



OFFICE OF INSPECTOR GENERAL JEFFERSON PARISH

DAVID N. McCLINTOCK
INSPECTOR GENERAL



September 11, 2017

OPEN LETTER TO THE PARISH PRESIDENT

Mr. Michael S. Yenni
Parish President
Joseph S. Yenni Building, 1002
1221 Elmwood Park Boulevard
Jefferson, Louisiana 70123

RE: Department of Internal Audit –
Duties of Director and Proposed “Internal Audit Policies and Procedures”

Dear Mr. Yenni:

A copy of a (Draft/Proposed) “Jefferson Parish Internal Audit Policies and Procedures” has recently been shared with this office. I have been advised that the Parish Administration circulated a draft policy on 09/01/2017 for Parish Council review. The JPOIG has long supported the development of a more effective, independent internal audit function.

We have followed recent Administration and Council actions regarding the Department of Internal Audit and its director. Having received a copy of the “Internal Audit Policies and Procedures,” we write to express specific concerns regarding the policy’s scope, content and authorship. We ask the Administration to seriously consider these concerns and recommended remedial action before any new policy or procedures are acted upon.

- “Special Investigations”. The JPOIG notes that “Special Investigations” is among the “Types of Audit Services” that Internal Audit will perform, according to the policy. The policy defines “Special Investigations” to include “[i]nvestigations to evaluate allegations of unethical business practices and financial and operational misconduct to determine if allegations are substantiated and to prevent future occurrences.” The nature of these matters often places them in the areas which are the direct responsibility of other independent entities. The JPOIG questions whether any type of approval or deconfliction would be required for the Internal Auditor to engage these types of audits. In any case, these types of audits clearly intrude upon the authority of the Jefferson Parish Ethics and Compliance Commission as it relates to ethics, and the JPOIG as it relates to potential fraud, waste and abuse (and possibly to other departments).

The JPOIG is by Charter the Parish’s independent investigative entity whose efforts are specifically designated to take “preference and priority over any other investigation of the same person or activity conducted by the Parish.” See Parish Charter § 4.09(E).

Failure to timely notify this office of matters that are believed to involve fraud or abuse is inconsistent with the Charter, and will likely jeopardize investigations or otherwise result

in uncoordinated actions or jeopardize investigations. These two independent functions can and should be able to operate in a manner that is efficient and effective. We recommend the Parish ensure that the Internal Audit policies include mandatory notifications to this office upon recognition of fraudulent activity or abuse of authority, and prior to the initiation of any action by the Department of Internal Audit.

- *Needed amendment(s) to Jefferson Parish Code of Ordinances.* The Department of Internal Audit is established by ordinance, Jefferson Parish Code of Ordinance (JPCO) 2-162. In addition to specific duties identified in the ordinance establishing the department, several ordinances, rightly or wrongly, confer additional duties and responsibilities upon Internal Audit.¹ The proposed policy fails to reasonably account for all duties associated with the position. Further, JPCO 2-162.2, *Duties of the director*, mandates that the internal auditor report findings to the “governmental and ethics compliance and audit committee,” which no longer exists.

The policy specifically cites the ordinance establishing the department while ignoring reporting provisions within the ordinance that can be amended only with Council action. Thus, the scope of the policy is incongruent with Parish ordinance and appears premature until such time as the Council acts to provide clarification and properly establish an effective independent reporting protocol.

- *Organizational Independence.* While the policy incorporates by reference standards of conduct published by the Institute of Internal Auditors (IIA), the draft policy does not fully address or establish the requisite level of independence for the function. Organizational independence requires that certain functions occur between the Internal Auditor and the Parish Council. A fundamental tenant of the IIA is that “internal audit activity must be independent, and internal auditors must be objective in performing their work.” See IIA 1100. “Organizational independence is effectively achieved when the [Internal Auditor] reports functionally to the [Council]”. See IIA 1110. The IIA has interpreted these functional issues as:
- Approving the internal audit charter;
 - Approving the risk based internal audit plan;
 - Approving the internal audit budget and resource plan;
 - Receiving communications from the chief audit executive on the internal audit activity’s performance relative to its plan and other matters;
 - Approving decisions regarding the appointment and removal of the chief audit executive;
 - Approving the remuneration of the chief audit executive; and
 - Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

¹ JPCO 2-295.1, *Cooperative endeavor agreements with non-governmental organizations*, requires that organizations annually submit budgets “by the internal auditor for the parish.” JPCO 23-152, *Review and reporting of the financial disclosure information*, appoints the “director of internal audit” to participate in the annual review of “financial disclosure statements and shall make a report to the council...” JPCO 35-301, *Enforcement by department of internal audit*, provides that the department of internal audit “shall be responsible for the enforcement and collection of fees, penalties and costs levied or assessed” related to Riverboat admission fee.

Further, and according to the IIA, Internal Audit “activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results.” See IIA 110.A1. Consequently, the Internal Auditor must communicate and interact with the Council as it pertains to audit reporting.

While it is accepted practice for the Internal Auditor to report to the Administration for non-functional or ministerial support, organizational independence is impossible if it is functionally subsumed within the Administration. The former Governmental and Ethics Compliance and Audit Committee, whose majority membership consisted of Council members, provided an appropriate entity to which the Internal Auditor could report even though the Internal Auditor fell under the Administration for day-to-day supervision. While solutions may vary, IIA standards require the Director of Internal Audit to functionally report to the Council.

The JPOIG has previously reported on Internal Auditor independence, or lack thereof. In February of this year, the JPOIG’s report on “Contract Administration and Compliance” identified, in part, that the Parish improperly tasked the Internal Auditor to review invoices.²

In this instance, the Internal Auditor reviewed invoices, an action that (1) is not a function of audit; and (2) is one for which the internal auditor was wholly unqualified to take since he was not involved in the post-closing of WJMC transaction, the project for which professional services were retained. Further, the actions were not compliant with the Internal Audit’s duties as pursuant to defined by JPCO §2-162.

Additionally the practices engaged in were not compliant with the IIA implementation guide for the independence and objectivity standard 1100, nor was it consistent with Chapter 3.14 of the Government Audit Standards published by the federal General Accounting Office regarding threats to independence.

The JPOIG recommendation was that the Parish cease using the Internal Auditor for purposes of authorizing invoice for payments. Further, the Parish should ensure the Internal Audit function operates in a manner consistent with the principals of the IIA.

- *Independence from impairment.* Independence from internal and external impairments is the cornerstone of an objective audit report. IIA standards require that an impairment to independence and objectivity be disclosed. See IIA 1130. Further, IIA 1130.A1 states that internal auditors must refrain from assessing specific operations for which they were previously responsible. First, objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility

² See: [JPOIG Report 2016-0041, issued publically on 02/15/2017.](#)

within the previous year. The Parish's Internal Audit Director should refrain from conducting audits involving her prior functional areas for a period of at least one-year. Secondly, nothing in the ordinance or the proposed policy requires the Internal Audit Director to attest in writing to independence and freedom from any impairment as part of every issued audit.

Finally, neither the ordinance nor the policy include a reporting provision for impairments. External impediments to independence or objectivity of the Internal Auditor should be appropriately reported to the Parish Council and the JPOIG. External impairments that may result from efforts to improperly influence audit activity should be subject to potential investigation. Then, the acknowledgement and written notice of an impairment would necessarily require an evaluation procedure to include alternatives for completing the project.

- Authorship of policy – development of a Charter. Presently, neither the policy nor the ordinance anticipates an Audit Charter that supports independence. Insofar as the “Internal Audit Policies and Procedures” is the Administration's own work product, it demonstrates a lack of independence by the Department of Internal Audit. IIA 1000 recommends the use of an Audit Charter. The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter does the following: 1) establishes the internal audit position and activity within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; 2) authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and 3) defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board. The Audit Charter should be approved by the controlling authority. Here, the Parish Council is appropriately the controlling authority.
- Additional concerns and recommendations. In addition to the above, there are several basic tenants critical to an effective Internal Audit Department. For your consideration, some of the key points are discussed below in brief:
 - Certification: Neither the Parish Ordinance nor the draft policy establishes position requirements for the Internal Auditor that meet or exceed IIA standards for proficiency in Internal Audit. See IIA 1200. Requiring a certification is important; however, the Parish should also consider requiring progressively responsible experience performing complex financial and operational audits and reviews of governmental functions; normally considered mandatory at the head Internal Auditor level.
 - Quality Control. The current draft policy document does not include the requirement of a system of internal quality control such as periodic internal reviews and an external peer review at least every 5 years. See IIA 2000. The Parish should ensure that policy or ordinance mandates periodic outside review.

- Governance and reporting structure. The current draft policy document does not include a direct reporting requirement to the governing body (Council) or governing Audit and Finance Committee. The Parish should ensure an Internal Audit Charter and Internal Audit Policy include a periodic reporting requirement on the outcome of specific audits and the overall operations of the Internal Audit Department to the Council.

We certainly encourage the development of a true internal audit function and remain available to render any support or assistance you may request or require.

Sincerely,



David McClintock
Inspector General

cc: Chairman Christopher L. Roberts
Councilwoman Cynthia Lee-Sheng
Councilman Ricky J. Templet
Councilman Paul D. Johnston
Councilman Mark D. Spears
Councilwoman Jennifer Van Vrancken
Councilman Jack Rizzuto
Chairman Carroll Suggs, Ethics and Compliance Commission
Vice Chairman Kyle Marks, Ethics and Compliance Commission
Commissioner, Warren Bourgeois, Ethics and Compliance Commission
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Commissioner, Paul LaRosa, Ethics and Compliance Commission
Parish Attorney, Michael Power
General Counsel Jerry Sullivan, Attorney-Ethics and Compliance Commission