

Florida Department
of Financial Services



Jimmy Patronis
Chief Financial Officer

Office of Inspector General

David T. Harper
Inspector General

Annual and Long Term Audit Work Plan

Fiscal Years 2018-19 and 2019-20

Promoting accountability, integrity and efficiency in government



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

November 8, 2018

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

Dear CFO Patronis:

I am pleased to submit for your review and approval our Annual and Long -Term Audit Plan for Fiscal Years 2018-19 and 2019-2020. 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 planned engagements set forth within this plan, the plan reserves time to respond to requests for assistance that you or your managers may have during the year. This may include formal consulting engagements or other management advisory services.

Our audit plan is subject to changing conditions. We will modify the plan as necessary, in accordance with management concerns, and our ongoing assessment of circumstances and events impacting the Department's 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,

A handwritten signature in blue ink that reads "David T. Harper".

David T. Harper
Inspector General

DH/eps

Approved: _____

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

Jimmy Patronis, Chief Financial Officer

Introduction

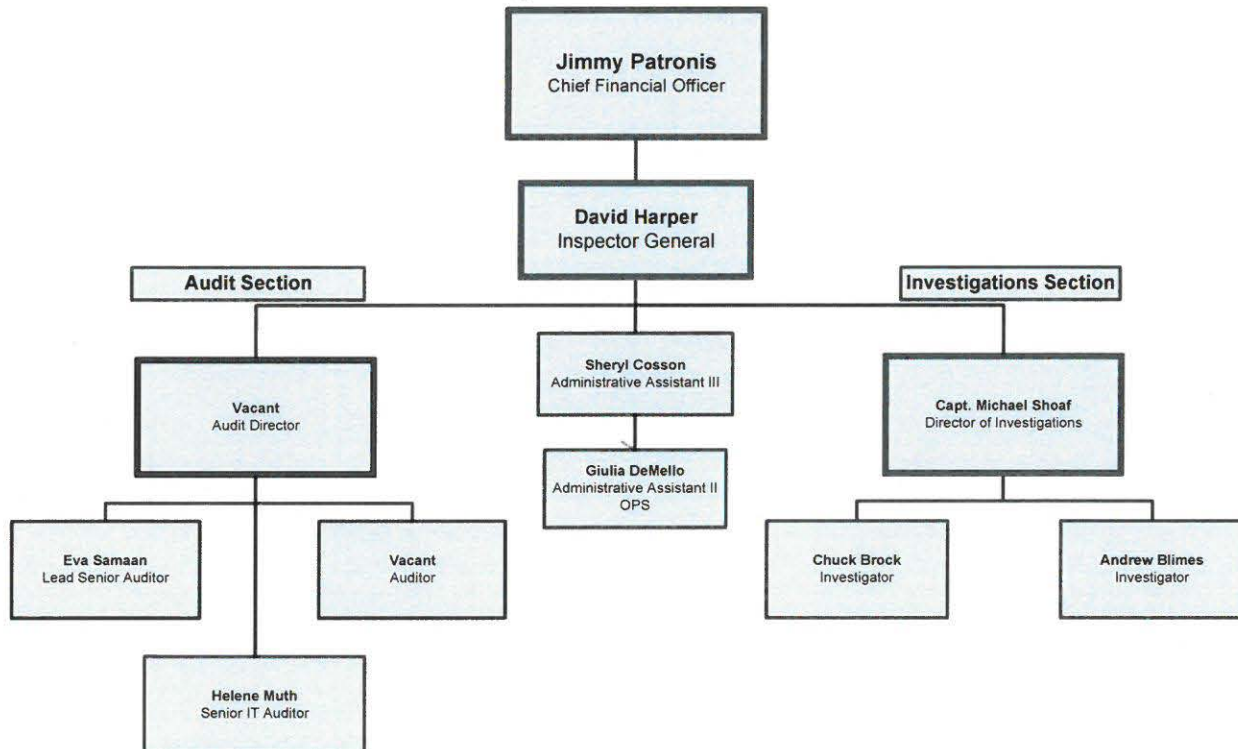
BACKGROUND

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 (CFO) and executive 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 (IG) is appointed by, and reports to the CFO. The IG directs the activities of the OIG team members within two sections: Audit and Investigations.

Office of Inspector General Organizational Chart



DUTIES AND RESPONSIBILITIES

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

- Provides leadership, oversight, and coordination of audits, investigations, and management reviews relating to our agency's programs and operations.
- Directs or coordinates 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.
- Communicates with the CFO and executive management concerns of potential risks of fraud, waste or abuse, and recommends opportunities for improvement. Identifies areas in need of improvement, recommends corrective actions, and reports on process or program improvements.
- Assesses the agency's efforts to enhance State programs' efficiency and effectiveness, in accordance with laws and regulations, and provides support to management for continued success.
- Advises division management in the development of performance measures, standards, and procedures for the evaluation of agency programs; assesses the reliability and validity of the information, and makes recommendations for improvement.
- Coordinates with and facilitates in the performance of external audits conducted by the Office of the Auditor General, federal auditors, and other governmental bodies.

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.

AUDIT

The Audit Section (Internal Audit) performs independent and objective audit and consulting engagements of the Department's programs, processes, and functions. Audit engagements assess the adequacy of the internal controls, efficiency and effectiveness of operations, and compliance with rules and regulations. The Audit Section performs these engagements in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards) published by The Institute of Internal Auditors Inc. Additionally, audit staff serves management in an advisory capacity on issues that do not require extensive audit or consulting services.

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 (IT) audits evaluate the organization's internal controls over IT resources 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 IT audits.
- Consulting engagements evaluate specific aspects of operations management requests from the Audit Section. Division and Audit management agree upon the nature and scope of work for such engagements, which help improve the Department's governance, risk management, and control processes.

Other Audit Section Activities

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

- **Annual Risk Assessment:** This assessment includes all Departmental operations and evaluates business, financial, reputational, information technology, and fraud risk factors. The Risk Assessment serves as the basis for Audit Section's Annual and Long-Term Audit Work Plan (Audit Plan). The Risk Assessment and Audit Plan are addressed in detail later in this report.
- **Consulting Engagements:** Consulting activities are advisory and management-related service activities, which add value and improve an organization's operations. The auditors agree upon the nature and scope of consulting engagements with management.
- **Management Advisory Services:** These services are limited in scope, but add value to management through various alternative methods such as counsel, advice, facilitation, inspection, reviews and training.

- **Quality Assurance (QA) Activities:** Professional Standards require QA activities, which include both ongoing and periodic assessments relating to audit functions. The OIG audit staff conducts internal assessment activities, and the Auditor General's Office conducts an external assessment of the Audit Section once every three years.
- **Coordination with External Audit Entities:** 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 audit the Department's programs and operations. The Audit Section serves as a liaison to external reviewers and is responsible for coordinating their audits.
- **Follow-up Status Reports:** The Audit Section is required to monitor the status of corrective actions of the Department's management in response to audit issues identified by the Auditor General, OPPAGA, and the Audit Section during audits and published in audit reports. The Audit Section reports the status of corrective actions to the CFO and the Joint Legislative Auditing Committee on six-month intervals until full implementation, or executive management assumes the risk of not implementing the corrective action.
- **Schedule IX Preparation:** Schedule IX details major audit issues relating to the Department's operations, identified because of internal and external audits. The Schedule IX is a required component of the agency's annual Legislative Budget Request.
- **Long-Range Program Plan Performance Measure Review:** This 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 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 audit issues identified on periodic departmental risk assessments. In addition, Professional Standards require the Audit Plan be based on a documented risk assessment, undertaken at least annually. Accordingly, during the summer of 2018, the Audit Section conducted its Annual Risk Assessment. The results of the Risk Assessment and input from the Department's senior and executive management identify audit topics for inclusion in the Audit Plan.

ANNUAL RISK ASSESSMENT

The 2018-2019 Annual Risk Assessment encompassed all Department operations and included the following components:

- Risk Assessment Survey: The survey included 13 questions and was sent to 58 Divisions, Offices, and Bureaus 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 Management and Senior Management: The interviews identified, among other things, areas most susceptible to risks and potential fraud challenges.
- Analysis of Investigations: The analysis assessed the extent and seriousness of complaints received by the OIG Investigations Section related to the various Department business units.
- Analysis of Audits and Reviews: The analysis assessed the extent of internal and external audit coverage and seriousness of audit findings related to the business units. These included inquiries of any instances of fraud, illegal activities, misconduct, and management override of internal controls.

These assessment activities gauged risks for the 58 Divisions, Offices, and Bureaus 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, but are not limited to, a high level of monetary transactions, contracts or assets; geographically dispersed operations; high level of interdependence between units or agencies; and degree of regulation.
- Information Technology: For the information technology systems which the department's business units routinely use; the assessment incorporated concerns on confidentiality, unauthorized data access or disclosure, and data loss.
- Operational Risks: These risks are specific to the business process, such as the susceptibility of a process to fraud, abuse or illegal activities; complexity of the business process; impact of staffing shortages and vacancies; and turnover in key positions. The assessment also identified the key risks associated with each business process and existence of any internal control weaknesses.
- Audit and Investigations Sections: Please see discussion at the top of this page.
- Management Concerns: These are specific areas related to the Department's business units, and critical interfaces with external entities, that senior and executive management identified as areas of concern.

Based on the results of the Risk Assessment, and utilization of a predefined scoring methodology, the Audit Section assigned point values to each risk factor within the activities noted above. Audit staff compiled and tabulated the results, and ranked in order of risk score (highest scores = highest risk exposures). The results are set forth in Exhibit C.

AUDIT PLAN

The purpose of the OIG's Audit Plan is to optimize the audit, consulting, and management advisory services coverage based on 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 2018-2019 and 2019-2020.

The Audit Plan allots time for statutorily required duties and responsibilities, such as coordinating external audits and reporting on the management's progress on corrective actions. The Audit Plan also designates time to assist management in a consulting or advisory capacity.

Staff resources available for direct audit, consulting, and management advisory engagements are shown in Exhibit A. The Audit Plan for Fiscal Years 2018-19 and 2019-20 is displayed in Exhibit B.

Exhibit A

**Internal Audit
Available Staff Hours**

Audit Engagements/Management Advisory Services	2018-19	2019-20
3 Internal Audit Staff x 2,080 hours/employee	6,240	6,240
Less leave time, training, office administration (37% of available hours) ¹	(2,051) ²	(2,051)
Adjustment for vacancies (1 FTE 6 months)	<u>(693)</u>	<u> </u>
Hours Available for Direct Audit Activities	3,496	4,189
<u>Less Statutorily Required Audit Activities:</u>		
Annual Risk Assessment	(250)	(250)
Annual and Long-Term Audit Plan	(80)	(80)
Annual Report Publication	(80)	(80)
LBR Schedule IX Preparation	(40)	(40)
External Audit Coordination	(40)	(80)
OIG Self-Assessment Activities	(80)	(80)
LRPP Performance Measure Review	(80)	(80)
Follow-up Status Reports	<u>(480)</u>	<u>(480)</u>
	(1,130)	(1,170)
Total Remaining Audit Hours	<u>2,366</u>	<u>3,019</u>

¹ Leave time, training and office administration

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

768 x 2 audit staff = 1,536 hours
768 x .67 (adjustment for 1 FTE Vacancy) = 515
hours
1,536 + 515 = 2,051²

Exhibit B
ANNUAL AND LONG-TERM AUDIT WORK PLAN
Fiscal Year 2018-19

Engagement	Engagement Description	Estimated Hours
Department of Financial Services' (DFS) Fleet Operations Audit	Performance Audit of DFS's Fleet Operations Assess the adequacy and effectiveness of the internal controls over proper authorization, assignment and use of DFS's motor vehicles in accordance with applicable policies and procedures.	900
Division of Accounting & Auditing (A&A) Electronic Funds Transfer (EFT) Audit	Performance Audit of A&A's Electronic Funds Transfer Process Evaluate the adequacy and effectiveness of the A&A's internal controls over the electronic funds transfer process, and ensure it is in accordance with policies and procedures.	800
Division of State Fire Marshal (SFM) Information Technology Systems Consulting	SFM Consulting Engagement Consult with the Division of SMF by reviewing and facilitating upgrades to help improve their operations with current systems and technology.	250
Office of Information Technology (OIT) - Administrative Services State Contract Consulting	OIT Consulting Engagement Consult with OIT on current State Term Contract for Microsoft offerings through the third-party vendor, to clarify product and service definitions, the pricing and quotation process, and improve accuracy of payments.	250
Division of Risk Management (DRM) Advisory	DRM Management Advisory Services Assist the DRM with process improvements, through internal control training, tools and templates used in evaluating their risks and implementing better internal controls.	<u>166</u>
Total hours		<u>2,366</u>

Note: This plan is subject to revision in accordance with changes in the Department's risk environment. The hours assigned to each engagement are an estimate based on prior years, and may vary from actual

Exhibit B (Continued)

**ANNUAL AND LONG-TERM AUDIT WORK PLAN
Fiscal Year 2019-20**

Engagement	Engagement Description	Estimated Hours
Division of Risk Management (DRM), Transaction Processing Controls Audit	Performance Audit of the Bureau of Risk Financing & Loss Prevention Controls over Transaction Processing Evaluate the adequacy and effectiveness of the internal controls over the Bureau's financial transaction processing and procedures.	800
Division of Agent & Agency (AAS) Bureau of Licensing Use and Disclosure of Confidential Information Audit	Performance Audit of AAS's Bureau of Licensing Assess the adequacy of internal controls over authorized use and disclosure of confidential information and compliance with Departmental policies and procedures.	800
Bureau of Legal Services Service of Process Audit	Performance Audit of Legal Services Evaluate the Bureau of Legal Services' controls over the service of process and payments, and compliance with policies and procedures.	600
Office of Information Technology (OIT) Consulting	Consulting Engagement of OIT Consult with OIT on performance areas with access to confidential or personal information, and hardware and software repositories to improve the Department's safeguards against potential fraud.	600
Management Advisory Services	Reserve for Management Assistance	<u>219</u>
Total hours		<u>3,019</u>

Note: This plan is subject to revision in accordance with changes in the Department's risk environment. The hours assigned to each engagement are an estimate based on prior years, and may vary from actual.

Exhibit C
Results of FY 2018-19 Annual Risk Assessment
(All business units)

Office and Bureau Surveys	<ul style="list-style-type: none"> • Surveys were sent to 58 DFS offices and bureaus • 13 Questions addressed various inherent and operational risk factors including fraud, IT systems, regulations, etc.
Division and Office Director Interviews	<ul style="list-style-type: none"> • Interviewed 18 division and office directors • 9 questions addressed risk areas, governance processes, organizational and environmental changes, etc.
Analysis of Audits and Reviews	<ul style="list-style-type: none"> • Evaluated extent and frequency of monitoring coverage of the Department's offices and bureaus • Evaluated extent and seriousness of audit findings related to the Department's offices and bureaus
Analysis of Investigations	<ul style="list-style-type: none"> • Evaluated the extent and seriousness of complaints received by OIG Investigations related to the Department's offices and bureaus

Risk Exposures

Rank	Risk Category	Number (Percent) of Business Units Exposed to the Risk
1	Inadvertent reliance on misinformation or incomplete information	37 (15%)
2	Loss of key/knowledgeable staff	32 (13%)
3	Unauthorized or improper disclosure or dissemination of confidential data	31 (12%)
4	Loss or misappropriation of cash, checks and other receipts	30 (12%)
5	Failure to meet deadlines	19 (7%)
6	Inadequate contract management and/or monitoring	18 (7%)
7	Data integrity	16 (6%)
8	Failure to safeguard confidential and/or sensitive data	11 (4%)
9	IT system failure	7 (3%)

Risk Factors

Risk Factor	Response	No. and Percentage of Responses	Risks
Internal control weaknesses	None Identified	41 (71%)	Unauthorized access, inconsistent data, data errors
	Minimal Impact	5 (9%)	
	Moderate Impact	10 (17%)	
	High Impact	2 (3%)	
IT resource security	No concerns identified	53 (91%)	Unauthorized data disclosure, data loss
	Routine concerns identified	2 (3%)	
	Specific, non-routine risks identified	3 (5%)	
Outdated laws, rules or regulations	Yes	21 (36%)	Inefficiencies, regulatory burden
	No	37 (64%)	
Manual processes	No manual processes identified	25 (43%)	Inefficiencies, data errors
	Administrative manual processes identified	22 (38%)	
	Operational manual processes identified	5 (9%)	
	Administrative and operational manual processes identified	6 (10%)	
Value and cost	Changes to operations could be made to improve customer driven value and reduce costs for Floridians	25 (43%)	Inefficiencies, increased costs
	No changes to operations could be made to improve customer driven value and reduce costs for Floridians	33 (57%)	
IT application functionality duplication	Yes	12 (21%)	Inefficiencies, increased costs
	No	46 (79%)	
IT needs met	IT meets all essential needs of the office or bureau.	36 (62%)	Inefficiencies, increased costs
	IT meets most, but not all, essential needs of the office or bureau.	15 (26%)	
	IT is limited, but mostly meets the needs of the office or bureau.	3 (5%)	
	IT no longer meets the needs or requirements of the office or bureau.	4 (7%)	