STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING

Nels Roseland
State Controller, Chair

Kristin Walker
State Budget Director

Pamela Cashwell
Secretary of Administration

Joshua Stein
Attorney General

Ronald Penny
Secretary of Revenue

Bradly Newkirk
Senate appointment

Nicholas Stone
House of Representative appointment

Beth A. Wood
State Auditor

Agenda

July 12, 2023

Call to Order

Adjourn

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COUNCIL OF INTERNAL AUDITING
ETHICS AWARENESS
AND CONFLICT OF INTEREST REMINDER

It is the duty of every Council member to avoid both conflicts of interest and the appearances of conflict.

If any Council member has any known conflict of interest or is aware of facts that might create the appearance of such conflict, with respect to any matters coming before the Council today, please identify the conflict or the facts that might create the appearance of a conflict to ensure that any inappropriate participation in that matter may be avoided. If at any time, any new matter that raises a conflicts issue arises during the meeting, please be sure to identify it at that time.

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*House of Representatives
appointment*

Beth Wood
State Auditor

Minutes
April 12, 2023

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, April 12, 2023, in the Commission Room located in the Administration Building, 116 W Jones St, Raleigh, NC, with Chair Nels Roseland presiding.

Chair Roseland called the meeting to order at 9:02 a.m. and began by reading the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

Chair Roseland then took a roll call of members.

The following Council of Internal Auditing Members were present:

Nels Roseland, Chair – State Controller
Kristin Walker, State Budget Director
Pamela Cashwell, Secretary of the Department of Administration
Ronald Penny, Secretary of the Department of Revenue
Tiffany Lucas representing Attorney General Josh Stein
Beth Wood, State Auditor
Bradley Newkirk – Appointee
Nicholas Stone - Appointee
Barbara Baldwin, Executive Director, OSBM

A. Approval of Minutes

No corrections were made to the January 11, 2023, minutes. Secretary Cashwell moved to approve the January 11, 2023, minutes and Ms. Lucas seconded the motion. The Council unanimously approved as follows:

Kristin Walker - Approved
Pamela Cashwell - Approved
Ronald Penny - Approved
Tiffany Lucas - Approved
Bradley Newkirk - Approved
Nicholas Stone - Approved

B. Council Items

1. Internal Audit Staffing Update

Ms. Baldwin gave an overview of the spreadsheet on page 13 which provided a detailed comparison of internal audit staffing analysis by agency and recommendations for minimum staffing levels previously discussed versus positions included in the Governor's Budget, and the recently released House Budget Bill. Ms. Baldwin noted the differences in each and that the numbers went down significantly in House Bill 259.

Auditor Wood questioned where the numbers in the House Bill were derived from as there was such a steep drop off from both the Central Internal Audit's Staffing Analysis and the Governor's Budget. Auditor Wood questioned where the Senate might go with this as they had not produced their budget yet. She wanted to advocate for these positions in internal audit and was looking for a place to start.

Ms. Baldwin reminded Auditor Wood that Senator McInnis had come to a prior Council meeting and advocated for internal audit in the past and this might be a place to start. Auditor Wood agreed that Senator McInnis and Senator Woodward believed in the effort of improving internal audit throughout the state and the work the Council does to support it.

Chair Roseland noted that there were significant changes made last year in the legislative session to the Internal Audit Act. The results of those changes are a work in progress but if there were any way to itemize, tabulate, and inventory the results to date this could be a way to help show the effects that the audit community has had within their agency. He observed that there had been legislative direction to not only expand the membership of the Council but also focus on providing more intensive audit detail that had not yet been quantified. Auditor Wood agreed that it would be difficult to see the result of these changes until the new Annual Report is issued. Although the Annual Report will not be published until October, Senators McInnis and Woodard believe in the direction this is headed, so a conversation may be fruitful. Chair Roseland offered his support and assistance in this effort.

2. Proposed Internal Audit Standards

Ms. Baldwin reviewed the IIA's proposed internal audit standards that were released March 1st for public comment. The public comment period allows for individuals or organizations to respond by May 30th. Ms. Baldwin then explained that the IIA has taken the framework of the old standards and expanded it into domains, principles, and standards, which includes the implementation guide that was previously a separate

document. She noted that this is a big change and the IIA had recently provided a crosswalk from the old to the new standards to show the exact changes.

Ms. Baldwin noted that last month Council staff created a small work group to review the standards in depth, draft comments, and come to consensus on the comments. The work group is in the process of reviewing and providing recommended comments. Ms. Baldwin then requested the outcome of the work group's effort to be reviewed and approved by the Council members and submitted to the IIA from the North Carolina Council of Internal Auditing as this would have more impact than an individual. She stated that if the Council agreed to this, the work group could have everything ready by April 30th and then provide the information to the Council members for a vote, via email, before submitting comments to the IIA.

Ms. Baldwin went on to explain some of the changes she noticed in her review of the proposed standards, noting that the structure now mimicked the Quality Assurance Review process which would streamline things. However, she also noted some aspects of the language was confusing and discussed, from a legal standpoint, how this language would impact auditors work without further explanation.

Mr. Newkirk asked what the reasoning behind the major change in the standards; was it due to the globalization of the organization or some other factor? Ms. Baldwin replied that with the change of the president, the IIA has created seven regional areas and it appears it could be due to globalization.

Auditor Wood asked for clarification about how the rules and interpretation were set up. Ms. Baldwin explained the principle was given with related specific standards and an implementation guide for each standard. In the previous model, the implementation guide was separate. She also noted that in the proposed standards, the implementation section provided different scenarios to assist small audit shops or government agencies with examples of how to document evidence. It was her opinion that in addition to making the standards more complete it also made them more global.

Ms. Baldwin reiterated that even if the Council decided not to respond as an organization, the review would be shared with the agencies' Internal Audit Directors, which will be helpful to use in their own review as it was a very lengthy document. Auditor Wood wanted it noted that although she is a non-voting member, she would suggest that a group such as the Council of Internal Auditing has much more influence than an individual alone, and it was her hope that the Council move in the direction of responding as an organization.

Based on a question from Secretary Penny more discussion took place over specific language within the new standards that the Council believes needs clarification. This will be taken into consideration when documenting comments for submission.

Auditor Wood stated that it was her understanding, from Ms. Baldwin's explanation, that the Council staff and work group would work through the proposed standards to document comments on any issues found that may need to be changed, omitted, or added and then the Council would vote. If in agreement, Ms. Baldwin would submit these

comments on behalf of the Council. Ms. Baldwin agreed that this is what she was proposing to the Council today.

Mr. Stone asked if Ms. Baldwin could clarify the impact the change of standards would have on the internal audit community for the Council's education. Ms. Baldwin explained that the standards would be required to be implemented 12 months after becoming effective and this would be a lot of work. All manuals, QAR programs, tools and templates, and work papers would need to be reviewed and updated for impacts of the new standards. Mr. Stone agreed that this change would affect the community greatly and use many of their work and audit plan hours, which would have a big impact.

Mr. Newkirk ask about future training on these standards to which Ms. Baldwin replied that although the IIA is not yet offering any training, she will modify her own training on the existing standards with the crosswalk to train audit shops throughout the state on the new standards. Mr. Stone questioned if there were any significant changes as he had not yet seen any. Ms. Baldwin explained that the new standards were more prescriptive and included more requirements that resembled external audit that could affect internal audit negatively to which the Council discussed further and agreed.

Mr. Stone noted that both discussions at this meeting; the staffing challenge and the change of standards, would increase administrative overhead and not add significant value and were concerning to him. Mr. Newkirk and Auditor Wood agreed, noting that there was little to be done except prepare for the change and advocate for increased staffing within state agencies. Mr. Stone suggested that the choice lies in how the Council chooses to prioritize and implement it to make the transition easier. The Council noted how fast the standards were coming and how that would affect the QAR process in the coming 24 months.

Chair Roseland clarified that he was hearing Council support for Ms. Baldwin's request for the Council's review and vote on comments made by the work group to be submitted to the IIA from the Council of Internal Auditing for the State of North Carolina. The Council agreed with Auditor Wood noting that she had a talented employee working with the review work group and Mr. Stone offering his own time and support.

C. Work Plan Update

1. Attestation and Validation

Ms. Baldwin gave an overview of the Council staff's effort to validate annual audit plans and quarterly attestations from the state agencies and universities. Under audit plan submission, thirty-nine were submitted and three were late. Out of the three that were late there was one situation where there was only a director who was doing interviews for five open positions. Upper management of the agency was notified and agreed with postponement. This audit plan has been submitted. The next was in the process of hiring a vendor to do the risk assessment and there was a slow start to the process, this plan has been submitted. The third late submission was void of an Internal Audit Director and was a one-person shop, when the new director was hired in October the risk assessment was completed and the plan was submitted. As it relates to quarterly reporting, quarters one and two have been collected with none being late. One agency with no internal auditor in

quarter one, and four agencies who had no internal auditor in quarter two did not submit. Ms. Baldwin noted that as of this meeting The Community College System Office has hired someone so those reports would be submitted in the future, but the other three agencies were still in the process of posting positions and interviewing as the market is extremely tough right now.

Ms. Baldwin went on to detail the Risk-Based Audit Plan validation process. She informed that Council staff reviewed 12 agencies a year in a 3-year cycle to determine if they were adhering to standards. The Council staff have completed 8 agencies to date and are in the process of reviewing the other 4, with a goal to have these completed before June 30th. Auditor Wood asked for clarification of the due date column on the validation table. Ms. Baldwin clarified that is the year that each agency would receive validation. State Auditor Wood asked how this process was going for the Council staff, to which Ms. Baldwin assured that the process was going smoothly.

Chair Roseland asked if there were any other questions, clarifications, or concerns, of which there were none.

2. Risk-Based Audit Plan Changes and Progress

Ms. Baldwin updated the Council on the Central Internal Audit Office's audit plan changes and progress, thus far. The department started with 81 projects and has added 16 additional projects. These additions have depleted all contingency hours, creating a deficit in hours. If any new projects are added, some projects will need to be dropped or carried over as there will not be hours to complete the projects. The office has completed 35 projects, with 49 more in progress, which equals to about 87% of the current plan. Ms. Baldwin detailed that the office goal was to have 90% of the plan completed or in progress by the end of the fiscal year and staff are working diligently to complete that goal.

Chair Roseland noted that the highlight of the demand on Ms. Baldwin's team versus staff capacity was a good segway to the next agenda item.

3. State Term Contract Update

Chair Roseland overviewed the State Term Contract in which there are pre-vetted external CPA firms that can contract to do internal audit work for state agencies who do not possess the current staffing capacity. Chair Roseland noted that there is a new bidding cycle coming up that can help provide some capacity outside of the state employee as staffing is hitting hard everywhere, inside and outside of state government.

Ms. Baldwin provided an update on the State Term Contract that ends in May 2023, but was extended by three months to allow the Department of Administration (DOA) - Purchase and Contract to issue a new Request for Proposal (RFP). The Council staff met with the DOA and are currently drafting the RFP which they will provide in late April or early May. Ms. Baldwin will develop a work group of Internal Audit Directors to review and make any changes needed. Ms. Baldwin noted that in the past proposals were assurance engagements and she would like to add advisory engagements. She plans to keep the risk assessments scope, which was added three years ago. Ms. Baldwin advised

that the timeline for the work group would be around two weeks and then the document would be returned to Purchase and Contract who will post it for 30 days. Ms. Baldwin suggested that Council members who knew vendors that would be interested in being on the contract, please advise those vendors once the RFP is posted. She noted that in the past there had been some trouble with the larger firms having objections to some of the general terms and conditions; this year, the state purchasing officer said that these terms and conditions could be negotiated. The goal is to try to get as many firms as possible on the contract. Ms. Baldwin noted that she hopes with due diligence that we will be successful in increasing the number of vendors.

Chair Roseland then explained for background that the model for this State Term Contract was the U.S. Government General Services Administration (GSA), which has pre-vetted CPA Advisory Firms for internal audit work that can be used by federal agencies. On GSA's pre-vetted firms there are 175 firms and contractors and 2,300 other firms that provide financial advisory services and management advisory services. The current NC State Term Contract has three. He noted that the overall objective was to have a more robust pool of firms to contract with by August 2023 to assist agencies in need.

Auditor Wood had a question on whether the firms were vetted by service type or just put in an all-encompassing pool to which Ms. Baldwin and Chair Roseland clarified that the firms were vetted by service type as some would not have the experience to complete the more complex scope of work such as risk assessments; each would be tailored to their strengths.

Ms. Baldwin noted that the options of how to request a vendor would also be changing to make access to a particular vendor easier and the Audit community would respond well to this.

4. Training Update

Ms. Baldwin then briefed the Council on Staff's efforts to provide appropriate training for internal auditors throughout the state. She reviewed the current training that staff are providing jointly with the local chapter of the IIA, which is a four-part CIA exam review to assist auditors in obtaining certification (32-hours of CPE). She then informed the Council that the staff is planning an in-person training session on information technology (IT) general controls training, which is IT Auditing for Non-IT Auditors on June 2, 2023, (8-hours of CPE). She noted that in-person training can be very beneficial for auditors to network with others in their field from around the state. There will be a small fee to cover the cost of lunch and the speaker. Ms. Baldwin thanked the Department of Agriculture for providing the location for this training.

Chair Roseland thanked the Council and let it be known that this concluded the regular part of the agenda and that they would now move on to public comments.

D. Public Comments

Chair Roseland then asked if there were any comments or observations from anyone attending to which there were none.

E. Adjournment

Chair Roseland recognized and thanked everyone for their time and concluded the meeting at 9:47 a.m.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held on April 12, 2023.

Witness my hand, this 12th day of July 2023.

_____

Nels Roseland, State Controller, Chair

_____

Barbara Baldwin, Executive Director

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Information Technology Auditor

ISSUE

Only One IT Auditor position for Internal Audit functions

➢ Limits growth opportunities

➢ Difficulties recruitment & retention

➢ Intentional misclassification

IT Auditor

Grade	MINIMUM	1st Q	MIDPOINT	3rd Q	MAXIMUM
DT09	73,965	83,211	92,456	101,702	110,948

Class Concept

This is advanced professional work in auditing applications and systems that utilize electronic data processing equipment to process and store financial transactions or confidential data. Work involves review of computer applications to determine if data is processed correctly and is secure. Included in the audit is a review of the total configurations and environment to determine if access to computer programs, data, and equipment is limited to authorized personnel, and to assess the measures which have been taken to prevent and/or recover from computer failure. Employees at this level are assigned to audit complex applications and systems and computer centers in State Government. Work may involve assisting financial auditors in developing new audit techniques which involve utilizing the computer as an audit tool. Employees can use a wide variety of software packages and must assess hardware configurations from many different vendors.

Work assignments require analysis of complex computer programs and files, utilizing high procedural languages and occasionally machine language. The work requires an understanding of auditing practices coupled with an understanding of the principles of systems design, with skill in one or more computer programming languages.

Recruitment Standards

Knowledge, Skills, and Abilities
• Thorough knowledge of the principles/fundamentals of auditing.
• Thorough knowledge of the capabilities and use of computer hardware.
• Working knowledge of Information Technology Security
• Considerable skill in programming and specialized report generation or data retrieval languages.
• Basic knowledge of auditing practices including risk assessment, performing walkthroughs, sampling and testing methodologies, and analysis of results for potential exceptions/issues.
• Basic knowledge of operating system, data storage, and database platforms (e.g., mainframe, Active Directory, Windows, Linux, Oracle, etc.); network architecture; IT governance processes; IT risk management and assessment processes.
• Working knowledge in computer programming languages, programs, coding, and/or data analytics.
• Ability to write and express oneself clearly.
• Ability to deal effectively with information system, fiscal, and/or management personnel.

Minimum Education and Experience
• Graduation from a four-year college or university with a degree in, computer science, accounting, or a related IT degree and four years of experience in data analytics auditing, or information systems, programming, or technology auditing; or
• A two-year degree in computer science from a technical or community college and six years of experience In data analytics auditing, or information systems, programming, or technology auditing; or
• An equivalent combination of education and experience may be substituted on a year-for-year basis.

Current Classification Comparison

Internal Auditor Classification for Information System Auditor

IT Auditor	32002439	DT09

Office of the State Auditors Classification for Information System Auditor

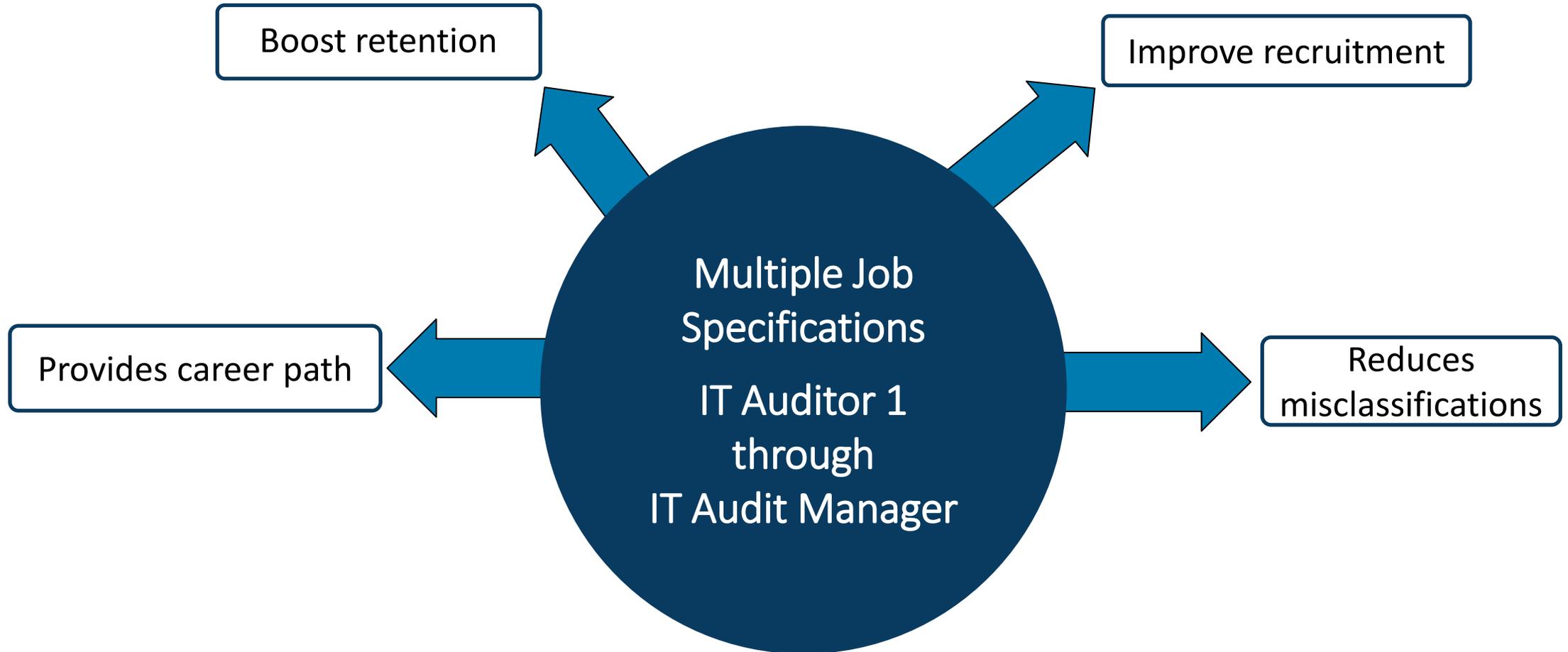|		
Assistant State Information Systems Auditor I	32004654	NC13
Assistant State Information Systems Auditor II	32004655	NC19
Assistant State Information Systems Auditor III	32004656	NC22
Assistant State Information Systems Auditor Supervisor	32004657	NC25
Assistant State Information Systems Auditor Manager	32004658	NC26

Current Grade and Pay Scale Comparison

Job Classification	Grade	MINIMUM	1st Q	MIDPOINT	3rd Q	MAXIMUM
Assistant State Information Systems Auditor I	NC13	45,675	54,239	62,803	71,367	79,932
Assistant State Information Systems Auditor II	NC19	61,209	72,686	84,162	95,639	107,116
Assistant State Information Systems Auditor III	NC22	69,236	85,680	102,123	118,567	135,010
Assistant State Information Systems Auditor Supervisor	NC25	81,704	107,236	132,768	158,301	183,833
Assistant State Information Systems Auditor Manager	NC26	91,916	120,640	149,364	178,088	206,812

Grade	MINIMUM	1st Q	MIDPOINT	3rd Q	MAXIMUM
DT09	73,965	83,211	92,456	101,702	110,948

Boost retention

Improve recruitment

Provides career path

Multiple Job Specifications

IT Auditor 1 through IT Audit Manager

Reduces misclassifications

Conclusion

Seeking approval from the Council to collaborate with the Office of State Human Resources to establish an Internal Audit Information Technology Auditor series and corresponding compensation.

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C.1 External Quality Assurance Results

Please follow link below for full report.

External Quality Assurance Report

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C2: State Agency Risk-Based Audit Plan Validation

No Suggestion for Improvement

1. Appalachian State University

2. East Carolina University

3. University of North Carolina Charlotte

4. Department of Information Technology

5. Department of the State Treasurer

6. Department of Commerce

Suggestion for Improvement to Move Toward Best Practice

1. Department of Administration

2. Department of Justice

3. Department of Public Safety

4. University of North Carolina Greensboro

5. University of North Carolina Pembroke

Significant Deficiencies with Meeting the Standards

1. Wildlife Resources Commission

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C3: Risk-Based Plan Changes and Progress

Table 1
Changes in Risk-Based Plan

	Projects	Hours
Plan as of July 1, 2022*	81	10,910
Added to plan	30	6,150
Plan as of June 30, 2023	111	17,060

Contingency Hours

	Hours
Start July 1, 2022	2,506
Projects under budget	3,763
Added projects	(6,150)
Avaliable hours	119

* Hours adjusted based on actual hours to completed the project.

Table 2
Risk-Based Plan Progress
As of June 30, 2023

Status	Numbers		Hours	
Complete*	77	71%	10,239	60%
In-Progress	26	23%	6,709	39%
Dropped	8	6%	114	1%
	111		17,062	

* Includes Council Programs and activities.

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C4: State Term Contract Update

1. Workgroup Members:
   a. Nels Roseland, OSC
   b. Jennifer Pacheco, OSC
   c. Jeff Grimes, DHHS
   d. Landon Perry, DIT
   e. John Gagnon, OSBM
   f. Barbara Baldwin, OSBM

2. Request for proposal received May 17, 2023

3. Workgroup modified and returned May 25, 2023

4. Purchase and Contract posted to vendors July 11, 2023

5. Closing date August 11, 2023

6. Tentative evaluation between August 11-18, 2023

7. Tentative effective data November 2, 2023

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C5: Training Update

Topic: Information Technology General Controls Audit for Non-IT Auditors

Facility: Steve Troxler Agricultural Sciences Center

Participants: 108 individuals

Fee: $25 per participant

Cost: $4,772

Overview:

Based on the result of a training needs survey, the OSBM Central Office of Internal Auditing hosted Information Technology (IT) Auditing for Non-IT Auditors. This training opportunity consisted of a 1-day, in person, training for internal auditors on June 2, 2023, at 8:30 am, for 8-CPEs. A small fee was charged for attendance to offset the cost of providing lunch and speaker fee. At the courtesy of Derek Allred, the facility was reserved at no cost.

Summary:

This course was designed for internal auditors who are not IT experts and who realize the importance of integrating IT controls and evaluation into their business audits. Attendees learned how to plan, test, and communicate the results of their audits to both IT and business owners. Auditors acquired baseline knowledge for IT general and application control concepts and skills and the importance and relationship in business processes. Auditors learned the fundamental issues concerning IT controls and the scope of IT risks that must be addressed in today's business environment. A variety of learning techniques were deployed, including lecture, group discussion, and case studies. Attendees were able to tailor this training to their needs related to integrating IT auditing into their day-to-day audits.

A survey was sent out and 97% of attendees were satisfied with the overall content of the training.