



**Office of the State Inspector  
General  
DIRECTIVE**

**Effective Date**

April 15, 2013

**Number**

001

**Authority**

[Virginia Acts of Assembly- Senate Bill 1477, Chapter 871](#)  
[& House Bill 2076 Chapter 798](#)

**Supersedes**

First Issue

**Subject**

Oversight of Commonwealth of Virginia Internal Audit Activities by the Office of the State Inspector General

**Background**

The Virginia Acts of Assembly Senate Bill 1477, Chapter 871 and House Bill 2076, Chapter 798 effective as of July 1, 2012, and codified as §2.2-307 et seq. of the *Code of Virginia*, established the Office of the State Inspector General (OSIG) to be headed by a State Inspector General. Additionally, *Code of Virginia* §2.2-3009 et seq. addresses the Fraud and Abuse Whistle Blower Reward Fund.

The State Inspector General is charged with providing services in three core areas:

- investigating complaints alleging fraud, waste, abuse, or corruption;
- conducting performance reviews of state agencies; and
- coordinating and recommending standards for internal audit programs existing as of July 1, 2012, and developing and maintaining other internal audit programs.

In preparation for the establishment of the OSIG, the enabling legislation required that a plan be developed for the coordination and oversight of the internal audit programs by the OSIG. The plan was to consider the viability of the transfer of the programs to the OSIG or whether a dual reporting structure would be more practicable.

In addition, the enabling legislation provided that any regulation adopted, and still in effect, by the State Internal Auditor would stay in effect until changed by the OSIG. Virginia Administrative Code (VAC) Title 1, Agency 42 (Division of State Internal Audit), Chapters 10 and 20 included specific requirements for internal audit functions which are still in effect until replaced by the OSIG. This OSIG Directive will address some of the items included in the VAC.

**Code of Virginia and Enabling Legislation – Key Provisions regarding Internal Audit**

**Code of Virginia**

§ 2.2-309. Powers and duties of State Inspector General.

A. The State Inspector General shall have the power and duty to:

5. Coordinate and recommend standards for those internal audit programs in existence as of July 1, 2012, and develop and maintain other internal audit programs in state agencies and nonstate agencies as needed in order to ensure that the Commonwealth's assets are subject to appropriate internal management controls. The State Inspector General shall assess the condition of the accounting, financial, and administrative controls of state agencies and nonstate agencies;

12. Conduct performance reviews of state agencies to ascertain that sums appropriated have been or are being expended for the purposes for which the appropriation was made, and to evaluate the effectiveness of the programs in accomplishing such purpose. Prepare a report for each performance review detailing any findings or recommendations for improving the efficiency of state agencies, including recommending changes in the law to the Governor and the General Assembly that are necessary to address such findings;
13. Administer the Fraud and Abuse Whistle Blower Reward Fund created pursuant to § 2.2-3014; and
14. Do all acts necessary or convenient to carry out the purposes of this chapter.

§ 2.2-313. Reports.

A. The State Inspector General shall prepare an annual report to the Governor and the General Assembly summarizing the activities of the Office. Such report shall include, but need not be limited to: (i) a description of any significant problems, abuses, and deficiencies related to the management or operation of state agencies or nonstate agencies during the reporting period; (ii) a description of the recommendations for any corrective actions made by the Office during the reporting period with respect to significant problems, abuses, or deficiencies identified; (iii) a summary of matters referred to the attorneys for the Commonwealth and law-enforcement agencies and actions taken on them during the reporting period; (iv) information concerning the numbers of complaints received and types of investigations completed by the Office during the reporting period; (v) the development and maintenance of internal audit programs in state agencies and nonstate agencies; and (vi) the results of any state agency performance reviews, including a summary of any findings or recommendations for improving the efficiency of state agencies.

C. The State Inspector General shall keep the appropriate Secretaries advised of the Office's activities as they relate to each respective Secretary on at least a quarterly basis, and of any significant problems, abuses, or deficiencies relating to the management or operation of a state agency within each such Secretary's area of responsibility. However, when the State Inspector General becomes aware of significant problems, abuses, or deficiencies relating to the management or operation of a Secretary's office, the State Inspector General shall report the same immediately to the Governor's Chief of Staff.

**Enabling Legislation**

Senate Bill 1477, Chapter 871 and House Bill 2076, Chapter 798

Be it enacted by the General Assembly of Virginia:

5. That the Governor, on or before December 31, 2011, shall, in consultation with impacted stakeholders, complete a plan for the coordination and oversight of the internal audit programs to the Office of the State Inspector General. This plan shall consider where transfer of the internal audit program to the Office is necessary or when a dual reporting structure is most practicable.
6. That any regulations adopted by the State Internal Auditor that are in effect as of the effective date of this act and that pertain to the subject of this act shall remain in full force and effect until altered, amended, or rescinded by the State Inspector General.

## **Definitions/Acronyms**

**OSIG** – Office of the State Inspector General

**SIG** – State Inspector General

**CAE** - Chief Audit Executive

**IIA** – Institute of Internal Auditors, Inc.

**GAO** – United States Government Accountability Office

**GAGAS** – Generally Accepted Government Auditing Standards

**GAS** – Government Auditing Standards

**Institutions** – Colleges and Universities, as listed in the Appropriations Act under the Executive Branch

**State Agency** - (*Code §2.2-307*) Means any agency, institution, board, bureau, commission, council, or instrumentality of state government in the executive branch listed in the appropriation act.

**Non-State Agency** - (*Code §2.2-307*) Means any public or private foundation, authority, institute, museum, corporation, or similar organization that is not a unit of state government or a political subdivision of the Commonwealth as established by general law or special act and is wholly or principally supported by state funds.

**Performance Audit** - An objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues.

## **OSIG Philosophy**

The State Inspector General, in consultation with the Chief of Staff, legislators, OSIG staff, and other state officials, and after review of a study prepared by the Department of Planning and Budget, has determined that the OSIG will not, under normal circumstances, perform internal audit functions.

Rather, the OSIG will oversee the internal audit programs within state agencies within the OSIG's jurisdiction, as defined in the *Code of Virginia*, to ensure internal audit functions: (list is illustrative and not intended to be all inclusive)

- have been established, where appropriate, in state agencies;
- are reporting to the proper management level to provide for maximum independence;
- are following appropriate standards, as evidenced by compliance with periodic quality assurance reviews;
- are adequately staffed; and
- are operating at an acceptable performance level in order to:
  - produce risk-based audit plans;
  - provide acceptable agency coverage;
  - provide adequate assessments of agency control structure; and
  - produce appropriate reports to management, with an effective follow-up process in place that ensures that corrective action is taken.

The SIG is opting to establish a dual reporting relationship with internal audit functions and to provide strong oversight of the Commonwealth internal audit program. The SIG has selected this position in order

to ensure adequate independence within the internal audit function; to demonstrate that the function is identifying appropriate control-related issues; to ensure that the function is adding value through transparent accountability regarding stewardship of governmental funding and agency actions; to provide an avenue to internal auditors in the event that there is a real or perceived perception of undue influence by agency management; and to provide assistance, counsel, and guidance to internal audit functions, upon request.

### **Oversight**

The SIG intends to periodically gather data<sup>1</sup> (see below) from internal audit functions, to review this data, to consider the data as inputs to the OSIG's risk assessment methodology regarding specific state functions, and as needed, report on any issues. The SIG also intends to periodically evaluate agencies without internal audit functions and make recommendations regarding the establishment of the function, if determined to be needed. The OSIG may also consider if internal audit functions can be shared, merged, or divided, based on agency or cabinet level needs.

To accomplish oversight of the Commonwealth internal audit program, the SIG is implementing the following requirements through this directive:

Internal Audit functions shall adhere to the following:

- 1. Adoption of the Institute of Internal Auditors Standards for all Internal Audit Programs -**  
All state agencies and institutions with internal audit functions shall adopt and prescribe to the *Definition of Internal Auditing*, the *Code of Ethics*, and the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors. Adoption of the Standards should be included in the function's internal audit charter.

As needed, internal audit functions may adopt other standards, such as the Generally Accepted Government Auditing Standards, promulgated by the Government Accountability Office, in order to carry out specifically required audits necessitating such other standards.

Chief Audit Executives may request an exception from the SIG regarding the IIA Standards. Each request will be considered and a decision will be rendered either approving or denying the request, based on the merits of the request. This exception process is not encouraged and will be evaluated on a case-by-case basis.

A copy of each internal audit function's charter and audit committee charter, if applicable, should be submitted to the SIG by June 30, 2013, and at any time it is significantly or materially modified in the future.

- 2. Monitoring of the Quality Assurance and Improvement Program -**
  - ***IIA Standard 1311- Internal Assessments.*** Ongoing monitoring of the performance of the internal audit activity. Periodic reviews performed through self assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

<sup>1</sup> With regard to information requested in items 1-5, supporting data should not be submitted. If the OSIG subsequently determines a need for supporting data, it will be requested.

- **IIA Standard 1312-External Assessment.** External assessments (either full external assessment or an internal self-assessment with independent validation) must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization.

Each CAE shall submit a dated copy of their last external quality assurance assessment by June 30, 2013 and as completed in future years. If the assessment identified findings/issues, or the rating indicated nonconformance, the CAE should provide additional information regarding current status and corrective actions taken.

- 3. Annual Audit Plans, with any Modifications, and Risk Assessments** -All state agencies and institutions with internal auditing functions shall submit detailed work plans by June 30, 2013 for the current FY and as completed in future years but no later than September 30<sup>th</sup>.<sup>2</sup> Any significant modifications to the audit plan shall be submitted as completed. In addition, the CAE shall submit the risk assessments used to develop the annual audit plan. Finally, the CAE shall submit a document that compares the audit plan in terms of planned tasks and/or budgeted hours for the past fiscal year to the audit plan accomplishments for the past fiscal year and that provides an explanation of significant variations.
- 4. Audit Reports** - All state agencies and institutions with internal audit functions shall submit copies of final reports produced by the internal audit function, including regularly planned reviews, as well as special projects and investigations, at the same time as they are sent to agency management, to the OSIG. If there is a question as to whether a particular type of report should be submitted, the CAE should contact the OSIG for guidance.
- 5. Status of Corrective Actions Taken** - All state agencies and institutions with internal audit functions shall submit reports or other forms of correspondence, e.g., internal memoranda, letters, spreadsheets, etc., detailing the status of findings and recommendations resulting from internal audits as completed. This may be provided in the form of periodic summary reports or other forms of correspondence as previously described.
- 6. Internal Auditor Training** - The SIG will continue to establish training programs for the internal audit community. This does not preclude CAEs from arranging and participating in their own training activities. Chief Audit Executive's should take an active role in determining the training courses offered and in encouraging their staff to participate in the training program.

In addition, Chief Audit Executive Roundtable meetings will be re-instituted. Attendance at the meetings by the CAEs, or their designee, is encouraged. Other auditors may attend, as space permits. Chief Audit Executive's are encouraged to submit agenda topics for the meetings. The SIG will establish a schedule for these meetings and share it with the audit community.

#### **Other OSIG Duties**

As the OSIG carries out its statutory requirement to conduct performance reviews of state agencies, the OSIG may include an assessment of the internal audit function and the internal control framework of an agency in its performance audit objectives.

<sup>2</sup> If an agency cannot meet the deadline, contact the OSIG to determine a suitable date.

As additional topics arise, the SIG will issue additional Directives. Questions or comments regarding this Directive should be addressed to me at 804-625-3248.

Michael F. A. Morehart  
Michael F. A. Morehart  
State Inspector General

07/16/13  
Date

All required information should be provided electronically to:

osig@osig.virginia.gov

Acceptable forms of electronic submission include: Microsoft Office© document types (Word, Excel, etc.) and portable document format (.PDF).

If there is a need to provide information in hard copy, the information should be mailed to:

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Patrick Henry Building - Suite #2024  
1111 East Broad Street  
Richmond, Virginia 23219

Summary of Key Submission Dates to the OSIG		
#	Audit Item:	Due to OSIG:
1	- Audit Charter(s)- Internal Audit, Audit Committee - Significantly Modified Audit Charter	-June 30 , 2013 -Upon publication
2	-Most recent external quality assurance assessment, as well as corrective action plans	-June 30 , 2013
3	-Current Annual Audit Plan - Modifications to Annual Audit Plan - Future Annual Audit Plans - Current Risk Assessment - Risk Assessments – Updated	-June 30 , 2013 -Upon approval -September 30 of each year -June 30, 2013 -September 30 of each year
4	-Audit Reports	-Upon publication to agency management
5	-Status of Corrective Actions – as prepared or via quarterly summary report	-As completed