



February 21, 2020

ENGROSSED HOUSE BILL No. 1108

DIGEST OF HB 1108 (Updated February 20, 2020 11:19 am - DI 125)

Citations Affected: IC 2-5; IC 5-11.

Synopsis: State board of accounts. Makes various changes to statutes concerning the state board of accounts (board). Adds a definition of a "responsible officer of an audited entity". Allows the audit committee to determine the amount of the bond for the state examiner, deputy examiners, and field examiners based on applicable risk considerations. Repeals a statute that addresses duties required by law on April 5, 1909. Provides that, for purposes of the risk based examination criteria, the board may perform examinations of certain audited entities more frequently than once every four years if required by a ratings agency that rates debt maintained by such an audited entity. Provides that the board may issue confidential management letters based on professional auditing standards to certain audited entities. Provides that the state examiner, deputy examiner, or field examiner may issue subpoenas to enforce the filing of certain reports. Establishes a procedure governing the examination of certain bodies corporate and politic. Provides that the procedure applies only to a body corporate and politic whose
(Continued next page)

Effective: July 1, 2020.

Lehman, Porter

(SENATE SPONSORS — BASSLER, SPARTZ)

January 8, 2020, read first time and referred to Committee on Ways and Means.
January 27, 2020, amended, reported — Do Pass.
January 29, 2020, read second time, ordered engrossed. Engrossed.
January 30, 2020, read third time, passed. Yeas 94, nays 0.

SENATE ACTION

February 5, 2020, read first time and referred to Committee on Appropriations.
February 20, 2020, amended, reported favorably — Do Pass.

EH 1108—LS 6767/DI 129



Digest Continued

enabling statute does not provide for an audit, examination, or other engagement by the state board of accounts or an independent public accounting firm concerning financial or compliance related matters of the body corporate and politic. Makes changes to statutes establishing the forfeiture of office for the failure to file certain reports, interference with an examiner, and the failure to adopt or use the system of accounting and reporting adopted by the board. Provides that, as an alternative to an order to forfeit office, a court may impose a civil penalty that does not exceed \$500 for each day that the public officer or responsible officer continues to violate an obligation with respect to an audit, examination, or other engagement by the board. Specifies that the individual is personally liable for a civil penalty imposed on the individual for such a violation. Provides that the board may collect the expenses from the audited entity that the board incurs in carrying out the audit, examination, or other engagement.



February 21, 2020

Second Regular Session of the 121st General Assembly (2020)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2019 Regular Session of the General Assembly.

ENGROSSED HOUSE BILL No. 1108

A BILL FOR AN ACT to amend the Indiana Code concerning state and local administration.

Be it enacted by the General Assembly of the State of Indiana:

- 1 SECTION 1. IC 2-5-1.1-6.3, AS ADDED BY P.L.104-2014,
2 SECTION 1, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
3 JULY 1, 2020]: Sec. 6.3. (a) The following definitions apply
4 throughout this section:
5 (1) "Audit committee" refers to the audit and financial reporting
6 subcommittee of the legislative council established by subsection
7 (b).
8 (2) "Audited entity" refers to the state, a municipality, a public
9 hospital, or another person or entity that is subject to an
10 examination by the state board of accounts under IC 5-11-1 or
11 another law. However, the term applies to an entity (as defined in
12 IC 5-11-1-16(e)) to the extent that the entity is required to be
13 examined under IC 5-11-1-9 or another law.
14 (3) "Examination" refers to an audit, examination, or other
15 engagement by the state board of accounts, its field examiners, or
16 private examiners under IC 5-11-1 or another law.
17 (b) The audit and financial reporting subcommittee of the legislative

EH 1108—LS 6767/DI 129



1 council is established to assure the independence of the state board of
2 accounts. The subcommittee is comprised of five (5) voting members
3 and one (1) advisory member, who shall be the director of the office of
4 management and budget, or the director's designee. The chairman of the
5 legislative council, with the advice of the vice chairman of the
6 legislative council, shall appoint the voting members of the audit
7 committee and its chairperson. The audit committee may have
8 members who are not members of the legislative council. If the
9 individual appointed is not a member of the general assembly, the term
10 of the member is three (3) years. If the individual appointed is a
11 member of the general assembly, the term of the member is one (1)
12 year. However, to stagger the terms of the members, if the individual
13 appointed is not a member of the general assembly, the initial term of
14 two (2) of these members is two (2) years instead of three (3) years. All
15 members of the audit committee must possess or obtain a basic
16 understanding of governmental financial reporting and auditing. To
17 ensure the audit committee's independence and effectiveness, a
18 member of the audit committee may not exercise managerial
19 responsibilities that fall within the scope of an examination required by
20 IC 5-11-1.

21 (c) It is the responsibility of the audit committee to provide
22 independent review and oversight of the state board of accounts and the
23 examination process used by the state board of accounts. To carry out
24 this responsibility, the audit committee shall do at least the following:

25 (1) Review and monitor the independence and objectivity of the
26 state board of accounts and the effectiveness of the examination
27 process, taking into consideration relevant professional and
28 regulatory requirements.

29 (2) Evaluate the findings and recommendations of any peer
30 review of the state board of accounts that is required by
31 recognized government auditing standards.

32 (3) Receive and review reports of examinations submitted under
33 IC 5-11-5-1 or another law to monitor the integrity of the financial
34 reporting process and the effectiveness of the state board of
35 accounts in evaluating the internal accounting controls of audited
36 entities.

37 (4) Monitor the actions of the examined entities to follow up on
38 reported findings to assure corrective action is taken.

39 (5) Review the policy on the engagement of the state board of
40 accounts, its field examiners, and private examiners to supply
41 nonaudit services, taking into account relevant ethical guidance
42 regarding the provision of nonaudit services by the state board of



- 1 accounts.
- 2 (6) Provide guidance to the state board of accounts on any
- 3 accounting, examination, or financial reporting matter requested
- 4 by the state board of accounts.
- 5 (7) At least annually, report to the legislative council on how the
- 6 audit committee has discharged its duties and met its
- 7 responsibilities.
- 8 (d) An examined entity shall provide the audit committee with
- 9 information, including any reports of internal auditors and annual
- 10 internal audit work plans, that the audit committee requests as
- 11 necessary or appropriate to carry out the responsibilities of the audit
- 12 committee.
- 13 (e) IC 2-5-1.2 applies to the committee. In addition, the audit
- 14 committee may retain the services of at least one (1) financial expert
- 15 who is either an audit committee member or an outside party engaged
- 16 by the audit committee for this purpose. The financial expert must,
- 17 through both education and experience and in a manner specifically
- 18 relevant to the government sector, possess:
- 19 (1) an understanding of generally accepted accounting principles
- 20 and financial statements;
- 21 (2) experience in preparing or auditing financial statements of
- 22 comparable entities;
- 23 (3) experience in applying such principles in connection with the
- 24 accounting for estimates, accruals, and reserves;
- 25 (4) experience with internal accounting controls; and
- 26 (5) an understanding of audit committee functions.
- 27 The expenses of the audit committee shall be paid from appropriations
- 28 for the legislative council and the legislative services agency.
- 29 **(f) The audit committee shall receive appeals and conduct**
- 30 **hearings as described in IC 5-11-1-9.3.**
- 31 SECTION 2. IC 5-11-1-2, AS AMENDED BY P.L.176-2009,
- 32 SECTION 2, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
- 33 JULY 1, 2020]: Sec. 2. The state board of accounts shall formulate,
- 34 prescribe, and install a system of accounting and reporting in
- 35 conformity with this chapter **for use by an audited entity**, which must
- 36 comply with the following:
- 37 (1) Be uniform for every public office and every public account
- 38 of the same class and contain written standards that an entity that
- 39 is subject to audit must observe.
- 40 (2) Exhibit true accounts and detailed statements of funds
- 41 collected, received, obligated, and expended for or on account of
- 42 the public for any and every purpose whatever, and by all public



1 officers, employees, or other individuals.

2 (3) Show the receipt, use, and disposition of all public property
3 and the income, if any, derived from the property.

4 (4) Show all sources of public income and the amounts due and
5 received from each source.

6 (5) Show all receipts, vouchers, contracts, obligations, and other
7 documents kept, or that may be required to be kept, to prove the
8 validity of every transaction.

9 The state board of accounts shall formulate or approve all statements
10 and reports necessary for the internal administration of the office to
11 which the statements and reports pertain. The state board of accounts
12 shall approve all reports that are published or that are required to be
13 filed in the office of state examiner. The state board of accounts shall
14 from time to time make and enforce changes in the system and forms
15 of accounting and reporting as necessary to conform to law.

16 SECTION 3. IC 5-11-1-4, AS AMENDED BY P.L.244-2017,
17 SECTION 5, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
18 JULY 1, 2020]: Sec. 4. (a) The state examiner shall require from every
19 ~~municipality and every state or local governmental unit, entity, or~~
20 ~~instrumentality~~ **audited entity** financial reports covering the full period
21 of each fiscal year. These reports shall be prepared, verified, and filed
22 with the state examiner not later than sixty (60) days after the close of
23 each fiscal year. The reports must be in the form and content prescribed
24 by the state examiner and filed electronically in the manner prescribed
25 under IC 5-14-3.8-7.

26 (b) The department of local government finance may not approve
27 the budget of a political subdivision or a supplemental appropriation
28 for a political subdivision until the political subdivision files an annual
29 report under subsection (a) for the preceding calendar year.

30 (c) As used in this subsection, "bonds" means any bonds, notes, or
31 other evidences of indebtedness, whether payable from property taxes,
32 other taxes, revenues, fees, or any other source. However, the term does
33 not include notes, warrants, or other evidences of indebtedness that
34 have a maturity of not more than five (5) years and that are made in
35 anticipation of and to be paid from revenues of the political
36 subdivision. Notwithstanding any other law, a county or municipality
37 may not issue any bonds unless the county or municipality has filed an
38 annual financial report with the state examiner for the preceding fiscal
39 year. The requirements under this subsection for the issuance of bonds
40 by a county or municipality are in addition to any other requirements
41 imposed under any other law. This subsection applies to the issuance
42 of bonds authorized under any statute, regardless of whether that



1 statute specifically references this subsection or the requirements under
2 this subsection.

3 SECTION 4. IC 5-11-1-9, AS AMENDED BY P.L.209-2019,
4 SECTION 1, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
5 JULY 1, 2020]: Sec. 9. (a) The state examiner, personally or through
6 the deputy examiners, field examiners, or private examiners, shall
7 examine all accounts and all financial affairs of every ~~public office and~~
8 ~~officer, state office, state institution, and entity.~~ **audited entity.**
9 However, an examination of an entity under this subsection shall be
10 limited to matters relevant to the use of the public money received by
11 the entity.

12 (b) An examination of an entity that is organized as a not-for-profit
13 corporation deriving:

14 (1) less than fifty percent (50%); or

15 (2) subject to subsection (i), at least fifty percent (50%) but less
16 than seven hundred fifty thousand dollars (\$750,000);

17 of its disbursements during the period subject to an examination from
18 appropriations, public funds, taxes, and other sources of public expense
19 shall be limited to matters relevant to the use of the public money
20 received by the entity.

21 (c) The examination of an entity described in subsection (b) may be
22 waived by the state examiner if the state examiner determines that:

23 (1) in consideration of the applicable risk based examination
24 criteria described in and approved under section 25 of this
25 chapter; and

26 (2) based on submitted information;

27 there are no compelling reasons to conclude that disbursements of
28 public money during the period subject to examination were
29 inconsistent with the purposes for which the money was received.
30 However, the state examiner may revoke a waiver granted under this
31 subsection if the state examiner determines that revocation of the
32 waiver is necessary in accordance with the risk based examination
33 criteria set forth in section 25 of this chapter. The state examiner shall
34 communicate the determination to grant or revoke a waiver under this
35 subsection to the entity in writing.

36 (d) Notwithstanding any other law, the:

37 (1) Indiana economic development corporation created by
38 IC 5-28-3 and the corporation's funds, accounts, and financial
39 affairs shall be examined by the state board of accounts unless the
40 examination is waived under subsection (j); and

41 (2) department of financial institutions established by
42 IC 28-11-1-1 and the department's funds, accounts, and financial



1 affairs shall be examined by the state board of accounts.

2 (e) On every examination under this section, inquiry shall be made
3 as to the following:

4 (1) The financial condition and resources of each ~~municipality,~~
5 ~~office, institution, or entity.~~ **audited entity.**

6 (2) Whether the laws of the state and the uniform compliance
7 guidelines of the state board of accounts established under section
8 24 of this chapter have been complied with.

9 (3) The methods and accuracy of the accounts and reports of the
10 person examined.

11 The examinations may be made without notice.

12 (f) If during an examination of a state office **or a body corporate**
13 **and politic** under this chapter the examiner encounters an inefficiency
14 in the operation of the state office **or the body corporate and politic,**
15 the examiner may comment on the inefficiency in the examiner's report.

16 (g) The state examiner, deputy examiners, any field examiner, or
17 any private examiner, when engaged in making any examination or
18 when engaged in any official duty devolved upon them by the state
19 examiner, is entitled to do the following:

20 (1) Enter into any state, county, city, township, or other public
21 office in this state, or any entity, agency, or instrumentality, and
22 examine any books, papers, documents, or electronically stored
23 information for the purpose of making an examination.

24 (2) Have access, in the presence of the custodian or the
25 custodian's deputy, to the cash drawers and cash in the custody of
26 the officer.

27 (3) During business hours, examine the public accounts in any
28 depository that has public funds in its custody pursuant to the
29 laws of this state.

30 (h) The state examiner, deputy examiner, or any field examiner,
31 when engaged in making any examination authorized by law, may issue
32 subpoenas for witnesses to appear before the examiner in person or to
33 produce books, papers, or other records (including records stored in
34 electronic data processing systems) for inspection and examination.
35 **The state examiner, deputy examiner, or any field examiner may**
36 **issue a subpoena to enforce the filing of the annual financial report,**
37 **personnel report, or entity report established by this article.** The
38 state examiner, deputy examiner, and any field examiner may
39 administer oaths and examine witnesses under oath orally or by
40 interrogatories concerning the matters under investigation and
41 examination. Under the authority of the state examiner, the oral
42 examinations may be transcribed with the reasonable expense paid by



1 the examined person in the same manner as the compensation of the
 2 field examiner is paid. The subpoenas shall be served by any person
 3 authorized to serve civil process from any court in this state. If a
 4 witness **or officer** duly subpoenaed refuses to attend, refuses to
 5 produce information required in the subpoena, or attends and refuses
 6 to be sworn or affirmed, or to testify when called upon to do so, the
 7 examiner may apply to the circuit court having jurisdiction of the
 8 witness **or officer** for the enforcement of attendance and answers to
 9 questions as provided by the law governing the taking of depositions
 10 **or to enforce the filing of any report referred to in this subsection.**

11 (i) The definitions in IC 20-24-1 apply throughout this subsection.
 12 Appropriations, public funds, taxes, and other sources of public money
 13 received by a nonprofit corporation as a charter school or organizer of
 14 a charter school for the purposes of a charter school may not be
 15 counted for the purpose of applying subsection (b)(2). Unless the
 16 nonprofit corporation receives other public money that would qualify
 17 the nonprofit corporation for a full examination of all accounts and
 18 financial affairs of the entity under subsection (b)(2), an examination
 19 of a charter school or organizer of a charter school must be limited to
 20 matters relevant to the use of the public money received for the charter
 21 school. This subsection does not prohibit the state examiner, personally
 22 or through the deputy examiners, field examiners, or private examiners,
 23 from examining the accounts in which appropriations, public funds,
 24 taxes, or other sources of public money are applied that are received by
 25 a nonprofit corporation as a charter school or organizer of a charter
 26 school relating to the operation of the charter school.

27 (j) The state examiner may waive the examination of the Indiana
 28 economic development corporation and a nonprofit subsidiary
 29 corporation established under IC 5-28-5-13 if:

30 (1) an independent certified public accounting firm conducts an
 31 examination under IC 5-28-3-2(c) of:

32 (A) the Indiana economic development corporation and the
 33 Indiana economic development corporation's funds, accounts,
 34 and financial affairs; and

35 (B) the nonprofit subsidiary corporation;

36 for the year;

37 (2) the Indiana economic development corporation submits the
 38 examination report to the state board of accounts; and

39 (3) the state board of accounts reviews the examination report and
 40 determines that the examination and examination report comply
 41 with the uniform compliance guidelines, directives, and standards
 42 established by the state board of accounts.



1 (k) Notwithstanding the waiver of an examination of the Indiana
 2 economic development corporation and its nonprofit subsidiary
 3 corporation by the state examiner, the state board of accounts may
 4 examine the Indiana economic development corporation and its
 5 nonprofit subsidiary corporation at any time.

6 SECTION 5. IC 5-11-1-9.3 IS ADDED TO THE INDIANA CODE
 7 AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY
 8 1, 2020]: **Sec. 9.3. (a) This section applies only to a body corporate
 9 and politic whose enabling statute does not provide for an annual
 10 audit, examination, or other engagement by:**

11 (1) the state board of accounts; or

12 (2) an independent public accounting firm;

13 **concerning financial or compliance related matters of the body
 14 corporate and politic.**

15 (b) This section does not affect a body corporate and politic
 16 whose enabling statute provides for an annual audit, examination,
 17 or other engagement by the state board of accounts or an
 18 independent public accounting firm.

19 (c) As used in this section, "audit committee" refers to the audit
 20 and financial reporting subcommittee of the legislative council
 21 established by IC 2-5-1.1-6.3(b).

22 (d) As used in this section, "enabling statute" refers to a statute,
 23 including a statute enacted after June 30, 2020, that establishes a
 24 body corporate and politic.

25 (e) The state board of accounts may conduct an examination of
 26 a body corporate and politic described in this section. The state
 27 board of accounts shall permit a body corporate and politic to
 28 request in writing to the state examiner that an examination under
 29 this section be performed by an independent public accounting
 30 firm. The state examiner may approve a request under this section
 31 based on the applicable risk based examination criteria described
 32 in and approved under section 25 of this chapter.

33 (f) If a request under subsection (e) for an independent public
 34 accounting firm to conduct an examination is denied by the state
 35 examiner, the body corporate and politic may file an appeal of the
 36 denial with the audit committee. The audit committee shall hold a
 37 public hearing concerning the appeal and prepare a written
 38 decision determining whether the independent public accounting
 39 firm selected by the body corporate and politic is permitted to
 40 conduct the examination under this section. The audit committee's
 41 written decision is binding, and the state board of accounts shall
 42 allow the independent public accounting firm to conduct the



1 examination if the audit committee determines the independent
 2 public accounting firm is permitted. The audit committee shall
 3 provide a copy of the written decision to the state board of
 4 accounts and to the body corporate and politic. The audit
 5 committee shall post a copy of the written decision on the audit
 6 committee's Internet web site.

7 (g) An examination of a body corporate and politic conducted
 8 under this section by the state board of accounts or an independent
 9 public accounting firm shall be filed with:

- 10 (1) the state board of accounts in the manner provided by this
 11 article; and
 12 (2) the auditor of state.

13 SECTION 6. IC 5-11-1-10 IS AMENDED TO READ AS
 14 FOLLOWS [EFFECTIVE JULY 1, 2020]: Sec. 10. (a) A public officer
 15 or responsible officer of an audited entity who:

- 16 (1) fails to make, verify, and file with the state examiner any
 17 report required by this chapter;
 18 (2) fails to follow the directions of the state examiner in keeping
 19 the accounts of the officer's office;
 20 (3) refuses the state examiner, deputy examiner, field examiner,
 21 or private examiner access to the books, accounts, papers,
 22 documents, cash drawer, or cash of the officer's office; or
 23 (4) interferes with an examiner in the discharge of the examiner's
 24 official duties;

25 commits a Class B infraction. ~~and forfeits office.~~ **The court may also**
 26 **order the officer described in this subsection to forfeit the officer's**
 27 **office.**

28 (b) As an alternative to an order to forfeit office under
 29 subsection (a), a court in which an action described in subsection
 30 (a) is filed may impose a civil penalty that does not exceed five
 31 hundred dollars (\$500) for each day that the public officer or
 32 responsible officer continues to violate an obligation described in
 33 subsection (a). The individual is personally liable for a civil penalty
 34 imposed on the individual under this section.

35 (c) The state board of accounts may collect the expenses
 36 incurred in carrying out the audit, examination, or engagement
 37 from the audited entity of the officer described in this section.

38 SECTION 7. IC 5-11-1-15 IS AMENDED TO READ AS
 39 FOLLOWS [EFFECTIVE JULY 1, 2020]: Sec. 15. (a) The state
 40 examiner, deputy examiners, and field examiners shall each give bond
 41 for the faithful performance of the examiner's duties ~~as follows:~~

- 42 (†) The state examiner in the sum of five thousand dollars



1 (\$5,000); to be approved by the governor.
 2 (2) Each deputy examiner in the sum of three thousand dollars
 3 (\$3,000); to be approved by the governor.
 4 (3) Each field examiner in the sum of one thousand dollars
 5 (\$1,000); to be approved by the state examiner: **in an amount**
 6 **determined by the audit committee and based on applicable**
 7 **risk considerations.** However, field examiners may be covered
 8 by a blanket bond or crime insurance policy endorsed to include
 9 faithful performance under IC 5-4-1-15.1 subject to approval of
 10 the **audit committee and** state examiner.
 11 (b) The commissioner of insurance shall prescribe the form of the
 12 bonds or crime policies required by this section.
 13 SECTION 8. IC 5-11-1-16, AS AMENDED BY P.L.257-2019,
 14 SECTION 5, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
 15 JULY 1, 2020]: Sec. 16. (a) As used in this article, "municipality"
 16 means any county, township, city, town, school corporation, special
 17 taxing district, or other political subdivision of Indiana.
 18 (b) As used in this article, "state" means any board, commission,
 19 department, division, bureau, committee, agency, governmental
 20 subdivision, military body, authority, or other instrumentality of the
 21 state, but does not include a municipality.
 22 (c) As used in this article, "public office" means the office of any
 23 and every individual who for or on behalf of the state or any
 24 municipality or any public hospital holds, receives, disburses, or keeps
 25 the accounts of the receipts and disbursements of any public funds.
 26 (d) As used in this article, "public officer" means any individual
 27 who holds, receives, disburses, or is required by law to keep any
 28 account of public funds or other funds for which the individual is
 29 accountable by virtue of the individual's public office.
 30 (e) As used in this article, "entity" means any provider of goods,
 31 services, or other benefits that is:
 32 (1) maintained in whole or in part at public expense; or
 33 (2) supported in whole or in part by appropriations or public funds
 34 or by taxation.
 35 The term does not include the state or a municipality (as defined in this
 36 section).
 37 (f) As used in this article, a "public hospital" means either of the
 38 following:
 39 (1) An institution licensed under IC 16-21 and which is owned by
 40 the state or an agency of the state or one which is a municipal
 41 corporation. A hospital is a municipal corporation if its governing
 42 board members are appointed by elected officials of a



1 municipality.

2 (2) A state institution (as defined in IC 12-7-2-184).

3 (g) As used in this article, "audit committee" refers to the audit and

4 financial reporting subcommittee of the legislative council established

5 by IC 2-5-1.1-6.3.

6 (h) As used in this article, "audited entity" has the meaning set forth

7 in IC 2-5-1.1-6.3.

8 (i) As used in this article, "development authority" has the meaning

9 set forth in the following:

10 (1) IC 36-7.5-1-8.

11 (2) IC 36-7.6-1-8.

12 **(j) As used in this article, "responsible officer of an audited**

13 **entity" refers to the chief executive officer or another individual**

14 **who has executive decision making authority for the audited entity**

15 **with respect to a compliance obligation prescribed by or**

16 **established under this article or another law.**

17 SECTION 9. IC 5-11-1-18, AS AMENDED BY P.L.181-2015,

18 SECTION 14, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE

19 JULY 1, 2020]: Sec. 18. All examinations under this chapter may be

20 made without notice to the **audited entities or** officers whose accounts

21 are to be examined, and without notice to any clerk, deputy, employee,

22 or other person employed in or connected with the office or the

23 business of such an **audited entity or** officer. A person who recklessly

24 communicates knowledge of any proposed examination of any public

25 account:

26 (1) that the board has determined to make without notice under

27 this section; and

28 (2) to the officer in charge of the account or to any other

29 unauthorized person;

30 commits a Class B misdemeanor.

31 SECTION 10. IC 5-11-1-21 IS AMENDED TO READ AS

32 FOLLOWS [EFFECTIVE JULY 1, 2020]: Sec. 21. **(a)** All public

33 officers **and responsible officers of audited entities** shall adopt and

34 use the books, forms, records, and systems of accounting and reporting

35 adopted by the state board of accounts, when directed so to do by the

36 board, and all forms, books, and records shall be purchased by those

37 officers in the manner provided by law. An officer **described in this**

38 **subsection** who refuses to provide such books, forms, or records, fails

39 to use them, or fails to keep the accounts of ~~his~~ **the officer's** office as

40 directed by the board commits a Class C infraction. ~~and forfeits his~~

41 ~~office.~~ **The court may also order the officer to forfeit the officer's**

42 **office.**



1 **(b) As an alternative to an order to forfeit office under**
 2 **subsection (a), a court in which an action described in subsection**
 3 **(a) is filed may impose a civil penalty that does not exceed five**
 4 **hundred dollars (\$500) for each day that the public officer or**
 5 **responsible officer continues to violate an obligation described in**
 6 **subsection (a). The individual is personally liable for a civil penalty**
 7 **imposed on the individual under this section.**

8 **(c) The state board of accounts may collect the expenses**
 9 **incurred in carrying out the audit, examination, or engagement**
 10 **from the audited entity of the officer described in this section.**

11 SECTION 11. IC 5-11-1-22 IS REPEALED [EFFECTIVE JULY 1,
 12 2020]. Sec. 22: The provisions of this chapter shall not be construed to
 13 relieve any officer of any duties required by law of him on April 5,
 14 1909, with relation to the auditing of public accounts or the
 15 disbursement of public funds; but the provisions of this chapter shall
 16 be construed to be supplemental to all provisions of law existing on
 17 April 5, 1909, safeguarding the care and disbursement of public funds;
 18 and provided further, that the provisions of this chapter shall not be
 19 construed to limit or curtail the power of the governor of the state under
 20 laws existing on April 5, 1909, to make examination or investigation
 21 of any public office or to require reports therefrom.

22 SECTION 12. IC 5-11-1-25, AS AMENDED BY P.L.257-2019,
 23 SECTION 6, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
 24 JULY 1, 2020]: Sec. 25. (a) This section and section 24.4 of this
 25 chapter do not limit the application of any law that requires a
 26 municipality, a public hospital, another public office or public officer,
 27 an entity, or another person or organization to be audited or otherwise
 28 examined on an annual or other basis by:

- 29 (1) a certified public accountant; or
 30 (2) a person other than the state examiner or the state board of
 31 accounts.

32 (b) Subject to section 9 of this chapter and subsections (c) and (d),
 33 the state board of accounts shall conduct examinations of audited
 34 entities at the times determined by the state board of accounts, but not
 35 less than once every four (4) years, using risk based examination
 36 criteria that are established by the state board of accounts and approved
 37 by the audit committee. The risk based examination criteria must
 38 include the following risk factors:

- 39 (1) An audited entity has a newly elected or appointed fiscal
 40 officer.
 41 (2) An audited entity:
 42 (A) has not timely filed; or



1 (B) has filed a materially incorrect or incomplete;
 2 annual financial report required by section 4 of this chapter.

3 **(3) A ratings agency that rates debt maintained by an audited**
 4 **entity has determined an examination of the audited entity is**
 5 **required more frequently than once every four (4) years.**

6 ~~(3)~~ (4) Any other factor determined by the state examiner and
 7 approved by the audit committee.

8 (c) Examinations must be conducted annually for the following:

9 (1) The state.

10 (2) An audited entity (other than a school corporation) that
 11 requires an annual audit:

12 (A) because of the receipt of federal financial assistance in an
 13 amount that subjects the audited entity to an annual federal
 14 audit;

15 (B) due to continuing disclosure requirements; or

16 (C) as a condition of a public bond issuance.

17 (3) A development authority.

18 An audited entity shall, under the guidelines established by the state
 19 board of accounts, provide notice to the state examiner not later than
 20 sixty (60) days after the close of the audited entity's fiscal year that the
 21 audited entity is required to have an annual audit under subdivision (2).

22 (d) As permitted under this section since September 1, 1986 (the
 23 effective date of P.L.3-1986, SECTION 16), examinations of school
 24 corporations shall be conducted biennially.

25 SECTION 13. IC 5-11-5-1, AS AMENDED BY P.L.209-2019,
 26 SECTION 4, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
 27 JULY 1, 2020]: Sec. 1. (a) Whenever an examination is made under
 28 this article, a report of the examination shall be made. The report must
 29 include a list of findings and shall be signed and verified by the
 30 examiner making the examination. A finding that is critical of an
 31 examined entity must be based upon one (1) of the following:

32 (1) Failure of the entity to observe a uniform compliance
 33 guideline established under IC 5-11-1-24(a).

34 (2) Failure of the entity to comply with a specific law.

35 A report that includes a finding that is critical of an examined entity
 36 must designate the uniform compliance guideline or the specific law
 37 upon which the finding is based. **The state board of accounts may**
 38 **also issue confidential management letters, based on professional**
 39 **auditing standards, to an audited entity (as defined in section 1.5(a)**
 40 **of this chapter) in a situation involving noncompliance that does**
 41 **not result in the establishment of a corrective action plan but that**
 42 **must be brought to the attention of the audited entity's governing**



1 **body.** The reports shall immediately be filed with the state examiner,
 2 and, after inspection of the report, the state examiner shall immediately
 3 file one (1) copy with the officer or person examined, one (1) copy with
 4 the auditing department of the municipality examined and reported
 5 upon (if the subject of the report is a municipality), and one (1) copy in
 6 an electronic format under IC 5-14-6 with the legislative services
 7 agency, as staff to the audit committee and the general assembly. Upon
 8 filing, the report becomes a part of the public records of the office of
 9 the state examiner, of the office or the person examined, of the auditing
 10 department of the municipality examined and reported upon, and of the
 11 legislative services agency, as staff to the audit committee and the
 12 general assembly. A report is open to public inspection at all
 13 reasonable times after it is filed. If an examination discloses
 14 malfeasance, misfeasance, or nonfeasance in office or of any officer or
 15 employee, a copy of the report, signed and verified, shall be placed by
 16 the state examiner with the attorney general and the inspector general.
 17 The attorney general shall diligently institute and prosecute civil
 18 proceedings against the delinquent officer **or employee**, or upon the
 19 officer's **or employee's** official bond, or both, and against any other
 20 proper person that will secure to the state or to the proper municipality
 21 the recovery of any funds misappropriated, diverted, or unaccounted
 22 for.

23 (b) Before an examination report is signed, verified, and filed as
 24 required by subsection (a), the officer or the chief executive officer of
 25 the state office, municipality, or entity examined must have an
 26 opportunity to review the report and to file with the state examiner a
 27 written response to that report. If a written response is filed, it becomes
 28 a part of the examination report that is signed, verified, and filed as
 29 required by subsection (a). As part of the review of the examination
 30 report, the state examiner shall hold a gathering of the officer or chief
 31 executive officer of the state office, municipality, or entity examined,
 32 any employees or agents of the state office, municipality, or entity
 33 examined who are requested to attend by the officer or chief executive
 34 officer of the state office, municipality, or entity examined, and the
 35 members of the legislative and fiscal bodies of the municipality or
 36 entity examined. Such a gathering is referred to as an "exit conference"
 37 for purposes of this subsection. The following apply to an exit
 38 conference:

39 (1) All information discussed and materials presented or delivered
 40 by any person during an exit conference are confidential and may
 41 not be discussed or shared publicly until the earliest of the
 42 occurrences set forth in subsection (g). However, the information



1 discussed and materials presented or delivered during an exit
 2 conference may be shared with an officer, employee, consultant,
 3 adviser, or attorney of the officer or chief executive officer of the
 4 state office, municipality, or entity examined who was not present
 5 at the exit conference. An individual with whom information and
 6 materials are shared must maintain the confidentiality of the
 7 information and materials as provided in this subdivision until the
 8 earliest of the occurrences set forth in subsection (g).

9 (2) An individual attending an exit conference may not
 10 electronically record the exit conference.

11 (3) If a majority of a governing body (as defined in
 12 IC 5-14-1.5-2(b)) is present during an exit conference, the
 13 governing body shall be considered in an executive session under
 14 IC 5-14-1.5. However, the governing body has no obligation to
 15 give notice as prescribed by IC 5-14-1.5-5 when it participates in
 16 the exit conference.

17 (4) If the state examiner determines after the exit conference that
 18 additional actions must be undertaken by a deputy examiner, field
 19 examiner, or private examiner with respect to information
 20 discussed or materials presented at the exit conference, the state
 21 examiner may call for an additional exit conference to be held.

22 (5) Not more than thirty (30) days after the initial exit conference
 23 is held under this subsection, the legislative body of the
 24 municipality or entity examined and reported upon may adopt a
 25 resolution, approved by at least a two-thirds (2/3) vote of the
 26 legislative body, requesting that an additional exit conference be
 27 held. The legislative body shall notify the state board of accounts
 28 if the legislative body adopts a resolution under this subdivision.
 29 If a legislative body adopts a resolution under this subdivision, the
 30 state board of accounts shall conduct an additional exit
 31 conference not more than sixty (60) days after the state board of
 32 accounts receives notice of the adoption of the resolution. The
 33 municipality or entity examined must pay the travel and staff
 34 costs incurred by the state board of accounts in conducting an
 35 additional exit conference under this subdivision.

36 (6) Except as provided in subdivision (7), a final report under
 37 subsection (a) may not be issued earlier than forty-five (45) days
 38 after the initial exit conference is held under this subsection.

39 (7) If:

40 (A) the state examiner does not call for an additional exit
 41 conference to be held as described in subdivision (4); and

42 (B) the:



- 1 (i) legislative body of the municipality or entity examined
 2 and reported upon provides written notice to the state
 3 examiner that the legislative body waives an additional exit
 4 conference described in subdivision (5); or
 5 (ii) state examiner determines that a final report under
 6 subsection (a) must be issued as soon as possible;
 7 the final report may be issued earlier than forty-five (45) days
 8 after the initial exit conference is held under this subsection.
- 9 (c) Except as provided by subsections (b), (d), and (e), it is unlawful
 10 for any person, before an examination report is made public as
 11 provided by this section, to make any disclosure of the result of any
 12 examination of any public account, except:
 13 (1) to the state examiner;
 14 (2) if directed to give publicity to the examination report by the
 15 state examiner or by any court;
 16 (3) to another deputy examiner, field examiner, or private
 17 examiner engaged in conducting the examination; or
 18 (4) if directed by the state examiner, to the chair of the audit
 19 committee or the members of the audit committee acting in
 20 executive session, or both.
- 21 If an examination report shows or discloses the commission of a crime
 22 by any person, it is the duty of the state examiner to transmit and
 23 present the examination report to the prosecuting attorney of the county
 24 in which the crime was committed. The state examiner shall furnish to
 25 the prosecuting attorney all evidence at the state examiner's command
 26 necessary in the investigation and prosecution of the crime.
- 27 (d) If, during an examination under this article, a deputy examiner,
 28 field examiner, or private examiner acting as an agent of the state
 29 examiner determines that the following conditions are satisfied, the
 30 examiner shall report the determination to the state examiner:
 31 (1) A substantial amount of public funds has been
 32 misappropriated or diverted.
 33 (2) The deputy examiner, field examiner, or private examiner
 34 acting as an agent of the state examiner has a reasonable belief
 35 that the malfeasance or misfeasance that resulted in the
 36 misappropriation or diversion of the public funds was committed
 37 by the officer or an employee of the office **or entity**.
- 38 (e) After receiving a preliminary report under subsection (d), the
 39 state examiner may provide a copy of the report to the attorney general.
 40 The attorney general may institute and prosecute civil proceedings
 41 against the delinquent officer or employee, or upon the officer's or
 42 employee's official bond, or both, and against any other proper person



1 that will secure to the state or to the proper municipality the recovery
2 of any funds misappropriated, diverted, or unaccounted for.

3 (f) In an action under subsection (e), the attorney general may attach
4 the defendant's property under IC 34-25-2.

5 (g) Except as permitted in this section, the information and materials
6 that are part of an exit conference under subsection (b) and the results
7 of an examination, including a preliminary report under subsection (d),
8 are confidential until the occurrence of the earliest of the following:

9 (1) The final report is made public under subsection (a).

10 (2) The results of the examination are publicized under subsection
11 (c)(2).

12 (3) The attorney general institutes an action under subsection (e)
13 on the basis of the preliminary report.

14 (h) Except as permitted in this section, an individual, a public
15 agency (as defined in IC 5-14-3-2), a public employee, a public official,
16 or an employee or officer of a contractor or subcontractor of a public
17 agency that knowingly or intentionally discloses information in
18 violation of subsection (b) or (g), regardless of whether the information
19 is received orally or by any other means, is subject to the following:

20 (1) A public agency (as defined in IC 5-14-3-2), a public
21 employee, a public official, or an employee or officer of a
22 contractor or subcontractor of a public agency commits a Class A
23 infraction under IC 5-14-3-10.

24 (2) If the disclosure is by a person who is not described in
25 subdivision (1), the person commits a Class A infraction.

26 (i) Unless in accordance with a judicial order or as otherwise
27 provided in this section, the state board of accounts or its employees,
28 former employees, counsel, or agents, or any other person may not
29 divulge the examination workpapers and investigation records of a
30 deputy examiner, a field examiner, or a private examiner acting as an
31 agent of the state examiner, except to:

32 (1) employees and members of the state board of accounts;

33 (2) the audit committee;

34 (3) law enforcement officers, the attorney general, a prosecuting
35 attorney, or any other legal representative of the state in any
36 action with respect to the misappropriation or diversion of public
37 funds;

38 (4) an authorized representative of the United States;

39 (5) a successor examiner or auditor, in accordance with applicable
40 professional auditing standards; or

41 (6) another individual for any other factor that constitutes good
42 cause as set forth in criteria established by the state examiner and



1 approved by the audit committee.

2 (j) An individual described in subsection (i)(3) or (i)(4) who
3 receives examination workpapers and investigation records described
4 in subsection (i) may divulge the workpapers and records in any action
5 with respect to the misappropriation or diversion of public funds.

6 SECTION 14. IC 5-11-5-1.5, AS ADDED BY P.L.176-2017,
7 SECTION 1, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
8 JULY 1, 2020]: Sec. 1.5. (a) As used in this section, "audited entity"
9 includes only the following:

10 (1) A state agency (as defined in IC 4-13-1-1).

11 (2) A public hospital.

12 (3) A municipality.

13 (4) A body corporate and politic.

14 (5) A state educational institution.

15 (6) An entity to the extent that the entity is required to be
16 examined under IC 5-11-1-9 or another law.

17 (b) If an examination report contains a finding that an audited entity
18 failed to observe a uniform compliance guideline established under
19 IC 5-11-1-24(a) or to comply with a specific law, the audited entity
20 shall take action to address the audit finding.

21 (c) If a subsequent examination report of the audited entity contains
22 a finding that is the same as or substantially similar to the finding
23 contained in the previous examination report described in subsection
24 (b), the public officer of the audited entity shall file a corrective action
25 plan as a written response to the report under section 1(b) of this
26 chapter.

27 (d) The state board of accounts shall create guidelines for use by an
28 audited entity to establish a corrective action plan described in
29 subsection (c). The guidelines must include a requirement that the issue
30 that is the subject of a finding described in subsection (c) must be
31 corrected not later than six (6) months after the date on which the
32 corrective action plan is filed.

33 (e) After the successful completion of a corrective action plan by an
34 audited entity that was required to file a corrective action plan under
35 subsection (c), the audited entity shall notify the state board of
36 accounts. The state board of accounts shall review each corrective
37 action plan. If a corrective action plan is not implemented or the issue
38 that is the subject of the finding is not corrected within six (6) months,
39 the state board of accounts shall prepare a memorandum summarizing:

40 (1) the examination report finding;

41 (2) the corrective action plan;

42 (3) the manner by which the examination report finding was or



- 1 was not addressed; and
 2 (4) a recommended course of action.
 3 (f) The state board of accounts shall present to the audit committee
 4 established by IC 2-5-1.1-6.3 a memorandum described in subsection
 5 (e). If the audit committee determines that further action should be
 6 taken, the audit committee may do any of the following:
 7 (1) Request a written statement from the public officer of the
 8 audited entity.
 9 (2) Request the personal attendance of the public officer of the
 10 audited entity at the next audit committee meeting.
 11 (3) Request that the public officer of the audited entity take
 12 corrective action.
 13 (4) Notify the:
 14 (A) office of management and budget (in the case of an
 15 audited entity that is a state agency, a body corporate and
 16 politic, or a state educational institution); or
 17 (B) officer or chief executive officer, legislative body, and
 18 fiscal body of the audited entity and the department of local
 19 government finance (in the case of any other audited entity);
 20 that the audited entity refused to correct the audited entity's failure
 21 to observe a uniform compliance guideline established under
 22 IC 5-11-1-24(a), or refused to comply with a specific law, with
 23 notice of the recommendation described in subsection (e)(4)
 24 published on the general assembly's Internet web site.
 25 (5) Refer the facts drawn from the examination and the actions
 26 taken under this section for investigation and prosecution of a
 27 violation of IC 5-11-1-10 or IC 5-11-1-21 to the:
 28 (A) inspector general, in the case of an audited entity that is a
 29 state agency, a body corporate and politic, or a state
 30 educational institution; or
 31 (B) prosecuting attorney of the county in which a violation of
 32 IC 5-11-1-10 or IC 5-11-1-21 may have been committed, in the
 33 case of any other audited entity;
 34 with notice of the referral published on the general assembly's
 35 Internet web site. Notice of a referral described in clause (B) must
 36 be sent to the officer or chief executive officer, legislative body,
 37 and fiscal body of the audited entity.
 38 (6) Recommend that legislation be introduced in the general
 39 assembly to amend any statute under which the audited entity is
 40 found to be noncompliant.
 41 (7) Recommend that the state board of accounts examine the
 42 audited entity within the calendar year following the year in



1 which the audited entity was required to file a corrective action
2 plan under subsection (c).

3 **(g) When implementing this section, the state board of accounts**
4 **may issue confidential management letters, based on professional**
5 **auditing standards, to an audited entity in a situation involving**
6 **noncompliance that does not result in the establishment of a**
7 **corrective action plan but that must be brought to the attention of**
8 **the audited entity's governing body.**

9 SECTION 15. IC 5-11-13-1, AS AMENDED BY P.L.137-2012,
10 SECTION 9, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE
11 JULY 1, 2020]: Sec. 1. (a) Every state, county, city, town, township, or
12 school official, elective or appointive, who is the head of or in charge
13 of any office, department, board, or commission of the state or of any
14 county, city, town, or township, and every state, county, city, town, or
15 township employee or agent who is the head of, or in charge of, or the
16 executive officer of any department, bureau, board, or commission of
17 the state, county, city, town, or township, and every executive officer
18 by whatever title designated, who is in charge of any state educational
19 institution or of any other state, county, or city institution, **As used in**
20 **this section, "audited entity" includes only the following:**

21 **(1) The state.**

22 **(2) A municipality.**

23 **(3) A state educational institution.**

24 **(b) Each audited entity** shall during the month of January of each
25 year prepare, make, and sign a certified report, correctly and
26 completely showing the names and business addresses of ~~each and all~~
27 **the officers, employees, and agents in their respective offices,**
28 ~~departments, boards, commissions, and institutions, and of the audited~~
29 **entity. The report shall indicate** the respective duties and
30 compensation of each ~~and~~ **officer, employee, and agent of the**
31 **audited entity. The audited entity** shall ~~forthwith file said the~~ report
32 in the office of the state examiner of the state board of accounts. The
33 report must also indicate whether the political subdivision offers a
34 health plan, a pension, and other benefits to full-time and part-time
35 employees. However, no more than one (1) report covering the same
36 officers, employees, and agents need be made from the state or any
37 county, city, town, township, or school unit in any one year. The
38 certification must be filed electronically in the manner prescribed
39 under IC 5-14-3.8-7.

40 ~~(b)~~ **(c)** The department of local government finance may not
41 approve the budget of a county, city, town, or township or a
42 supplemental appropriation for a county, city, town, or township until



1 the county, city, town, or township files an annual report under
2 subsection ~~(a)~~ (b) for the preceding calendar year.



COMMITTEE REPORT

Mr. Speaker: Your Committee on Ways and Means, to which was referred House Bill 1108, has had the same under consideration and begs leave to report the same back to the House with the recommendation that said bill be amended as follows:

Page 6, delete lines 1 through 8, begin a new paragraph and insert:

"SECTION 1. IC 5-11-1-9.3 IS ADDED TO THE INDIANA CODE AS A NEW SECTION TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2020]: **Sec. 9.3. (a) This section applies only to a body corporate and politic whose enabling statute does not provide for an annual audit, examination, or other engagement by:**

(1) the state board of accounts; or

(2) an independent public accounting firm;

concerning financial or compliance related matters of the body corporate and politic.

(b) This section does not affect a body corporate and politic whose enabling statute provides for an annual audit, examination, or other engagement by the state board of accounts or an independent public accounting firm.

(c) As used in this section, "enabling statute" refers to a statute, including a statute enacted after June 30, 2020, that establishes a body corporate and politic.

(d) The state board of accounts may conduct an examination of a body corporate and politic described in this section. The state board of accounts shall permit a body corporate and politic to request in writing to the state examiner that an examination under this section be performed by an independent public accounting firm in accordance with sections 7 and 24 of this chapter. The state examiner may approve a request under this section based on the applicable risk based examination criteria described in and approved under section 25 of this chapter.

(e) An examination of a body corporate and politic conducted under this section by the state board of accounts or an independent public accounting firm shall be filed with:

(1) the state board of accounts in the manner provided by this article; and

(2) the auditor of state."

Page 17, delete line 19.

Page 17, line 20, delete "(4)" and insert "(3)".

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

EH 1108—LS 6767/DI 129



(Reference is to HB 1108 as introduced.)

BROWN T

Committee Vote: yeas 20, nays 0.

COMMITTEE REPORT

Madam President: The Senate Committee on Appropriations, to which was referred House Bill No. 1108, has had the same under consideration and begs leave to report the same back to the Senate with the recommendation that said bill be AMENDED as follows:

Page 1, between the enacting clause and line 1, begin a new paragraph and insert:

"SECTION 1. IC 2-5-1.1-6.3, AS ADDED BY P.L.104-2014, SECTION 1, IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2020]: Sec. 6.3. (a) The following definitions apply throughout this section:

- (1) "Audit committee" refers to the audit and financial reporting subcommittee of the legislative council established by subsection (b).
- (2) "Audited entity" refers to the state, a municipality, a public hospital, or another person or entity that is subject to an examination by the state board of accounts under IC 5-11-1 or another law. However, the term applies to an entity (as defined in IC 5-11-1-16(e)) to the extent that the entity is required to be examined under IC 5-11-1-9 or another law.
- (3) "Examination" refers to an audit, examination, or other engagement by the state board of accounts, its field examiners, or private examiners under IC 5-11-1 or another law.

(b) The audit and financial reporting subcommittee of the legislative council is established to assure the independence of the state board of accounts. The subcommittee is comprised of five (5) voting members and one (1) advisory member, who shall be the director of the office of management and budget, or the director's designee. The chairman of the legislative council, with the advice of the vice chairman of the legislative council, shall appoint the voting members of the audit committee and its chairperson. The audit committee may have members who are not members of the legislative council. If the individual appointed is not a member of the general assembly, the term

EH 1108—LS 6767/DI 129



of the member is three (3) years. If the individual appointed is a member of the general assembly, the term of the member is one (1) year. However, to stagger the terms of the members, if the individual appointed is not a member of the general assembly, the initial term of two (2) of these members is two (2) years instead of three (3) years. All members of the audit committee must possess or obtain a basic understanding of governmental financial reporting and auditing. To ensure the audit committee's independence and effectiveness, a member of the audit committee may not exercise managerial responsibilities that fall within the scope of an examination required by IC 5-11-1.

(c) It is the responsibility of the audit committee to provide independent review and oversight of the state board of accounts and the examination process used by the state board of accounts. To carry out this responsibility, the audit committee shall do at least the following:

- (1) Review and monitor the independence and objectivity of the state board of accounts and the effectiveness of the examination process, taking into consideration relevant professional and regulatory requirements.
- (2) Evaluate the findings and recommendations of any peer review of the state board of accounts that is required by recognized government auditing standards.
- (3) Receive and review reports of examinations submitted under IC 5-11-5-1 or another law to monitor the integrity of the financial reporting process and the effectiveness of the state board of accounts in evaluating the internal accounting controls of audited entities.
- (4) Monitor the actions of the examined entities to follow up on reported findings to assure corrective action is taken.
- (5) Review the policy on the engagement of the state board of accounts, its field examiners, and private examiners to supply nonaudit services, taking into account relevant ethical guidance regarding the provision of nonaudit services by the state board of accounts.
- (6) Provide guidance to the state board of accounts on any accounting, examination, or financial reporting matter requested by the state board of accounts.
- (7) At least annually, report to the legislative council on how the audit committee has discharged its duties and met its responsibilities.

(d) An examined entity shall provide the audit committee with information, including any reports of internal auditors and annual



internal audit work plans, that the audit committee requests as necessary or appropriate to carry out the responsibilities of the audit committee.

(e) IC 2-5-1.2 applies to the committee. In addition, the audit committee may retain the services of at least one (1) financial expert who is either an audit committee member or an outside party engaged by the audit committee for this purpose. The financial expert must, through both education and experience and in a manner specifically relevant to the government sector, possess:

- (1) an understanding of generally accepted accounting principles and financial statements;
- (2) experience in preparing or auditing financial statements of comparable entities;
- (3) experience in applying such principles in connection with the accounting for estimates, accruals, and reserves;
- (4) experience with internal accounting controls; and
- (5) an understanding of audit committee functions.

The expenses of the audit committee shall be paid from appropriations for the legislative council and the legislative services agency.

(f) The audit committee shall receive appeals and conduct hearings as described in IC 5-11-1-9.3."

Page 6, between lines 13 and 14, begin a new paragraph and insert:

"(c) As used in this section, "audit committee" refers to the audit and financial reporting subcommittee of the legislative council established by IC 2-5-1.1-6.3(b)."

Page 6, line 14, delete "(c)" and insert "(d)".

Page 6, line 17, delete "(d)" and insert "(e)".

Page 6, line 22, delete "firm in accordance with sections 7 and 24 of this chapter." and insert "**firm**".

Page 6, between lines 25 and 26, begin a new paragraph and insert:

"(f) If a request under subsection (e) for an independent public accounting firm to conduct an examination is denied by the state examiner, the body corporate and politic may file an appeal of the denial with the audit committee. The audit committee shall hold a public hearing concerning the appeal and prepare a written decision determining whether the independent public accounting firm selected by the body corporate and politic is permitted to conduct the examination under this section. The audit committee's written decision is binding, and the state board of accounts shall allow the independent public accounting firm to conduct the examination if the audit committee determines the independent public accounting firm is permitted. The audit committee shall



provide a copy of the written decision to the state board of accounts and to the body corporate and politic. The audit committee shall post a copy of the written decision on the audit committee's Internet web site."

Page 6, line 26, delete "(e)" and insert "(g)".

Renumber all SECTIONS consecutively.

and when so amended that said bill do pass.

(Reference is to HB 1108 as printed January 27, 2020.)

MISHLER, Chairperson

Committee Vote: Yeas 12, Nays 0.

