

By: Representatives Brown, Mayo, Warren,
Whittington

To: Appropriations

HOUSE BILL NO. 650

1 AN ACT TO CREATE THE MISSISSIPPI INTERNAL AUDIT ACT; TO
2 DECLARE THE PURPOSE AND APPLICABILITY OF THIS ACT; TO DEFINE
3 CERTAIN TERMS; TO PROVIDE FOR AGENCY INTERNAL AUDIT DIRECTORS AND
4 APPROPRIATE STAFF; TO PROVIDE QUALIFICATIONS FOR THE AGENCY
5 INTERNAL AUDIT DIRECTOR; TO PRESCRIBE THE DUTIES OF THE AGENCY
6 INTERNAL AUDIT DIRECTOR; TO PROVIDE PROFESSIONAL STANDARDS; TO
7 PROVIDE FOR WORKING PAPERS AND REPORTS; TO REQUIRE FOLLOW-UP ON
8 ISSUED REPORTS; TO PROVIDE FOR ACTIONS ON FINDINGS; TO PROVIDE FOR
9 PROFESSIONAL DEVELOPMENT; TO PROVIDE FOR QUALITY CONTROL; TO
10 ESTABLISH THE AUDIT COMMITTEE AND PRESCRIBE ITS DUTIES; TO PROVIDE
11 A STATE INTERAGENCY INTERNAL AUDIT FORUM; TO REQUIRE ANNUAL
12 REPORTS; AND FOR RELATED PURPOSES.

13 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

14 **SECTION 1.** This act shall be known and may be cited as the
15 "Mississippi Internal Audit Act."

16 **SECTION 2.** The purpose of this act is to establish a
17 full-time program of internal auditing to assist in improving
18 university, community/junior college and agency operations, to
19 verify the existence of assets and to identify opportunities for
20 cost savings and revenue enhancement. The university,
21 community/junior college or agency internal audit director shall
22 furnish independent analyses, appraisals and recommendations
23 concerning the adequacy of each university, community/junior
24 college and state agency's systems of internal control, and the
25 efficiency and effectiveness of university, community/junior
26 college and agency management in carrying out assigned
27 responsibilities in accordance with applicable laws, rules and
28 regulations. The internal auditing program shall evaluate and
29 advise the organization in the establishment of controls necessary
30 to accomplish university, community/junior college and agency
31 goals and objectives at reasonable costs. The university,
32 community/junior college or agency internal audit director shall



33 be alert to the possibility of abuse or illegal acts, errors and
34 omissions, and conflict of interest.

35 **SECTION 3.** The following words and phrases shall have the
36 meanings ascribed herein, unless the context clearly indicates
37 otherwise:

38 (a) "University" means and includes Alcorn State
39 University, Delta State University, Jackson State University,
40 Mississippi State University, Mississippi State University
41 Agriculture and Forestry Experiment Station, Mississippi
42 University Cooperative Extension Service, Mississippi State
43 University Forest and Wildlife Research Center, Mississippi State
44 University State Chemical Laboratory, Mississippi University for
45 Women, Mississippi Valley State University, The University of
46 Mississippi, University of Mississippi Medical Center and the
47 University of Southern Mississippi.

48 (b) "Community/Junior college" means and includes
49 Coahoma Community College, Copiah-Lincoln Community College, East
50 Central Community College, East Mississippi Community College,
51 Hinds Community College, Holmes Community College, Itawamba
52 Community College, Jones County Junior College, Meridian Community
53 College, Mississippi Delta Community College, Mississippi Gulf
54 Coast Community College, Northeast Mississippi Community College,
55 Northwest Mississippi Community College, Pearl River Community
56 College and Southwest Mississippi Community College.

57 (c) "State agency" means and includes the Department of
58 Finance and Administration, the State Tax Commission, the
59 Department of Education, the State Department of Health, the
60 Department of Mental Health, the Department of Agriculture and
61 Commerce, the Mississippi Development Authority, the Department of
62 Environmental Quality, the Department of Wildlife Fisheries and
63 Parks, the Department of Corrections, the Division of Medicaid,
64 the Department of Rehabilitation Services, the Department of
65 Public Safety, the Mississippi Employment Security Commission, the



66 Mississippi Department of Information Technology Services, the
67 Public Employees Retirement System, the Mississippi Department of
68 Transportation, the Mississippi Gaming Commission and the
69 Mississippi Department of Human Services.

70 (d) "Agency head" means an elected official who heads
71 an agency, an executive director or a governing board or
72 commission responsible for heading an agency or a president or
73 chancellor of a university or a president of a community/junior
74 college.

75 (e) "Agency internal audit director" means the person
76 appointed by the agency head to direct the internal audit function
77 for the state agency. Where consistent with responsibilities
78 described in this act, the term agency internal audit director may
79 also be referred to as inspector general, audit director, chief
80 auditor or similar internal audit administrator descriptions.

81 (f) "Audit committee" means a standing committee
82 external to organization management that collectively has the
83 expertise to provide effective guidance regarding the acquisition
84 and provision of internal audit services and to provide guidance
85 in the provision of those services.

86 **SECTION 4.** The provisions of this act shall only apply (a)
87 to the following universities: (i) Alcorn State University, (ii)
88 Delta State University, (iii) Jackson State University, (iv)
89 Mississippi State University, (v) Mississippi State University
90 Agriculture and Forestry Experiment Station, (vi) Mississippi
91 State University Cooperative Extension Service, (vii) Mississippi
92 State University Forest and Wildlife Research Center, (viii)
93 Mississippi State University State Chemical Laboratory, (ix)
94 Mississippi University for Women, (x) Mississippi Valley State
95 University, (xi) The University of Mississippi, (xii) University
96 of Mississippi Medical Center and the (xiii) University of
97 Southern Mississippi; (b) to the following community/junior
98 colleges: (i) Coahoma Community College, (ii) Copiah-Lincoln



99 Community College, (iii) East Central Community College, (iv) East
100 Mississippi Community College, (v) Hinds Community College, (vi)
101 Holmes Community College, (vii) Itawamba Community College, (viii)
102 Jones County Junior College, (ix) Meridian Community College, (x)
103 Mississippi Delta Community College, (xi) Mississippi Gulf Coast
104 Community College, (xii) Northeast Mississippi Community College,
105 (xiii) Northwest Mississippi Community College, (xiv) Pearl River
106 Community College and (xv) Southwest Mississippi Community
107 College; and (c) to the following agencies: (i) the Department of
108 Finance and Administration, (ii) the State Tax Commission, (iii)
109 the Department of Education, (iv) the State Department of Health,
110 (v) the Department of Mental Health, (vi) the Department of
111 Agriculture and Commerce, (vii) the Mississippi Development
112 Authority, (viii) the Department of Environmental Quality, (ix)
113 the Department of Wildlife, Fisheries and Parks, (x) the
114 Department of Corrections, (xi) the Division of Medicaid, (xii)
115 the Department of Rehabilitation Services, (xiii) the Department
116 of Public Safety, (xiv) the Mississippi Employment Security
117 Commission, (xv) the Mississippi Department of Information
118 Technology Services, (xvi) the Public Employees Retirement System,
119 (xvii) the Mississippi Department of Transportation, (xviii) the
120 Mississippi Gaming Commission and (xix) the Mississippi Department
121 of Human Services.

122 **SECTION 5.** (1) Except as otherwise provided by subsection
123 (2) of this section, each university, community/junior college and
124 state agency shall, subject to specific appropriation of available
125 funding, employ an agency internal audit director who shall be
126 appointed by the university president or chancellor, the
127 community/junior college president, elected official or executive
128 director or his counterpart of a state agency without a governing
129 board or commission. The university president or chancellor, the
130 community/junior college president of the agency head shall ensure
131 that the university, community/junior college or agency shall



132 employ, subject to specific funding being appropriated, a
133 sufficient number of professional and support staff to implement
134 an effective program of internal auditing. Compensation,
135 training, job tenure and advancement of internal auditing staff
136 shall be based upon the rules of the State Personnel Board for
137 other business employees in the system. The internal audit
138 organization shall have organizational status outside the agency's
139 staff or line management functions or units subject to audit, and
140 shall be free of operational and management responsibilities that
141 would impair the ability to make independent audits of any aspects
142 of the agency's operations. An agency, university or
143 community/junior college internal audit director may be terminated
144 by the appointing authority in accordance with State Personnel
145 Board rules and regulations for any state employee after a seven
146 (7) day notification period to the State Auditor.

147 (2) The university president or chancellor, the
148 community/junior college president or agency head of a university,
149 community/junior college or state agency, respectively, may
150 outsource the internal audit function if he determines that it is
151 more cost efficient than establishing the audit personnel and
152 procedures provided in subsection (1) of this section. Internal
153 audit services may not be outsourced to the same firm or
154 individual who performs independent audit or other consulting
155 services to the university, community/junior college or agency.

156 **SECTION 6.** The university, community/junior college or
157 agency internal audit director shall possess the following
158 qualifications:

159 (a) A bachelor's degree from an accredited college or
160 university and five (5) years of progressively responsible
161 professional auditing experience as an internal auditor or
162 independent postauditor, electronic data processing auditor or any
163 combination thereof. The auditing experience shall at a minimum



164 consist of audits of units of government or private business
165 enterprises, operating for profit or not for profit; or

166 (b) A master's degree from an accredited college or
167 university and three (3) years of progressively responsible
168 professional auditing experience as an internal auditor or
169 independent postauditor, electronic data processing auditor or any
170 combination therefor; or

171 (c) A certificate as a certified internal auditor
172 issued by The Institute of Internal Auditors and three (3) years
173 of progressively responsible professional auditing experience as
174 an internal auditor or independent postauditor, electronic data
175 processing auditor or any combination thereof; or

176 (d) A certificate as a Certified Public Accountant with
177 at least three (3) years experience.

178 **SECTION 7.** The university, community/junior college or
179 agency internal audit director shall:

180 (a) Report directly to the university president or
181 chancellor, community/junior college president or agency head or
182 deputy university official, community/junior college official or
183 agency head.

184 (b) Conduct financial, compliance, electronic data
185 processing and operational and efficiency audits of university,
186 community/junior college or agency programs, activities and
187 functions and prepare audit reports of findings.

188 (c) Review and evaluate internal controls over
189 university, community/junior college or agency programs,
190 accounting systems, administrative systems, electronic data
191 processing systems and all other major systems necessary to ensure
192 accountability of the university, community/junior college or
193 state agency.

194 (d) Develop long-term and annual audit plans to be
195 based on the findings of periodic documented risk assessments.

196 The plan shall show the individual audits to be conducted during



197 each year and the related resources to be devoted to each of the
198 respective audits. The audit plan shall ensure that internal
199 controls are reviewed on a periodic basis. The plan shall be
200 submitted to the university, community/junior college or agency
201 head for approval and the audit committee for comment. A copy of
202 the approved plan shall be available upon request to the State
203 Auditor or other appropriate external auditor to assist in
204 planning and coordination of any external financial, compliance,
205 electronic data processing or performance audit.

206 (e) The scope and assignment of the audits shall be
207 determined by the university, community/junior college or internal
208 audit director; however, the university president or chancellor,
209 community/junior college president or head of the agency may at
210 any time direct the internal audit director to perform an audit of
211 a special program, activity, function or organizational unit.

212 **SECTION 8.** Audits shall be conducted in accordance with the
213 Standards for the Professional Practice of Internal Auditing
214 published by The Institute of Internal Auditors, Inc., and, when
215 required by law, regulation, agreement, contract or policy, in
216 accordance with Government Auditing Standards issued by the
217 Comptroller General of the United States. All audit reports
218 issued by internal audit staff shall include a statement that the
219 audit was conducted pursuant to the appropriate standards.

220 **SECTION 9.** (1) Audit working papers and reports shall be
221 confidential but shall be provided on a quarterly basis to the
222 governing board or commission of the university, the
223 community/junior college or the state agency. State agencies
224 without a governing board or commission shall have the quarterly
225 report provided to the Governor and the State Auditor.

226 (2) When the university, community/junior college or agency
227 internal audit director or a member of his or her staff receives
228 from an individual a complaint or information protected by
229 whistleblower or other legislation, the name or identity of the



230 individual shall not be disclosed without the written consent of
231 the individual, or unless required by law or judicial processes.

232 (3) The director and the internal audit staff shall have
233 access to all personnel and any records, data and other
234 information of the university, community/junior college or state
235 agency deemed necessary to carry out assigned duties. The
236 university, community/junior college or agency internal audit
237 director shall maintain the confidentiality of any public records
238 that are made confidential by law, and shall be subject to the
239 same penalties as the custodian of those public records for
240 violating confidentiality statutes.

241 **SECTION 10.** (1) At the conclusion of each audit, the
242 internal audit director shall submit preliminary findings and
243 recommendations to the person responsible for supervision of the
244 program, activity, function or organizational unit being audited
245 who shall respond in writing to any findings of the internal audit
246 director within forty-five (45) working days or less at the
247 discretion of the university president or chancellor, the
248 community/junior college president or state agency director after
249 receipt of the findings. Such response and, if necessary, the
250 agency internal audit director's response may be included in the
251 final audit report.

252 (2) University, community/junior college or the agency
253 internal audit director shall submit the final report, which shall
254 be available to the State Auditor upon request, to the head of the
255 university, community/junior college or agency and the State
256 Auditor.

257 **SECTION 11.** (1) No later than six (6) months or less at the
258 discretion of the university president or chancellor, the
259 community/junior college president or state agency director after
260 a financial, compliance, electronic data processing or performance
261 audit is issued, the agency internal audit director shall inform
262 the university president or chancellor, the community/junior



263 college president or the agency head and audit committee of the
264 status of corrective actions taken by the university,
265 community/junior college or agency manager responsible for
266 supervision of the program activity, function or organizational
267 unit audited.

268 (2) If a follow-up report is issued, the university,
269 community/junior college or agency internal audit director shall
270 submit the report to the head of the university, community/junior
271 college or agency and the audit committee. The follow-up report
272 shall be provided upon request to any member of the Legislative,
273 the State Auditor, the Attorney General, the Governor or other
274 external auditor.

275 **SECTION 12.** (1) The state or other external auditor, in
276 connection with planning independent postaudits of the same
277 agency, shall give appropriate consideration to internal audit
278 reports and the resolution of findings therein.

279 (2) Appropriate legislative committees may inquire into the
280 reasons or justifications for failure of the university,
281 community/junior college or agency to correct the deficiencies
282 reported in internal audits.

283 **SECTION 13.** (1) The university, community/junior college or
284 agency head shall make available to the internal audit director
285 adequate resources specifically appropriated to ensure the
286 professional development and continuing professional education of
287 the internal audit staff.

288 (2) The internal audit director shall cooperate with the
289 State Auditor or other external auditor in the exchange of
290 technical assistance and access to current information concerning
291 audit techniques, policies and procedures.

292 **SECTION 14.** Subject to specific appropriation, each agency
293 internal audit organization should have an external quality
294 control review at least once every five (5) years to determine
295 compliance of issued reports with current Standards for the



296 Professional Practice of Internal Auditing and/or, if appropriate,
297 Government Auditing Standards. The review shall be performed by
298 qualified persons who are independent of the organization and who
299 do not have a real or apparent conflict of interest. The report
300 issued on the external quality control review shall be a public
301 record to the extent authorized by law.

302 **SECTION 15.** (1) There is created the audit committee which
303 shall be comprised of one (1) member of the governing board or
304 commission appointed by the chairman of the governing board or
305 commission; however, in those cases where the agency has no board
306 or commission, a person with expertise in the mission of the
307 agency who is not an employee of the agency or contractor with the
308 agency and who shall be appointed by the head of the agency, one
309 (1) agency employee appointed by the Executive Director of DFA and
310 one (1) university employee appointed by the Board of Trustees of
311 Institutions of Higher Learning. The audit committee shall
312 monitor the activities of the agency internal and external audit
313 activities.

314 (2) The university president or chancellor, the
315 community/junior college president or the agency director shall:

316 (a) Review and approve the annual internal audit plan
317 and budget, internal and external audit reports, follow-up reports
318 and quality assurance reviews;

319 (b) Periodically meet with the agency internal audit
320 director to discuss pertinent matters, including whether there are
321 any restrictions on the scope of audits; and

322 (c) Not be compensated for services provided. However,
323 they shall be reimbursed for travel expenses in accordance with
324 authorizing law.

325 **SECTION 16.** A State Interagency Internal Audit Forum may be
326 established and composed of agency internal audit directors. The
327 annual report may include a comparison of the annual audit plan
328 for the year with the actual audit report issued and an



329 explanation for any differences. The purpose of the forum will be
330 to promote the exchange of communication, to identify professional
331 development needs and/or conduct or coordinate training programs,
332 to share audit techniques and approaches, and to address ways to
333 improve agency operations and systems of internal control. The
334 forum will elect officers from its membership and may meet
335 periodically throughout the year.

336 **SECTION 17.** Within one hundred twenty (120) days after the
337 end of each fiscal year, the university, community/junior college
338 or agency internal audit director shall issue an annual report
339 which separately lists audit reports issued, and other activities
340 completed or in progress as of the end of the fiscal year. The
341 annual report shall describe accomplishments of the internal audit
342 activities. Copies of the report shall be provided to the
343 governing board or commission and the university president or
344 chancellor, the community/junior college president or the agency
345 head and the audit committee. The annual report shall be provided
346 upon request to the State Auditor or other external auditor.

347 **SECTION 18.** If, during the course of an audit, an auditor
348 determines that criminal activity may be involved, then
349 investigative records shall be confidential until the audit is
350 complete and shall be provided to the university president or
351 chancellor, the community/junior college president or agency
352 director and shall be forwarded to the Attorney General to
353 determine if a criminal prosecution shall proceed.

354 **SECTION 19.** This act shall take effect and be in force from
355 and after July 1, 2003, and the universities, community/junior
356 colleges and agencies identified in this act shall comply with the
357 provisions of this act not later than July 1, 2005, if specific
358 funds are appropriated to implement this act.

