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Strengthening the Role of the Office of the Inspector General Will Improve State Operations by Reducing the Cost of Services

Background

Section 20.055, F.S., specifies that the Governor and each state agency head establish an Office of Inspector General (OIG). The OIG is the internal monitor or “internal watchdog” of an agency. The purpose of the OIG is to provide a central point for coordination of and responsibility for activities that promote accountability, integrity, and efficiency in government. The OIG accomplishes this objective by providing independent and objective assurance and consulting activities. These activities include assessments of management systems and controls, and investigations of allegations of fraud. The OIG adds value by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of management’s systems and governance controls utilized to achieve objectives within acceptable levels of risk. As specified in Section 215.86, F.S., the purpose of these management systems and controls is to promote and encourage compliance; economic, efficient, and effective operations; reliability of records and reports; and safeguarding of taxpayer assets.

In 1983, Florida TaxWatch published a research report recommending the establishment of agency internal auditors, calling for the statutory creation of their role, duties, qualifications, and direct reporting requirements for accountability and responsible checks and balances. Florida TaxWatch recognized the need for independent review and monitoring of state agency activities. The Legislature agreed, and enacted the Chief Internal Auditor Act in 1986, the original version of Section 20.055, F.S.

With today’s operating environment of diminishing revenues and increasing needs, it is more important than ever to have strong independent reviews and evaluations of state agency activities. In addition to providing greater assurances that state assets are protected, these reviews and evaluations can also serve to identify more cost-effective processes to achieve the state’s objectives and enhance fiscal integrity, thus reducing the burden on taxpayers.

Florida TaxWatch Current Assessment

In response to Florida’s changing environment and several recent years of publicly reported real and/or perceived abuses of the independence of the OIG, Florida TaxWatch has conducted a review of these oversight activities and determined that the activities performed by the Governor’s OIG and state agency OIGs can be further strengthened. Specifically, we found:

- Assessments by OIGs are generally limited to those state agency specific operations, and rarely address state-level operations. Consequently, major operational activities, such as state procurement, information

technology, and property management are not being given proper oversight.

- Many state agency OIGs lack sufficient resources to adequately assess pertinent risks. Most state agencies have four or less staff assigned to perform assessments of state agency operations. These staffing levels are inadequate to perform assessments of state-wide operations, such as those relating to procurement, information technology and human resource management.
- Most Inspectors General are not qualified to perform assessments of state agency operations, and delegate this authority to the agency internal audit director. This lack of expertise by Inspectors General limits the ability of the OIG to identify opportunities to improve the effectiveness and efficiency of government activities.
- The organizational structure of the OIG does not ensure that assessments are being conducted independent of management influence. This need for internal audit independence was emphasized in the 1983 TaxWatch study and in a 1990 follow-up TaxWatch report, which included a recommendation for internal auditors to report to both the agency head and to an audit committee. Under current law, Inspectors General are appointed and removed at the pleasure of the agency head.² Without assurances of independence, the risk exists that the assessments will not include issues which are critical of existing management and their practices.
- In addition to assessing state agency operations, some state agency OIGs are also performing activities directly related with the management of state agency operations. For example, the OIG in the Department of Transportation is assigned responsibilities associated with monitoring of contracts with external vendors. Performance of this activity limits the ability of the OIG to conduct an independent assessment of the effectiveness of the agency procurement processes because the OIG has been co-opted into the process and thus is unable to provide an independent and objective assessment.

Florida TaxWatch Recommendations

To improve the effectiveness of the activities performed by the OIG, Florida TaxWatch recommends that the duties of the Governor's OIG be expanded to ensure sufficient oversight of state-level processes and that findings and recommendations are communicated directly to the Governor and the Cabinet (The Cabinet)², as well as the legislature. Expansion of the duties of the Governor's OIG will help ensure that the state's internal audit capability is sufficient to evaluate state-wide operations and identify ways to improve overall cost-effectiveness. Communication of recommendations to the Governor and Cabinet and legislature will help ensure that the results of internal audit assurance services are incorporated into applicable policy and funding decision-making processes.

To help ensure that assessments of state agency operations provide value and are viewed as impartial by objective third parties, Florida TaxWatch recommends that Inspectors General be properly and professionally qualified to perform assessments of state agency operations. In addition, inspector general appointments and terminations should be subject to approval by the Governor and Cabinet. Finally, activities performed by the OIG should be limited to those directly contributing to its oversight responsibility for state agency operations.

¹ As specified in Section 20.055(3), F.S., for agencies under the direction of the Governor, the agency head shall notify the Governor and the Chief Inspector General, in writing, of the intention to appoint or terminate the inspector general at least 7 days prior to the removal.

² By Florida Constitution, the Governor is not a member of the Cabinet. However, for clarity, we will refer to the Governor and the Cabinet members from herein as "The Cabinet".

Expand the duties of the Governor's OIG

The governor's internal audit function should be staffed with specific auditing expertise, which can be made available to assist state agencies in order to adequately perform assessments to include:

- o Information Technology
- o Procurement
- o Inventory Management
- o Financial and cost accounting
- o Quantitative data analysis

The responsibilities of the Governor's OIG should be expanded to include the requirement to conduct an annual assessment of state-level risks with the greatest threat to the accomplishment of the state's objectives. The results of the risk assessment, along with the proposed work plan, should be presented to the Governor and Cabinet for review and approval.

In addition, agency internal audit staff should be required to provide necessary resources to allow the Governor's internal audit staff to complete the approved work plan. The results of each Governor OIG assessment, as well as assessments completed by state agency OIGs should be provided to each member of the Governor and Cabinet, as well as appropriate legislative committees. Also, the Governor's Inspector General should be required to present results of assessments that could have a significant impact of state operations to the Governor and Cabinet and appropriate legislative committees.

Finally, the Governor's OIG should be required to develop performance metrics for state agency OIGs. Performance measures such as the ratio of savings realized to the cost to perform assessments would provide the legislature and taxpayers with a useful tool to evaluate the effectiveness of state agency OIGs.

Ensure independence and improve effectiveness of OIG assessments

State agency Inspectors General should be required to be qualified to perform assessments of state agency operations. Currently, two-thirds (25/37) of the Inspectors General do not possess the necessary qualifications to conduct assessments of state agency operations, as specified in Section 20.055, F.S. When the inspector general is not properly qualified, the agency internal audit director has responsibility for the conduct and content of these assessments. Requiring that Inspectors General are qualified to perform operational assessments can help ensure that more opportunities to improve the effectiveness and efficiency of government activities are identified by OIGs. While Inspectors General should be provided protections to ensure independence, they should also be required to be qualified and responsible for the primary work performed by the office. Since assessments of state agency operations are the primary activity performed by the OIG, it is appropriate that the inspector general should be responsible for the conduct and content of these assessments.

All agency inspector general appointments and terminations should be subject to approval by the Governor and Cabinet. Review and approval of all agency inspector general appointments and terminations by the Governor and Cabinet will help ensure that state agency management is limited in its ability to compromise the independence of OIG assessments. Requiring review and approval by the Governor and Cabinet of all agency inspector general appointments and terminations will limit the ability of state agency directors to abuse organizational authority and

persuade OIGs to compromise the independence and objectivity of the assurance services produced by the office.

The OIG should only perform activities that directly contribute to its oversight responsibility for state agency operations. Responsibility for OIG activities not associated with assessments of management systems and controls, or investigations of alleged fraudulent activity, should be transferred to state agency management. Limiting activities performed by the OIG to those necessary to accomplish its oversight objective will help ensure that the independence of assessments is not compromised because the OIG is also performing operational activities subject to its own review.

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Florida TaxWatch Research Institute, Inc.
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About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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◆ Integrity ◆ Productivity ◆ Accountability ◆ Independence ◆ Quality Research

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