

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2007

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HOUSE BILL 1401
Senate Appropriations/Base Budget Committee Substitute Adopted 7/31/07

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

Sponsors:

Referred to:

April 12, 2007

1 A BILL TO BE ENTITLED
2 AN ACT TO ENACT THE NORTH CAROLINA INTERNAL AUDIT ACT.
3 The General Assembly of North Carolina enacts:

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

6 "Article 79.

7 "Internal Auditing.

8 **"§ 143-738. Definitions; intent; applicability.**

9 (a) For the purposes of this section:

10 (1) 'State agency' means each department created pursuant to Chapter
11 143A or 143B of the General Statutes, the Judicial Branch, The
12 University of North Carolina, and the Department of Public
13 Instruction.

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

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

19 (1) Has an annual operating budget that exceeds ten million dollars
20 (\$10,000,000);

21 (2) Has more than 100 full-time equivalent employees; or

22 (3) Receives and processes more than ten million dollars (\$10,000,000) in
23 cash in a fiscal year.

24 **"§ 143-739. Internal auditing required.**

25 (a) Requirements. – A State agency shall establish a program of internal auditing
26 that:

27 (1) Implements an effective system of internal controls that safeguards
28 public funds and assets and minimizes incidences of fraud, waste, and
29 abuse.

1 (2) Ensures programs and business operations are administered in
2 compliance with federal and state laws, regulations, and other
3 requirements.

4 (3) Reviews the effectiveness and efficiency of agency and program
5 operations and service delivery.

6 (4) Periodically audits the agency's major systems and controls, including:

7 a. Accounting systems and controls.

8 b. Administrative systems and controls.

9 c. Electronic data processing systems and controls.

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

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

17 (1) Certification or licensure as a certified public accountant, certified
18 internal auditor, certified fraud examiner, certified information systems
19 auditor, professional engineer, or attorney; or

20 (2) A minimum of five years' experience in internal or external auditing,
21 management consulting, program evaluation, management analysis,
22 economic analysis, industrial engineering, or operations research.

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

26 **"§ 143-740. Council of Internal Auditing.**

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

29 (1) The State Budget Officer who shall serve as Chair.

30 (2) The State Controller.

31 (3) The Secretary of Administration.

32 (4) The Attorney General.

33 (5) The Secretary of Revenue.

34 (6) The State Auditor who shall serve as a nonvoting member. The State
35 Auditor may appoint a designee.

36 (b) The Council shall be supported by the Office of State Budget and
37 Management.

38 (c) The Council shall:

39 (1) Hold its first meeting before November 1, 2007, and thereafter at the
40 call of the Chair or upon written request to the Chair by two members
41 of the Council.

42 (2) Keep minutes of all proceedings.

43 (3) Promulgate guidelines for the uniformity and quality of State agency
44 internal audit activities.

- 1 (4) Recommend the number of internal audit employees required by each
2 State agency.
- 3 (5) Develop internal audit guides, technical manuals, and suggested best
4 internal audit practices.
- 5 (6) Administer an independent peer review system for each State agency
6 internal audit activity; specify the frequency of such reviews consistent
7 with applicable national standards; and assist agencies with selection
8 of independent peer reviewers from other State agencies.
- 9 (7) Provide central training sessions, professional development
10 opportunities, and recognition programs for internal auditors.
- 11 (8) Administer a program for sharing internal auditors among State
12 agencies needing temporary assistance and assembly of interagency
13 teams of internal auditors to conduct internal audits beyond the
14 capacity of a single agency.
- 15 (9) Maintain a central database of all annual internal audit plans; topics for
16 review proposed by internal audit plans; internal audit reports issued
17 and individual findings and recommendations from those reports.
- 18 (10) Require reports in writing from any State agency relative to any
19 internal audit matter.
- 20 (11) If determined necessary by a majority vote of the council:
- 21 a. Conduct hearings relative to any attempts to interfere with,
22 compromise, or intimidate an internal auditor.
- 23 b. Inquire as to the effectiveness of any internal audit unit.
- 24 c. Authorize the Chair to issue subpoenas for the appearance of
25 any person or internal audit working papers, report drafts, and
26 any other pertinent document or record regardless of physical
27 form needed for the hearing.
- 28 (12) Issue an annual report including, but not limited to, service efforts and
29 accomplishments of State agency internal auditors and to propose
30 legislation for consideration by the Governor and General Assembly."

31 **SECTION 2.** This act is effective when it becomes law.