



# STATE OF NORTH CAROLINA

## COUNCIL OF *INTERNAL AUDITING*

Dr. Linda Combs  
State Controller, Chair

Charles Perusse  
State Budget Officer

Pamela Cashwell  
Secretary of  
Administration

Josh Stein  
Attorney General

Ron Penny  
Secretary of Revenue

Beth Wood  
State Auditor

### Agenda

November 10, 2021

#### Call to Order

Reading of Ethics Awareness Reminder .....2

#### A. Approval of Minutes

1. July 14, 2021 (*Action item*) .....3

#### B. Council Items

1. Annual Report (*Action item*) .....8

#### C. Work Plan Update

1. Self-Assessment Maturity Model.....41

2. Classification and Compensation.....41

3. Statewide Internship Program.....41

4. CIAO Staff Update.....41

#### Adjourn

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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## COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs  
*State Controller, Chair*

Charles Perusse  
*State Budget Officer*

Pam Cashwell  
*Secretary of Administration*

Joshua Stein  
*Attorney General*

Ron Penny  
*Secretary of Revenue*

Beth A. Wood  
*State Auditor*

### Minutes July 14, 2021

#### **Call to Order**

The Council of Internal Auditing (COIA) met virtually on Wednesday, July 14, 2021. Chair Dr. Linda Combs presided and called the meeting to order, took a voice roll call of members present (see below), then read the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

The following Council of Internal Auditing Members were present virtually:

Dr. Linda Combs, Chair – State Controller  
Charles Perusse, State Budget Director  
Pam Cashwell, Secretary of Department of Administration  
Tiffany Lucas representing Josh Stein, Attorney General  
Daryl Morrison, representing Ron Penny, Secretary of Revenue  
Beth Wood, State Auditor  
Barbara Baldwin, COIA Director, OSBM

#### **A. Approval of Minutes by Roll Call Vote**

Request for approval of the April 14, 2021 meeting minutes was made by Chair Dr. Combs. No corrections were made to the April 14, 2021 minutes.

Charles Perusse moved to approve the April 14, 2021 minutes and Daryl Morrison seconded the motion.

Roll Call Vote for Approval of April 14, 2021 Minutes were all verbally accepted by the following members:

Charles Perusse  
Daryl Morrison, representing Ron Penny, Secretary of Revenue  
Dr. Linda Combs  
Pam Cashwell  
Tiffany Lucas, representing Josh Stein, Attorney General-  
Abstained from vote

## **B. Council Items**

### **1. Audit Charter**

Barbara Baldwin reviewed the changes made to the Central Internal Audit Charter. (Page numbers reference location within the full agenda provided to the members for their review in advance of the meeting.)

- a. Title Changed from Council of Internal Audit Charter to Central Internal Audit Charter to coincide with Barbara's title as Director for the Central Internal Office.
- b. Page 9 under Introductions, Sentence 2; reference made to "improve operations of State agencies"; agencies mentioned collectively rather than listing the ten specific agencies.
- c. Page 10 under Organization, administrative duties added since there was no former reference to them.
- d. Page 11 under Responsibility, bullets were added to support the specific administrative functions.
- e. Amendments to Charter requested by Secretary Pam Cashwell as follows:
  - Page 10, Paragraph 1, Sentence 2, add the words "to the" behind administratively to read; The Central Internal Audit Director will report functionally to the Council of Internal Auditing (Council) and administratively **to the** State Budget Officer.
  - Page 10, Paragraph 3, Sentence 1, add the word "the" behind administratively to; will read; Central Internal Audit Director reports administratively to **the** State Budget Director.

With the amendments noted for correction, Secretary Pam Cashwell moved to approve the charter with Charles Perusse seconding the motion.

Dr. Combs then took a roll call vote of the members by acknowledging their approval with their hand raised. All members approved: Tiffany Lucas representing Josh Stein, Attorney General; Daryl Morrison, representing Ron Penny, Secretary of Revenue; Charles Perusse; Dr. Linda Combs and Secretary Pam Cashwell.

2. **Council Work Plan** – Barbara Baldwin provided brief review of the following items.

#### **a. External Quality Assurance Review Update**

Updates to the QAR since the last meeting include: Department of Public Safety completed their Peer Review thus bringing them up to standards. One agency still remains overdue – Office of State Treasurer. There are two agencies whose review

is due by the end of this year (2021) - Elizabeth City State University and Employment Security Services-Commerce. For 2022, the Community College Central Office and Department of Agriculture & Consumer Services reviews are due.

#### **b. OSHR Classification and Compensation Process**

Stacy Toronto, former Internal Audit Director at ECU, was hired to assist with developing templates for agencies to use to assess their employees. Job descriptions have been developed. COIA staff have provided training to agency HR staff. Agencies are charged with assessing their employees to send the assessments back to Stacy for review and to provide feedback while answering questions they might have. Once assessments are approved, Stacy will forward them to OSHR for final review and approval.

Auditor Wood mentioned there should be no expectation by internal audit staff to move into the new classification. Once self-assessment is completed comparing to the new job specifications, the Manager will know whether an Internal Auditor will be ready to move up or not. Barbara Baldwin planned to speak with OSHR to encourage them to reach out to the Managers as HR is not familiar with what an individual has completed throughout their career and thus meet the standards.

#### **c. Self-Assessment Maturity Model Update**

Agencies met with their Internal Auditor's to discuss the self-assessment then provided feedback to Barbara Baldwin regarding their responses. The next phase included conducting workshops on how to assess employees; two workshops were held successfully. COIA staff will identify remaining agencies that require this training.

#### **d. Statewide Intern Program**

Collaboration between the UNC System Office and OSBM resulted in a statewide intern program being established. Lisa Hartwell implemented the program at three of the universities while linking all the campuses with this pipeline of talent. The internship enables students to work with State Government to determine if they are interested in this type of work and encourage them to apply for jobs that are vacant. Internships provide a cost savings as a result of not having to provide office space and computer equipment, as would full time employees, to work. There are eight (8) interns who began on August 20, 2021.

#### **e. Future Annual Report Items**

One of the Assistant State Auditors from Auditor Wood's office helped the Council of Internal Audit staff to review the current Annual Report. Suggestions were made to incorporate for making future annual reports easier to read with more quality and depth.

#### **f. CIAO Risk-Based Audit Work Plan**

Barbara Baldwin reviewed the Audit Work Plan for the Central Internal Audit Office. (Page numbers reference location within the full agenda provided to the members for their review in advance of the meeting.)

A chart of work plan summary of hours per agency was provided on Page 17. The NC Office of Recovery and Resiliency (NCORR), shows more hours as they have two full time Internal Auditors who work on federal disaster funds received for Hurricanes Matthew and Florence. The Council of Internal Audit (CIA) hours are primarily due to administration of the Council programs and work on special projects such as Council Training, DOT Risk Assessment, Peer Review items and investigative work; most recently on procurement fraud. It was noted that the Commission of Banks (COB) has hired the Department of Commerce to conduct its Internal Audit work beginning in 2022. The Office of State Auditor (OSA) will hire a contractor to complete audit work for their office instead of OSBM for 2022. Also noted in the work plan summary was a timing change for the completion of risk assessments which increased the risk assessment hours for FY 2021.

Dr. Combs reminded the members the Work Plan covers a two-year period and requested approval of it. Charles Perusse moved to approve the CIAO Risk-Based Audit Work Plan and Daryl Morrison seconded the motion.

The Audit Work Plan was also approved and acknowledged through show of hands by members Secretary Pam Cashwell, Charles Perusse, Tiffany Lucas representing Josh Stein, Attorney, Chair Dr. Linda Combs and Daryl Morrison.

#### **C. Future Meetings**

The next Council of Internal Audit meeting is scheduled for October 13, 2021 at 9:00 a.m.

Charles Perusse moved to adjourn with the motion seconded by Secretary Pam Cashwell.

Witness my hand, this 14<sup>th</sup> day of July 2021.

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Linda Combs, State Controller, Chair

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Barbara Baldwin, Secretary

# ANNUAL ACTIVITY REPORT

**As Required by G.S. 143-747(c)(12)**

July 1, 2020 – June 30, 2021



PREPARED FOR:

**STATE OF NORTH CAROLINA  
COUNCIL OF INTERNAL AUDITING**

*Prepared By:*

***Central Internal Audit Office  
Office of State Budget and Management***



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## EXECUTIVE SUMMARY

The purpose of this report is to provide the North Carolina Council of Internal Auditing members (Council) information on activities performed by the Council staff and agencies<sup>1</sup> Internal Audit (IA) programs. This report describes activities performed from July 1, 2020, through June 30, 2021. The Council is staffed by the Office of State Budget and Management (OSBM). The Central Internal Audit Office (CIAO) has eight people, with an Internal Audit Director and a Program Officer/Internal Auditor serving as staff to the Council. The CIAO had an operating budget of \$858,340 for FY20-21.

The first section of this report describes Council staff responsibilities and activities. The activities and efforts of the Council staff this fiscal year included:

- Supported Council meetings and kept minutes of the proceedings.
- Updated and promulgated guidelines, technical manuals and suggested best practices.
- Supported 7 requests for Peer Reviews. All 7 have been completed at this time.
- Sponsored training sessions on fraud, internal controls, and a Certified Internal Auditor review course and others as described on pages 6 and 7 of this report.
- Awarded the North Carolina Award of Excellence to UNC Healthcare.
- Provided audit services to the Department of Military and Veteran Affairs, Offices of State Budget and Management, State Human Resources, Governor, State Auditor and the Recovery and Resiliency Office.
- Maintained a central database of Agency Internal Audit plans. Collected agency reports and audit plans. One IA programs offices did not provide an audit plan and two did not provide any reports. Fifteen IA programs were late submitting reports. Contact and subsequent follow-up were made to agencies' Internal Audit staff to resolve these outstanding issues.
- Created the statewide Internal Audit Service Efforts and Accomplishments Report.
- Administered the Institute of Internal Auditors (IIA) government group membership program providing a 31% discount on IIA memberships.
- Established a statewide internship program.
- Worked frequently with individual agencies to suggest best internal audit practices. Numerous conversations take place during the year to provide audit tips and solutions. Consultations take place almost daily when the phone rings and agency internal auditors are seeking support and assistance.

The second section of the report describes the State Agency Internal Audit Program efforts. This section includes Audit Resources, Efforts and Accomplishments, and Compliance with the Internal Audit Act and Council's requirements. Charts and graphs, beginning on page 11, show details of this section.

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<sup>1</sup> Agency means department, office, university, commission, or board.

## INTRODUCTION

The purpose of this report is to provide the North Carolina Council of Internal Auditing members (Council) information on activities performed by the Council staff and agencies<sup>2</sup> internal audit programs. This report describes activities performed from July 1, 2020, through June 30, 2021.

The North Carolina Internal Audit Act<sup>3</sup> (the Act) established the Council and requires all Executive Branch agencies to establish a program of internal auditing. The Council is mandated to administer program and provides services to these internal audit programs. Issuing this report on service efforts and accomplishments of these programs; and propose legislation for consideration by the Governor and General Assembly is one of the mandates within the Act.

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<sup>2</sup> Agency means department, office, university, commission, board.

<sup>3</sup> Entire Internal Audit Act is in Appendix A.

## COUNCIL OF INTERNAL AUDITING

### *Council Resources and Requirements*

#### *Membership and Programs*

The Council membership is set by statute as shown in Table 1. The Council meets at least quarterly to provide guidance, set policies, and assess progress of internal auditing efforts within State government.

The Council has 12 mandated requirements within the North Carolina Internal Audit Act. The mandates included holding meetings and hearings, and administer programs and activities. For details on the Council mandated requirements see page 5.

**Table 1**

<b>Council of Internal Auditing Members</b>	
Dr. Linda Combs, Chair	State Controller
Charles Perusse	State Budget Officer
Pamela Cashwell	Secretary of Administration
Josh Stein	Attorney General
Ronald Penny	Secretary of Revenue
Beth Wood	State Auditor (nonvoting)

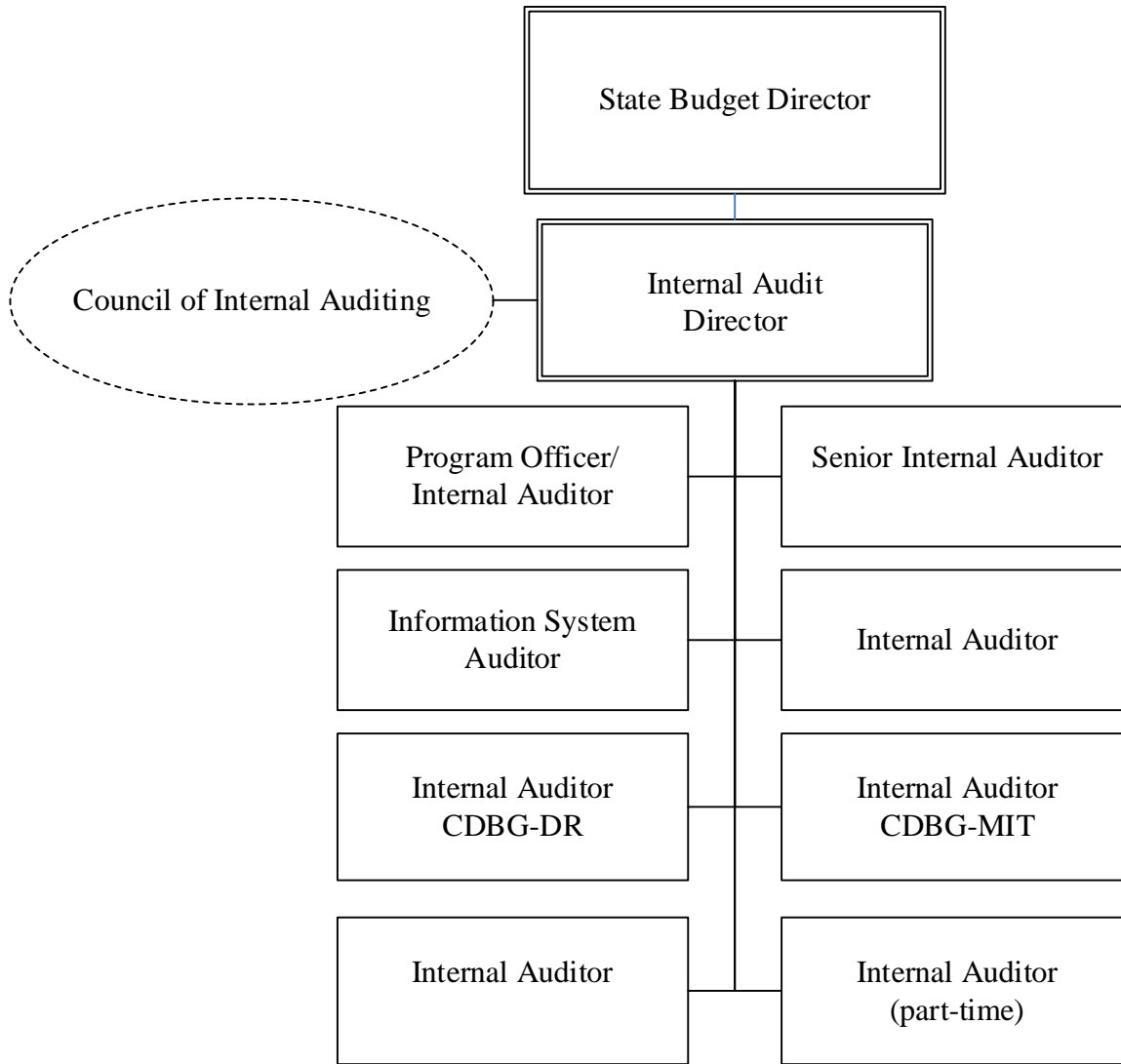
#### *Council Staff and Expenditures*

The Office of State Budget and Management (OSBM) supports the Council and established the Central Internal Audit Office (CIAO) to house the Council staff. The organizational structure of the CIAO is shown in Exhibit 1. The eight internal auditors hold eleven professional credentials as follows:

- Four Certified Internal Auditors
- Two Certified Fraud Examiners
- One Certified Government Audit Professional
- Two Certified Public Accountants
- One Certified Internal Control Auditor
- One Certified Information System Auditor

**Exhibit 1**

**Central Internal Audit Office as of June 30, 2021**



The expenditures for FY2016-17 through FY2020-21 are shown in Table 2. The Central Internal Audit Office had a forty-seven percent (47%) overall increase in expenditures compared to the prior year. The increase is attributed to increased staff levels and CBDG-DR funds.

Table 2

<b>Office of Internal Audit Five Year Expenditures</b>					
<b>Expenditures</b>	<b><u>FY2020-21</u></b>	<b><u>FY2019-20</u></b>	<b><u>FY2018-19</u></b>	<b><u>FY2017-18</u></b>	<b><u>FY2016/17</u></b>
<b>Personnel</b>					
<i>Employee</i>	825,442	560,123	561,399	508,707	518,220
<i>Contractor</i>			-	-	15,020
<b>Total Personnel</b>	<b>825,442</b>	<b>560,123</b>	<b>561,399</b>	<b>508,707</b>	<b>533,240</b>
<b>Purchased Services</b>					
<i>Software</i>	4,831	5,360	32,096	2,559	5,411
<i>Training &amp; Development</i>	3,464	1,852	16,440	15,351	2,244
<i>Information Technology Services</i>	16,839	8,946	11,792	10,261	6,368
<i>Travel</i>	-	1,710	1,728	2,941	7,820
<b>Total Purchased Services</b>	<b>25,134</b>	<b>17,867</b>	<b>62,056</b>	<b>31,112</b>	<b>21,844</b>
<b>Supplies</b>	-	-	-	-	-
<b>Property, Plant, &amp; Equipment</b>	422	-	-	-	2,181
<b>Other</b>	7,342	1,394	1,414	1,279	1,385
<b>Total Expenditures</b>	<b>858,340</b>	<b>579,383</b>	<b>624,869</b>	<b>541,098</b>	<b>558,650</b>
<b><u>BREAKDOWN BY FUND SOURCE</u></b>					
<b>General Fund</b>	<b>612,708</b>	<b>514,525</b>	<b>562,833</b>	<b>541,098</b>	<b>526,422</b>
<b>CDBG-DR Funds</b>	<b>245,632</b>	<b>64,858</b>			
<b>State Disaster Funds</b>			<b>51,324</b>		
<b>Other State Agencies</b>	-	-	<b>10,712</b>		<b>15,020</b>
<b>Rhode Island QAR</b>					<b>17,208</b>



## Efforts and Accomplishments

The Internal Audit Act sets specific requirements for the Council. In addition to these mandated requirements, the Council has initiated other programs to support internal audit program with efficiency and effectiveness.

### *Council Mandated Requirements*

There are twelve mandated requirements within the Act which the Council is responsible for implementing and administer throughout the year.

#### *G.S. 143-747(c)(1 and 2) Meetings and Minutes*

G.S. 143-747(c)(1) This mandate requires the Council to hold meetings and G.S. 143-747(c)(2) requires keeping minutes of those proceedings.

Council staff kept minutes of all meetings held. Draft minutes were published in the meeting materials for the Council members to review and approve. Approved minutes were maintained by the Council staff.

#### *G.S. 143-747(c)(3) Guidelines*

This mandate requires the Council to promulgate guidelines for the uniformity and quality of internal audit activities. The guidelines for all North Carolina internal auditors are found in the Institute of Internal Auditors' International Professional Practices Framework (IPPF). That is the standard by which the Internal Audit community in North Carolina operates today.

#### *G.S. 143-747(c)(4) Staffing Analysis*

This mandate requires the Council to recommend the number of internal audit employees required by each State agency.

The Council staff refreshes the staffing analysis every three to four years. The staffing analysis is an abridged review to identify the minimal number of internal audit positions needed, not the optimal. A more extensive review must be conducted to determine the optimal number of positions needed in each internal audit program. The last review was completed in June 2017, which identified 24 agencies with internal audit staffing levels under the minimum needed to address risk within their agencies. Using current model for analysis, the number positions needed to get all agencies to the minimum number is 52.5 positions at a cost<sup>4</sup> of just under \$5 million. Details of the specific staffing recommendations can be seen in Appendix B. Council staff are currently working to modify the staffing analysis to account for more organizational risk factors.

#### *G.S. 143-747(c)(5) Guides, Technical Manuals, and Best Practices*

This mandate requires the Council to develop the audit guides, technical manuals and suggested best practices

The Statewide Internal Audit Manual (manual) was published in May 2008 and communicated to all internal auditors. The Institute of Internal Auditor's Standards (IIA Standards) is used as its framework, and the manual is updated when necessary. The last update to the manual coincided with the last update to the IIA Standards in 2017. In addition, the Council developed a technical bulletin to provide additional guidance and best practices to internal auditors. Internal Audit staff to the Council works with individual agencies frequently to suggest best internal audit practices. Numerous conversations take place during the year to provide audit tips and solutions. Consultations take place almost daily as Agency internal auditors reach out seeking support and assistance.

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<sup>4</sup> Annual cost of a position includes Salary and Benefits – \$91,200; and operating cost of \$3,800.

#### *G.S. 143-747(c)(6) Peer Review Program*

This mandate requires the Council to administer an independent peer-review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with the selection of independent peer reviewers from other State Agencies.

Council staff established a Peer Review program, which is a cooperative amongst internal audit programs. All internal audit programs are required to have an external quality assurance review every five years, as set by the IIA Standards. The Peer Review program was modeled after and follows all the requirements included in the Institute of Internal Auditors Quality Assessment manual. Training is provided to internal auditors on how to conduct a review and how to use the tools and templates for completing the review. Council staff receives requests, selects review team members, assists team members during the process, and conducts a quality review of each Peer Review conducted. A manual has been established for this program to outline the process, roles and responsibilities of the review team, internal audit programs and the Council staff.

For FY2020-21, seven agencies requested services from the Peer Review program. All seven reviews were completed. See page 21 for more details related to the outcomes of the Peer Review program.

External Quality Assurance Reviews (QAR) are required every five years. Seven were completed this year. The Department of Justice is overdue for a QAR. The University of North Carolina at Pembroke and the Department of Natural and Cultural Resources received a Partial Conformance rating. The Wildlife Resource Commission received a Does Not Conform rating. The remaining IA programs received a Generally Conforms rating, which is the highest rating. See charts and graphs page 21-22 for additional details on QARs.

#### *G.S. 143-747(c)(7) Training and Recognition Programs*

This mandate requires the Council to provide central training sessions, professional development opportunities, and recognition programs for internal auditors.

To maintain proficiency, audit standards require internal auditor participation in professional development. During FY2020-21, the Council sponsored four trainings, which provided internal auditors the opportunity to earn up to 56 certified professional education (CPE) hours

- The 5<sup>th</sup> Annual Fraud Audit Conference was held August 5, 2020. This one-day training session provided 8 CPE hours at a cost of \$15 per participant. Participants were invited from State Agencies, universities, community colleges, local education agencies, and local governments. There were 259 registered participants with a total cost of approximately \$1,500. Based on participant surveys, 98% found value in the training content.
- CIAO staff coordinated a four-day Certified Internal Auditor (CIA) review course in conjunction with the Local Chapter of the Institute of Internal Auditors (IIA). The review course corresponded to the three parts of the Certified Internal Auditor examination administered by the IIA. The training occurred between October and December 2020 and provided 32 CPE hours. There were 86 total registered participants, and the cost of sponsoring the training totaled approximately \$7,500. Based on survey responses, 90% of participants found the training sessions valuable.
- CIAO staff coordinated a two-day training on internal controls in conjunction with the Office of the State Controller. The training was held on March 30 - 31, 2021. The course focused on internal controls and communicating audit recommendations. Participants received 8 CPE for the cost of \$40. The cost of the training session was \$4,000. There were 202 participants at the training, and 93% found value in the training content.

- CIAO coordinated with Cherry Bekaert to provide two training sessions. The first was Effective Risk Assessments held on January 26, 2021. The course focused on how to use a tool develop by Cherry Bekaert for conducting risk assessments. The second was Risk Analytics Using Tableau held on February 23, 2021. The course was a tutorial on using Tableau for data analytics. Participants received 4 CPEs for each training, free of charge.

In addition to the training sessions above, other free or low-cost training was identified and communicated to all internal auditors throughout the year. Communication takes place via email and postings on the OSBM website. Over the past year, 25 professional development opportunities were identified, providing 105 CPE hours. Over 28% of the training events provided 30 CPE free of charge.

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement in internal auditing. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a state internal auditor or a group of internal auditors who have made extraordinary contributions that promote excellence in internal auditing. The 2020 Internal Auditor Award of Excellence was presented to Kwoklin Lee and Cynthia Lu with UNC Healthcare Internal Audit.

#### *G.S. 143-747(c)(8) Shared Internal Audit Program*

This mandate requires the Council to administer a program for sharing internal auditors among State Agencies needing temporary assistance and an assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency. The shared internal audit program provides audit services to small State Agencies. To use the internal audit program, a State Agency must:

1. Have an annual operating budget exceeding ten million dollars but less than seventy million dollars; or
2. Employ less than 100 full-time equivalent employees; or
3. Receive and process more than ten million dollars but less than seventy million dollars in cash in a fiscal year; or
4. Be deemed an appropriate recipient of internal audit services by the Council of Internal Auditing.

In addition to servicing five agencies, the program is responsible for conducting audits of the community development block grant disaster recovery and mitigation funds. Finally, the program will assist internal audit programs upon request. Services are dependent upon resource availability of the program. For service efforts of the OSBM Central Internal Audit Office, see page 17.

#### *G.S. 143-747(c)(9) Report and Audit Plan Repository*

This mandate requires that the Council maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.

Internal audit programs submitted the audit plans and reports via a SharePoint. Agencies must submit their audit plans by September 30<sup>th</sup> of each year and audit reports should be submitted within ten days of the issued date. For more details on compliance with requirements, see Compliance on page 20.

#### *G.S. 143-747(c)(10) Reports on Internal Audit Matters*

This mandate allows the Council to require reports in writing from any State Agency relative to any internal audit matter.

#### *G.S. 143-747(c) (11) Hearings, Inquiries, and Subpoenas*

This mandate allows the Council, when determined necessary by a majority vote of the Council, to conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor, and to inquire as

to the effectiveness of any internal audit unit and authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.

During FY 2020-21 the Council did not hold any hearings related to interference, compromise or intimidation of internal auditors, and no subpoenas were issued.

#### *G.S. 143-747(c)(12) Annual Report*

This mandate requires the Council to issue an annual report including, but not limited to, service efforts and accomplishments of State Agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. This report serves as the Council's Annual Report.

#### ***Council Initiatives***

##### *Institute of Internal Auditors (IIA) Government Group Membership*

The purpose of the program is to broaden and support internal audit knowledge by providing a reduced membership rate. Some benefits of membership include free and discounted continuing education development and professional publications; enhanced networking; and exclusive on-line resource materials. The Council staff has worked with the IIA to establish the State of North Carolina Government Group membership program that starts October 1 and ends September 30 of each year. Any government employee<sup>5</sup> can join this group and receive a discount on an IIA membership. On October 1, 2020, the program registered 193 individuals, and throughout the year added 20 individuals, resulting in a 31% reduction of the regular membership rate.

##### *Self-Assessment Maturity Model (SAMM)*

The SAMM's tool allows internal audit programs to evaluate themselves the IIA Standards. Once completed the Internal Audit director discusses the outcome with the agency head. The SAMM must be submitted to the Council and Council staff utilize results to target training areas.

From January to April a workgroup was established, and a tool as created to conduct self-assessment. Focus groups were held to provide feedback on the tool. Between May and June training was provided to Internal Audit directors on how to use the tool and complete attestation. Workshops were scheduled to be held throughout the summer allowing Internal Audit Directors to collaborate and complete the tool. September 30<sup>th</sup> was the scheduled deadline for completing the tool.

##### *Internship Program*

The program is a collaboration between UNC System Office and the Council of Internal Auditing. It is housed at the UNC System Office because of the relationship between the program, students, and professors. Students are recruited from any universities or community colleges to participate in the program. The student is assigned a data analytics or audit project from an agency's Internal Audit Plan. The program director works closely with professors to provide feedback on student's assignments to allow for a final grade to be given.

In June, a Memorandum of Understanding was established between UNC System Office and OSBM outlining the roles and responsibilities related to the program. A internship program director program was hired on July 1, 2021.

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<sup>5</sup> Local Government, Local Education Agency, State Government internal auditors and any Government employees that holds a certification issued by the IIA can join this group.

### *Classification and Compensation Overhaul*

This project created 6 new classifications assigned to internal audit. Classifications were created and vetted with the Office of State Human Resources (OSHR). The 6 new internal audit classifications were approved by the Human resource Commission in May 2021. Tools and templates were created to assist state employees that perform internal audit duties to self-assess their skills and abilities for assigning themselves to one of the 6 new classifications. A subject matter expert was contracted to review the self-assessments ensuring the proper placement.

Training was scheduled to be provided on July 15, 2021, to agency HR staff and Internal Audit Directors and Managers on how to use the tools and templates. Self-Assessments were scheduled to be completed by State employees and submitted to the agency HR staff for submission to the subject matter expert on, or before, August 23, 2021. All assessments were scheduled to be reviewed by subject matter expert by October 11, 2021. OSHR plans to issue final decisions by November 23, 2021.

### *Proposed Legislation Changes*

The Council of Internal Auditing did not sponsor any changes related to the Internal Audit Act during the 2020-2021 Legislative Session.

## STATE AGENCY INTERNAL AUDIT PROGRAM EFFORTS

### *Audit Resources*

#### *Positions and Contracting*

There are 47 agencies subject to the Internal Audit Act. Different models are used to establish an internal audit program, from in-house staffing to outsourcing the entire program. Below is information on internal audit positions, contractor use and supplemental staffing via intern or temporary employees.

As shown in Table 3, there are 203.25 internal audit positions, which are spread across 38 State Agencies. As of June 30, 2020, 84% of these positions were filled. There was a net gain of 17 positions across the State. Significant changes within certain State Agencies included:

- Department of Public Instruction added 5 time-limited internal audit positions.
- Department of Public Safety added 4 internal audit positions.
- Departments of Cultural and Natural Resources, Transportation and Commerce, and Office of State Budget and Management (OSBM) each added 1 internal audit position.
- The new Office of Pandemic Recovery housed within OSBM has 4 internal audit positions.

Four agencies outsource their internal audit program to other agencies or private contractors as follows:

- North Carolina School of the Arts contracts with Winston-Salem State University for audit services.
- North Carolina School of Science and Mathematics contracts with the University of North Carolina System Office.
- North Carolina State Education Assistance Authority contracts with the University of North Carolina System Office.
- North Carolina Housing Finance Agency contracts with Cherry Bekaert.

Agencies under \$70 million in operating funds may use OSBM as their internal audit program. During the period covered in this report, five agencies as well as the Office of Recovery and Resiliency used OSBM services instead of having an in-house internal audit program. Agencies serviced by OSBM during FY2020-21 are:

- Department of Military and Veterans Affairs
- Office of State Budget and Management
- Office of State Human Resources
- Office of the Governor
- Office of the State Auditor
- Office of Recovery and Resiliency

The Department of Military and Veterans Affairs is above the required \$70 million threshold but uses OSBM due to a lack of resources. The Office of Recovery and Resiliency is required to have an independent internal auditor per the State's application to the Federal Granting Agency and decided to use the OSBM's internal auditors but was required to reimburse OSBM for the cost of the two positions.



**Table 3**

<b>Statewide Internal Audit Positions<sup>5</sup></b>					
<b>Five-Year History</b>					
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Community College System Office	2	2	2	2	2
Commissioner of Banks <sup>1</sup>	0	0	0	0	0
Department of Administration	2	2	1	1	1
Department of Agriculture & Consumer Services	3	3	4	4	4
Department of Commerce	4	3	4	4	4
Department of Environmental Quality	3	3	3	3	2
Department of Health & Human Services	36	36	38	39	41
Department of Information Technology	4	4	2	2	3
Department of Insurance	1	1	1	1	1
Department of Justice	0.5	0.5	0.5	1	1
Department of Labor	1	1	0	0	0
Department of Military and Veterans Affairs <sup>1</sup>	0	0	0	0	0
Department of Natural and Cultural Resources	3	2	2	2	2
Department of Public Instruction	7	2	2	2	2
Department of Public Safety	23	19	18	18	18
Department of Revenue	3	3	2	3	3
Department of Secretary of State	1	1	1	1	2
Department of State Treasurer	5	5	5	6	3
Department of Transportation	16	15	25	25	25
Housing Finance Agency <sup>2</sup>	0	0	0	0	0
North Carolina Education Lottery	3	3	3	3	3
Office of State Controller	0.75	0.75	0.75	0.5	0.5
Office of State Human Resources <sup>1</sup>	0	0	0	0	0
Office of State Budget & Management (OSBM) <sup>1</sup>	8	7	6	5	5
OSBM Office of Pandemic Recovery	4				
Office of the Governor <sup>1</sup>	0	0	0	0	0
Office of the State Auditor <sup>1</sup>	0	0	0	0	0
Wildlife Resources Commission	1	1	1	1	1
Appalachian State University	5	5	5	5	5
East Carolina University	7	7	7	7	8
Elizabeth City State University	2	2	2	2	1
Fayetteville State University	1	1	0	0	0
North Carolina Agricultural & Technical State University	4	4	4	4	4
North Carolina Central University	4	4	4	4	4
North Carolina School of Science and Mathematics <sup>4</sup>	0	0	0	0	0
North Carolina School of the Arts <sup>3</sup>	0	0	0	0	0
North Carolina State Education Assistance Authority <sup>4</sup>	0	0	0	0	0
North Carolina State University	7	7	7	7	7
University of North Carolina - Asheville	1	1	1	1	1
University of North Carolina - Chapel Hill	8	8	6	7	7.75
University of North Carolina - Charlotte	6	6	5	5	5
University of North Carolina - System Office	3	3	2	2	2
University of North Carolina - Greensboro	2	2	2	2	2
University of North Carolina - Pembroke	2	2	2	2	2
University of North Carolina - Wilmington	5	5	4	4	4
Western Carolina University	2	2	2	2	1
Winston-Salem State University	6	6	6	6	5
University of North Carolina - Hospital	7	7	7	7	7
<b>Total</b>	<b>203.25</b>	<b>186.25</b>	<b>187.25</b>	<b>190.50</b>	<b>189.25</b>

1. Utilizes Office of State Budget and Management Internal Audit program

2. Uses contract auditors

3. Contracts with Winston-Salem State University

4. Contracts with University of North Carolina System Office

5. Information is self-reported by each internal audit program and not verified by Council staff.

### *Supplement Staffing Efforts*

Agencies continue efforts to supplement staffing levels by using: the state term internal audit supplemental staffing convenience contract; and hiring interns and temporary employees. Over the past year, 13 agencies have utilized alternative methods to address resource limitations as shown in Table 4.

**Table 4**

Supplemental Staffing Efforts				
Agency	State Term Contract	Interns	Temporary Employees	Other <sup>1</sup>
Department of Health & Human Services		✓	✓	
Department of Information Technology	✓		✓	
Department of Justice	✓			
Department of Transportation	✓			
Office of State Budget and Management (OSBM)				✓
OSBM Pandemic Recovery Office		✓	✓	
East Carolina University		✓		
North Carolina Education Lottery				✓
North Carolina State University		✓	✓	
North Carolina School of Arts			✓	
University of North Carolina - Pembroke				✓
University of North Carolina - System Office		✓		
University of North Carolina Hospital			✓	
Winston-Salem State University			✓	
<b>Total</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>3</b>

1. Contractor (Did not use the State Term Contract) or National Guard for Security Assessments

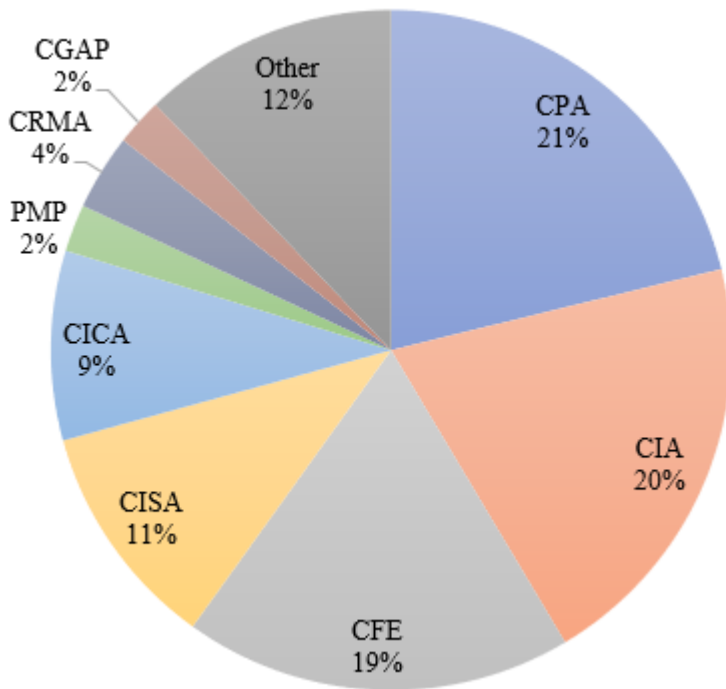
### *Personnel Proficiency*

Professional certifications and advanced degrees may lead to increased proficiency. Overall, internal auditors currently hold 221 professional certifications in 27 different areas. A breakdown of all designations held by agencies' internal auditors is shown in Chart 1, on the next page.



**Chart 1: FY2020-21**

**Professional Certifications**



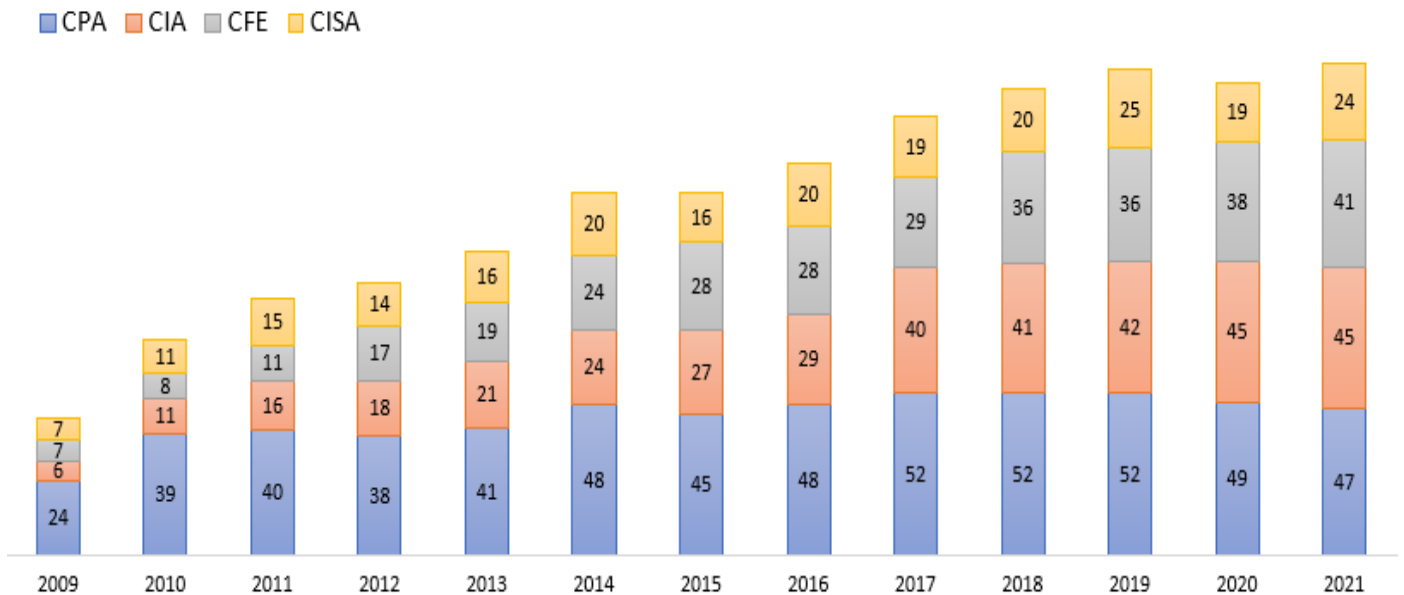
47 CPA/Certified Public Accountant  
 45 CIA/Certified Internal Auditor  
 41 CFE/Certified Fraud Examiner  
 24 CISA/Certified Information Systems Auditor  
 19 CICA/Certified Internal Controls Auditor  
 8 CRMA/Certification in Risk Management Assurance  
 5 CGAP/Certified Government Audit Professional  
 5 PMP/Project Manager Professional

**Other:**

4 Certified Information System Security Professional  
 3 Certified Government Financial Manager  
 2 Certified Public Manager  
 2 Certified Risk and Information Systems Control  
 2 Certified Data Privacy Solutions Engineer  
 1 Certified Anti-Money Laundering Specialist  
 1 Certified Compliance and Ethics Professional  
 1 Certified Ethical Hacker  
 1 Certified Fraud Specialist  
 1 Certified Forensic Investigation Professional  
 1 Certified Healthcare Compliance  
 1 Certified Healthcare Audit Professional  
 1 Certified Network Defense Architect  
 1 Certified Information System Manager  
 1 Certified Internal Audit Practitioner  
 1 Certified Network+  
 1 Computer Hacking Forensic Investigator  
 1 Certified Security Analyst  
 1 Lean Six Sigma - Greenbelt

**Chart 2: Year Growth in Certifications Held by Internal Auditors**

*Historical view of the top four certifications held by internal auditors*



Information above is self-reported by each internal audit program and not verified by Council staff.

Chart 3 illustrates the type of advanced degrees held by the Agency's internal auditors during the fiscal year. Auditors held 88 advanced degrees, with 77% of these being master's degrees in business administration or accounting.

**Chart 3: FY2020-21 Advanced Degrees**

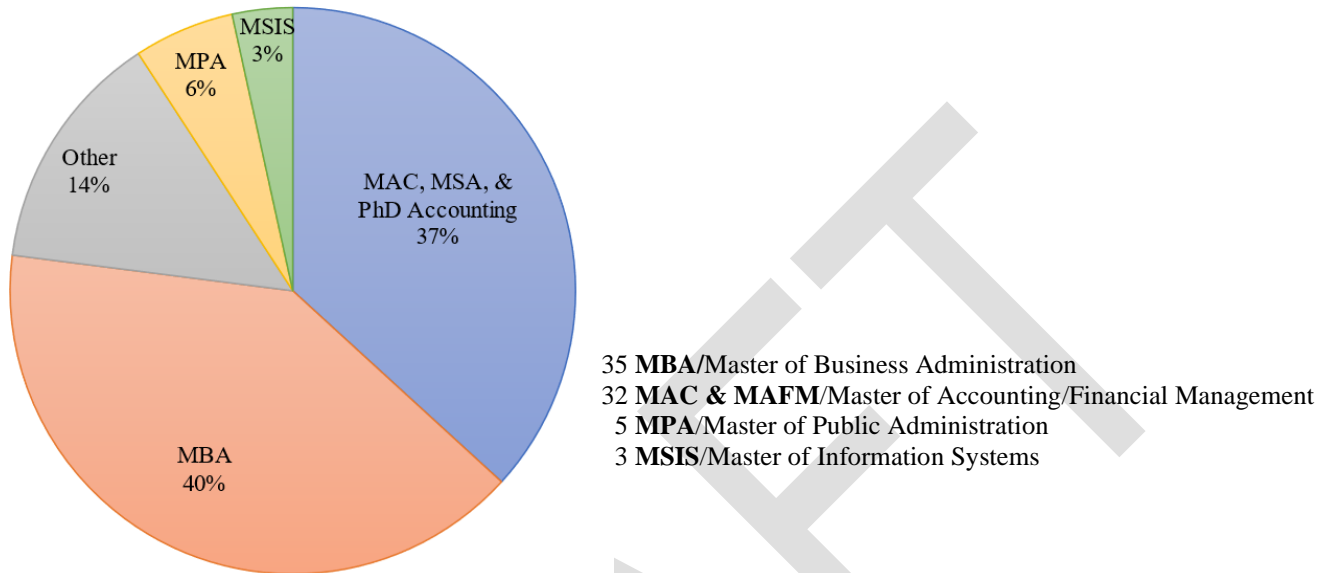
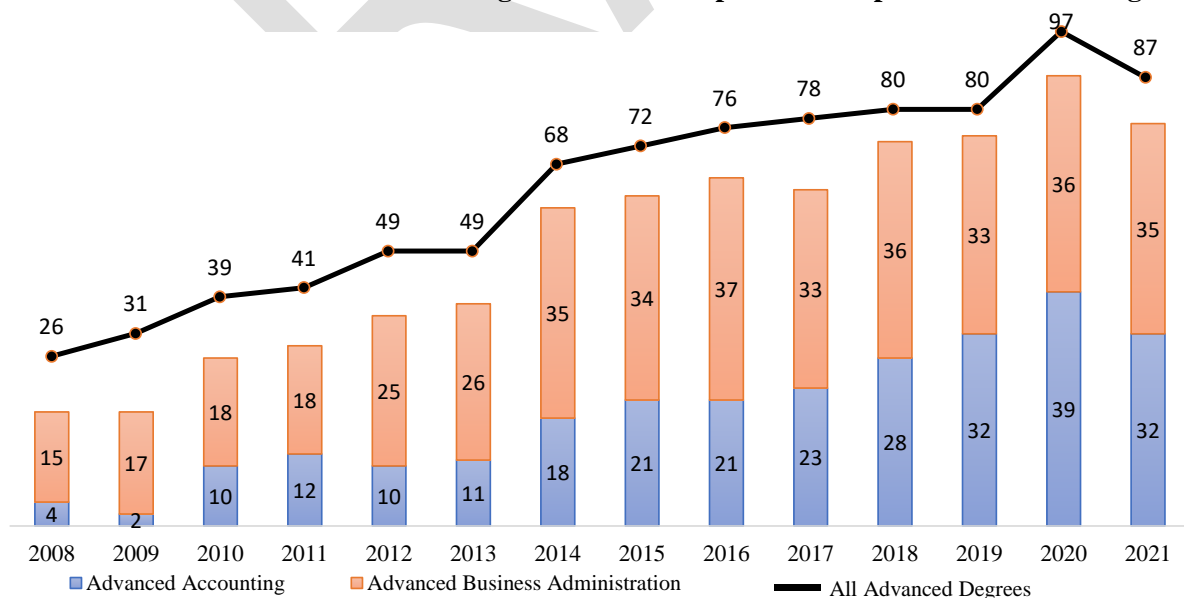


Chart 4 is a historical view of all advanced degrees. The Chart emphasizes accounting and business administration degrees.

**Chart 4: 14-Year Growth in Advanced Degrees with an Emphasis on Top Two Advanced Degrees**



### Computer Assisted Audit Tools

Internal audit programs can use computer-assisted audit tools (CAATs) to improve the efficiency and effectiveness of administrative and audit tasks. Automated tools range from basic office productivity software such as spreadsheets, word processors and text editing programs, to more advanced software packages involving the use of statistical analysis and business intelligence tools.

The advanced software products are typically productivity tools or generalized audit software. Productivity tools, such as Teammate and SharePoint, aid with the administration and management of the audit processes. Generalized audit software tools, such as ACL and IDEA, assist with data extraction, analytics, and testing.

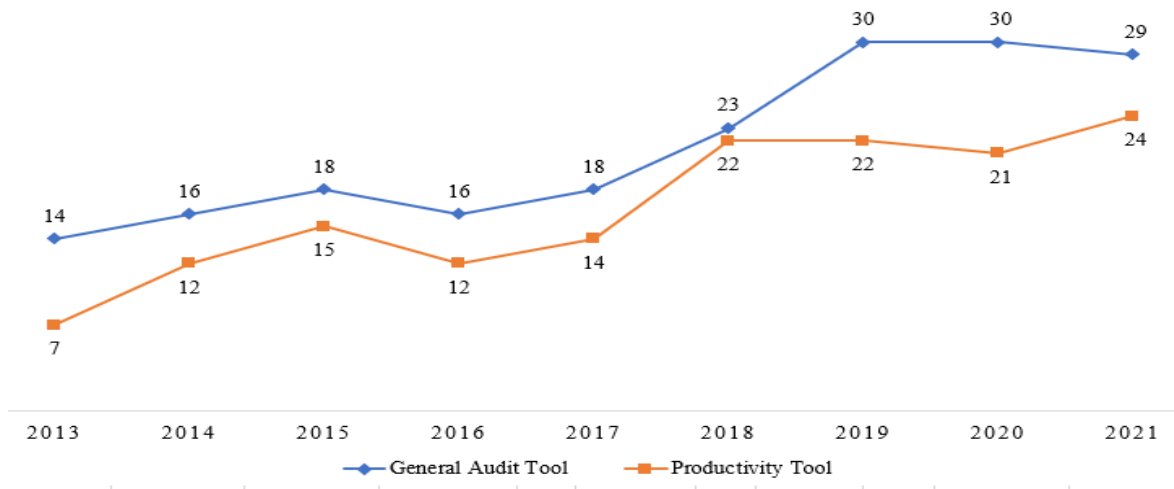
Table 5 identifies the types of CAAT products and the number of internal audit programs that had these products during the fiscal year 2021. Some internal audit programs use more than one generalized audit software or productivity tool which is depicted in Table 6 on the next page. Also shown in Table 6, all internal audit programs use Microsoft Office products to enhance productivity through automation. Currently, 29 IA programs have generalized audit software with 18 having multiple tools, and 24 agencies have productivity tools.

A 9-year historic view shows a significant growth in IA programs that have CAATs as illustrated in Chart 5.

**Table 5**

<b>Computer Assisted Audit Tools Use by Internal Audit Functions<sup>1</sup></b>			
<b>Generalized Audit Software</b>		<b>Productivity Tool</b>	
<b>Software</b>	<b>Users</b>	<b>Software</b>	<b>Users</b>
Tableau	26	SharePoint	17
Active Data	9	Auto Audit	5
Power BI	10	TeamMate	2
IDEA	5	Note One	2
ACL	4	Auditor Assistant	1
Pentana	1	HighBond	1
TeamMate Analytics	1	ShareFile for Windows	4
Truven	1	One Drive	1
SAS	1		
EnCase	1		
Bank of American Works	1		

**Chart 5: Number of Agencies Using CAATs  
Nine Year History**



Information is self-reported by each internal audit program and not verified by Council staff.

Table 6

Computer Assisted Audit Tool Usage <sup>5</sup>			
State Agency	Microsoft Office Products	Generalized Audit Software <sup>1</sup>	Productivity Tool <sup>2</sup>
Community College System Office	✓	✓	✓
Department of Administration	✓	✓	
Department of Agriculture & Consumer Services <sup>3</sup>	✓	✓	✓
Department of Commerce <sup>3</sup>	✓	✓	✓
Department of Environmental Quality <sup>3</sup>	✓	✓	✓
Department of Health and Human Services <sup>3,4</sup>	✓	✓	✓
Department of Information Technology <sup>4</sup>	✓	✓	✓
Department of Insurance	✓		✓
Department of Justice	✓		
Department of Labor	✓	✓	
Department of Natural and Cultural Resources	✓		
Department of Public Instruction	✓	✓	✓
Department of Public Safety	✓	✓	✓
Department of Revenue	✓		
Department of Secretary of State	✓		
Department of State Treasurer	✓	✓	✓
Department of Transportation	✓	✓	✓
North Carolina Education Lottery <sup>3</sup>	✓	✓	
Office of State Budget & Management <sup>3,4</sup>	✓	✓	✓
Office of the State Controller	✓		✓
Wildlife Resource Commission	✓		
Appalachian State University <sup>4</sup>	✓	✓	✓
East Carolina University <sup>3</sup>	✓	✓	✓
Elizabeth City State University <sup>3</sup>	✓	✓	✓
Fayetteville State University	✓		
North Carolina Agricultural & Technical State University <sup>3</sup>	✓	✓	
North Carolina Central University <sup>3</sup>	✓	✓	
North Carolina State University	✓	✓	
University of North Carolina - Asheville <sup>3</sup>	✓	✓	✓
University of North Carolina - Chapel Hill <sup>3</sup>	✓	✓	✓
University of North Carolina - Charlotte <sup>3,4</sup>	✓	✓	✓
University of North Carolina - System Office <sup>3</sup>	✓	✓	✓
University of North Carolina - Greensboro	✓	✓	
University of North Carolina - Hospital <sup>3</sup>	✓	✓	✓
University of North Carolina - Pembroke	✓		
University of North Carolina - Wilmington <sup>3</sup>	✓	✓	✓
Western Carolina University <sup>3</sup>	✓	✓	✓
Winston-Salem State University <sup>3</sup>	✓	✓	✓
1. Perform routine audit tasks including data extract, analytics, and testing. 2. Streamline processes to manage audits through electronic work papers and work flows. 3. Uses multiple generalized audit tools. 4. Uses multiple productivity tools. 5. Information is self-reported by each internal audit program and not verified by Council staff.			

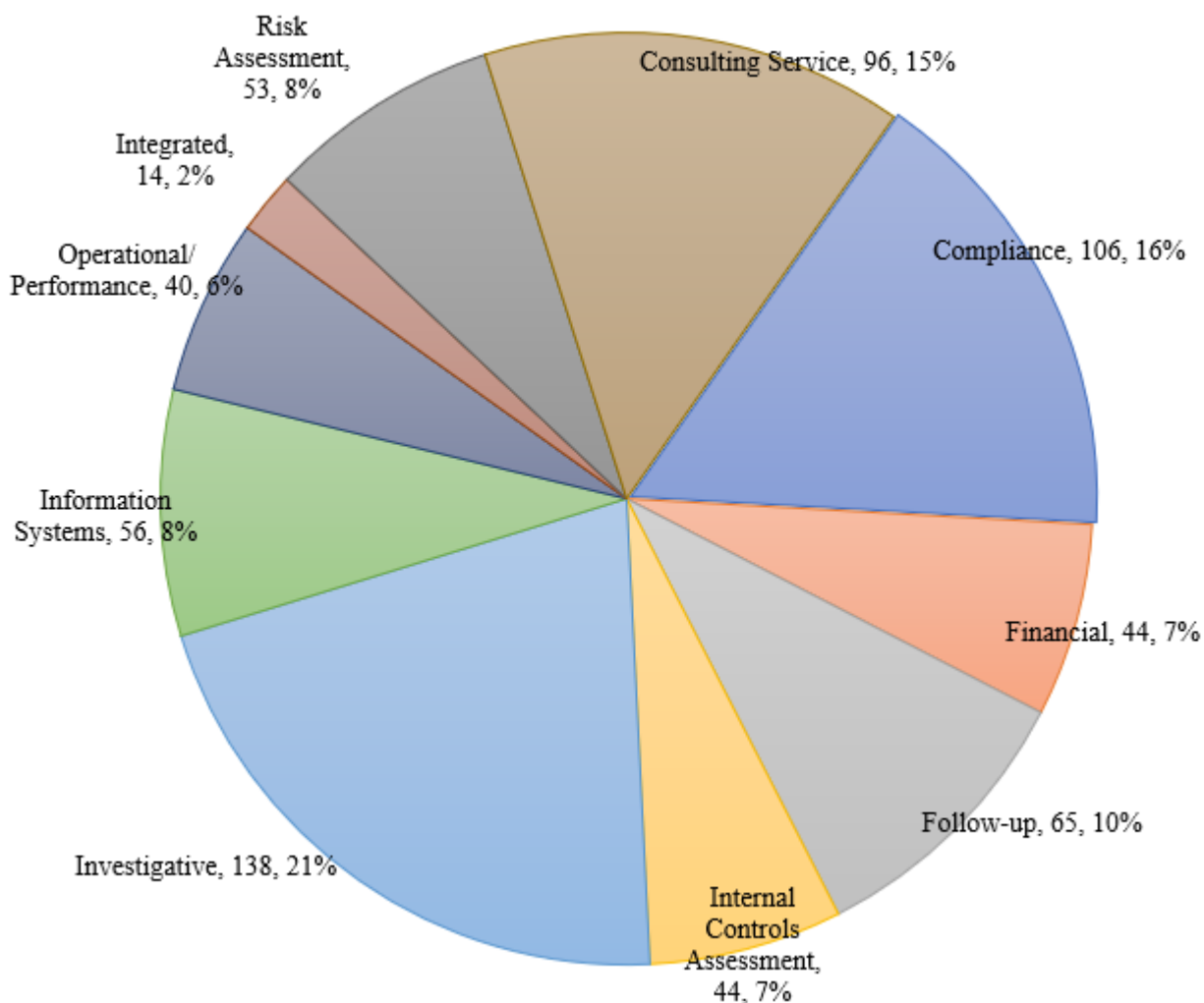
## Efforts and Accomplishments

### *Internal Audit Engagements*

From July 1, 2020, through June 30, 2021, Chart 6 shows the number and percentage of internal audit engagements completed by type. More consulting engagements were completed when compared to other internal audit engagements. In addition to the engagement work shown here, most internal audit programs provided technical assistance<sup>6</sup> throughout the year. During the same time, internal auditors provided just 30,801 hours of assistance to their Agency's management which did not result in the issuance of a report.

**Chart 6: 2021 Engagements Statewide**

Information is self-reported by each internal audit program and not verified by Council staff.



Engagements by agencies are shown in Table 7 on the next two pages.

<sup>6</sup> Technical assistance is advice provided to agency employees which can take the form of a phone call, in-person, or virtual meetings, and/or email. The amount of time to provide the advice is significantly less than the time to complete an engagement.

**Table 7 (Continued on next page)**

Information is self-reported by each internal audit program and not verified by Council staff.

Agency Engagements													
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational Performance	Integrated	Risk Assessment	Consulting Service	Special Project	Total Engagements	Technical Assistance Hours
Community College System Office			1		1				1		3	6	300
Department of Administration	2					3				2		7	500
Department of Agriculture and Consumer Services	1		1	1		1	1	2	1	1	2	11	134
Department of Commerce	2	15		2		2	6		13	14	61	115	1,600
Department of Environmental Quality			1		1	1	3		2	1	2	11	347
Department of Health and Human Services	23	7	13	27		40				31		141	6,115
Department of Information Technology		1			1	1			1		3	7	250
Department of Insurance			1									1	
Department of Justice										2		2	600
Department of Labor						5			1		8	14	433
Department of Natural and Cultural Resources					4	1						5	25
Department of Public Instruction			2		1	7	1		1	1		13	825
Department of Public Safety	22	8				3						33	12
Department of Revenue	2			1		4		4				11	160
Department of Secretary of State					1		1		1	1		4	-
Department of State Treasurer					1							1	120
Department of Transportation					1	6			1			8	9,190
North Carolina Education Lottery	7			2			1		1		1	12	1,800
North Carolina Housing Finance Agency	1	1					1		1			4	
Office of State Budget and Management	16		5	1	1	15	4		7	3		52	359
Office of the State Controller							1					1	30
Wildlife Resources Commission					1					4	1	6	683

**Table 7 (Continued from previous page)**

<b>Agency Engagements</b>													
<b>Agency</b>	<b>Compliance</b>	<b>Financial</b>	<b>Follow-up</b>	<b>Information Systems</b>	<b>Internal Controls Assessment</b>	<b>Investigative</b>	<b>Operational/Performance</b>	<b>Integrated</b>	<b>Risk Assessment</b>	<b>Consulting Service</b>	<b>Special Projects</b>	<b>Total Engagements</b>	<b>Technical Assistance Hours</b>
Appalachian State University	2	5	2	4	21	2	1					37	445
East Carolina University	2		3	4		13		8	1	1	2	34	314
Elizabeth City State University	1	1	3			3	2		1	1	2	14	-
Fayetteville State University			1		1	1						3	300
North Carolina Agricultural & Technical State University	1		2		1	6			1		1	12	66
North Carolina Central University			10						1			11	
North Carolina School of the Arts					2	2			2			6	31
North Carolina School of Science and Math	2					1			1	1		5	251
North Carolina State University			1			6	4			11		22	824
North Carolina State Education & Assistance Authority	1		1						1	1		4	107
University of North Carolina - Asheville				1							6	7	1,088
University of North Carolina - Chapel Hill	6	2		2			5		1	4	18	38	606
University of North Carolina - Charlotte	4	3		3	1	3	2		1		1	18	1,556
University of North Carolina - System Office	1		3			2	2		6	4	4	22	100
University of North Carolina - Greensboro	4				1				1		1	7	40
University of North Carolina - Pembroke	1		1	2		4			1	2	2	13	82
University of North Carolina - Wilmington	1	1	7			1	1		1	2	1	15	529
University of North Carolina - Hospital	3		1	5	3		3			2	5	22	
Western Carolina University	1		5	1		1	1		1	7		17	873
Winston-Salem State University			1		1	4			2		2	10	108

## Compliance

### *Internal Audit Act and Council Requirements*

The Internal Audit Act requires internal audit programs to submit their annual audit plans and final reports to the Council, and the North Carolina Internal Audit Manual requires submission of audit plans by September 30 of each year. The Department of Justice did not submit an audit plan for FY 2021.

Engagement reports should be submitted 10 days after the issuance of the final report. Table 8 identifies fifteen agencies that submitted their reports late and two did not submit any reports.

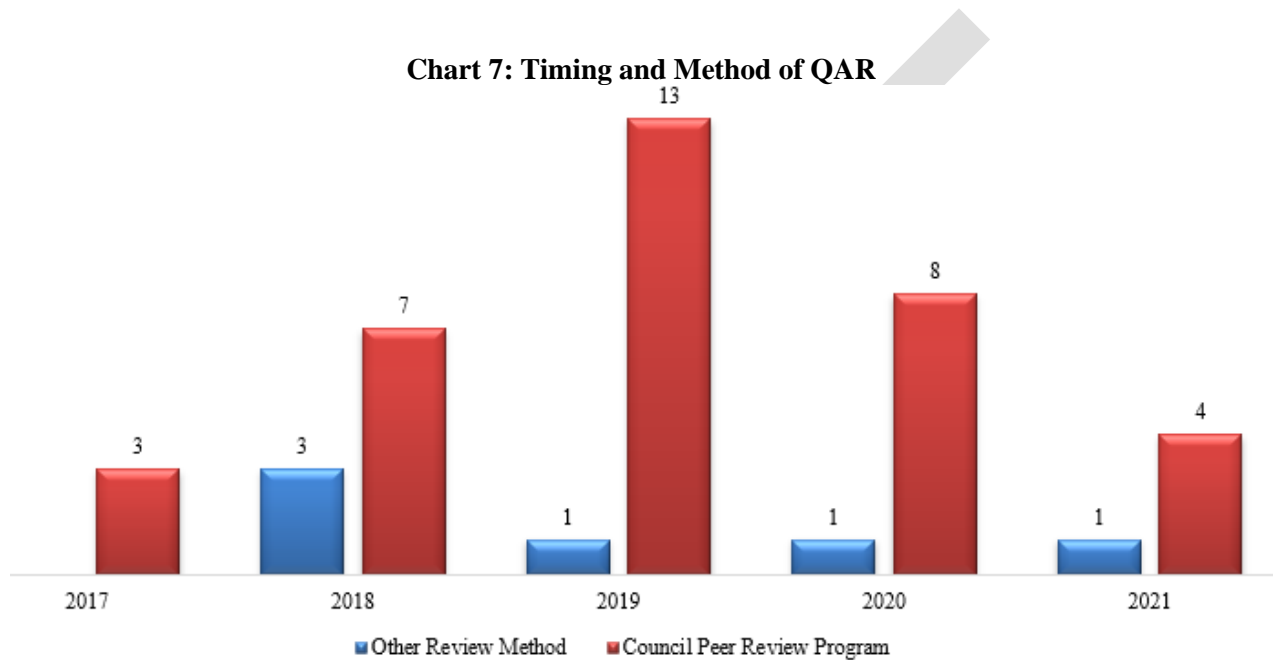
**Table 8**

Submission of Plans and Reports					
Agency	Audit Plan	Reports	Agency	Audit Plan	Reports
Community College System Office	✓	×	Appalachian State University	✓	✓
Department of Administration	✓	⊙	East Carolina University	✓	✓
Department of Agriculture & Consumer Services	✓	✓	Elizabeth City State University	✓	✓
Department of Commerce	✓	✓	Fayetteville State University	✓	✓
Department of Environmental Quality	✓	×	North Carolina Agricultural & Technical State University	✓	✓
Department of Health & Human Services	✓	×	North Carolina Central University	✓	✓
Department of Information Technology	✓	✓	North Carolina School of the Arts	✓	✓
Department of Insurance	✓	✓	North Carolina School of Science and Mathematics	✓	✓
Department of Justice	⊙	⊙	North Carolina State Education Assistance Authority	✓	✓
Department of Labor	✓	×	North Carolina State University	✓	✓
Department of Natural and Cultural Resources	✓	✓	University of North Carolina - Asheville	✓	✓
Department of Public Instruction	✓	✓	University of North Carolina - Chapel Hill	✓	×
Department of Public Safety	✓	✓	University of North Carolina - Charlotte	✓	✓
Department of Revenue	✓	×	University of North Carolina General Administration	✓	✓
Department of Secretary of State	✓	×	University of North Carolina - Greensboro	✓	×
Department of State Treasurer	✓	✓	University of North Carolina Healthcare	✓	×
Department of Transportation	✓	×	University of North Carolina - Pembroke	✓	×
Housing Finance Agency	✓	×	University of North Carolina - Wilmington	✓	✓
North Carolina Education Lottery	×	×	Western Carolina University	✓	×
Office of State Budget & Management	✓	✓	Winston-Salem State University	✓	×
Office of the State Controller	✓	✓	✓ Timely	40	25
Wildlife Resource Commission	✓	✓	× Late	1	15
			⊙ No Submission	1	2



### External Quality Assurance Review

To comply with internal audit standards, external Quality Assurance Reviews (QAR) are required every five years. Agencies can use the Council's Peer Review program or use other methods to obtain the external quality assurance review. Chart 7 illustrates the timing and method used by internal audit programs to obtain a QAR. The use of outside sources to obtain a QAR includes professional associations<sup>7</sup> or contractors.



Information on each internal audit program's QAR progress and conformance over the prior and current cycle is listed in Table 9 on the next page. The Department of Justice QAR was required in 2019 and is reported as overdue for a QAR. There are two internal audit functions that do not conform to the Standards, and five internal audit functions that partially conform to the Standards.

<sup>7</sup> Institute of Internal Auditors, American Association of State Highway Transportation Officials, and Association of College and University Auditors.

Table 9

External Quality Assurance Review Calendar Year 2017-2021				
Agency	Rating*	Due Date		Progress
		Month	Year	
Community College System Office	Generally Conforms	April	2017	Complete
Department of Agriculture & Consumer Services	Generally Conforms	August	2017	Complete
North Carolina State University	Generally Conforms	July	2017	Complete
Department of Transportation	Generally Conforms	January	2018	Complete
Office of State Budget and Management	Generally Conforms	June	2018	Complete
University of North Carolina - Charlotte	Generally Conforms	May	2018	Complete
Appalachian State University	Generally Conforms	September	2018	Complete
Western Carolina University	Generally Conforms	October	2018	Complete
North Carolina Central University	Generally Conforms	October	2018	Complete
University of North Carolina - Asheville	Generally Conforms	October	2018	Complete
Department of Secretary of State	Generally Conforms	December	2018	Complete
Office of the State Controller	Generally Conforms	December	2018	Complete
University of North Carolina - Chapel Hill	Generally Conforms	December	2018	Complete
Housing Finance Agency	Generally Conforms	March	2019	Complete
Department of Public Safety	Generally Conforms	March	2019	Complete
Fayetteville State University	Generally Conforms	May	2019	Complete
North Carolina School of Science and Math	Generally Conforms	May	2019	Complete
State Education Assistance Authority	Generally Conforms	May	2019	Complete
University of North Carolina - System Office	Generally Conforms	May	2019	Complete
Department of Health and Human Services	Generally Conforms	December	2019	Complete
Department of Insurance	Generally Conforms	May	2019	Complete
North Carolina A&T State University	Generally Conforms	June	2019	Complete
Department of Administration	Partially Conforms	July	2019	Complete
Department of Revenue	Generally Conforms	August	2019	Complete
Department of Information Technology	Does Not Conforms	September	2019	Complete
Department of Environmental Quality	Generally Conforms	December	2019	Complete
Department of Justice	Generally Conforms	November	2019	Over Due
University of North Carolina Healthcare	Generally Conforms	August	2020	Complete
North Carolina School of the Arts	Generally Conforms	February	2020	Complete
Winston-Salem State University	Generally Conforms	February	2020	Complete
Department of Public Instruction	Generally Conforms	February	2020	Complete
University of North Carolina - Pembroke	Partially Conforms	February	2020	Complete
NC Education Lottery	Generally Conforms	February	2020	Complete
University of North Carolina - Greensboro	Partially Conforms	March	2020	Complete
Wildlife Resources Commission	Does Not Conforms	May	2020	Complete
Department of Cultural and Natural Resources	Partially Conforms	July	2020	Complete
Department of Commerce	Generally Conforms	December	2021	In Progress
Elizabeth City State University	Generally Conforms	November	2021	In Progress
East Carolina University	Generally Conforms	April	2021	Complete
Department of State Treasurer	Generally Conforms	March	2021	In Progress
University of North Carolina - Wilmington	Generally Conforms	May	2021	Complete
Department of Labor	New	April	2024	Not Due

\* Generally Conforms with the *International Professional Practices Framework* is the highest rating that can be received for an external quality assurance review.

# **APPENDIX A: *NORTH CAROLINA INTERNAL AUDIT ACT***

## **Article 79. Internal Auditing.**

### **§ 143-745. Definitions; intent; applicability.**

- (a) For the purposes of this section:
  - (1) "Agency Head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State Agency.
  - (2) "State Agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Community Colleges System Office. The term does not include a unit of local government.
- (b) This Article applies only to a State Agency that:
  - (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
  - (2) Has more than 100 full-time equivalent employees; or
  - (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year. (2007-424, s. 1; 2009-516, s. 2; 2013-406, s. 1; 2016-126, 4th Ex. Sess., s. 9.)

### **§ 143-746. Internal auditing required.**

- (a) Requirements. - A State Agency shall establish a program of internal auditing that:
  - (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
  - (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
  - (3) Reviews the effectiveness and efficiency of Agency and program operations and service delivery.
  - (4) Periodically audits the Agency's major systems and controls, including:
    - a. Accounting systems and controls.
    - b. Administrative systems and controls.
    - c. Information technology systems and controls.
- (b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.

(c) Appointment and Qualifications of Internal Auditors. - Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.

(d) Director of Internal Auditing. - The Agency Head shall appoint a Director of Internal Auditing who shall report to, as designated by the Agency Head, (i) the Agency Head, (ii) the Chief Deputy or Chief Administrative Assistant, or (iii) the Agency Governing Board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

(e) Insufficient Personnel. - If a State Agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance.

(f) Reporting Fraudulent Activity. - If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State Agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1; 2015-241, s. 25.1(a); 2015-268, s. 7.4.)

#### **§ 143-747. Council of Internal Auditing.**

(a) The Council of Internal Auditing is created, consisting of the following members:

- (1) The State Controller who shall serve as Chair.
- (2) The State Budget Officer.
- (3) The Secretary of Administration.
- (4) The Attorney General.
- (5) The Secretary of Revenue.
- (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.

(b) The Council shall be supported by the Office of State Budget and Management.

(c) The Council shall:

- (1) Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.
- (2) Keep minutes of all proceedings.
- (3) Promulgate guidelines for the uniformity and quality of State Agency internal audit activities.
- (4) Recommend the number of internal audit employees required by each State Agency.
- (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
- (6) Administer an independent Peer Review system for each State Agency internal audit activity; specify the frequency of such reviews consistent with applicable

- national standards; and assist agencies with selection of independent peer reviewers from other State Agencies.
- (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.
  - (8) Administer a program for sharing internal auditors among State Agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single Agency.
  - (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.
  - (10) Require reports in writing from any State Agency relative to any internal audit matter.
  - (11) If determined necessary by a majority vote of the council:
    - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
    - b. Inquire as to the effectiveness of any internal audit unit.
    - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
  - (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State Agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. (2007-424, s. 1; 2013-406, s. 1.)

**§ 143-748. Confidentiality of internal audit work papers.**

Internal audit work papers are confidential except as otherwise provided in this section or upon subpoena issued by a duly authorized court. A published internal audit report is a public record as defined in G.S. 132-1 to the extent it does not include information which is confidential under State or federal law or would compromise the security of a State Agency. An internal auditor shall maintain for 10 years a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews conducted under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of the internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them. (2013-406, s. 1.)

**§ 143-749. Obstruction of audit.**

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State Agency subject to the provisions of this Article to willfully make or cause to be made to a State Agency

internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State Agency internal auditor or the internal auditor's designated representatives in the performance of their duties. (2013-406, s. 1.)

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APPENDIX B: STAFFING RECOMMENDATION

Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level As of June 30, 2017							
Agency	Current Positions	Minimal Positions Needed	Recommended New Positions	Estimated Cost of New Positions			
Administrative Office of the Courts	4.00	6.00	2.00	190,000			
Department of Administration	1.00	3.00	2.00	190,000			
Department of Commerce	4.00	11.00	7.00	665,000			
Department of Natural and Cultural Resources	2.00	3.00	1.00	95,000			
Department of Environment Quality	2.00	3.00	1.00	95,000			
Department of Insurance	1.00	2.00	1.00	95,000			
Department of Justice	1.00	2.00	1.00	95,000			
Department of Military and Veterans Affairs <sup>1</sup>	-	2.00	2.00	190,000			
Department of Public Instruction	2.00	8.00	6.00	570,000			
Department of State Treasurer	3.00	13.00	10.00	950,000			
North Carolina Education Lottery	3.00	6.00	3.00	285,000			
North Carolina Housing Finance Agency <sup>3,5</sup>	-	2.00	2.00	190,000			
Office of State Budget and Management <sup>1</sup>	5.00	6.00	1.00	95,000			
Office of State Controller <sup>5</sup>	0.50	2.00	1.50	142,500			
Wildlife Resources Commission	1.00	2.00	1.00	95,000			
Elizabeth City State University <sup>5</sup>	1.00	2.00	1.00	95,000			
Fayetteville State University <sup>3</sup>	-	2.00	2.00	190,000			
North Carolina State University	7.00	8.00	1.00	95,000			
University of North Health Care System	7.00	14.00	7.00	665,000			
University of North Carolina-Asheville	1.00	2.00	1.00	95,000			
University of North Carolina-Chapel Hill	7.75	9.00	1.00	95,000			
University of North Carolina-Greensboro	2.00	3.00	1.00	95,000			
University of North Carolina-General Administration <sup>2</sup>	2.00	3.00	1.00	95,000			
Western Carolina University	1.00	2.00	1.00	95,000			
Grand Total			57.50	5,462,500			
Agencies at or above Minimum, Using Contractors or Using Shared Pool							
Department of Agriculture and Consumer Services	4.00						
Department of Health and Human Services	41.00						
Department of Information Technology	3.00						
Department of Public Safety	20.00						
Department of Revenue	3.00						
Department of Secretary of State <sup>5</sup>	2.00						
Department of Transportation	25.00						
North Carolina Community College Central Office	2.00						
Appalachian State University	5.00						
East Carolina University	8.00						
North Carolina A&T State University	4.00						
North Carolina Central University	4.00						
University of North Carolina-Charlotte	5.00						
University of North Carolina-Pembroke	2.00						
University of North Carolina-Wilmington	4.00						
Winston-Salem State University <sup>4</sup>	5.00						
North Carolina School of Science & Math	Contracting						
North Carolina School of the Arts	Contracting						
North Carolina State Education Assistance Authority	Contracting						
Commissioner of Banks	Shared Pool						
Department of Labor	Shared Pool						
Office of State Auditor	Shared Pool						
Office of State Human Resources	Shared Pool						
Office of the Governor	Shared Pool						
State Board of Elections	Shared Pool						
1. Provides internal audit services to agencies under \$70 million expenditures; Shared Pool agencies listed above. Department of Military and Veteran's Affairs receives service; however, they are not included in OSBM calculation.							
2. Provides internal audit services to North Carolina School for Science and Mathematics and NC State Education Assistance Authority which was considered in the calculation.							
3. Outsourced internal audit services.							
4. Provides internal audit services to North Carolina School for the Arts which was considered in the calculation.							
5. Agencies under \$70 million operating may use OSBM internal audit services instead established an in-house internal audit function.							



## Central Internal Audit Office Work Plan Update

1. Self-Assessment Maturity Model
2. Classification and Compensation
3. Statewide Internship Program
4. CIAO Staff Update

