

PERFORMANCE AUDIT  
OF THE  
OFFICE OF INTERNAL AUDIT  
FAMILY INDEPENDENCE AGENCY

January 2003



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

Report Number:  
 43-121-01

*Office of Internal Audit*

*Family Independence Agency*

Released:  
 January 2003

*The Office of Internal Audit (OIA) is an internal audit agency within the Family Independence Agency (FIA). OIA's charter policy states that it was established to examine and evaluate FIA's activities and internal controls as a service to FIA's management. In part, it is an internal control that functions by independently measuring and evaluating the effectiveness of FIA's control systems. OIA also provides liaison activities for external audits.*

***Audit Objectives:***

1. To assess OIA's compliance with *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.
2. To assess OIA's effectiveness and efficiency in performing audits and reviews and evaluate FIA's internal control over selected operations.

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***Audit Conclusions:***

1. We concluded that OIA did not comply with auditing standards.
2. We concluded that OIA was neither effective nor efficient in performing audits and reviews and that FIA's internal control over selected operations was sometimes not effective.

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***Noteworthy Accomplishments:***

OIA management has been involved with many FIA initiatives early on to help ensure that internal control is in place. Also, discussions with FIA management disclosed that OIA has been responsive to management requests for audits and has become a respected source of information and assistance. In addition, in response to a customer survey, OIA has made major improvements in the timely issuance of its audit reports. Further, OIA has developed a user-friendly Web site to disseminate information and provide online access to OIA audit reports.

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***Material Conditions:***

OIA should enhance its audit planning process to help ensure that internal audit resources are used effectively and efficiently. Also, FIA should reassess OIA's role in helping to ensure that FIA achieves its mission (Finding 1). OIA often failed to comply with established internal

control and auditing standards in its preparation and review of working papers (Finding 2). OIA did not maintain a quality assurance process (Finding 3). FIA should develop an effective process to help ensure that OIA follows up audit findings and that FIA management initiates effective corrective action (Finding 4). OIA did not comply with Section 18.1486 (5) of the *Michigan Compiled Laws* (Finding 5).

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**Other Conditions:**

OIA should document that professional staff comply with applicable auditing

standards concerning conflict of interest disclosure (Finding 6). OIA's internal control did not ensure that OIA staff met OIA's minimum continuing professional education requirements (Finding 7).

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**Agency Response:**

FIA's response indicated that it agreed with 4 recommendations, partially agreed with 2 recommendations, and disagreed with 2 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.state.mi.us/audgen/](http://www.state.mi.us/audgen/)



Michigan Office of the Auditor General  
201 N. Washington Square  
Lansing, Michigan 48913

**Thomas H. McTavish, C.P.A.**  
Auditor General

**James S. Neubecker, C.P.A., C.I.A., D.P.A.**  
Executive Deputy Auditor General

**Scott M. Strong, C.P.A., C.I.A.**  
Director of Audit Operations



STATE OF MICHIGAN  
OFFICE OF THE AUDITOR GENERAL  
201 N. WASHINGTON SQUARE  
LANSING, MICHIGAN 48913  
(517) 334-8050  
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

January 31, 2003

Ms. Nannette M. Bowler, Director  
Family Independence Agency  
Grand Tower  
Lansing, Michigan

Dear Ms. Bowler:

This is our report on the performance audit of the Office of Internal Audit, Family Independence Agency.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## TABLE OF CONTENTS

### OFFICE OF INTERNAL AUDIT FAMILY INDEPENDENCE AGENCY

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	6
Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up	7
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Compliance With Auditing Standards	9
1. Audit Planning	9
2. Working Paper Preparation and Review	12
3. Quality Assurance Process	16
4. Audit Follow-Up and Corrective Action	17
5. Compliance with Statute	19
6. Conflict of Interest Disclosure	20
7. Continuing Professional Education	21
Effectiveness and Efficiency in Performing Audits and Reviews	21
GLOSSARY	
Glossary of Acronyms and Terms	23

## Description of Agency

The Office of Internal Audit (OIA) is an internal audit agency within the Family Independence Agency (FIA). OIA defined its purpose in its charter policy:

The Office of Internal Audit was established to examine and evaluate the Family Independence Agency's activities and internal controls as a service to the agency's management. In part it is an internal control that functions by independently measuring and evaluating the effectiveness of the agency's control systems.

The Management and Budget Act (Act 272, P.A. 1986, as amended, specifically, Section 18.1486 of the *Michigan Compiled Laws*) provides for each principal department to appoint an internal auditor who reports to and is placed under the general supervision of the department head. FIA's internal auditor served as OIA director and reported directly to the FIA deputy director during our audit period.

All FIA operations are subject to audit by OIA. OIA is responsible for audit coverage of 123 local offices, approximately 1,200 contract providers, 83 Friends of the Courts and prosecuting attorneys, central office functions, and other special programs. OIA is responsible for designing and implementing an annual plan for audit coverage of FIA's programs and activities; reviewing and evaluating FIA's activities and internal control\* in the financial, electronic data processing, and operating functions of FIA; making recommendations for improvement; providing written reports of audit findings and recommendations; providing liaison activities for all external audits and reviews; ensuring that professional standards and governmental requirements are adhered to for audits performed; and providing consultation to FIA management. Also, OIA is responsible for reviewing audit reports for all of FIA's subrecipients as required by U.S. Office of Management and Budget Circular A-133.

OIA incurred operating expenses of \$1,290,619 and \$1,735,527 in fiscal years 1999-2000 and 1998-99, respectively. OIA had 16 employees as of July 31, 2001.

\* See glossary at end of report for definition.

## **Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up**

### Audit Objectives

Our performance audit\* of the Office of Internal Audit (OIA), Family Independence Agency (FIA), had the following objectives:

1. To assess OIA's compliance with *Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.
2. To assess OIA's effectiveness\* and efficiency\* in performing audits and reviews and evaluate FIA's internal control over selected operations.

### Audit Scope

Our audit scope was to examine the program and other records of the Office of Internal Audit. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our audit procedures, performed from April through September 2001, included examination of OIA records for the period August 1, 1998 through July 31, 2001. We performed a preliminary survey to obtain an understanding of OIA operations. We researched professional auditing standards to select our testing criteria. We selected a sample of OIA audits and reviewed the supporting audit working papers to determine compliance with professional auditing standards. We also reviewed OIA's audit planning and project management process to document OIA's oversight of FIA operations. In addition, we reviewed staff training records to ascertain compliance with OIA policy and professional auditing standards. Also, we interviewed selected FIA personnel who requested audits during our audit period for their input on OIA.

\* See glossary at end of report for definition.

### Agency Responses and Prior Audit Follow-Up

Our report includes 7 findings and 8 corresponding recommendations. The agency preliminary response indicates that FIA agrees with 4 recommendations, partially agrees with 2 recommendations, and disagrees with 2 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

FIA complied with 2 of the 6 prior audit recommendations included within the scope of our current audit. Two prior audit recommendations were rewritten for inclusion in this audit report, and 2 recommendations are repeated in this report.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## COMPLIANCE WITH AUDITING STANDARDS

### COMMENT

**Audit Objective:** To assess the Office of Internal Audit's (OIA's) compliance with *Standards for the Professional Practice of Internal Auditing (SPPIA)* issued by the Institute of Internal Auditors.

**Conclusion:** We conclude that OIA did not comply with auditing standards. Our assessment disclosed five material conditions\*. OIA should enhance its audit planning process to help ensure that internal audit resources are used effectively and efficiently, and the Family Independence Agency (FIA) should reassess OIA's role in helping to ensure that FIA achieves its mission (Finding 1). Also, OIA often failed to comply with established internal control and auditing standards in its preparation and review of working papers (Finding 2). In addition, OIA did not maintain a quality assurance process (Finding 3). Further, FIA should develop an effective process to help ensure that OIA follows up audit findings and that FIA management initiates effective corrective action (Finding 4). Finally, OIA did not comply with Section 18.1486(5) of the *Michigan Compiled Laws* (Finding 5).

Our assessment also disclosed reportable conditions\* related to conflict of interest disclosure and continuing professional education (Findings 6 and 7).

### FINDING

#### 1. Audit Planning

OIA should enhance its audit planning process to help ensure that internal audit resources are used effectively and efficiently. Also, FIA should reassess OIA's role in helping to ensure that FIA achieves its mission.

*SPPIA* Standard 520 states that the director of internal auditing should establish plans to carry out the responsibilities of the internal auditing department. These

\* See glossary at end of report for definition.

plans should be consistent with the internal auditing department's charter and organizational goals. Our review of OIA's audit planning process disclosed:

- a. OIA had not formally identified and cataloged auditable activities.

*SPPIA* Guideline 520.04, subsection .4 states that the first phase of the risk assessment process is to identify and catalog the auditable activities. Auditable activities consist of those subjects (programs), units, or systems that are capable of being defined and evaluated. Auditable activities may include policies, procedures, practices, information systems, major contracts, and laws and regulations.

- b. OIA had not formally identified risk factors to help prioritize auditable activities into an audit plan.

*SPPIA* Guideline 520.04, subsections .6 and .8, respectively, state that risk factors are the criteria used to identify the relative significance of, and likelihood that, conditions and/or events may occur that could adversely affect the organization and that risk factors may include competence, adequacy, and integrity of personnel; complexity or volatility of activities; adequacy and effectiveness of internal control; results of previous audits; and acceptance of audit findings and corrective action taken. Also, *SPPIA* Guideline 520.04, subsections .9 and .10, respectively, state that the director of internal auditing may decide to weigh the risk factors to signify their relative significance and that the director should generally assign higher audit priorities to activities with higher risks.

- c. OIA should formally document its consultation with FIA managers and others to help assess risk.

*SPPIA* Guideline 520.04, subsection .11 states that the director of internal auditing should incorporate information from a variety of sources into the risk assessment process. We noted that OIA annually consulted with FIA managers and others but did not formally document the results of such consultations and the impact on its audit plan.

FIA has many varied programs and administrative support functions that have undergone significant changes in recent years. Significant change often

increases the risk that internal control may not be adequate or functioning as designed.

During fiscal years 1998-99 through 2000-01, substantial portions of OIA's resources were expended conducting many audits that may not have been of high risk. Although necessary, we conclude that audits such as local office and contract audits are of less risk than audits that evaluate the effectiveness and efficiency of FIA's varied programs. These programs are critical to FIA's ability to achieve its mission of improving the quality of life in Michigan by protecting children and vulnerable adults, delivering juvenile justice services, and providing support to strengthen families and individuals striving for independence. As noted in many recent Office of the Auditor General financial and performance audits, material weaknesses\* and conditions have impaired the effectiveness and efficiency of various FIA operations.

### **RECOMMENDATIONS**

We recommend that OIA enhance its audit planning process to help ensure that internal audit resources are used effectively and efficiently.

We also recommend that FIA reassess OIA's role in helping to ensure that FIA achieves its mission.

### **AGENCY PRELIMINARY RESPONSE**

FIA agrees with items a. and b. of the finding and stated that it has complied with the first recommendation. FIA informed us that OIA catalogued FIA programs and activities in September 2001 and has assessed risk for each. This assessment was used in developing OIA's audit plan for fiscal year 2001-02. The assessment has been updated and is being used in the development of OIA's audit plan for fiscal year 2002-03.

FIA disagrees with item c. of the finding. FIA informed us that OIA consulted with FIA management in the development of the annual audit plan for the audit period and many years prior to that. OIA documented those contacts and included management's suggestions in the annual audit plans and will continue to do so.

\* See glossary at end of report for definition.

FIA agrees and stated that it has complied with the second recommendation. FIA believes that through the development/implementation of the audit plan, OIA is helping FIA achieve its mission.

## **FINDING**

### **2. Working Paper Preparation and Review**

OIA often failed to comply with established internal control and auditing standards in its preparation and review of working papers.

OIA's internal control for the preparation and review of working papers is delineated in the OIA Manual. Also, *SPPIA* Guidelines 410.01 and 420.01 prescribe acceptable practices for the preparation and review of working papers. Our review of OIA working papers disclosed:

- a. OIA often did not document evidence of a supervisory/management review in its working papers.

OIA Manual item 333 states that each working paper shall identify the reviewer and the date reviewed. Also, *SPPIA* Guideline 420.01, subsections .5 j. through .5 l. state that all audit working papers should be reviewed and that evidence of the review should be documented in the working papers.

We noted that 13 (68%) of 19 sets of working papers that we reviewed did not contain evidence of supervisory/management review and that supervisory staff prepared 10 (77%) of these 13 sets. Also, we noted 2 instances of improper assessments and/or conclusions. Completing the required review of working papers should help ensure that all appropriate auditing procedures are performed and that the conclusions drawn are accurate and documented.

- b. OIA usually did not document matters discussed or conclusions reached at audit entrance and exit meetings.

Of 19 sets of working papers reviewed, we noted that 16 (84%) and 14 (74%), respectively, did not document audit related matters discussed at the entrance and exit meetings.

*SPPIA* Guideline 410.01, subsection .4 b. states that a summary of the matters discussed at meetings and any conclusions reached should be prepared and retained in the working papers. This documentation may be critical to ensure that the auditee was informed of audit objectives and conclusions.

- c. OIA usually did not document how sample sizes were determined or the method used to select sample items.

Of 17 sets of working papers reviewed that indicated audit sampling was used, 16 (94%) did not document how sample sizes were determined or the method used to select sample items.

OIA Manual item 334 states that the auditor should document how the sample size was determined and the method used in selecting the sample items.

- d. OIA sometimes did not develop audit work plans and/or did not approve audit work plans that were developed. Eleven of the 19 audits we reviewed had preapproved work plans. For the other 8 audits, 1 (13%) did not contain an audit work plan and 3 (38%) did not have proposed work plans approved.

*SPPIA* Guideline 410.01, subsection .8 states that the director of internal auditing or designee should approve in writing audit work plans prior to the commencement of audit work and that adjustments to audit work plans should be approved in a timely manner.

Preparing and approving audit work plans helps ensure that the audit procedures are designed to attain audit objectives and the appropriate audit scope and level of testing is completed. Reports for 3 (38%) of the 8 audits with proposed work plans did not cite conclusions related to one of the stated audit objectives, and working papers for 2 (67%) of these 3 audits did not document that audit work was conducted to address the stated objective.

- e. OIA sometimes did not document the reported review and evaluation of internal control.

Fourteen of the 19 audits we reviewed did not require an assessment of internal control. For the other 5 audits, 3 (60%) sets of working papers did not

contain evidence of a review and evaluation of internal control although the audit report or audit objectives made reference to internal controls.

OIA Manual items 333 and 334 state that working papers should contain evidence that there is a proper study and evaluation of the existing internal control as a basis for reliance thereon including: the degree of reliance placed on the controls and methods and the reliance placed on controls and its effect on the auditor's testing, internal control strengths and weaknesses, and the resulting exception and conclusions drawn by the auditor from the review. Also, *SPPIA* Standard 300 states that the scope of internal auditing should encompass the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities.

A review and evaluation of internal control helps to determine whether the system established provides reasonable assurance that the organization's objectives and goals will be met effectively and efficiently and to determine if the system is functioning as intended.

- f. OIA usually did not document that audited financial populations reconciled with the State's accounting records.

Nine of the 19 sets of working papers we reviewed included tests of financial transactions. Of these 9 sets, 8 (89%) did not contain evidence that audited financial populations reconciled with the Michigan Administrative Information Network (MAIN).

*SPPIA* Guideline 420.01, subsection .5 f. states that if internal auditors are reporting on financial information, the working papers should document whether the accounting records agree or reconcile with such financial information. OIA working papers included various reports provided by FIA staff or the auditee, but such reports were not reconciled to MAIN to help ensure that the audited population was complete.

- g. OIA's working papers often did not contain a summary of the audit work performed.

Of 19 sets of working papers reviewed, 7 (37%) did not contain a summary of the audit scope and conclusions. Also, individual working papers often did not include the source of information, the purpose, and an explanation of tick marks.

OIA Manual items 334 and 333, respectively, state that working papers should contain a summary of the audit scope and audit conclusions and that each working paper should contain information to document its source and purpose and explain the meaning of tick marks. Also, *SPPIA* Guideline 420.01, subsection .5 b. states that audit working papers should document the auditing procedures performed, the information obtained, and the conclusions reached.

- h. OIA usually did not cross-reference working papers to the audit report.

Of 19 sets of working papers reviewed, 14 (74%) did not contain a copy of the audit report cross-referenced to the working papers.

OIA Manual item 333 states that working papers should include a copy of the report cross-referenced to the working papers. A cross-referenced audit report helps ascertain that the report is supported by the working papers.

We noted a similar finding in the prior audit covering the period January 1, 1978 through May 31, 1986. In its response, dated September 18, 1986, FIA stated that it concurred with the recommendation and had initiated corrective action by establishing a task force to review and recommend professional standards, including a policy on working paper documentation, as the basis for future reviews and evaluations. OIA still maintains and periodically updates the OIA Manual to provide OIA auditors with guidance on the preparation of working papers in accordance with professional auditing standards.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT OIA COMPLY WITH ESTABLISHED INTERNAL CONTROL AND AUDITING STANDARDS IN ITS PREPARATION AND REVIEW OF WORKING PAPERS.

## **AGENCY PRELIMINARY RESPONSE**

FIA agrees with items for a., b., c., d., g., and h. of the finding and stated that corrective action was implemented in October 2001.

FIA disagrees with item e. of the finding. FIA informed us that OIA determined that a study and evaluation of internal controls was not necessary for the items cited as exceptions.

FIA disagrees with item f. of the finding. FIA informed us that OIA disagrees that reconciliation to MAIN is a necessary audit step for contract audits because the purpose of the audits was to determine that reported costs were appropriate and allowable in accordance with the terms of the contract. OIA is looking at a procedure for reconciling the contracts payment system to MAIN as part of a separate audit. OIA reconciled to MAIN for the year-end closing audit for fiscal year 2000-01.

## **FINDING**

### **3. Quality Assurance Process**

OIA did not maintain a quality assurance process.

*SPPIA* Standard 560 states that the director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department. The purpose of a quality assurance program is to provide reasonable assurance that internal auditing work conforms to *SPPIA*, the internal auditing department's charter, and other applicable standards. A quality assurance program should include supervision, internal reviews, and external reviews. Also, *SPPIA* Guideline 560.01, subsection .2 states: "Quality assurance is essential to achieving such performance [a high level of efficiency and effectiveness], as well as to maintaining the internal auditing department's creditability with those it serves." In addition, *SPPIA* Guidelines 560.03 and 560.04, respectively, state that internal reviews should be performed periodically and that external reviews should be conducted at least once every three years.

In response to our prior audit, FIA stated on September 18, 1986 that it had recently filled a quality assurance position within OIA. However, OIA did not maintain this position (function). Our review of OIA operating policies and

procedures and 19 sets of audit working papers and related reports disclosed an urgent need to reestablish a quality assurance process. We believe that implementing and maintaining such a process would reduce the number of exceptions noted in this report and help ensure that OIA operations comply with auditing standards.

## **RECOMMENDATION**

WE AGAIN RECOMMEND THAT FIA ESTABLISH AND MAINTAIN A QUALITY ASSURANCE PROCESS.

## **AGENCY PRELIMINARY RESPONSE**

FIA agrees and stated that it has complied. OIA has implemented an internal quality assurance process and is participating in a Statewide effort for all departments to comply with the external review requirement.

## **FINDING**

### **4. Audit Follow-Up and Corrective Action**

FIA should develop an effective process to help ensure that OIA follows up audit findings and that FIA management initiates effective corrective action.

An important component of effective internal control is management's responsiveness to audit findings and its initiation of corrective actions. Management's failure to implement appropriate corrective action can be a material weakness in the control environment and must increase an internal or external auditor's professional skepticism regarding the operation of individual program and administrative functions and the overall commitment of senior management. Also, *SPPIA* Guideline 440.01 states that internal auditors should determine that corrective action on reported audit findings was taken and is achieving the desired results or that senior management has assumed the risk of not taking corrective action. In addition, certain reported findings may be so significant in relation to FIA's mission that they require immediate action by management. These conditions should be monitored by internal auditors until corrected because of the effect they may have on the organization.

Our review of OIA's audit follow-up activities disclosed:

- a. OIA did not follow up Office of the Auditor General reported audit exceptions to determine if FIA managers initiated corrective actions.

As published in numerous financial and performance audits and follow-up reviews, we have identified many material and reportable conditions. Often, these findings have been reported in previous audits.

FIA Administrative Handbook Manual item 1012-3 requires OIA to perform periodic audits to determine the extent to which compliance was being achieved with corrective action plans developed as a result of external audits.

- b. FIA did not ensure that OIA followed up other organizational units' reported audit exceptions.

FIA Administrative Handbook Manual item 1012-7 requires the Budget, Analysis, and Financial Management Administration (BAFM) to perform post-audit reviews of OIA audits to ensure that appropriate corrective action was implemented. Also, BAFM is to monitor for compliance when the audit report indicates a need to correct internal control deficiencies or pursue financial recovery.

BAFM personnel stated that "zone" accountants are to follow up reported OIA local office audit findings while conducting fiscal reviews. However, these fiscal reviews pertain only to OIA local office findings and are conducted only at the request of FIA local offices.

FIA's failure to ensure that audit findings are followed up and effective corrective action is implemented is a material internal control weakness that reduces the effectiveness of FIA operations which, in some cases, may result in financial and/or physical harm to vulnerable FIA stakeholders. Also, the need to use external audit resources to reassess and retest FIA operations in subsequent audits is an inefficient use of State resources.

## **RECOMMENDATION**

We recommend that FIA develop an effective process to help ensure that OIA follows up audit findings and that FIA management initiates effective corrective action.

## **AGENCY PRELIMINARY RESPONSE**

FIA agrees and will comply. FIA informed us that it is making organizational changes that will facilitate better monitoring of corrective action. FIA's revised procedures for corrective action monitoring and follow-up will be completed and documented in the Administrative Handbook by May 1, 2003.

## **FINDING**

### **5. Compliance with Statute**

OIA did not comply with Section 18.1486(5) of the *Michigan Compiled Laws*.

Section 18.1486(5) of the *Michigan Compiled Laws* (The Management and Budget Act) states that each principal department shall appoint an internal auditor, and each internal auditor shall adhere to appropriate professional and auditing standards in carrying out any financial or program audits or investigations.

As described in Findings 1 through 4, OIA often did not adhere to *SPPIA*. OIA's noncompliance with *SPPIA* related to the development of an audit plan, preparation of working papers to substantiate work performed and results and conclusions, quality assurance, and monitoring of corrective actions precludes OIA from complying with the statute. According to the Institute of Internal Auditors, compliance with *SPPIA* is essential if the responsibilities of internal auditors are to be met.

## **RECOMMENDATION**

We recommend that OIA comply with Section 18.1486(5) of the *Michigan Compiled Laws*.

## **AGENCY PRELIMINARY RESPONSE**

FIA disagrees with the finding. FIA stated that OIA followed appropriate auditing standards as required by Section 18.1486(5) of the *Michigan Compiled Laws*, although there were instances of noncompliance with the guidelines that directs

auditors on following the standards. FIA also stated that corrective action taken by OIA for Findings 1 through 4 of this audit will result in improved compliance with those guidelines.

## **FINDING**

### **6. Conflict of Interest Disclosure**

OIA should document that professional staff comply with applicable auditing standards concerning conflict of interest disclosure.

*SPPIA* Guideline 120.01 states that internal auditors are not to subordinate their judgment on audit matters to that of others. In addition, *SPPIA* Guideline 120.02, subsections .1 and .2 state that the director of internal auditing should periodically obtain from the internal auditing staff information concerning potential conflicts of interest and bias and that internal auditors should report to the director any situations in which a conflict of interest or bias is present or may reasonably be inferred.

OIA did not have a process for its director to periodically obtain from staff information concerning potential conflicts of interest. Instead, management stated that staff are responsible for informing management of any conflicts or impairments when they are assigned to an audit. Our review of OIA operations did not disclose any instances in which an auditor's objectivity appeared to be compromised. However, OIA did not require staff to document their independence for each assignment in the working papers. Based on OIA's varied assignments, staff may risk having potential conflicts of interest based on personal relationships and prior employment.

## **RECOMMENDATION**

We recommend that OIA document that professional staff comply with applicable auditing standards concerning conflict of interest disclosure.

## **AGENCY PRELIMINARY RESPONSE**

FIA agrees and stated that it has complied. OIA began requiring a statement of independence for each audit in January 2002.

## **FINDING**

### **7. Continuing Professional Education**

OIA's internal control did not ensure that OIA staff met OIA's minimum continuing professional education (CPE) requirements.

*SPPIA* Guideline 1230 states the internal auditors should enhance their knowledge, skills, and other competencies through CPE. Also, OIA Manual item 401 states that professional staff are to obtain 40 hours of CPE annually.

OIA maintained a log of CPE that was paid for by FIA but did not maintain records containing all CPE hours earned by OIA professional staff. Our review of OIA's CPE logs disclosed that 6 of 14 professional staff and 2 of 14 professional staff may not have obtained 40 hours of CPE in fiscal years 1998-99 and 1999-2000, respectively.

## **RECOMMENDATION**

We recommend that OIA improve its internal control to help ensure that OIA staff meet OIA's minimum CPE requirements.

## **AGENCY PRELIMINARY RESPONSE**

FIA disagrees with the finding and recommendation. FIA stated that OIA management took appropriate action when staff did not meet OIA's CPE requirements.

## **EFFECTIVENESS AND EFFICIENCY IN PERFORMING AUDITS AND REVIEWS**

## **COMMENT**

**Audit Objective:** To assess OIA's effectiveness and efficiency in performing audits and reviews and evaluate FIA's internal control over selected operations.

**Conclusion:** We conclude that OIA was neither effective nor efficient in performing audits and reviews and that FIA's internal control over selected operations was sometimes not effective. As reported under our first objective, our assessment disclosed two material conditions. OIA should enhance its audit planning process to help ensure that internal audit resources are used effectively and efficiently,

and FIA should reassess OIA's role in helping to ensure that FIA achieves its mission (Finding 1). Also, FIA should develop an effective process to help ensure that OIA follows up audit findings and that FIA management initiates effective corrective action (Finding 4).

**Noteworthy Accomplishments:** OIA management has been involved with many FIA initiatives early on to help ensure that internal control is in place. Also, discussions with FIA management disclosed that OIA has been responsive to management requests for audits and has become a respected source of information and assistance for management in the local offices as well as in the central office. OIA management estimated that approximately 25% of staff hours is devoted to nonaudit activities, such as work group participation, consultations, assessments, subrecipient monitoring, and staff training.

In addition, in response to a customer survey, OIA has made major improvements in the timely issuance of its audit reports. Further, OIA has developed a user-friendly Web site to disseminate contract and audit information to FIA's contract agencies and external auditors and to provide online access to OIA audit reports.

## Glossary of Acronyms and Terms

<b>BAFM</b>	Budget, Analysis, and Financial Management Administration.
<b>CPE</b>	continuing professional education.
<b>effectiveness</b>	Program success in achieving mission and goals.
<b>efficiency</b>	Achieving the most outputs and outcomes practical with the minimum amount of resources.
<b>FIA</b>	Family Independence Agency.
<b>internal control</b>	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
<b>MAIN</b>	Michigan Administrative Information Network.
<b>material condition</b>	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
<b>material weakness</b>	A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
<b>OIA</b>	Office of Internal Audit.

**performance audit** An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

**reportable condition** A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

**SPPIA** *Standards for the Professional Practice of Internal Auditing.*