

Stricken language would be deleted from and underlined language would be added to present law.

State of Arkansas
91st General Assembly
Regular Session, 2017

As Engrossed: H3/14/17
A Bill

HOUSE BILL 2018

By: Representative M. Gray

By: Senator Hester

For An Act To Be Entitled

AN ACT TO AMEND THE LAW CONCERNING INTERNAL AUDITS OF STATE AGENCIES; TO ESTABLISH THE APPROPRIATE LEVEL OF INDEPENDENCE FOR INTERNAL AUDIT ACTIVITIES WITHIN THE INTERNAL AUDIT OFFICE OF THE ARKANSAS DEPARTMENT OF FINANCE AND ADMINISTRATION AND WITHIN OTHER STATE AGENCIES; AND FOR OTHER PURPOSES.

Subtitle

TO AMEND THE LAW CONCERNING INTERNAL AUDITS OF STATE AGENCIES; AND TO ESTABLISH THE APPROPRIATE LEVEL OF INDEPENDENCE FOR INTERNAL AUDIT ACTIVITIES WITHIN CERTAIN STATE AGENCIES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

SECTION 1. Arkansas Code § 19-4-105 is amended to read as follows:

19-4-105. Continuing studies and investigations – Duties of Chief Fiscal Officer of the State and Internal Audit Section – Exemption of internal audit documentation from Freedom of Information Act of 1967.

(a) The Chief Fiscal Officer of the State is directed to make continuing studies and investigations of the operation of state agencies and to make recommendations to the General Assembly, the Legislative Council, and the Governor about improvements which should be made in order to:

(1) Safeguard against excessive expenditures of appropriations and funds;



(2) Promote economy, efficiency, and control in the operation of state agencies;

(3) Properly execute budgets; and

(4) Accomplish the purposes of this chapter as intended by the General Assembly.

(b) The Office of Internal Audit Section created under the Department of Finance and Administration ~~by Governor's Executive Order 99-08~~ shall conduct its audits using the suggested standards for the professional practice of internal auditing as adopted by the Institute of Internal Auditors.

(c) The Office of Internal Audit Section shall:

(1) Review the financial and operating controls and the transactions of state agencies to determine the level of conformity with established laws, standards, regulations, and procedures;

(2) Review the various functions within an enterprise to appraise the efficiency and economy of operations and the effectiveness with which those functions achieve the stated objectives, including without limitation a review of established internal control activities;

(3) Investigate reported occurrences of fraud, embezzlement, theft, waste, abuse, or mismanagement of state resources;

(4) Recommend controls to prevent occurrences of fraud, embezzlement, theft, waste, abuse, or mismanagement of state resources;

(5) Assist state agencies to resolve areas of concern;

(6) Assist state agencies in establishing appropriate internal controls that will prevent errors or irregularities; and

(7) Provide objective analysis, appraisals, and recommendations concerning the activities it reviews; ~~and~~

~~(8) Perform other functions as directed by the Governor, Chief Fiscal Officer of the State, or other board or government entity charged with authority over the Internal Audit Section by executive order.~~

(d) After an audit is completed, the Office of Internal Audit Section shall file a written final report concerning the actions and determinations made under this section with:

(1) The Chief Fiscal Officer of the State;

(2) The Governor;

(3) The ~~State Board of Finance~~ State Internal Audit Committee;

and

~~(4) Arkansas Legislative Audit; and,~~

~~(5) Any other board or government entity charged with authority over the Internal Audit Section by executive order.~~

~~(e) Employees of the Internal Audit Section shall:~~

~~(1) Be employed by the Governor or other board or government entity charged with authority over the Internal Audit Section by executive order; and~~

~~(2) Serve at the pleasure of the Governor or other board or government entity charged with authority over the Internal Audit Section by executive order.~~

~~(f)(1)~~ (e)(1) All internal audit documentation, including notes, memoranda, preliminary drafts of audit reports, and other data gathered in the preparation of internal audit reports by the Office of Internal Audit Section, are privileged and confidential and are exempt from the Freedom of Information Act of 1967, § 25-19-101 et seq., except as provided in subdivision ~~(f)(2)~~ (e)(2) of this section.

(2)(A) The exemption shall not apply to completed internal audits of the Office of Internal Audit Section after a final report of the internal audit has been presented to:

(i) The Chief Fiscal Officer of the State;

(ii) The Governor or the Governor's designee;

(iii) ~~The State Board of Finance~~ State Internal

Audit Committee; or

(iv) Arkansas Legislative Audit; ~~or,~~

~~(v) Any other board or government entity charged with authority over the Internal Audit Section by executive order.~~

(B) The final report and copies of any supporting documentation shall then be open to public inspection and copying, except for documents that are exempt from disclosure under other law.

SECTION 2. Arkansas Code Title 19, Chapter 4, Subchapter 1, is amended to add an additional section to read as follows:

19-4-107. State Internal Audit Committee and Agency internal audits.

(a)(1)(A) There is created the State Internal Audit Committee, consisting of the following five (5) members:

(i) One (1) current or former Chief Internal Audit Executive or representative of a certified public accountant firm;

(ii) The Arkansas Legislative Auditor or his or her designee that is employed by Arkansas Legislative Audit;

(iii) One (1) member appointed by the Governor;

(iv) One (1) member appointed by the Speaker of the House of Representatives; and

(v) One (1) member appointed by the President Pro Tempore of the Senate.

(B) The members appointed by the Governor, Speaker of the House of Representatives, and the President Pro Tempore of the Senate shall be external to the management of structure of state government, including the executive, legislative, and judicial branches of state government.

(C)(i) All members shall serve a three-year term with the exception of the initial creation of the committee.

(ii) The chair of the committee shall serve an initial three-year term and shall determine how to stagger the terms of the remaining members.

(iii) Members of the committee may serve consecutive terms.

(iv) Each term shall commence on the first day of July and end on the thirtieth day of June.

(2) The State Internal Audit Committee shall:

(A)(i) Develop, approve, and review annually both the internal audit activity charter and the internal audit committee charter which shall include a review of the:

(a) Purpose of the internal audit committee;

(b) Authority that the members of the internal audit committee shall possess;

(c) Composition of the committee;

(d) Frequency of committee meetings; and

(e) Responsibilities of the committee.

(ii) Committee members may seek information they requires from state employees, all of whom shall cooperate with requests of the committee, or external parties, and institute and oversee special investigations as needed.

(iii) The committee shall meet no less than quarterly;

(B) Evaluate whether the internal audit activities directed by the Office of Internal Audit conform to the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, which shall include without limitation:

(i) Reviewing and providing oversight concerning the establishment, implementation, maintenance, and effectiveness of risk assessment, risk management, and risk reporting practices;

(ii) Reviewing and providing oversight concerning the state's internal control framework;

(iii) Approving and periodically reviewing departmental audit policy or charter;

(iv) Reviewing and approving an internal audit plan;

(v) Monitoring and assessing the audit activity's performance in accomplishing the approved internal audit plan through periodic reports by the Office of Internal Audit Administrator;

(vi) Reviewing audit reports and corresponding management action plans to address recommendations;

(vii) Pre-approving all consulting and non-audit services that are not in the audit plan; and

(viii) Advising the Office of Personnel Management and the Joint Budget Committee–Personnel Subcommittee regarding the adequacy of resources of the audit activity in terms of the number of employees and the proper compensation classification to ensure that skills and abilities are sufficient to successfully execute the audit plan;

(C)(i) Approve decisions regarding the appointment and removal of the Office of Internal Audit Administrator, including without limitation:

(a) Ensuring there are no unjustifiable restrictions or limitations concerning the appointment of an administrator; and

(b) Reviewing and concurring in the appointment, replacement, or dismissal of the administrator.

(ii)(a) The committee shall perform an annual employee evaluation concerning the administrator.

(b) The committee may meet in an executive session, with or without the administrator, for the purpose of conducting, reviewing, and discussing the employee evaluation of the administrator.

(c) The committee may gather information necessary to conduct a fair review of the administrator.

(3) Members of the committee shall not simultaneously be a member of another agency internal audit committee.

(g)(1) Agency internal audit committees shall be utilized for the following state agencies:

(A) Department of Correction;

(B) Department of Health;

(C) Arkansas Development Finance Authority;

(D) Arkansas Public Employee Retirement System;

(E) Arkansas Teacher Retirement System;

(F) Department of Parks and Tourism;

(G) Department of Workforce Services;

(H) Department of Career Education; and

(I) Department of Education.

(2)(A) If a state agency that is not listed under subdivision (g)(1) of this section initiates an internal audit activity, it shall establish an agency internal audit committee consistent with this section.

(B) Any state agency that has already created an internal audit committee shall maintain the internal audit committee.

(C)(i) An agency internal audit committee may be determined by the controlling board or commission of the agency.

(ii) If the agency does not have a controlling board or commission, the Office of Internal Audit Administrator shall assist the agency in developing criteria and selecting agency internal audit committee members.

(D) The Office of Internal Audit Administrator or his or her designee shall be one (1) of the agency internal audit committee members.

(E) There shall be a minimum of three (3) members on an agency internal audit committee.

(F) Agency board or commission members may serve concurrently as agency internal audit committee members.

(3)(A) The duties of any agency internal audit committee shall

consist of the same duties as the State Internal Audit Committee under subdivisions (f)(2)(A) and (B) of this section.

(B) An agency internal audit committee shall approve decisions regarding the appointment and removal of the agency chief internal auditor, including without limitation:

(i) Ensuring there are no unjustifiable restrictions or limitations concerning the appointment of the agency chief internal auditor; and

(ii) Reviewing and concurring in the appointment, replacement, or dismissal of the agency chief internal auditor.

(4)(A) An agency internal audit committee shall perform an annual employee evaluation of the agency chief internal auditor.

(B) The agency internal audit committee may meet in an executive session, with or without the agency chief internal auditor, for the purpose of conducting, reviewing, and discussing the employee evaluation of the agency chief internal auditor.

(c) The agency internal audit committee may gather information necessary to conduct a fair review of the agency chief internal auditor.

/s/M. Gray