

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR

ACTION REFERRAL

TO	DATE
Singleton	6-22-07

DIRECTOR'S USE ONLY		ACTION REQUESTED	
1. LOG NUMBER	000796	<input checked="" type="checkbox"/> Prepare reply for the Director's signature DATE DUE <u>6-29-07</u>	
2. DATE SIGNED BY DIRECTOR	<u>cc: Ms. Bowling</u> <u>Cleared 7/9/07, letter</u> <u>attached.</u>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____ <input type="checkbox"/> FOIA DATE DUE _____ <input type="checkbox"/> Necessary Action	

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
1.			
2.			
3.			
4.			

June 21, 2007

RECEIVED

JUN 22 2007

Stephen C. Nowell II, Director
Division of Audits
SC Department of Health and Human Services
P.O. Box 8206
1801 Main Street
Columbia, SC 29202-8206

Department of Health & Human Services
OFFICE OF THE DIRECTOR

Report of Quality Assurance Review

Dear Mr. Nowell:

At your request, we have conducted a quality assurance review of the work of your division of audits. We reviewed a sample of audits and your office's policies and procedures for compliance with The United States General Accountability Office's Government Auditing Standards.

The review was performed by persons independent of your division and covered audit work performed during fiscal years 2006 and 2007. The scope of the review was restricted to reviewing selected documents, conducting a survey, reviewing the workpapers of a sample of audit projects, and interviewing key personnel.

Based on the scope of our review, we determined that, overall, the work of the division did comply with the United States General Accountability Office's Government Auditing Standards during the period under review. However, we did identify some opportunities for improvement. Additional information and recommendations are provided in the attached report. A response is required and due to Judy Lucas, Team Leader by July 20, 2007. Please forward your response to the following address:

Judy Lucas
c/o South Carolina Forestry Commission
P.O. Box 21707
Columbia, SC 29221-1707

We appreciate the cooperation and assistance provided to us throughout the course of our review. We will be pleased to review with you any of the information in the attached report at your convenience.

Sincerely,

Judy Lucas

Judy Lucas, Team Leader

*Log: Singleton
cc: Bowling
dir. mgr*

Attachment

Cc: Kathleen C. Snider, Bureau Chief
Deirdra Singleton, Deputy Director and General Counsel
✓ Susan Bowling, Acting Director
William Wells, Deputy Director
Shondala Hall, State Internal Auditors Association
File

**Quality Assurance Review
of the
Division of Audits**

for The South Carolina Department of Health and Human Services

Performed by:

Judy Lucas, SC Forestry Commission, Team Leader

Susan Barnhart, Medical University of South Carolina, Team Member

Douglas R. Fioto, SC State Ports Authority, Team Member

May 24, 2007

INTRODUCTION

The Government Auditing Standards, issued by the United States General Accountability Office, require internal audit divisions to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal audit activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the Standards. According to the United States General Accountability Office, "Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review." External quality control reviews should be performed at least once every 3 years. This review was the first performed for the South Carolina Department of Health and Human Services.

This report presents the results of an external peer review conducted May 21, 2007 through May 24, 2007. The review was performed by Judy Lucas (Team Leader), Senior Consultant, SC Forestry Commission; Susan Barnhart, Assistant Director of Internal Audit, Medical University of South Carolina; and Douglas R. Fioto, Chief Internal Auditor, SC State Ports Authority.

OBJECTIVES

The primary objective for this review was to determine whether the division was in compliance with the Standards established by the United States General Accountability Office. A secondary objective was to foster the sharing of experiences, ideas, and approaches with other internal audit departments, in order to provide additional recommendations for improving the internal audit function.

SCOPE

The scope was limited to audits performed in FY 2006 and 2007. The scope included:

- Reviewing the general information and documents received from the internal audit division.
- Reviewing the surveys completed by the division director, audit staff, audited areas, bureau chief, and deputy director above the audit division.
- Interviewing the audit division director and selected members of his staff.
- Examining the workpapers of a representative sample of audit projects completed during the period under review. The audit projects examined were: Fiscal Affairs, MMIS Adjustments, and (Acumen Contract) First Data Government Solutions.

CONCLUSIONS

Our overall evaluation of the internal audit division is that it did comply with the United States General Accountability Office's Standards for the period under review, but opportunities for improvement do exist. This overall evaluation was limited to the scope of our review.

OBSERVATIONS AND RECOMMENDATIONS

Following are the observations of the peer review team as they relate to the *Generally Accepted Government Auditing Standards (GAGAS)*. Insignificant opportunities and/or tips on improving the internal audit function were discussed with the Division Director while on-site. Suggestions for clarifications/improvements to the division manual were recorded and given to the Division Director as well. While some opportunities for improvement are noted with the Division of Audits Manual the review team was quite impressed with the overall quality of the Manual itself.

Independence

GAGAS 3.03 states, "In all matters relating to the audit work, the audit organization and the individual auditor, whether government or public, should be free both in fact and appearance from personal, external, and organizational impairments to independence." The peer review team has reviewed the relative organizational charts and discussed this matter. The peer review team does not believe this standard is being met as there are presently too many reporting layers and the Division of Audits is not optimally organized for reporting. Independence could be strengthened by having the Division of Audits report to the Agency Head or Audit Committee. Effective January 2008, the Government Auditing Standards will change to further support the position that audit should have access to those charged with governance.

Recommendation:

Revise the organizational reporting layers for the Division of Audits to ensure they will meet the forthcoming revisions to Government Auditing Standards, effective January 2008. Have the Division of Audits report to the Agency Head or Audit Committee.

Planning

GAGAS 7.07j states in part, "communicating general information concerning the planning and performance of the audit to management officials responsible for the program being audited and others as applicable." The Division of Audits manual did not address communicating with the auditee on planning.

Recommendation:

Revise the Division of Audits manual to address communicating with the auditee on planning and how the auditee is involved in the process.

Compliance with Laws and Regulations

GAGAS 7.17 states in part, "Based on that risk assessment, the auditors design and perform procedures to provide reasonable assurance of detecting significant instances of illegal acts or violations of provision of contracts or grant agreements." The team found no evidence that staff designed and performed procedures to provide reasonable assurance of detecting significant illegal acts.

Recommendation:

When applicable, design and perform procedures to provide reasonable assurance of detecting significant illegal acts to ensure compliance with GAS 7.17.

Report Contents

GAGAS Chapter 8 addresses the reporting standards and based on the analysis of the peer review team this standard is not being met. A review of the Division of Audits' Manual disclosed that the manual does not address that reports should state that audits are performed in accordance with generally accepted government auditing standards. In addition, the manual did not address disclosing if applicable standards were not followed; the reasons therefor and how not following the standards may affect the results. However, while reviewing the workpapers we found that only one of the three audit reports reviewed referenced the GAS. This one report was the first in our sample that was issued after the completion of the Manual. *GAGAS 8.30* states in part, "Auditors should report that the audit was made in accordance with GAGAS. The statement referencing compliance with GAGAS should be qualified in situations in which the auditors did not follow an applicable standard. In these situations, auditors should disclose in the scope section of the report the applicable standard that was not followed, the reasons therefor, and how not following the standard affected, or could have affected, the results of the audit."

In addition, *GAGAS 8.26* states in part, "when auditors conclude that these types of fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse either have occurred or are likely to have occurred, they should ask those authorities or legal counsel if publicly reporting certain information about the potential fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse would compromise investigative or legal proceedings. Auditors should limit the extent of their public reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record." This standard too was not addressed in the Division of Audits Manual.

GAGAS 8.17 states in part, "Auditors should include in the audit report the scope of their work on internal control and any significant deficiencies found during the audit." Such standard is not addressed in the Division of Audits Manual.

GAGAS 8.12 states in part, "Auditors should attempt to avoid misunderstanding by the report user concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited because of constraints on time or resources. The auditors report should clearly describe the scope of the work performed and any limitations; any applicable standards that were not followed, and the reasons therefor, and how not following the applicable standards affected or could affect the results of the work. The audit report should also include the reasons the auditors were unable to perform this work and the potential impact on the findings if the information is not reliable." Such standard is not addressed in the Division of Audits Manual.

Recommendation:

Revise the Division of Audits Manual to ensure *GAGAS* Reporting Standards are met. Audit Reports should reference *GAS* were followed in the performance of the audit.

REVIEW OF SURVEY RESULTS

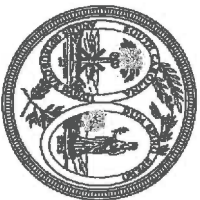
We received 7 questionnaires from audit staff, 5 surveys from audited units, 1 questionnaire from Kathleen Snider, Bureau Chief and 1 questionnaire from Deirdra Singleton, Deputy Director and General Counsel. All were evaluated to determine the knowledge, independence, and effectiveness of the Division of Audits. Based on the results of the staff surveyed, we found the staff to be on the same page as they gave similar responses. No deficiencies were found regarding knowledge and effectiveness. Five surveys were received from audited units to gain an understanding and overall rating of the Division of Audits from individuals receiving their services. The result from the surveys received was an overall rating of GOOD/EXCELLENT. Finally, the results of the survey from Deirdra Singleton, Deputy Director and General Counsel revealed no deficiencies. Her overall opinion of the Division of Audits was GOOD; however opportunities for improvement reside with the timeliness of audit reports. The implementation of budgeted hours versus target dates may assist here as well. Results of the surveys and questionnaires by audit staff and auditees can be found in the worksheets.

CONFERENCES

We held conferences with the Director of the Division of Audits and other officials throughout the course of our review. As a group, we jointly shared experiences, approaches, and other insights to be considered in further improving the work of the Division of Audits.

ACKNOWLEDGMENTS

The team conducting this quality assurance review wishes to thank all personnel for their cooperation and assistance throughout the course of this review.



State of South Carolina
Department of Health and Human Services

Mark Sanford
Governor

Susan B. Bowling
Acting Director

July 13, 2007

Judy Lucas, Internal Auditor
c/o South Carolina Forestry Commission
P.O. Box 21707
Columbia, South Carolina 29221-1707

Dear Ms. Lucas:

Enclosed is the response from the South Carolina Department of Health and Human Services (SCDHHS) regarding the quality assurance review conducted of the SCDHHS Division of Audits. We would like to express our appreciation for the thorough and professional review performed by you and the review team. This was a wonderful opportunity for the Division of Audits, and your recommendations will definitely help us improve our audit operations. In addition, this allows us to demonstrate that we are now in compliance with governmental auditing standards, which will provide additional assurances regarding the value and function of audits within the department.

Again, thanks to everyone on the quality assurance review team for the time and effort you expended on our behalf.

Sincerely,

Susan B. Bowling
Susan B. Bowling
Acting Director

SBB/ssm
Enclosure

cc: Douglas R. Fioto, SC State Ports Authority
Susan Barnhart, Medical University of South Carolina

Log # 796

OBSERVATIONS AND RECOMMENDATIONS

Recommendation No. 1:

"Revise the organizational reporting layers for the Division of Audits to ensure they will meet the forthcoming revisions to Government Auditing Standards, effective January 2008. Have the Division of Audits report to the Agency Head or Audit Committee."

Division of Audits Response:

The Division of Audits would like to clarify the reporting structure at the South Carolina Department of Health and Human Services. Kathleen Snider, Bureau Chief, is what The Institute of Internal Auditors would classify as the "Chief Audit Executive". While this is not reflected in Ms. Snider's position title, it is reflected in her job duties and responsibilities and reporting capabilities. Ms. Snider reports directly to a Deputy Director, who reports to the Agency Director and acts as his designee. This Deputy Director is also the General Counsel for the agency. Ms. Snider does have what would be called "dotted line" reporting authority to the Agency Director, although this is not reflected on the written organizational chart, and she periodically briefs the Agency Director on audit matters. While an Audit Committee may be beneficial for DHHS, it is not viable given the Cabinet structure of government. Therefore, the reporting structure currently in place does promote independence. We recommend improving the documentation for this reporting structure by adding this information to the position description for the Bureau Chief for Compliance and Performance Review.

Recommendation No. 2:

"Revise the Division of Audits manual to address communicating with the auditee on planning and how the auditee is involved in the process."

Division of Audits Response:

Currently, a copy of our planning memo document, which outlines the planning of an audit, is a part of the Division of Audits Policy and Procedure Manual. Also, Chapter 4 of our manual provides more detail regarding the planning process. However, there is no formal verbiage in the manual regarding how the auditee is involved in the process. We will document how the auditee is involved in the process in our manual within Chapter 4. This will include how performance expectations are based on audit objectives and available resource. Planning will define the programs, desired results, and related program goals and performance indicators. Once the objectives are established the auditee will be notified through the engagement letter that will state our goals, time period being reviewed, objectives, and related audit scope. This will inform the auditee of what is to be expected during the course of the audit fieldwork. Also, we will further explain in the audit manual how we discuss the audit objectives and process of the audit with the auditee during the entrance conference.

Recommendation No. 3:

"When applicable, design and perform procedures to provide reasonable assurance of detecting significant illegal acts to ensure compliance with GAS 7.17"

Division of Audits Response:

The Division of Audits will incorporate into the audit manual the following statement: "When applicable and material to the objectives of the audit, the auditors will design and perform procedures to provide reasonable assurance of detecting significant illegal acts."

It should be noted that Division of Audits auditors are alert to situations or transactions that could be indicative of fraud and/or illegal acts, and auditors are also routinely looking for violations of provisions of contracts or grant agreements and abuse that are material to the subject matter or assertion of the engagement. If indications of fraud, illegal acts, and violations of contracts or grant agreements exist that could materially affect the subject matter or assertions, auditors will apply procedures specifically directed to ascertain whether such violations have occurred and the effect on the subject matter or assertion.

In some circumstances, auditors will report fraud, illegal acts, violations of contract provisions or grant agreements, and abuse directly to parties external to the audited entity, such as the SC Attorney General's Office.

Recommendation No. 4:

"Revise the Division of Audits manual to ensure GASAS Reporting Standards are met. Audit reports should reference GAS were followed in the performance of the audit."

Division of Audits Response:

The Division of Audits will include this requirement in our operational manual to document that the Division of Audits ensures GAGAS Reporting Standards are met during the audit process.

This statement was not previously included in our audit manual because we could not use this statement prior to the quality assurance review. Auditors can only use this statement if assessments of the quality improvement program demonstrate that the internal audit activity is in compliance with the Standards.