

A Review of Agency Compliance
With the
Mississippi Internal Audit Act



PERFORMANCE AUDIT
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Mississippi Office of the State Auditor

Stacey E. Pickering



A Review of Agency Compliance With the Mississippi Internal Audit Act

December 1, 2017

Introduction

The Mississippi Internal Audit Act (the Act) was passed during the 2003 Regular Legislative Session in House Bill 650. The purpose of the bill was to “establish a full-time program of internal auditing to assist in improving university, community/junior College and agency operations, to verify the existence of assets and to identify opportunities for cost savings and revenue enhancement.” Subject to specific appropriation of available funding, the act requires the employment of an internal audit director who meets minimum qualification standards, as well as professional and support staff for each entity identified by the Act. Dependent upon cost-effectiveness, the bill also allows the internal audit function to be outsourced by the president or agency head in lieu of establishing an audit program. The directors of the internal audit division are required to produce specific audit plans and reports throughout the year and must adhere to professional auditing standards and federal auditing standards when required. Entities identified by the act should have attained full compliance no later than July 1, 2005.

The Office of the State Auditor (OSA) set out to evaluate whether the state agencies, listed in the Act and shown in Chart 1 below, were in compliance with the Act. OSA surveyed these agencies asking if the agency employed an internal auditor on staff or on contract, the reporting structure for the internal audit program, and the qualifications of the internal audit director. All nineteen agencies responded to the survey; however, only eleven agencies reported having implemented an internal audit program. For these eleven agencies, we conducted interviews with the internal audit directors and reviewed reports generated by the internal audit staff to further determine compliance with the Act.

Chart 1

Mississippi Development Authority (MDA)	Department of Agriculture and Commerce (DAC)	Department of Education (MDE)	Department of Environmental Quality (DEQ)
Department of Finance and Administration (DFA)	Mississippi Department of Human Services (MDHS)	Mississippi Department of Information Technology Services (ITS)	Department of Mental Health (MDMH)
Department of Corrections (MDOC)	Division of Medicaid (MDOM)	State Tax Commission / Department of Revenue (MDOR)	Mississippi Department of Transportation (MDOT)
Department of Public Safety (DPS)	Department of Rehabilitation Services (DRS)	Department of Wildlife, Fisheries, and Parks (WFP)	Mississippi Department of Employment Security (MESCS)
Mississippi Gaming Commission (MGC)	Public Employment Retirement System (PERS)	Department of Health (MSDH)	

Source: MS Code Section 25-65-7

It is important to note that while this report will discuss the compliance of the nineteen agencies listed in the Act, the language “*subject to specific appropriation of available funding,*” coupled with the fact that no agency listed received any specific appropriation, allows these agencies to avoid establishing an internal audit program; thus, eliminating the requirement to adhere to the standards outlined in this law. OSA believes that this report will serve as a comparison of how the agencies that have an internal audit program function as it relates to the Act and can be a useful tool in making changes to a law whose intended purpose was to “*improve operations....and identify opportunities for cost savings and revenue enhancements.*” With either some adjustments to the Act or the creation of a centralized internal audit program, the intent of this law can be fully realized.

Section 1: Personnel Requirements

The Mississippi Legislature enacted the Mississippi Internal Audit Act¹(the Act) during the 2003 Regular Legislative Session in House Bill 650. In addition to other requirements, this legislation, subject to appropriations, mandated nineteen (19) state agencies and all public universities and community/junior colleges to establish an internal audit division and employ an internal audit director and support staff. It also detailed the qualifications that the internal audit director must possess, along with the procedure for the appointment and termination of the director. The need for the director and support staff to have agency funding set aside for professional development and continued professional education (CPE) was included. Agencies were also given the option to outsource the internal audit function instead of actually establishing the program internally; however, this option required a cost analysis, showing a cost savings, to back up the agency's decision to choose this option.

The Office of the State Auditor (OSA) began its initial evaluation of the Act by surveying the agencies listed in the law to determine whether the agency had hired an internal audit director and if that individual possessed any of the credentials outlined in statute. (Refer to Appendix B for the credentials listed in the law.) OSA used this information as a tool to determine which agencies had complied with the main purpose of the Act, which was “to establish a full-time program of internal auditing” and to establish a plan for conducting any on-site audit testing. A copy of the survey sent to the agencies can be found in Appendix C.

The survey responses revealed that eleven (11) of the nineteen (19) agencies have either a staffed or outsourced internal audit director in place, as required by law. Additionally, the survey showed that of the agencies that complied with this portion of the Act, eight have internal audit directors that meet the specified qualifications. To verify this information, on-site visits to each of the eleven agencies that reported having an internal audit director were conducted. During these visits, OSA requested documentation that corroborated the agency's claim that the internal audit director had the credentials required by law. If the audit function was outsourced, the cost analysis performed that supported their decision was also requested. In addition, OSA examined the director's documentation, along with his/her support staff, of professional development and/or CPE hours. See Chart 2 below for agency specific compliance.

OSA found two instances in which the information reported on the survey did not match the supporting documentation provided during the on-site visit. At two of the agencies that originally reported that the internal audit director met the qualifications outlined in the Act, the person that was actually functioning as the director did not have the appropriate credentials. It is imperative to note at this point that OSA strictly verified whether the director possessed the credentials detailed in the Act and is not expressing an opinion on the employee's ability to conduct the day-to-day duties required for this position.

¹ <http://billstatus.ls.state.ms.us/documents/2003/pdf/HB/0600-0699/HB0650IN.pdf>

OSA also followed-up with the eight agencies that reported not having an internal audit director to determine the reason for not complying with the Act. One agency had an internal audit program but did not have a director in place at the time of the survey. The other seven agencies gave the same basic response – based on the language of the law, we do not *have* to maintain an internal audit function. Their response is based on the phrase “*subject to specific appropriation of available funding*” that is included in Code Section 25-65-9, the portion of the Act that sets the requirement for the establishment of an internal audit program and the hiring of an internal audit director. Since no agency, from the inception of the Act, received specific appropriations for the creation of an internal audit director position or internal audit program, these agencies felt they did not have to comply with this law. OSA did not review expenditure data or hiring practices to determine if funds or positions were available or could have been better utilized by hiring an internal audit director or establishing an internal audit program.

The onsite review of the documentation of staff professional development and continued professional education revealed that five out of the eleven agencies’ internal audit directors (or the individual serving in this capacity) did not receive any accounting or auditing based professional development or CPE courses during the previous three years. OSA found that the agencies that employed internal audit directors that held a professional license (e.g. Certified Public Accountant or Certified Internal Auditor) did ensure that CPE hours were obtained, but those that did not had no evidence of professional education or training for internal audit staff. It is important to note that OSA did not inquire as to whether training was in fact available for all internal audit directors and staff. See Chart 2 below for agency specific compliance.

Chart 2

Agency	Internal Audit Director in Place	Director meets Qualifications	Received Prof. Dev./CPE
MDA	No		
DAC	No		
MDE	Yes	Yes	Yes
DEQ	Yes*	Yes	Yes
DFA	No		
MDHS	Yes	No	No
ITS	No		
MDMH	Yes	No	No
MDOC	Yes	Yes	Yes
MDOM	No		
MDOR	Yes	Yes	No
MDOT	Yes	Yes	Yes
DPS	No		
DRS	Yes	Yes	Yes
WFP	Yes	No	No
MESC	Yes	No	No
MGC	No		
PERS	No		
MSDH	Yes	Yes	Yes

*Internal Audit function is outsourced.

Source: Surveys and documentation received by OSA from each agency

Another part of the Mississippi Internal Audit Act, §25-65-13, states that the internal audit director shall report directly to the agency head or deputy agency head. This requirement is important in establishing independence and objectivity within the internal audit program. According to the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*:

*"Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board."*²

OSA included a question about the organizational structure in the survey that was sent to each of the 19 agencies listed in the Act. If the agency responded that there was an internal audit director in place, an organizational chart showing the chain of command above the internal audit director was requested. Although at first glance, it was hard to determine whether the agencies were in compliance with this requirement, the on-site evaluation conducted at the eleven agencies that have an internal audit director revealed that all internal audit directors report directly to either the agency head or a person that is in a deputy level position.

Section 2: Reporting Procedures, Processes, and Frequency

Most of the Act is dedicated to outlining reporting standards and requirements³ that the internal audit director must adhere to while performing his/her day-to-day routine. These various standards and requirements can be summarized into the following categories:

- Long-term and annual audit plans
- Performance of different types of audits
- Adherence to Institute of Internal Auditors standards and Government Auditing Standards
- Submission and status requirements
- Annual and quarterly reporting

OSA evaluated each of the eleven agency's compliance with the above standards and requirements during on-site visits. OSA conducted interviews with the internal audit director and reviewed a sample of audit reports completed by the internal audit division within the last three fiscal years. The first discovery made by OSA was that three of the eleven agencies that have an internal audit function stated that the completion and annual certification of the Internal Control Assessment (ICA), required by the Department of Finance and Administration, is their primary method of internal auditing. This questionnaire is an assessment which requires agencies to self-report on their internal control system. This method of self-reporting can be useful in determining areas or programs which may need improvement, but it does not require any test work or other internal auditing procedures be performed to ensure internal controls are functioning

² <https://na.theiia.org/standards-guidance/Public Documents/IPPF-Standards-2017.pdf>

³ Mississippi Code of 1972 §25-65-13(b), §25-65-13(c), §25-65-13(d), §25-65-15, §25-65-17, §25-65-19, and §25-65-31

properly. As a result, OSA only evaluated the remaining eight agencies' compliance with the categories listed above. Chart 3 below shows a breakdown of each agency's compliance in all five areas.

Long-term and Annual Audit Plans

Mississippi Code Section 25-65-13(d) requires the internal audit director to complete long-term and annual audit plans. These plans should provide the agency head and/or the board/commission with the areas that the internal audit program intends to review. These plans should be based on the results of risk assessments performed by the internal audit director which will show areas that are most vulnerable to fraud, waste, or abuse. OSA's evaluation in this area showed that none of the eight agencies are completing annual and long-term audit plans. When questioned, the agencies expressed concern about the constantly changing environment that their agency is subjected to by federal, state, and even intra-agency requirements. According to the agencies, constant changes make it almost impossible to plan based on risk assessments that may only be valid for a very short period of time due to the continuous adjustments.

Performance of Different Types of Audits

The Act also requires the internal audit program to perform a variety of audits at their respective agencies. These audits include financial, electronic data processing, performance, and compliance audits. These assessments should also cover the internal control systems in place in various departments within the agency in order to ensure the efficiency and effectiveness of the agency as a whole and to make sure that the internal controls in place are sufficient to detect and prevent fraud. OSA determined that although none of the agencies specifically ensured that each type of audit was performed, all eight agencies did perform at least one of the different audits listed above.

Adherence to Institute of Internal Auditors standards and Government Auditing Standards

In Code Section 25-65-15, the Act requires the agencies to conduct their audits "in accordance with the Standards for the Professional Practice of Internal Auditing published by The Institute of Internal Auditors, Inc., and, when required by law, regulation, agreement, contract or policy, in accordance with Government Auditing Standards issued by the Comptroller General of the United States." These standards require documented planning and execution of the audit. All findings and conclusions must be supported by sufficient information that is accurate, relevant, and reliable and must achieve the objectives of the audit. Lastly, these standards, as mentioned in this code section as well, require a statement on the audit report that informs the reader that these standards were followed while the audit was conducted. OSA's review of a sample of audit reports at each of the eight agencies that complete reports other than the ICA revealed that all agencies appear to follow the standards required in the Act; however, only one agency had a statement on the report to show that these standards were followed.

Submission and Status Requirements

According to the Act, the internal audit director is required to provide the results of any program audits performed to the director of said programs. The director has to respond to the report within forty-five (45) days of receiving the results. From there, the internal audit director is to submit a final report regarding the program audit, along with the response from the program director, to the agency head, with copies available to OSA upon request. In addition, the status of any corrective actions resulting from said audits, as well as any follow-up reports, must be reported to the agency head and made available to specific entities named in the law. The evaluation conducted in this area showed that only one agency had one

report response that was not submitted within the forty-five day window as required by law. OSA was unable to determine each agency’s compliance with the reporting of the status of any corrective action plans because the law did not specify a method of conveying this information to the agency head.

Annual and Quarterly Reporting

Each internal audit director is required to submit quarterly reports to the governing board or commission of the agency. If there is no such board or commission, then these reports are to be sent to the Governor’s office and to OSA. Annually, the director is required by the Act to submit a report detailing completed, active, and ongoing audits. This report has to be submitted to the agency’s board/commission and the executive director of the agency, with copies available for OSA. To determine compliance, OSA asked the internal audit director to whom and how often the reports are presented. Two agencies reported that they do not present any internal audit reports to an agency governing body, the Governor’s Office, or OSA. Two of the agencies indicated that they present reports to their agency head but do not provide these reports to the Governor or the State Auditor.

Chart 3

Agency	Long-term and Annual Audit Plans	Performance of Different Types of Audits	Adherence to IIA Standards and GAS	Submission and Status Requirements	Annual and Quarterly Reporting
MDE	No	No	No	Yes	Yes
MDEQ*					
MDHS	No	No	No	Yes	No
MDMH	No	No	No	No	Yes
MDOC*					
MDOR	No	No	No	Yes	No
MDOT	No	No	No	Yes	No
MDRS	No	No	No	Yes	Yes
MDWFP	No	No	No	Yes	No
MESC*					
MSDH	No	No	Yes	Yes	Yes

*Only completes the ICA

Source: Fieldwork conducted by OSA at each agency

Section 3: Other States' Internal Audit Statutes

In an effort to provide recommendations that may improve agency management through the use of internal auditors, OSA completed a review of the internal audit laws currently in place in other states. For the purpose of comparison, OSA focused on statutes related to personnel, professional standards, organizational structure, and reporting. In total, fifteen states were reviewed: Alaska, Arkansas, California, Illinois, Indiana, Louisiana, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, and Utah. Ten states (Alaska, Arkansas, California, Indiana, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, and Texas) have a system that either establishes a statewide internal audit division or provides guidance to state agencies that have established an internal audit function. The other five states (Illinois, Louisiana, New York, North Carolina, and Utah) require the establishment of an internal audit function at certain agencies with laws similar to the Mississippi Internal Audit Act, so those five states were utilized in the comparison.

It should be noted that Mississippi statute does not specify a reason that the State agencies, community/junior colleges, and universities were selected to establish and maintain an internal audit function. However, three of the five states reviewed outlined specific criteria or methods for determining which entities should establish and maintain an internal audit function. Louisiana and North Carolina both stipulate a dollar figure as a determining factor. For example, in Louisiana agencies with an appropriation (general or ancillary) of \$30 million or more are required to have an internal audit function. Furthermore, State agencies in North Carolina with an annual operating budget in excess of \$10 million are required to have an internal audit function, as are those with 100+ full-time employees or that receive/process \$10 million or more in cash per fiscal year. Although New York does not specify a dollar amount, statute requires state agency heads to complete an evaluation regarding the need for an internal audit function that is reviewed by the Director of the Division of Budget, who issues and periodically revises a schedule of state agencies required to establish an internal audit function. The review is based on exposure to risk, cost/benefit of implementation, and other relevant factors.

Regarding personnel, all five states reviewed allow the head of the entity to appoint the internal audit director. However, some states also require additional approval from a governing board, commission, or committee, if applicable. In Illinois, internal audit directors may only be removed for cause after a hearing before the Executive Ethics Commission; while Utah allows either the audit committee or agency head to remove the internal audit director, if a committee has not been established. Mississippi statute allows the agency director to make and terminate appointments accordingly, but the latter requires a seven day notification period to the State Auditor. In addition, Mississippi requires the internal audit director to meet minimum qualification standards before they may be appointed. Four of the five states reviewed have similar standards in place. For example, both Mississippi and Illinois require the internal audit director to have at least a bachelor's degree, as well as progressively responsible experience or additional education/certifications. New York, North Carolina, and Utah simply refer to internal auditing standards as the basis for their minimum qualification standards for internal audit directors. North Carolina and Utah also stipulate minimum qualifications for staff auditors. (For additional details regarding minimum qualification standards, outsourcing, and other information related to professional and support staff, please refer to Appendix D.)

All states, except Louisiana, specify in statute that the internal audit director should report directly to the agency head or university/college president, where applicable, with professional standards for internal auditing maintained by all states, including Louisiana. Only three states (Illinois, Utah, and North Carolina) refer to a higher level of oversight by either an advisory board, audit committee, or a council of internal auditing, which generally establishes guidelines or professional standards, provides training, and/or reviews and approves annual audit plans.

Finally, in addition to Mississippi, two of the states reviewed (Illinois and Utah) require the development of an annual audit plan that identifies individual audits to be conducted during the year. Utah and Illinois are also the only two states reviewed that specify in statute the type of information expected in audit reports. Illinois is the only state that requires an annual report similar to Mississippi, which requires information regarding the reports completed, findings, and other activities from the previous year. (For additional details regarding audit reporting requirements, please refer to Appendix D.)

Recommendations

- OSA recommends that the Legislature re-evaluate this law to ensure that its purpose is accomplished. To do this, one imperative change is the removal of the language “*subject to specific funding being appropriated.*” If the idea is to provide a means to “*improve operations....and identify opportunities for cost savings and revenue enhancements*” as stated in the purpose, the allocation of funding should not be a reason to avoid adhering to this statute. Next, a more definitive means of identifying which agencies should be required to adhere to this statute must be crafted to ensure that the intent of this law is fully realized at every agency that would benefit from this legislation.
- As an alternative to the recommendation above, OSA recommends that the Legislature consider creating an independent internal audit agency, or a centralized internal audit program. This could benefit the state by employing more specialized internal auditors at one location instead of each agency hiring general auditors that are only able to complete a very high level audit of the agency’s programs. In addition, this would create a centralized information hub to provide assistance, training, and guidance that every agency could utilize as needed.
- Upon the completion of either of the above recommended actions, OSA recommends that all agencies listed in the Act completely comply with all the standards and requirements of this law.
- If the Legislature decides to adjust the current law, OSA recommends that the annual reports, which list all audits conducted and their results, be sent to the Governor’s Office, the Legislative Budget Office, and the Office of the State Auditor. These reports would provide a gauge of the effectiveness and efficiency of different program offices at an agency, the agency’s response to any issues found, and even the coverage and overall effect that the internal audit program is having on the agency; thus, shedding light on the true effectiveness of this law.

APPENDIX A: Scope and Methodology

OSA conducted this performance audit under the provision of §7-7-211 from the Mississippi Code of 1972. The purpose of this audit was to measure compliance with the Mississippi Internal Audit Act. This audit was specifically focused on the nineteen state agencies listed within the Act. OSA reviewed data from the last three fiscal years (FY2014-FY2016). The objectives of this audit are as follows:

- **To determine whether agencies are in compliance with the personnel related requirements according to statute.**
- **To determine whether the reporting procedures, processes, and frequency adhere to statute.**
- **To compare the Mississippi Internal Audit Act to similar legislation in other states.**

OSA auditors planned and performed the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives. To answer the objectives, OSA reviewed statutes, professional standards, policies and procedures, and internal controls relevant to the audit objectives and performed the following audit steps:

- Surveyed each of the nineteen agencies to reach a preliminary determination of current status of compliance with the Mississippi Internal Audit Act.
- Conducted on-site visits to each agency that reported having an internal audit director for further evaluation of compliance with the Mississippi Internal Audit Act.
- Researched Mississippi Statutes, organizational structure of each agency with a staffed or contracted internal auditor, and the mission and goals of the internal audit program.
- Reviewed the *Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors.
- Reviewed the laws and statutes of surrounding states.

APPENDIX B: Qualifications for the Internal Audit Director

Mississippi Code § 25-65-11. Qualifications of internal audit directors

The university, community/junior college or agency internal audit director shall possess the following qualifications:

- (a) A bachelor's degree from an accredited college or university and five (5) years of progressively responsible professional auditing experience as an internal auditor or independent post auditor, electronic data processing auditor or any combination thereof. The auditing experience shall at a minimum consist of audits of units of government or private business enterprises, operating for profit or not for profit; or
- (b) A master's degree from an accredited college or university and three (3) years of progressively responsible professional auditing experience as an internal auditor or independent post auditor, electronic data processing auditor or any combination therefor; or
- (c) A certificate as a certified internal auditor issued by The Institute of Internal Auditors and three (3) years of progressively responsible professional auditing experience as an internal auditor or independent post auditor, electronic data processing auditor or any combination thereof; or
- (d) A certificate as a Certified Public Accountant with at least three (3) years' experience.

APPENDIX C: Agency Survey



Survey of Agency use of Internal Auditor

This survey must be returned to the MS Office of the State Auditor no later than May 8, 2017.

Please provide an answer for each question in this survey before attempting to submit. Please do not submit this survey by scanning or copying, unless instructed to do so after talking with OSA staff. For some, after clicking <Submit Form> in the top right corner, a second window will open your email with the survey attached. For those respondents, attach any other documents requested in this survey to this e-mail and then send the email to the address listed. Others will not have the option to attach requested documents in the replying email after clicking <Submit Form> in the top right corner. These respondents should follow the steps to send the survey to the address listed. Any requested documents should be sent in a separate email to the address listed below. For questions, contact **Lavell Brown** at 601-576-2684 or email at Lavell.Brown@osa.ms.gov.

Agency Name: _____ Agency Number: _____

Survey Respondent's

Name: _____ Title: _____

Phone: _____ Email Address: _____

1. Does your Agency currently employ an Internal Auditor within the Agency? Yes No
 If you answered "Yes" to Question 1, please continue with Question 2, below.

A. Does your Agency employ an outside firm/person in the role of Internal Auditor? Yes No
 If "No", please stop and submit the survey.

B. Is the outside firm/person the same firm/person that conducts financial audits for your Agency? Yes No

C. Has your agency completed a cost comparison for using an outside firm/person versus using an internal staffing structure for the Internal Audit position? Yes No

Please provide the firm/person's name: _____
 Please attach a copy of the contract with the firm/person listed above to the survey e-mail response.
 If you answered "Yes" to C, please attach the cost comparison you completed to the e-mail response.

2. Within your Agency, to whom does the Internal Auditor report? _____
 Please attach an official Organization Chart showing the Internal Audit position/department with your e-mail response.

3. Does your Internal Auditor produce reports regarding the various issues/subjects reviewed? Yes No
 If you answered "No" to Question 3, please proceed to Question 4, below.

A. How many reports have been produced in the last 2 years? _____

B. How many Internal Audit reports have been provided to the Legislature or other entities outside of the Agency in the last 2 years? _____

C. List other entities that have received Internal Audit reports from your Agency in the last 2 years _____

4. Check all credentials that were held upon hire of the primary Agency Internal Auditor or Contracted Internal Auditor:

<input type="checkbox"/> CIA <input type="checkbox"/> CPA <input type="checkbox"/> MPA/MPPA <input type="checkbox"/> Other _____	<input type="checkbox"/> Bachelor's _____ <input type="checkbox"/> Master's _____ <input type="checkbox"/> Ph.D. _____	<input type="checkbox"/> < 3 years auditing experience <input type="checkbox"/> 3 years of auditing experience <input type="checkbox"/> 3-5 years of auditing experience <input type="checkbox"/> > 5 years of auditing experience
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APPENDIX D: Comparison of Internal Audit Laws

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Authorizing Legislation	Internal Audit Act 25-65-(1-33)	Fiscal Control and Internal Auditing Act (30 ILCS 10)	Internal Auditing Function (RS 36:8.2)	Internal Control Act (Ch. 18 Article 45)	Internal Audit Act (Ch. 143, Article 79)	Internal Audit Act (631-5)
Agencies Affected (Determining Factors)	19 State agencies, designated universities, and community/junior colleges Determining factors not specified	Various State agencies, Boards, Commissions, etc. Determining factors not specified	An agency that has an appropriation in the general appropriation bill or the ancillary appropriation bill of thirty million dollars or more	Upon review of the evaluations by each state agency head as to the need for an internal audit function, the Division of Budget Director issues and periodically revises a schedule of state agencies required to establish an internal audit function. Based on an exposure to risk, cost/benefit of implementation, and any other relevant factors.	State agencies that: Have an annual operating budget that exceeds ten million dollars (\$10,000,000); Have more than 100 FTEs; or Receive and process more than ten million dollars (\$10,000,000) in cash per FY.	Various State agencies, Boards, Commissions, etc. Determining factors not specified
Personnel (Appointment/Termination)	Internal Audit Director: <u>Appointment</u> By the college/university president, elected official or executive director (for agencies without a governing board or commission) <u>Termination</u> By appointing authority following SPB rules and regulations after a 7 day notification period to the State Auditor	Chief Internal Auditor: <u>Appointment</u> By chief executive officer of each designated State agency <u>Termination</u> A chief internal auditor may be removed only for cause after a hearing before the Executive Ethics Commission concerning the removal.	Chief Audit Executive: <u>Appointment</u> By the secretary of a department that includes an agency that has an appropriation in the general appropriation bill or the ancillary appropriation bill of thirty million dollars or more <u>Termination</u> *	Internal Audit Director: <u>Appointment</u> By the head of the state agency Subject to the approval of the director of the budget. <u>Termination</u> *	Director of Internal Auditing: <u>Appointment</u> By the head of the state agency In consultation with the Council of Internal Auditing <u>Termination</u> *	Internal Audit Director: <u>Appointment/Termination</u> Audit committee or agency head, if committee has not been established, shall: Appoint, evaluate, and, if necessary, remove the agency internal audit director

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Personnel (Minimum Qualifications)	<p>Internal Audit Director: Bachelor's degree and either</p> <p>five years of progressively responsible professional auditing experience as an internal auditor (additional criteria outlined in statute);</p> <p>Master's degree and three years of experience;</p> <p>Certificate as a certified internal auditor issued by the Institute of Internal Auditors and three years of experience; or</p> <p>CPA certification and three years of experience.</p>	<p>Chief Internal Auditor: Bachelor's degree and either</p> <p>a certified internal auditor by examination or a CPA with at least 4 yrs. of progressively responsible auditing experience or</p> <p>5 yrs. of progressively responsible auditing experience</p>	*	<p>Internal Audit Director: Based on appropriate internal auditing credentials of the proposed appointee, consistent with generally accepted standards for internal auditing, including internal auditing education and experience.</p>	<p>Director of Internal Auditing: Based on minimum qualifications for internal auditors established by the Office of State Human Resources</p> <p>Staff Auditors: Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.</p>	<p>Audit Director/ Staff: Collectively possess the knowledge, skills, and experience essential to the practices of the profession and are proficient in applying internal auditing standards, procedures, and techniques;</p> <p>Staff are qualified in disciplines necessary to meet the audit responsibilities, including accounting, business management, public administration, human resource management, economics, finance, statistics, electronic data processing, or engineering</p>
Personnel (Professional & Support Staff)	<p>May hire sufficient # based on SPB rules for other business employees</p> <p>Appropriations available to ensure continuing professional development of internal audit staff</p>	*	*	*	<p>If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.</p>	<p>The audit director employs a sufficient number of professional and support staff to implement an effective internal audit program.</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Personnel (Outsourcing)	Identified entities may outsource the internal audit function if more cost-effective and the selected firm is not responsible for the performance of other audits/ consulting	*	*	*	*	The agency internal audit director may contract with consultants to assist with audits.
Professional Standards	<p>Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors, Inc.</p> <p>Government Auditing Standards issued by the Comptroller General of the United States (when required)</p> <p>Audit reports should include a statement acknowledging that the audit was conducted pursuant to the appropriate standards</p> <p>Maintains compliance with confidentiality statutes</p>	Based on the standards and ethics of the Institute of Internal Auditors, the General Accounting Office, and other professional standards as applicable	The chief audit executive shall annually certify to the secretary that the internal audit function conforms to the Institute of Internal Auditors, International Standards for the Professional Practice of Internal Auditing.	Operates in accordance with generally accepted professional standards for internal auditing	Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.	<p>Internal Audit program is conducted in accordance with the current:</p> <p>(i) International Standards for the Professional Practice of Internal Auditing; or</p> <p>(ii) The Government Auditing Standards, issued by the Comptroller General of the United States.</p> <p>All reports of audit findings issued by internal audit staff shall include a statement that the audit was conducted according to the appropriate standards</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Organizational Structure (Audit Function Independence)	<p>Established outside staff or line management functions or units subject to audit</p> <p>Free of operational and management responsibilities that would impair ability to make independent audits of any aspect of the agency's operations</p>	<p>All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties.</p>	<p>The chief audit executive shall maintain organizational independence in accordance with these standards and shall have direct and unrestricted access to the secretary.</p>	*	<p>The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards</p>	<p>Internal audit staff are free of operational and management responsibilities that would impair their ability to make independent audits of any aspects of the agency's operations</p>
Organizational Structure (Oversight - Director)	<p>Internal Audit Director: Reports directly to university/college president or agency head</p> <p>Reviews audit plan and reports, etc.</p> <p>Meets periodically with internal audit director regarding restrictions on the scope of audits, etc.</p>	<p>Chief internal auditor: Reports directly to the chief executive officer and shall have direct communications with the chief executive officer and the governing board, if applicable, in the exercise of auditing activities.</p>	*	<p>Internal Audit Director: Reports to the head of the agency, to implement and review the internal control responsibilities established pursuant to this section</p>	<p>Director of Internal Auditing: Reports to, as designated by the agency head, (i) the agency head, (ii) the chief deputy or chief administrative assistant, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists.</p>	<p>Internal Audit Director: Submit audit reports directly to the agency head and to the audit committee, if one has been established</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Organizational Structure (Oversight – Board, Council, or Committee)	*	Advisory Board: 11 member Internal Audit Advisory Board responsible for (1) promulgating a uniform set of professional standards and a code of ethics to which all State internal auditors must adhere; (2) serving as a clearinghouse for the correlation of internal audit training needs and training designed to meet those needs; and (3) coordinating peer review activities among the State's internal audit units.	*	*	Council of Internal Auditing: 6 members Supported by the Office of State Budget and Management Promulgate guidelines for the uniformity and quality of State agency internal audit activities. Administer an independent peer review system for each State agency internal audit activity Provide central training sessions, professional development opportunities, and recognition programs for internal auditors. Administer a program for sharing internal auditors among State agencies needing temporary assistance Maintain a central database of all annual internal audit plans, etc.	Audit Committee: Approve internal auditing policies proposed by the agency head or audit director; Review and approve the annual internal audit plan, modifications to the internal audit plan, risk assessment, and budget; Review internal and external audit reports, follow-up reports, and quality assurance reviews of the internal audit office; and Periodically meet with the agency internal audit director to discuss pertinent matters, including whether there are any restrictions on the scope of audits, etc.

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Reports (Audit Plan)	<p>Annual Audit Plan: Based on documented risk assessments.</p> <p>Should include the periodic review of internal controls and related resources to be devoted to each audit.</p> <p>Submitted to university/college president or agency head for approval and audit committee comment (if applicable)</p>	<p>Two-Year Plan: Identifying audits scheduled for the pending FY, approved by the chief executive officer before the beginning of the FY.</p>	*	*	*	<p>Audit plan shall: Identify the individual audits to be conducted during each year;</p> <p>Identify the related resources to be devoted to each of the respective audits;</p> <p>Ensure that internal controls are reviewed periodically as determined by the agency head or the audit committee, if one has been established; and</p> <p>Ensure that audits evaluating the efficient and effective use of agency resources are adequately represented in the plan.</p> <p>The agency internal audit director shall submit the audit plan to the agency head and the audit committee, if one has been established, for approval.</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Reports (Annual Report)	<p>Completed within 120 days after end of FY and should separately list audit reports issued, and other activities completed or in progress as of the end of FY</p> <p>Submitted to governing board or commission, university/college president, or agency head and audit committee (if applicable).</p> <p>Available upon request to the State Auditor or other external auditor.</p>	<p>By 9/30 of each yr. the chief internal auditor shall submit to the chief executive officer a written report detailing how the audit plan for that year was carried out, the significant findings, and the extent to which recommended changes were implemented.</p>	*	*	*	*
Reports (Audit Reports)	<p>Preliminary findings and recommendations are submitted to the audited supervisor</p> <p>Audited supervisor has 45 working days to respond in writing or less at the discretion of the president or agency head (statement may be included in final audit report)</p> <p>Finalized audit reports are made available to the...</p>	<p>Audits of major systems of internal accounting and administrative control conducted on a periodic basis so that all major systems are reviewed at least once every 2 years.</p> <p>The audits must include testing of: The obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those...</p>	*	*	*	<p>Verify the accuracy and reliability of agency records;</p> <p>Assess compliance with management policies, plans, procedures, and regulations;</p> <p>Assess compliance with applicable laws, rules, and regulations;</p> <p>Evaluate the efficient and effective use of agency resources; and...</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah
Reports (Audit Reports)	<p>university/college president, agency head, and State Auditor</p> <p>Status of corrective actions taken communicated within 6 months or less at the discretion of the president or agency head</p> <p>Follow-up reports, if issued, are submitted to the president, agency head, audit committee and provided upon request to members of the legislature, State Auditor, Attorney General, Governor, or other external auditor</p> <p>Quarterly Submission of Audit Reports: Provided to the governing boards or commissions of identified entities. If entity does not have a board or commission, audit reports should be sent to the Governor and the State Auditor</p>	<p>activities are in accordance with applicable laws and regulations; and</p> <p>Grants received or made by the designated State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.</p> <p>Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.</p> <p>Special audits of operations, procedures, programs, electronic data processing systems, and activities as directed by the chief executive officer or by the governing board, if applicable.</p>	*	*	*	<p>Verify the appropriate protection of agency assets</p> <p>Review and evaluate internal controls: accounting systems, administrative systems, electronic data processing system</p> <p>Upon request, make a copy of the approved audit plan available to the state auditor, legislative auditor, or other appropriate external auditor to assist in planning and coordination of any external financial, compliance, electronic data processing, or performance audits, etc.</p>

*Not specified in statute



STATE OF MISSISSIPPI
PHIL BRYANT
GOVERNOR
MISSISSIPPI DEPARTMENT OF ENVIRONMENTAL QUALITY
GARY C. RIKARD, EXECUTIVE DIRECTOR

November 17, 2017

Mr. Karei McDonald
Director, Performance Audit
Office of the State Auditor
P.O. Box 956
Jackson, MS 39205

Dear Mr. McDonald,

Thank you for the opportunity to review your report following the review of agency compliance with the Internal Audit Act of 2003 prior to release of the report. Following is our formal response for the Mississippi Department of Environmental Quality:

The Mississippi Department of Environmental Quality has not received specific legislative appropriation for an agency internal audit director or for professional and support staff to implement an effective program of internal auditing. MDEQ has outsourced the completion of the annual Internal Control Assessment in accordance with the Mississippi Agency Accounting Policy and Procedures Manual to an independent Certified Public Accountant.

We appreciate the professionalism exhibited by your staff during this review. Should you have any questions or need additional information, please feel free to contact me.

Sincerely,

A handwritten signature in blue ink, appearing to read "Gary C. Rikard".

Gary C. Rikard
Executive Director



STATE OF MISSISSIPPI
GOVERNOR PHIL BRYANT

DEPARTMENT OF FINANCE AND ADMINISTRATION
LAURA D. JACKSON
EXECUTIVE DIRECTOR

October 26, 2017

Honorable Stacey Pickering
State Auditor
P.O. Box 956
Jackson, MS 39205-0956

Auditor Pickering:

Thank you for allowing us to review the performance audit report entitled "A Review of Agency Compliance with the Mississippi Internal Audit Act." We applaud the efforts of the Office of the State Auditor for bringing this issue to light again and stirring the conversation. I have mentioned to my staff several times over the past 16 months that the Department of Finance and Administration (DFA) needs an Internal Audit staff. The citizens of Mississippi depend on us to provide efficient and compliant services, protect the state's assets and improve efficiencies; an internal audit department within DFA would be a valuable tool for providing those services and managing risk.

The issue for us is funding, especially after the passage of the Budget Transparency and Simplification Act in the 2016 Regular Legislative Session that transformed DFA into a predominantly general fund agency. For this reason, we are concerned about the specific recommendation in the report that suggests the Legislature remove the language in the Act that says "*subject to specific funding being appropriated.*" While we agree that the resultant work of an Internal Audit staff could improve operations and identify opportunities for savings, the initial implementation of a new department would create a drain on our agency budget without the dollars to support it. For an agency the size of DFA, we would need an Internal Audit staff of at least 4 or 5 people to be successful and effective.

As for the recommendation of a centralized internal audit program, DFA agrees with the concept if it could be structured to ensure greater independence from individual agency oversight and allows the staff to carry out the intended function in an unbiased manner. The tenets of the Internal Audit concept are independence and objectivity. Internal auditors need to keep an appropriate distance and avoid crafting relationships with business areas within an agency. When the internal audit staff is imbedded in the agency structure and reporting directly to agency heads or boards, the lines of responsibility and independence become blurred.

The leadership staff of DFA is happy to engage in further conversations about these recommendations with the Office of the State Auditor and the members of the Mississippi Legislature.

Sincerely,


Laura Jackson
Executive Director



— DEPARTMENT OF —
REVENUE
STATE OF MISSISSIPPI

Office of the Commissioner

November 15, 2017

Keyla Bradford
Office of the State Auditor
501 North West Street
Suite 801
Jackson, MS 39201

RE: Internal Audit Report Response

Dear Ms. Bradford:

The Department of Revenue appreciates the opportunity to review and comment on your office's report for the Internal Audit Act. We agree with your findings concerning our agency's compliance with the Act; but, as noted in your report, the required specific funding to comply with the Act has never been provided.

The recommendation included in the report to remove the funding requirement means agencies who have already had multiple budget cuts over the last few years will have more responsibilities with no funding to meet them, and the creation of a centralized internal audit agency may not be effective because real change at an agency needs buy-in from that agency's management.

A paraphrase of the purpose of the Act from §25-65-3 is that the internal audit program should assist in improving operations, verify the existence of assets and identify opportunities for cost savings and revenue enhancement. Compliance with the performance based budgeting process by agency heads and a dedication to review of agency performance would do the most to find efficiencies and cost savings for agencies. Valid, effective performance measures required at every level of employee and management has effected a positive change at DOR would do the same for the way any agency manages their operations.

If there are any questions concerning our response, please contact me or Jennifer Wentworth at 601-923-7401.

Respectfully,

Herb Frierson,
Commissioner of Revenue



MISSISSIPPI DEPARTMENT *of* EMPLOYMENT SECURITY

OFFICE OF THE GOVERNOR
MARK HENRY
EXECUTIVE DIRECTOR

November 17, 2017

Mr. Karei McDonald
Director, Performance Audit
Mississippi Office of the State Auditor
Post Office Box 956
Jackson, MS 39205

Dear Mr. McDonald:

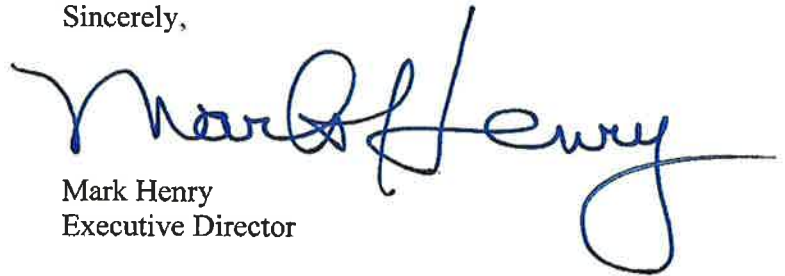
The Mississippi Department of Employment Security (MDES) appreciates the opportunity to review and respond to the Office of the State Auditor's report generated after a review of the compliance by state agencies with the Internal Audit Act of 2003. MDES Deputy Executive Director, CFO, Jackie Turner and I reviewed the draft report on November 3, 2017, and we offer these observations concerning the report:

- MDES is referred to throughout the report as the Mississippi Employment Security Commission. Those references should be changed to the Mississippi Department of Employment Security.
- Chart 2 on page 6 alleges that the MDES Internal Auditor does not meet the qualifications outlined in the statute. Section 25-65-11 provides that the "agency internal audit director shall possess...[a] bachelor's degree from an accredited college or university and five (5) years of progressively responsible professional auditing experience as an internal auditor...." In fact, the MDES Internal Auditor has a bachelor's degree in accounting and has held that position since January 2010. In addition, the MDES Internal Auditor reports to the Deputy Executive Director, CFO, who also has a bachelor's degree in accounting with extensive auditing experience. MDES does acknowledge the need for staff development and continued professional education.
- Chart 3 on page 9 alleges that MDES does not meet the requirements for reporting procedures, processes, and frequency. MDES agrees that it has used the Department of Finance and Administration's Internal Control Assessment as its primary method of internal auditing; however, MDES is federally funded, and the Internal Audit Department has other specific responsibilities for meeting federal program mandates that require a great deal of the

work time. MDES acknowledges that its review of controls, standards and documentation can be improved.

I always welcome recommendations to make needed and appropriate improvements. If you have any further questions or comments, please contact me at 601-321-6003 or mhenry@mdes.ms.gov.

Sincerely,

A handwritten signature in blue ink that reads "Mark Henry". The signature is fluid and cursive, with a long horizontal stroke extending to the right from the end of the word "Henry".

Mark Henry
Executive Director

From: Godfrey, Allen
To: [Keyla Bradford](#)
Cc: [Karei McDonald](#)
Subject: Responce
Date: Tuesday, October 24, 2017 11:17:26 AM

I appreciate the opportunity to respond to the report prepared concerning the use of Internal Auditors by certain state agencies. The Mississippi Gaming Commission is one of the agencies in the report. While I can see the value of having an Internal Auditor, the cost of having one solely dedicated for that purpose is prohibitive. The MGC has a budget of 8.1 million, all of which is general fund, and receives no federal money, and we do not handle cash. The OSA performs an annual property audit, and if the OSA does not audit our agency's business office functions, we have hired outside auditors to evaluate the agency and any problems we may have. In closing, under current budget constraints, the requirement to have a full time IA would be burdensome for our agency.

Allen Godfrey

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MISSISSIPPI DEPARTMENT OF EDUCATION

Carey M. Wright, Ed.D.
State Superintendent of Education

November 16, 2017

The Honorable Stacey E. Pickering
State Auditor
Post Office Box 956
Jackson, MS 39205-0956

Dear Mr. Pickering:

On October 31st, Mississippi Department of Education (MDE) staff reviewed the Office of the State Auditor (OSA) report on Agency Compliance with the Mississippi Internal Audit Act (Act) in your office prior to its release. Although we were not provided a copy of the report to retain in developing our agency response, we are thankful for the opportunity to respond and we trust that our response will be included with the report.

We appreciate the positive feedback received from the OSA audit team during the on-site review on July 12th and exit conference on August 1st in which the OSA team acknowledged that MDE's Bureau of Internal Audit will be recommended to other state agency internal audit departments as a model for best practice. As the OSA audit team requested, we are available to assist other state agency internal auditors if needed.

Long-term and Annual Plans

The OSA report stated that none of the 8 agencies are completing annual or long-term audit plans.

MDE Response:

Annual internal audit plans are prepared by the MDE Bureau of Internal Audit and approved by the State Board of Education (SBE) Accountability Subcommittee (Audit Committee) and the State Superintendent as required by MS Code Section 25-65-13(d). The annual internal audit plans were provided to OSA during their review. However, Chart 3 of the OSA report does not reflect MDE's compliance with this provision of the Act.

Long-term plans are not required by State Board policies or the MDE Internal Audit Charter. MDE leadership has affirmed that long-term internal audit plans would not benefit the agency due to the constantly changing environment.

Performance of Different Types of Audits

The OSA report stated that although none of the agencies specifically ensured that each type of audit was performed, all 8 agencies did perform at least one of the different audits (financial, electronic data processing, performance, and compliance).

MDE Response:

During the OSA review, MDE Bureau of Internal Audit provided 16 internal audit reports. These reports included findings and recommendations related to internal control issues over financial, performance and compliance areas in various departments. However, Chart 3 of the OSA report does not reflect MDE's compliance with this provision of the Act.

Adherence to IIA Standards and GAS

The OSA report stated that all agencies appear to follow the standards required in the Act. However, only one agency had a statement on the report to show that these standards were followed.

MDE Response:

During the review, MDE affirmed to OSA that the Bureau of Internal Audit follows the standards required in the Act. However, the standards of the Institute of Internal Auditors prohibit a statement that the standards were followed unless an independent, objective peer review confirms that the agency has complied with all standards. The MDE Bureau of Internal Audit has developed policies and procedures that ensure compliance with the standards, however, a peer review has not been performed. A peer review would require the expenditure of state funds that MDE leadership does not consider to be cost-beneficial, considering the Act has not been funded.

Should you have any questions regarding our responses, please contact Brad Feaster, Director of the Bureau of Internal Audit, at 601-359-2994.

Sincerely,



Carey M. Wright, Ed. D.
State Superintendent of Education

DEPARTMENT OF MENTAL HEALTH

State of Mississippi

239 North Lamar Street
1101 Robert E. Lee Building
Jackson, Mississippi 39201



(601) 359-1288
FAX (601) 359-6295
TDD (601) 359-6230

Diana S. Mikula - Executive Director

November 14, 2017

Mississippi Office of The State Auditor
Karei McDonald, Director of Performance Audit Division
P.O. Box 956
Jackson, MS 39205-0956

RE: Mississippi Internal Audit Act Review

Dear Mr. McDonald:

In response to the above referenced audit dated August 31, 2017 I offer the following information:

Section 2: Reporting Procedures, Processes and Frequency

(1) Long-term and Annual Audit Plans Finding

The report indicated the Department of Mental Health was not completing annual or long-term audit plans. The DMH internal audit director requires annual audit plans from all internal auditors at the DMH facilities and sets the audit plan and audit schedule for Central Office auditors who audit the Regional Community Mental Health Centers and non-profit grant recipients. The audit plans required by the internal auditors at the facilities include the type audits that will be conducted, including required audits such as the internal control audit and compliance audits. These audit plans were provided to the OSA review team when they were on site at DMH and copies of these audit plans are attached.

(2) Performance of Different Types of Audits Finding

“The Act requires the internal audit program to perform a variety of audits at their respective agencies. These audits include financial, electronic data processing, performance and compliance audits. These assessments should also cover the internal control systems in place in various departments within the agency in order to ensure the efficiency and effectiveness of the agency as a whole and to make sure that the internal controls in place are sufficient to detect and prevent

fraud. OSA determined that although none of the agencies specifically ensured that each type of audit was performed, all eight agencies did perform at least one of the different audits listed above.”

The internal auditors at DMH facilities have required audits that must be performed each year in addition to the usual audits done at these facilities. These include financial, performance and internal control audits. The audit findings for these audits were provided to OSA auditors while on site at DMH and copies of the internal audit plans are attached.

(3) Adherence to Institute of Internal Auditors Standards and Government Auditing Standards Finding

“All agencies appear to follow the standards required in the Act; however, only one agency had a statement on the report to show that these standards were followed.”

At DMH when audits are conducted at any Regional Community Mental Health Center or at any non-profit entity included in the audit finding letter is a paragraph which states “Our examination was made in accordance with generally accepted auditing standards and accordingly included such auditing procedures as we considered necessary in the circumstances.”

I have enclosed a copy of one of these memo’s which is attached with the audit finding letter to each audited entity.

(4) Submission and Status Requirements Finding

The report indicated DMH had one report response that was not submitted within the forty-five day window as required by law. The Department of Mental Health auditors conduct two hundred audits a year. The audit response that was overdue was not identified and therefore I am unable to respond to this finding.

Please do not hesitate to call me at my telephone number referenced below should you have any questions or concerns regarding this response to the OSA audit findings.

Sincerely,

Daryl M. Newman, Director
Division of Audit/Grants Management
Mississippi Department of Mental Health
1101 Robert E Lee Building
239 North Lamar
Jackson, MS 39201