

EVALUATION OF THE INTERNAL AUDIT FUNCTION
IN STATE AGENCIES AND UNIVERSITY SYSTEMS



PERFORMANCE AUDIT SERVICES
ISSUED JANUARY 11, 2017

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

ASSISTANT LEGISLATIVE AUDITOR
FOR STATE AUDIT SERVICES
NICOLE B. EDMONSON, CIA, CGAP, MPA

DIRECTOR OF PERFORMANCE AUDIT SERVICES
KAREN LEBLANC, CIA, CGAP, MSW

**FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT
EMILY WILSON, PERFORMANCE AUDIT MANAGER,
AT 225-339-3800.**

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

January 11, 2017

The Honorable John A. Alario, Jr.,
President of the Senate
The Honorable Taylor F. Barras,
Speaker of the House of Representatives

Dear Senator Alario and Representative Barras:

This report provides the results of our performance audit on the internal audit function in state agencies and university systems.

The report contains our findings, conclusions, and recommendations. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to state agency and university system management and internal audit staff for their assistance during this audit.

Sincerely,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive.

Daryl G. Purpera, CPA, CFE
Legislative Auditor

DGP/aa

INTERNAL AUDIT EVAL

Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE



Evaluation of the Internal Audit Function in State Agencies and University Systems

January 2017

Audit Control # 40160014

Introduction

We evaluated the internal audit function in state agencies and university systems (agencies) to identify the challenges they face in complying with state law¹ and Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing² (professional standards). We conducted this performance audit because effective August 1, 2015, Act 314 of the 2015 Regular Session requires state agencies and postsecondary management boards with appropriations of \$30 million or more³ to have an internal audit function that adheres to professional standards. These standards require internal auditors to be independent and objective, possess the necessary competence to perform audits, and maintain due professional care. In addition, audits are to be planned using a risk-based approach and must contribute to the improvement of governance, risk management, and control processes. Each internal audit function is required to participate in a quality assurance and improvement program to evaluate its conformance with the IIA standards.

According to the IIA, the **mission** of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Prior to Act 314, House Bill 1 required agencies with appropriations of \$30 million or more to have internal audit functions, but the law did not require that they adhere to professional standards. For fiscal year 2017, 29 state agencies and four university systems⁴ are required by law to have internal audit functions that adhere to professional standards based on their appropriation amounts.⁵ These 41 entities received a total of approximately \$27.5 billion in appropriations, or 99% of general and ancillary appropriations for fiscal year 2017.⁶ See Appendix B for a list of the 41 entities required to have an internal audit function. The remaining \$289.4 million (1%) was appropriated to 20 other entities that did not meet the \$30 million threshold requiring an internal audit function.

As part of its standard financial audit procedures, the Louisiana Legislative Auditor (LLA) evaluates whether required agencies have effective internal audit functions. In 12

¹ Revised Statute (R.S) 17:3023(B), 3138.5, and 3351(H), and R.S. 36:8.2.

² <https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Standards.aspx>

³ Includes the Board of Regents and the Office of Student Financial Assistance.

⁴ The University of Louisiana System's internal audit function is decentralized; each of its nine campuses has its own internal audit function.

⁵ Appropriation amounts include general appropriations from House Bill 1 and ancillary appropriations found in Act 47, both from the 2016 Regular Session.

⁶ These figures do not include appropriations from *Schedule 20 - Other Requirements* found in House Bill 1.

financial audit reports issued during fiscal years 2012 to 2016, LLA cited seven agencies for having ineffective internal audit functions. The most common weakness identified was agencies producing few or no audits in a year, with one agency not producing any audits in two years. LLA also cited agencies for issues such as not having their audit plans approved by the agency head, not conducting a recent risk assessment, and not having filled the internal auditor position.

The objective of this performance audit was:

To identify and evaluate the challenges state agencies and university systems face in establishing internal audit functions that comply with state law and professional standards.

The challenges we identified are listed on the next page and discussed in further detail throughout the remainder of the report. Appendix A details our scope and methodology, and Appendix B lists agency appropriations and internal audit function budget, staffing, and number of audits issued for fiscal year 2017. Appendix C lists the 20 agencies that are not required to have an internal audit function and their fiscal year 2017 appropriations.

Objective: To identify and evaluate the challenges state agencies and university systems face in establishing internal audit functions that comply with state law and professional standards.

Currently, there are 35 internal audit functions responsible for auditing the 41 state agencies and universities (agencies) required by state law to have that function.⁷ To identify and evaluate the challenges they face, we surveyed the lead internal auditor at each agency and received responses from all 35. We also conducted more detailed reviews at certain agencies and reviewed and categorized all internal audits issued by these agencies during fiscal years 2014 to 2016. Our review identified the following:

- Currently, Louisiana law does not specify the reporting structure for internal audit or require the use of an internal audit committee as recommended by professional standards. We found that 20 (57%) of 35 internal audit functions do not report to an audit committee, which would help provide independent oversight over the internal audit function.
- Internal auditors cited limited budgets as their greatest challenge. We found that the internal audit budgets for fiscal year 2017 ranged from \$60,000 to \$1.8 million. Budget constraints also affect staffing levels, as half of internal audit functions are staffed with only one auditor.
- Twenty-six (74.3%) of 35 internal audit functions do not have a current quality assurance review as required by professional standards and state law. However, these reviews present challenges in that they can be expensive and time-consuming for internal audit staff. Without a quality assurance review, auditors cannot assert that their audits follow standards.
- Helping management better understand the role and value of internal audits could result in more effective and risk-based audits. We found that 15 (42.9%) of 35 survey respondents were required to perform non-internal audit duties, and 11 (31.4%) reported that mandated audits or management requests hindered their ability to produce risk-based audits.

⁷ See Appendix B for a list of the 41 agencies.

Currently, Louisiana law does not specify the reporting structure for internal audit or require the use of an internal audit committee as recommended by professional standards. The internal audit function in 20 (57%) of 35⁸ agencies does not report to an audit committee, which would help provide independent oversight over the internal audit function.

The IIA recommends that internal auditors have dual reporting relationships by reporting *administratively* to the highest level of authority and *functionally* to an audit committee. In addition, the value of governmental internal auditing can be hampered if independence is not protected and maintained. According to our survey, internal audit functions at 20 (57%) of 35 agencies do not report to an audit committee.

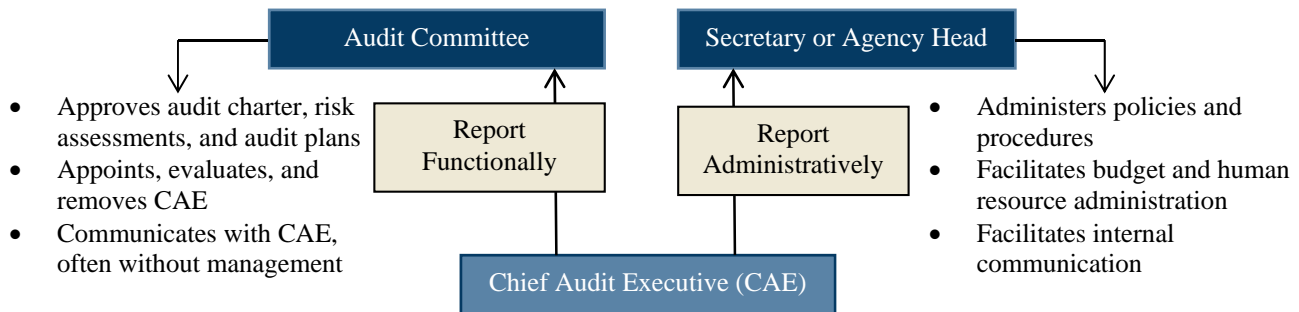
According to the IIA, **independence** is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Functionally reporting to an audit committee can prevent management influence over the audit scope and the determination and reporting of findings. According to the IIA, audit committees can greatly strengthen the independence, integrity, and effectiveness of governmental internal audit functions by providing independent oversight of risk assessments and audit plans, assessing audit resource needs, and holding management accountable for implementing recommendations. Internal audit committees should also have a role in the hiring and firing of the chief audit executive.

The IIA also states that one way to safeguard audit independence is by statutorily requiring the chief audit executive to report to the highest executive level of the agency. However, we found that the internal audit function reports administratively to the agency undersecretary in two agencies. Louisiana law currently states that the chief audit executive is to maintain organizational independence and have direct and unrestricted access to the secretary, but does not require the chief audit executives to report administratively to the secretary. While reporting to the highest level of authority is important, it should be offset with dual reporting that includes an audit committee to ensure and maintain independence. Exhibit 1 illustrates the dual reporting relationship recommended by the IIA.

⁸ The university systems have already established audit committees for their internal audit functions.

Exhibit 1
Internal Audit Dual Reporting



Source: Prepared by legislative auditor's staff using information from the IIA.

Three agencies currently have internal audit committees. The Department of Children and Family Services has an audit committee comprised of three external individuals, including representatives from Woman's Hospital and LSU's Internal Audit program, and the Division of Administration's Internal Audit Administrator. The Department of Natural Resources and the Department of Transportation and Development both have audit committees comprised of internal members, such as the Undersecretary, Assistant Secretaries, or General Counsel. In order for audit functions to remain independent, the IIA recommends that audit committees include individuals external to the department that have the expertise to provide effective oversight and advice about internal audit activities.

The legislature may wish to require all internal audit functions to report functionally to an audit committee. Audit committees are used in other states. For example, Oregon's administrative rule requires agencies to establish and maintain an internal audit committee. The Louisiana Legislature could create a statewide audit committee that all agencies' internal audit functions would report to, require each agency to create its own internal audit committee, or some combination of the two as described below.

- **Statewide internal audit committee.** Establishing a statewide internal audit committee would provide the most independence to audit functions because committee members would likely not be internal to any one agency. A centralized committee could also help facilitate more consistency across internal audit functions and knowledge-sharing regarding common issues identified in audit work. However, determining who should serve on the committee may present challenges, and committee members would not always have the agency-level expertise necessary to assist in addressing recommendations for every agency.
- **Agency-level internal audit committee.** Requiring agencies to create their own internal audit committee that includes knowledgeable external members could provide internal audit functions with both independence and agency-specific knowledge. Agency-level internal audit committees may also have a better understanding of agency needs than a centralized audit committee.

Audit committees can also help hold management accountable for implementing recommendations. Some agencies, such as LSU and the Division of Administration, have robust follow-up processes to ensure that recommendations are addressed or problems resolved. However, not all agencies have strong follow-up processes. An audit committee would help ensure that internal auditors are auditing relevant areas and that management addresses audit recommendations. Based on our categorization of audits issued during fiscal years 2014 through 2016, 14 (41.2%) of 34 agencies did not issue any follow-up audits.⁹

Internal auditors cited limited budgets as their greatest challenge. We found that the internal audit budgets for fiscal year 2017 ranged from \$60,000 to \$1.8 million. Budget constraints also affect staffing levels, as half of internal audit functions are staffed with only one auditor.

Limited budgets can make it difficult for internal auditors to obtain the resources needed to maintain a quality internal audit function. Internal audit budgets for fiscal year 2017 ranged from \$60,000 to \$1.8 million, and eight agencies reported that they did not have a separate internal audit budget. According to our survey, 17 (48.6%) of 35 respondents reported that budgetary constraints limit the ability of their agencies to provide internal auditors with continuing professional education training, to assist staff in attaining professional certifications, and to provide valuable training on auditing and data analysis software. In addition, budgetary constraints often limit the number and quality of audit staff that agencies can hire and retain. Our survey results also indicated that keeping trained auditors is one of the most difficult challenges to maintaining an effective internal audit function, specifically citing turnover (seven, or 20.0% of respondents) and lack of competent staff (six, or 17.1% of respondents).

According to our survey, 18 (51%) of 35 respondents reported that their internal audit functions are currently staffed with only one internal auditor. The size of the agencies with one internal audit position varies from smaller agencies, such as the Department of Insurance with a \$31 million budget, to larger agencies, such as the Department of Transportation and Development with a \$595 million budget. One agency, the Louisiana Public Defender Board, does not have an internal audit function as required by Act 314.¹⁰ Exhibit 2 lists the 18 agencies with only one internal audit position along with the internal audit budgets as a percentage of agency appropriations for each in fiscal year 2017. See Appendix B for audit budgets as a percentage of agency appropriations for all agencies required to have an internal audit function.

“I am concerned about how one person can carry out an effective function in an agency with a budget of our size.”

Source: Internal Audit Survey

⁹ Prior to FY17, the Coastal Protection and Restoration Authority (CPRA) was audited by the Department of Natural Resources (DNR). Therefore, we analyzed audit reports from 34 agencies, rather than 35.

¹⁰ The Louisiana Public Defender Board is an agency within the Office of the Governor, and according to Act 314, the Commissioner of Administration is responsible for establishing an internal audit function for the agencies within the Office of the Governor.

Exhibit 2
Internal Audit Functions with Only One Auditor
Internal Audit Budgets as Percentage of Agency Appropriations
Fiscal Year 2017

Agency	Internal Auditor Positions	FY 2017 Agency Appropriation	FY 2017 Internal Audit Budget*	Audit Budget as Percentage of Agency Appropriation
Department of Transportation and Development	1	\$594,833,788	Not separate**	N/A
Louisiana Workforce Commission	1	\$283,130,267	\$443,341	0.16%
Department of Wildlife and Fisheries	1	\$191,667,751	\$142,959	0.08%
Coastal Protection and Restoration Authority	1	\$174,312,489	\$131,600	0.08%
Department of Environmental Quality	1	\$150,950,744	\$128,811	0.09%
Louisiana Tech University (UL System)***	1	\$118,126,407*	\$113,478	0.10%
Southeastern Louisiana University (UL System)***	1	\$115,794,926	\$174,417	0.15%
Department of Military Affairs	1	\$103,143,161	\$80,000	0.08%
University of New Orleans (UL System)***	1	\$100,000,000*	\$102,000	0.10%
Department of Culture, Recreation and Tourism	1	\$85,066,598	\$120,000	0.14%
Secretary of State	1	\$79,604,688	\$111,514	0.14%
Department of Agriculture and Forestry	1	\$74,464,768	Not separate**	N/A
Northwestern State University (UL System)***	1	\$70,577,939*	Not separate**	N/A
McNeese State University (UL System)***	1	\$67,658,114*	\$84,403	0.13%
Attorney General's Office	1	\$65,886,339	\$78,000	0.12%
Department of Natural Resources	1	\$62,944,058	Not separate**	N/A
Nicholls State University (UL System)***	1	\$54,268,237*	\$101,000	0.19%
Department of Insurance	1	\$31,362,258	\$101,304	0.32%

* Self-reported by each agency in our internal audit survey.

** Not all agencies budget separately for their internal audit functions.

*** The University of Louisiana System's audit function is decentralized; each campus has its own internal audit function.

Source: Prepared by legislative auditor's staff using appropriation information from the House Fiscal Division, House Bill 1, and ancillary appropriations from Act 47 of the 2016 Regular Session, as well as self-reported survey data.

Some confusion exists regarding which auditor fulfills the Chief Audit Executive (CAE) role within each agency. Act 314 of the 2015 Regular Session states that agencies required to have an internal audit function shall have an office of the CAE and that the CAE shall certify annually to the agency head that the internal audit function conforms to professional standards. Based on our survey and discussions with internal auditors, confusion exists regarding who is considered the CAE for each agency. Five (14.3%) of 35 survey respondents stated their agencies either did not have a CAE or they were unsure if they had one. This confusion may be because the term CAE is more common in the private sector, and the term CAE does not appear in any of the governmental internal audit job titles or descriptions.¹¹ Clarifying who should conduct CAE responsibilities at each agency could help the internal auditor and management ensure effectiveness and compliance with standards.

The IIA states that the **Chief Audit Executive** is a person in a senior position responsible for *effectively managing the internal audit activity in accordance with standards*. The CAE or others reporting to the CAE will have *appropriate professional certifications and qualifications*. The specific job title of the CAE may vary across organizations.

Twenty-six (74.3%) of 35 internal audit functions have not had a quality assurance review within five years as required by professional standards and state law. However, these reviews present challenges in that they can be expensive and time-consuming for internal audit staff. Without a quality assurance review, auditors cannot assert that their audits follow standards.

Professional standards require internal audit functions to have a quality assurance review every five years whereby an external party determines whether the function follows IIA professional standards. Quality assurance reviews are important for internal audit functions because an external party verifies compliance with standards, identifies weaknesses, and recommends ways to improve. According to the IIA, internal audit functions cannot claim that their audits follow standards unless they have had a quality assurance review that confirms this compliance.

The majority of internal auditors we surveyed stated that another significant challenge in meeting professional standards is complying with this quality assurance review requirement. According to our survey, 26 (74.3%) of 35 internal audit functions have not had a quality assurance review within five years; however, 13 (37.1%) stated that they are actively working towards compliance. Based on responses to our survey, it also appears that some internal auditors may not have a thorough understanding of professional standards so a quality assurance review could

“Due to budget cuts the quality assurance review for the department has not been done recently. It is difficult for a ‘one man shop’ to keep up with all that is required.”

Source: Internal Audit Survey

¹¹ Job titles for internal auditors that serve as the CAE equivalent include Auditor 3, Auditor - Internal, Audit Manager, and Audit Director 2 and 3.

help them effectively manage their internal audit function. For example, one internal auditor was not aware of the quality assurance requirement, and two other internal auditors thought that sending their audit reports to LLA fulfilled this requirement.

External quality assurance reviews may present a challenge for some agencies, because these reviews can be expensive. For example, hiring an external party, such as a private consulting firm or the IIA, to do a full external quality assurance review can cost several thousand dollars. In 2015 the Department of Revenue paid the IIA approximately \$24,000 to conduct this review, and the Louisiana Workforce Commission paid a private firm approximately \$40,000 in 2008. However, the IIA also allows for internal audit functions to conduct a self-assessment that is externally validated. Twelve (34.3%) of the 35 internal audit functions have conducted or are in the process of conducting these self-assessments with external validations from internal auditors from other agencies at no charge. Members of the Louisiana Committee of State Audit Groups (CoSAG)¹² coordinate these reviews among agencies. While this method has a significantly lower cost and may be a more cost-effective option for agencies with limited budgets, it may not be the most efficient option as conducting a self-assessment is more time consuming for the internal audit function, according to our survey and discussions with internal auditors.

Helping management better understand the role and value of internal audits could result in more effective and risk-based audits. We found that 15 (42.9%) of 35 survey respondents were required to perform non-internal audit duties, and 11 (31.4%) reported that mandated audits or management requests hindered their ability to produce risk-based audits.

According to the IIA, an effective internal audit function is a valuable management tool as auditors evaluate risk areas, ensure proper use of resources, and determine the effectiveness and efficiency of agency programs. These independent evaluations can provide management with useful recommendations that minimize risk and improve agency operations and programs. Successful internal audit functions can also provide cost savings by identifying inefficiencies in operations, improper payments, or fraudulent activities. However, based on survey responses and interviews with internal audit staff, it appears that management in some agencies may not always fully understand the role and value of internal auditing, which can limit internal audit effectiveness. For example, at times management assigns internal auditors non-internal audit duties, which can limit their ability to fulfill their audit responsibilities.

Fifteen (42.9%) of 35 survey respondents stated that they are required to perform non-internal audit duties. Internal auditors responded that they are asked to perform non-audit duties, such as serve on committees, maintain online policies, serve as the ethics liaison, and

¹² CoSAG is a voluntary organization made up of internal auditors from state agencies dedicated to supporting the Louisiana state government internal audit profession and provides an informal forum for internal auditors to exchange ideas and methodologies, and share knowledge.

verify financial statements. Internal auditors also perform mandated audits or special projects requested by management which may limit the ability of internal auditors to focus on high risk areas. The most common mandated audits are annual Purchase Cards and Travel Cards audits, as required by the Division of Administration. However, in September 2016 the Division of Administration modified the Purchase Card policy from requiring annual audits to including it on annual risk assessments and encouraging agencies to audit their usage once every three years. While mandated audits and non-audit tasks may not always present challenges, it diverts potentially scarce resources away from internal audit work. In addition, non-audit work can impair the independence of internal auditors and result in them not being able to audit those areas in the future.

Eleven (32.4%) of 34¹³ internal audit functions issued less than 10 audits during fiscal years 2014 through 2016.

Because agency sizes, budgets, and needs vary, there is no requirement or expectation for audit functions to issue a certain number of audits per year. However, non-internal audit duties may be affecting the ability of some internal auditors to issue audits, and not issuing many audits may indicate that management is not using internal audit to its full potential. Exhibit 3 shows the number of audits issued between fiscal years 2014 and 2016. Appendix B lists all agencies and university systems that have an internal audit function and the number of audits they issued each fiscal year.

Exhibit 3 Number of Internal Audits Issued per Agency Fiscal Years 2014 through 2016		
Number of Audits Issued	Total of Agencies	Percent of Agencies
100 or more	1	2.94%
60 to 99	3	8.82%
40 to 59	1	2.94%
30 to 39	6	17.65%
20 to 29	4	11.76%
10 to 19	8	23.53%
0 to 9	11	32.35%
Total audit functions	34*	100.00%
* Total does not include CPRA because it was audited by DNR prior to fiscal year 2017. Source: Prepared by legislative auditor's staff using internal audit reports.		

Eleven (31.4%) of 35 survey respondents reported that mandated audits or management requests hindered their ability to produce risk-based audits. We

also found that some internal audit functions are producing more risk-based audits than others. Professional standards require that internal audit plans be based on a documented risk assessment, including input from senior management, and undertaken at least annually. We interviewed internal auditors at six agencies¹⁴ and reviewed their policies and procedures, risk assessment, and audit plans and found that agencies assess and address risk in a variety of ways. For example, LSU conducts a robust risk assessment that results in a variety of

“Mandated audits prevent us from having a true risk-based audit function. These areas are not high risk, so we are spending valuable audit resources on areas that yield very little value and decrease our importance to the organization.”

Source: Internal Audit Survey

¹³ We analyzed 34 internal audit functions' reports rather than 35 because prior to fiscal year 2017, CPRA was audited by DNR's internal audit function.

¹⁴ Division of Administration, Louisiana Department of Health, Louisiana Department of Education, Department of Insurance, Department of Transportation and Development, and Louisiana State University.

audit types. The 63 audits that LSU conducted during fiscal years 2014 through 2016 included a mixture of operational (17, or 27%), financial (15, or 23.8%), compliance (8, or 12.7%), follow ups (10, or 15.9%), and information technology (5, or 7.9%) audits.

However, some internal audit risk assessments may not be as thorough, and some agencies may conduct a risk assessment but be unable to complete high-risk audits due to management requests or low staffing levels. We found that during fiscal years 2014 through 2016, internal audit functions at some agencies focused resources on certain types of audits rather than on risk. For example, we found that during fiscal years 2014 through 2016, 113 (85.6%) of the 132 audits issued by the Department of Public Safety were payroll audits, while 52 (75.4%) of the Louisiana Department of Health's 69 audits were investigations of employee grievances, employee misconduct, or allegations of fraud. Similarly, 33 (86.8%) of the 38 audits issued by the Louisiana Community and Technical College System focused on grant compliance.

The IIA states that effective governmental internal audit should include audits that look broadly at an organization's high risk areas and governance activities, and narrowly at testing transactions for errors or for compliance with policies or regulations. While focusing resources on one type of audit may add value to an agency, performing a variety of audits that identify and address issues to prevent future findings may add more value to an agency in the long run. Exhibit 4 describes the types of audits, number of audits issued, and examples of agency internal audits issued during fiscal years 2014 and 2016.

Exhibit 4
Internal Audits Issued by Audit Type
Fiscal Years 2014 through 2016

Audit Type	Description	Number of Audits	Percent of Audits	Audit Example
Financial	Auditors review financial information to determine if transactions are properly and accurately recorded and supported.	380	45.51%	Department of Transportation and Development - <i>Audit of LA 1 Toll Collections Deposit and Reconciliation Processes</i>
Compliance	Auditors determine if the agency or program is in compliance with laws, regulations, contract or grant requirements, and organizational policies and procedures.	128	15.33%	Department of Natural Resources - <i>Remittance of Unclaimed Property Audit</i>
Follow Up	Auditors determine if recommendations from previous audits have been implemented or issues have been resolved.	114	13.65%	Division of Administration - <i>Follow-up Audit of Outsourcing of Key Internal Controls</i>
Investigative	Auditors investigate allegations of fraud, employee misconduct, or ethical violations.	93	11.14%	Louisiana Department of Health - <i>Falsifying Documents Investigation</i>
Operational	Auditors determine if goals and objectives are being met effectively and efficiently. Auditors also evaluate whether internal control environments mitigate potential risks.	89	10.66%	Louisiana State University - <i>Academic Eligibility Controls Audit</i>
Information Technology	Auditors evaluate controls over data systems.	22	2.63%	Department of Wildlife and Fisheries - <i>Network User Analysis</i>
Consulting	Auditors provide information to assist management in making judgments or decisions about a given situation.	9	1.08%	Louisiana Workforce Commission - <i>Office of the Executive Director: Policy Review</i>
Note: An agency may include some or all of these audit types in their risk assessments and audit plans.				
Source: Prepared by legislative auditor's staff using internal audits issued by state agencies.				

According to our survey, seven (20%) of 35 lead internal auditors reported that managements' understanding of the internal auditor role could be improved. In addition, six (17.1%) survey respondents indicated more support from upper-management would be helpful. Creating an audit committee or committees as recommended previously could also help improve internal audit across agencies by creating a larger knowledge-base and because the committee(s) would be responsible for approving risk assessments and audit plans.

“Many agency heads do not understand the true role of Internal Audit. Internal auditors are often asked to conduct tasks that impair independence or prevent them from performing a true internal audit function.”

Source: Internal Audit Survey

Matter for Legislative Consideration: The legislature may wish to consider:

- Determining whether a statewide audit committee or agency-level internal audit committees would be more beneficial for the state, and amend state law to require internal audit functions to report functionally to such committee(s).
- Revising the terminology in state law regarding the Chief Audit Executive to clarify that the lead internal auditor at each agency is responsible for performing the associated responsibilities, including:
 - ensuring that the internal audit function adheres to professional standards;
 - maintaining organizational independence; and
 - certifying annually to the agency secretary that the function conforms to professional standards.
- Requiring audit committees to provide periodic training on internal auditing, including the role and value of internal audit and professional standards requirements, to agency management.

APPENDIX A: SCOPE AND METHODOLOGY

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. The purpose of this audit was to identify and evaluate challenges that state agencies and university systems face in complying with recent legislation requiring agencies with \$30 million or more in appropriations to establish an internal audit function that complies with professional standards. Our audit generally covered the time period of fiscal years 2014 through 2016. The audit objective was:

To identify and evaluate the challenges state agencies and university systems face in establishing internal audit functions that comply with state law and professional standards.

We conducted this performance audit in accordance with generally-accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we reviewed internal controls relevant to the audit objective and performed the following audit steps:

- Researched and reviewed agency appropriations found in House Bill 1 and the Ancillary Appropriations Bill, as well as House Bill 1 tracking documents created by the House Fiscal Division.
- Met with the House Fiscal Division about Act 314 of the 2015 Regular Session (House Bill 286).
- Researched and reviewed relevant state legal statutes regarding agency internal audit functions.
- Researched and reviewed the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.
- Developed and conducted a survey for agencies required to have an internal audit function to collect budget, staffing, and audit process information and to identify challenges related to complying with professional standards. There are currently 35 internal audit functions. We surveyed the lead internal auditor at each internal audit function and received responses from all 35:
 - Not every agency required to have an internal audit function has its own. Of the 41 agencies and universities that are required to have internal audit functions, three agencies (the Office of Juvenile Justice, the Governor's Office of Homeland Security and Emergency Preparedness, and the

Governor's Office of Elderly Affairs) do not have their own internal audit function, but are included in the scope of other agencies' internal audit function. The Louisiana Public Defender Board does not have an internal audit function. In addition, the Office of Student Financial Assistance is now a program under and audited by the Board of Regents. The LSU Health Care Services Division is audited by LSU's internal audit function.

- Interviewed internal auditors from a selection of agencies to gain a more thorough understanding of internal audit functions. We selected the following six agencies to represent a variety of agency types, appropriations, staffing sizes, and report productivity:
 - Division of Administration
 - Louisiana Department of Health
 - Louisiana Department of Education
 - Department of Insurance
 - Department of Transportation and Development
 - Louisiana State University
- Obtained and analyzed all internal audits issued between fiscal years 2014 and 2016 for all agencies required to have an internal audit function.
- Obtained input on the report draft from the Division of Administration and provided it with an opportunity to respond to the final report.
- Sent an email request to other state legislative audit organizations to determine whether their states have a statewide or agency level audit committee(s). We received three responses to this request. We also conducted internet research to determine which states use internal audit committees.
- Sent report draft to internal auditors at the 35 internal audit functions for review.

APPENDIX B: AGENCIES REQUIRED TO HAVE AN INTERNAL AUDIT FUNCTION

Agencies Required to Have an Internal Audit Function Fiscal Year 2017

Agency	FY 2017 Appropriation	Internal Audit Budget*	Audit Budget as Percentage of Agency Appropriation	Internal Audit Positions*	Internal Audit Positions Filled*	Number* of Staff with Certification**	Dollar Audited per Auditor	Number of Audits Issued FY 2014- FY 2016	Date of Last Quality Assurance Review*
State Agencies									
Louisiana Department of Health	\$11,830,285,964	\$583,273	0.005%	6	5	2	\$2,366,057,193	70	None
Department of Education	\$5,271,639,042	\$271,886	0.005%	3	2	2	\$2,635,819,521	4	2006
Division of Administration	\$2,363,636,297	\$626,556	0.026%	6	5	2	\$480,800,380	35	2015
Governor's Office of Homeland Security and Emergency Preparedness	\$1,297,775,538	Audited by Department of Public Safety							
Department of Corrections	\$1,140,971,010	Not separate	Not separate	2	2	2	\$570,485,505	4	None
Board of Regents	\$633,158,137	Not separate	Not separate	3	3	1	\$211,052,712	1	None
Department of Transportation and Development	\$594,833,788	Not separate	Not separate	1	1	1	\$594,833,788	48	2011
Department of Public Safety	\$513,589,702	\$680,737	0.030%	7	7	3	\$326,896,415	132	None
Office of Juvenile Justice	\$476,909,665	Audited by Department of Public Safety							
Louisiana Workforce Commission	\$283,130,267	\$443,341	0.157%	1	1	1	\$283,130,267	20	2008
Department of Wildlife and Fisheries	\$191,667,751	\$142,959	0.075%	1	1	1	\$191,667,751	24	2014
Coastal Protection and Restoration Authority	\$174,312,489	\$131,600	0.075%	1	1	1	\$174,312,489	Previously audited by DNR	None
Department of Environmental Quality	\$150,950,744	\$128,811	0.085%	1	0	0	\$150,950,744	5	None
Department of Children and Family Services	\$116,143,129	\$788,885	0.679%	14	6	1	\$19,357,188	31	2012
Louisiana Student Financial Assistance Commission	\$111,113,167	Internal Audit function moving under Board of Regents							
Department of Military Affairs	\$103,143,161	\$80,000	0.078%	1	1	0	\$103,143,161	4	None
								66	None

**Agencies Required to Have an Internal Audit Function
Fiscal Year 2017**

Agency	FY 2017 Appropriation	Internal Audit Budget*	Audit Budget as Percentage of Agency Appropriation	Internal Audit Positions*	Internal Audit Positions Filled*	Number* of Staff with Certification**	Dollar Audited per Auditor	Number of Audits Issued FY 2014- FY 2016	Date of Last Quality Assurance Review*
Department of Revenue	\$98,393,220	\$653,424	0.664%	6	5	4	\$19,678,644	17	2014
Department of Culture Recreation and Tourism***	\$85,066,598	\$120,000	0.141%	1	1	1	\$85,066,598	13	None
Department of State	\$79,604,688	\$111,514	0.140%	1	0	0	\$79,604,688	2	Unsure
Department of Agriculture and Forestry	\$74,464,768	Not separate	Not separate	1	1	1	\$74,464,768	11	None
Department of Justice	\$65,886,339	\$78,000	0.118%	1	1	0	\$65,886,339	3	None
LSU Health Care Services Division	\$63,321,284	Audited by LSU							
Department of Natural Resources	\$62,944,058	Not separate	Not separate	1	1	1	\$62,944,058	31	None
Louisiana Commission on Law Enforcement	\$61,995,006	\$60,000	0.097%	2	2	1	\$30,997,503	2	None
Department of Veterans Affairs	\$61,561,780	Not separate	Not separate	2	2	2	\$30,780,890	9	None
Department of Economic Development	\$51,232,736	\$200,000	0.390%	2	2	2	\$25,616,368	4	2006
Governor's Office of Elderly Affairs	\$40,365,601	Audited by the Division of Administration							
Louisiana Public Defender Board	\$33,812,626	Does not have an internal audit function							
Department of Insurance	\$31,362,258	\$101,304	0.323%	1	1	0	\$31,362,258	6	Unsure
Universities									
Louisiana State University System	\$599,676,690	\$1,840,000	0.278%	15	14	12	\$47,356,998	63	2014
Louisiana Community and Technical College System	\$195,423,057	\$539,936	0.276%	5	4	3	\$48,855,764	38	2016
Southern University System	\$89,866,795	\$398,000	0.443%	6	6	3	\$14,977,799	6	None
University of Louisiana System [†]	\$602,343,677	Not separate	Not separate	1	1	1	N/A	1	N/A
Northwestern State University	\$70,577,939*	Not separate	Not separate	1	1	1	\$70,577,939	24	None
University of Louisiana at Lafayette	\$350,000,000*	\$343,454	0.098%	3	2	2	\$175,000,000	15	Unsure
Louisiana Tech University	\$118,126,407*	\$113,478	0.096%	1	1	1	\$118,126,407	37	2006
Southeastern Louisiana University	\$115,794,926*	\$174,417	0.151%	1	1	1	\$115,794,926	11	2006
University of New Orleans	\$100,000,000*	\$102,000	0.102%	1	1	1	\$100,000,000	19	None
McNeese State University	\$67,658,114*	\$84,403	0.125%	1	1	1	\$67,658,114	13	2013

**Agencies Required to Have an Internal Audit Function
Fiscal Year 2017**

Agency	FY 2017 Appropriation	Internal Audit Budget*	Audit Budget as Percentage of Agency Appropriation	Internal Audit Positions*	Internal Audit Positions Filled*	Number* of Staff with Certification**	Dollar Audited per Auditor	Number of Audits Issued FY 2014- FY 2016	Date of Last Quality Assurance Review*
University of Louisiana at Monroe	\$82,487,287*	\$202,023	0.245%	2	2	2	\$41,243,644	31	2006
Grambling State University	\$47,150,244*	\$160,777	0.341%	2	2	1	\$23,575,122	26	2006
Nicholls State University	\$54,268,237*	\$101,000	0.186%	1	1	1	\$54,268,237	15	2013

*Self-reported based on LLA Internal Audit Survey responses received as of October 2016. For University of Louisiana (UL) campuses, the amounts listed as FY 2017 appropriations are FY 2017 budget amounts that include funds from sources other than House Bill 1.

**Professional certifications may include, but are not limited to, Certified Public Accountant, Certified Internal Auditor, Certified Government Auditing Professional, and Certified Fraud Examiner.

***Internal Auditor also responsible for auditing the Office of Lieutenant Governor.

†The UL System is decentralized and has an internal auditor's office at each campus. The UL System has a Director of Internal and External Audit that oversees the campus Audit Directors.

Source: Prepared by legislative auditor's staff using appropriations from the House Fiscal Division, House Bill 1, and Ancillary Appropriations. Self-reported information is from our internal audit survey.

APPENDIX C: AGENCIES (20) NOT REQUIRED TO HAVE AN INTERNAL AUDIT FUNCTION

Agencies Not Required to Have an Internal Audit Function Fiscal Year 2017	
Agency	FY 2017 Appropriation
Department of Civil Service	\$20,299,705
Department of the Treasury	\$11,062,897
Public Service Commission	\$9,699,663
Louisiana Universities Marine Consortium*	\$9,550,647
Division of Administrative Law	\$7,933,660
Lieutenant Governor	\$7,184,296
Executive Department	
Louisiana Stadium and Exposition District**	\$89,509,631
Office of Financial Institutions	\$13,392,237
Louisiana State Racing Commission	\$12,262,662
Executive Office	\$9,141,016
Mental Health Advocacy Service	\$3,472,341
Louisiana Tax Commission	\$2,731,104
Office of the Inspector General	\$1,692,465
Office of Indian Affairs	\$142,004
Special Schools and Commissions	
Board of Elementary and Secondary Education	\$25,836,699
Louisiana School for the Deaf	\$24,465,013
Louisiana Special Education Center	\$16,445,717
Louisiana School for Math, Science, and the Arts	\$8,616,430
Louisiana Educational Television Authority	\$8,251,688
New Orleans Center for Creative Arts	\$7,739,685
*The Louisiana University Marine Consortium is now a program under the Board of Regents.	
**While the Louisiana Stadium and Exposition District has over \$30 million in appropriations, it is not required to have an internal audit function because it does not have any authorized positions.	
Source: Prepared by legislative auditor's staff using appropriation information from House Bill 1 and Ancillary Appropriations.	