

# MISSISSIPPI OFFICE OF THE STATE AUDITOR



## PERFORMANCE AUDIT

November 2018

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### Internal Audit Act (Public Universities and Community Colleges)

**The legislature may wish to consider reevaluating the Internal Audit Act to provide clarification and ensure that its purpose is accomplished.**

#### Key Findings

The Internal Audit Act, which is intended to assist universities and community/junior colleges improve agency operations, audit assets, and identify opportunities for cost savings and revenue enhancement, has not had the intended impact of promoting the establishment of internal audit programs in public post-secondary institutions. This is because specific funding has not been appropriated. Most of the institutions with an internal audit program already had one in place prior to passage of the Act in 2003. Auditors found that:

1. Institutions with an internal audit program are not in compliance with all reporting requirements.
2. Due to lack of specific appropriations, no community colleges have established an internal audit program.

To reach our findings, we conducted interviews, analyzed survey data, reviewed documents and reported practices, and researched leading practices from other states.

#### Report Highlights

*The OSA's Performance Audit Division found that the legislature may wish to consider the removal of the language "subject to specific appropriation" in the Internal Audit Act (the Act) or stipulate that the law is only applicable to institutions with a specified budget. Alternatively, the legislature may wish to consider centralizing the internal audit function. Additionally, the legislature may wish to consider requiring a quality assurance program and peer review process for internal audit units. These measures can enhance the current law and reduce noncompliance.*

#### Recommendations Summary

Based on our review of the Act's application, Mississippi's statutory language, and other states' statutes, the report includes a few recommendations and matters for legislative consideration, including:

1. Removal of the language "subject to specific funding being appropriated" from the Act, or creation of an independent internal audit agency or a centralized internal audit program;
2. Require implementation of a quality assurance and improvement program and peer review process for internal audit activity;
3. Stipulate requirements for document retention in the Act and inclusion of specific information within audit reports; and
4. Include language in the Act regarding specific criteria for determining which entities are required to establish an internal audit program.

Institutions of Higher Learning (IHL) generally agrees with our recommendations. Their response can be found at the end of the report.

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# Overview

## Background

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 entities listed in the Act were in compliance with the Act. In December 2017, OSA published the report *A Review of Agency Compliance with the Mississippi Internal Audit Act* detailing the results of auditor’s assessment of state agencies that were listed in the Act. For the second phase of the compliance review, auditors focused on nine public universities and fifteen community/junior colleges that were named in the Act. Auditors surveyed these universities and community colleges to determine if the university or community college 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 universities and community colleges responded to the survey, and all universities reported having implemented an internal audit program. However, none of the community colleges reported having an internal audit program. For the universities, auditors conducted interviews with the internal audit directors and reviewed reports generated by the internal audit staff to further determine compliance with the Act. The entities included in the Act are:

Alcorn State University (ASU);  
Delta State University (DSU);  
Jackson State University (JSU);  
Mississippi State University (MSU);  
Mississippi University for Women (MUW);  
Mississippi Valley State University (MVSU);  
University of Mississippi (UM);  
University of Mississippi Medical Center (UMMC);  
University of Southern Mississippi (USM);

Coahoma Community College (CCC);  
Copiah-Lincoln Community College (CLCC);  
East Central Community College (ECCC);  
East Mississippi Community College (EMCC);  
Hinds Community College (HCC);  
Holmes Community College (Holmes);  
Itawamba Community College (ICC);  
Jones County Junior College (JCJC);

Meridian Community College (MCC);  
Mississippi Delta Community College (MDCC);  
Mississippi Gulf Coast Community College (MGCCC); Northeast Mississippi Community College (NECC); Northwest Mississippi Community College (NWCC); Pearl River Community College (PRCC); and  
Southwest Mississippi Community College (SMCC).

Exhibit 1 details whether each institution received specific appropriations for an internal audit (IA) program, whether an IA program had been established at the time of this review, and which institutions' IA programs were assessed by OSA to determine compliance with stipulations outlined in the Act.

### Exhibit 1

#### Public University and Community College Appropriations, IA Programs, and IA Program Assessments Completed

● Yes ● No

Institution	Specific Appropriation	Internal Audit Program	Audit Program Assessed by OSA
ASU	●	●	●
DSU	●	●	●
JSU	●	●	●
MSU	●	●	●
MUW	●	●	●
MVSU	●	●	●
UM	●	●	●
UMMC	●	●	●
USM	●	●	●
CCC	●	●	N/A
CLCC	●	●	N/A
ECCC	●	●	N/A
EMCC	●	●	N/A
HCC	●	●	N/A
Holmes	●	●	N/A
ICC	●	●	N/A
JCJC	●	●	N/A
MCC	●	●	N/A
MDCC	●	●	N/A
MGCCC	●	●	N/A
NEMCC	●	●	N/A
NWMCC	●	●	N/A
PRCC	●	●	N/A
SMCC	●	●	N/A

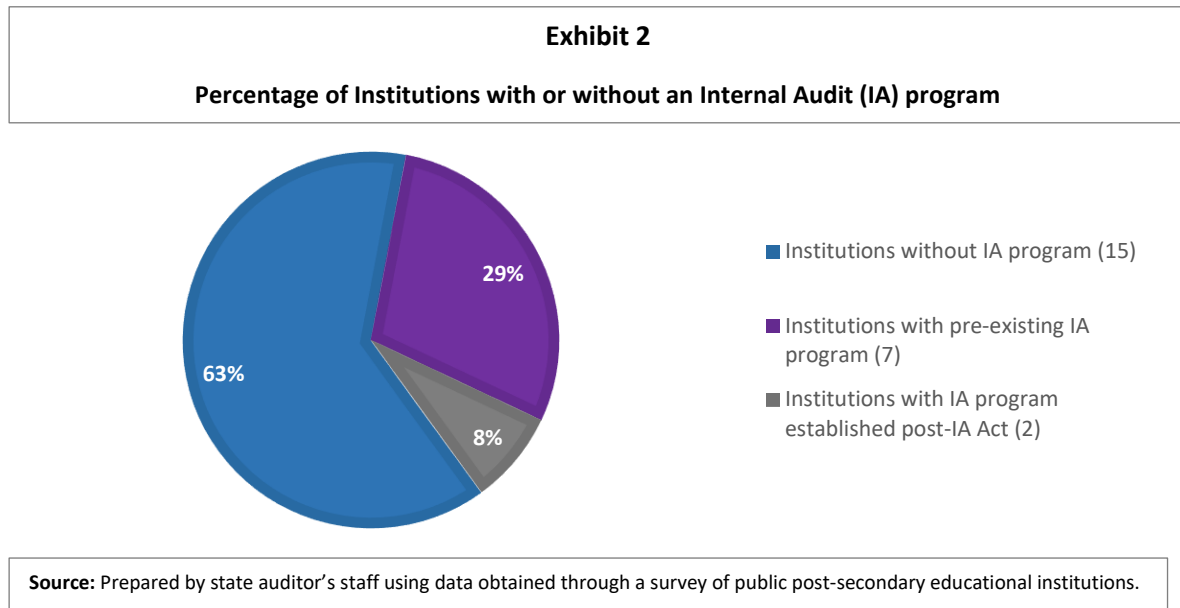
Source: Prepared by state auditor's staff using data obtained from public post-secondary educational institutions.

### Key Stats

- 37% (9 out of 24) public post-secondary educational institutions have an IA program currently in place.
  - 29% (7 out of 24) had an IA program in place prior to passage of the Act.
  - 8% (2 out of 24) did not have an IA program in place prior to passage of the Act, but **only one (1) institution cited the Act as their reason for establishing an IA program, which was signed into law fifteen (15) years ago.**
- All public Universities have an IA program in place (37% - 9 out of 24)
- 0 Community Colleges have an IA program in place (63% - 15 out of 24)

- 0 institutions have received a “specific appropriation of available funding” aimed at establishing “a full-time program of internal auditing....”<sup>1</sup>

Exhibit 2 displays the percentage of all institutions with and without an internal audit program in place, including a break down between those that had an IA program in place prior to passage of the Act and those that did not.



The purpose of this report is to evaluate public post-secondary institution compliance with the Act and identify opportunities to strengthen the current laws by providing a comparison of how the entities that have an internal audit program function as it relates to the Act. This may be a useful tool in modifying the law to better align with its intended purpose 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.

<sup>1</sup> Mississippi Code Ann. §25-65-1

# FINDING 1

## Institutions with an internal audit program are not in conformance with all statutory requirements

### *Institutions with an internal audit program do not meet all reporting procedure, process, and frequency requirements*

Most of the Act is dedicated to outlining reporting standards and requirements<sup>2</sup> that the internal audit director must adhere to while performing his/her day-to-day routine. The various standards and requirements can be summarized into the following categories:

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

Auditors evaluated each public university's compliance with the above standards and requirements during on-site visits. Auditors conducted interviews with the internal audit director and reviewed all audit reports completed by the internal audit division during FY 2015-2017.

#### ***Adherence to standards promulgated by the Institute of Internal Auditors (IIA) and Government Auditing Standards***

In Code Section 25-65-15, the Act requires the universities 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 adhered to while the audit was conducted. Although the universities did comply with IIA standards in conducting audits, not all audit reports reviewed included a specific statement that the standards were followed.

Auditors found that:

- All reports reviewed for the universities below included a statement of compliance with IIA Standards. However, it should be noted that IIA standards require the completion of a quality assessment review to use that statement, but none of these universities have undergone an external peer review.
  - Alcorn State University;

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<sup>2</sup> Mississippi Code Ann. §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

- Delta State University;
- Mississippi Valley State University; and
- University of Southern Mississippi.
- All reports reviewed **did not** include a statement of compliance with IIA Standards at the following Universities:
  - Jackson State University (5 out of 5 Reports);
  - Mississippi State University (38 out of 38 Reports);
  - Mississippi University for Women (10 out of 10 Reports);
  - University of Mississippi (18 out of 18 Reports); and
  - University of Mississippi Medical Center (6 out of 27 Reports).

One reason cited by one university internal audit director for lack of specific language regarding IIA standards was that the university internal audit program had not undergone peer review. Peer review is a valuable tool in ensuring conformance with standards for internal auditing and validating the quality of internal audit departments. Peer reviews can identify opportunities to enhance internal audit processes and improve overall effectiveness of the internal audit function. According to IIA standards, “indicating that engagements are ‘conducted in conformance with the International Standards for the Professional Practice of Internal Auditing’ is appropriate only if supported by the results of the quality assurance and improvement program.”<sup>3</sup> Moreover, IHL has established its own audit charter<sup>4</sup> and operating procedures which are based on IIA standards. All public universities follow the procedures and guidelines established by IHL and all of the university audit reports reviewed by auditors included a statement regarding IIA standards and/or a statement regarding IHL standards. IHL is currently planning a quality assessment review process for public universities to take place over the next two years. This process will include an internal self-assessment with independent external validation per Standard 1312 of the International Standards for the Professional Practice of Internal Auditing. Recommendations regarding adherence to IIA standards are outlined at the end of this section.

### ***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) working 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 university president or chancellor, 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 university head and made available to specific entities named in the law. OSA interviewed internal audit program staff and reviewed reports to determine reporting processes. For all universities, the responses from managers of audited programs were included as part of the final reports. For the majority of reports reviewed, OSA was able to determine that program management responded to audit findings within the allotted 45 working days. However, there were instances in which auditors were unable to determine a specific timeframe for submission of management responses after audit completion.

- Auditors found that 6% (9 out of 154) of reports reviewed did not include ample information to determine whether management responses were submitted within the 45 working day timeframe set forth in the Act, therefore the following Universities were not in compliance with requirements based on documentation made available to auditors:
  - Delta State University (1 out of 12 Reports);
  - Jackson State University (3 out of 5 Reports); and
  - Mississippi Valley State University (5 out of 6 Reports).

In some cases, although there was a field for fieldwork completion date in the project overview section of each audit report, this field was left blank. Without specific information indicating the length of time between audit completion

<sup>3</sup> <https://na.theiia.org/standards-guidance/Public%20Documents/IPPF-Standards-2017.pdf#page=19>

<sup>4</sup> [http://www.mississippi.edu/audit/downloads/ihl\\_audit\\_charter.pdf](http://www.mississippi.edu/audit/downloads/ihl_audit_charter.pdf)

and the release of final report, compliance with submission timeframe requirements cannot be determined. Recommendations to address these issues can be found at the end of this section.

Note: Although the law did not specify a method of reporting the status of any corrective action plans to the university heads, the universities do submit reports detailing status of corrective actions on an ongoing basis.

### ***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 university 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. All public universities utilize TeamMate Internal Audit Management Software. This software assists internal auditors in creating risk-based assessments which form the basis of long-term and annual audit plans, and guides auditors in assigning audit priority to higher risk entities and programs. Auditors' evaluation found that all public universities are completing long-term and annual audit plans in accordance with statutory requirements.

### ***Performance of Different Types of Audits***

The Act also requires the internal audit program to perform a variety of audits at their respective institutions. 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 university in order to ensure the efficiency and effectiveness of the university as a whole and to make sure that the internal controls in place are sufficient to detect and prevent fraud. In many cases, internal control assessments of financial, operational, and compliance areas of the audited departments or programs were included in an audit report. Auditors found that all public universities conducted each of the different types of audits as required in statute.

### ***Annual and Quarterly Reporting***

Each internal audit director is required to submit quarterly reports to the governing board or commission. 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 board/commission and the head of the university, with copies available for OSA. To determine compliance, OSA asked the internal audit director to whom and how often the reports are presented and reviewed supporting documentation to verify responses. It was determined that each public university reviewed provides monthly status update reports detailing ongoing audits to each university president or chancellor and the Chief Audit Executive (CAE) of IHL, as well as quarterly or six month follow-up reports. Reports are submitted to the IHL Board of Trustees, which is the constitutional governing body responsible for policy and financial oversight of the public universities, by the CAE. Since the IHL Board oversees all public universities, universities are not required to send reports to the Governor's Office or to OSA and are therefore in compliance with this requirement.

## ***All institutions with an internal audit program meet all personnel requirements***

The Act establishes 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. There was also 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 entity's decision to choose this option.

Since preliminary research indicated that each public university had an internal auditor on staff, auditors began their initial evaluation of the Act by surveying the universities listed in the law to determine when the internal audit program was implemented, and to determine whether each internal audit director possessed any of the credentials outlined in statute. Auditors used this information as a tool to determine which universities 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. Refer to the Appendix for the credentials listed in the law and a copy of the survey distributed to public universities.

The survey responses revealed that all of the public universities have a staffed internal audit director in place, as required by law. The survey also showed that the internal audit directors at each university met the specified qualifications. To verify this information, auditors requested and reviewed documentation that corroborated the agency’s claim that the internal audit director had the credentials required by law. Auditors found that each university was in conformance with statutory personnel requirements. See Exhibit 3 below for university specific conformance.

### Exhibit 3

#### Universities’ Conformance with Personnel Requirements

University	Internal Audit Director in Place	Director meets Qualifications	Received Prof. Dev./CPE
Alcorn	✓	✓	✓
DSU	✓	✓	✓
JSU	✓	✓	✓
MSU	✓	✓	✓
MUW	✓	✓	✓
MVSU	✓	✓	✓
Ole Miss	✓	✓	✓
UMMC	✓	✓	✓
USM	✓	✓	✓

Source: Prepared by state auditor’s staff using data obtained from public universities.

Another part of the Act states that the internal audit director shall report directly to the university president or chancellor or deputy university official. 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.”<sup>5</sup>*

Auditors included a question about the organizational structure in the survey that was sent to each of the universities listed in the Act. If the university indicated that there was an internal audit director in place, an organizational chart showing the chain of command above the internal audit director was requested. For all of the public universities, there is a dual reporting function in place.

<sup>5</sup> <https://na.theiia.org/standards-guidance/Public Documents/IPPF-Standards-2017.pdf>



The university internal audit director reports administratively to the university president or chancellor or deputy university official and reports functionally to the Chief Audit Executive (CAE) of Institutions of Higher Learning (IHL), as is shown in Exhibit 4. Administrative reporting refers to reporting which facilitates daily operations of the internal audit function, including budgeting and accounting, human resource administration, internal communications, and administration of internal operating procedures.

The functional reporting line is the source of internal audit independence and includes activities such as the approval of internal audit charters, risk assessments, audit plans, and reports. The IHL CAE is responsible for oversight of university internal audit programs and is accountable to the Board of Trustees, and functions as a liaison between the Board and Internal Audit Directors of universities. Ergo, all public universities are in compliance with the organizational structure and audit function independence components of the Act.



Source: Prepared by state auditor's staff using data obtained from public universities.

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## Recommendations

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1. **It is imperative that all universities undergo an external peer review according to IIA standards.** In order to meet this requirement, universities can establish an external peer review team comprised of auditors from various universities, which would reduce the cost associated with a standard external peer review. OSA is aware that IHL is currently working to establish a peer review program, so this should be a top priority.
2. **For universities found non-compliant with all submission requirements, it is imperative that all appropriate documentation related to audits are maintained.** According to IIA standards the chief audit executive of the organization is responsible for developing retention requirements, which must be consistent with the organization's guidelines and any relevant regulatory or other requirements. IHL procedures require permanent retention of one signed copy of the audit report, and seven year minimum retention for audit workpapers unless otherwise directed. Workpapers related to submission of audit findings to management of audited programs should be maintained in accordance with established retention requirements. It would also be beneficial to include information, such as date of audit conclusion, within the audit report or transmittal letter.

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## Matters for Legislative Consideration

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1. **The legislature may wish to consider requiring organizations with an internal audit function to create a quality assurance and improvement program (QAIP) to comply with Standards for the Professional Practice of**

**Internal Auditing.** The Act includes the provision that “Audits shall be conducted in accordance with the Standards for the Professional Practice of Internal Auditing published by The Institute of Internal Auditors, Inc.” and that “all audit reports issued by internal audit staff shall include a statement that the audit was conducted pursuant to the appropriate standards.” According to IIA standards, “a statement indicating that engagements are conducted according to IIA standards is only appropriate if supported by the results of a quality assurance and improvement program.”

This would require the CAE of an organization to develop and maintain a QAIP that should include a scope that encompasses all aspects of the internal audit activity, an evaluation of conformance with the Standards and the Code of Ethics, an appraisal of the efficiency and effectiveness of the internal audit activity, the identification of opportunities for continuous improvement. Establishing a QAIP for institutions with an internal audit program would address concerns of internal audit directors in using the statement “conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.” As part of the quality assurance program, there should be quality assessment reviews (peer review) of the internal audit unit at each organization at least every five years by independent review team outside of the organization in order to enhance the quality of the internal audit function and ensure conformance with professional internal auditing standards. The most cost-effective method would be an internal self-assessment with independent external validation. As previously noted in the recommendations section, IHL is currently preparing for a quality assessment review of public universities, adding language to the law regarding this matter would be beneficial in ensuring IIA conformance for all public entities named in the Act.

## FINDING 2

### The Internal Audit Act should be reevaluated to provide clarification and ensure its purpose is accomplished

#### *Community colleges have not received a specific appropriation to establish an internal audit program since inception of the Act*

Auditors surveyed all fifteen community and junior colleges listed in the Act to determine whether each had established an internal audit program. According to the self-reported survey data, none of the community colleges currently have an internal audit program in place. In order to determine the issues community colleges face in implementing an internal audit program, auditors requested an explanation from each community college. In their responses detailing the reasons for not having an internal audit program in place, community colleges cited 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 community college, from the inception of the Act, received specific appropriations for the creation of an internal audit director position or internal audit program, community colleges were not required to implement an internal audit program. However, colleges did indicate that they would be more than willing to implement an internal audit program should funding be made available. Refer to the Appendix to view the survey sent to community and junior colleges.

Most colleges stated that at current funding levels, establishment of an internal audit program would not be feasible. The colleges prioritize instructional needs and student services in the budgeting process. Since colleges have not received specific funding to establish an internal audit program, hiring new personnel for such a purpose would be an additional cost that would be passed on to students. As the core of the mission of community colleges is to provide affordable and accessible education to the citizens of Mississippi, many are hesitant to increase costs for students by implementing a program which, based on the language of the law, is not obligatory.

Although no community college had established a full-time internal audit program, a couple of community colleges stated that they had in the past contracted with external auditors to review internal controls and implemented new internal controls based on these external assessments. According to responses, internal control monitoring and other duties that would be performed by an internal audit director were carried out by other staff as part of daily college operations. An issue with having the same employees performing internal control evaluation duties in addition to other accounting and operational functions is that it can increase risk of fraud, waste, and abuse within an organization.

Case in point, OSA recently issued demand letters for embezzlement to two former Coahoma Community College (CCC) employees in the amount of \$981,600.64. Investigators found that the two employees created false purchase documents and used college credit card and checking accounts to make personal purchases from 2013-2017. In its explanation to OSA regarding its lack of an internal audit function, CCC stated that it had “unqualified opinions<sup>6</sup> on [its] audits with few or no findings for the past 12 years.” Indeed, unqualified opinions were issued on the last few CCC audited financial statements reviewed by OSA. However, external audits of financial statements may not always detect fraud, waste, or abuse. In fact, the CCC investigation was prompted by a tip from a whistleblower.

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<sup>6</sup> An unqualified opinion means that the independent auditor has no significant concerns about the accuracy of financial records and that the financial statements conform to generally accepted accounting principles (GAAP).

An internal audit mechanism within an organization can play an integral role in detecting and preventing fraud, waste, and abuse. An internal audit program can reduce the incidence of fraud within an organization by assessing and identifying fraud risks, developing and evaluating internal controls to decrease the incidence of fraud, and evaluating errors and suspicious account activity to determine whether there is an indication of fraud. For this reason, it is important that an internal audit program for community colleges is established to mitigate risks and protect public funds. Due to the language of the law which ties the establishment of an internal auditing program to specific appropriation, the Act is not currently fulfilling its intended purpose. Recommendations to address this problem are located at the end of this section.

Note: Auditors 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.

## ***Comparing Mississippi's Internal Audit Act to Other State's Internal Audit Statutes***

In an effort to provide recommendations that may improve agency management through the use of internal auditors, Auditors also reviewed internal audit laws currently in place in other states. For the purpose of comparison, auditors focused on statutes related to personnel, professional standards, organizational structure, and reporting. Initially, auditors reviewed a total of fifteen states: Alaska, Arkansas, California, Illinois, Indiana, Louisiana, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, and Utah. Nine states (Alaska, Arkansas, California, Indiana, Ohio, Oklahoma, Pennsylvania, Rhode Island, and Tennessee) have a system that either establishes a statewide internal audit division or provides guidance to state entities that have established an internal audit function. A centralized office of internal audit conducts independent assessments of the adequacy of internal controls and effectiveness of risk management and governance processes of public organizations under its purview. In Ohio, the Office of Internal Audit (OIA) was created within the Office of Budget and Management (OBM) by Ohio Revised Code Section 126.45 and serves state agencies which fall under the governor's oversight. The OIA reports to both the director of OBM and to the state audit committee.<sup>7</sup> Similarly, Rhode Island General Law Chapter 35-7.1 established an office of internal audit within the Office of Budget and Management in the Department of Administration. The Rhode Island OIA provides internal auditing services to the Executive Branch of State Government and all audits required by the Department of Administration<sup>8</sup>. The other states reviewed (Illinois, Louisiana, New York, North Carolina, Utah, and Texas) require the establishment of an internal audit function at certain entities with laws similar to the Mississippi Internal Audit Act, so those six states were utilized in the comparison.

**Inclusion.** All Mississippi public universities and community junior colleges are listed in the Act, although no specific reason is given for the selection of these entities to establish and maintain an internal audit function. In the OSA report *A Review of Agency Compliance with the Mississippi Internal Audit Act* published in December 2017, the auditors compared state laws as they pertain to internal audit function in state agencies. In three of the five states, specific criteria was outlined for determining which entities were required to establish and maintain an internal audit program. In Louisiana and North Carolina, a specific dollar amount as a determining factor was stipulated. For example, Louisiana requires agencies with an appropriation (general or ancillary) of \$30 million or more to have an internal audit function. Included in the laws are postsecondary education management boards and entities under their purview. 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. North Carolina law names the University of North Carolina as a state agency. Utah law specifically names public universities required to establish an internal audit program under the Board of Regents.

### **Personnel.**

- ***Appointment/Termination***

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<sup>7</sup> [http://obm.ohio.gov/InternalAudit/doc/about/OIA\\_Charter-December2017.pdf](http://obm.ohio.gov/InternalAudit/doc/about/OIA_Charter-December2017.pdf)

<sup>8</sup> <http://www.omb.ri.gov/internal-audit/about/overview.php>

All six 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 entity head to make and terminate appointments accordingly, but the latter requires a seven day notification period to the State Auditor.

- **Minimum Qualifications**

Mississippi requires the internal audit director to meet minimum qualification standards before they may be appointed. Other 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. Texas law stipulates that an internal auditor must be a certified public accountant or a certified internal auditor and have at least three years of auditing experience. New York's law simply refers to "generally accepted internal audit standards" as the basis for minimum qualification standards for internal audit directors. In terms of minimum qualifications, the Utah Internal Audit Act only indicates that the internal audit director and staff auditors should possess the knowledge, skills and experience essential to the practice of internal auditing and should be "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."<sup>9</sup> According to North Carolina law, minimum qualifications for any internal auditor employed by a state agency are established by the Office of State Human Resources in consultation with the Council of Internal Auditing. The Council of Internal Auditing produces the state Internal Audit Manual which provides guidelines for state internal audit programs, including setting minimum qualifications for internal audit staff at different levels. For example, an internal auditor hired at the journey level shall at a minimum possess a bachelor's degree in accounting or related discipline and two years of experience or a bachelor's degree in any field, internal audit related certification/licensure, and two years of experience.<sup>10</sup>

**Organizational Structure.** 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. Four states (Illinois, Utah, Texas, 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. In Mississippi, IHL provides oversight of the internal audit function at all public universities in approving audit plans and audit reports.

**Reports.** In addition to Mississippi, three of the states reviewed (Illinois, Texas, 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 and Texas require 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 internal audit laws in other states, please refer to the Appendix.

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<sup>9</sup> [https://le.utah.gov/xcode/Title63I/Chapter5/C63I-5\\_1800010118000101.pdf#page=3](https://le.utah.gov/xcode/Title63I/Chapter5/C63I-5_1800010118000101.pdf#page=3)

<sup>10</sup> [https://files.nc.gov/ncosbm/documents/files/OIA\\_InternalAuditManual\\_2015.pdf#page=15](https://files.nc.gov/ncosbm/documents/files/OIA_InternalAuditManual_2015.pdf#page=15)

**2. The legislature may wish to consider reevaluating the Internal Audit Act to provide clarification of intent and ensure that its purpose is accomplished.**

- To do this, one important 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.
- As an alternative to the recommendation above, the legislature may wish to consider creating an independent internal audit agency, or a centralized internal audit program. While all universities currently operate an internal audit program, the community colleges have no such program established. Therefore, a centralized internal audit program would be particularly beneficial for community and junior colleges. This option could also benefit the state by employing more specialized internal auditors at one location instead of each college hiring general auditors that are only able to complete a very high level audit of the college’s programs. In addition, this would create a centralized information hub to provide assistance, training, and guidance that every college could utilize as needed. In Ohio and Rhode Island, a centralized internal audit office is housed within the state budget and administrative offices. Correspondingly, a centralized internal audit program for community colleges could be created within the Mississippi Community College Board since MCCB is responsible for oversight of the public community and junior college system and for receiving and distributing state, federal and other funds to community and junior colleges in the state.<sup>11</sup> Under this arrangement, internal audit staff could report administratively to the central organization and functionally to the constituent organization. Another option would be to create an independent internal audit agency to provide internal audit assurance services to all public entities without an in house internal audit unit.
- In reevaluating the current law in Mississippi, assessing similar laws and statutory requirements from other states is advantageous. By examining the laws and practices in others states, Mississippi could identify opportunities to strengthen the current law. In addition to a centralized audit program, the legislature may wish to consider including specific criteria for the requirement to establish an internal audit program, as is the case in Louisiana, North Carolina, and Texas.

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<sup>11</sup> Mississippi Code Ann. § 37-4-3

# APPENDIX

## List of Recommendations

1. It is imperative that all universities undergo an external peer review according to IIA standards. In order to meet this requirement, universities can establish an external peer review team comprised of auditors from various universities, which would reduce the cost associated with a standard external peer review. OSA is aware that IHL is currently working to establish a peer review program, so this should be a top priority (p. 8).
2. For universities found non-compliant with all submission requirements, it is imperative that all appropriate documentation related to audits are maintained. According to IIA standards the chief audit executive of the organization is responsible for developing retention requirements, which must be consistent with the organization's guidelines and any relevant regulatory or other requirements. IHL procedures require permanent retention of one signed copy of the audit report, and seven year minimum retention for audit workpapers unless otherwise directed. Workpapers related to submission of audit findings to management of audited programs should be maintained in accordance with established retention requirements. It would also be beneficial to include information, such as date of audit conclusion, within the audit report or transmittal letter (p. 8).

## List of Matters for Legislative Consideration

1. The legislature may wish to consider requiring organizations with an internal audit function to create a quality assurance and improvement program (QAIP) to comply with Standards for the Professional Practice of Internal Auditing. The Act includes the provision that *"Audits shall be conducted in accordance with the Standards for the Professional Practice of Internal Auditing published by The Institute of Internal Auditors, Inc."* and that *"all audit reports issued by internal audit staff shall include a statement that the audit was conducted pursuant to the appropriate standards."* According to IIA standards, "a statement indicating that engagements are conducted according to IIA standards is only appropriate if supported by the results of a quality assurance and improvement program."

This would require the CAE of an organization to develop and maintain a QAIP that should include a scope that encompasses all aspects of the internal audit activity, an evaluation of conformance with the Standards and the Code of Ethics, an appraisal of the efficiency and effectiveness of the internal audit activity, the identification of opportunities for continuous improvement. Establishing a QAIP for institutions with an internal audit program would address concerns of internal audit directors in using the statement "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing." As part of the quality assurance program, there should be quality assessment reviews (peer review) of the internal audit unit at each organization at least every five years by independent review team outside of the organization in order to enhance the quality of the internal audit function and ensure conformance with professional internal auditing standards. The most cost-effective method would be an internal self-assessment with independent external validation. As previously noted in the recommendations section, IHL is currently preparing for a quality assessment review of public universities, adding language to the law regarding this matter would be beneficial in ensuring IIA conformance for all public entities named in the Act (pp. 8-9).



2. The legislature may wish to consider reevaluating the Internal Audit Act to provide clarification of intent and 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.
  - As an alternative to the recommendation above, the legislature may wish to consider creating an independent internal audit agency, or a centralized internal audit program. While all universities currently operate an internal audit program, the community colleges have no such program established. Therefore, a centralized internal audit program would be particularly beneficial for community and junior colleges. This option could also benefit the state by employing more specialized internal auditors at one location instead of each college hiring general auditors that are only able to complete a very high level audit of the college’s programs. In addition, this would create a centralized information hub to provide assistance, training, and guidance that every college could utilize as needed. In Ohio and Rhode Island, a centralized internal audit office is housed within the state budget and administrative offices. Correspondingly, a centralized internal audit program for community colleges could be created within the Mississippi Community College Board since MCCB is responsible for oversight of the public community and junior college system and for receiving and distributing state, federal and other funds to community and junior colleges in the state.<sup>12</sup> Under this arrangement, internal audit staff could report administratively to the central organization and functionally to the constituent organization. Another option would be to create an independent internal audit agency to provide internal audit assurance services to all public entities without an in house internal audit unit.
  - In reevaluating the current law in Mississippi, assessing similar laws and statutory requirements from other states is advantageous. By examining the laws and practices in others states, Mississippi could identify opportunities to strengthen the current law. In addition to a centralized audit program, the legislature may wish to consider including specific criteria for the requirement to establish an internal audit program, as is the case in Louisiana, North Carolina, and Texas (pp. 12-13).

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<sup>12</sup> Mississippi Code Ann. § 37-4-3



MISSISSIPPI INSTITUTIONS OF HIGHER LEARNING  
INTERNAL AUDIT

October 25, 2018

**Office of the State Auditor**

Dear State Auditor, Shad White,

The following items are our responses to the two findings by the State Auditors that conducted the performance audit of public universities compliance with the Mississippi Internal Audit Act.

**Recommendation #1**

*It is imperative that all universities undergo an external peer review according to IIA standards.* In order to meet this requirement, universities can establish an external peer review team comprised of auditors from various universities, which would reduce the cost associated with a standard external peer review. OSA is aware that IHL is currently working to establish a peer review program, so this should be a top priority.

**Response**

Internal Audit, agrees that all universities should undergo an external peer review according to IIA standards and is taking measures to undergo such peer reviews.

**Recommendation #2**

For universities found non-compliant with all submission requirements, it is imperative that all appropriate documentation related to audits are maintained. According to IIA standards, the chief audit executive of the organization is responsible for developing retention requirements, which must be consistent with the organization's guidelines and any relevant regulatory or other requirements. IHL procedures require permanent retention of one signed copy of the audit report, and seven year minimum retention for audit work papers unless otherwise directed. Work papers related to submission of audit findings to management of audited programs should be maintained in accordance with established retention requirements. It would also be beneficial to include information, such as date of audit conclusion, within the audit report or transmittal letter.

**Response**

Internal Audit will ensure that audit reports or transmittal letters include information such as the date of audit "Field Work" conclusion.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Vijay Patel", followed by a horizontal line.

Vijay Patel, CFE, CISA, CPA  
Interim Chief Audit Executive

# Report Details

## *Objective(s), 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 twenty-eight public universities and community colleges listed within the Act. OSA reviewed data from the last three fiscal years (FY 2015-2017). The objectives of this audit are as follows:

- **To determine whether universities 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.**

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, auditors 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 twenty-four universities and community colleges to reach a preliminary determination of current status of compliance with the Mississippi Internal Audit Act.
- Conducted on-site visits to each university that reported having an internal audit director for further evaluation of compliance with the Mississippi Internal Audit Act, with the exception of Mississippi Valley State University (MVSU). In the case of MVSU, the internal audit director left her position with the university during the first week of OSA's fieldwork. Therefore, the internal audit director forwarded all requested documentation to OSA.
- 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

# 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

# Public University Survey



## Survey of University and Junior College use of Internal Auditor

This survey must be returned to the MS Office of the State Auditor no later than April 4, 2018.

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.  
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.  
If there is no option to attach requested documents in the replying email after clicking <Submit Form> in the top right corner, 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 **Paige Taylor** at 601-576-2640 or email at [Paige.Taylor@osa.ms.gov](mailto:Paige.Taylor@osa.ms.gov).

Organization Name: \_\_\_\_\_  
Respondent's Name: \_\_\_\_\_ Title: \_\_\_\_\_  
Phone: \_\_\_\_\_ Email Address: \_\_\_\_\_

1. Did your organization employ an Internal Auditor within the Organization prior to 2003? ☐ Yes ☐ No  
If you answered "Yes" to Question 1, please continue with Question 2, below.
- A. Did the Internal Audit Act of 2003 play a role in your organizations' decision to establish an Internal Auditor position within your organization? ☐ Yes ☐ No

2. Who does the Internal Auditor report to within your organization?  
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 Organization in the last 2 years? \_\_\_\_\_
- C. List other entities that have received Internal Audit reports from your Organization in the last 2 years \_\_\_\_\_

4. Check all credentials that were held upon hire of the primary Organization Internal Auditor or Contracted Internal Auditor:
- |                                      |   |   |
|--------------------------------------|---|---|
| <input type="checkbox"/> CIA         | <input type="checkbox"/> Bachelor's _____ | <input type="checkbox"/> < 3 years auditing experience    |
| <input type="checkbox"/> CPA         | <input type="checkbox"/> Master's _____   | <input type="checkbox"/> 3 years of auditing experience   |
| <input type="checkbox"/> Other _____ | <input type="checkbox"/> Ph.D. _____      | <input type="checkbox"/> 3-5 years of auditing experience |
|                                      |   | <input type="checkbox"/> > 5 years of auditing experience |

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# Public Community and Junior College Survey



## Survey of University and Junior College use of Internal Auditor

**This survey must be returned to the MS Office of the State Auditor no later than April 4, 2018.**

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.  
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.  
If there is no option to attach requested documents in the replying email after clicking <Submit Form> in the top right corner, 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 **Paige Taylor** at 601-576-2640 or email at [Paige.Taylor@osa.ms.gov](mailto:Paige.Taylor@osa.ms.gov).

Organization Name: \_\_\_\_\_  
Respondent's Name: \_\_\_\_\_ Title: \_\_\_\_\_  
Phone: \_\_\_\_\_ Email Address: \_\_\_\_\_

1. Does your organization currently employ an Internal Auditor within the organization? ☐ Yes ☐ No  
If you answered "Yes" to Question 1, please continue with Question 2, below.
- A. Does your organization 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 organization? ☐ Yes ☐ No
- C. Has your organization 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. Who does the Internal Auditor report to within your organization?  
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 organization in the last 2 years? \_\_\_\_\_
- C. List other entities that have received Internal Audit reports from your organization in the last 2 years \_\_\_\_\_

4. Check all credentials that were held upon hire of the primary organization Internal Auditor or Contracted Internal Auditor:
- |                                      |   |   |
|--------------------------------------|---|---|
| <input type="checkbox"/> CIA         | <input type="checkbox"/> Bachelor's _____ | <input type="checkbox"/> < 3 years auditing experience    |
| <input type="checkbox"/> CPA         | <input type="checkbox"/> Master's _____   | <input type="checkbox"/> 3 years of auditing experience   |
| <input type="checkbox"/> Other _____ | <input type="checkbox"/> Ph.D. _____      | <input type="checkbox"/> 3-5 years of auditing experience |
|                                      |   | <input type="checkbox"/> > 5 years of auditing experience |

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## Comparison of Internal Audit Laws

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah	Texas
<b>Authorizing Legislation</b>	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)	Texas Internal Auditing Act (Chapter 2102)
<b>Agencies Affected</b> (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	State agency that:  Has an annual operating budget that exceeds \$10 million;  has more than 100 full-time equivalent employees as authorized by the General Appropriations Act; or  Receives and processes more than \$10 million in cash in a fiscal year.
<b>Personnel</b> (Appointment/Termination)	<b>Internal Audit Director:</b> <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	<b>Chief Internal Auditor:</b> <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.	<b>Chief Audit Executive:</b> <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> *	<b>Internal Audit Director:</b> <u>Appointment</u> By the head of the state agency  Subject to the approval of the director of the budget.  <u>Termination</u> *	<b>Director of Internal Auditing:</b> <u>Appointment</u> By the head of the state agency  In consultation with the Council of Internal Auditing  <u>Termination</u> *	<b>Internal Audit Director:</b> <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	<b>Internal Audit Director:</b> <u>Appointment</u> By the governing board of a state agency or the administrator of a state agency that does not have a governing board.



	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah	Texas
	7 day notification period to the State Auditor						
<b>Personnel</b> (Minimum Qualifications)	<p><b>Internal Audit Director:</b> 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><b>Chief Internal Auditor:</b> 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><b>Internal Audit Director:</b> 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><b>Director of Internal Auditing:</b> Based on minimum qualifications for internal auditors established by the Office of State Human Resources</p> <p><b>Staff Auditors:</b> 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><b>Audit Director/ Staff:</b> 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>	<p><b>Audit Director:</b> An internal auditor must:</p> <p>be a certified public accountant or a certified internal auditor; and have at least three years of auditing experience.</p>

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah	Texas
<b>Personnel</b> (Professional & Support Staff)	May hire sufficient # based on SPB rules for other business employees  Appropriations available to ensure continuing professional development of internal audit staff	*	*	*	If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.	The audit director employs a sufficient number of professional and support staff to implement an effective internal audit program.	The state agency shall employ additional professional and support staff the administrator determines necessary to implement an effective program of internal auditing.
<b>Personnel</b> (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.	*
<b>Professional Standards</b>	Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors, Inc.  Government Auditing Standards issued by the Comptroller General of the United States (when required)	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	Internal Audit program is conducted in accordance with the current: (i) International Standards for the Professional Practice of Internal Auditing; or (ii) The Government Auditing Standards, issued by the	The internal audit program shall conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors, and generally accepted government auditing standards

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah	Texas
	<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>				General of the United States.	<p>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>	
<b>Organizational Structure</b> (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>	All chief internal auditors and all full-time members of an internal audit staff shall be free of all operational duties.	The chief audit executive shall maintain organizational independence in accordance with these standards and shall have direct and unrestricted access to the secretary.	*	The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards	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>The program of internal auditing conducted by a state agency must provide for the auditor to:</p> <p>1) have access to the administrator; and</p> <p>2) be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the state agency's operation.</p>
<b>Organizational Structure</b>	<b>Internal Audit Director:</b>	<b>Chief internal auditor:</b>	*	<b>Internal Audit Director:</b>	<b>Director of Internal Auditing:</b>	<b>Internal Audit Director:</b>	<b>Internal Auditor:</b> Reports directly to the

	Mississippi	Illinois	Louisiana	New York	North Carolina	Utah	Texas
(Oversight - Director)	<p>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>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>Reports to the head of the agency, to implement and review the internal control responsibilities established pursuant to this section</p>	<p>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>Submit audit reports directly to the agency head and to the audit committee, if one has been established</p>	<p>state agency's governing board or the administrator of the state agency if the state agency does not have a governing board.</p> <p>develop an annual audit plan; conduct audits as specified in the audit plan and document deviations; prepare audit reports; conduct quality assurance reviews in accordance with professional standards as provided by Section <a href="#">2102.011</a> and periodically take part in a comprehensive external peer review; and conduct economy and efficiency audits and program results audits as directed by the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board.</p>
<b>Organizational Structure</b> (Oversight –	*	<b>Advisory Board:</b> 11 member Internal Audit	*	*	<b>Council of Internal Auditing:</b> 6 members	<b>Audit Committee:</b> Approve internal auditing policies	<b>Legislative Audit Committee:</b> Approve form and content of annual audit

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

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<b>Reports</b> (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</p>	<p>A state agency shall conduct a program of internal auditing that includes:</p> <p>an annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year</p> <p>A state agency described by Section <a href="#">2102.004(b)</a> shall conduct each year a formal risk assessment consisting of an executive management review of agency functions, activities, and processes.</p> <p>The risk assessment must:</p> <ol style="list-style-type: none"> <li>1) evaluate the probability of occurrence and the likely effect of financial, managerial, and compliance risks and of risks related to the use of information technology; and</li> <li>2) rank risks according to the probability of occurrence and likely</li> </ol>

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						agency head and the audit committee, if one has been established, for approval.	effect of the risks evaluated.  The state agency shall submit the written risk assessment to the state auditor in the form and at the time prescribed by the state auditor.
<b>Reports</b> (Annual Report)	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  Submitted to governing board or commission, university/college president, or agency head and audit committee (if applicable).  Available upon request to the State Auditor or other external auditor.	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.	*	*	*	*	The internal auditor shall prepare an annual report and submit the report before November 1 of each year to the governor, the Legislative Budget Board, the Sunset Advisory Commission, the state auditor, the state agency's governing board, and the administrator. The state auditor shall prescribe the form and content of the report, subject to the approval of the legislative audit committee.
<b>Reports</b> (Audit Reports)	Preliminary findings and recommendations are submitted to	Audits of major systems of internal accounting and administrative control conducted	*	*	*	Verify the accuracy and reliability of agency records;	A state agency shall file with the Sunset Advisory Commission, the Governor's Office of Budget, Planning,



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	<p>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>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>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>	<p>and Policy, the state auditor, and the Legislative Budget Board a copy of each report submitted to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board by the agency's internal auditor.</p> <p>Each report shall be filed not later than the 30th day after the date the report is submitted to the state agency's governing board or the administrator of the state agency if the state agency does not have a governing board.</p> <p>In addition to the requirements of Subsection (a), a state agency shall file with the Governor's Office of Budget, Planning, and Policy, the state auditor, and the Legislative Budget Board any action plan or other response issued by the state agency's governing board or the administrator of the</p>

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							<p>state agency if the state agency does not have a governing board in response to the report of the state agency's internal auditor.</p> <p>If the state agency does not file the report as required by this section, the Legislative Budget Board or the Governor's Office of Budget, Planning, and Policy may take appropriate action to compel the filing of the report.</p>
<b>Reports</b> (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</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>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</p>	<p>Periodic audits of the agency's major systems and controls, including: (A) accounting systems and controls; (B) administrative systems and controls; and (C) electronic data processing systems and controls.</p>

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	<p>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>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>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

# About the Office of the State Auditor and the Performance Audit Division

The Mississippi Constitution grants specific duties and powers related to prescribing systems of accounting, budgeting, and financial reporting for public offices in Mississippi. It also enumerates other statutory responsibilities including study and analysis of existing public managerial policies and practices; pre-audit and post-audit functions; investigation of suspected fiscal violations; recovering misspent and stolen funds; and a variety of related duties and responsibilities. The mission of the Office of the State Auditor is to serve its customers and protect the public's trust by independently assessing state and local governmental and other entities to ensure that public funds are properly received, are legally, effectively, and efficiently spent and are accounted for and reported accurately.

Performance audits provide objective analysis to assist those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability. The mission of the performance audit division is to provide useful information to the public, program leadership, and elected officials in order to hold governmental entities accountable for their performance by identifying and recommending specific actions to address issues related to efficiency, effectiveness, and economy. Audits by the Performance Audit Division are planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on established audit objectives.

All reports, documents, and supporting materials obtained and utilized by the Performance Audit Division are considered public information, unless otherwise prohibited by law. This report was produced by the Mississippi Office of the State Auditor in accordance with Mississippi Statute 7-7-211 and is available on the State Auditor's website at [www.osa.ms.gov](http://www.osa.ms.gov).

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