



OFFICE OF INSPECTOR GENERAL
INTERNAL AUDIT UNIT

**Department of Health, Office of Inspector General,
Internal Audit Unit Quality Assessment**

Q-1011DOH-14

October 28, 2010

SUMMARY

The Department of Health, Office of Inspector General (HIG) conducted a quality assessment (QA) of the Internal Audit Unit (IA). This self-assessment was conducted by a new staff auditor, who did not conduct any engagements during the scope of this review.

The objectives of the assessment were to evaluate IA's conformance with the *International Professional Practices Framework (IPPF)*, including standards, the code of ethics, the audit charter, the organization's risk and control assessment, and the use of successful practices. The scope of this assessment was IA activities during the 2009-2010 fiscal year.

To accomplish our objectives, we reviewed section background and the current environment, organizational placement, activity charter, access to the organization, the quality improvement process, workpapers, the risk assessment process, engagement planning, staff time, and conducted customer satisfaction surveys. Additionally, interviews were conducted with auditors, the Director of Auditing, and the Inspector General.

Figure 1 represents the percentage of time spent per engagement type during the 2009-2010 fiscal year:

Figure 1

Project Type	% of Time
Review Engagements	43.60%
Special Projects	44.21%
Audit Engagements	8.32%
Consulting Engagements	3.87%
Total:	100.00%

IA generally conforms to the *IPPF* attribute standards related to: Purpose, Authority, and Responsibility; Independence and Objectivity; and Proficiency and Due Professional Care. In addition, the IA unit generally conforms to performance standards related to: Nature of Work; Engagement Planning; Performing the Engagement; Monitoring Progress; and Managements Acceptance of Risks.

However several instances of partial conformity were noted in the following areas:

- Attribute Standard 1300, *Quality Assurance and Improvement Program*;
- Performance Standard 2000, *Managing the Internal Audit Activity and relevant Code of Ethics criteria relating to policy and procedures*; and
- Performance Standard 2400, *Communicating Results*.

The following conformance findings should be reviewed and addressed by the Director of Auditing:

- The procedures manual that exists is out of date and no longer relevant. IA has recently implemented an electronic workpapers solution called

- “IIAMS” that will drive new procedures. As a result, the Audit Director is working to draft new written procedures to better reflect current practices.
- There currently is not an established Quality Assessment and Improvement Program (QAIP). The Audit Director recognizes the lack of QAIP and requested this assessment to establish a process to monitor and assess the overall effectiveness of the quality program.
 - Some “fair” and “poor” results were received from the customer satisfaction surveys distributed as part of this QA assessment. These responses have been verbally presented to the Director of Auditing, and are available via the online survey tool.

INTRODUCTION

Section 20.055(5)(a), *Florida Statutes*, mandates audits shall be conducted in accordance with *International Standards for the Professional Practice of Internal Auditing* as published by the Institute of Internal Auditors (IIA) or where appropriate, in accordance with generally accepted governmental auditing standards. Additionally, all audit reports shall include a statement the audit was conducted pursuant to the appropriate standards.

The IIA’s *IPPF* is comprised of the definition of internal auditing, the code of ethics, standards, position papers, practice advisories, and practice guides.

According to the *IPPF* Standards hereby referred to as “Standards”, the QA process should include both internal and external assessments.

Internal Assessments

Internal assessments should be comprised of ongoing internal evaluations of the IA activity, coupled with periodic self-assessments and/or reviews. These internal assessments are conducted by persons within the organization’s IA activity or by other persons within the organization with sufficient knowledge of internal audit practices. The assessments are conducted under the direction of the chief audit executive.

External Assessments

Section 11.45(2)(k), *Florida Statutes*, requires that the Auditor General (AG), once every three years, evaluate the extent of compliance by the office of inspector general

Additional observations for future consideration include:

- At the start of this QA assessment, IA did not have an approved activity charter; however a charter was drafted and approved before issuance of this report. Ongoing, it is recommended the charter should be reviewed and updated periodically or as deemed necessary.
- Access to contracted entities may be subject to incorporation of "right to audit" clauses.
- IA could better utilize computer-assisted audit techniques (CAATS) to more efficiently and effectively identify non-compliances particularly in regards to purchasing and contracts.
- IA could be better poised to assist the investigations section in responding to complaints of potential fraud.
- Information Technology (IT) audit planning was minimal for fiscal year (FY) 2009-2010. It should be noted this was enhanced during FY 2010-2011 audit planning.
- There were several items of significance brought forward during the staff interviews. Some items are organizational and not directly in the control of HIG and IA, however others should be considered during improvement planning. These items were delivered verbally to the Director of Auditing and documented via a separate memorandum.

with the current *International Standards for the Professional Practice of Internal Auditing* or, if appropriate, Government Auditing Standards. The last report issued by the AG on January 2009, was for review period July 2007 through June 2008 and recommended:

- “The Office of the Inspector General (OIG) should ensure that audit reports contain the correct reference to applicable standards and that applicable standards are followed in the performance of fieldwork, or that appropriate disclosures are included in the audit report. The OIG should also determine whether inaccurate compliance statements were included in other issued reports and assess the impact to determine whether reissuing the reports is warranted.”

This QA assessment was conducted by Michelle L. Weaver, Certified Information Systems Auditor (CISA), Senior

FINDINGS, RECOMMENDATIONS, AND MANAGEMENT’S RESPONSES AND CORRECTIVE ACTION PLANS

The following findings warrant further examination and additional review by management.

FINDING 1 – *The Internal Audit Unit’s policies and procedures are outdated and do not reflect current practices.*

Performance Standard 2000, *Managing the Internal Audit Activity* states, “The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.” More specifically Performance Standard 2040, *Policies and Procedures* states, “The chief audit executive must establish policies and procedures to guide the internal audit activity.”

The policies and procedures that exist are out of date and have not been revised since appointment of the current Director of Auditing. The drafting of policies and

Management Analyst II and Allysan Boatman, Staff Assistant. Assessment fieldwork took place May 2010 through September 2010.

BACKGROUND

The IIA’s *IPPF* provides international standards that are principle-focused and provide a framework for performing and promoting internal auditing. The Standards are divided between Attribute and Performance Standards.

Attribute Standards address quality characteristics of the organization and individuals performing the audits. The Performance Standards describe the nature of internal auditing and provide quality criteria against which the performances of these services can be measured.

procedures has been initiated during this QA assessment. Furthermore, the implementation of the electronic workpaper system will drive many of the established processes.

Policies and procedures are the backbone to any operation. Without policies and procedures the internal audit activities risks inefficient and ineffective engagements that are not compliant with established standards. Additionally, individual accountability cannot be maintained without established guidance.

RECOMMENDATIONS:

- It is recommended the Director of Auditing establish policies and procedures to guide the Internal Audit Unit and more accurately reflect current practices as required per Performance Standard 2040.

MANAGEMENT’S RESPONSE AND CORRECTIVE ACTION PLAN:

Concur. The Internal Audit Unit has been operating under policies and procedures that were last revised in July 2004. In 2009, a new Director of Auditing took over

responsibility of the Unit and began to institute changes to the Unit's processes.

Additionally, a new document management system was introduced into the Unit as a means of documenting engagement workpapers electronically rather than the traditional paper version of workpapers. It was the intent of the Director of Auditing to wait until the new document management system was developed and fully implemented before the policies and procedures manual would be revised since the use of the new system would affect a large majority of the processes mentioned in the manual.

Because many of the steps utilized in performing engagement projects center around using the new system, those procedures now reside within the system itself and the Director of Auditing has started the process of revising the remaining portions of the policies and procedures manual and hopes to imbed the entire "manual" within the new document management system.

Anticipated completion date: 12/31/2010

FINDING 2 – *There currently is not an established Quality Assessment and Improvement Program (QAIP), and one of the engagements reviewed claimed conformance with International Standards for the Professional Practice of Internal Auditing.*

Attribute Standard 1300, *Quality Assurance and Improvement Program* states, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." Furthermore, Attribute Standard 2430, *Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"* states reports may make this claim only if the results of the QAIP support the statement.

Though several elements of a QAIP have been implemented such as the initiation of

this QA assessment itself and recording actual engagement milestones in the newly implemented electronic work paper system, a formal QAIP has not been developed or maintained during the scope of this assessment.

The QAIP needs to be comprehensive enough to encompass all aspects of the operation and management of IA activities. It should evaluate conformance with the Definition of Internal Auditing, Standards, and the Code of Ethics. Additionally, it should assess the efficiency and effectiveness of the internal audit activities and identify opportunities for improvement.

Without a comprehensive QAIP, IA cannot effectively ascertain conformance with Standards or the Code of Ethics nor can efficiency and effectiveness be ascertained to determine opportunities for improvement.

RECOMMENDATIONS:

- It is recommended the Director of Auditing develop and maintain a QAIP as required per Attribute Standard 1300.

MANAGEMENT'S RESPONSE AND CORRECTIVE ACTION PLAN:

Concur. Some of the elements of a Quality Assurance and Improvement Program currently exist and are utilized within the Internal Audit Unit. However, a few additional elements need to be developed.

The Director of Auditing will develop additional elements that encompass a Quality Assurance and Improvement Program in addition to the elements that currently exist.

Anticipated completion date: 1/31/2011