

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013

H

3

HOUSE BILL 417
Committee Substitute Favorable 4/22/13
Committee Substitute #2 Favorable 5/15/13

Short Title: Modify Internal Auditing Statutes.

(Public)

Sponsors:

Referred to:

March 25, 2013

1 A BILL TO BE ENTITLED
2 AN ACT TO MODIFY THE INTERNAL AUDITING STATUTES APPLICABLE TO
3 LARGE STATE DEPARTMENTS AND THE UNIVERSITY SYSTEM.

4 The General Assembly of North Carolina enacts:

5 **SECTION 1.** Article 79 of Chapter 143 of the General Statutes reads as rewritten:

6 "Article 79.

7 "Internal Auditing.

8 **"§ 143-745. Definitions; intent; applicability.**

9 (a) For the purposes of this section:

10 (1) "Agency head" means the Governor, a Council of State member, a cabinet
11 secretary, the President of The University of North Carolina, the President of
12 the Community College System, the State Controller, and other independent
13 appointed officers with authority over a State agency.~~and the Superintendent~~
14 ~~of Public Instruction.~~

15 (2) "State agency" means each department created pursuant to Chapter 143A or
16 143B of the General Statutes, and includes all institutions, boards,
17 commissions, authorities, by whatever name, that is a unit of the executive
18 branch of State government, including The University of North Carolina,
19 and the Department of Public Instruction.~~Community Colleges System~~
20 ~~Office. The term does not include a unit of local government.~~

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

- 22 (1) Has an annual operating budget that exceeds ten million dollars
23 (\$10,000,000);
24 (2) Has more than 100 full-time equivalent employees; or
25 (3) Receives and processes more than ten million dollars (\$10,000,000) in cash
26 in a fiscal year.

27 **"§ 143-746. Internal auditing required.**

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

- 29 (1) ~~Implements~~Promotes an effective system of internal controls that safeguards
30 public funds and assets and minimizes incidences of fraud, waste, and abuse.
31 (2) ~~Ensures~~Determines if programs and business operations are administered in
32 compliance with federal and state laws, regulations, and other requirements.
33 (3) Reviews the effectiveness and efficiency of agency and program operations
34 and service delivery.
35 (4) Periodically audits the agency's major systems and controls, including:



- 1 a. Accounting systems and controls.
- 2 b. Administrative systems and controls.
- 3 c. ~~Electronic data processing~~ Information technology systems and
- 4 controls.

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

9 (c) Appointment and Qualifications of Internal Auditors. – ~~Any internal auditor~~
10 ~~employed by a State agency shall at a minimum have a bachelor's degree from an accredited~~
11 ~~college or university and:~~ Any State employee who performs the internal audit function shall
12 meet the minimum qualifications for internal auditors established by the Office of State
13 Personnel, in consultation with the Council of Internal Auditing.

- 14 (1) ~~Certification or licensure as a certified public accountant, certified internal~~
15 ~~auditor, certified fraud examiner, certified information systems auditor,~~
16 ~~professional engineer, or attorney; or~~
- 17 (2) ~~A minimum of five years' experience in internal or external auditing,~~
18 ~~management consulting, program evaluation, management analysis,~~
19 ~~economic analysis, industrial engineering, or operations research.~~

20 (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal
21 Auditing who shall report to (i) the agency head and shall not report to any employee
22 subordinate to the agency head; (ii) the chief deputy or chief administrative assistant, or
23 (iii) the agency governing board, or subcommittee thereof, if such a governing board exists.
24 The Director of Internal Auditing shall be organizationally situated to avoid impairments to
25 independence as defined in the auditing standards referenced in subsection (b) of this section.

26 (e) If a State agency has insufficient personnel to comply with this section, the Office
27 of State Budget and Management shall provide technical assistance.

28 **"§ 143-747. Council of Internal Auditing.**

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

- 30 (1) The State Controller who shall serve as Chair.
- 31 (2) The State Budget Officer.
- 32 (3) The Secretary of Administration.
- 33 (4) The Attorney General.
- 34 (5) The Secretary of Revenue.

35 (5a) The President of The University of North Carolina.

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

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

39 (c) The Council shall:

- 40 (1) ~~Hold its first meeting before November 1, 2007, and thereafter~~ meetings
41 at the call of the Chair or upon written request to the Chair by two members of
42 the Council.
- 43 (2) Keep minutes of all proceedings.
- 44 (3) Promulgate guidelines for the uniformity and quality of State agency internal
45 audit activities.
- 46 (4) Recommend the number of internal audit employees required by each State
47 agency.
- 48 (5) Develop internal audit guides, technical manuals, and suggested best internal
49 audit practices.
- 50 (6) Administer an independent peer review system for each State agency
51 internal audit activity; specify the frequency of such reviews consistent with

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

24 **§ 143-748. Confidentiality of internal audit work papers.**

25 Internal audit work papers are confidential except as otherwise provided in this section or
26 upon subpoena issued by a duly authorized court. A published internal audit report is a public
27 record as defined in G.S. 132-1 to the extent it does not include information which is
28 confidential under State or federal law or would compromise the security of a State agency. An
29 internal auditor shall maintain for 10 years a complete file of all audit reports and reports of
30 other examinations, investigations, surveys, and reviews conducted under the internal auditor's
31 authority. Audit work papers and other evidence and related supportive material directly
32 pertaining to the work of the internal auditor's office shall be retained in accordance with
33 Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote
34 intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work
35 papers related to released audit reports shall be made available for inspection by duly
36 authorized representatives of the State and federal government in connection with some matter
37 officially before them.

38 **§ 143-749. Obstruction of audit.**

39 It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State agency
40 subject to the provisions of this Article to willfully make or cause to be made to a State agency
41 internal auditor or the internal auditor's designated representatives any false, misleading, or
42 unfounded report for the purpose of interfering with the performance of any audit, special
43 review, or investigation or to hinder or obstruct the State agency internal auditor or the internal
44 auditor's designated representatives in the performance of their duties."

45 **SECTION 2.** This act is effective when it becomes law. G.S. 143-749, as enacted
46 in Section 1 of this act, applies to offenses committed on or after December 1, 2013.