



## *Louisiana Legislative Auditor* *Audit Risk Alert*

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AUDIT RISK ALERT # 39

DATE: August 25, 2021

SUBJECT: Database Security Breach Notification Law – CPA Firms’ Responsibilities to Local Auditees and the Louisiana Legislative Auditor; Timely Notification of Certain Events to the Louisiana Legislative Auditor

### **Database Security Breach Notification Law**

In 2005, the Louisiana Legislature passed a series of laws (Louisiana Revised Statutes (R.S.) 51:3071, et. seq.) collectively known as the **Database Security Breach Notification Law**. These laws were passed to address the (then) relatively new problem of identity theft.

More than fifteen years after passage of the Database Security Breach Notification Law, the privacy and financial security of individuals are increasingly at risk due to the ever more widespread collection of personal information.

**The Database Security Breach Notification Law requires any individual, corporation, partnership, sole proprietorship, joint stock company, joint venture, or any other legal entity conducting business in the state of Louisiana that experiences a security breach of computerized data that includes personal information (as defined in [R.S. 51:3073](#)) to notify the owner or licensee of that data of the breach. “Personal information” includes data commonly referred to as personal identifiable information (PII) or protected health information (PHI).**

The form, timing, and other requirements of the notification may be found in [R.S. 51:3074](#).

The entities that must make the notification required in R.S. 51:3074 include CPA firms that perform the audit and attestation engagements of local government and quasi-public organizations (local auditees) that provide annual financial reports to the Louisiana Legislative Auditor (LLA). The purpose of this Audit Risk Alert is to advise CPA firms on LLA’s approved list of their responsibilities to their local auditee clients and LLA regarding database security breaches.

### **CPA Firms’ Responsibilities to Local Auditees**

[R.S. 24:513 A.\(6\)](#) gives LLA the authority to prescribe the terms and conditions of local auditee engagements, as set forth in the *Louisiana Governmental Audit Guide* (the Audit Guide). [Section 400-1080](#) of the Audit Guide requires CPAs to include in their local auditee engagement

agreements certain provisions specific to engagements performed in the state of Louisiana. **To address the requirements of the Database Security Breach Notification Law, LLA has added the following provision to [Section 400-1080](#):**

*The CPA will notify the local auditee of any breach of the security of the firm's computer system, defined in R.S. 51:3073 as the compromise of the security, confidentiality, or integrity of computerized data that results in, or there is a reasonable likelihood to result in, the unauthorized acquisition of and access to the local auditee's personal information, as defined in R.S. 51:3073.*

### **CPA Firms' Responsibilities to LLA**

Section 400-1080 of the Audit Guide also requires CPAs to include in their local auditee engagement agreements a provision that they will notify LLA when certain events occur. **LLA has added the following to [Section 400-1080](#) as an event for which a CPA firm is required to notify LLA:**

*Any breach of the security of the CPA firm's computer system, defined in R.S. 51:3073 as the compromise of the security, confidentiality, or integrity of computerized data that results in, or there is a reasonable likelihood to result in, the unauthorized acquisition of and access to the local auditee's personal information, as defined in R.S. 51:3073.*

LLA believes that such notification is in the best interest of local auditees and the public. LLA may ask the CPA firm to provide additional documents and information in order to provide guidance in mitigating the effects of the security breach.

**The provisions in this Audit Risk Alert pertaining to a CPA firm's responsibility to notify local auditees and LLA of database security breaches are effective immediately.**

**The provisions in this Audit Risk Alert pertaining to inclusion of the new requirements in local auditee engagement agreements are effective for engagement agreements submitted to LLA for approval on or after September 30, 2021.** The illustrative engagement agreements in the [Practice Aids and Related Documents](#) section of the Audit Guide have been updated to include the new provisions in this Audit Risk Alert.

### **Other Provisions of the Database Security Breach Notification Law**

[R.S. 51:3074 A](#) states, "Any person that conducts business in the state or that owns or licenses computerized data that includes personal information...shall implement and maintain reasonable security procedures and practices appropriate to the nature of the information to protect the personal information from unauthorized access, destruction, use, modification, or disclosure."

[R.S. 51:3075](#) provides for the recovery of damages through a civil action if an affected party is not notified of a security breach in accordance with the law.

LLA strongly urges CPA firms to review and strengthen the measures they have in place to prevent and detect security breaches, in order to comply with [R.S. 51:3074.A](#).

LLA also strongly urges CPA firms to obtain cyber liability insurance to mitigate the possible exposure to their firm should a security breach occur.

### **Timely Notification of Certain Events to the Louisiana Legislative Auditor**

As stated earlier, Section 400-1080 of the Audit Guide requires CPAs to include in their local auditee engagement agreements a provision that they will notify LLA when certain events occur. Prior to the date of this Audit Risk Alert, the notification was to be made “immediately,” but the term “immediately” was not defined.

In order to ensure that notification of these events to LLA is made in a timely manner, and to enable the CPA firm to avail itself of LLA’s guidance and other resources to determine how best to resolve these matters, the term “immediately” in [Section 400-1080](#) has been replaced with **“within ten days of the CPA firm’s constructive knowledge of the occurrence of these events.”**

If you have any questions about the Database Security Breach Notification Law, please contact Jenifer Schaye, LLA General Counsel, at [jschaye@lla.la.gov](mailto:jschaye@lla.la.gov) or (225) 339-3871.

If you have any questions about the *Louisiana Governmental Audit Guide*, please contact Gayle Fransen at [gfransen@lla.la.gov](mailto:gfransen@lla.la.gov) or (225) 339-3874.