



# 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

April 12, 2023

### Call to Order

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#### B. Council Items

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#### C. Work Plan Update

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3. State Term Contract Update (*Discussion Only*)

4. Training (*Discussion Only*)

#### D. Public Comments Period

### 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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Minutes  
January 11, 2023

## **Call to Order**

The Council of Internal Auditing held its quarterly meeting, Wednesday, January 11, 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 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-virtual  
Nicholas Stone - Appointee  
Barbara Baldwin, Executive Director, OSBM

## **A. Approval of Minutes**

No corrections were made to the October 12, 2022, minutes. Secretary Cashwell, moved to approve the October 12, 2022, minutes and Secretary Penny 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. Award of Excellence Winner**

Ms. Baldwin and Chair Roseland issued congratulations to the winner of the North Carolina Council of Internal Auditing Award of Excellence Derek Allred, from the Department of Agricultural and Consumer Services.

Ms. Baldwin read over some of Mr. Allred's credentials, accomplishments, and contributions to Internal Audit. The Council asked Mr. Allred, who was in attendance, to stand and expressed their thanks for his service.

### **2. Ethics Committee Ruling**

Ms. Baldwin gave an overview of the new requirements provided by the State Ethics Commission to the Council of Internal Audit. At its meeting on November 10<sup>th</sup>, 2022, the State Ethics Committee voted that the Council of Internal Audit would be subject to the State Government Ethics Act. This means that voting members of the Council who are not already subject to the Ethics Act become subject to the conflict-of-interest standards, gift ban, and other provisions of the Ethics Act. Requirements include newly covered members filing a Statement of Economic Interest by January 16, 2023, attending an Ethics and Lobbying Education Presentation in-person; or completing the Online Ethics Education by May 15, 2023, and identifying an ethics liaison who will assist members in complying with the Ethics Act.

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

### **3. Obstruction Policy**

Ms. Baldwin then gave an overview of the new obstruction policy including the purpose, reporting requirements, the Executive Director's responsibility, and the Council's responsibility.

The Obstruction Policy states:

*"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. "*

Ms. Baldwin went on to define obstruction as an intentional act of blocking or hindering the progress of the Internal Audit process to change an outcome of audit work or prevent the publication of a report. She then defined how this can happen.

Ms. Baldwin then overviewed the reporting and responsibility process by which any person can report to the Executive Director of the Council of Internal Auditing any intentional act of obstruction of an auditor's official duties. The Executive Director then reviews all information reported and may provide advice to the Internal Audit Director on actions to resolve the issue. The Internal Audit Director can follow up on this advice or request the Executive Director report this information to the Council; if requested, the Executive Director will notify the Council Chair within five business days. It is then the Council's responsibility to hear these complaints related to allegations of interference or obstruction of an Internal Audit brought forth by the Executive Director. At the discretion of the Council Chair and a motion for approval at an open meeting, a closed meeting may be held to hear the information related to an obstruction. The Council may request the Central Internal Audit Office review the complaint and bring forth the facts that support or refute the complaint. After hearing the facts, the Council will determine what further action should be taken.

Chair Roseland asked if there were any other suggestions for revisions, clarifications, or concerns, of which there were none. He then asked for a motion to approve.

Mr. Stone motioned to approve the Obstruction Policy as presented. Secretary Cashwell seconded the motion. A verbal vote to adopt the policy was taken and unanimously approved as follows.

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

#### **4. Internal Audit Charter Modifications**

Ms. Baldwin provided an overview of the Central Internal Audit Office's Charter amendments as required by the Standards. Two changes were made after the past council meeting highlighted on pages 20 and 21. These changes included adding the function of "approve the hiring of the Executive Director, Internal Auditor, and the Program Support Specialist". An additional change was made under responsibilities of Council programs to add "collecting and validating the internal audit program's key performance measures".

Chair Roseland noted that at the last Council meeting, the general timing of the report and quarterly submissions were discussed and changed. Chair Roseland wanted to know Ms. Baldwin's general observations of these changes. Ms. Baldwin explained that the modification of the reporting deadline to align with the quarterly attestation has gone well with the Internal Audit community.

Chair Roseland asked if there were any questions concerning the modifications of the charter, of which there were none. He then asked for a motion to approve.

Secretary Penny motioned to approve the charter modifications as presented. Secretary Cashwell seconded the motion. A verbal vote to adopt the changes was taken and unanimously approved as follows.

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

## **C. Work Plan Update**

### **1. Internal Audit Staffing Analysis**

Ms. Baldwin gave an overview of the Internal Audit Staffing Analysis performed by the staff to the Council. The staffing analysis completed was to identify the minimum number of internal audit employees for each agency. This analysis differs from the previous analysis performed because it further breaks down how much money is needed for each agency by the type of audit position needed based on what experience level is needed for that individual agency. For example, the Department of Military and Veteran Affairs' Internal Audit program consists of one Auditor II and would need a staff member as high as a manager to efficiently handle the work. Ms. Baldwin explained that for just under 2 million dollars, the State could bring all one-person Audit programs up to having at least two people which would help them meet the Internal Audit standards.

Chair Roseland asked for other comments, questions, or concerns from the council members.

Ms. Baldwin noted that her office had shared the Staffing Analysis with the Budget Analysts at the Office of State Budget and Management to allow them to recommend inclusion in the Governor's Budget along with the methodology about how the analysis was broken down.

Auditor Wood noted that she struggles with the idea that one-person shops are currently operating. Further, she struggles to see how an Internal Audit program could be effective without at least two auditors. She noted that she would need to think of ways to get this analysis to the General Assembly's attention to get funded as this is the session to get things done.

She reiterated the fact that to run an internal audit shop there needs to be at least two auditors, at a minimum. A one-person internal audit shop would not be able to handle the workload of the risk analysis, the audit plan, and then perform the actual audits. Mr. Stone noted that in a prior session, the Council had discussed the importance of making sure that an internal audit shop could evaluate capacity: the risk assessment performed, the risks identified, and what is actually able to get done. Mr. Stone questioned if this

capacity was not in place, is it the responsibility of the Director or Executive Director to raise these issues to the agency? Auditor Wood agreed but noted that not all heads of agencies are as schooled in what Internal Audit is and what it should do, due to that fact, it becomes a difficult discussion for a director to have with their agency head. Mr. Stone noted that the Council seemed to be putting the right mechanisms in place to flank the issue but wondered if there is not the budgetary decision to fund this is the ability to properly manage risks being intentionally limited. Auditor Wood agreed that it is limiting but not necessarily intentional.

Auditor Wood noted that in looking at the one-person programs, some are smaller departments, but the responsibilities make having proper resources all the more important.

Chair Roseland noted his general perspective is that a one-person shop is not optimal, but if you have a solid performer, they can engage external resources to develop a risk assessment and audit plan, based on that risk assessment and should then be able to perform the work. Given the nuances of state government, employee-based solutions are optimal.

Mr. Stone asked if there was a way to use the Council's capability to review the risk assessment and plans to advocate for these small shops by having a more hands-on review and raising the concerns and views to agency heads. Ms. Baldwin explained that the Council staff were currently working on a plan for Risk-Based Validation, and it would be discussed in the next agenda item. Council staff would be reviewing and assessing audit programs and will be providing results as they are finished. Auditor Wood asked if the Council would be seeing the results of these Validations to which Ms. Baldwin answered yes. Auditor Wood noted that this is a new initiative and had not been performed in the past.

Chair Roseland asked once again for other comments, questions, or concerns from the council members regarding the staffing analysis.

Auditor Wood had one last question about who would be provided the Staffing Analysis, and specifically if it was provided to agency heads. Ms. Baldwin answered that it has been provided to all Internal Audit Directors so they could consider approaching their agency heads, but her office could do this. Chair Roseland suggested that as a follow-up activity his agency could work with Ms. Baldwin and staff to provide this to agency heads from either the State Controller's Office or the Office of State Budget and Management to ensure they have a cover memo and the latest staffing analysis. Auditor Wood wanted to make sure that the memo came from the Council and particularly from Chair Roseland as a representative; to which he agreed.

## **2. Risk-Based Audit Plan Validation**

Ms. Baldwin then briefed the Council on the new Risk-Based Audit Plan Validation process starting on page 29, which will start right away. This validation process has been developed in a three-year cycle using the last rating from the agency's external Quality Assurance Review (QAR) and size to select who will be in the first, second, and third year of reviews. Page 31 shows a checklist that the Council staff will use to identify all

the Standards used by the agency's Internal Audit department to develop the risk-based audit plan. Council staff will request documentation to validate how the plan was developed and if it complies with the Standards starting with group one and completed before the end of the fiscal year.

Auditor Wood asked if agency heads would be receiving these results, to which Ms. Baldwin replied yes and to any audit board an agency may have, such as with the universities.

Mr. Stone asked if for the benefit of the Council members, Ms. Baldwin could reiterate the link between the risk assessment and the audit plan specifically how they come together? Ms. Baldwin explained that each Internal Audit group should have a Risk-Based Audit Plan whether completed internally or outsourced. Based on the Risk Assessment there should be a ranking and whatever is highly ranked on the Risk Assessment should be seen on the risk-based audit plan. Resources should then be devoted to the items on the risk-based audit plan, this does not always happen one hundred percent of the time because items must be added to the plan, based on changing risks, as things happen within the agency throughout the year. She added there is a lot that goes into this process and there needs to be a high level of time, effort, and skill set to complete this. Auditor Wood added that within the risk assessments, she has looked at sometimes the linkage was not there and other times items that should have made it to the audit plan did not. She noted that where Ms. Baldwin and her staff were moving with this validation would be monumental moving forward to show linkage and to show agency progress within the annual report moving forward. Mr. Stone agreed that the pieces were coming together and that this process is a great step forward.

### **3. Audit Plan Progress**

Ms. Baldwin then updated the Council on where the Central Internal Audit Office is on their current Audit Plan as of December 31st. The plan was started with 81 projects with 11 projects added, contingency hours were used, however, some hours have been lost due to difficulties in hiring vacancies. Vacancies have been reposted continuously and there have been some gains in this area including some changes in the NC Pandemic Recovery Internal Auditors. Ms. Baldwin is hopeful that with these changes the plan will continue to be met.

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.

Auditor Wood commented that there were rarely comments and although she knows that the communication between Ms. Baldwin and the Internal Audit community was very good, she would love for any opinions, thoughts, or concerns to be brought to the Council during these meetings and she would welcome these comments. She emphasized that the goal is for this program to be as well run as possible so that there would be less for her to

find as then it would be too late. She reiterated that this Council was very important to her, and she would greatly welcome any feedback from auditors in the community so that the council may assist in any way they can, again inviting any comments there may be.

Derek Allred, Chief Audit Officer of the Department of Agriculture and Consumer Services, commented that he loved the enhanced report that is going to be provided going forward because it will provide some extremely useful information for audit shops, agencies, and the Legislature. He wanted to note that it would be helpful to have context around the claims of completion rates. For groups that are not getting those plans completed, contact could be made for a rationale as to the reason for this, such as vacancy, lack of skill sets, or other extenuating circumstances. Mr. Allred reiterated that this would be very helpful to have instead a report that just showed a shop only completed 40% of the plan leading to questions of whether the shop was effective or not with no context as to the true story behind the number.

Auditor Wood replied this is a great point and she often hears the issue of not having staff, but it does not change the responsibility involved. She noted that the Council having larger conversations with agency heads about their priorities when it comes to Internal Audit would be incredibly important. She noted that agency heads, cabinet members, the General Assembly, and the Governor all need to be behind the Internal Audit program for it to succeed. Further, if the Council itself had the reasoning behind an agency not fulfilling its plan it could assist them in strengthening the Internal Audit program in that agency. Auditor Wood thanked Mr. Allred for his comment.

Chair Roseland agreed, stating that often there will be checklists and itemized details of raw scores and percentages that do not provide context and that an open-ended statement or allowance for discussion could be very helpful. Chair Roseland then thanked Mr. Allred for his comment.

Chair Roseland then asked the member of the Council who was joining virtually, Mr. Newkirk, if there were any comments or observations with respect to the agenda on his end. Mr. Newkirk thanked him for recognizing him but had no further comment.

### **E. Adjournment**

Chair Roseland recognized and thanked everyone for their time and concluded the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held on January 11, 2023.

Witness my hand, this 12<sup>th</sup> day of April 2023.

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Nels Roseland, State Controller, Chair

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Barbara Baldwin, Executive Director

### B1 Internal Audit Staffing Update

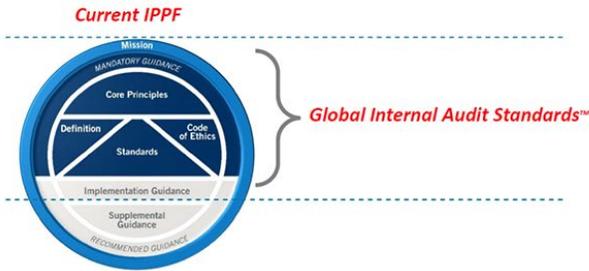
Agency	Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level									Governor's Recommended Budget		House Bill 259	
	Current Positions	Minimal Positions Needed	Recommended New Positions	Manager	Supervisor	IA3	IA2	IA1	Cost	Positions	Cost	Positions	Cost
Dept. of Agriculture and Consumer Services	3.00	6.00	3.00			1	1	1	295,812	2.00	226,294		
Dept. of Commerce	3.00	7.00	4.00			1	2	1	393,700	2.00	197,800	1.00	100,000
Dept. of Natural and Cultural Resources	2.00	4.00	2.00			1	1		210,833	1.00	120,694		
Dept. of Environment Quality	5.00	6.00	1.00				1		97,888				
Dept. of Information Technology	4.00	7.00	3.00			1	1	1	295,812	2.00	226,294	1.00	113,147
Dept. of Insurance	1.00	2.00	1.00			1			112,945				
Dept. of Justice	0.50	3.00	3.00	1		1	1		359,181	3.00	382,473		
Dept. of Labor	1.00	2.00	1.00			1			112,945	1.00	120,694		
Dept. of Military and Veterans Affairs	1.00	2.00	1.00	1					148,347	1.00	156,179		
Dept. of Public Instruction	9.00	14.00	5.00			1	1	2	511,299	3.00	364,593		
Dept. of Revenue	3.00	4.00	1.00				1		97,888	1.00	148,295	1.00	148,295
Dept. of Secretary of State	1.00	2.00	1.00	1					148,347	1.00	156,179		
NC Education Lottery	3.00	5.00	2.00				1	1	182,866	2.00	198,261		
NC Housing Finance Agency	0.00	3.00	3.00	1		1	1		359,181				
Office of State Budget and Management	9.00	10.00	1.00				1		97,888				
Office of State Controller	0.75	2.00	1.00			1			112,945	1.00	120,694		
Wildlife Resources Commission	1.00	3.00	2.00	1			1		246,235	2.00	261,779		
NC Community College System Office	1.00	3.00	2.00	1			1		246,235	2.00	261,779		
Fayetteville State University	1.00	3.00	2.00			1	1		210,833	2.00	226,454		
North Carolina State University	7.00	8.00	1.00				1		97,888				
UNC -- Hospitals	6.00	8.00	2.00				1	1	182,866				
UNC -- Asheville	1.00	3.00	2.00			1	1		210,833	2.00	226,454		
UNC -- Chapel Hill	7.00	8.00	1.00				1		97,888				
UNC -- Greensboro	2.00	4.00	2.00			1	1		210,833	1.00	120,854		
UNC -- System Office	3.00	5.00	2.00			1	1		210,833	1.00	120,854		
Western Carolina University	2.00	4.00	2.00			1	1		210,833	1.00	120,854		
Dept. of Administration	3.00									3.00	435,452		
<b>Grand Total</b>			51.00						5,463,158	34.00	4,192,930	3.00	361,442

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# B2 Proposed Internal Audit Standards

## How Is The IPPF Changing

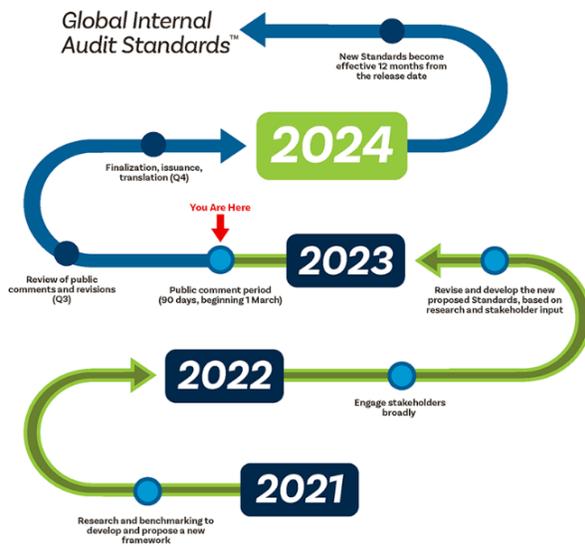
### Mapping Current IPPF to New Standards



### Proposed IPPF



### WHAT IS THE CURRENT TIMELINE?



- 2021 – Research and benchmarking to develop and propose a new framework. COMPLETED
- 2022 – Engage stakeholders broadly. Revise and develop the new proposed Standards, based on research and stakeholder input. COMPLETED.
- January – March 2023 – Translate the public comment draft. (In Progress)
- March 1- May 30 – Expose the proposed draft of the new Standards for public comment. (In Progress)
- Late 2023 – Release the new Standards.
- 2023 – Refresh the IPPF Guidance (Practice Guides) and relevant products.
- Late 2024 – New Standards become effective 12 (TBD) months from the release date.

### Council Staff Activities

A small group of Internal Audit Directors are working to draft comments on the proposed Standards by April 30, 2023.

Draft comments will be emailed to the Council members for approval by May 5, 2023.

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Link to the Table of Contents for the Proposed Global Internal Audit Standards

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### C1 Attestations Submission and Validation

Agency	Plan	Reports		Risk-based Audit Plan	
		Q1	Q2	Due Date	Status
Community College System Office	✓	✓	⊘	2024	
Department of Administration	✓	✓	✓	2023	In Progress
Department of Agriculture & Consumer Services	✓	✓	✓	2024	
Department of Commerce	✓	✓	✓	2023	Completed
Department of Environmental Quality	◆	✓	✓	2024	
Department of Health & Human Services	✓	✓	✓	2025	
Department of Information Technology	✓	✓	✓	2023	Completed
Department of Insurance	✓	✓	✓	2024	
Department of Justice	✓	✓	⊘	2023	Completed
Department of Labor	✓	✓	✓	2024	
Department of Military and Veteran's Affairs	✓	✓	⊘	2025	
Department of Natural and Cultural Resources	◆	✓	✓	2023	
Department of Public Instruction	✓	✓	✓	2025	
Department of Public Safety	✓	✓	✓	2023	In Progress
Department of Revenue	✓	✓	✓	2024	
Department of Secretary of State	⊘	⊘	⊘	2025	
Department of State Treasurer	✓	✓	✓	2023	Completed
Department of Transportation	✓	✓	✓	2024	
Housing Finance Agency	✓	✓	✓	2025	
North Carolina Education Lottery	✓	✓	✓	2024	
Office of State Budget & Management	✓	✓	✓	2025	
Office of the State Controller	✓	✓	✓	2025	
Wildlife Resource Commission	✓	✓	✓	2023	In Progress
Appalachian State University	✓	✓	✓	2023	Completed
East Carolina University	✓	✓	✓	2023	Completed
Elizabeth City State University	✓	✓	✓	2025	
Fayetteville State University	✓	✓	✓	2025	
North Carolina Agricultural & Technical State University	✓	✓	✓	2024	
North Carolina Central University	✓	✓	✓	2024	
North Carolina School of the Arts	✓	✓	✓	2025	
North Carolina School of Science and Mathematics	✓	✓	✓	2024	
North Carolina State Education Assistance Authority	✓	✓	✓	2024	
North Carolina State University	✓	✓	✓	2024	
University of North Carolina - Asheville	✓	✓	✓	2025	
University of North Carolina - Chapel Hill	✓	✓	✓	2025	
University of North Carolina - Charlotte	✓	✓	✓	2023	Completed
University of North Carolina Systems Office	✓	✓	✓	2024	
University of North Carolina - Greensboro	✓	✓	✓	2023	In Progress
University of North Carolina Hospitals	✓	✓	✓	2024	
University of North Carolina - Pembroke	✓	✓	✓	2023	Completed
University of North Carolina - Wilmington	✓	✓	✓	2025	
Western Carolina University	◆	✓	✓	2025	
Winston-Salem State University	✓	✓	✓	2025	
<b>✓ Submitted</b>	39	42	39		
<b>✗ No Submission</b>	0	0	0		
<b>⊘ No Internal Auditor</b>	1	1	4		
<b>◆ Late</b>	3	0	0		

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## C2 Risk-Based Plan Changes and Progress

<b>Table 1</b>		
<b>Changes in Risk-Based Plan</b>		
	<b>Projects</b>	<b>Hours</b>
Plan as of July 1, 2022	81	14,673
Added to plan	16	2,520
Plan as of March 31, 2023	97	17,193
 <b><u>Contingency Hours</u></b>		
		<b><u>Hours</u></b>
As of July 1, 2022		2,506
Added 15 projects		-2,520
Deficit in available hours		-14

<b>Table 2</b>				
<b>Risk-Based Plan Progress</b>				
<b>Audit plan vs actual</b>				
<b>As of March 31, 2023</b>				
<b><u>Status</u></b>	<b><u>Numbers</u></b>		<b><u>Hours</u></b>	
Complete	35	36%	2,676	16%
In-Progress	49	51%	12,901	75%
Not Started	13	13%	1,616	9%
	97		17,193	