



AUDITOR GENERAL

WILLIAM O. MONROE, CPA



OFFICE OF FINANCIAL REGULATION

OFFICE OF INSPECTOR GENERAL/INTERNAL AUDIT ACTIVITY

Quality Assessment Review

SUMMARY

No internal audit reports were issued by the Office of Inspector General during the review period July 2005 through June 2006. Accordingly, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Office of Inspector General's quality assurance program, as implemented during the review period, or on the extent to which the Office of Inspector General/internal audit activity complied with professional auditing standards.

Section 20.055, Florida Statutes, governs the operation of State agencies' offices of inspectors general and internal audit activities. Matters which should be addressed by management to ensure compliance with that statute are summarized below:

Finding No. 1: Contrary to Section 20.055(5), Florida Statutes, the Office of Inspector General issued no audit reports during the review period, or since the inception of the Office in 2003.

Finding No. 2: Office of Financial Regulation records did not clearly demonstrate that the Office made a determination that the educational background of the incumbent Inspector General met the requirements of Section 20.055(4), Florida Statutes.

Finding No. 3: Contrary to Section 20.055(5)(h), Florida Statutes, for the 2005-06 fiscal year, an audit plan, based on a current risk assessment, had not been prepared by the Office of Inspector General. In addition, the risk assessment process utilized did not document the Inspector General's consideration of relevant information.

THE OFFICE OF INSPECTOR GENERAL

Section 20.055, Florida Statutes, requires that each State agency as defined in Section 20.055(1)(a), Florida Statutes, establish an office of inspector general. Section 11.45(2)(k), Florida Statutes, requires that the Auditor General, once every three years, evaluate the extent of compliance by the Office of Inspector General with the current *International Standards for the Professional Practice of Internal Auditing* or, if appropriate, *Generally Accepted Government Auditing Standards*.

The Office of Inspector General was assigned one position, an Inspector General. The Inspector General provided the following information regarding activities performed during the review period:

The Office of Inspector General	
Activity Performed	Percentage of Work Effort (1)
Investigative Activities	75
Other Accountability/Oversight Activities	25
	100

(1) Direct time charged to engagement activities.

REPORT ON QUALITY ASSESSMENT REVIEW

Pursuant to Sections 11.45(2)(k) and 20.055, Florida Statutes, we attempted to review the quality assurance program for the Office of Inspector General/internal audit activity of the Office of Financial Regulation in effect for the period July 2005 through June 2006. In addition, we reviewed Office of Financial Regulation compliance with specific provisions of Section 20.055, Florida Statutes, governing the operation of State agencies' offices of inspectors general and internal audit activities.

A quality assurance program for the internal auditing 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. Section 20.055(5)(a), Florida Statutes, requires that internal audits be conducted in accordance with the current *International Standards for the Professional Practice of Internal Auditing (IIA Standards)* or, where appropriate, *Generally Accepted Government Auditing Standards*. The *IIA Standards*, as promulgated by The Institute of Internal Auditors, and *Generally Accepted Government Auditing Standards*, as promulgated by the Comptroller General of the United States, generally provide comparable guidance for the conduct of assurance engagements. The *IIA Standards* also provide supplemental guidance for the conduct of consulting engagements.

As described in Finding No. 1 below, the Inspector General issued no internal audit reports during the review period. Because no audit reports were available for our review, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Office of Inspector General's quality assurance program, as implemented during the review period, or on the extent to which the Office of Inspector General/internal audit activity complied with professional auditing standards.

Our review of Office of Financial Regulation compliance with Section 20.055, Florida Statutes, disclosed the following matters that require corrective actions.

Finding No. 1: Audit Reports

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

Contrary to the requirements of Section 20.055(5), Florida Statutes, the Inspector General did not issue any audit reports during the period July 2005 through June 2006, or since the Office's inception in 2003. During the review period, the Inspector General performed various functions and completed various projects, but primarily conducted

investigations of personnel matters and investigations of consumer complaints.

Recommendation: We recommend that the Office of Inspector General take appropriate actions to ensure that an appropriate balance of work effort is maintained and that audits are performed as required by Section 20.055(5), Florida Statutes.

Finding No. 2: Documentation of Qualifications

Pursuant to Section 20.055(4), Florida Statutes, the inspector general or the director of auditing within the inspector general's office of each agency 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 the director of auditing shall possess a master's degree in accounting, business administration, or public administration from an accredited college or university. The Office of Financial Regulation's Inspector General represented on his employment application that he had earned a bachelor of arts degree with a concentration in economics and business and a master of arts degree in management.

Our review disclosed that relevant files did not contain evidence that the Office of Financial Regulation had made a determination that the Inspector General's education satisfied the statutory educational requirements. The personnel file did not contain related documentation, such as official college transcripts, showing course work completed and degrees awarded, or any basis for concluding that the reported master of arts degree in management was clearly equivalent, in terms of curriculum, to any of the three master's degrees specified by statute.

Absent the availability of the necessary records, the Office of Financial Regulation could not demonstrate that the educational background of the incumbent Inspector General met the requirements of Section 20.055(4), Florida Statutes.

Recommendation: We recommend that the Office of Financial Regulation take steps to ensure a demonstration of compliance with Section 20.055(4), Florida Statutes. Such steps should include the evaluation of official college transcripts received directly from the applicable college or university.

Finding No. 3: Audit Planning

Section 20.055(5)(h), Florida Statutes, requires that the inspector general develop, and submit to the agency head for approval, long-term and annual audit plans based on the findings of periodic risk assessments. *IIA Standards* provide that the risk assessment process should be undertaken at least annually and should incorporate information from a variety of sources, such as discussions among management and internal auditors, internal auditor consideration of applicable laws and regulations, internal auditor analyses of financial and operating data, internal auditor reviews of prior audits, and internal auditor consideration of the effectiveness of internal controls.

Contrary to Section 20.055(5)(h), Florida Statutes, the Inspector General did not prepare an audit plan for the 2005-06 fiscal year. In response to our inquiry, the Inspector General advised us that, since no audits were conducted during the 2004-05 fiscal year, the 2004-05 fiscal year audit plan was employed for the 2005-06 fiscal year. Upon further inquiry, the Inspector General advised us that, while the Commissioner (head of the Office of Financial Regulation) posed no objection to utilizing the 2004-05 fiscal year audit plan for the 2005-06 fiscal year, there was no documentation to support the Commissioner's approval to do so.

As part of our review, we evaluated the risk assessment process utilized by the Inspector General for the 2004-05 fiscal year audit plan. The risk assessment process relied primarily on the results of a survey in which Office of

Financial Regulation managers were asked to identify auditable activities and assign a risk grade to those activities. This process did not document the Inspector General's judgments or his identification of auditable activities and associated risks. In addition, there was no evidence that the Inspector General considered the results of analyses of financial and operating data, results of prior audits, changes in laws or regulations, and the effectiveness of internal controls.

When a risk assessment process fails to incorporate certain information (such as that indicated in the *IIA Standards*), there is an increased possibility that high-risk auditable activities may not be properly evaluated during the development of the long-term and annual audit plans.

Recommendation: We recommend that the Office of Inspector General ensure that long-term and annual audit plans are prepared as required by Section 20.055(5)(h), Florida Statutes, and are based on timely risk assessments that document the Inspector General's consideration of relevant information.

AUTHORITY

Pursuant to the provisions of Sections 11.45 and 20.055, Florida Statutes, I have directed that this report be prepared to present the results of our review.



William O. Monroe, CPA
Auditor General

MANAGEMENT RESPONSE

In a letter dated November 6, 2006, the Commissioner of Financial Regulation provided responses to our preliminary and tentative review findings. This letter is included at the end of this report as Appendix A.

This quality assessment review was conducted in accordance with applicable *Generally Accepted Government Auditing Standards*. This review was conducted by Sandra H. Myers, CPA, and supervised by Sherrill F. Norman, CPA. Please address inquiries regarding this report to Dorothy R. Gilbert, CPA, Audit Manager, via e-mail at dorothygilbert@aud.state.fl.us or by telephone at (850) 488-5444.

This report and audit reports prepared by the Auditor General can be obtained on our Web site (<http://www.state.fl.us/audgen>); by telephone (850 487-9024); or by mail (G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450).

APPENDIX A
MANAGEMENT RESPONSE



OFFICE OF FINANCIAL REGULATION

DON B. SAXON
COMMISSIONER

FINANCIAL SERVICES
COMMISSION

JEB BUSH
GOVERNOR

TOM GALLAGHER
CHIEF FINANCIAL OFFICER

CHARLIE CRIST
ATTORNEY GENERAL

CHARLES BRONSON
COMMISSIONER OF
AGRICULTURE

November 6, 2006

Mr. William O. Monroe
Auditor General
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, Florida 32399-1450

Dear Mr. Monroe:

Enclosed is the Office's response to the preliminary and tentative audit findings for the quality assessment review audit of the Office of Financial Regulation's Office of Inspector General.

If you have any questions, please contact Inspector General Bob Dyar at 410-9712.

Sincerely,

A handwritten signature in black ink, appearing to read "Don B. Saxon".

Don B. Saxon

DBS/rd

Enclosure

Quality Assessment Review of the
Office of Financial Regulation
Office of the Inspector General

The Auditor General's review of the Office of Financial Regulation's compliance with Section 20.055, Florida Statutes, disclosed the following matters that require corrective actions.

Finding No. 1: Audit Reports

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

Contrary to the requirements of Section 20.055(5), Florida Statutes, the Inspector General did not issue any audit reports during the period July 2005 through June 2006, or since the Office's inception in 2003. During the review period, the Inspector General performed various functions and completed various projects, but primarily conducted investigations of personnel matters and investigations of consumer complaints.

Recommendation:

We recommend that the Office of Inspector General take appropriate actions to ensure that an appropriate balance of work effort is maintained and that audits are performed as required by Section 20.055(5), Florida Statutes.

Auditee Response:

We concur with the finding and recommendation.

Of necessity, the focus of our Inspector General's work has been driven by critical and time-sensitive investigations involving personnel matters, and consumer or industry complaints related to service provided by this Agency. These matters cannot be anticipated, but require prompt, timely action.

We have recognized that the size and complexity of our Agency has evolved to a level where a "stand alone" Inspector General is clearly not sufficient to adequately address all statutory requirements, and that we require a dedicated auditor, qualified in accordance with section 20.055(4), Florida Statutes, to perform the audit functions. In the 2006 Legislative Session we requested the addition of an auditor position, but that request was not funded.

In our 2007 - 2008 Legislative Budgetary Request, we requested two additional positions for the Office of Inspector General, one auditor position and one investigator position. It is our opinion that the addition of two FTEs will allow the Agency to maintain a better balance of work, meet the demands of the statutes, and better address the needs of the Office of Financial Regulation.

Finally, in an abundance of caution, we are already reviewing existing positions for possible reclassification to an auditor's position to resolve this concern in the event that the Legislature again fails to approve our request for these additional positions.

Finding No. 2: Documentation of Qualifications

Pursuant to Section 20.055(4), Florida Statutes, the inspector general or the director of auditing within the inspector general's office of each agency 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 the director of auditing shall possess a master's degree in accounting, business administration, or public administration from an accredited college or university. The Office of Financial Regulation's Inspector General represented on his employment application that he had earned a bachelor of arts degree with a concentration in economics and business and a master of arts degree in management.

Our review disclosed that relevant files did not contain evidence that the Office of Financial Regulation had made a determination that the Inspector General's education satisfied the statutory educational requirements. The personnel file did not contain related documentation, such as official college transcripts, showing course work completed and degrees awarded, or any basis for concluding that the reported master of arts degree in management was clearly equivalent, in terms of curriculum, to any of the three master's degrees specified by statute.

Absent the availability of the necessary records, the Office of Financial Regulation could not demonstrate that the educational background of the incumbent Inspector General met the requirements of Section 20.055(4), Florida Statutes.

Recommendation:

We recommend that the Office of Financial Regulation take steps to ensure a demonstration of compliance with Section 20.055(4), Florida Statutes. Such steps should include the evaluation of official college transcripts received directly from the applicable college or university.

Auditee Response:

We concur with the finding and recommendation.

Upon applying in July 1995 for a position in the Office of Inspector General of the (former) Department of Banking and Finance, the incumbent Inspector General submitted, as required for the position, a state job application, résumé, and official college transcripts (undergraduate and graduate level) to the Department. To the best of our knowledge, those records were placed in the personnel file at that time; however, this Agency is not able to respond to how personnel files were processed by the former Department of Banking and Finance, the Department of Financial Services (DFS) during the transition in 2003, or when turned over to Convergys (People First) for scanning. In effecting the recommendation, we will again obtain official transcripts for inclusion in the official personnel file.

In early 2003 when the Commissioner (head of the Office of Financial Regulation) considered this appointee for the position of Office of Financial Regulation Inspector General, the

Commissioner personally reviewed Section 20.055(4), Florida Statutes, and an unofficial transcript of the appointee's master's degree in management. The unofficial transcript accurately reflected the courses taken, the grades earned, and the degree bestowed. The Commissioner determined, based on his personal knowledge of the appointee's audit experience with the Department of Banking and Finance, the appointee's undergraduate degree in Economics and Business, and the curriculum listed in the transcripts for the master's program, that the appointee was qualified for the position. The Commissioner's decision is documented by the paperwork making the appointment.

After the Commissioner's decision, the appointee's name was forwarded to the DFS personnel bureau for review and processing. At that time the personnel bureaus of the Department of Banking and Finance and the Department of Insurance had been merged into a single personnel bureau operated by and under the control of DFS. It has been their responsibility to review each hiring and confirm, among other matters, that the proposed hire meets all statutory and other qualifications for that position. The Bureau of Personnel raised no concern regarding the qualifications of this appointee, and approved and processed the proposed hire.

Although we believe that our incumbent Inspector General meets the qualifications set forth in section 20.055(4), Florida Statutes, we intend to hire a director of auditing who also meets those qualifications. Since that statute requires that only one of these individuals meet those qualifications, this will ensure compliance with the statute.

Finding No. 3: Audit Planning

Section 20.055(5)(h), Florida Statutes, requires that the inspector general develop, and submit to the agency head for approval, long-term and annual audit plans based on the findings of periodic risk assessments. IIA Standards provide that the risk assessment process should be undertaken at least annually and should incorporate information from a variety of sources, such as discussions among management and internal auditors, internal auditor consideration of applicable laws and regulations, internal auditor analyses of financial and operating data, internal auditor reviews of prior audits, and internal auditor consideration of the effectiveness of internal controls.

Contrary to Section 20.055(5)(h), Florida Statutes, the Inspector General did not prepare an audit plan for the 2005-06 fiscal year. In response to our inquiry, the Inspector General advised us that, since no audits were conducted during the 2004-05 fiscal year, the 2004-05 fiscal year audit plan was employed for the 2005-06 fiscal year. Upon further inquiry, the Inspector General advised us that, while the Commissioner (head of the Office of Financial Regulation) posed no objection to utilizing the 2004-05 fiscal year audit plan for the 2005-06 fiscal year, there was no documentation to support the Commissioner's approval to do so.

As part of our review, we evaluated the risk assessment process utilized by the Inspector General for the 2004-05 fiscal year audit plan. The risk assessment process relied primarily on the results of a survey in which Office of Financial Regulation managers were asked to identify auditable activities and assign a risk grade to those activities. This process did not document the Inspector General's judgments or his identification of auditable activities and associated risks. In addition, there was no evidence that the Inspector General considered the results of analyses of financial

and operating data, results of prior audits, changes in laws or regulations, and the effectiveness of internal controls.

When a risk assessment process fails to incorporate certain information (such as that indicated in the IIA Standards), there is an increased possibility that high-risk auditable activities may not be properly evaluated during the development of the long-term and annual audit plans.

Recommendation:

We recommend that the Office of Inspector General ensure that long-term and annual audit plans are prepared as required by Section 20.055(5)(h), Florida Statutes, and are based on timely risk assessments that document the Inspector General's consideration of relevant information.

Auditee Response:

We concur with the finding and recommendation.

However, the decision to use the fiscal year 2004-2005 audit plan for fiscal year 2005-2006 was deliberate and made out of necessity because of limited resources and competing priorities. The priority audit subject identified in the 2004-2005 audit plan remained a primary concern for this Agency because the function is relatively new to the Agency and still evolving, staff structure is still under development, and procedures are still being tested. The Commissioner was briefed on this approach, and approved the proposal; however, the actions discussed were not reduced to writing. When this Agency was advised in January 2006 of the Auditor General's forthcoming operational audit, this Agency requested that the Auditor General look at the functional area identified in our audit plan because we were unable to conduct the audit ourselves. Subsequently, this area was examined during the operational audit.

Future risk assessments will identify auditable activities and associated risks, and will be properly documented. Audit plans will continue to be submitted for approval, and all changes will be explained and properly documented.

As discussed in the response to Finding 1, this Agency recognizes that there are insufficient personnel to satisfactorily meet all statutory requirements of an Agency of this size, and we have requested addition positions to allow the Office of Inspector General to better meet statutory requirements, comply with audit standards, and serve the needs of the Office of Financial Regulation.