evaluation of the quality assurance and improvement 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 matters described in Finding 1, the quality assurance and improvement 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 and the Code of Ethics issued by The Institute of Internal Auditors. Also, although 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, as discussed in Finding 1, the internal audit activity could enhance compliance with the provisions of Section 20.055(6)(f), Florida Statutes.

FINDING AND RECOMMENDATION

Finding 1: Compliance with *IIA Standards* and Statutory Requirements

As noted in the **BACKGROUND** section of this report, the Office of Inspector General's (Office) internal audit activity elected to follow *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*. The *IIA Standards* provide a framework for performing and promoting internal auditing services. The *IIA Standards* contain mandatory requirements that include statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. Additionally, Section 20.055, Florida Statutes, governs the internal audit activities of the offices of inspectors general. Our review disclosed that the internal audit activity did not always demonstrate compliance with the *IIA Standards* and could enhance compliance with statutory requirements.

Sections 2330 and 2330.A1 of the *IIA Standards* specify that internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions and that the chief audit executive must control access to the engagement records. The Office maintained electronic working papers on a shared network drive. As part of our review, we evaluated Office engagement records controls and found that the internal audit activity did not adequately demonstrate compliance with

IIA Standards by appropriately restricting access to engagement working papers. Specifically, we found that:

- While the Office had established policies and procedures for records retention, the release of records to external parties, and storage of records, the policies and procedures did not address the security of electronic working papers.
- All Office staff and four information technology (IT) staff had update access to all electronic working papers regardless of whether staff were assigned to the engagements, and all staff retained update access even after engagements were completed. According to Office management, IT staff have administrative accounts to facilitate the use of the shared network drive by addressing any issues that may arise and adding or removing access privileges.

Section 2240.A1 of the *IIA Standards* specifies that engagement work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement, the work program must be approved prior to implementation, and any adjustments approved promptly. We examined the working papers for two engagements completed or substantially completed as part of the Office's internal audit activity during the review period and noted that Office records did not evidence that either engagement work program was approved prior to the commencement of audit fieldwork or that any adjustments were promptly approved. While there was evidence that engagement work program steps were reviewed and approved, the timing of that review and approval was not documented. In response to our inquiry, Office management indicated that the Office had not established a process to document the approval of engagement work programs prior to implementation or that changes to engagement work programs are promptly approved.

Sections 2440 and 2440.A1 of the *IIA Standards* specify that the chief audit executive must communicate results to the appropriate parties and is responsible for communicating the final results to parties who can ensure that the results are given due consideration. Section 20.055(6)(f), Florida Statutes, specifies that the inspector general must submit the final report to the agency head, the Auditor General, and, for State agencies under the jurisdiction of the Governor, the Chief Inspector General. As part of our review, we examined the records for two engagements completed or substantially completed during the review period and noted that the final report for one of the two engagements was not submitted to the appropriate parties, including those specified in State law. According to Office management, the final audit report was not submitted to the appropriate parties because it did not include any findings, but the audit report's conclusion of no findings was verbally communicated to Department management at the time of audit completion. However, records evidencing this communication were not maintained.

Restricting access to engagement working papers to only internal audit staff assigned to the engagement and promptly removing the access privileges once the engagement is completed would better demonstrate compliance with the *IIA Standards* and increase the security and reliability of engagement working papers. Absent documented approval of the engagement work program prior to the commencement of engagement fieldwork, and the prompt approval of any work program adjustments, there is an increased risk that the work program procedures will not be sufficient to achieve the engagement objectives. Additionally, the documented communication of the results of engagements, including submission of the final report, to the appropriate parties is necessary to ensure that engagement results are given due consideration in accordance with the *IIA Standards* and to demonstrate compliance with State law.

Recommendation: We recommend that Office management enhance controls to ensure that:

- Only internal auditors assigned to an engagement have update access privileges to the working papers and that update access to the working papers is promptly removed after the completion of an engagement.
- Work program approvals are documented prior to implementation of the work programs and promptly upon any adjustment.
- Reports are submitted to the appropriate parties in accordance with the *IIA Standards* and State law.

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, work products, and other selected programs, activities, and functions conform to applicable professional auditing standards and the Code of Ethics issued by The Institute of Internal Auditors; 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 Department management.

Our review included an evaluation of two of the eight engagements completed or 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*.

As part of our review, we prepared and submitted for management response the finding and recommendation that is included in the report and which describe the matters requiring corrective actions. Management's response is included in this report under the heading **MANAGEMENT'S RESPONSE**.

AUTHORITY

Section 11.45(2)(i), Florida Statutes, requires that the Auditor General, once every 3 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.



Sherrill F. Norman, CPA
Auditor General

MANAGEMENT'S RESPONSE



James S. Hartsell
Executive Director

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Jimmy Patronis
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Commissioner of Agriculture

November 30, 2023

Ms. Sherrill F. Norman, Auditor General
State of Florida Auditor General
111 West Madison Street
Tallahassee FL 32399-1450

Dear Ms. Norman:

This letter is in response to your letter dated 8 November 2023, outlining the findings from your Department of Veterans' Affairs, Office of Inspector General's Internal Audit Activity Quality Assurance Review. Pursuant to Section 11.45(4)(d), Florida Statutes, we are providing our responses to the preliminary and tentative Audit Findings and Recommendations.

FDVA has been proactive in making improvements since the guidance provided by the Auditor General's QAR Audit report. The agency strives for excellence in the operational processes and appreciates your efforts in assisting us in further improving our operations.

On behalf of FDVA, I would like to thank your staff for their professionalism and expertise during the audit process. If you have any questions, please contact the Office of Inspector General at 727-518-3202 extension 5570.

Sincerely,

James S. Hartsell
Major General, United States Marine Corps (Ret.)
Executive Director

"Honoring those who served U.S."

Finding 1: Compliance with IIA Standards and Statutory Requirements

- While the Office had established policies and procedures for records retention, the release of records to external parties, and storage of records, the policies and procedures did not address the security of electronic working papers.
- Office records did not evidence that either engagement work program was approved prior to the commencement of audit fieldwork or that any adjustments were promptly approved.
- The final report for one of the two engagements selected for review was not submitted to the appropriate parties, including those specified in State law.

Recommendation: We recommend that Office management enhance controls to ensure that:

- Only internal auditors assigned to an engagement have update access privileges to the working papers and that update access to the working papers is promptly removed after the completion of an engagement.
- Work program approvals are documented prior to implementation of the work programs and promptly upon any adjustment.
- Reports are submitted to the appropriate parties in accordance with the IIA Standards and State law.

Agency Response/Corrective Action Plan

FDVA OIG will implement the following recommendations:

- Ensure that working papers are timely set to read only access after the completion of an engagement.
- Evidence documentation of audit program approval and adjustment.
- Ensure that all final reports, whether with findings or not, are forwarded to the appropriate parties.