

Florida Department
of Financial Services



Jeff Atwater
Chief Financial Officer



Office of Inspector General

Tom Kirwin
Inspector General

Annual and Long Term Audit Work Plan

Fiscal Years 2013-14 and 2014-15

Promoting accountability, integrity and efficiency in government



CHIEF FINANCIAL OFFICER
JEFF ATWATER
STATE OF FLORIDA

October 17, 2013

The Honorable Jeff Atwater
Chief Financial Officer
Florida Department of Financial Services
The Capitol, PL 11
Tallahassee, FL 32399-0001

Dear CFO Atwater:

I am pleased to submit for your review and approval our *Annual and Long Term Audit Work Plan for Fiscal Years 2013-14 and 2014-15*. As required by Section 20.055, Florida Statutes, our plan is risk-based to provide the most effective coverage of the department's programs, activities and functions. In addition to audit engagements, the plan accommodates the *Business Process Mapping and Enterprise Risk Management Initiative* and reserves time to respond to requests for assistance you or your managers may have during the year. This may include formal consulting engagements or other management advisory services.

Our audit plan is intended to be responsive to changing conditions. We will modify the plan as necessary, in accordance with management concerns and our on-going assessment of circumstances and events impacting Department operations.

I am requesting your review and approval of our proposed plan. If you have any questions or would like to discuss the plan further, I am available at your convenience.

Sincerely,

Tom Kirwin
Inspector General

TK:rlg

Approved: _____

Jeff Atwater, Chief Financial Officer

Introduction

BACKGROUND

Pursuant to Section 20.055, Florida Statutes, the Office of Inspector General (OIG) is established within each state agency to provide a central point for coordination and responsibility for activities that promote accountability, integrity and efficiency in government. The OIG provides independent and objective information to the Chief Financial Officer and to management of the Florida Department of Financial Services (Department) through audits, investigations, reviews, performance measure assessments and other accountability activities.

ORGANIZATIONAL PROFILE

The Inspector General is appointed by, and reports to, the Chief Financial Officer. The Inspector General directs the activities of staff within two units: Internal Audit and Investigations. Internal Audit includes the Business Process Improvement and Enterprise Risk Management section.

Office of Inspector General Organizational Chart



DUTIES AND RESPONSIBILITIES

The OIG has specific duties and responsibilities outlined in Section 20.055, Florida Statutes, which include, but are not limited to, the following:

- Provide direction for, supervise, and coordinate audits, investigations, and management reviews relating to the agency's programs and operations.
- Conduct, supervise, or coordinate other activities carried out or financed by the agency for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, agency programs and operations.
- Keep the agency head informed concerning fraud, abuses, and deficiencies relating to programs and operations administered or financed by the agency; recommend corrective action concerning fraud, abuses, and deficiencies; and report on the progress made in implementing corrective action.
- Review the actions taken by the state agency to improve program performance and meet program standards, and make recommendations for improvement, if necessary.
- Advise in the development of performance measures, standards, and procedures for the evaluation of agency programs; assess the reliability and validity of the information provided by the agency on performance measures and standards, and make recommendations for improvement, if necessary.
- Ensure effective coordination and cooperation between the Office of the Auditor General, federal auditors, and other governmental bodies with a view toward avoiding duplication.

These duties and responsibilities, as well as duties and responsibilities directed by the Chief Financial Officer, are performed by our office within the following two sections: Investigations and Internal Audit.

INVESTIGATIONS

The Investigations section carries out the Inspector General's duties and responsibilities to initiate, conduct, supervise, and coordinate investigations designed to detect, deter, prevent, and eradicate fraud, waste, mismanagement, misconduct, and other abuses in state government.

INTERNAL AUDIT

Internal Audit performs independent and objective audit and consulting engagements that provide information on the adequacy and effectiveness of the Department's internal controls and on the economy, efficiency and effectiveness of departmental programs, activities, and functions. Internal Audit also provides management advisory services to assist management with issues that do not require extensive audit or consulting services. Internal Audit performs audit and consulting engagements in accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* published by The Institute of Internal Auditors Inc.

Types of Engagements

- Financial audits provide reasonable assurance about the reliability of financial information and involve a review of procedures used to record, classify, and report financial information. These audits often include a determination of compliance with applicable legal and regulatory requirements.
- Compliance engagements evaluate whether a program or process is operating in compliance with applicable laws, rules, and regulations or contractual provisions. Compliance auditing is generally a component of financial, information systems, and performance audits.
- Information technology audits evaluate the organization's internal controls over its management, administration, and operation of electronic systems and applications.
- Performance audits analyze the economy, efficiency, and effectiveness of departmental programs, functions, or activities. Performance audits generally include an evaluation of the adequacy and effectiveness of controls established to help ensure the achievement of goals and objectives. Performance engagements generally include elements of financial, compliance, and/or information systems audits.
- Consulting engagements are carried out at management's request. The nature and scope of such engagements are agreed upon with management and are generally intended to help improve the Department's governance, risk management, and control processes.

Other Internal Audit Activities

In addition to audit and consulting engagements, Internal Audit performs certain other duties, most of which are mandated by Statute and/or professional *Standards*. Those duties include:

- Annual Enterprise-Wide Risk Assessment (Risk Assessment) – This assessment includes all Department operations and evaluates various risk factors faced by the Department. The Risk Assessment serves as the basis for Internal Audit's *Annual and Long Term Audit Work Plan (Audit Plan)*. The Risk Assessment and *Audit Plan* are discussed in more detail below.
- Management Advisory Services – These services are limited in scope and are intended to provide value-added services to management through various alternative methods such as counsel, advice, facilitation, inspection, reviews and training.
- Quality Assurance (QA) Activities – These QA activities are required by professional *Standards* and include both ongoing and periodic assessment activities related to Internal Audit functions. Some assessment activities are conducted internally by OIG staff and an external assessment is conducted by the Auditor General's Office once every three years.

- Coordination with External Audit Entities - Departmental programs and operations are subject to audit by various external entities, such as the Office of the Auditor General, the Office of Program Policy Analysis and Government Accountability (OPPAGA), and various federal and other regulatory entities. Internal Audit is responsible for coordinating with these external reviewers and serves as a liaison to the external reviewers.
- Follow-up Status Reports – Internal Audit is required to monitor implementation of corrective action the Department makes in response to findings and recommendations in reports published by the Auditor General, OPPAGA and Internal Audit. Internal Audit prepares a written status report to the Chief Financial Officer and, in some instances, the Joint Legislative Auditing Committee as to the status of corrective action at six-month intervals until the planned action is complete or executive management assumes the risk of not implementing the corrective action.
- Schedule IX Preparation – Schedule IX details major audit findings received by the Department as a result of internal and external audits and is a required component of the agency’s annual Legislative Budget Request.
- Long-Range Program Plan Performance Measure Review – The review entails an assessment of the Department’s Long-Range Program Plan performance measures for reliability and validity, consistent with Section 216, Florida Statutes.
- Annual Report – This mandatory report summarizes the activities of the OIG and includes specified components as outlined in Section 20.055, Florida Statutes.

Annual Enterprise-Wide Risk Assessment and *Audit Plan*

In accordance with Section 20.055, Florida Statutes, the OIG must develop a long-term and annual audit plan based on the findings of periodic risk assessments. In addition, professional *Standards* require the *Audit Plan* be based on a documented risk assessment, undertaken at least annually. Accordingly, in June and July 2013, Internal Audit conducted its Annual Enterprise-Wide Risk Assessment. The results of the Risk Assessment and input from the Department’s senior and executive managers were then used to identify audit topics for inclusion in the *Audit Plan*.

ANNUAL ENTERPRISE-WIDE RISK ASSESSMENT

The 2013 Risk Assessment encompassed all Department operations and included the following components:

- Risk Assessment Survey - The survey included 22 questions and was sent to the 56 auditable entities within the Department. The survey assessed inherent risk factors (see

discussion below) and inquired about events which would increase the level of risk, such as changes in the operating or regulatory environment.

- Interviews with Executive and Senior Management - The interviews identified, among other things, areas most susceptible to fraud and abuse, challenges, environmental changes, and management of strategic objectives.
- Analysis of Strategic Objectives - The analysis assessed the extent of focus on strategic objectives as well as the measurement, reporting and quality of Long Range Program Plan performance measures.
- Analysis of Investigations and Internal/External Audits - The analysis assessed the number and type of complaints received and investigations conducted by the OIG's Investigations section, as well as the extent of internal/external audit coverage and seriousness of audit findings related to the auditable entities. Consideration was also given to instances of fraud, illegal activities, misconduct, abuse, and management override of internal controls.

These assessment activities gauged risks for the 56 auditable entities within the following areas:

- Inherent Risks – These are risks which are present in business processes or activities, in the absence of internal controls. Examples include a high level of monetary transactions, contracts or assets; geographically dispersed operations; high level of interdependence between units or agencies; and degree of regulation.
- IT Systems – The assessment identified 160 information technology systems within the Department, and evaluated various risk factors such as whether the system housed confidential information or processed financial transactions. Consideration was also given to the reliability of the system, extent of security incidents and whether the system was accessible to external users.
- Business Process Risks – The assessment identified 194 business processes within the Department and evaluated risk factors specific to the business process, such as: the susceptibility of the process to fraud, abuse or illegal activities; complexity of the business process; impact of staffing shortages/vacancies; and turnover in key positions. The assessment also identified the major risks associated with each business process and existence of any internal control weaknesses.
- Audit/Investigations (see discussion at the top of this page)
- Strategic Objectives (see discussion at the top of this page)
- Management Concerns – Specific consideration was given to areas identified by senior and executive management related to the auditable entities and critical interfaces with external entities.

Based on the results of the Risk Assessment, and utilizing a predefined scoring methodology, point values were assigned to each risk factor within the categories noted above. The results were then tabulated and ranked in order of risk score (highest scores = highest risk). The results are set forth in Exhibit C.

AUDIT PLAN

The purpose of the OIG's *Audit Plan* is to help maximize audit coverage, consulting, and management advisory services within available staff resources. The *Audit Plan* identifies the topics to be audited and estimated staff resources required to complete the *Audit Plan* in Fiscal Years 2013-14 and 2014-15.

The *Audit Plan* includes time to continue the multi-year, multi-phase *Business Process Mapping and Enterprise Risk Management Initiative (Initiative)*. The *Initiative* is a major consulting engagement undertaken at executive management's request. The purpose of the *Initiative* is to map the Department's business processes, identify and rank areas of inherent risk, and evaluate opportunities to reengineer or modify business processes to mitigate these risks and achieve greater operational effectiveness and efficiency. In addition to audits and the on-going consulting engagement, the *Audit Plan* allots time for statutorily required duties and responsibilities, such as coordinating external audits and reporting on the status of action taken by management to correct audit findings. The *Audit Plan* also designates time to assist management in a consulting or advisory capacity.

Staff resources available for direct audit and consulting engagement activities are shown in Exhibit A. The *Annual and Long-Term Audit Work Plan for Fiscal Years 2013-14 and 2014-15* is displayed in Exhibit B.

The 2013 Risk Assessment revealed that the safeguarding of confidential data was a chief concern across all divisions. Accordingly, in addition to the activities identified within the *Audit Plan*, Internal Audit will collaborate with OIG Investigations to develop a methodology and project plan to review individual user activity of confidential databases which are accessible to the Department through data exchange agreements. This review is envisioned to be both periodic and ongoing with the goal of providing an additional layer of assurance to safeguard confidential information and ensure that usage of the databases is for authorized purposes.

Exhibit A

**Internal Audit
Available Staff Hours**

Audit Engagements/Management Advisory Services	2013-2014	2014-2015
3 Internal Audit Staff x 2,080 hours/employee	6,240	6,240
Less leave time, training, office administration (37% of available hours) ¹	(2,304)	(2,304)
Adjustment for vacancies (1 FTE 6 months)	<u>(656)</u>	<u> </u>
Hours Available for Direct Audit Activities	3,280	3,936
<u>Less Statutorily Required Audit Activities:</u>		
Annual Risk Assessment	(200)	(200)
Annual and Long-Term Audit Plan	(80)	(80)
Annual Report Publication	(80)	(80)
LBR Schedule IX Preparation	(40)	(40)
External Audit Coordination	(300)	(300)
Auditor General External Assessment	(80)	(40)
LRPP Performance Measure Review	(60)	(60)
Follow-up Status Reports	<u>(340)</u>	<u>(340)</u>
	(1,180)	(1,140)
Less Audit Director Consulting Project Direction	<u>(600)</u>	<u>(500)</u>
Total Remaining Audit Hours	<u>(1,500)</u>	<u>(2,296)</u>
Consulting Engagement: <i>Business Process Mapping and Enterprise Risk Management Initiative</i>		
4 Consulting Staff x 2,080 hours/employee	8,320	8,320
Less leave time, training, office administration (37% of available hours) ¹	(3,072)	(3,072)
Adjustment for vacancies (1 FTE 7 months; 1 FTE 3 months)	(1,093)	<u> </u>
Hours Available for Consulting Engagement	<u>(4,155)</u>	<u>(5,248)</u>

¹ Leave time, training and office administration

Administration	208
Leave (annual, sick, personal holiday)	288
Breaks	112
Training	80
Holidays	<u>80</u>
	768 hours

Exhibit B

ANNUAL AND LONG-TERM AUDIT WORK PLAN

Fiscal Year 2013-14

Audit Engagements	Engagement Description	Estimated Hours
Office of Inspector General	Self-Assessment of the Internal Audit Function (to be conducted in accordance with the IIA's <i>Quality Assessment Manual for the Internal Audit Activity</i> , 6 th ed.)	250
Division of Risk Management	Monitoring Processes Over Contracted Entities (Consulting Engagement)	250
Division of Rehabilitation and Liquidation	Receipts and Disbursements and Select Accounting Functions (Performance Audit)	800
Management Advisory Services	Reserve for Management Assistance [Advisory Services Regarding Managed Care Organizations Anti-Fraud Plans Currently On-going]	<u>200</u>
Total Audit Engagement/Management Advisory Services		<u>1,500</u>
Consulting Engagement	Engagement Description	Estimated Hours
<i>Business Process Mapping and Enterprise Risk Management Initiative</i> Selected Divisions	Map each Division's business processes to identify opportunities to mitigate inherent risks and improve operational effectiveness and efficiency through business process improvement or reengineering	<u>4,155</u>

Note: This plan is subject to revision in accordance with changes in the Department's risk environment.

Exhibit B (Continued)

ANNUAL AND LONG-TERM AUDIT WORK PLAN

Fiscal Year 2014-15

Audit Engagements	Engagement Description	Estimated Hours
Division of Information Systems	Disaster Recovery (Oversight of Information Technology Audit to be conducted by contracted IT audit professionals)	200
Division of Workers' Compensation	EFT and Payment Processes (Performance Audit)	600
Division of Treasury	Deferred Compensation Investing Activities (Performance Audit)	600
Division of Funeral and Cemeteries	Select Funeral and Cemeteries Business Processes (Performance Audit)	600
Management Advisory Services	Reserve for Management Assistance	<u>296</u>
Total Audit Engagement/Management Advisory Services		<u>2,296</u>
Consulting Engagement	Engagement Description	Estimated Hours
<i>Business Process Mapping and Enterprise Risk Management Initiative</i>	Map each Division's business processes to identify opportunities to mitigate inherent risks and improve operational effectiveness and efficiency through business process improvement or reengineering	<u>5,248</u>
Selected Divisions		

Note: This plan is subject to revision in accordance with changes in the Department's risk environment.

Exhibit C
Results of Annual Enterprise-Wide Risk Assessment (2013)

No.	Division/Bureau	Inherent Risks	IT Systems	Business Process Risk	Audits/ Investigations	Strategic Objectives	Management Concerns	Total
1	Risk Management, Loss Prevention	171	35	90	40	21	78	435
2	Rehabilitation & Liquidation, Accounting	128	15	60	70	20	105	398
3	Information Services, Enterprise Applications & Infrastructure	143	15	60	17	27	99	361
4	Accounting & Auditing, Unclaimed Property	171	15	75	70	9	6	346 ²
5	Public Assistance Fraud	113	5	90	66	27	30	331 ²
6	Treasury, Deferred Compensation	125	35	60	12	13	78	323
7	Workers' Compensation, Financial Accountability	131	25	45	20	16	81	318
8	Funeral, Cemetery & Consumer Services	92	15	45	40	21	99	312
9	State Fire Marshal, Firefighters Standards & Training	141	35	90	20	4	15	305
10	Information Systems, Enterprise Financial Support Services	122	35	60	4	35	24	280
11	Treasury, Funds Management	124	15	45	62	13	18	277
12	Agent & Agency, Investigations	110	5	60	51	9	21	256
13	Agent & Agency, Licensing	148	40	30	21	9	6	254

Exhibit C (Continued)
Results of Annual Enterprise-Wide Risk Assessment (2013)

No.	Division/Bureau	Inherent Risks	IT Systems	Business Process Risk	Audits/ Investigations	Strategic Objectives	Management Concerns	Total
14	Administration, Financial Support Services	115	25	90	16	4	3	253
15	Risk Management, Workers' Compensation Claims	87		90	55	13	3	248
16	Accounting & Auditing, Vendor Relations	116	35	60	4	25	6	246
17	Insurance Fraud, Workers' Compensation Fraud	76		60	66	13	30	245
18	State Fire Marshal, Fire Prevention/Compliance & Enforcement	102		30	70	12	30	244
19	Accounting & Auditing, Financial Reporting	80	15	75	41	25	3	239
20	Treasury, Collateral Management	140	15	60	12	9	3	239
21	Rehabilitation & Liquidation, Information Technology Services	92	15	60	20	20	30	237
22	Workers' Compensation, Monitoring and Audit	107	50	45	16	12	6	236
23	Insurance Fraud, Fraud Operations	84		45	66	9	30	234

Exhibit C (Continued)
Results of Annual Enterprise-Wide Risk Assessment (2013)

No.	Division/Bureau	Inherent Risks	IT Systems	Business Process Risk	Audits/ Investigations	Strategic Objectives	Management Concerns	Total
24	Rehabilitation & Liquidation, Claims	92	15	60	20	16	30	233
25	Consumer Services, Consumer Assistance	90	15	45	51	9	21	231
26	State Fire Marshal, Fire and Arson Investigations	113		45	66		6	230
27	Legal Services, Bureau of Legal Services	127	35	30	20	16		228
28	Information Systems, Bureau of Administrative Services	108	15	45	16	27	9	220
29	Legal Services, Service of Process	133	15	30	20	20		218
30	Information Systems, Office of Strategic Business Services	91		60	21	35	9	216
31	Consumer Services, Education, Advocacy & Research	94	15	45	25	29	6	214
32	State Fire Marshal, Administration - Incident Reporting System	104	15	60	12	12	6	209
33	Accounting & Auditing, Bureau of Auditing	90	15	60	29	9	3	206
34	Rehabilitation & Liquidation, Asset Recovery & Management	92		60	20	4	30	206

Exhibit C (Continued)
Results of Annual Enterprise-Wide Risk Assessment (2013)

No.	Division/Bureau	Inherent Risks	IT Systems	Business Process Risk	Audits/ Investigations	Strategic Objectives	Management Concerns	Total
35	Accounting & Auditing, State Payrolls	63	25	60	28	21	3	200
36	Workers' Compensation, Office of Employee Assistance & Ombudsman	82	15	60	25	12	6	200
37	Workers' Compensation, Data Quality and Collection	92	40	30	20	4	6	192
38	Rehabilitation & Liquidation, Legal Services	90		30	20	20	30	190
39	Administration, Bureau of General Services	97	5	30	51	4	3	190
40	Consumer Services, Bureau of Consumer Outreach	84		45	16	9	21	175
41	Risk Management, Property and Liability Claims	71		30	49	21	3	174
42	Rehabilitation & Liquidation, Administrative Services	68	5	30	20	20	30	173
43	Workers' Compensation, Bureau of Compliance	67	35	30	31		6	169
44	Insurance Fraud, Professional Standards & Training	57	15	45	4	29	15	165

Exhibit C (Continued)
Results of Annual Enterprise-Wide Risk Assessment (2013)

No.	Division/Bureau	Inherent Risks	IT Systems	Business Process Risk	Audits/ Investigations	Strategic Objectives	Management Concerns	Total
45	Insurance Fraud, Crime Intelligence & Analytical Support	82	15	15	8	29	15	164
46	Administration, Human Resources	65	5	60	16		3	149
47	State Fire Marshal, Forensic Fire and Explosives Analysis	90	5	15	16	16	6	148
48	Chief of Staff, Office of Budget	71		30	20	20		141
49	Rehabilitation & Liquidation, Estate Management	48	5	15	20	20	30	138
50	Medicaid and Public Assistance Fraud Strike Force	59		30	25	20		134
51	General Counsel, Public Records Office	51		45	16	20		132
52	Accounting & Auditing, Enterprise Education & FLAIR Education	60		15	20	29	3	127
53	Chief of Staff, Office of Strategic Planning	39		45	20	20		124
54	Office of the Insurance Consumer Advocate	59	5	15	25	12		116

Exhibit C (Continued)
Results of Annual Enterprise-Wide Risk Assessment (2013)

<i>No.</i>	<i>Division/Bureau</i>	<i>Inherent Risks</i>	<i>IT Systems</i>	<i>Business Process Risk</i>	<i>Audits/ Investigations</i>	<i>Strategic Objectives</i>	<i>Management Concerns</i>	<i>Total</i>
55	Accounting & Auditing, Office of Fiscal Integrity	52	5	15	8	13	3	96
56	Administration, Office of Publications	39	5	15	20	4	3	86

² Not scheduled for an audit or consulting engagement as the section is currently undergoing an audit by the Auditor Generals' Office.