



**OFFICE OF THE STATE INSPECTOR GENERAL
DIRECTIVE**

EFFECTIVE DATE
March 16, 2015

NUMBER
001

SUPERSEDES
November 19, 2014

AUTHORITY
Virginia Acts of Assembly—2011 Reconvened
• [Senate Bill 1477, Chapter 871](#)
• [House Bill 2076, Chapter 798](#)

Code of Virginia § [2.2-307](#) et seq.

SUBJECT

**OVERSIGHT OF STATE AND SPECIFIC NONSTATE
AGENCIES' INTERNAL AUDIT PROGRAMS**

I. BACKGROUND

The Virginia Acts of Assembly [Senate Bill 1477, Chapter 871](#) and [House Bill 2076, Chapter 798](#) effective as of July 1, 2012, and *Code of Virginia* § [2.2-307](#) et seq., 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 OSIG's administration of the Fraud and Abuse Whistle Blower Reward Fund.

The OSIG is charged with providing services in three core areas:

1. Investigating complaints alleging fraud, waste, abuse, or corruption.
2. Conducting performance reviews of executive branch agencies.
3. Coordinating and requiring 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 development of a plan for OSIG's coordination and oversight of internal audit programs. The plan was to consider whether all internal audit programs should be transferred to OSIG, or whether a dual reporting structure between OSIG and an agency's internal audit department would be more practicable.

II. KEY PROVISIONS REGARDING INTERNAL AUDIT

A. *Code of Virginia* § [2.2-309](#) [A](7); (9–11); (17). Powers and duties of State Inspector General.

1. (7) Administer the Fraud and Abuse Whistle Blower Reward Fund created pursuant to [§ 2.2-3014](#).
2. (9) Conduct performance reviews of state agencies to assess the efficiency, effectiveness, or economy of programs and to ascertain, among other things, that sums appropriated have been or are being expended for the purposes for which the appropriation was made and prepare a report for each performance review detailing

any findings or recommendations for improving the efficiency, effectiveness, or economy of state agencies, including recommending changes in the law to the Governor and the General Assembly that are necessary to address such findings.

3. (10) Coordinate and require standards for those internal audit programs in existence as of July 1, 2012, and for 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.
4. (11) As deemed necessary, assess the condition of the accounting, financial, and administrative controls of state agencies and nonstate agencies and make recommendations to protect the Commonwealth's assets.
5. (17) Do all acts necessary or convenient to carry out the purposes of this chapter.

B. *Code of Virginia* [§ 2.2-313](#). Reports.

1. [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.
2. [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.

III. 2011 ENABLING LEGISLATION

[Senate Bill 1477](#), [Chapter 871](#); [House Bill 2076](#), [Chapter 798](#)—Be it enacted by the General Assembly of Virginia:

- A. (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.
- B. (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.

IV. ACRONYMS/DEFINITIONS

OSIG: Office of the State Inspector General

SIG: State Inspector General

CAE: Chief Audit Executive

Commonwealth: Commonwealth of Virginia

IIA: Institute of Internal Auditors, Inc.

GAO: United States Government Accountability Office

GAGAS: Generally Accepted Government Auditing Standards

Institutions: Colleges and universities, as listed in the Appropriations Act under the executive branch.

Internal Audit Charter: The internal audit charter is a formal document that defines the internal audit function's purpose, authority, responsibility, and position within a state or nonstate agency.

State Agency: (*Code of Virginia § 2.2-307*) Any agency, institution, board, bureau, commission, council, or instrumentality of state government in the executive branch listed in the Appropriation Act.

Nonstate Agency: (*Code of Virginia § 2.2-307*) 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.

Quality Assessment Review: There are two types of quality assessment reviews (QAR) that conform with IIA's standards: (1) a self-assessment performed by an agency's internal audit

department with an assessment validation performed by an independent party, and (2) an external evaluation performed by an independent party.

V. OSIG PHILOSOPHY

- A. The State Inspector General (SIG), in consultation with the Chief of Staff to the Governor, legislators, OSIG staff, and other state officials, and after review of a Department of Planning and Budget study, has determined that under normal circumstances OSIG will not perform internal audit functions.
- B. Within the jurisdiction defined in the *Code of Virginia*, OSIG will oversee executive branch and specific nonstate agencies' internal audit programs to ensure internal audit functions (list is not all-inclusive):
1. Have been established in executive branch agencies where appropriate.
 2. Are reporting to the proper management level to preserve maximum independence.
 3. Are following appropriate standards, as evidenced by compliance with periodic quality assessment reviews (QAR).
 4. Are adequately staffed.
 5. Are operating at an acceptable performance level in order to:
 - a. Produce risk-based audit plans.
 - b. Provide acceptable agency coverage.
 - c. Provide adequate assessments of agency control structure.
 - d. Produce appropriate reports for management, with an effective follow-up process in place to ensure corrective action is taken.
- C. OSIG's oversight of the Commonwealth internal audit programs will:
1. Ensure adequate independence of the internal audit function.
 2. Demonstrate that the function is identifying appropriate control-related issues.
 3. Ensure that the function is adding value through transparent accountability regarding stewardship of governmental funding and agency actions.
 4. Provide an avenue for internal auditors in the event of a real or perceived incident of undue influence by agency management.
 5. Provide assistance, counsel, and guidance to internal audit functions, upon request.

VI. OVERSIGHT

- A. The OSIG intends to periodically gather data from internal audit functions concerning the five areas below,¹ review this data, consider the data as inputs into the OSIG's risk assessment of specific state functions, and, as needed, report on any issues.
- B. The OSIG also intends to periodically evaluate agencies without internal audit functions, and if determined necessary, make recommendations regarding the establishment of an

¹ 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.

internal audit function. The OSIG may also consider if internal audit functions can be shared, merged, or divided, based on agency or cabinet level needs.

C. To accomplish appropriate oversight of the Commonwealth's internal audit programs, the SIG is implementing the following requirements through this directive:

1. Institute of Internal Auditors Standards

- a. All executive branch state agencies and institutions with internal audit functions shall adopt and prescribe to the [*Definition of Internal Auditing*](#), [*Code of Ethics*](#), and [*International Standards for the Professional Practice of Internal Auditing \(Standards\)*](#), as promulgated by the Institute of Internal Auditors (IIA), and should be included in the function's [*internal audit charter*](#) (*Standards*. 1000 – Purpose, Authority, and Responsibility).
- b. As needed, internal audit functions may adopt other standards, such as the United States Government Accountability Office's (GAO) [*Generally Accepted Government Auditing Standards*](#) (GAGAS), in order to carry out specifically required audits.
- c. Chief Audit Executives (CAEs) may request an exception from the SIG regarding the IIA *Standards*; however, the exception process is not encouraged, and each request will be evaluated on a case-by-case basis.
- d. A copy of each internal audit function's charter and audit committee charter, if applicable, should be submitted to the OSIG any time it is significantly or materially modified.
- e. Quality Assurance and Improvement Program (QAIP)—CAEs must develop, implement, and maintain QAIPs to ensure that internal audit activities conform with the IIA *Standards*. The QAIP includes both internal and external assessments.
 - i. *Internal assessments* include ongoing monitoring of the performance of the agency's internal audit activity and periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.
 - ii. *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.
 - iii. Each CAE shall submit a dated copy of the last external quality assessment review as completed. If the review identified findings/issues, or the rating indicated nonconformance, the CAE should provide additional information regarding current status and corrective actions taken.

2. *Annual Audit Plans, with any Modifications, and Risk Assessments*

- a. All executive branch state agencies and institutions with internal auditing functions shall submit detailed work plans by September 30 of each year.² Any significant modifications to the audit plan shall be submitted as completed.
- b. The CAE shall also submit the risk assessments used to develop the annual audit plan.
- c. The CAE should refer to section nine for the specific requirements for the submission of Audit Plans and Risk Assessments.
- d. A CAE should contact the OSIG for guidance if unsure whether a particular Audit Plan or Risk Assessment requires submitting

3. *Final Reports on Planned Audits, Special Projects, and Investigations*

- a. All executive branch state agencies and institutions with internal auditing functions shall submit final reports on planned audits, special projects, and investigations.
- b. For special projects and investigations that are (i) initiated by agency or institution personnel and (ii) the results are not presented to either the Board of Visitors or agency management, a summary can be provided to OSIG to include the following:
 - occurrence of investigation/special project
 - summary of results
 - listing of reportable findings related to internal control or procedural weaknesses identified

The following items are not required for summary reporting:

- Names of personnel under investigation and corresponding recommendations specific to personnel actions
 - Identification of the division or area investigated within the agency or institution
- c. OSIG will not require reports or summaries to be submitted for special projects and investigations initiated by agency or institution personnel where the results of the review were unsubstantiated.
 - d. OSIG will not require reports or summaries to be submitted for special projects and investigations excluded under the Freedom of Information Act (FOIA) in accordance with the *Code of Virginia* § [2.2-3705.7\(2\)](#).
 - e. CAEs should refer to section nine for specific details regarding submitting reports to OSIG.
 - f. CAEs should contact the OSIG for guidance if unsure whether a particular report requires submitting.

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

4. *Status of Corrective Actions Taken*

- a. All executive branch 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, special projects or investigations as indicated in section nine.
- b. CAEs should contact the OSIG for guidance if unsure whether a corrective action plan should be submitted to OSIG.

5. *Internal Auditor Training*

- a. The OSIG will continue to establish training programs for the internal audit community; however, this does not preclude CAEs from arranging and participating in their own training activities.
- b. CAEs should take an active role in determining the training courses offered and in encouraging their staff to participate in training programs.
- c. Chief Audit Executive Roundtable meetings have been re-instituted, and CAEs, or a designee, are encouraged to attend. Other auditors may attend, space permitting.
- d. CAEs are encouraged to submit topics for the meetings.
- e. The SIG will establish a schedule for these meetings and share it with the audit community.

VII. OTHER OSIG DUTIES

- A. As the OSIG carries out its statutory requirement to conduct performance reviews of executive branch agencies, the OSIG may include an assessment of the internal audit function and the internal control framework of an agency in its performance review objectives.
- B. As additional topics arise, the SIG will issue additional Directives. Questions or comments regarding this *Oversight of State and Specific Nonstate Agencies' Internal Audit Programs Directive* should be addressed to the State Inspector General.

VIII. SENDING OSIG INFORMATION

- A. All required information should be emailed to: osig@osig.virginia.gov.
- B. Acceptable forms of electronic submission include: Microsoft Word (.doc, .docx) and Excel (.xls, .xlsx), and portable document format (.pdf). Sensitive documents can be transmitted using AXCRIPT. The password was previously provided to each agency.
- C. If there is a need to provide information in hard copy, the information should be mailed to:

State Inspector General
c/o Office of the State Inspector General

James Monroe Building, 101 North 14th Street, 7th Floor
 Richmond, VA 23219

IX. SUMMARY OF KEY SUBMISSION DATES

No.	Audit Item	Due to OSIG
1	<ul style="list-style-type: none"> • Audit Charter(s)—Internal Audit, Audit Committee • Significantly Modified Audit Charter 	Upon publication or after presentation to Board of Visitors.
2	Most recent external quality assessment review, as well as corrective action plans	Upon completion or after presentation to Board of Visitors.
3	<ul style="list-style-type: none"> • Current Annual Audit Plan • Modifications to Annual Audit Plan • Future Annual Audit Plans • Current Risk Assessment • Risk Assessments—Updated if prepared • Comparison of Audit Plan with Actual Accomplishments (if prepared) 	September 30 of each year or after presentation to Board of Visitors. Risk assessments may be submitted in a spreadsheet format or in a word format and should detail methodology used in risk assessment to develop audit plan. Modifications to audit plans can be submitted on a quarterly basis showing audits performed during that quarter rather than in a year-end comparison. Documents that are prepared for the Board of Visitors to clarify the risk assessment process or audit plan should also be submitted to OSIG.
4	Audit Reports to include those related to planned audits.	Upon publication to agency management or after presentation to the Board of Visitors. Verbal findings or insignificant findings do not have to be submitted to OSIG unless CAE submits to President, Agency Head, or Board of Visitors.
5	Special projects and internal investigations	Upon publication to agency management or after presentation to the Board of Visitors. If they are not presented to Board of Visitors or Agency management then a listing of substantiated cases and resulting findings may be

		submitted in a summary format at the end of the fiscal year.
6	Status of Corrective Actions	<p>As completed. Status of Corrective Actions do not have to include personnel specific, verbal or insignificant findings unless CAE submits them to President, Agency Head, or Board of Visitors. All significant findings should be listed and tracked regardless of whether they result from an audit, special project or an investigation.</p> <p>Corrective Actions do not have to include findings that are protected under FOIA exclusions in accordance with the <i>Code of Virginia</i> § 2.2-3705.7(2).</p>

Signature copy on file

JUNE W. JENNINGS

State Inspector General