REVIEW OF THE INTERNAL AUDIT FUNCTION

MARCH 2010

Auditor of Public Accounts
COMMONWEALTH OF VIRGINIA

EXECUTIVE SUMMARY

The Auditor of Public Accounts issued an analysis of Commonwealth audit resources and inspector general functions in October 2009. That report concluded that the inspector general function serves an important oversight role within government; however, policy makers often duplicate audit responsibilities when they create these offices.

This report serves as a follow-up to the October 2009 report and concentrates on the current state of the Commonwealth's internal audit function. We reviewed the internal audit function at 23 state agencies and 14 institutions of higher education. This report highlights trends among the various internal audit functions and their compliance with certain *International Standards for the Professional Practice of Internal Auditing (Standards)*. Our review found that the 37 internal audit functions generally comply with all but one of the professional standards we reviewed.

Over 40 percent of applicable internal audit functions did not comply with the external assessment portion of the Standard's Quality Assurance and Improvement Program. The most common response for noncompliance with this standard was the prohibitive cost of the external review in a difficult economic environment. Reclassifying their internal audit function, as either an internal control or risk manager, would allow these functions to operate without the additional costs of compliance with professional standards required by the Code of Virginia.

For entities that have an internal audit function, this report offers management other recommendations to improve their oversight of the internal audit function and increase compliance with the external assessment standard.

Finally, this report serves to provide management with a framework to analyze the necessity and scope of internal audit functions. Management must consider numerous factors when determining the necessity and scope of an internal audit function for their entity. We provide some of these factors in Appendix B to this report. After consideration of these factors, management can choose one of four options for their entity:

1. Maintain their current internal audit function in scope and size.

2. Maintain an internal audit function but increase or decrease the function in scope or size.

3. Convert to an internal control or risk management function, similar to the positions at Correctional Education and Education.

4. Convert to an inspector general function within their entity, akin to the model at Corrections, Juvenile Justice, and Transportation.

TABLE OF CONTENTS

	Page
EXECUTIVE SUMMARY	
CHAPTER 1 – COMMONWEALTH'S CURRENT INTERNAL AUDIT FUNCTIONS	
Introduction	1
Measuring the Internal Audit Function	1
Objectives	2
Scope and Methodology	2
Population of Internal Audit Functions	3
Review of Internal Audit Functions	3-7
Summary of Results	7-9
CHAPTER 2 – BEST PRACTICES OBSERVED IN THE COMMONWEALTH AND RECOMMENDATIONS	10-15
CHAPTER 3 – 30-YEAR HISTORY OF THE COMMONWEALTH'S INTERNAL AUDIT FUNCTION – HOW WE GOT HERE	16-19
Historical Development of the Internal Audit Function in Virginia	16
The Internal Audit Function in 2009	17
Entities Managing Risk without an Internal Audit Function	18-19
CHAPTER 4 – THE FUTURE OF THE INTERNAL AUDIT FUNCTION IN THE COMMONWEALTH – WHERE TO GO FROM HERE	20
Options for Management Consideration	20-22
TRANSMITTAL LETTER	23-24
CHIEF AUDIT EXECUTIVES	25-26
CHIEF AUDIT EXECUTIVES' RESPONSES	27-37
APPENDIX A: Interpretation of Internal Audit Standards	38-40
APPENDIX B: Items Affecting the Need for an Internal Audit Function	41-42
APPENDIX C: Educational Material Provided to Board or Agency Head	43

CHAPTER 1:
COMMONWEALTH'S CURRENT INTERNAL AUDIT FUNCTIONS

Introduction

The executive branch of Virginia's government is responsible for the management of hundreds of entities, ranging from small executive branch state agencies to institutions of higher education. The size, scope, and mission of these entities vary widely. Currently, there are 23 state agencies and 14 institutions of higher education that employ an internal audit function.

No external authority regulates the profession of internal auditing; however, there are a number of international standard setting bodies. The Virginia Administrative Code directs that "all state agencies and institutions with internal audit functions shall adopt and prescribe to the *International Standards for the Professional Practice of Internal Auditing (Standards)* and *Statements on Internal Auditing Standards* promulgated by the Institute of Internal Auditors."

According to the Institute of Internal Auditors, the internal audit function, managed by a chief audit executive, "*is an independent objective assurance and consulting activity that is designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control, and governance processes*."

The scope of internal auditing within an organization is broad and may involve topics such as the efficiency and effectiveness of operations, the reliability of financial reporting, deterring and investigating fraud, safeguarding assets, and compliance with laws and regulations. Internal auditing frequently involves measuring compliance with the entity's policies and procedures along with advising management how to better execute their responsibilities. The primary focus area of internal auditing as it relates to corporate governance is helping the audit committee of the board of directors (or its equivalent) perform its responsibilities effectively.

Measuring the Internal Audit Function

Management evaluates their internal audit function based on the expectations they set for their chief audit executive. Entities which have oversight boards or agency heads that are not familiar with the role of internal audit may have their expectations influenced by the quality of counsel and information provided to them by the internal audit function. Because the setting of expectations and the subsequent evaluations are qualitative, they are difficult to measure. Therefore, organizations have attempted to develop quantitative measures to judge the internal audit function. Quantitative measures can include surveys of management, audit plan completion, report issuance, findings or deficiency disclosure, or staff qualifications.

Objectives

Our review evaluated the internal audit functions of 23 agencies and 14 institutions of higher education against standards set forth by the Institute of Internal Auditors to address the following objectives.

1. Identify whether the internal audit functions throughout the Commonwealth adhere to certain generally accepted standards within their profession.

2. Provide a framework for managers to use to determine the necessity or size of an internal audit function or inspector general function.

3. Identify internal auditing best practices and make recommendations to management to improve oversight, and subsequently, the effectiveness of their internal audit functions.

Scope and Methodology

We contacted each internal audit function within the Commonwealth and requested copies of the following items.

- Approved Internal Audit Charter for fiscal 2009
- Entity's organizational chart
- Policies and procedures
- 2008 Risk Assessment
- 2008 Work Plan
- 2008 Report of Results
- Most recent Quality Assessment Review

We selected certain items from fiscal 2008 because at the time of our review, it would have been unreasonable to expect the internal audit function to have the fiscal 2009 documents. Several respondents noted that certain incomplete items were being resolved in calendar year 2010; however, our review did not include any documents dated after December 31, 2009.

International Standards for the Professional Practice of Internal Auditing

We selected the items above because they are measurable representations of whether an internal audit function complies with certain professional standards. We did not review these documents to question the judgments of either the internal auditors or the organization's management. For example, we did not review an entity's risk assessment to determine that it identified the entity's most significant risk factors. It is management's responsibility to communicate areas of high-risk to its internal audit function.

In addition, we did not conduct a quality assurance review of the internal audit functions included in this review. Therefore, we did not evaluate any audit programs or review the continuing professional education records of any internal audit staff. We do provide a listing of items that we reviewed and the internal audit standards and interpretations that we used during this review in Appendix A of this report. As noted earlier, valuating the overall effectiveness of specific internal audit functions is a qualitative determination that management must make.

Population of Internal Audit Functions in the Commonwealth

We requested the documents named above for the 23 agencies and 14 institutions of higher education with an internal audit function. The table on the following two pages details these 37 internal audit functions and their compliance with certain professional standards identified in Appendix A of this report. In addition to these entities, we reviewed, but did not report on the following entities.

- Department of Accounts (Accounts) - The Division of State Internal Audit does not serve as the Internal Auditor for Accounts. While the chief audit executive for the division retained the title of the State Internal Auditor from the prior Department of the State Internal Auditor he only operates the State Employee Fraud, Waste, and Abuse Hotline, and selective administrative duties of the dissolved department.

- Departments of Education and Correctional Education – Education and Correctional Education employ Internal Control Managers. Neither position is an Internal Auditor, and therefore, are not included in the comparison table.

- Department of Environmental Quality - The Internal Auditor for Environmental Quality resigned in August 2009 and the Department has not filled this position.

- Department of Social Services - Due to its budget reduction strategy, Social Services redistributed the responsibilities of its Internal Audit function in September 2009 to other divisions within the agency.

The internal audit functions at the Departments of Corrections, Juvenile Justice, and Transportation operationally report to their respective agency's Inspector General, created as an internal position within the agency. The Department of Behavioral Health and Developmental Services also has an Inspector General, but one created by statute. We reviewed the internal audit function within the offices of inspector general at Corrections, Juvenile Justice, and Transportation. We also reviewed the internal audit function at Behavioral Health and Developmental Services, which is separate from its inspector general function.

The Virginia Military Institute (VMI) adopted the military concept and terminology of an inspector general. This individual and his staff review and report on the performance, efficiency, discipline, morale, and effectiveness of the institute. However, unlike Corrections, Juvenile Justice, and Transportation, this position does not oversee an internal audit function, and as such, we did not include this office in our review.

Review of Internal Audit Functions

The tables on the following two pages provide detailed results of our review. On pages 6 and 7 of this report, we provide a narrative for each internal audit standard. Following each standard, we indicate which entities did not comply with each standard and include any additional information provided by the chief audit executive about the entity's compliance.

Entity	Charter	Charter Approved / Amended (Calendar)	Report to Proper Level	Report to:
Agencies				
Agriculture and Consumer Services	✓	2009	✓	Agency Commissioner
Alcoholic Beverage Control	✓	2009	✓	ABC Board Chairman
Behavioral Health & Developmental	✓	In Progress	✓	Agency Commissioner
Conservation and Recreation	✓	2005	✓	Agency Commissioner
Corrections	✓	2009	✓	Agency Commissioner
Game and Inland Fisheries☆	✓	2007	✓	Audit Committee
General Services	✓	2006	✓	Agency Commissioner
Health	✓	2009	✓	Agency Commissioner
Health Professions☆	×	In Progress	×	Deputy Commissioner
Juvenile Justice	✓	2007	✓	Agency Commissioner
Medical Assistance Services	✓	2009	✓	Agency Commissioner
Mines, Minerals, and Energy	✓	2009	✓	Agency Commissioner
Motor Vehicles	✓	2007	✓	Agency Commissioner
Rehabilitative Services	✓	2009	✓	Agency Commissioner
State Corporation Commission☆	✓	2009	✓	Chief Administrative Officer
State Lottery	✓	1990	✓	Virginia Lottery Board
State Police+	✓	2009	✓	Superintendant of the State Police
Taxation	✓	2007	✓	Agency Commissioner
Transportation	✓	2009	✓	Audit Committee
Treasury	✓	2002	✓	State Treasurer
Virginia Employment Commission	✓	2005	×	Deputy Commissioner
Virginia Information Technologies Agency☆	✓	2009	✓	ITIB
Virginia Retirement System	✓	2009	✓	Board of Trustees
Institutions of Higher Education				
Christopher Newport	✓	2009	✓	Board of Visitors - Audit Committee
George Mason	✓	2009	✓	Board of Visitors - Audit Committee
James Madison	✓	2008	✓	Board of Visitors - Audit Committee
Longwood	✓	2009	✓	Board of Visitors
Mary Washington	✓	2009	✓	Board of Visitors - Audit Committee
Norfolk State	✓	2009	✓	Board of Visitors - Audit Committee
Old Dominion	✓	In Progress	✓	Board of Visitors - Audit Committee
Radford	✓	2009	✓	Board of Visitors - Audit Committee
UVA	✓	2009	✓	Board of Visitors - Audit Committee
VCU	✓	2009	✓	Board of Visitors - Audit Committee
Virginia Community College System	✓	2006	✓	Board of Visitors - Audit Committee
Virginia State	✓	2009	✓	Board of Visitors - Audit Committee
Virginia Tech	✓	2008	✓	Board of Visitors - Audit Committee
William & Mary	✓	2008	✓	Board of Visitors - Audit Committee

Entity	Policies & Procedures	Risk Assessment	Work Plan	Report of Results	Quality Assurance Review	Year of Last Review
Agencies						
Agriculture and Consumer Services	✓	✓	✓	✓	✓	2008
Alcoholic Beverage Control	✓	✓	✓	✓	✓	2008
Behavioral Health & Developmental	✓	×[I-P]	✓	✓	×	V
Conservation and Recreation	✓	✓	✓	✓	×	V
Corrections	✓	✓	✓	✓	×	2004
Game and Inland Fisheries☆	×[I-P]	✓	✓	✓	N/A	N/A
General Services	✓	✓	✓	✓	×	V
Health	✓	✓	✓	✓	✓	2007
Health Professions☆	×[I-P]	N/A	N/A	N/A	N/A	N/A
Juvenile Justice	✓	✓	✓	✓	×	V
Medical Assistance Services	✓	✓	✓	✓	✓	2007
Mines, Minerals, and Energy	✓	✓	✓	✓	×	1995
Motor Vehicles	✓	✓	✓	✓	✓	2006
Rehabilitative Services	✓	✓	✓	✓	×	V
State Corporation Commission☆	×[I-P]	N/A	N/A	N/A	N/A	N/A
State Lottery	✓	✓	✓	✓	✓	2006
State Police✚	✓	✓	✓	✓	×	V
Taxation	✓	✓	✓	✓	✓	2007
Transportation	✓	✓	✓	✓	✓	2006
Treasury	✓	✓	✓	✓	✓	2005
Virginia Employment Commission	✓	✓	✓	✓	×	2001
Virginia Information Technologies Agency☆	✓	✓	✓	✓	N/A	N/A
Virginia Retirement System	✓	✓	✓	✓	✓	2009
Institutions of Higher Education						
Christopher Newport	✓	×[I-P]	✓	✓	×	V
George Mason	✓	✓	✓	✓	✓	2006
James Madison	✓	✓	✓	✓	✓	2007
Longwood	✓	✓	✓	✓	✓	2007
Mary Washington	✓	✓	✓	N/A*	✓	2007
Norfolk State	✓	×[I-P]	✓	✓	×	V
Old Dominion	✓	✓	✓	✓	✓	2008
Radford	✓	✓	✓	✓	✓	2008
UVA	✓	✓	✓	✓	×[I-P]	2004
VCU	✓	✓	✓	✓	✓	2006
Virginia Community College System	✓	✓	✓	✓	✓	2006
Virginia State	✓	✓	✓	✓	✓	2007
Virginia Tech	✓	✓	✓	✓	✓	2005
William & Mary	✓	✓	✓	✓	✓	2007

TABLE LEGEND

☆	Internal Audit Function established after fiscal 2004 and therefore certain items reviewed are not applicable.
*	The chief audit executive position was vacant in June 2008 and therefore no report of results was prepared.
×[I-P]	Per the Internal Auditor, the applicable document or process is currently being developed.
×	Documentation for selected standard not provided or does not exist.
V	Date of last review not provided or unknown.
✚	State Police has an administrative policy that meets the spirit of an Internal Audit Charter.

The Internal Audit Charter

Our review found that all but one of the internal audit functions maintained an audit charter. Health Professions established its internal audit function in fiscal 2009 and had yet to document its purpose in an official charter.

Our review also noted in addition to Health Professions, four others; State Lottery, Treasury, Old Dominion University, and Behavioral Health and Developmental Services had not revised or amended their charter within the past five years. Old Dominion University and Behavioral Health and Developmental Services noted that they planned to have management review and approve their charter in the weeks after our request. Professional standards require chief audit executives to review and present their audit charters to senior management periodically. While the standards do not dictate a timeframe, we believe the senior management should review and approve the charter at least once every five years.

Organizational Independence

Our review noted that all but two entities' internal audit function reported to either the applicable Board (Institutions of Higher Education, ABC, Game and Inland Fisheries, Lottery, and Transportation) or agency head (remaining state agencies). The Chief Audit Executive at Corrections, in addition to the agency head, also has a special reporting relationship with the Board of Corrections and the Secretary of Public Safety. Virginia Employment Commission's and Health Professions' internal audit functions reported to a deputy commissioner. To perform their role effectively, chief audit executives require organization independence from management, to enable unrestricted evaluation of management activities and personnel. Therefore, for state agencies that do not have a board or audit committee, we believe that the chief audit executives should report to the agency head, which in both of these cases would be the commissioner. Additionally, should the circumstances of an agency call for it, chief audit executives should establish special reporting relationships with their respective Cabinet Secretary.

Policies and Procedures

Our review noted that the Departments of Game and Inland Fisheries and Health Professions, and the State Corporation Commission internal audit functions did not have documented policies and procedures to guide their work. The Game and Inland Fisheries Internal Audit division, established in 2007, and the Internal Audit divisions of Health Professions and the State Corporation Commission, established in 2009, noted they were in the process of drafting policies and procedures for their respective functions.

Risk Assessment

Our review noted that the internal audit functions for Behavioral Health and Developmental Services, Christopher Newport University, and Norfolk State University did not base their audit work plan on a documented risk assessment. The chief audit executives at all three entities stated they were in the process of developing a risk-based approach for their work plan. Professional

standards require chief audit executives to base their plan of engagements on a documented risk assessment that includes input from senior management.

Work Plan

Our review noted that all internal audit functions that were in place at the beginning of fiscal year 2008 had a documented work plan for their function for the year.

Report of Results

Our review noted that while all internal audit functions reported the results of their work plan to their respective audit committees or agency heads, the process varies dramatically from one internal audit function to another. Some chief audit executives communicate the results of their audit plan verbally at quarterly Board meetings while others prepare year-end reports that include budget versus actual information for each project.

The professional standard allows the chief audit executive and senior management to determine the frequency and content of reporting. However, the Institute of Internal Auditors advises chief audit executives to submit activity reports that highlight significant engagement observations and recommendations, inform senior management of significant deviations from the approved work plan, and any action taken or needed. We believe that chief audit executives should at a minimum, meet this interpretation of the standard.

Quality Assurance Program (External Assessments)

Our review noted that 12 of the applicable 33 (36 percent) internal audit functions did not receive an external quality assessment review in the past five years. According to the Institute of Internal Auditor's interpretation of the external assessment standard, they contain an opinion of the entire spectrum of the internal audit activity and have considerable value both to the internal audit activity and to senior management.

Of the 12 internal audit functions that do not meet this standard, ten have staff sizes of four or less. Almost every internal audit function cited budget restraints as the primary reason they did not meet this requirement. The Department of Corrections and University of Virginia last received an external assessment in August and October of 2004, respectively, which placed both entities just outside the five-year requirement for external assessments. The University of Virginia is scheduling its next external assessment for the first half of calendar year 2010. Due to budget constraints, Corrections is currently performing a self-assessment of their audit function. After Corrections completes its self-assessment, it will hire an external party to independently validate their self-assessment.

Summary of Results

Our review found that 22 out of the 37 internal audit functions (59 percent) met each professional standard that we reviewed. Of institutions of higher education, 11 of the 14 internal audit functions complied with each standard, while only 11 out of 23 state agencies complied with each standard. Where applicable, we will highlight the possible practices that may have led to these different rates among audit functions.

Quality Assurance Reviews or External Assessments

The importance of improving compliance with the external assessment professional standard is two-fold. Of the 33 internal audit functions required to have an external assessment, 29 internal audit functions (88 percent) complied with every other standard we reviewed. In addition, of the 21 internal audit functions we reviewed that had received an external assessment in the previous five years, each function met every other professional standard we reviewed. This demonstrates that the external assessment standard was the most common standard internal audit functions did not comply with; and compliance with this standard improves compliance with other professional standards.

Recommendation – *Improve Compliance with the External Assessment Standard*

Statewide, senior management could improve overall compliance with professional standards by either funding or helping to coordinate external assessments, and then requiring their internal audit functions receive an external assessment. We discuss methods for improving compliance with this standard later in our report, which includes having the chief audit executives develop a method for sharing resources to complete quality assurance reviews or establishing statewide contracts for reviews.

Individual Results

The following five entities were not compliant with more than one standard; however, with the exception of Health Professions, one of the standards was the external assessment. As noted above, this is the most common standard that internal audit functions do not comply with and therefore we discuss this as a global issue for the internal audit community and will not address it on an individual basis.

- Behavioral Health and Developmental Services
- Health Professions
- Virginia Employment Commission
- Christopher Newport University
- Norfolk State University

Behavioral Health and Developmental Services (BHDS)

BHDS did not base their work plan on an annual risk assessment. When we requested the information for this review, BHDS had three internal audit staff persons. Recent budget reductions caused the prior chief audit executive to retire and the elimination of two staff positions within the internal audit function. Their former chief audit executive noted that their work plan focused on projects requested by management and therefore did not incorporate a risk assessment. The current Internal Audit Manager stated that he is in the course of developing an annual risk assessment.

Health Professions

Health Professions created an internal audit function in fiscal 2009 to ensure the Department's compliance with the Agency Risk Management and Internal Control Standards (ARMICS). Health Professions did not have an audit charter or documented policies and

procedures. Health Professions' chief audit executive stated that her primary focus upon being hired was ensuring the agency's compliance with ARMICS. Since our review, the chief audit executive created an audit charter; and is in the process of documenting policies and procedures. Additionally, the internal audit function at Health Professions does not organizationally report to the agency commissioner.

Virginia Employment Commission

At the time of our review, the internal audit function at the Virginia Employment Commission did not organizationally report to the agency commissioner. However, our review noted that the chief audit executive did communicate the annual work plan to the agency commissioner. Since our review, the Virginia Employment Commission updated its structure so that the chief audit executive organizationally reports to the agency commissioner.

Christopher Newport University

Christopher Newport does not have a documented risk assessment. Christopher Newport hired is current chief audit executive in 2007, and she noted that when hired, the internal audit function did not have a formal risk assessment process. The chief audit executive stated that she is in the course of creating an annual risk assessment process.

Norfolk State University

Norfolk State did not have a documented risk assessment. The Chief Audit Executive stated that he is in the course of developing an annual risk assessment.

CHAPTER 2:
BEST PRACTICES OBSERVED IN THE COMMONWEALTH AND RECOMMENDATIONS

We noted several entities exercising best practices in the management of their internal audit function. We are providing these examples here, along with recommendations for improving management's oversight of, and subsequently, the effectiveness of internal audit functions statewide.

Reporting Structure

During our review, we looked for examples of how audit committees and agency heads effectively manage the internal audit function. We concluded that in many instances, the chief audit executive must educate their entity's board or agency head about the best practices the board and agency head should use in evaluating and managing the internal audit function.

If the agency head or audit committee is not familiar with the role of the internal audit function, and the chief audit executive does not educate them properly about their role, there is the potential for the internal audit function to exist in a vacuum. Our review found that this situation is less likely to occur when the chief audit executive reports to an audit committee or board. Audit committees typically have a member or members with financial backgrounds or an understanding of the importance of the internal audit function. In addition, audit committees typically have by-laws that document their responsibility for overseeing the internal audit function.

The 14 chief audit executives of institutions of higher education (institutions) all report to the audit committee of the institution's board of visitors (or similar function). The chief audit executives at state agencies typically report to the agency head. Agency heads are often political appointees that may or may not have a financial background or understand the internal audit function. The internal auditors at the Departments of Transportation and Game and Inland Fisheries, the State Lottery, VITA, ABC, and the Virginia Retirement System organizationally report to an audit committee or board, rather than an agency head.

Recommendation – *Establish an Audit Committee*

The internal audit function at the Department of Conservation and Recreation consists of one internal auditor, the chief audit executive. During our review, we noted that the chief audit executive at Conservation and Recreation created a de facto audit committee comprised of the agency head and five other members of the agency's management team. The committee holds quarterly meetings that allow two-way communication between the internal audit function and management. This communication allows the chief audit executive to incorporate management's priorities and concerns into his annual risk assessment and work plan. It also ensures that the chief audit executive apprises management of the ongoing status of the work plan and any issues that he encounters.

Educating Boards and Agency Heads

We requested the documents that each internal audit function uses to educate their agency head or audit committee as to their role and purpose within their entity. While the Institute of Internal

Auditing standards do not require chief audit executives to educate their agency heads or boards, most chief audit executives have taken it upon themselves to provide some form of education to their managers. Appendix C to this report details each internal audit function and the material they provide to their boards or agency heads. Educational material ranged from the internal audit charter, to electronic presentations, to multi-section reports that included audit charters, annual risk assessments and work plans, applicable laws and regulations, and so forth.

Recommendation –*Coordinate and Monitor the Education of Boards and Agency Heads*

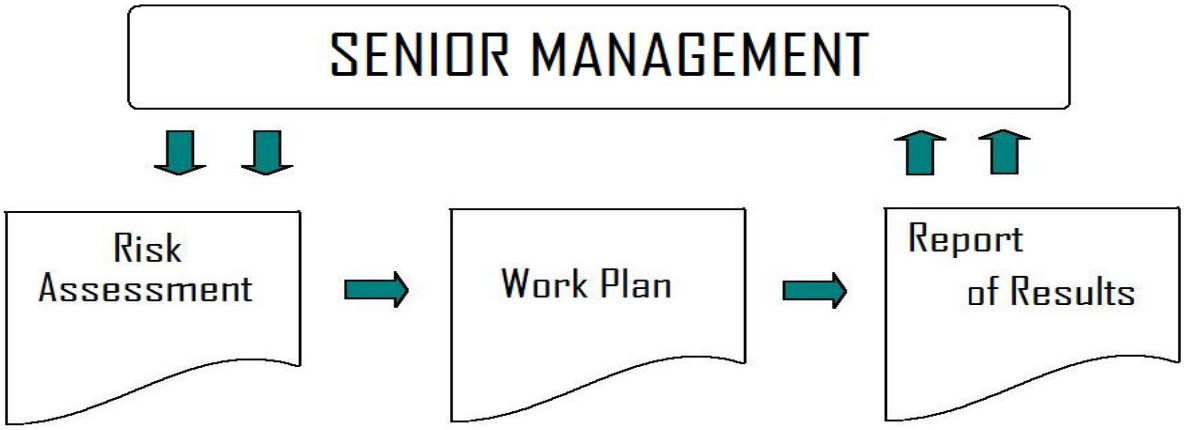
A council of chief audit executives or the State Comptroller should develop model information for the internal audit community to use when educating their boards or agency heads, and should ensure that chief audit executives discuss this information with management at least biennially. A council of chief audit executives or the State Comptroller should consider coordinating with the State Council of Higher Education for Virginia to ensure that new Board of Visitors members at state supported institutions receive adequate and timely educational material. Additionally, chief audit executives should recommend that all new agency heads receive, as part of their orientation, the developed educational materials.

Our review noted that the internal audit function at Virginia Commonwealth University (VCU) and others could serve as examples for the council of chief audit executives or the State Comptroller, as to the type of information that management can expect from their internal audit function. The chief audit executive at VCU prepares a multi-section binder for each member of the Audit and Compliance Committee titled *Member Reference Materials.* These materials include a summary of the audit committee's authority and responsibility, the internal auditor's risk assessment and reporting process, and an overview of the internal audit function. The binder then includes the supporting documentation for these summaries, including:

- relevant sections of the Code of Virginia
- the Audit Committee section of the Board of Visitor's By-laws
- the audit charter
- a meeting planner that schedules when the Board will meet with the internal audit function and outlines what will be discussed at each meeting
- organizational charts
- internal control and enterprise risk management frameworks
- a list of critical issues facing the University
- a high-level four-year strategic audit plan
- detailed annual work plan for the applicable period

The Internal Audit Process

The Chief Audit Executive should develop the risk assessment for their entity with considerable input from senior management. Based on this risk assessment, the chief audit executive should then develop an annual work plan that addresses the identified risks. The agency head or audit committee should approve the annual work plan. Execution of the work plan should result in written reports to management and those charged with governance.



Recommendation – *Management Must Set Expectations*

Management at both state agencies and institutions of higher education should set minimum standards that they expect their internal audit function to meet in either agency policies or board of visitors' by-laws. At a minimum, management should require the internal audit function to develop a documented work plan; the work plan should be based on a documented annual risk assessment; and management should require at least an annual report on the results of the work plan.

Quality Assurance Reviews or External Assessments

About 36 percent of the applicable internal audit functions have not had an external assessment within the past five years, as required by the standards. As documented in our October 2009 report on Commonwealth audit resources and inspector general functions, budget reductions have limited the Division of State Internal Audit from performing any function other than coordinating training for state and local employees, operating the hotline, and performing limited special projects. As such, management can no longer rely on the State Internal Auditor as a statewide control that ensures its internal audit function receives a timely quality assessment review.

While these reviews provide management an independent opinion on the quality of work performed by their internal audit function, most chief audit executives cited the prohibitive cost of external assessments as the primary reason for not complying with this internal audit standard. During difficult budget periods, management at most of these entities is unwilling to approve the additional cost of an external review. Through interviews with chief audit executives, we were able to determine that a quality assessment review can range anywhere from $4,000 to $20,000 for smaller internal audit functions and from $20,000 to over $100,000 for larger internal audit functions.

One option to reduce the costs of external assessments would be for either a council of chief audit executives or the State Comptroller working with General Services, to enter into a statewide contract with one or a limited number of firms that would provide these services. A statewide contract would ensure that all internal audit functions have access to independent reviews at competitive prices without dedicating resources to develop their own individual contracts.

Another option to reduce the costs of external assessments would be for chief audit executives to establish a joint peer review format for conducting external assessments. Several chief audit executives noted that they had tried this in the past with mixed results. Additionally, such a format would require the council to work out administrative issues such as associated costs as well as ensuring the external reviews met the Institute of Internal Auditors' independence standards for external assessments.

That is, the audit function at entity "A" would conduct the external assessment of entity "B", whose audit function would then conduct the external assessment of entity "C", and so forth. The respective entity of each audit function could pay the salary expenses of their auditors while they conduct an assessment for another entity. Chief audit executives could track the extent of their involvement by using a peer review manpower bank, which tracks time rather than salary costs for conducting reviews. Swapping of manpower would limit the costs of the external review to initial training on how to perform reviews and then ongoing travel and incidental expenses of the reviewer.

The true cost to each internal audit function is that once every several years, they would be paying the salary of their employee while they conduct a review of another state entity but at the same time they would be gaining credits in the manpower bank. These credits would support obtaining an external review. In return, it would ensure that each internal audit function complied with the *International Standards for the Professional Practice of Internal Auditing.* The overall cost to the Commonwealth would be lower than under the current format, which has led to 36 percent of its internal audit functions being incompliant with professional standards. Additionally, internal audit staff would benefit by being exposed to new and different methods of planning and conducting audits.

Recommendation – *Chief Audit Executives or the State Comptroller Should Coordinate and Monitor Quality Assurance Review Compliance Statewide*

In addition to coordinating quality assurance reviews, a council of chief audit executives or the State Comptroller should communicate the collective group's compliance with this standard to agency heads, secretaries, and supervisory boards so they may hold agencies and internal audit functions accountable for not meeting the standard for receiving an external assessment. The State Comptroller could periodically incorporate these results in his quarterly report on Statewide Financial Management and Compliance.

Observations of Others

Our review noted that out of the 21 internal audit functions that did comply with the quality assessment standard, the same person conducted 12 of the external reviews. We reviewed the 12 audit reports to determine the most common recommendations. While we also reviewed the other eight external assessments, we are reporting the overall results of the 12 reviews because, being conducted by one individual, each function was held to consistent standards. We are providing these items here to highlight examples of other best practices identified by an external assessment as a benefit to internal audit functions that cannot afford an external review at this time.

1) Acquire the technological tools to perform continuous auditing and to audit through the system.

2) Revise or update the business process model to include more feedback from management.
   - ❖ Strengthen the audit committee's oversight.
   - ❖ Implement an audit committee.
   - ❖ Communicate budget and staffing plan with management and request feedback.
   - ❖ Provide semi-annual or quarterly reports to management that detail the status of all outstanding audit recommendations.
   - ❖ Ensure that the Chief Audit Executive is included in top management meetings and strategic planning.

3) Work with management to develop a risk assessment process.
   - ❖ Conduct risk assessments annually.
   - ❖ Focus risk assessments on entity's critical processes and key management controls.

4) Develop a work plan based on the outcomes of the risk assessment.

5) Document that internal audit work complied with the Institute of Internal Auditing Standards.

6) Increase the staff size of the internal audit function.

7) Document a formal charter.

The most common recommendation issued was to acquire the information technology tools to perform continuous auditing. The recommendations noted that by acquiring these tools, internal audit functions would increase their effectiveness by auditing 100 percent of process transactions in real-time, rather than relying on samples that test historical information.

Almost all of the other recommendations related to the standards already discussed in this report, specifically, educating management to the benefits of a strong internal audit function through increased participation with management, more coordinated development of risk assessments, and improved reporting of results.

Statewide Accountability

As a result of budgetary decisions, the Department of State Internal Auditor no longer exists and the Department of Account's employee, the State Internal Auditor, does not have responsibility for providing any oversight of chief audit executives or the state's internal audit function. Several of the above recommendations call for either a council of chief audit executives to collectively develop solutions for ensuring each agency, and the Commonwealth as a whole, has and maintains an effective internal audit function; or for the State Comptroller to assume this responsibility, since he has the statutory responsibilities for financial internal controls.

Recommendation – *Chief Audit Executives Should Form a Coordinating Council*

To monitor and report on the Commonwealth's internal audit function, chief audit executives at state agencies and institutions could create a coordinating council that is similar to the federal *Inspector General Council on Integrity and Efficiency.* It would serve as a joint forum for training, policy issues, and other matters common to the internal audit community. The state's institutions of higher education formed a similar council over 20 years ago called the *College and University Auditors of Virginia.*

This council would adopt standards under which internal audit functions would exist, while each internal audit function would remain accountable to its agency head or supervisory board. Generally, the Council would serve as the conduit for which chief audit executives could implement many of the recommendations we make throughout this report. Another alternative would have the State Comptroller assume these responsibilities.

CHAPTER 3:
30 YEAR HISTORY OF THE COMMONWEALTH'S INTERNAL AUDIT FUNCTION – HOW WE GOT HERE

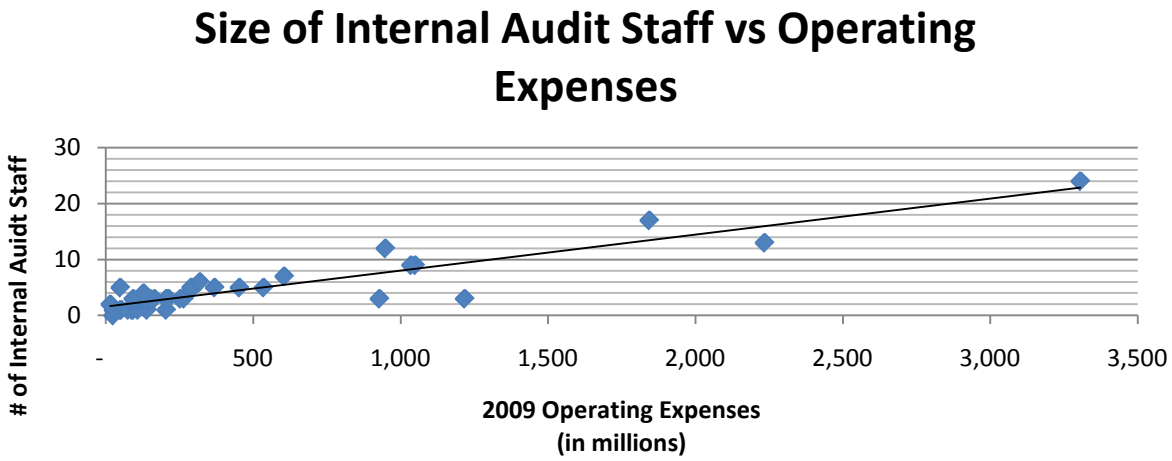
Historical Development of the Internal Audit Function in Virginia

The role of the internal audit function within organizations has evolved dramatically. In their early days, internal auditors had a very limited function in an organization, concerned primarily with accounting verification and assisting external auditors. In 1979, the Department of Management Analysis and Systems Development (which became the Department of Information Technology) issued a report titled *Assessment of State Internal Audit Capabilities*. This report cited numerous and specific recommendations that are summarized here into three main topics.

- The need for a central entity to ensure an effective internal audit function,
- The need for statewide internal audit policies and procedures, and
- Ensuring that the qualifications of internal auditors matched the needs of their entity.

The Commonwealth created the position of the State Internal Auditor in 1980 to address the findings issued in the report. The State Internal Auditor's responsibilities included assisting agency heads and boards "in establishing necessary internal audit organizations as well as assisting them in determining staff composition and structure." At the time, there were roughly 110 internal auditors in state entities.

One of the many recommendations in the report was that, in total, the internal audit function in the Commonwealth was understaffed and that entities should determine the size of their internal audit function based on the size of their operating budget. The first State Internal Auditor used this report as support to increase both the overall number and size of internal audit functions. Today, there are roughly 190 internal auditors across state entities, and as the following graph shows, there remains a strong correlation between an entity's operating expenses and the size of its internal audit function.



$R^2 = 0.8476$

The above graph shows that, excluding Medical Assistance Services, the size of an entity's operating budget is still the most significant indicator of how many internal auditors they employ; which, as we noted, was a recommendation issued nearly 30 years ago. We discuss this relationship further in the next chapter of the report.

The Internal Audit Function in 2009

There are 37 internal audit functions among the Commonwealth's agencies and institutions of higher education with an average staff size of five auditors. Of the 37 internal audit functions, 15 have staff levels of at least five; and 22 internal audit functions have four or less staff persons. Furthermore, of the 22 smaller internal audit functions, a single internal auditor comprises the function for ten entities. The following table summarizes the 37 internal audit functions by staff size, 2009 operating expenses, and total position level.

2009 Final Budgets, Total Positions, and Staff Size for Internal Audit Functions

Entity	2009 Actual Expenses	Positions	Staff Size
Transportation	$3,304,701,000	8,850	24
UVA incl. Medical Center & College at Wise	1,842,749,000	12,922	17
VCU & VCU Health Systems	2,234,131,000	12,182	13
Virginia Tech & Co-op Extension	948,308,000	7,262	12
Corrections	1,049,492,000	12,939	9
Virginia Community College System	1,034,956,000	8,908	9
George Mason	604,863,000	3,465	7
Medical Assistance Services	6,118,574,000	353	6
VITA	319,492,000	399	6
Health	534,795,000	3,675	5
ABC	452,713,000	1,048	5
James Madison	369,381,000	2,835	5
Old Dominion	298,339,000	2,283	5
William & Mary, Richard Bland, & VIMS	288,531,000	1883	5
Virginia Retirement System	49,495,000	300	5
Norfolk State	127,691,000	982	4
Virginia Employment Commission	1,216,655,000	865	3
Behavioral Health & Developmental Services	927,606,000	9,272	3
State Police	264,826,000	2.805	3
State Lottery	252,976,000	309	3
Juvenile Justice	213,113,000	2,405	3
Motor Vehicles	204,508,000	2,038	3
Taxation	165,008,000	997	3
Radford	149,830,000	1,390	3
Virginia State & Co-op Extension	127,773,000	856	3
Longwood	92,649,000	641	3
Treasury	15,182,000	121	2
General Services	204,965,000	663	1
Rehabilitative Services	140,286,000	1,050	1
Christopher Newport	109,425,000	787	1
Conservation and Recreation	94,127,000	539	1
Mary Washington	88,685,000	683	1
State Corporation Commission	76,332,000	653	1
Agriculture and Consumer Services	52,970,000	526	1
Game and Inland Fisheries	48,643,000	496	1
Mines, Minerals, and Energy	26,282,000	234	1
Health Professions	25,301,000	214	1
Total	$24,075,353,000	71,632	189

Source: Commonwealth Accounting and Reporting System, Appropriation Act Chapter 781

These entities had total operating expenses of about $24.1 billion, or about 63 percent of the Commonwealth's total 2009 operating expenses. However, for a more accurate picture of the amount of operating funds the above entities manage, we reviewed significant transfer payments to localities for which local governments are typically responsible. Of the $24.1 billion, the above entities transferred less than $1 billion in direct payments to local governments.

Entities Managing Risk without an Internal Audit Function

The following table is a list of state entities that do not have an internal audit function. This report has discussed some of these entities earlier, including the Departments of Education, Social Services, Environmental Quality, and Correctional Education, and the Virginia Military Institute. The table includes any executive branch state entities with 2009 expenses greater than $20 million that do not have an internal audit function. We are providing this table for informational purposes only; we are not issuing an opinion on whether any of these entities require an internal audit function. We discuss several of the entities listed here in further detail below.

2009 Expenses and Total Positions for Agencies without an Internal Audit Function

Entity	Total Expenses	Significant Transfers	Operating Expenses	Position Level
Education including School for the Deaf & Blind	$ 7,143,406,000	$7,040,234,000	$ 103,172,000	498
Social Services	1,778,034,000	689,929,000	1,088,105,000	1,637
Compensation Board	651,232,000	645,000,000	6,232,000	24
Rail and Public Transportation	464,288,000			53
Environmental Quality	317,088,000			896
Criminal Justice Services	264,160,000	250,364,000	13,796,000	122
Virginia College Savings Plan	152,549,000			60
Housing and Community Development	114,645,000	101,832,000	12,813,000	106
Virginia Port Authority	96,171,000			146
State Council of Higher Education	71,560,000			45
Emergency Management	70,739,000	49,746,000	20,993,000	138
Correctional Education	58,117,000			741
Virginia Military Institute	50,758,000			464
Aging	51,654,000	48,047,000	3,607,000	26
Department of Accounts	49,519,000	35,853,000	13,666,000	125
Military Affairs	48,147,000			352
Blind and Vision Impaired & Rehabilitation Center	41,227,000			190
Library of Virginia	41,042,000	19,180,000	21,862,000	200
Veterans Services	40,080,000	1,783,000	38,297,000	608
Forensic Science	36,875,000			316
Workers' Compensation Commission	35,540,000			232
Fire Programs	31,105,000	20,884,000	10,221,000	72
Forestry	29,136,000			292
Aviation	28,935,000			33
Jamestown-Yorktown Foundation	20,295,000			190
	$11,686,302,000	$8,902,852,000	$2,783,450,000	7,566

Source: Commonwealth Accounting and Reporting System, Appropriation Act Chapter 781

These entities had total operating expenses of about $11.7 billion, or about 31 percent of total state operating expenses. However, we included in this table significant direct payments or transfers to local governments. At least $8.9 billion of these entities' expenses represent direct aid or transfers to local governments. Excluding direct transfers to local governments, the Commonwealth's operating budget totaled about $28.2 billion. As noted, about $23 billion, or 81 percent, of the state-managed funds flowed through agencies with an internal audit function.

Of the remaining $5.2 billion in non-transfer operating expenses, nearly $492 million occurred in the legislative and judicial branch agencies. About $2.8 billion occurred in the 25 entities listed in the above table and the remaining $1.9 billion in non-transfer operating expenses occurred throughout dozens of smaller executive branch agencies. In order to provide internal audit coverage over the state's remaining operating expenses, these entities would need to either establish individual internal audit functions or coordinate within their secretariat a system to share the resources of existing internal audit functions.

However, the two entities above with the largest amount of expenses, Education and Social Services, do have internal audit-like functions. While neither of these entities has a chief audit executive, they have an individual or, in the case of Social Services, individuals tasked with internal audit-like functions.

Education, for example, does not have an internal audit office, but employs an internal controls manager titled "Director of Business and Risk Management." This position is responsible for compliance with ARMICS and serves as the fraud, waste, and abuse hotline coordinator for the agency. While over 98 percent (nearly $7.1 billion in fiscal 2009) of its expenses were direct aid to localities, a major share of the remaining two percent consisted of a few large contracts and payroll expenses. Another agency processes Education's payroll and the direct aid funding is subject to localities' internal controls, not Education's controls.

Social Services redistributed its Internal Audit function when it implemented its budget reduction strategy in September 2009. Of the five remaining internal audit positions, management reclassified four as policy and planning specialists and the other remained in an IT auditor position. All five of the positions perform duties similar in nature to those they performed under the prior chief audit executive. The IT auditor still completes the system audits required by VITA and the policy and planning specialists continue to monitor the sub-recipients that receive funding from Social Services. Sub-recipients, the largest being localities, represent almost 42 percent of Social Services' expenses. Another 46 percent of Social Services' expenses are direct benefit payments to individuals, which leaves approximately 12 percent ($204 million in fiscal year 2009) of its expenses that are not transfers to localities or direct benefit payments to individuals.

The Departments of Aging and Housing and Community Development and the Compensation Board also serve as pass-through entities for aid to local governments. Other entities are extensions of agencies or institutions that do have an internal audit function. The Department of Rehabilitative Services provides administrative support for the Department for the Blind and Vision Impaired, among others.

CHAPTER 4:
THE FUTURE OF THE INTERNAL AUDIT FUNCTION IN THE COMMONWEALTH - WHERE TO GO FROM HERE

While it may have been necessary in 1979 to recommend that Boards and agency heads consider only an entity's operating budget, in today's complex and highly automated environment they need to consider multiple factors when determining the size and necessity of an internal audit function. We include a series of factors for management to consider in Appendix B to this report. We recommend that management at all entities, including those with internal audit functions, evaluate their need for internal audit services at least every five years. If management determines that their operations warrant an internal audit function, they should then consider the information provided in this report to determine the size and scope of their internal audit function.

In addition, when determining the need for and size of an internal audit function, management should consider whether they can share internal audit services with other entities in their secretariat or other entities with similar significant business cycles. This would provide entities without an internal audit function the benefit of having access to internal audit services without adopting the cost of a full-time function.

Options for Management Consideration

Management must consider numerous factors when determining the necessity of an internal audit function for their entity. After consideration of these factors, management can choose one of four options for their entity:

1. Maintain their current internal audit function in scope and size.

2. Maintain an internal audit function but increase or decrease the function in scope or size.

3. Convert to an internal control or risk management function, similar to the positions at Correctional Education and at Education.

4. Convert to an inspector general function within their entity, akin to the model at Corrections, Juvenile Justice, and Transportation.

Examples of Option Three

The purpose of the Agency Risk Management and Internal Control Standards (ARMICS) directive issued by the State Comptroller in 2006 was to require entities to implement internal control standards and "best practices" that directly support the Commonwealth's vision and long-term objectives. Some state agencies rely on their internal audit function to help achieve compliance with this standard.

However, some agencies, such as Education, instead opted to employ a risk manager who is responsible for ARMICS compliance and investigating frauds. For all entities, management should consider whether their operations support the need for an internal audit function, or whether an

internal control or risk manager would better serve the needs of their entity. These positions provide many of the same services that the internal audit function does and attempt to follow some of the best practices set by the Institute of Internal Auditors.

For example, Education's risk manager conducts an annual risk assessment for the agency, develops a work plan based on this risk assessment, and reports the results of the work plan to agency management annually. Additionally, Education's risk manager organizationally reports to the Superintendant of Public Instruction, which provides as much organizational independence as possible in a state agency.

Likewise, larger more complex entities may need many of the services that an inspector general function provides. In our first report, we issued several recommendations related to the creation of inspector general functions. We summarize several of them here for entities that wish to consider the option of establishing an inspector general function.

For Consideration in Establishing an Inspector General Function

Avoiding Duplicate Audit and Oversight Functions

As noted in our October 2009 report on the inspector general function, in creating the inspector general functions, many governments inadvertently duplicate existing audit functions. Newly created inspector general functions often have the same responsibilities of existing audit and oversight functions, adding another layer of review to the legislative or separately elected auditors, internal auditors, or investigators.

We believe the Commonwealth has several existing offices of inspector general that avoid the duplication of audit and oversight functions. The offices of inspector general in the Departments of Corrections, Juvenile Justice, and Transportation should serve as models for establishing the function. These organizations combined existing operations such as internal audit, internal affairs, and other groups into their inspector general offices. This approach eliminated the duplication we found in other governments.

Determining and Maintaining the Inspector General's Mission

Most governments create inspector general offices with three primary objectives: reviewing accountability; reviewing programs for operations, economy and efficiencies; and investigating fraud, waste, and abuse. During our October 2009 review, we found that most inspectors general concentrate their efforts on investigating fraud, waste, and abuse, while ignoring operation and accountability reviews. Accountability and operation reviews, such as those performed by the Joint Legislative Audit and Review Commission staff and the federal inspectors general, have proved to generate savings. Therefore, if the inspector general program is to succeed, a balance needs to exist between the three primary objectives of the office. Inspectors general should regularly report on their operations in achieving all three objectives and follow appropriate standards.

Determining the Number and Placement of Inspector General Offices

Not every state agency or institution needs an inspector general or internal audit function. However, organizations without one may need access to this type of function on occasion. The

experience in the Commonwealth shows that housing the inspector general and internal audit functions within entities is more effective, since they already have an understanding of the entity's operations and systems.

In establishing inspector general functions, the cabinet secretaries should have access to resources to allow smaller entities the benefits of this function. As an example, a cabinet secretary should have the ability to have inspector general staff in larger agencies assist the smaller agencies without staff. The cabinet secretary could also have a small inspector general staff to deal only with the smaller agencies within the secretariat.

Employ a Similar Methodology to Determine the Necessity of an Inspector General Function

Cabinet secretaries must determine the necessity of having an inspector general function within their secretarial area and agencies. Cabinet secretaries should consider many of the same factors it would consider in determining the size, scope, or need of an internal audit function.

Once a cabinet secretary determines which, if any, internal audit functions are capable of absorbing their existing offices into an inspector general function, management must determine a methodology to evaluate these functions. The General Assembly could encourage the existing Internal Audit Directors and Inspectors General to create a coordinating council similar to the federal *Inspector General Council on Integrity and Efficiency* that serves as a joint forum for training, policy issues, and other matters common to the inspector general community.

This council would be responsible for adopting standards by which it would hold internal audit functions and inspectors generals accountable. It would also eliminate situations as described previously, in which chief audit executives are responsible for educating their management as to the proper way in which to monitor and evaluate internal audit functions. The Council could also coordinate peer reviews amongst internal audit and inspector general functions, or choose to not adopt the five-year requirement for external assessments. Generally, the Council would serve many of the same functions for Inspectors General that we recommended throughout this report for chief audit executives to coordinate.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

April 12, 2010

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission

We have reviewed the internal audit functions within each Commonwealth entity and are pleased to submit our report entitled *Review of the Internal Audit Function*. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

Our audit's primary objectives were to determine whether the Commonwealth's internal audit functions follow certain professional standards; identify issues in the internal audit function that could be improved by increased cooperation amongst the internal audit functions; and to provide a framework for management to use in determining the need, size, and scope of the internal audit function within their respective entities.

Audit Scope and Methodology

We surveyed the chief audit executives and inspectors general at 37 entities throughout the Commonwealth and selectively conducted interviews. We analyzed the relationship between the size of internal audit functions and the size of entity's operating budgets. We reviewed administrative code requirements and requested specific documents to determine if internal audit functions complied with professional standards.

Exit Conference and Report Distribution

We provided a draft copy of this report to chief audit executives and inspectors general on March 26, 2010 and requested responses if necessary. Responses to this report have been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

GDS:alh

CHIEF AUDIT EXECUTIVES

Randi Clifford, CPA, CIA, CGAP
Internal Audit Director
Department of Agriculture and Consumer Services

John Wszelaki, CIA, CFE
Internal Audit Director
Department of Alcoholic Beverage Control

Eric Surratt, CPA, CISA
Internal Auditor
Department of Conservation and Recreation

C. Edwin Weeks, CIA, CGFM, CISA
Internal Control Manager
Department of Correctional Education

June Jennings, CPA
Inspector General
Department of Corrections

John Allen
CPA, CIA, CISA, CCSA, CFSA, CGAP, CSP
Internal Auditor
Department of Game and Inland Fisheries

Annette Grier, CPA, CISA
Internal Audit Manager
Department of General Services

Richard Corrigan, CIA, CFSA
Internal Audit Director
Department of Health

Ashley Reed, CIA
Internal Auditor
Department of Health Professions

Vernon Harry, CPA
Inspector General
Department of Juvenile Justice

Charles Lawver, CIA, CISA, CFE, CGFM
Internal Audit Director
Department of Medical Assistance Services

Randy Sherrod, CPA
Internal Audit Manager
Department of Behavioral Health &
Developmental Services

Bob Gregory, CPA, CIA, CISA
Internal Audit Director
Department of Mines, Minerals, and Energy

Tracy Sheets, CPA, CFE
Internal Audit Director
Department of Motor Vehicles

Carla Sankey, CIA, CPA, CISA
Internal Audit Director
Department of Rehabilitative Services

Susan S. Smith, MBA, CPA, CIA, FLMI, MHP,
Are
Principal Internal Auditor
State Corporation Commission

John Spooner, CPA, CIA
State Internal Auditor
Department of Accounts

Mark Cannon, CPA, CISA
Internal Audit Director
Department of State Lottery

David Walsh, CPA, CISA
Internal Audit Director
Department of Taxation

Bradley Gales, AFE
Internal Audit Director
Department of Transportation

James Womack, CIA, CPA, CISA, CIDA
Internal Audit Director
Department of the Treasury

Joseph Young, CIA, CPA, CISA
Internal Audit Director
Virginia Employment Commission

Sheila Alves, CISA, CIA
Internal Audit Director
Virginia Information Technologies Agency

Franklin Berry, CPA, CISA, CIDA, CITP
Audit Director
Virginia Retirement System

Kathy Brown, CPA, CIA, CGFM
Internal Audit Director
Virginia State Police

Christine Ledford, CPA
Internal Audit Director
Christopher Newport University

Ken Hubble, CFE, CICA
Internal Audit Director
George Mason University

Rebecca Holmes, CPA, CIA
Acting Director, Audit & Management Services
James Madison University

Robert Murray, CIA
Internal Audit Director
Longwood University

Tera Kovanes, CPA, CIA, CISA
Internal Audit Director
University of Mary Washington

Ernest Ellis, CIA, CFE
Internal Audit Director
Norfolk State University

Deane Hennett, CPA, CIA, CGFM
Internal Audit Director
Old Dominion University

Margaret McManus, CPA
University Auditor
Radford University

Helen Vanderland, CPA
Internal Audit Director
Virginia Community College System

Richard Bunce, CPA, CGFM
Executive Director, Assurance Services
Virginia Commonwealth University

Joanne Curtis Taylor, CPA, MPA
Chief Audit Executive
Virginia State University

Sharon Kurek, CPA
Internal Audit Director
Virginia Polytechnic Institute and State University

Barbara Deily, CPA, CISA
Chief Audit Executive
University of Virginia

Michael Stump, CPA, CISA
Audit Director
The College of William and Mary

Robert F. McDonnell
Governor

Paula I. Otto
Executive Director

900 East Main Street
Richmond, Virginia
23219
PHONE: 804-692-7000
www.valottery.com

VIRGINIA LOTTERY

April 1, 2010

The Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Sir:

We are providing this letter in connection with your study of the internal audit function at our entity with regard to the following finding:

The Internal Audit Charter

Our review found that all but three of the internal audit functions maintained an audit charter. Of the three entities that did not have a documented charter, State Police and Transportation were in the process of transforming outdated administrative policies into audit charters that defined their current environment. Health Professions, the third entity, established its internal audit function in fiscal 2009 and had yet to document its purpose in an official charter.

Our review also noted in addition to these three entities, five others; State Lottery, Treasury, Virginia Retirement System, Old Dominion University, and Behavioral Health and Developmental Services had not revised or amended their charter within the past five years. Old Dominion University and Behavioral Health and Developmental Services noted that they planned to have management review and approve their charter in the weeks after our request. Professional standards require chief audit executives to review and present their audit charters to senior management periodically. While the standards do not dictate a timeframe, we believe the senior management should review and approve the charter at least once every five years.

Management Response:

Concur with finding. We plan on reviewing the Virginia Lottery's Audit Charter with the State Lottery Board in August 2010 and develop a process for annual review and updates to it from here on.

Sincerely,

Mark Cannon

Mark Cannon

Helping Virginia's Public Schools

NORFOLK STATE UNIVERSITY

Internal Audit
700 Park Avenue, Unit 2568, Norfolk, Virginia 23504-8060
Tel: (757) 823-8367, Fax: (757) 823-2349
Web: http://www.nsu.edu/Administration

April 1, 2010

The Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Sir:

This letter provides responses and summaries of planned corrective action relative to your report entitled *Review of the Internal Audit Function.* The report identified more than one item of departure from the Institute of Internal Auditors Standards relative to the Norfolk State University Internal Auditing Department. Summaries of those departures as disclosed by the Auditor of Public Accounts are stated in bold print. Following the summaries are our responses and plans for corrective action.

Norfolk State University did not comply with the standard for receiving a quality assurance review or external review in the past five years.

The Norfolk State University Internal Auditing Department strives to comply with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. Also, it recognizes the benefits of external assessment. However, the University has had to adjust to revenue reductions over the past several years. Accordingly, the Internal Auditing Department has had to do more with less. During the budget development processes of the University, Internal Audit requested funds in its budget submissions for an external review. Although the requested funds were not approved for an external review, the University allocated a limited amount of budgetary funds for training and continuing professional education. Having experienced a high turnover in the professional staffing, it was a priority of the Internal Auditing Department to enhance the competencies and proficiencies of the newly hired internal auditors in order that they could more effectively discharge their duties and responsibilities.

Continued consideration will be rendered to the observations and recommendations presented in the report. Discussions will be held with senior management and the Board of Visitors to ascertain the measures to be taken so that Internal Audit will achieve compliance with this standard and to obtain the required funding for an external review.

Norfolk State University did not base the audit work plan on a documented risk assessment. The Internal Auditor stated that they were in the process of developing a risk-based approach for their work plan. Professional standards require chief audit executives to base their plan of engagements on a documented risk assessment that includes input from senior management.

Internal Audit developed a comprehensive audit plan based on a documented risk assessment methodology some years ago. The risk assessment process and resulting audit plan included input from all levels of management. It is still being used, in part, to schedule internal audits. With the frequency of changes and transitions at the University, a number of special reviews and projects were initiated. These reviews were of such high priority and required significant hours to complete that the approved audit plan could not be followed as desired. Because of the passage of time and given the nature of the changes, Internal Audit is in the process of completing a current risk assessment. As a part of this process, we are utilizing the same risk methodology that was used in earlier years with a revision in some of the risk factors. The new audit plan based upon risk assessment should be implemented in the upcoming fiscal year.

We anticipate discussions with the other internal auditors in the Commonwealth of Virginia for the coordination and implementation of common enhancements to the internal auditing function.

We appreciate the insight shared as well as the constructive suggestions for enhancement of the internal auditing function.

Sincerely,

Ernest M. Ellis, Jr.

Ernest M. Ellis, Jr.
Director

UNIVERSITY of VIRGINIA
AUDIT DEPARTMENT

April 1, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

We are in receipt of your statewide report on the internal audit functions in the Commonwealth of Virginia. We concur with your recommendation to ensure that Commonwealth internal audit departments have external quality assessments of their operations. The University of Virginia has consistently been supportive of these reviews. We have included this "best practice" in our internal audit operations, even when it was only strongly suggested by the professional standards. When the Institute of Internal Auditors began requiring these reviews every five years, starting in January 2004, the University of Virginia was an "early adopter"; we had our review completed in October of that first year and achieved the highest rating of "fully complies."

When the time came to reschedule our review in 2009, our department attempted to save the Commonwealth funds by trying to solicit an all volunteer team. The statewide quality assessment contracts, previously negotiated centrally in Richmond, were no longer available. We contacted individuals from nine peer institutions throughout the country but were unable to find a volunteer leader for our team. This did delay the process but did produce several outstanding volunteer team members.

As of mid-March, we have successfully contracted with Mr. Pat Reed to lead our team. Mr. Reed is a past-President of the Association of College and University Auditors (ACUA) and has had audit functions of a similar size and responsibility to UVA's reporting to him. He has already started his offsite work, is expected on-site for a planning visit on April 15th and the team will be reviewing our internal audit department during the first week of May.

While we are slightly behind in meeting the five year requirement, we were actively working on obtaining a quality assessment team and did attempt to minimize the required expenditures to the Commonwealth. We also believe that the team we have organized from our national professional organization, ACUA, will result in more "value added" recommendations because of the depth of experience on the team.

In conclusion, we are supportive of quality assessments and have complied with this professional standard even before we were required to do so. As mentioned in your

P.O. Box 400190 • Charlottesville, VA 22904-4190
434-924-4110 • Fax: 434-924-4114
www.virginia.edu/~audit

report, our conformance with this requirement was only delayed; it was not deferred or disregarded. We expect to have our quality assessment report on or before June 30, 2010.

Sincerely,

Barbara J. Deily

Barbara J. Deily
Chief Audit Executive

P.O. Box 400190 • Charlottesville, VA 22904-4190
434-924-4110 • Fax: 434-924-4114
www.virginia.edu/~audit

MARK C. CHRISTIE
COMMISSIONER

JAMES C. DIMITRI
COMMISSIONER

JUDITH WILLIAMS JAGDMANN
COMMISSIONER

COMMONWEALTH OF VIRGINIA

OFFICE OF INTERNAL AUDIT
P.O. BOX 1197
RICHMOND, VIRGINIA 23218-1197

STATE CORPORATION COMMISSION
Office of Internal Audit

April 2, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

The State Corporation Commission (Commission) appreciates the time and effort that your staff devoted to reviewing the internal audit function at the Commission. We are in agreement with the report's findings for the Commission.

The Commission understands the importance of adhering to professional standards of the internal audit profession, and we appreciate the opportunity to demonstrate our adherence to those standards. Thank you for allowing the Commission to review and comment on the draft report.

Sincerely,

Susan S. Smith

Susan S. Smith, CPA, CIA
Principal Internal Auditor

cc: Danny M. Payne
Chief Administrative Officer

Tyler Building, 1300 East Main Street, Richmond, VA 23219-3630
Office of Internal Audit (804) 371-9991 www.scc.virginia.gov/oia

COMMONWEALTH of VIRGINIA

Sandra Whitley Ryals
Director

Department of Health Professions
Perimeter Center
9960 Mayland Drive, Suite 300
Henrico, Virginia 23233-1463

www.dhp.virginia.gov
TEL (804) 367- 4400
FAX (804) 527- 4475

March 30, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

Thank you for giving us the opportunity to review the draft of the report on the Review of Internal Audit Functions.

There is one note of correction. The matrix on page 4 of the report indicates that our internal auditor position reports to the Agency Commissioner. That is not accurate. DHP's internal auditor reports to the Deputy Director for Administration.

After thorough consideration of the options outlined in the report, the Department of Health Professions will be reclassifying our Internal Auditor position to Internal Control Manager. We believe this change would be a much better reflection of the duties of the position and the needs of the agency.

As noted in the draft report, DHP is an agency with a single-person internal audit function. Accordingly, although we are in the process of implementing the administrative structures that are required by the *International Standards for the Professional Practice of Internal Auditing (Standards)*, we believe the time required to comply with all the Standards exceeds what can be accomplished by one person given the other agency demands the position has to fulfill. Additionally, although the quality assurance program external review would not need to occur in the imminent future because the internal audit function was established in fiscal year 2009, the agency will also be able to avoid this future cost with the reclassification. Lastly, the change from Internal Auditor to Internal Control Manager will allow our present organizational structure, which is functioning well, to continue.

Sincerely,

Sandra Whitley Ryals for
Director

/mm

Board of Audiology & Speech-Language Pathology – Board of Counseling – Board of Dentistry – Board of Funeral Directors & Embalmers
Board of Long-Term Care Administrators – Board of Medicine – Board of Nursing – Board of Optometry – Board of Pharmacy
Board of Physical Therapy – Board of Psychology – Board of Social Work – Board of Veterinary Medicine
Board of Health Professions

COMMONWEALTH of VIRGINIA

Sandra Whitley Ryals
Director

Department of Health Professions
Perimeter Center
9960 Mayland Drive, Suite 300
Henrico, Virginia 23233-1463

www.dhp.virginia.gov
TEL (804) 367- 4400
FAX (804) 527- 4475

March 31, 2010

Mr. Walter J. Kucharski
Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

We are providing this letter in connection with your study of the Internal Audit Function at the Department of Health Professions. We confirm that we are responsible for the management of the Internal Audit Function and its compliance with professional standards. All representations within this letter are made in relation to the Internal Audit function.

We confirm to the best of our knowledge and belief, as of March 26, 2010, the following representations made to you during your study:

1. We have made available to you all -
   a. Information requested for this review, including:
   b. an organizational chart.

2. Additional information was requested that could not be provided because it did not exist due to the newness of the agency's internal audit program, including:
   a. an Internal Audit Charter;
   b. the 2008 Risk Assessment;
   c. the 2008 Work Plan;
   d. the 2008 Report of Results
   e. the most recent Quality Assurance Review report; and
   f. documents used to educate management about the Internal Audit function.

3. We have no knowledge of any fraud or suspected fraud affecting the Internal Audit function involving management or employees.

Sincerely,

Sandra Whitley Ryals
Director

Board of Audiology & Speech-Language Pathology – Board of Counseling – Board of Dentistry – Board of Funeral Directors & Embalmers
Board of Long-Term Care Administrators – Board of Medicine – Board of Nursing – Board of Optometry – Board of Pharmacy
Board of Physical Therapy – Board of Psychology – Board of Social Work – Board of Veterinary Medicine
Board of Health Professions

Colonel W. S. (Steve) Flaherty
Superintendent

(804) 674-2000

COMMONWEALTH OF VIRGINIA

Lt. Col. Robert B. Northern
Deputy Superintendent

DEPARTMENT OF STATE POLICE
P. O. Box 27472, Richmond, VA 23261-7472
(804) 674-2000

April 12, 2010

Mr. Walter Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

The Internal Audit unit at Virginia State Police is aware that IIA Standard 1312 requires an external assessment (quality assurance review) be conducted at least every five years. At the time I was hired to direct the Internal Audit function a few years ago, the unit was spending a majority of their resources assisting the staff inspection function rather than performing a comprehensive internal audit function. I discussed the feasibility of a quality assurance review (QAR) with a vendor specialist, who advised that it would be much more beneficial to wait a few years until such time as I could hire for our open auditor positions and bring our planning and audit processes back in line as a Standards-based operation. By waiting a few years, the QAR would provide a more meaningful validation.

Since that time, I have hired two qualified staff members, a Senior IT Auditor and a Senior Auditor, and have worked diligently to bring the unit in line with professional audit standards. In addition, our Internal Audit unit now performs IT Security Audits in adherence with required Commonwealth IT Standards, as well as performs a major role in required ARMICS annual reviews. Our Internal Audit unit operates within an Office of Performance Management and Internal Controls at Virginia State Police, and therefore is set up organizationally as a hybrid between the traditional Internal Audit function and the newer "Internal Control or Risk Management Function" that you mention as an option in your report. We agree that it is important for management to consider a number of factors when determining the best way to set up internal audit and oversight/risk management functions. Every state agency has unique characteristics that set it apart from others. For example, law enforcement departments often have unique oversight functions, such as staff inspection, internal affairs, and criminal investigative units, among others. Our Internal Audit unit plans and operates in a way to add valuable oversight and assessment of internal controls for management, while avoiding the duplication of efforts with other Departmental functions.

Now that our internal audit function has established its policies and procedures to operate within the Standards, I am planning to request procurement for a QAR during the next 2011 fiscal year. I am open to future participation with other Commonwealth chief internal audit executives

if a method is developed for sharing resources to complete QAR requirements. However, the most cost-effective option would be the major consideration, including a review of any available statewide vendor contracts for these services.

Thank you for the opportunity to provide a response to your report, and we welcome any additional questions or feedback you may have.

Sincerely,

Kathy R. Brown
Internal Audit Manager

CC: Colonel W. Steven Flaherty
Cynthia A. Vernacchia

DIVISIONS
ENERGY
GAS AND OIL
GEOLOGY AND MINERAL RESOURCES
MINED LAND RECLAMATION
MINERAL MINING
MINES
ADMINISTRATION

COMMONWEALTH OF VIRGINIA

Department of Mines, Minerals and Energy
Washington Building, 8th Floor
1100 Bank Street
Richmond, Virginia 23219-3638
(804) 692-3200 FAX (804) 692-3237
www.dmme.virginia.gov

April 13, 2010

Auditor of Public Accounts
P. O. Box 1295
Richmond, Virginia 23218

Dear Sir:

The Department of Mines, Minerals and Energy (DMME) agrees with your finding regarding an external Quality Assurance Review (QAR) and will perform a QAR of the DMME internal audit activity, in accordance with the Institute of Internal Auditors Standards, to the extent that it can be completed under the peer-to-peer review process to be developed by the Division of State Internal Audit.

Additionally, please find enclosed a report of the 2009 internal self-assessment of the DMME Internal Audit Department.

Sincerely,

Robert L. Gregory

Robert L. Gregory
Internal Audit Manager

Enclosure

EQUAL OPPORTUNITY EMPLOYER
TDD (800) 828-1120 --- Virginia Relay Center

Appendix A: Interpretation of Internal Audit Standards

Listed below are the items that we reviewed and the internal audit standards and interpretations that we held them against.

The Internal Audit Charter

Attribute Standard 1000 – Purpose, Authority, and Responsibility

The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards. The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

> *We ensured that the internal audit function had a documented charter and noted the year in which its management last revised or approved the document. The Standards do not define the timeframe in which the chief audit executive must present the charter to management for approval. We judgmentally applied the five-year requirement the Standards require for external assessments.*

The Organizational Chart

Attribute Standard 1110 - Organizational Independence

The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.

> *To perform their role effectively, internal auditors require organizational independence from management, to enable unrestricted evaluation of management activities and personnel. Although internal auditors appear to be part of an entity's management and funded by the entity, the primary customer of internal audit activity is the entity charged with oversight of management's activities. This is typically the audit committee (a sub-committee of the board of visitors) for institutions of higher education or the agency head for state entities.*
>
> *Therefore, for state agencies, we believe that the chief audit executive should report to the agency head (or board where applicable) and that the chief audit executive at institutions of higher education should report to the Board of Visitor's audit committee.*

Policies and Procedures

Performance Standard 2040 - Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity. The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

> *We confirmed that the internal audit function had documented policies and procedures.*

Risk Assessment

Performance Standard 2010 – Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals. The chief audit executive is responsible for developing a risk-based plan. The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

> *We confirmed that the internal audit function had a documented risk assessment for fiscal year 2008.*

Work Plan

Performance Standard 2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations. The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

> *We confirmed that the internal audit function had a documented work plan and that they communicated this plan to their agency head or audit committee.*

Report of Results

Performance Standard 2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board. The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

> *We noted that this standard provides management and the internal audit functions with a wide range of acceptable reporting methods. Therefore, we accepted confirmation of any form of communication with management as the proof that the internal audit function met this standard. However, we did note that a report of results to management varied from verbal communications at board meetings to extensive written reports detailing each engagement undertaken.*

Quality Assurance Review Report

Attribute Standard 1300 - Quality Assurance and Improvement Program
1310 – Requirements of the Quality Assurance and Improvement Program
1312 – External Assessment

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The quality assurance and improvement program must include both internal and external assessments. External assessments must be conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization. The chief audit executive must discuss with the board the need for more frequent external assessments, and the qualifications and independence of the external reviewer or review team, including any potential conflicts of interest.

We requested documentation, as of August 31, 2009, of the most recent quality assessment review performed for each internal audit function. We considered any report dated before August 31, 2004 as not meeting the five-year requirement. For one internal audit function established in 2005 and one in 2007, and two functions established in 2009, this standard was not applicable because they had not had their five-year anniversary at the time of our review.

Appendix B: Items Affecting the Need for an Internal Audit Function

As noted throughout this report, there are many factors that management must weigh when determining the necessity and scope of an Internal Audit function. Listed below are factors that management should consider when making this determination. However, an individual or a small group of factors should not be considered in a vacuum for evaluating the need of an internal audit function. The collective responses of all factors should be evaluated together as the risk created by a few may be diminished by others.

What is the size of our entity?		**How the factors may affect the need for an Internal Audit Function.**
	Operating Budget	Larger operating budgets tend to cause the need for an internal audit function to increase.
	Revenues	Larger revenue collections tend to cause the need for an internal audit function to increase.
	Expenses	Larger expenses tend to cause the need for an internal audit function to increase.
	Number of Employees (FTE's vs. Part-Time, # of wage employees)	Larger numbers of employees tend to cause the need for an internal audit function to increase.
Business Environment:		
	Centralized vs. Decentralized	Centralized agencies tend to need less internal audit services, while decentralization tends to increase the need for an internal audit function.
	Federal vs. State	Federal grants, as compared to state appropriations, tend to cause the need for an internal audit function to increase.
Significant Cycles:		
Revenues:		
	Collection Points	More collection points tend to cause the need for internal audit function to increase.
	Automated	The more automated revenue collections are, the need for internal audit function tends to decrease.
	Passive Revenue	Increased passive revenue, such as large general fund appropriations, tend to decrease the need for an internal audit function.
Expenses:		
	Transfers	Increased transfers to other entities tend to decrease the need for an internal audit function. This is because normally transfers are dictated by the Code of Virginia or the Appropriations Act and management of these funds is the function of the entities receiving the transfers and not the entity providing the funds.

Expenses (continued):		
	Contractors	The outsourcing of work to contractors tends to decrease the need for an internal audit function, while entities providing direct services to the public tend to have an increased need for an internal audit function.
	State Small Purchase Credit Cards	More purchases on small purchase credit cards do not directly increase or decrease the need for internal audit function if card administration is properly managed and supervised at the state-wide level.
	Procurement	More items purchased from state contracts tend to decrease the need for an internal audit function, as price negotiation is outside the control of the entity's management.
	Payroll	Increased payroll expenses can decrease the need for an internal audit function if it reduces the total number of significant cycles for an entity.

Appendix C: Educational Material Provided to Board or Agency Head

Entity	Educational Material Provided to Board or Agency Head
Agriculture & Consumer Services	Internal Audit Charter, policies and procedures, annual audit plan and report of results, and monthly activity reports
ABC	Internal Audit educational material, audit charter, and annual activity reports
BHDS	Presentation material on topics such as ARMICS and fraud
Conservation and Recreation	Internal Audit Charter, Policies and Procedures, created an Audit Steering Committee
Corrections	Professional association articles on topics such as tone at the top and internal audit awareness
Game and Inland Fisheries	Selected copies of IIA's Tone at the Top newsletter and annual audit plan
General Services	Selected copies of IIA's Tone at the Top newsletter, verbal presentations.
Health	New Agency Head Orientation document, all Internal Audit documents available electronically
Health Professions	None, at the time of our review
Juvenile Justice	Power Point presentations
Medical Assistance Services	Internal Audit Goals and Objectives, all Internal Audit documents available electronically
Mines, Minerals, and Energy	Internal Audit Charter, annual audit plan, and policies and procedures
Motor Vehicles	Selected sections of policies and procedures, annual audit plan and updates.
Rehabilitative Services	Professional association articles, audit charter, and audit work plan for approval.
State Corporation Commission	Presentation material, all Internal Audit documents available electronically
State Lottery	Orientation material provided to new Lottery Board members.
State Police	Audit Charter, annual work plan, monthly progress reports, and other documents.
Taxation	Internal Audit Charter
Transportation	VDOT Audit Committee Notebook
Treasury	IIA "Tone at the Top" newsletter
VEC	Orientation material including annual work plans and monthly status reports
VITA	Work plan and results including quarterly summaries of corrective action plans and status.
Virginia Retirement System	Board Member Orientation PowerPoint Presentation
Christopher Newport	Annual work plan and regular updates of work plan status
George Mason	Audit Committee Charter and PowerPoint Presentation of Audit Committee Responsibilities
James Madison	Board of Visitors Audit Committee Member Reference Materials – includes charter, policies, etc.
Longwood	Professional association articles related to governance practices, risk management, etc.
Mary Washington	Audit Committee Charter
Norfolk State	Audit Charter, Audit Committee By-laws
Old Dominion	Audit Charter, Audit Committee By-laws
Radford	Internal Audit Charter and selected sections of Board of Visitors By-laws
UVA	Organizational charts, audit charter, documents to support verbal presentations
VCU	Internal Audit orientation booklet
VCCS	Internal Audit Charter, Audit Committee By-laws, Annual Audit Plan
Virginia State	Audit Committee Brochure, professional association articles, Audit Committee Training Opportunities; emerging issues in higher education
Virginia Tech	Full electronic access through Board of Visitors portal to all IA documents including charter, by-laws, and work plans
William & Mary	Multi-page orientation document detailing roles and responsibilities of Internal Audit