

FEATURE ARTICLES



FLORIDA'S INTERNAL AUDIT REVIEW PLAN ENSURES COMPLIANCE WITH REGULATIONS

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The internal audit coordinator for the Florida Department of Transportation is confronted with thousands of policies and procedures from which must be selected a workable number for use in conducting compliance reviews. This paper discusses problems, controls and solution, and reporting methods.

AUTHORITY AND RESPONSIBILITY OF INTERNAL AUDITOR

Florida statutes provide that the duties of the internal auditor "shall include, but not be restricted to, reviewing and appraising policies, plans, procedures, accounting, financial and other operations of the department and recommending changes for the improvement thereof. He shall have access at all times to any records, data or other information of the department necessary to carry out his duties."

The statute connotes, but does not specify, that the coordinator reports conditions of noncompliance with established procedures, an area that has been considered a major responsibility of the internal auditor since the establishment of the office in 1956.

DEVELOPMENT OF INTERNAL AUDIT MANUALS

During the period from 1956 through 1969, internal audit manuals were developed to include systems, management, and compliance review procedures for the following activity areas: construction, maintenance, properties, right-of-way, warehouse inventories, purchasing, administrative, and miscellaneous.

The steps outlined in the manuals did not clearly differentiate the 3 approaches. Compliance reviews were limited to major policies and procedures applicable to the activity areas. Check sheets, keyed to the steps outlined in the manuals, were provided for auditor use. However, neither the manuals nor the check sheets reflected source data regarding policies or procedures under review.

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Use during the years revealed that the manuals provided excellent guides for systems and management reviews but limited ones for compliance reviews. In addition, the lack of reference data seriously impeded the preparation of compliance reports, and the system of using formal manuals and check sheets was too cumbersome to keep current with ever-changing federal, state, and department regulations.

During 1969, the State Legislature enacted a law under which several state agencies, including the State Road Department and the Turnpike Authority, were merged to form the Florida Department of Transportation. One result of this merger was a potential increase of more than 50 percent in the number of regulations subject to review by the Internal Audit Office. A reevaluation of compliance review procedures then became obligatory; thus, we undertook a comprehensive study of the entire area of compliance reviews for the purpose of developing a feasible system to be used for controlling this area of responsibility.

REVIEW SYSTEM

To provide the basis for an ideal review system, we established the following criteria:

1. All state, federal, and department policies and procedures must be assembled and kept current and their sources documented;
2. Current data required for planning must be easily accessible;
3. Dates and geographic areas of review must be recorded for each regulation;
4. Regulations to be reviewed must be available during the course of the review; and
5. Findings of each review must be documented and filed.

Marshalling the Source Data

Before devising a comprehensive system of compliance review, we had to determine the availability and extent of source data. Accordingly, we accumulated a library of all available manuals, specifications, memoranda, and handbooks that contained policies or procedures to which department personnel and contractors were subject. This was accomplished by discussing the proposed library and its use with each office supervisor and by obtaining all data available from each known source within the department. We endeavored to obtain the latest state and federal regulations affecting the department by enlisting the aid of state agencies such as the Personnel Board and the Purchasing Division. The manuals, handbooks, memoranda, and other pertinent data then were reviewed for duplication. A total of 57 volumes of current regulations were selected and formed a section in the internal audit reference library. These were placed in 3-ring binders to provide for uniformity in size and ease in handling.

Cataloging the Volumes

The volumes selected were indexed and numbered, with general categories including American Association of State Highway Officials regulations (1 volume, Manual of Uniform Highway Accounting and Financial Management Procedures); federal regulations (8 volumes); state regulations (7 volumes); and department regulations (41 volumes). A simple numbering system was devised to identify the volumes, categories, and activity areas. An index of the volumes was prepared and placed in an easily accessible area near the library section.

Identifying Applicable Regulations Subject to Review

The next step was to identify the requirement of each directive contained in the volumes. We recognized only those portions that constituted directives in the various manuals and disregarded explanations that frequently preceded those directives. Each volume was reviewed, and each regulation was numbered.

Preparing and Filing Regulation Control Detail Sheets

The most time-consuming task of the entire implementation was the preparation of regulation control detail sheets. Figure 1 shows that the regulation was either typed or reproduced on the detail sheet and that enough identifying information was given so that the auditor could find the regulation in one of the volumes. When completed, the sheets were filed by activity area and category; within each category, sheets from each manual were placed in separate folders. For example, in the construction area, separate folders contained policies and procedures from the following manuals: Construction Manual (department); Policies and Procedures Manual (federal); Federal Laws Relating to Highways (federal); FHWA Labor Compliance Manual (federal); Specifications for Highway Field Surveys (department); Standard Specifications for Road and Bridge Constructions (department); Minutes of Meetings of State Road Board (department); Bridge Inspection Manual (department); Management Manual Policy (department); and Safety Manual (department).

By indicating category, activity area, and regulation numbers on the detail sheets, we were able to file on the sheets only those provisions of the manuals that were applicable. Accordingly, provisions of manuals such as the Management Manual Policy appear in several categories in the file. Our work resulted in more than 10,000 sheets being filed in this manner.

Treating Memoranda

We recognized that, for the system to be effectively used as an audit tool, we must initiate a method for providing current information regarding changes, additions, or deletions to regulations. When the memoranda that contain changes or interpretations of regulations are received from the operating units, they are identified by category, recorded on an index sheet, and then filed in 3-ring binders. The index sheet is placed in front of the binder.

REGULATION CONTROL DETAIL SHEETS FOR CONDUCTING COMPLIANCE REVIEWS

In Florida, compliance reviews usually are conducted by category on a district basis. Preselection of activities to be reviewed takes into consideration the following factors: geographical area and time of year (because of tourist season rates); time elapsed since previous review; type of activity currently engaged in within the district (e.g., review of bridge construction procedures would not be possible in all districts at all times); findings reported in previous audit reports and actions taken or promised; number of man-days allowed for assignment completion; and qualifications and previous experience of auditor assigned to the review.

The accessibility of the regulation control detail sheets allows a minimum effort in applying the foregoing factors when activities to be reviewed are selected. After the selection, the sheets are reproduced and the originals are returned to the file. The reproduced copies are placed in a 3-ring binder and are arranged in an order that is compatible with the auditor's travel schedule

and the locale of activity to be reviewed. The memorandum file is reviewed to ensure that none of the selected regulations has been altered by memorandum.

ON-SITE REVIEW

At the site, the auditor arranges the usual interviews and observes the work in progress. He examines documents necessary to provide support data for his findings. As the review progresses, he indicates his findings on the lower portion of each regulation control detail sheet (Fig. 1). The auditor will ob-

FLORIDA DEPARTMENT OF TRANSPORTATION
OFFICE OF INTERNAL AUDIT
REGULATION CONTROL DETAIL

REVIEWED

DATE: 4-22-70

IA NO.: 559

DISTRICT: 3

IA Category 5	Source Reference No.
Construction	4.2 Section 9.3.6
IA Manual Reference	Source Description
	Construction Manual - DOT
Subject Structural Concrete - Reinforcing Steel	Instituted By DOT Construction Staff
Effective Date	Date Instituted
1969	1969
REGULATION	

The Inspector should check items concerning the furnishing and placing of reinforcing steel: Proper size and spacing, minimum clearances, required bending, properly tied and supported, adequate splices, and the general condition as to rust, dirt, scale, paint or oil.

The Inspector should make a detailed inspection of the placement of the steel just prior to pouring the concrete.

Reinforcement steel for initial slab on bridge over Boy Scout Road was spaced as much as 5 1/2". Specifications require 4" spacing.

Figure 1. Regulation control detail sheet.

serve whether the procedure or policy is being complied with, violations or alternate procedures are being used, work is or is not being performed that includes procedures contained in his selection, and regulations not assigned for review are being violated. If he observes the latter, he includes sufficient detail in his work papers so that the regulation reference may be located when he returns to the central office. Although emphasis in this type of review is on compliance, this does not preclude the auditor's observation of inefficiency or of weaknesses in internal control. Any observations of this nature are noted by the auditor, and recommendations are included in his report.

REPORTS AND RECORDS

An internal audit report is prepared from the auditors' findings and is used to measure the efficiency of personnel and to ensure that gross disregard of regulations, with inefficiency or fraud or both that usually follow, does not exist. Minor violations may appear to be relatively insignificant but serve as a warning that more serious violations could occur.

After the audit report has been reviewed, but before the final filing of the work papers, the original regulation control detail sheets in the control file are stamped in the upper right corner (Fig. 1), and the review date, report number, and district reviewed are recorded. This provides information for scheduling future reviews.

MAINTAINING CURRENT DATA

As procedural and policy memoranda are received, they are filed and referenced as previously explained. When entire replacement manuals or major sections of old manuals are received, the new data are coded and given the same treatment as when the system was first implemented. The superseded manuals are marked "superseded," and the new ones are assigned the same manual reference numbers. Superseded regulation control detail sheets are removed from the current section of the file and replaced with current sheets; the old sheets are transferred to the "superseded" section of the file for historical reference. This superseded section is filed by category and source manual in much the same manner as the current section.

COST AND VALUE

The implementation of the system was estimated to have cost the following:

Clerical salaries	\$1,500
Supervisory salaries	1,000
Supplies	<u>500</u>
Total	\$3,000

Use of the system has produced reports that are more thorough in their scope than previous ones and that are better documented. Time saved in planning and conducting the review, in reviewing working papers, and in report writing is estimated to have reduced total time requirements of auditors to a third of that previously experienced. Clerical time in maintaining the files is negligible, and approximately a third of staff time is allocated to compliance reviews. We estimate that the annual cost reduction benefit is \$30,000. In addition, better audit coverage is provided.