

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2021

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SENATE BILL 543
PROPOSED COMMITTEE SUBSTITUTE S543-PCS45424-BVa-22

Short Title: Establish Key Indicators/Internal Audits.

(Public)

Sponsors:

Referred to:

April 6, 2021

1 A BILL TO BE ENTITLED
2 AN ACT TO ESTABLISH MINIMUM KEY PERFORMANCE INDICATORS AND
3 CRITERIA FOR INTERNAL AUDITS, TO DIRECT THE COUNCIL OF INTERNAL
4 AUDITING TO HIRE AN EXECUTIVE DIRECTOR AND TWO ADMINISTRATIVE
5 SPECIALISTS, AND TO APPROPRIATE FUNDS FOR THOSE NEW POSITIONS.

6 The General Assembly of North Carolina enacts:

7 **SECTION 1.** G.S. 143-746 reads as rewritten:

8 **"§ 143-746. Internal auditing required.**

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

- 10 (1) Promotes an effective system of internal controls that safeguards public funds
11 and assets and minimizes incidences of fraud, waste, and abuse.
12 (2) Determines if programs and business operations are administered in
13 compliance with federal and state laws, regulations, and other requirements.
14 (3) Reviews the effectiveness and efficiency of agency and program operations
15 and service delivery.
16 (4) Periodically audits the agency's major systems and controls, including:
17 a. Accounting systems and controls.
18 b. Administrative systems and controls.
19 c. Information technology systems and controls.

20 (a1) Key Performance Indicators and Criteria. – In addition to the requirements of
21 subsection (a) of this section, each agency head shall be responsible for ensuring that agency's
22 internal audit unit meets the required key indicators and criteria established by the Council under
23 G.S. 143-747(c)(3a).

24 (b) Internal Audit Standards. – Internal audits shall comply with current Standards for the
25 Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if
26 appropriate, Government Auditing Standards issued by the Comptroller General of the United
27 States. Each agency head shall annually certify to the Council that the audit plan was developed
28 and the audit reports were conducted and reported in accordance with required standards.

29 (c) Appointment and Qualifications of Internal Auditors. – Any State employee who
30 performs the internal audit function shall meet the minimum qualifications for internal auditors
31 established by the Office of State Human Resources, in consultation with the Council of Internal
32 Auditing.

33 (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal
34 Auditing who shall report to, as designated by the agency head, (i) the agency head, (ii) the chief
35 deputy or chief administrative assistant, or (iii) the agency governing board, or subcommittee
36 thereof, if such a governing board exists. The Director of Internal Auditing shall be



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1 organizationally situated to avoid impairments to independence as defined in the auditing
2 standards referenced in subsection (b) of this section.

3 (e) Insufficient Personnel. – If a State agency has insufficient personnel to comply with
4 this section, the Office of State Budget and Management shall provide technical assistance.

5 (f) Reporting Fraudulent Activity. – If an internal audit conducted pursuant to this section
6 results in a finding that a private person or entity has received public funds as a result of fraud,
7 misrepresentation, or other deceptive acts or practices while doing business with the State
8 agency, the internal auditor shall submit a detailed written report of the finding, and any
9 additional necessary supporting documentation, to the State Purchasing Officer. A report
10 submitted under this subsection may include a recommendation that the private person or entity
11 be debarred from doing business with the State or a political subdivision thereof."

12 **SECTION 2.** G.S. 143-747 reads as rewritten:

13 **"§ 143-747. Council of Internal Auditing.**

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

15 (1) The State Controller who shall serve as Chair.

16 (2) The State Budget Officer.

17 (3) The Secretary of Administration.

18 (4) The Attorney General. The Attorney General may appoint a designee.

19 (5) The Secretary of Revenue.

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

22 (7) One member appointed by the General Assembly upon the recommendation
23 of the President Pro Tempore of the Senate pursuant to G.S. 120-121. The
24 member appointed must be a certified public accountant licensed in this State
25 who has experience with internal auditing and is in good standing with the
26 North Carolina State Board of Certified Public Accountant Examiners.

27 (8) One member appointed by the General Assembly upon the recommendation
28 of the Speaker of the House of Representatives pursuant to G.S. 120-121. The
29 member appointed must be a certified public accountant licensed in this State
30 who has experience with internal auditing and is in good standing with the
31 North Carolina State Board of Certified Public Accountant Examiners.

32 (a1) The Council shall hire an Executive Director as selected by a majority of the Council.
33 The Executive Director shall serve at the will of the Council and be exempt from the provisions
34 of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.

35 (a2) The Council shall hire two Administrative Specialists as selected by a majority of the
36 Council. The Administrative Specialists shall perform any duties delegated by the Executive
37 Director. The Administrative Specialists shall serve at the will of the Council and be exempt from
38 the provisions of the North Carolina Human Resources Act under Chapter 126 of the General
39 Statutes.

40 (b) The Council-Council, including the position of Executive Director, shall be supported
41 by the Office of State Budget and Management.

42 (c) The Council shall:

43 (1) Hold meetings at the call of the Chair or upon written request to the Chair by
44 two members of the Council.

45 (2) Keep minutes of all proceedings.

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

48 (3a) Establish required minimum key performance indicators and criteria that
49 comply with the Professional Practice of Internal Auditing issued by the
50 Institute for Internal Auditors.

- 1 (4) Recommend the number of internal audit employees required by each State
2 agency.
- 3 (5) Develop internal audit guides, technical manuals, and suggested best internal
4 audit practices.
- 5 (6) Administer an independent peer review system for each State agency internal
6 audit activity; specify the frequency of such reviews consistent with
7 applicable national standards; and assist agencies with selection of
8 independent peer reviewers from other State agencies.
- 9 (7) Provide central training sessions, professional development opportunities, and
10 recognition programs for internal auditors.
- 11 (8) Administer a program for sharing internal auditors among State agencies
12 needing temporary assistance and assembly of interagency teams of internal
13 auditors to conduct internal audits beyond the capacity of a single agency.
- 14 (9) Maintain a central database of all annual internal audit plans; topics for review
15 proposed by internal audit plans; internal audit reports issued and individual
16 findings and recommendations from those reports.
- 17 (10) Require reports in writing from any State agency relative to any internal audit
18 matter.
- 19 (11) If determined necessary by a majority vote of the council:
- 20 a. Conduct hearings relative to any attempts to interfere with,
21 compromise, or intimidate an internal auditor.
- 22 b. Inquire as to the effectiveness of any internal audit unit.
- 23 c. Authorize the Chair to issue subpoenas for the appearance of any
24 person or internal audit working papers, report drafts, and any other
25 pertinent document or record regardless of physical form needed for
26 the hearing.
- 27 (11a) Gather and assess the extent to which State agencies have met the minimum
28 key performance indicators and criteria required under subdivision (3a) of this
29 subsection. The Council shall report its findings to the Joint Legislative
30 Commission on Governmental Operations on October 1, 2022, and annually
31 thereafter.
- 32 (12) Issue an annual report including, but not limited to, service efforts and
33 accomplishments of State agency internal auditors and to propose legislation
34 for consideration by the Governor and General Assembly."

35 **SECTION 3.** There is appropriated from the General Fund to the Office of State
36 Budget and Management the sum of three hundred fifty-one thousand eight hundred fifty-seven
37 dollars (\$351,857) in recurring funds for the 2021-2023 fiscal biennium to establish an executive
38 director position and two administrative specialist positions, as follows:

- 39 (1) \$203,875 for the salary, benefits, and operating expenses associated with the
40 Executive Director to perform duties as described in this act.
- 41 (2) \$147,982 for the salary, benefits, and operating expenses associated with the
42 administrative specialists, who shall provide assistance to the Executive
43 Director and to other staff of the Council of Internal Auditing.

44 **SECTION 4.** This act becomes effective July 1, 2021.