

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

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HOUSE BILL 1401

Short Title: Internal Audit and Efficiency Review. (Public)

Sponsors: Representatives Crawford; Harrison, Hilton, Hurley, Luebke, and Underhill.

Referred to: Ways and Means.

April 12, 2007

A BILL TO BE ENTITLED

AN ACT TO ENACT THE NORTH CAROLINA INTERNAL AUDIT ACT.

The General Assembly of North Carolina enacts:

SECTION 1. Chapter 143 of the General Statutes is amended by adding a new Article to read:

"Article 79.

"Internal Auditing.

§ 143-738. Definitions; intent; applicability.

(a) For the purposes of this section:

(1) 'State agency' means each department created pursuant to Chapter 143A or 143B of the General Statutes, the Judicial Branch, The University of North Carolina, and the Department of Public Instruction.

(2) 'Agency head' means the Governor, a Council of State member, a cabinet secretary, the Chief Justice of the Supreme Court, the President of The University of North Carolina, and the Superintendent of Public Instruction.

(b) The General Assembly intends that State agencies perform internal audits to identify inefficient or ineffective programs and activities, regardless of legal authorization, and to ensure agencies have designed and implemented an effective system of internal controls to safeguard public funds and assets. A substantial portion of internal audit activities by each agency must address efficiency and effectiveness and cost savings opportunities. The General Assembly will determine effectiveness of internal auditing by the number and value of cost savings opportunities reported and by minimal incidence of fraud, waste, and abuse in State agencies.

(c) This Article applies only to a State agency that:

(1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);

- 1 (2) Has more than 100 full-time equivalent employees; or
2 (3) Receives and processes more than ten million dollars (\$10,000,000) in
3 cash in a fiscal year.

4 **"§ 143-739. Internal auditing required.**

5 (a) Requirements. – A State agency shall establish a program of internal auditing
6 that includes:

- 7 (1) An annual audit plan for internal audits of program necessity,
8 effectiveness, efficiency, economy and cost savings and other
9 individual audits of systems and controls using risk assessment
10 techniques to be conducted during the year.
11 (2) Reviews of the justification or effectiveness of agency programs and
12 activities notwithstanding the statutory basis of any program or
13 activity.
14 (3) Reviews to determine efficiency and economy and cost savings
15 opportunities.
16 (4) Periodic audits of the agency's major systems and controls, including:
17 a. Accounting systems and controls.
18 b. Administrative systems and controls.
19 c. Electronic data processing systems and controls.

20 (b) Internal Audit Standards. – Internal audits shall comply with current
21 Standards for the Professional Practice of Internal Auditing issued by the Institute for
22 Internal Auditors or, if appropriate, Government Auditing Standards issued by the
23 Comptroller General of the United States.

24 (c) Appointment and Qualifications of Internal Auditors. – Any internal auditor
25 employed by a State agency shall at a minimum have a bachelor's degree from an
26 accredited college or university and:

- 27 (1) Certification or licensure as a certified public accountant, certified
28 internal auditor, certified fraud examiner, certified information systems
29 auditor, professional engineer, or attorney; or
30 (2) A minimum of five years experience in internal or external auditing,
31 management consulting, program evaluation, management analysis,
32 economic analysis, industrial engineering, or operations research.

33 (d) Director of Internal Auditing. – The agency head shall appoint a Director of
34 Internal Auditing who shall report to the agency head and shall not report to any
35 employee subordinate to the agency head.

36 **"§ 143-740. Council of Internal Auditing.**

37 (a) The Council of Internal Auditing is created, consisting of the following
38 members:

- 39 (1) The Lieutenant Governor who shall serve as Chair.
40 (2) The State Controller.
41 (3) The Secretary of State.
42 (4) The Attorney General.
43 (5) The State Treasurer.

- 1 (6) The State Auditor who shall serve as a nonvoting member. The State
2 Auditor may appoint a designee.
- 3 (b) The Council shall be supported by the Office of State Budget and
4 Management, which shall designate one employee to serve as council administrator.
- 5 (c) The Council shall:
- 6 (1) Hold its first meeting before September 1, 2007, and thereafter at the
7 call of the Chair or upon written request to the Chair by two members
8 of the Council.
- 9 (2) Keep minutes of all proceedings.
- 10 (3) Promulgate guidelines for the uniformity and quality of State agency
11 internal audit activities.
- 12 (4) Recommend the number of internal audit employees required by each
13 State agency.
- 14 (5) Develop internal audit guides, technical manuals, and suggested best
15 internal audit practices.
- 16 (6) Administer an independent peer review system for each State agency
17 internal audit activity; specify the frequency of such reviews consistent
18 with applicable national standards; and assist agencies with selection
19 of independent peer reviewers from other State agencies.
- 20 (7) Provide central training sessions, professional development
21 opportunities, and recognition programs for internal auditors.
- 22 (8) Administer a program for sharing internal auditors among State
23 agencies needing temporary assistance and assembly of interagency
24 teams of internal auditors to conduct internal audits beyond the
25 capacity of a single agency.
- 26 (9) Maintain a central database of all annual internal audit plans; topics for
27 review proposed by internal audit plans; internal audit reports issued
28 and individual findings and recommendations from those reports.
- 29 (10) Require reports in writing from any State agency relative any internal
30 audit matter.
- 31 (11) If determined necessary by a majority vote of the council:
- 32 a. Conduct hearings relative to any attempts to interfere with,
33 compromise, or intimidate an internal auditor.
- 34 b. Inquire as to the effectiveness of any internal audit unit.
- 35 c. Authorize the Chair to issue subpoenas for the appearance of
36 any person or internal audit working papers, report drafts, and
37 any other pertinent document or record regardless of physical
38 form needed for the hearing.
- 39 (12) Issue an annual report including, but not limited to, service efforts and
40 accomplishments of State agency internal auditors and to propose
41 legislation for consideration by the Governor and General Assembly."

42 **SECTION 2.** This act becomes effective July 1, 2007.