

Review of Internal Audit Functions

Summary

When structured correctly, agency internal audit functions can help ensure financial accuracy, efficiency, transparency, and accountability. The role of an internal audit function is to investigate and evaluate the system of internal controls and the efficiency with which the various units of an agency are performing their assigned roles and to report their findings and make recommendations to an internal audit board or committee, or top management. In some New Mexico state agencies this internal audit function exists in addition to external audit and evaluation functions provided by the Office of the State Auditor and the Legislative Finance Committee Program Evaluation Unit.

With unprecedented amounts of state general funds and federal funding distributed to state agencies, it is imperative they have proper internal controls to promote financial accuracy, efficiency, transparency, and accountability which ultimately can foster public trust in the use of state resources and funds.

Internal audit functions across state agencies vary greatly in scope, structure, and effectiveness.

Last reviewed by LFC in 2006, internal audit functions and offices of inspector generals within agencies were generally found to be minimally effective. Although a number of executive cabinet departments have internal audit functions, previous LFC reports have found that these government accountability functions lack statutory guardrails, are structured in such a way that potentially impairs independence, lack published work plans, do not coordinate their work, and sometimes do not have a positive return on investment. This spotlight finds that many of these needed improvements still exist 15 years later.

At least 10 state agencies have some form of internal audit function, costing over \$4.8 million annually. However, state statute is silent on whether or not agencies should have internal audit functions, meaning none of the agencies with these internal audit functions are currently guided by state statute, though some may have federal requirements if they receive federal funds. Following previous LFC report recommendations, legislation has been introduced in prior legislative sessions to require independent offices of inspector generals at select state agencies. Other proposed legislation would have created a central state inspector general office to investigate and inspect all branches of New Mexico government. However, bills addressing previously identified weaknesses have not passed during previous legislative sessions.

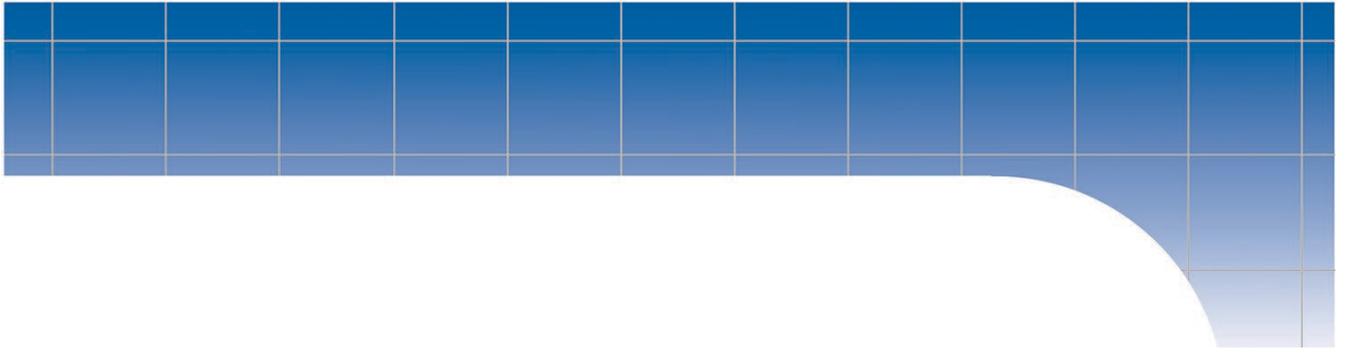
This report reflects previously reported LFC recommendations for internal audit functions including recommendations to, 1) assess internal audit functions to ensure that maximum benefits and cost savings related to overall agency operations are achieved, 2) examine the feasibility of adopting an organizational structure that ensures internal audit is independent and objective, 3) use acceptable standards to help promote the internal audits reporting independence and objectivity, 4) develop or update internal audit policies and procedures to guide audit activities based on best practices, and 5) publish work plans and reports and audits when feasible or make work plans and reports and audits available internally as requested.

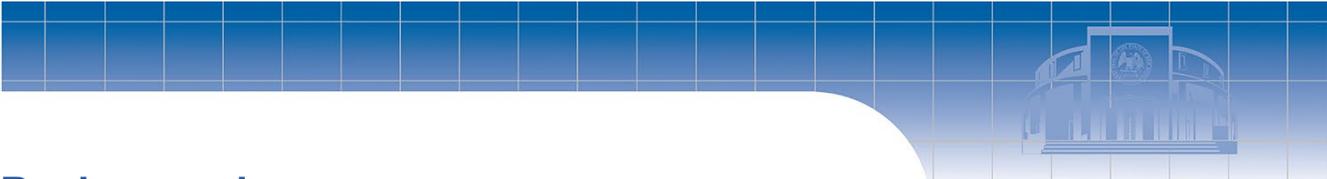
Spotlight

Program Evaluation Unit
Legislative Finance Committee
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NEW MEXICO
LEGISLATIVE
FINANCE
COMMITTEE





Background

Internal auditors investigate and evaluate the system of controls and the efficiency with which the various agency units perform their assigned functions.

National organizations, including the Government Finance Officers Association (GFOA), recommend every government consider establishing formal internal audit functions to help management maintain a comprehensive framework of internal controls where feasible. Internal auditors can be of great value to state governments in a variety of ways, particularly in monitoring the design and proper functioning of internal controls and procedures. According to GFOA, a formal internal audit function is valuable for high-risk activities such as complex accounting systems, contracts with outside parties, rapidly changing environments, and others.

The Institute of Internal Auditors, an international professional association of more than 218 thousand members, is recognized as the internal audit profession's leader in certification, education, research, and technological guidance. They define internal audit as the following:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

Internal audit functions can serve a number of useful roles for state agencies and should help determine whether each division or bureau within their agency: has a clear understanding of its assignment; is adequately staffed; keeps accurate records; properly protects cash, inventories, and other assets; cooperates harmoniously with other agency units; and carries out effectively the function provided for in the overall agency plan and organization.

Internal audit functions differ from external auditors, such as state auditors and states attorney generals, in a few key ways. Internal auditors are employees of the organization being audited while external auditors are employees of an outside organization. Internal auditors are independent from the activities they audit while external auditors are independent from the organization they audit. Internal auditors' primary customers are agency management, governing boards, and the public. Internal auditors usually audit one agency, while external auditors audit multiple agencies. And finally, internal auditors provide ongoing monitoring, while external auditors provide intermittent audits.

National Organizations recommend every government consider the feasibility of establishing formal internal audit functions to help management maintain a comprehensive framework of internal controls.



States generally have one of two model types of internal auditors: Stand-alone offices of inspector general, and internal audit functions within state agencies.

At least 12 states and the District of Columbia have stand-alone state inspector generals.

The majority of these offices were established by statute; however, a few were originally authorized by executive order and later made permanent by statute or, in the case of Oklahoma, by constitutional amendment. Many of these offices are stand-alone, but some are combined with either the state’s auditor or ethics offices. Many of these offices have police powers meaning they can investigate allegations of criminal behavior, have subpoena powers, interview witnesses, and take testimony under oath. For example, Louisiana’s State Inspector General’s Office has transitioned into a law enforcement agency that investigates white-collar criminal fraud and public corruption cases and focuses on securing criminal public corruption indictments and convictions. See Appendix A for a list of states with centralized offices of inspector general and how they were created.

State statute is silent on whether or not state agencies should have internal audit functions or if there should be a state inspector general, and past legislative attempts to address this have failed.

At least eight bills and resolutions requiring inspector generals or internal audit functions were introduced since 2006; however, these bills did not pass. Generally, the bills would have required select agencies to establish an internal audit function or require the state create a centralized state inspector general office to investigate and inspect all branches of the New Mexico government. These bills sought to improve the executive branch’s effectiveness to evaluate its programs and to investigate potential waste, fraud, and abuse within state agencies. Both models, either requiring certain agencies have an internal audit function, or creating a centralized office, have their own strengths and weaknesses. As discussed in the previous section, centralized independent offices of inspector generals tend to focus more on criminal investigations such as embezzlement or fraud. Internal audit functions within state agencies focus more on internal controls, but it may not be feasible for every agency to have an internal office because of associated costs, and it may be difficult to maintain objectivity and independence in agencies with smaller staffs. Both models are discussed in more detail below.

Table 3. Introduced Internal Audit Legislation Since 2006

Session	Bill Number	Short Title	Result
2011	SB83	CREATE STATE INSPECTOR GENERAL OFFICE	Died (API.)
2013	SB227	STATE INSPECTOR GENERAL ACT	Died (API.)
2014	SB13	STATE INSPECTORS GENERAL ACT	Died (API.)
2014	SB207	STATE INSPECTORS GENERAL ACT	Died (API.)
2014	SJR1	CREATE OFFICES OF INSPECTORS GENERAL, CA	Died (API.)
2015	SB204	STATE INSPECTORS GENERAL ACT	Died (API.)
2016	SB41	CREATE STATE INSPECTOR GENERAL OFFICE	Died (API.)
2016	SJR	OFFICE OF INSPECTOR GENERAL, CA	Died (API.)

Source: nmlegis.gov



In the first model type, legislation calling for a centralized inspector general office would require a governor-appointed inspector general with consent from the Senate who would serve for six years and could be reappointed for additional six-year terms. The appointed official could only be removed for incompetency, malfeasance, or willful neglect of duty, and a two-thirds majority of the Senate would have to approve the removal. Among other things, the duties of the office would include:

- General oversight authority over the executive branch's implementation of the Accountability in Government Act (AGA) and the proposed State Inspector General Act, including the authority to conduct internal audits and investigations; and
- Audit and investigate executive branch agencies and programs, school districts, state educational institutions, and all other recipients of state funding, including government contractors, to ensure efficient and effective operations, the proper use of public funding, and the detection and prevention of fraud, waste, and abuse.

Alternatively, proposed legislation of this type has also called for the creation of a permanent, interim legislative committee comprising four members from the House of Representatives and four from the Senate who would appoint an inspector general. The inspector general would receive and investigate complaints from any source concerning alleged fraud, waste, abuse, illegal acts and corruption within state government.

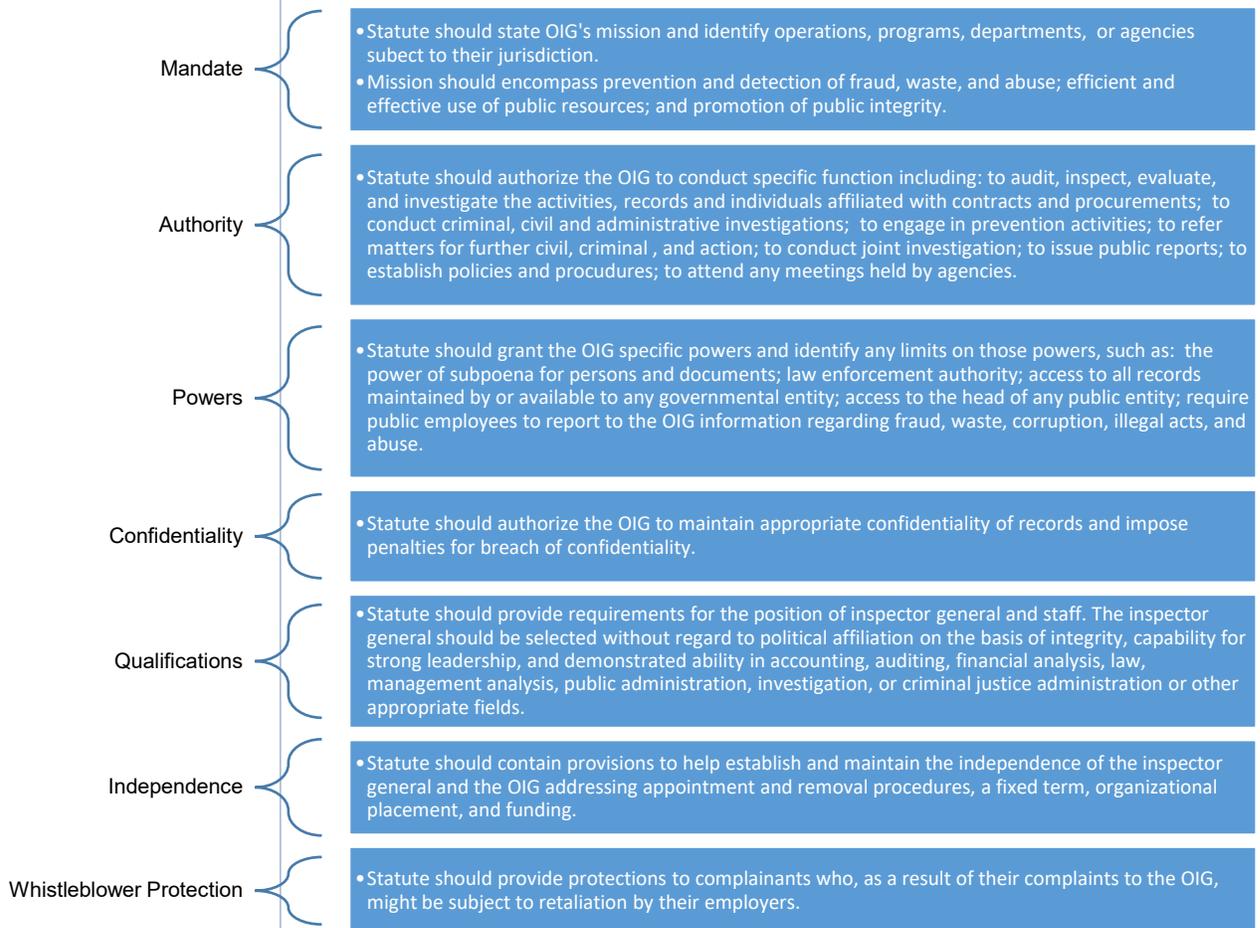
The second model type proposed in previous legislation calls for an internal audit function at specific state agencies and would create independent and objective Offices of Inspectors General (OIG) within eight cabinet-level departments in the executive branch to perform internal and compliance audits and conduct investigations. The state agencies in which such offices would be created are: Children, Youth and Families Department (CYFD); New Mexico Corrections Department (NMCD); Department of Health (DOH); Higher Education Department (HED); Human Services Department (HSD); Public Education Department (PED); Department of Finance and Administration (DFA); and New Mexico Department of Transportation (DOT). Many of these agencies already have an internal audit staff. Each cabinet secretary would appoint the inspectors general who, along with their staff, would be classified employees. The offices would report directly to the Secretary. The offices would have unrestricted access to records, data, reports, contacts, memoranda, correspondence and any other information necessary to carry out the duties of the office.

The bill would also create the Government Accountability Coordinating Council (GACC) comprised of the State Auditor, the Attorney General, inspector generals of the eight departments, and LFC director or designee. Each internal auditor would submit an annual work plan to their cabinet secretary, GACC, and LFC. Annual reports and results of audits and investigations would also be provided to cabinet secretaries, GACC, LFC, and the governor. The results of audits, investigations, and the annual report, not including confidential information, would be made public by posting on the department's website and by other means.



The Association of Inspectors General (AIG) establishes principles and standards to establish criteria for creating and administering inspector general offices consistent with best practices. According to AIG, offices of inspector general should be created by statute or executive order, and should establish the OIG's mandate, authority, and powers; provide for confidentiality of records and proceedings; identify qualifications for the inspector general and staff; protect the office's independence; and provide protection to whistleblowers. Several offices in states with OIGs were initially created by executive order but later made permanent by statute.

Figure 1. Principles and Standards for Offices of Inspector General



Source: LFC Files, Association of Inspectors General



Previous LFC reports found that inconsistent structures not aligned with best practices diminished the value of existing internal audit functions.

The 2006 LFC Program Evaluation, *Review of Internal Audit Function and Offices of Inspector General*, found internal audit functions were either non-existent or provide limited assessment of internal agency operations.

LFC staff surveyed 16 agencies in 2006, finding nine of the 16 had some form of internal audit function. The evaluation concluded internal audit functions provided limited assessment of internal agency operations and audit functions varied greatly across agencies because many of the internal audit functions were conducting audits of agency programs and contract compliance, but were not assessing the internal function of the agency itself. The audit function variance resulted from a lack of guardrails and standardization that could be provided through passage of legislation standardizing internal audit functions across agencies.

The evaluation found among the agencies with an internal audit function:

- The level of benefit provided to agencies by the internal audit functions varies greatly.
- Some agencies do not have an acceptable structure to ensure the independence and objectivity of the internal audit function.
- Most sampled agencies did not follow audit standards, lacked written or updated policies and procedures, and audit charters.

Twelve agencies provided feedback for this report through a survey and results show agencies making progress towards previous findings though benefits still vary by agency.

For this current report, agencies known to have internal audit functions, had them in the past, and agencies that would be required to have them in previously proposed legislation were surveyed. The 10 agencies with internal audit functions provided feedback and provided documentation, including policies and procedures and work plans. Data collected indicates the level of benefit provided to agencies by internal audit functions still vary greatly due to a lack of statutory guidelines that could serve to standardize these functions and provide consistency across agencies. Additionally, some agencies still do not have an acceptable structure to ensure the independence and objectivity of the internal audit function because they do not report directly to an audit committee, secretary, or senior management. In an improvement from 2006, most sampled agencies now follow audit standards, have written policies and procedures, and have audit charters, all best practices. These findings are discussed in greater detail throughout this report.

An investment in a properly operating internal audit function should provide a return on the investment and contribute to cost savings.

Survey Methodology:

Surveys were sent to 14 state agencies and 12 provided feedback. Ten agencies with an internal audit function provided feedback through the survey and provided documentation, including policies and procedures and work plans. The survey was sent to the Early Childhood Education and Care Department to get an idea of why an internal audit function was not included in their organizational structure during the creation of the department, however, no response was received. The survey was sent to Workforce Solutions Department (WSD) since the Labor Department had an internal audit function and WSD does not. WSD indicated it had considered creating an internal audit function but has higher fiscal division priorities. The Higher Education Department, an agency frequently included in past legislation as an agency requiring an internal audit function, indicated they do not have an audit function but would benefit from having one.



Costing Over \$4.8 Million Annually, Internal Audit Function Outcomes and Availability of Work Product to the Public are Inconsistent

Though the number of state agencies with internal audit functions has stayed relatively the same in 15 years, FTE has increased, and some agencies have begun contracting for internal audit functions. Human Services Department's FTE grew from 6 in 2006 to 25 currently, and the Corrections Department's grew from 7 FTE in 2006 to 25. Children, Youth and Families Department went from not having an office of inspector general in 2006 to now having an office with 2 FTE. Public Employees Retirement Association (PERA) went from having 1 FTE as an internal auditor to now contracting for the positions. One department that had an internal audit function in 2006 no longer has such a function. The previously designated Labor Department in 2006 had an internal auditor, but what is now Workforce Solutions Department does not.

Table 1. State Agencies with an Internal Audit Function

Agency	Division	Current FTE	2006 FTE
HSD	Office of Inspector General	25	6
CYFD	Office of Inspector General	2	N/A
DOT	Office of Inspector General	15	15
AOC	Magistrate Courts-Internal Auditor	4	2
DOH	Internal Audit	5	7
ERB	Internal Auditor	Contract	N/A
NMCD	Internal Audit and Compliance	25	7
PED	Internal Auditor	8	6
TRD	Internal Auditor	5	6
Labor Department	Internal Security and Audit	N/A	3
PERA	Internal Auditor	Contract	1
Total		89	46

Source: SPO Tool, and LFC Survey

The 10 internal audit functions across state agencies cost \$4.8 million annually in employee compensation. This amount has more than doubled since this topic was last evaluated in 2006, where nine internal audit offices cost the state roughly \$2 million annually.

Table 2. Internal Audit Function FTEs and Average Pay

Agency	FTE	Vacancies	Average Hourly Wage	*Annual Employee Salaries
HSD	25	2	\$28.44	\$1,360,419
NMCD	25	6	\$28.19	\$1,114,118
DOT	15	3	\$28.83	\$719,688
ERB	Contract		\$140-\$145	\$230,000
CYFD	2	0	\$44.72	\$186,047
DOH	5	3	\$42.51	\$176,852
AOC	4	2	\$37.61	\$156,483
TRD	6	3	\$31.84	\$196,812
PED	8	0	\$33.51	\$557,570
PERA	Contract		\$119-\$138	\$119,000
Total:				\$4,816,989

Note: This does not include total compensation, only hourly rate multiplied by number of hours worked annually.
Source: SPO Tool



ERB and PERA contract for their internal audit functions, a best practice when not feasible to establish a separate internal audit function or if it may be difficult to maintain objectivity and independence in agencies with smaller staffs. GFOA recommends if it is not feasible to establish a separate internal audit function, a government should consider either 1) assigning internal audit responsibilities to its regular employees or 2) obtaining the services of an accounting firm (other than the independent auditor) for this purpose.

ERB indicated in feedback provided for this report that they went from having an internal auditor on staff to contract auditors because of recruitment and retention issues. ERB's contract amount, not to exceed \$922,332, is for "independent, objective internal audit services designed to add value and improve the Agency's operations." The fee schedule starts at \$140 an hour for 500-1,500 hours in years one and two and goes up to \$145 an hour for 500-1,500 hours in years three and four. The total contract amount spread out over four years comes out to roughly \$230 thousand per year.

PERA's contract costs \$467.5 thousand over four years according to the compensation section of their contract, roughly twice as much as when they had an in-house internal auditor. The 2006 LFC report found PERA had one internal staff member at an annual cost of \$54,687. PERA's contracted audit consultants cost schedule was \$114,750 in FY19 and FY20 and \$119,000 in FY21 and FY22. The contractors report to PERA's Audit & Budget committee and issue an internal audit plan detailing which areas of PERA they will audit in any fiscal year.

Internal audit work products vary by agency and most agencies do not make their work products publicly available.

The Association of Inspectors General (AIG) in their published principles and standards recommend final reports on the results of internal audit activities be distributed or otherwise made available to the public to the extent consistent with the law. Making reports available to the public can potentially allow the public to assign value to internal audit functions and foster public trust in government agencies. If constrained by confidentiality requirements, agencies could potentially issue periodic reports summarizing their activities, findings, recommendations, and accomplishments.

Though agencies may have legitimate reasons for keeping some reports confidential due to sensitive information or information protected by law, some entities with these functions have found a way to make their reports public. For example, the City of Albuquerque's Department of Inspector General publishes reports online and has a report distribution signup option on their website, allowing those interested to receive an email communication when a report has been released. PERA does not make their reports publicly available on their website, however reports are presented to the PERA board at public board meetings.



The number of reports and audits produced varies across agencies.

Agencies provided LFC with listings of reports from the last three years and the number of reports issued within those by agencies years vary from one to 92. On average, internal audit offices produced 26 reports over a three year period. Agencies with higher FTEs produced more reports. However, some agencies with smaller staffs produced high quantities of reports and audits such as Administrative Office of the Courts, with 39 reports and audits over three years.



Some Agency Organization Potentially Undermine Independence and Objectivity of the Internal Audit Functions

Reporting directly to an audit committee, secretary, or senior management, grants internal auditors a greater degree of freedom, independence, and objectivity.

The Federal Financial Institutions Examination Council and the IIA recommend that internal audit functions report to an audit committee or board and the highest management level. Variances in organizational structure among agencies are acceptable, provided that the internal audit unit has an adequate reporting structure to maintain independence.

Several state agencies with internal audit functions do not report to the highest position within their organization. Other state agencies (including the Education Retirement Board, Taxation and Revenue Department, and Public Employees Retirement Association) report to an audit committee or board, which is the most desirable level of reporting.

All 10 agencies with internal audit functions issue formal internal reports and reports should be distributed to those members of the organization who can ensure that audit results are given due consideration. Ensuring the reports are received and given proper attention by executive management or the audit board or committee is critical in recognizing systemic problems and developing corrective action plans based on the report’s findings.

Table 3. Internal Audit Function Organizational Structure and Reporting

Agency	Audit Function Reports To, Organizationally	Reports Activities To
HSD	Cabinet Secretary	Cabinet Secretary
CYFD	Division Director	Cabinet Secretary
DOT	Deputy Secretary	Upper Management and Transportation Commission
AOC	Director	Chief Justice, Chief Judges, Director
DOH	Deputy Secretary	Cabinet Secretary
ERB	Executive Director	Audit Committee
NMCD	Deputy Secretary	Bureau Chief
PED	Division Director	Division Director
TRD	Deputy Secretary/Audit Committee	Audit Committee
PERA	PERA Board	PERA Board

Source: LFC Survey



Most Agencies Have Improved in Following Best Practices, but Could Benefit from Standardization and Increased Transparency

Best practices say agencies with an internal audit function should follow audit standards, have written policies and procedures, and have an audit charter. In 2006, only four agencies reported following generally accepted audit standards, only five had written policies and procedures, and only five had an audit charter. Agencies have greatly improved in meeting these best practice standards with most agencies possessing written policies and procedures and audit charters. According to AIG, action plans and adherence to schedules provided in planning are best practices. However, audit charter requirements for work plans are inconsistent and could benefit from increased standardization, and potential public reporting to improve transparency.

Table 4. Are Internal Audit Functions Following Best Practices

Agency	Follow Audit Standards	Written Policies and Procedures	Audit Charter	Work Plan
HSD	Yes	Yes	Yes	Not Received
CYFD	Yes	Yes	Yes	No
DOT	Yes	Yes	Yes	Yes
AOC	Yes	Yes	Yes	Not Received
DOH	Yes	Yes	Yes	Yes
ERB	Yes	No	No	Yes
NMCD	Yes	Yes	Yes	Yes
PED	Not Received	Not Received	Not Received	Not Received
TRD	Yes	Yes	Yes	Yes
PERA	Yes	Yes	Yes	Yes

Source: LFC Survey

All agencies with internal audit functions follow generally accepted audit standards. It is recommended that internal auditors of state and local governments conduct their work per the professional standards relevant to internal auditing contained in the U.S. General Accounting Office’s publication Government Auditing Standards or other generally accepted audit standards. Although there is no overarching legislation requiring state agencies to have an internal audit function, some agencies have statute and administrative code allowing them to and guiding them on how the internal audit division should function. For example, the Administrative Office of the Courts’ director is authorized by statute to conduct financial and compliance audits under governmental auditing, accounting, and financial reporting standards (Section 34-9-3 NMSA 1978). Though not guided by statute, Human Services Department uses Institute of Internal Auditors standards and U.S. Government Accountability Office (GAO) auditing standards. Other agencies, such as the Corrections Department, use industry-specific standards that fit their missions and specific needs. Agencies, including the Taxation and Revenue Department, report their chief auditors are licensed and comply with continuing education requirements to stay current and in compliance with auditing standards.

The number of agencies following accepted audit standards has greatly improved since the 2006 evaluation, where most agencies were found to not have these standards.



Most agencies with internal audit functions have written policies and procedures. Written policies and procedures to guide internal audit activity are recommended by IIA standards. Agencies submitted their policies and procedures as part of the survey feedback request and these documents are generally up-to-date. However, there is some isolated need for policies and procedures to be updated as at least one work plan had not been updated since 2018. The Education Retirement Board indicated they do not have written policies and procedures.

The number of agencies with written policies and procedures has also improved since 2006, where only five out of nine agencies had written policies and procedures.

Most agencies with internal audit functions have an audit charter. Best practice says an internal audit function should be established formally by charter, enabling resolution, or other appropriate legal means, which should include the scope of work, who the internal auditor reports to (i.e. top management and/or the audit committee/governing body), submission of an annual report, and the auditing standards to follow. An audit charter, established by management, defines the audit activity's responsibility, authority, and accountability. Additionally, this document serves as management's endorsement of the internal audit function's mission. Some agencies have an audit charter document showing their scope of work, reporting structure, organizational structure, and auditing standards, while other agencies include their charter in their written policies and procedures while other have their charter in administrative code. The Human Services Department charter is formalized in administrative code and includes authority, powers, responsibilities, and more.

Like the other two best practices, agencies have made progress since 2006 where only five out of nine agencies had audit charters.

Not all internal audit functions have work plans and those with work plans do not make them readily available to the public.

According to AIG, best practices for inspector general functions include creation of action plans or work plans along with interim checks to determine if jobs are on schedule and are conducted according to plans. Additionally, there is some potential benefit to work plans being publicly available when feasible, either by posting on agency website or by making them available by request. For example, the City of Albuquerque's Office of Internal Audit publishes their annual audit plan and internal reports on their websites. Making work plans accessible to the public creates transparency and accountability, contributing to public trust in government.

The Department of Transportation (DOT) follows best practices with their work plan as they are available internally upon request, or via IPRA request externally. DOT indicates they do not post their work plan on their webpage to prevent foretelling or warning auditees about upcoming audits, which could impact the audit.



Sampled work plans vary in specificity and detail. Some state agency work plans indicate which entity will be audited in a fiscal year and when that audit will occur and others show much more detail. Detailed work plans include risk ranking to establish audit prioritization, criteria including project cost, project completion percentage, and project management qualifications, and allocation of internal audit resources such as estimated number of hours for each subject area.

Public Employee Retirement Association's (PERA) work plan can be cited as a best practice, created by their contracted auditors, provides high detail and was created after the auditors met with executive management, board members, and other various employees, read relevant portions of New Mexico Administrative Code, considered PERA's audited financial statements, and considered PERA's strategic plan. The contractors then chose five to six subject areas to audit a fiscal year, over three fiscal years, based on a risk matrix. Each subject area included the estimated number of hours needed to audit, and a bulleted list of planned procedures for each topic area.



Next Steps

Though state agencies with internal audit functions are making progress in following best practices, overall internal audit functions across state agencies vary greatly in scope, structure, and effectiveness. Furthermore, without consistent guardrails such as statutory guidance or a centralized office, the progress that has been made may deteriorate if different administrations have different priorities. A lack of statutory guidance or a centralized office of inspector general contributes to existing inconsistencies, and the Legislature should consider:

- Enacting legislation to institutionalize internal auditing wherever feasible to help ensure agencies are operating economically and efficiently and provide guidance on policies and procedures based on best practices such as:
 - Examining the feasibility of adopting an organizational structure that ensures internal audit functions are independent and objective.
 - Requiring an audit charter, written policies and procedures, and work plans that are published whenever feasible.
 - Ensuring internal audit functions follow generally accepted audit standards.
 - Requiring reports, audits, and work plans be made public whenever feasible.
- Developing criteria for which agencies should be required to establish, maintain, and support an internal audit function. As an example, Oregon's criteria is: agencies with at least \$100 million in biennial expenditures; or \$10 million in annual cash or cash equivalent processed; or 400 or more full time equivalent staff (FTE).
- Creating a stand-alone Office of Inspector General that would audit and investigate executive branch agencies as proposed in previous legislation.

Agencies without an internal audit function could conduct an analysis to determine if it is feasible and beneficial to create an internal audit function to assist in minimizing annual external audit findings. If the costs are prohibitive, consider outsourcing the internal audit function to gain the benefits of internal auditing if the agency analysis reflects a need.

The Legislative Finance Committee may request additional information from agencies with internal audit functions, including completed reports, to better assess value of agency audit functions as a part of a further study.

APPENDICES

Appendix A: State Comparison of Internal Audit Functions and How they were Created

States with Stand-alone State Inspector Generals

State	Name of Office	Method of Establishment	Year Established	Brief Description
District of Columbia	Office of Inspector General	Code		Initiates and conducts independent fiscal and management audits, inspections, and investigations of District government operations. It forwards to the appropriate authorities evidence of criminal wrongdoing that is discovered as the result of any audit, inspection, or investigation conducted by the Office.
Florida	Office of Inspector General	Statute	2003	To promote accountability, integrity and efficiency for the citizens of Florida by providing objective, timely audit and investigative services. The OIG conducts independent and objective audits, investigations as well as review of agency issues and programs to assist the department in accomplishing its mission.
Georgia	Office of Inspector General	Executive Order	2003	Charged with fostering and promoting accountability and integrity in state government. Key to public trust is the expectation that the OIG will hold state officials accountable for efficient, cost effective government operations and to prevent, detect, identify, expose and eliminate fraud, waste, abuse and corruption. The OIG shall investigate complaints regarding management and operation of state agencies within the executive branch to determine if wrongful acts or omissions have been, or are being committed by state officers or employees.
Illinois	Office of Executive Inspector General for the Agencies of the Illinois Governor	Statute	2010	Functions to ensure accountability in state government and the four regional transit boards. The OEIG's primary role is to investigate allegations of misconduct and to make reports of its findings to affected public agencies and officials.
Indiana	Office of the Inspector General and Ethics Commission	Statute	2005	Responsible for investigating and addressing fraud, waste, abuse, and wrongdoing in any agency within the executive branch of Indiana state government. This includes any authority, board, branch, commission, committee, department, division or other instrumentality of the executive branch of Indiana state government.
Louisiana	State Inspector General	Executive Order and later Statute	1988	Mission to investigate white collar criminal and public corruption cases, and to root out and prevent fraud and corruption in government. The office is a designated law enforcement agency by statute, with the associated investigative powers and privileges.
Massachusetts	Office of Inspector General	Statute	1997	Prevents and detects fraud, waste and abuse of public funds and public property and promotes transparency and efficiency in government.
New York	Office of Inspector General	Statute		Has jurisdiction over all executive branch agencies, departments, divisions, officers, boards and commissions, and over most public authorities and public benefit corporations. The Inspector General's functions and responsibilities include receiving and investigating complaints concerning allegations of corruption, fraud, criminal activity, conflicts of interest or abuse in any entity under the Inspector General's jurisdiction.
Ohio	Office of Inspector General	Executive Order and later Statute	1988	Enhancing the accountability and transparency of state government operations. I am committed to investigating allegations of wrongful acts or omissions without bias or outside influence in a timely, thorough, and impartial manner.
Oklahoma	Office of the State Auditor and Inspector	Statute and Constitution	1975	Responsible for auditing the financial accounts of all government agencies within Oklahoma. The State Auditor and Inspector also performs performance audits and special investigative audits upon request by certain state officials and upon petition by citizens.
Pennsylvania	Office of State Inspector General	Executive Order and later Statute	1987	Deter, detect, prevent, and eradicate fraud, waste, misconduct, and abuse in the programs, operations, and contracting of executive agencies.

South Carolina	Office of the Inspector General	Statute	2012	Charged with investigating and detecting fraud, waste, abuse, mismanagement, misconduct, violations of state or federal law, and wrongdoing in the Executive Branch.
Virginia	The Office of the State Inspector General	Statute	2012	To investigate waste and identify inefficiencies in executive branch state government.

Source: LFC Files, NCSL