

LEGISLATIVE REFERENCE BUREAU

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No. _____

Legislative Reference Bureau

AN ACT

Amending the act of April 9, 1929 (P.L.177, No.175), known as The Administrative Code of 1929, providing for internal auditing; and imposing duties on the Auditor General.

INTRODUCED _____ **20** _____

By _____ **District NO.** _____

By _____ **District NO.** _____

By _____ **District NO.** _____

By _____ **District NO.** _____

See next page for additional co-sponsors.

Prior Session _____

Referred to Committee on	
Date _____	20 _____
Reported _____	20 _____
As Committed-Amended	
Recommendation	

By Hon. _____	

AN ACT

1 Amending the act of April 9, 1929 (P.L.177, No.175), entitled
2 "An act providing for and reorganizing the conduct of the
3 executive and administrative work of the Commonwealth by the
4 Executive Department thereof and the administrative
5 departments, boards, commissions, and officers thereof,
6 including the boards of trustees of State Normal Schools, or
7 Teachers Colleges; abolishing, creating, reorganizing or
8 authorizing the reorganization of certain administrative
9 departments, boards, and commissions; defining the powers and
10 duties of the Governor and other executive and administrative
11 officers, and of the several administrative departments,
12 boards, commissions, and officers; fixing the salaries of the
13 Governor, Lieutenant Governor, and certain other executive
14 and administrative officers; providing for the appointment of
15 certain administrative officers, and of all deputies and
16 other assistants and employes in certain departments, boards,
17 and commissions; providing for judicial administration; and
18 prescribing the manner in which the number and compensation
19 of the deputies and all other assistants and employes of
20 certain departments, boards and commissions shall be
21 determined," providing for internal auditing; and imposing
22 duties on the Auditor General.

23 The General Assembly of the Commonwealth of Pennsylvania
24 hereby enacts as follows:

25 Section 1. The act of April 9, 1929 (P.L.177, No.175), known
26 as The Administrative Code of 1929, is amended by adding an
27 article to read:

1 ARTICLE XXVIII-J

2 INTERNAL AUDITING

3 Section 2801-J. Scope of article.

4 This article relates to internal auditing to assist
5 Commonwealth agencies.

6 Section 2802-J. Purpose.

7 The purpose of this article is to establish guidelines for a
8 program of internal auditing to assist each Commonwealth agency
9 by furnishing independent analyses, appraisals and
10 recommendations about the adequacy and effectiveness of the
11 Commonwealth agency's system of internal control policies and
12 procedures and the quality of performance in carrying out
13 assigned responsibilities.

14 Section 2803-J. Definitions.

15 The following words and phrases when used in this article
16 shall have the meanings given to them in this section unless the
17 context clearly indicates otherwise:

18 "Administrator." The executive head or governing board or
19 authority of a Commonwealth agency.

20 "Assurance services." As follows:

21 (1) Activities that are designed to help accomplish
22 objectives by bringing a systematic and disciplined approach
23 to evaluate and improve risk management, control or
24 governance processes.

25 (2) The term includes an audit.

26 "Audit." Any of the following:

27 (1) A financial audit.

28 (2) A compliance audit.

29 (3) An operational audit.

30 (4) An effectiveness audit.

1 (5) An investigation.

2 "Commonwealth agency." Any of the following:

3 (1) A department, agency, office, bureau, commission,
4 board, division, other entity or officer of the executive
5 branch of the Commonwealth. The term includes any of the
6 following:

7 (i) The Office of the Governor.

8 (ii) The Office of the Lieutenant Governor.

9 (iii) The Office of Attorney General.

10 (iv) The Department of the Auditor General.

11 (v) The Treasury Department.

12 (vi) An independent agency, as defined in section
13 102 of the act of February 14, 2008 (P.L.6, No.3), known
14 as the Right-to-Know Law.

15 (vii) An organization established by the
16 Constitution of Pennsylvania, a statute or an executive
17 order that performs or is intended to perform an
18 essential governmental function.

19 (2) A judicial agency, as defined in section 102 of the
20 Right-to-Know Law.

21 (3) A legislative agency, as defined in section 102 of
22 the Right-to-Know Law.

23 "Compliance audit." An audit to determine if:

24 (1) The audited entity has obligated, expended, received
25 and used State money in accordance with the purpose for which
26 that money has been appropriated or otherwise authorized by
27 law.

28 (2) The audited entity has obligated, expended, received
29 and used State money in accordance with any limitations,
30 restrictions, conditions or mandatory directions imposed by

1 law on those obligations, expenditures, receipts or uses.

2 (3) The records, books and accounts of the audited
3 entity fairly and accurately reflect its financial and fiscal
4 operations relating to the obligation, receipt, expenditure
5 and use of State money or money represented as being
6 collected for a State purpose.

7 (4) The collections of State revenues and receipts by
8 the audited entity are in accordance with applicable laws and
9 regulations.

10 (5) Money or negotiable securities or similar assets
11 handled by the audited entity on behalf of the State or
12 received from the State and held in trust by the audited
13 entity have been properly and legally administered.

14 "Consulting services." As follows:

15 (1) Advisory and related client service activities, the
16 nature and scope of which are agreed upon with the client and
17 are designed to add value and improve operations.

18 (2) The term includes counsel, advice, facilitation and
19 training.

20 "Effectiveness audit." An audit to determine, according to
21 established or designated program objectives, responsibilities
22 or duties, statutes and regulations, program performance
23 criteria or program evaluation standards, if:

24 (1) The objectives and intended benefits are being
25 achieved efficiently and effectively.

26 (2) The program duplicates, overlaps or conflicts with
27 another State program.

28 "Financial audit." An audit to determine if:

29 (1) The records, books and accounts of the audited
30 entity accurately reflect its financial and fiscal

1 operations.

2 (2) The audited entity is maintaining effective
3 accounting control over revenues, obligations, expenditures,
4 assets and liabilities.

5 (3) The accounting and recordkeeping of collections of
6 State revenues and receipts by the audited entity are fair,
7 accurate and in accordance with law.

8 (4) The accounting and recordkeeping of money or
9 negotiable securities or similar assets handled by the
10 audited entity and held in trust by the audited entity are
11 proper, accurate and in accordance with law.

12 (5) Financial, program and statistical reports of the
13 audited entity are fairly presented.

14 "Internal auditing." An independent and objective analysis
15 of business practices and activities through assurance services
16 or consulting services, or both.

17 "Internal auditor." An individual appointed to conduct a
18 program of internal auditing under this article.

19 "Investigation." An inquiry into:

20 (1) specified acts or allegations of impropriety,
21 malfeasance or nonfeasance in the obligation, expenditure,
22 receipt or use of State money; or

23 (2) specified financial transactions or practices that
24 may involve impropriety, malfeasance or nonfeasance in the
25 obligation, expenditure, receipt or use of State money.

26 "Operational audit." An audit to determine:

27 (1) If the audited entity is managing or utilizing its
28 resources, including State funds, personnel, property,
29 equipment and space, in an economical and efficient manner.

30 (2) Causes of inefficiencies or uneconomical practices,

1 including inadequacies in management information systems,
2 internal and administrative procedures, organizational
3 structure, use of resources, allocation of personnel,
4 purchasing, policies and equipment.

5 (3) If financial, program and statistical reports of the
6 audited entity contain useful data and are fairly presented.

7 Section 2804-J. Internal auditing.

8 (a) Requirement.--A Commonwealth agency shall conduct a
9 program of internal auditing that includes:

10 (1) An annual audit plan that is prepared using risk
11 assessment techniques and that identifies the individual
12 audits to be conducted during the year.

13 (2) Periodic audits of the agency's major systems and
14 controls, including:

15 (i) Accounting systems and controls.

16 (ii) Administrative systems and controls.

17 (iii) Electronic data processing systems and
18 controls.

19 (b) Consideration.--In conducting the program of internal
20 auditing under subsection (a), the Commonwealth agency shall
21 consider methods for ensuring compliance with contract processes
22 and controls and for monitoring contracts.

23 (c) Internal auditor.--

24 (1) The administrator of a Commonwealth agency shall
25 appoint an internal auditor to conduct the program of
26 internal auditing under this article.

27 (2) An internal auditor must:

28 (i) Be a certified public accountant, certified
29 internal auditor, certified management accountant,
30 certified global management accountant or certified fraud

1 examiner.

2 (ii) Have at least three years of auditing
3 experience.

4 (iii) Be currently licensed or certified and be in
5 good standing with the respective licensing board during
6 the period in which the individual is engaged in auditing
7 as an internal auditor.

8 (d) Additional staff.--A Commonwealth agency shall employ
9 additional professional and support staff that the administrator
10 of the Commonwealth agency determines necessary to implement an
11 effective program of internal auditing.

12 (e) Resources.--The administrator of a Commonwealth agency
13 shall periodically review the resources dedicated to the program
14 of internal auditing and determine if adequate resources exist
15 to ensure that risks identified in the annual risk assessment
16 are adequately covered within a reasonable time frame.

17 Section 2805-J. Duties of internal auditor.

18 (a) Specific duties.--An internal auditor of a Commonwealth
19 agency shall:

20 (1) Report directly to the administrator of the
21 Commonwealth agency.

22 (2) Develop an annual audit plan for the Commonwealth
23 agency.

24 (3) Conduct audits as specified in the audit plan and
25 document deviations.

26 (4) Prepare audit reports.

27 (5) As follows:

28 (i) Conduct quality assurance reviews in accordance
29 with:

30 (A) The standards for the professional practice

1 of internal auditing in effect upon the effective
2 date of this section.

3 (B) The Code of Ethics contained in the
4 Professional Practices Framework as promulgated by
5 the Institute of Internal Auditors in effect upon the
6 effective date of this section.

7 (C) Generally accepted government auditing
8 standards.

9 (ii) Periodically take part in a comprehensive
10 external peer review.

11 (6) Conduct operational audits and other audits as
12 directed by the administrator of the Commonwealth agency.

13 (b) Administration.--A program of internal auditing
14 conducted by a Commonwealth agency must provide for the internal
15 auditor of the Commonwealth agency to:

16 (1) Have access to the administrator of the Commonwealth
17 agency.

18 (2) Be free of all operational and management
19 responsibilities that would impair the internal auditor's
20 ability to review independently all aspects of the operations
21 of the Commonwealth agency.

22 Section 2806-J. Audit plans and audit reports.

23 (a) Audit plan.--The annual audit plan developed by an
24 internal auditor of a Commonwealth agency must be approved by
25 the administrator of the Commonwealth agency.

26 (b) Audit report.--An audit report for a Commonwealth agency
27 must be reviewed by the administrator of the Commonwealth
28 agency.

29 Section 2807-J. Annual reports.

30 (a) Requirement.--No later than each November 1, an internal

1 auditor of a Commonwealth agency shall prepare an annual report
2 on the program of internal auditing of the Commonwealth agency.

3 (b) Form.--The Auditor General shall prescribe the proposed
4 form of the annual reports.

5 (c) Submittal.--Each report under this section shall be
6 submitted to:

7 (1) The Governor.

8 (2) The Auditor General.

9 (3) The administrator of the Commonwealth agency.

10 (4) The members of the General Assembly.

11 Section 2808-J. Periodic audits, action plans and responses.

12 (a) Requirement.--A Commonwealth agency shall submit a copy
13 of the following to the entities specified in section 2807-J(c)

14 (1), (2) and (4):

15 (1) A periodic audit performed by the internal auditor
16 of the Commonwealth agency, no later than 30 days after the
17 date that the internal auditor submits the periodic audit to
18 the administrator of the Commonwealth agency.

19 (2) An action plan or other response issued by the
20 administrator of the Commonwealth agency in response to a
21 report from the internal auditor of the Commonwealth agency,
22 no later than 30 days after the action plan or other response
23 is prepared.

24 (b) Compelling information.--If the Commonwealth agency
25 fails to submit the information specified in this section, an
26 entity specified under section 2807-J(c)(1), (2) and (4) may
27 take appropriate action to compel the submittal of the
28 information.

29 Section 2809-J. Consultations.

30 An internal auditor of a Commonwealth agency may consult the

1 administrator of the Commonwealth agency, the Office of the
2 Governor, the Auditor General or any other Commonwealth agency
3 about matters affecting duties or responsibilities under this
4 article.

5 Section 2810-J. Professional development.

6 (a) Assistance.--The Auditor General may make available and
7 coordinate a program of training and technical assistance to:

8 (1) Ensure that internal auditors have access to current
9 information about internal audit techniques, policies and
10 procedures.

11 (2) Provide general technical and audit assistance to
12 internal auditors upon request.

13 (b) Reimbursement.--The Auditor General shall be entitled to
14 reimbursement for the costs associated with providing the
15 services under this section under the terms of interagency
16 cooperation contracts negotiated between the Auditor General and
17 each Commonwealth agency.

18 Section 2811-J. Risk assessment.

19 (a) Applicability.--In lieu of the procedures specified in
20 sections 2804-J, 2805-J, 2806-J, 2807-J, 2808-J, 2809-J and
21 2810-J, a Commonwealth agency may opt instead to comply with
22 this section if the Commonwealth agency:

23 (1) has an annual operating budget that is less than
24 \$10,000,000;

25 (2) has fewer than 100 full-time equivalent employees;
26 or

27 (3) receives and processes less than \$10,000,000 in cash
28 in a fiscal year.

29 (b) Requirement.--Each year, a Commonwealth agency shall
30 conduct a formal risk assessment consisting of an executive

1 management review of functions, activities and processes of the
2 Commonwealth agency.

3 (c) Conditions.--A risk assessment under this section must:

4 (1) Evaluate the probability of occurrence and the
5 likely effect of financial, managerial and compliance risks
6 and of risks related to the use of information technology.

7 (2) Rank risks according to the probability of
8 occurrence and likely effect of the risks evaluated.

9 (d) Submittal.--The Commonwealth agency shall submit a
10 report on the risk assessment to the Auditor General in the form
11 and at the time prescribed by the Auditor General.

12 (e) Evaluation.--Based on risk assessment, the Auditor
13 General shall:

14 (1) Evaluate each report submitted under this section.

15 (2) Identify Commonwealth agencies under this section
16 with significant financial, managerial or compliance risk or
17 significant risk related to the use of information
18 technology.

19 (3) Recommend to the administrator of a Commonwealth
20 agency identified under paragraph (2) that the Commonwealth
21 agency obtain an audit to address the significant risks
22 identified by the Auditor General.

23 (f) Duties of administrator.--The administrator of a
24 Commonwealth agency identified under subsection (e)(2) may order
25 the Commonwealth agency to:

26 (1) Obtain an audit under governmental auditing
27 standards.

28 (2) Submit reports and action plans as prescribed by
29 section 2808-J.

30 (3) Report to the Auditor General on the status of the

1 Commonwealth agency's implementation of audit recommendations
2 in the form and addressing issues as prescribed by the
3 Auditor General.

4 Section 2812-J. Publication.

5 (a) Requirement.--Consistent with the act of February 14,
6 2008 (P.L.6, No.3), known as the Right-to-Know Law, a
7 Commonwealth agency shall post on the publicly accessible
8 Internet website of the Commonwealth agency:

9 (1) The Commonwealth agency's audit plan under section
10 2806-J.

11 (2) The Commonwealth agency's annual reports under
12 section 2807-J.

13 (b) Updates.--A Commonwealth agency shall update the posting
14 required under this section to include:

15 (1) A detailed summary of the weaknesses, deficiencies,
16 wrongdoings or other concerns, if any, raised by the audit
17 plan or annual report of the Commonwealth agency.

18 (2) A summary of the action taken by the Commonwealth
19 agency to address the concerns, if any, that are raised by
20 the audit plan or annual report of the Commonwealth agency.

21 Section 2. This act shall take effect in 60 days.