

Internal Audit (FMC 6.3 – February 8, 2023)

Section 1 – Applicability: This FMC section only applies to a State agency that:

- 1) has an annual operating budget that exceeds \$10 million;
- 2) has more than 100 full-time equivalent employees; or
- 3) receives and processes more than \$10 million in cash in a fiscal year.

Section 2 – Internal Audit Requirement: Effective July 1, 2023, a State agency described in Section 1 shall conduct a program of internal auditing that includes:

- 1) An annual audit plan that is prepared using risk assessment techniques and that identifies the individual audits to be conducted during the year. The annual audit plan developed must be approved by the agency head.
- 2) Periodic audits of the agency 's major systems and controls, including:
 - a) accounting systems and controls;
 - b) administrative systems and controls; and
 - c) electronic data processing systems and controls.
- 3) Sampled testing of the obligation, expenditure, receipt, and use of public funds of the State and of funds held in trust to determine whether those activities are in accordance with applicable laws and regulations.
- 4) Sampling procurements and contracts entered by the agency to determine that the procurements and contracts are monitored, administered, and accounted for in accordance with applicable laws and regulations.
- 5) Sampling grants received or made by the State agency to determine that the grants are monitored, administered, and accounted for in accordance with applicable laws and regulations.
- 6) Reviews of the design of major new electronic data processing systems and major modifications of those systems before their installation to ensure the systems provide for adequate audit trails and accountability.
- 7) Sampling federal grants received to determine that FMC 4.1 is followed.

Section 3 – Internal Audit Program Standards: The internal audit program shall conform to the Standards for the Professional Practice of Internal Auditing, the Code of Ethics contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors (IIA), and generally accepted government auditing standards.

Section 4 – Requirements for Agency Internal Audit Function: The internal audit function of an agency covered by this FMC must include the following elements:

- 1) The head of the internal audit function has direct or dotted-line reporting to the agency head or an agency audit committee approved by OMB.
- 2) The head of the internal audit function has free and unrestricted access to the agency's senior management and any outside auditors for the agency.

- 3) Internal audit personnel must be free of all operational and management responsibilities that would impair the auditor's ability to review independently all aspects of the State agency's operation.
- 4) The internal audit function is granted authority for full, free, and unrestricted access to any and all records, physical properties, and personnel relevant to any function under review. All employees of the State agency are requested to assist internal audit in fulfilling its audit, review and consulting activities.
- 5) To permit maintenance of an independent and objective mental attitude necessary in rendering reports, all internal audit activities will remain free of influence by any element in the organization. This freedom from influence includes matters of audit selection, scope, procedures, frequency, timing, or report content.

Section 5 – Annual Report: The head of internal audit shall prepare an annual report and submit the report by September 1 of each year to the agency head and the Director of the Office of Management and Budget (OMB).

Section 6 – Budget Change Packages: Agencies described in Section 1 should evaluate any staffing or budgetary changes necessary to satisfy the requirements of this FMC and include those changes in a change package as part of their 2023 biennial budget submission.

Section 7 – Internal Audit Working Group: Not later than July 1, 2023, OMB will convene a working group selected from State agencies described in Section 1. While some agencies described in Section 1 already have an internal audit program pursuant to IC 5-11-1-28, federal requirements, or voluntary decision of the agency, other agencies will be standing up an internal audit program for the first time pursuant to this FMC. The purpose of the working group will be for the agencies to discuss the status of their internal audit programs, including staffing and budget requirements, and share best practices so that all agencies can benefit from the collective experience. The agencies that do not have an internal audit program as of January 1, 2023, can satisfy the requirements of Section 2 through participation in the working group with the goal of the establishing a fully operational internal audit program by July 1, 2024, or date determined by OMB.



Zachary Q. Jackson, Director
State Budget Agency