

STATE OF OKLAHOMA

2nd Session of the 44th Legislature (1994)

COMMITTEE SUBSTITUTE  
FOR ENGROSSED  
HOUSE BILL NO. 1842

By: Crocker, Sullivan and  
Campbell of the House

and

Long (Lewis) of the  
Senate

COMMITTEE SUBSTITUTE

An Act relating to schools and state government; amending 70 O.S. 1991, Sections 3909 and 3910, as amended by Sections 1 and 2, Chapter 287, O.S.L. 1993 (70 O.S. Supp. 1993, Sections 3909 and 3910), 74 O.S. 1991, Section 213, as amended by Section 3, Chapter 287, O.S.L. 1993, and Section 1, Chapter 36, O.S.L. 1992 (74 O.S. Supp. 1993, Sections 213 and 228), which relate to audits of higher education institutions, contracts for accounting services, audits of public institutions, and internal audits of public entities; authorizing the Oklahoma State Regents for Higher Education to request special audits of certain institutions; prescribing standards for certain internal audits; requiring State Auditor and Inspector to conduct certain external reviews of certain internal audit functions; prescribing standards for external reviews; modifying length of contracts for certain accounting services; stating legislative intent; requiring the Oklahoma State Regents to establish certain levels on certain administrative expenditures at certain institutions of higher education; requiring appointment of certain interim legislative committee; stating duties of certain committee; requiring preparation and distribution of certain report by certain date; providing for codification; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. AMENDATORY 70 O.S. 1991, Section 3909, as amended by Section 1, Chapter 287, O.S.L. 1993 (70 O.S. Supp. 1993, Section 3909), is amended to read as follows:

Section 3909. A. In addition to such other audits as may be required of or desired by the various boards of regents responsible for the institutions of The Oklahoma State System of Higher Education, each board shall annually obtain the services of

an independent accounting firm or individual holding a permit to practice public accounting in this state to perform a complete financial audit for the preceding fiscal year of each institution for which the board is responsible. The Oklahoma State Regents for Higher Education shall likewise annually obtain the services of an independent accounting firm or individual holding a permit to practice public accounting in this state to perform a complete financial audit of all the offices, operations, and accounts of the State Regents which are not subject to the control of other boards of regents.

B. Each board of regents shall appoint a standing Audit Committee of the board consisting of not fewer than three (3) board members. The Audit Committee shall be responsible for establishing the qualifications of any accounting firm or individual seeking to be hired to perform an audit for the board and shall recommend to the board the firms or individuals whom the board shall invite to submit competitive bids. The full board shall select the auditor from among the competitive bidders. Audit committees shall not recommend any firm or individual unwilling to meet the following specifications. Said specifications shall be among the terms and conditions of any contract awarded:

1. All revolving fund accounts, special accounts, special agency accounts, auxiliary enterprise accounts, and technical area school district accounts, if any, shall be included within the scope of the audit;

2. Where operations of constituent agencies or technical area school districts are relevant to the complete financial audit of the institution, records of those enterprises shall be included within the scope of the audit;

3. To the extent required by subsection (d) of Section 4306 of this title, records of college- or university-related foundations shall be included within the scope of the audit;

4. At the conclusion of the audit, the auditor shall meet with the president of the institution and the Audit Committee to review the audit report to be issued, the management letter or

other comments or suggestions to be issued, and any other findings; and

5. Findings of material weaknesses, qualifications of the auditor's report other than those deriving from inadequate plant records, and of defalcations, or a report of lack of such findings, shall be communicated in writing to the board, the State Auditor and Inspector, the Legislative Service Bureau, and the Oklahoma State Regents for Higher Education with or in advance of the filing of the audit report required by Section 452.10 of Title 74 of the Oklahoma Statutes; and such written communications shall include any responses or other comments which the president or the Audit Committee wishes to have included.

C. ~~Whenever the~~ The State Auditor and Inspector whenever he or she deems it appropriate, or upon receiving a written request to do so by the Governor, Attorney General, President Pro Tempore of the Senate, the Speaker of the House of Representatives, the governing board of an institution of higher education, the Oklahoma State Regents for Higher Education or the president of an institution of higher education, ~~the State Auditor and Inspector~~ shall conduct a special audit of any institution of higher education within The Oklahoma State System of Higher Education. The special audit shall include, but not necessarily be limited to, a compliance audit as defined in subsection ~~B~~ C of Section 213 of Title 74 of the Oklahoma Statutes. The State Auditor and Inspector shall have the power to take custody of any records necessary to the performance of the audit but shall minimize actual physical removal of or denial of access to such records. At the conclusion of the audit, the State Auditor and Inspector shall meet with the president of the institution and the Audit Committee of the board which governs the component audited to review the audit report to be issued. The report, when issued, shall include any responses to the audit which the president or the Audit Committee wishes to have included and shall be presented to the full board, the Legislative Service Bureau, and the Oklahoma State Regents for Higher Education with or in advance of the filing required by Section 452.10 of Title 74 of the Oklahoma

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Statutes. The cost of such audit shall be borne by the audited entity and may be defrayed in whole or in part by any federal funds available for that purpose.

D. Each board of regents shall require the employment of a sufficient number of internal auditors to meet the board's fiduciary responsibilities. Internal audits shall be conducted in accordance with the provisions of Sections 228 and 229 of Title 74 of the Oklahoma Statutes. The internal auditors shall submit a report directly and simultaneously to the audit committee of the board and the president of the institution; all members of the board of regents governing the institution, however, shall receive all internal audit reports and the board of regents shall, at least annually, review and prescribe the plan of work to be performed by the internal auditors. External reviews of the internal audit function shall be performed by the State Auditor and Inspector in accordance with the provisions of subsection B of Section 213 of Title 74 of the Oklahoma Statutes.

E. Any person who alters or destroys records needed for the performance of an audit or causes or directs a subordinate to do such acts shall be guilty of a felony punishable by imprisonment in the State Penitentiary for a period of not more than five (5) years or by a fine of not more than Twenty Thousand Dollars (\$20,000.00), or by both such fine and imprisonment. Such person shall also be subject to immediate removal from office or employment.

SECTION 2. AMENDATORY 70 O.S. 1991, Section 3910, as amended by Section 2, Chapter 287, O.S.L. 1993 (70 O.S. Supp. 1993, Section 3910), is amended to read as follows:

Section 3910. A board of regents shall not contract for or otherwise obtain the services of an independent accounting firm or individual to perform financial audits for an institution for more than ~~three (3)~~ five (5) consecutive years. If an independent accounting firm or individual has conducted financial audits of an institution of higher education for ~~three (3)~~ five (5) consecutive years, the board shall not obtain the auditing services of said

firm or individual for said institution for at least two (2) years.

SECTION 3. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 3914 of Title 70, unless there is created a duplication in numbering, reads as follows:

It is the intent of the Legislature that the Oklahoma State Regents for Higher Education establish levels of administrative expenditures under the functional category of Institutional Support at each of the public higher education institutions and constituent agencies. The Regents shall establish uniform definitions for administrative costs that comply with the National Association of College and University Business Officer Financial Accounting and Report Manual (FARM) and establish procedures to ensure that each institution and constituent agency classifies and reports its administrative expenditures accordingly.

SECTION 4. AMENDATORY 74 O.S. 1991, Section 213, as amended by Section 3, Chapter 287, O.S.L. 1993 (74 O.S. Supp. 1993, Section 213), is amended to read as follows:

Section 213. A. It shall be the duty of the State Auditor and Inspector to examine and report upon the books and financial accounts of the several public, educational, charitable, penal and reformatory institutions belonging to the state; to prescribe and enforce correct methods of keeping financial accounts of the state institutions and instruct the proper officers thereof in the performance of their duties concerning the same; to examine the books and accounts of all public institutions under the control of the state at least once each year. Any officer of such public, educational, charitable, penal and reformatory institutions who shall refuse or willfully neglect to comply with such direction of the State Auditor and Inspector within a reasonable time shall be guilty of a misdemeanor.

B. The State Auditor and Inspector shall perform a quality control review of the internal audit functions required by each board of regents of institutions of higher education at least once every three (3) years. This review shall be in accordance with the "Quality Assurance Review Manual for Internal Auditing"

developed by the Institute of Internal Auditors or any successor organization thereto.

C. No later than July 1, 1997, the Speaker of the House of Representatives and the President Pro Tempore of the Senate shall appoint a special joint interim committee, the sole purpose of which shall be to review and evaluate the effectiveness of the quality control reviews specified in subsection B of this section for the fiscal years ending on June 30, 1995, 1996, and 1997. A copy of the final report of the interim committee, including any recommendations for modification of the Oklahoma Statutes, shall be distributed to each member of the Legislature no later than December 1, 1997.

D. The State Auditor and Inspector shall perform a special audit on common school districts and area vocational-technical districts upon receiving a written request to do so by any of the following: the Governor, Attorney General, President Pro Tempore of the Senate or Speaker of the House of Representatives. The State Auditor and Inspector shall perform a special audit on any institution of higher education within The Oklahoma State System of Higher Education whenever the State Auditor and Inspector deems it appropriate or upon receiving a written request to do so by any of the following: the Governor, the Attorney General, the President Pro Tempore of the Senate, the Speaker of the House of Representatives, the governing board of the institution of higher education, or the president of the institution of higher education. The special audit shall include, but not necessarily be limited to, a compliance audit. The special audit shall be conducted according to the American Institute of Certified Public Accountants' "Statements on Auditing Standards". Such audits shall be designed to review items for management's compliance with statutes, regulations, policies and internal control procedures or other items applicable to each entity. The costs of any such audit shall be borne by the audited entity and may be defrayed, in whole or in part, by any federal funds available for that purpose.

SECTION 5. AMENDATORY Section 1, Chapter 36, O.S.L. 1992 (74 O.S. Supp. 1993, Section 228), is amended to read as follows:

Section 228. The administrative head and the governing body of any state agency, board, department or commission having internal audit functions shall have direct supervisory responsibility over all internal audits conducted by the agency, board, department or commission. Such supervisory responsibility shall include, but not be limited to, the duty of assuring that all internal audits are conducted in accordance with the ~~latest standards for the professional practice of internal auditing~~ "Standards for the Professional Practice of Internal Auditing" developed by the Institute of Internal Auditors, ~~Inc.~~ or any successor organization thereto.

SECTION 6. This act shall become effective July 1, 1994.

SECTION 7. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

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