

1 State of Arkansas
2 91st General Assembly
3 Regular Session, 2017
4

As Engrossed: H3/14/17

A Bill

HOUSE BILL 2018

5 By: Representative M. Gray
6 By: Senator Hester
7

For An Act To Be Entitled

9 AN ACT TO AMEND THE LAW CONCERNING INTERNAL AUDITS OF
10 STATE AGENCIES; TO ESTABLISH THE APPROPRIATE LEVEL OF
11 INDEPENDENCE FOR INTERNAL AUDIT ACTIVITIES WITHIN THE
12 INTERNAL AUDIT OFFICE OF THE ARKANSAS DEPARTMENT OF
13 FINANCE AND ADMINISTRATION AND WITHIN OTHER STATE
14 AGENCIES; AND FOR OTHER PURPOSES.
15

Subtitle

16
17
18 TO AMEND THE LAW CONCERNING INTERNAL
19 AUDITS OF STATE AGENCIES; AND TO
20 ESTABLISH THE APPROPRIATE LEVEL OF
21 INDEPENDENCE FOR INTERNAL AUDIT
22 ACTIVITIES WITHIN CERTAIN STATE AGENCIES.
23

24
25 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:
26

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

28 *19-4-105. Continuing studies and investigations – Duties of Chief*
29 *Fiscal Officer of the State and Internal Audit Section – Exemption of*
30 *internal audit documentation from Freedom of Information Act of 1967.*

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

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



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

3 (3) Properly execute budgets; and

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

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

11 (c) The Office of Internal Audit ~~Section~~ shall:

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

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

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

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

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

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

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

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

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

34 (1) The Chief Fiscal Officer of the State;

35 (2) The Governor;

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

1 and

2 (4) Arkansas Legislative Audit; ~~and.~~

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

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

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

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

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

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

21 (i) The Chief Fiscal Officer of the State;

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

23 (iii) ~~The State Board of Finance~~ State Internal
24 Audit Committee; or

25 (iv) Arkansas Legislative Audit; ~~or.~~

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

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

31

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

34 19-4-107. State Internal Audit Committee and Agency internal audits.

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

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

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

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

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

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

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

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

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

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

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

23 (2) The State Internal Audit Committee shall:

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

27 (a) Purpose of the internal audit committee;

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

30 (c) Composition of the committee;

31 (d) Frequency of committee meetings; and

32 (e) Responsibilities of the committee.

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

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

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

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

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

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

14 (iv) Reviewing and approving an internal audit plan;

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

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

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

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

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

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

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

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

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

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

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

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

10 (A) Department of Correction;

11 (B) Department of Health;

12 (C) Arkansas Development Finance Authority;

13 (D) Arkansas Public Employee Retirement System;

14 (E) Arkansas Teacher Retirement System;

15 (F) Department of Parks and Tourism;

16 (G) Department of Workforce Services;

17 (H) Department of Career Education; and

18 (I) Department of Education.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19
20 /s/M. Gray
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36