

STATE OF FLORIDA AUDITOR GENERAL

Quality Assessment Review

Report No. 2021-217
June 2021

DEPARTMENT OF FINANCIAL SERVICES

Office of Inspector General's
Internal Audit Activity

For the Review Period
July 2019 Through June 2020



Sherrill F. Norman, CPA
Auditor General

Inspector General of the Department of Financial Services

The Chief Financial Officer of the State of Florida appointed the Inspector General of the Department of Financial Services. David T. Harper served as the Inspector General during the review period.

The review team leader was Barry L. Bell, CPA, and the review was supervised by Melisa Hevey, 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.

This report and other reports prepared by the Auditor General are available at:

FLAuditor.gov

Printed copies of our reports may be requested by contacting us at:

State of Florida Auditor General

Claude Pepper Building, Suite G74 · 111 West Madison Street · Tallahassee, FL 32399-1450 · (850) 412-2722

DEPARTMENT OF FINANCIAL SERVICES

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 Financial Services, Office of Inspector General's internal audit activity was adequately designed and complied with during the review period July 2019 through June 2020 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 conducting periodic internal assessments to evaluate conformance with the Code of Ethics and the *International Standards for the Professional Practice of Internal Auditing (IIA Standards)*.

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 Chief Financial Officer assigned nine full-time positions and one Other Personal Services (OPS) employee¹ to the Office of Inspector General and the Inspector General dedicated four positions to the internal audit activity. As authorized by statute, the Inspector General delegated internal audit responsibilities to the Director of Audit. The four audit positions performed internal audit activities and other activities such as consulting 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 Director of Audit identified one engagement that had been completed as part of the Office's internal audit activity during the review period. For this engagement, the Office elected to follow *IIA Standards*.

¹ Pursuant to Department of Management Services Rule 60L-33.005, Florida Administrative Code, OPS employment is an employer-employee relationship used solely for the completion of short-term or intermittent tasks. OPS employees do not fill established positions.

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 2019 through June 2020. 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, 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.

FINDING AND RECOMMENDATION

Finding 1: Compliance with *IIA Standards*

As noted in the ***BACKGROUND*** section of this report, the Office of Inspector General's (Office) internal audit activity elected to follow *IIA Standards*. The *IIA Standards* provide a framework for performing and promoting internal auditing services. The *IIA Standards* are mandatory requirements that include statements of core requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. Our review disclosed that the internal audit activity did not always demonstrate compliance with the *IIA Standards*.

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 record controls and, as similarly noted in our report No. 2018-068 (Finding 1), 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 Office policies and procedures required working papers be sufficient, competent, relevant, and useful to provide a sound basis for audit findings and recommendations, the policies and procedures did not address the security of electronic working papers.
- All internal audit 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.

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, and that the work program must be approved prior to implementation. We examined the working papers for the one engagement completed as part of the Office's internal audit activity during the review period and noted that the engagement work program was not approved prior to the commencement of audit fieldwork. Instead, the engagement work program steps were reviewed and approved concurrent with the review of the engagement working papers and draft report. According to Office management, staff inexperience contributed to the deficiency.

Sections 1300, 1310, and 1311 of the *IIA Standards* specify that the chief audit executive must develop and maintain a quality assurance and improvement program that includes internal and external assessments. Internal assessments are to include periodic self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices and be designed to evaluate the internal audit activity's conformance with the Code of Ethics and the *IIA Standards*. Accordingly, Office policies and procedures² required the conduct of a comprehensive internal assessment every 3 years to appraise the quality of the internal audit activity and ensure conformity with the *IIA Standards*. The policies and procedures also required a project quality assurance review be conducted for each engagement performed to verify conformance with the *IIA Standards*. As part of our review, we evaluated the Office's quality assurance and improvement program and noted that a comprehensive internal assessment of the internal audit activity had not been completed in the past 3 years, nor was a project quality assurance review completed on the one engagement issued during the review period. In response to our inquiry, Office management indicated that staffing issues contributed to the issues noted on review.

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 audit fieldwork, there is an increased risk that the work program procedures will not be sufficient to achieve the engagement objectives. Conducting periodic internal assessments and project quality assurance reviews would provide greater assurance of the internal activity's conformance with the Code of Ethics and the *IIA Standards*.

² Department of Financial Services, Office of Inspector General Procedures Manual, Procedure Number 3-11, *Quality Assurance and Improvement*.

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 programs are approved, and the approvals are documented, prior to implementation of the work programs.
- Periodic internal assessments and project quality assurance reviews are conducted in accordance with the *IIA Standards* and Office policies and procedures.

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 the one engagement 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 included in this report, 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



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

June 18, 2021

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

Dear Ms. Norman:

Pursuant to Section 11.45(4)(d), Florida Statutes, the enclosed response is provided for the preliminary and tentative audit findings included in the Auditor General's Quality Assessment Review of the *Office of Inspector General's Internal Audit Activity*.

If you have any questions concerning this response, please contact David Harper, Inspector General, at (850) 413-4961.

Sincerely,

A handwritten signature in black ink that reads "Jimmy Patronis".

Jimmy Patronis
Chief Financial Officer

Enclosure

DEPARTMENT OF FINANCIAL SERVICES
THE CAPITOL, TALLAHASSEE, FLORIDA 32399-0301 • (850) 413-2850 FAX (850) 413-2950

Office of Inspector General's Internal Audit Activity

DEPARTMENT OF FINANCIAL SERVICES'
RESPONSE TO PRELIMINARY AND TENTATIVE AUDIT FINDINGS

Finding No. 1: Compliance with IIA Standards

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 conducting periodic internal assessments to evaluate conformance with the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (IIA Standards).

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 programs are approved, and the approvals are documented, prior to implementation of the work programs.
- Periodic internal assessments and project quality assurance reviews are conducted in accordance with the IIA Standards and Office policies and procedures.

Response: The Office of Inspector General's Internal Audit Activity is working to implement the following in response to this engagement:

- We are implementing an electronic working paper environment that will provide access controls consistent with those identified in this engagement, and updating access control procedures to restrict access to audit working papers to only internal audit staff assigned to an engagement and OIT staff that require access to perform necessary system administrator duties. Where appropriate, the OIG will restrict access to working papers after completion of an engagement.
- We are revising our engagement program and policies and procedures to ensure that engagement work programs for each individual project will be approved by both the Director of Audit and the Inspector General prior to the beginning of fieldwork.
- We are updating our policies and procedures on internal assessments and will implement these policies and procedures to ensure that the internal audit section completes periodic internal assessments and project specific quality assurance reviews, as necessary.

Expected Completion Date for Corrective Action: December 31, 2021