

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

Legislative Fiscal Note

REVISED

BILL NUMBER: House Bill 417 (Second Edition)

SHORT TITLE: Modify Internal Auditing Statutes.

SPONSOR(S): Representatives Hastings, Stone, S. Ross, and R. Brown

FISCAL IMPACT

(\$ in thousands)

Yes No No Estimate Available

State Impact	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
General Fund Revenues:	to	to	to	to	to
General Fund Expenditures:	0.0 to 147.3	0.0 to 147.3	0.0 to 147.3	0.0 to 147.3	0.0 to 147.3
State Positions:	0.0 to 3.0	0.0 to 3.0	0.0 to 3.0	0.0 to 3.0	0.0 to 3.0
NET STATE IMPACT	\$0.0 to (\$147.3)	\$0.0 to (\$147.3)	\$0.0 to (\$147.3)	\$0.0 to (\$147.3)	\$0.0 to (\$147.3)

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:

Commission on Banks, Housing Finance Agency, Office of the State Controller, Office of State Budget and Management

EFFECTIVE DATE Bill effective when it becomes law, G.S. 143-749 applies to offenses committed on or after 12/1/13

TECHNICAL CONSIDERATIONS:

None

Revision Note: The Office of State Budget and Management (OSBM) has indicated that they would be able to perform the audits for the Commission on Banks, Office of State Controller, and Housing Finance Agency. However, according to OSBM staff, their audits would be limited in scope; it is unknown if these limited scope audits meet the requirements for internal audits set out in the General Statutes. If the OSBM audit team were to perform the audits, there would be no additional cost to the State from this legislation. The range in the fiscal impact table above reflects the updated minimum cost to the State of \$0 if OSBM performs the audits. The maximum cost to the State of \$147,250 has not changed.

BILL SUMMARY:

The legislation amends G.S. 143-745 to add the President of the Community College System, the State Controller, and other independent appointed officers with authority over a state agency to the

definition of “agency head”. The section also broadens the annual internal audit requirement to include “all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government”. The term does not include a unit of local government.

The legislation amends G.S. 143-746 to require any employee who performs the internal audit function to meet the minimum qualifications developed by the Office of State Personnel and the Council of Internal Auditing. The bill also makes changes to the reporting requirements for the Director of Internal Auditing for an agency.

The legislation amends G.S. 143-747 to add the UNC President as a member of the Council of Internal Auditing.

The legislation adds G.S. 143-748, which makes the internal audit work papers confidential except under a subpoena or other provisions in the law. Published internal audits shall be public records under G.S. 132-1. The internal auditor for the agency shall maintain for 10 years a complete file of all audit reports. Audit work papers and evidence shall be retained in accordance with G.S. 132.

The legislation adds G.S. 143-749 creating a Class 2 misdemeanor for purposefully interfering with an agency’s internal audit by providing the auditor with false, misleading, or unfounded information. Hindering or obstructing an internal auditor is illegal as well. The criminal penalties will apply for offenses committed on or after December 1, 2013.

ASSUMPTIONS AND METHODOLOGY:

This legislation broadens internal auditing statutes to include any “*institution, board, commission, authority, by whatever name, that is a unit of the executive branch of State government*” and meets one of the following criteria:

1. Annual operating budget of more than \$10,000,000
2. More than 100 FTEs
3. Receives or processes more than \$10,000,000 in cash in a fiscal year

The expanded requirements will require more State government entities to perform annual internal audits. The expanded requirements will create a cost to some State government entities but not all.

Fiscal Research does not anticipate a cost to the following entities that fall under the expanded statute:

- Smart Start falls under the expanded statute but already completes an annual internal audit.
- The 911 Board, part of the State CIO, falls under expanded statute but the State CIO has an internal auditor on staff who meets the requirements set in the legislation.
- The Industrial Commission, part of the Department of Commerce, would need an annual internal audit under this legislation. Commerce does not have an internal auditor but has an agreement with the Office of State Budget and Management (OSBM) to perform an annual internal audit. According to OSBM, the office will extend the annual audit of the Commerce Department to include the Industrial Commission.
- According to the Community Colleges System Office, the System Office is already operating under the requirements of this bill and would have no fiscal impact.

The Housing Finance Agency (HFA) and the Commission on Banks would be required to perform annual internal audits under this bill. HFA and the Commission do not have anyone on staff who meets the minimum requirements to perform the audit as laid out in the legislation. The cost of hiring two auditors to perform the annual audits would be \$98,166.85 broken down as follows:

Salary	\$36,012
Social Security	\$5,124.51
Retirement	\$2,754.92
Health Insurance	\$5,192
Total	\$49,083.43
Total for two employees	\$98,166.85

The figures above use the minimum salary according to the Office of State Personnel for hiring an auditor because the auditor performing the internal audits must only meet the minimum standards set by the Office of State Personnel for internal auditors.

The Office of the State Controller (OSC) has several auditors on staff who meet the requirements set forth in the legislation to complete the internal audit. However, the office believes that the auditors do not have the time to complete an internal audit in addition to their current duties. OSC believes it would need one more auditor to complete the annual audits. If an additional auditor is necessary, the total cost for the state will be \$147,250 hence the range in the table on the first page of this note.

Information Added April 30, 2013:

The Office of State Budget and Management could perform the required audits of OSC, HFA, and the Commission on Banks. The NC Council of Internal Auditing created a policy stating OSBM shall offer internal auditing services to agencies with more than 100 full time employees or a budget between \$10,000,000 and \$70,000,000. OSBM currently provides internal auditing services to Office of the State Auditor, Department of Labor, Wildlife Resources Commission, Governor’s Office, Department of Administration, and Department of Commerce. According to OSBM, expanding the internal auditing services to OSC, HFA, and the Commission on Banks would stretch the resources of their internal auditing division. The audits offered would be limited in scope and focus on risk assessment.

The fiscal impact table on the first page of this note has been updated to reflect the possibility of OSBM performing the internal audits for OSC, HFA, and the Commission on Banks. If OSBM performed the audits, there would be no fiscal impact to the State from this legislation. Similarly, the position counts have been updated as well. The maximum estimated cost of the legislation remains \$147,250, which would be the cost of hiring three new auditors at the OSP minimum to perform the required audits at OSC, HFA, and the Commission on Banks. The minimum impact to the State is \$0 to reflect the cost of OSBM expanding their auditing services to the newly covered agencies.

SOURCES OF DATA: Office of State Personnel, Office of State Budget and Management, UNC School of Government, Department of Health and Human Services, Industrial Commission, Office of the State Controller, State CIO, Community College System Office

TECHNICAL CONSIDERATIONS: None

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