

SENATE BILL REPORT

SB 5643

AS REPORTED BY COMMITTEE ON GOVERNMENTAL OPERATIONS,  
MARCH 4, 1991

**Brief Description:** Requiring internal audits by state agencies.

**SPONSORS:** Senator McCaslin.

**SENATE COMMITTEE ON GOVERNMENTAL OPERATIONS**

**Majority Report:** That Substitute Senate Bill No. 5643 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators McCaslin, Chairman; Roach, Vice Chairman; Madsen, Matson, and Sutherland.

**Staff:** Barbara Howard (786-7410)

**Hearing Dates:** February 25, 1991; March 4, 1991

**BACKGROUND:**

Many state agencies perform internal audit functions which are designed to improve internal accountability and efficiency. There is no requirement, however, that such activities conform to the professional standards of the Institute of Internal Auditors.

It has been suggested that requiring such standards, especially for larger agencies, would provide greater consistency in the level of internal auditing performance and assist the State Auditor in making the external audits required for every agency.

**SUMMARY:**

The legislative purpose is to strengthen internal control of state agencies by establishing a program of internal auditing.

Agencies which are required to establish an internal audit program include all of those that have operating budgets exceeding \$50 million per biennium, have a staff of more than 300 employees, and process cash items in excess of \$30 million per biennium.

Each internal audit program must conform to the standards for the professional practice of internal auditing, the certified internal auditor code of professional ethics, and the statement of responsibilities for internal auditing promulgated by the Institute of Internal Auditors. It must also conform to the policy manuals of the Office of Financial

Management (OFM) and the government auditing standards issued by the U.S. Comptroller General.

The scope and assignment of internal audits is determined by the executive head and the internal audit manager of each agency. Internal audit staff have access to all records and other information of the agency necessary to carry out their duties. Each agency head and internal audit manager is given administrative subpoena powers for securing confidential files. If an internal audit discloses wrongdoing on the part of any officer or employee, the findings must be reported to the State Auditor.

The minimum requirements for the internal audit program are: (1) a biennial plan for scheduling the audits; (2) a review of the agency's internal control structure at least every three years; and (3) review of the design of major data processing systems for internal control accountability, in conformity with the standards of the Department of Information Systems.

**EFFECT OF PROPOSED SUBSTITUTE:**

State agencies which require internal audit programs are to be selected by the State Auditor's Office and the Office of Financial Management after an assessment of business exposure, including volume of transactions and dollar value of financial activity, type of internal controls needed, and the level of liquid assets. The scope of the program is to be determined by the agency head. Employees involved in internal audits are prohibited from wrongfully disclosing confidential or privileged information. If an internal audit reveals a suspected loss, it must be reported immediately to the State Auditor.

**Appropriation:** none

**Revenue:** none

**Fiscal Note:** available

**TESTIMONY FOR:**

Illinois, Texas and Florida have adopted successful programs which have significantly strengthened internal controls and accountability. Studies by the General Accounting Office have shown major savings over time. These are nationally recognized procedures which improve management, and make external audits more effective.

**TESTIMONY AGAINST:**

These functions can be initiated administratively, without the need for a statute. Mandating these functions will require creating many new professional positions at a high cost to the state.

**TESTIFIED:** PRO: Gary Gubser, Institute of Internal Auditors; Al Schmauder, President, Nisqually Chapter IIA; Melissa Genson,

past President, Nisqually Chapter IIA; Wayne Donaldson, Department of Transportation; Jack Heinricher, Assistant State Auditor; CON: Mike Cheney, Pete Anthony, Financial Policies, Office of Financial Management