

**As Introduced**

**127th General Assembly  
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**S. B. No. 146**

**Senator Spada**

**Cosponsors: Senators Gardner, Goodman, Schuler, Clancy, Austria, Faber,  
Niehaus, Stivers, Grendell, Harris, Padgett, Amstutz, Mumper, Coughlin,  
Schuring, Schaffer**

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**A B I L L**

To enact sections 126.40 to 126.43 of the Revised 1  
Code to create an Office of Internal Auditing 2  
within the Office of Budget and Management, to 3  
establish the State Audit Committee, and to 4  
prescribe their respective and interrelated 5  
functions. 6

**BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF OHIO:**

**Section 1.** That sections 126.40, 126.41, 126.42, and 126.43 7  
of the Revised Code be enacted to read as follows: 8

**Sec. 126.40.** (A) As used in sections 126.40 to 126.43 of the 9  
Revised Code, "state agency" means the administrative departments 10  
listed in section 121.02 of the Revised Code, the department of 11  
taxation, and the bureau of workers' compensation. 12

(B) The office of internal auditing is hereby created in the 13  
office of budget and management to conduct internal audits of 14  
state agencies or divisions of state agencies to improve their 15  
operations in the areas of risk management, internal controls, and 16  
governance. The director of budget and management, with the 17

approval of the governor and approval by a majority vote of the 18  
senate, shall appoint for the office of internal auditing a chief 19  
internal auditor who meets the qualifications specified in 20  
division (C) of this section. The chief internal auditor shall 21  
serve at the director's pleasure and be responsible for the 22  
administration of the office of internal auditing consistent with 23  
sections 126.40 to 126.43 of the Revised Code. 24

The office of internal auditing shall conduct programs for 25  
the internal auditing of state agencies. The programs shall 26  
include an annual internal audit plan, approved by the state audit 27  
committee, that utilizes risk assessment techniques and identifies 28  
the specific audits to be conducted during the year. The programs 29  
also shall include periodic audits of each state agency's major 30  
systems and controls, including those systems and controls 31  
pertaining to accounting, administration, and electronic data 32  
processing. Upon the request of the office of internal auditing, 33  
each state agency shall provide office employees access to all 34  
records and documents necessary for the performance of an internal 35  
audit. 36

(C) The chief internal auditor of the office of internal 37  
auditing shall hold at least a bachelor's degree and be one of the 38  
following: 39

(1) A certified internal auditor, a certified government 40  
auditing professional, or a certified public accountant, who also 41  
has held a PA registration or a CPA certificate authorized by 42  
Chapter 4701. of the Revised Code for at least four years and has 43  
at least six years of auditing experience; 44

(2) An auditor who has held a PA registration or a CPA 45  
certificate authorized by Chapter 4701. of the Revised Code for at 46  
least four years and has at least ten years of auditing 47  
experience. 48

(D) The chief internal auditor, subject to the direction and control of the director of budget and management, may appoint and maintain any staff necessary to carry out the duties assigned by sections 126.40 to 126.43 of the Revised Code to the office of internal auditing or to the chief internal auditor.

**Sec. 126.41.** (A)(1) There is hereby created the state audit committee, consisting of the following five members: the director of budget and management; two public members appointed by the speaker of the house of representatives; and two public members appointed by the president of the senate.

Each public member of the committee shall serve a three-year term commencing on the first day of August in the appropriate year and ending on the thirty-first day of July in the appropriate year, except for the initial public members. With respect to the initial appointments of the public members, the term of the first public member appointed by the speaker of the house of representatives shall be for a one-year term, the term of the second public member appointed by the speaker of the house of representatives shall be for a three-year term, and the term of the initial public members appointed by the president of the senate shall be for two-year terms. The term for the initial public members shall begin on August 1, 2007. Public members may be reappointed to serve one additional term.

The committee shall include one public member who is a financial expert; one public member who is an active, inactive, or retired certified public accountant; one public member who is familiar with governmental financial accounting; and one public member who is a representative of the public.

Any vacancy on the committee shall be filled in the same manner as provided in this division, and, when applicable, the person appointed to fill a vacancy shall serve the remainder of

the predecessor's term. 80

(2) Members of the committee shall receive reimbursement for actual and necessary expenses incurred in the discharge of their duties. 81  
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(3) The director of budget and management shall serve as the committee's chairperson. 84  
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(B) The state audit committee shall do all of the following: 86

(1) Ensure that the internal audits conducted by the office of internal auditing in the office of budget and management conform to the institute of internal auditors' international standards for the professional practice of internal auditing and to the institute of internal auditors' code of ethics; 87  
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(2) Review the process used by the office of budget and management to prepare its annual budgetary financial report and the state's comprehensive annual financial report required under division (A)(9) of section 126.21 of the Revised Code; 92  
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(3) Review unaudited financial statements submitted to the auditor of state and communicate with external auditors as required by government auditing standards; 96  
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(4) Perform the additional functions imposed upon it by section 126.42 of the Revised Code. 99  
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(C) As used in this section, "financial expert" means a person who has all of the following: 101  
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(1) An understanding of generally accepted accounting principles and financial statements; 103  
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(2) The ability to assess the general application of those principles in connection with accounting for estimates, accruals, and reserves; 105  
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(3) Experience preparing, auditing, analyzing, or evaluating financial statements presenting accounting issues that generally 108  
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are of comparable breadth and level of complexity to those likely 110  
to be presented by a state agency's financial statements, or 111  
experience actively supervising one or more persons engaged in 112  
those activities; 113

(4) An understanding of internal controls and procedures for 114  
financial reporting; and 115

(5) An understanding of audit committee functions. 116

**Sec. 126.42.** (A) The state audit committee created by section 117  
126.41 of the Revised Code shall ensure that the office of 118  
internal auditing in the office of budget and management has an 119  
annual internal audit plan that identifies the internal audits of 120  
state agencies or divisions of state agencies scheduled for the 121  
next fiscal year. The chief internal auditor of the office of 122  
internal auditing shall submit the plan to the state audit 123  
committee for approval before the beginning of each fiscal year. 124  
The chief internal auditor may submit a revised internal audit 125  
plan for approval at any time the director of budget and 126  
management believes there is reason to modify the previously 127  
submitted plan for a fiscal year. 128

(B) To determine the state agencies or divisions of state 129  
agencies that are to be internally audited, the office of internal 130  
auditing, in the formulation of an annual or revised internal 131  
audit plan, and the state audit committee, in approving a 132  
submitted annual or revised internal audit plan, shall consider 133  
the following factors: 134

(1) The risk for fraud, waste, or abuse of public money 135  
within an agency or division; 136

(2) The length of time since an agency or division was last 137  
subject to an internal audit; 138

(3) The size of an agency or division, and the amount of time 139

and resources necessary to audit it; 140

(4) Any other factor the state audit committee determines to 141  
be relevant. 142

(C) All internal audits shall be conducted only by employees 143  
of the office of internal auditing. 144

(D) After the conclusion of an internal audit, the chief 145  
internal auditor shall submit a preliminary report of the internal 146  
audit's findings and recommendations to the state audit committee 147  
and to the director of the state agency involved. The state agency 148  
or division of the state agency covered by the preliminary report 149  
shall be provided an opportunity to respond within thirty days 150  
after receipt of the preliminary report. The response shall 151  
include a corrective action plan for any recommendations in the 152  
preliminary report that are not disputed by the agency or 153  
division. Any response received by the office of internal auditing 154  
within that thirty-day period shall be included in the office's 155  
final report of the internal audit's findings and recommendations. 156  
The final report shall be issued by the office of internal 157  
auditing within thirty days after the termination of the 158  
thirty-day response period. Copies of the final report shall be 159  
submitted to the state audit committee, the governor, and the 160  
director of the state agency involved. The state audit committee 161  
shall determine an appropriate method for making the preliminary 162  
and final reports available for public inspection in a timely 163  
manner. 164

Any suspected fraud or other illegal activity discovered by 165  
the office of internal auditing during the conduct of an internal 166  
audit shall be reported immediately to the state audit committee, 167  
the director of the state agency in which the fraud or illegal 168  
activity is suspected to have occurred, and the auditor of state. 169

(E) The chief internal auditor shall prepare an annual report 170

and submit the report to the governor, the president of the 171  
senate, the speaker of the house of representatives, and the 172  
auditor of state. The office of budget and management shall make 173  
the report available to the public by posting it on the office's 174  
web site before the first of July of each year. 175

Sec. 126.43. Any preliminary or final report of an internal 176  
audit's findings and recommendations which is produced by the 177  
office of internal auditing in the office of budget and management 178  
and all work papers of the internal audit are confidential and are 179  
not public records under section 149.43 of the Revised Code until 180  
the final report of an internal audit's findings and 181  
recommendations is submitted to the state audit committee, the 182  
governor, and the director of the state agency involved. 183

**Section 2.** (A) Not later than six months after the effective 184  
date of this act, the Legislative Service Commission shall prepare 185  
a report on the existing internal audit structures of each state 186  
agency, as defined in section 126.40 of the Revised Code, and 187  
identify all state employees who are classified as an internal 188  
auditor or with job duties effectively similar to those of an 189  
internal auditor. The report shall include information about the 190  
total amounts budgeted for internal auditing purposes in each such 191  
state agency. 192

Each such state agency, upon request, shall provide the 193  
Legislative Service Commission with the requisite information to 194  
complete the portion of the report pertaining to that state 195  
agency. 196

The report shall be submitted to the Governor, the Speaker of 197  
the House of Representatives, the President of the Senate, and the 198  
Minority Leaders of the Senate and the House of Representatives 199  
upon its completion. 200

(B) Subject to the layoff and displacement provisions of 201

Chapter 124. of the Revised Code, all state agency employees who 202  
are classified as internal auditors or whose job duties are 203  
effectively similar to those of an internal auditor, as determined 204  
by the report described in division (A) of this section, shall be 205  
transferred to the Office of Internal Auditing in the Office of 206  
Budget and Management on the effective date of this section, and 207  
shall retain their positions, compensation, and all associated 208  
fringe benefits. 209