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## STATE AGENCIES; INTERNAL AUDITS

House Bill 5388

Sponsor: Rep. Charles LaSata

Committee: Appropriations

Complete to 2-23-00

### A SUMMARY OF HOUSE BILL 5388 AS INTRODUCED 2-17-00

Under the Management and Budget Act, each principal state department is required to establish and maintain an internal accounting and administrative control system using generally accepted accounting principles. The act requires that each department head biennially provide a report prepared by the department's internal auditor on the evaluation of the internal accounting system to the governor, auditor general, House and Senate Appropriations Committees, legislative fiscal agencies, and the director of the Department of Management and Budget. The bill would require that each department's biennial report include a description and disclosure of the correction plan for material weaknesses in the department's internal controls disclosed in audits of the department by the auditor general or other auditing entity.

The act further requires each department to appoint an internal auditor, who must be a member of the state classified executive service, and who must report to and be under the "general supervision" of the department head. The bill would specify that the internal auditor would have to be either a member of the state classified senior executive service or of the state classified service, group IV. Further, the bill would require that the internal auditor be under the "direct supervision" of the department head.

The act lists several duties of the internal auditor of each department, relating to review of financial control systems and also to review of the department's efficiency in performing its duties. The bill would divide this list of functions in two: the first list of functions, relating to financial controls, would be the required functions of the internal auditor. (The bill would also add to this list of required functions the duty to monitor the department's implementation of corrective plans prepared to respond to weaknesses pointed out by external audits.) The bill specifies that upon completion of the duties related to financial controls, the internal auditor would be authorized (but not required) to perform the second list of functions, including the review of the department's activities to recommend efficiencies in operation (known as "performance auditing") and the conduct of "other audit and investigative activities as assigned by the department head".

The bill would further require that the governor's annual budget recommendations include sufficient resources for each principal department to comply with the internal audit requirements contained in the Management and Budget Act.

House Bill 5388 (2-23-00)

Finally, the bill would require that if an internal auditor were discharged, reassigned, or demoted, the reasons for the action be reported to the governor, the auditor general, and all members of the Senate and House Appropriations Committees.

MCL 18.1485 and 18.1486

Analyst: D. Martens

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