



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*

Jessica Holmes
State Auditor

Agenda

April 10, 2024

Call to Order

Reading of Ethics Awareness Reminder..... 3

A. Approval of Minutes

1. October 11, 2023 (*Action item*) 5

B. Council Items

1. Annual Report update (*Action item*)..... 9

C. Work Plan Update

1. New Standards 11

2. Engagement Validation Results 13

3. FY 2023-24 Risk-Based Audit Plan Update 15

D. Public Comments Period

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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Minutes
October 11, 2023

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, October 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 at 9:00 a.m. and began by reading the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

Chair Roseland then took a roll call of members.

The following Council of Internal Auditing Members were present:

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

The following Council of Internal Auditing Members were absent:

Bradley Newkirk, Appointee
Beth Wood, State Auditor

A. Approval of Minutes

No corrections were made to the July 12, 2023, minutes. Secretary Cashwell moved to approve the July 12, 2023, minutes, and Secretary Penny seconded the motion. The Council unanimously approved the minutes as presented.

B. Council Items

1. Amendment to Internal Audit Act

Ms. Baldwin gave a description of the conflicting dates within the Internal Audit Act. Ms. Baldwin then proposed to the Council sending an amendment to the General Assembly to reconcile the dates.

State Budget Director Walker motioned to approve; Secretary Cashwell seconded the motion. A verbal vote to approve was taken and unanimously approved.

2. FY 2023-2024 Risk Based Audit Plan

Ms. Baldwin gave an overview to the Council on the Central Internal Audit Office's (CIAO) audit plan for FY2023-2024 as noted in the materials. Ms. Baldwin requested approval from the Council on the yearly activities of the CIAO.

State Controller Roseland motioned to approve; State Budget Director Walker seconded the motion. A verbal vote to approve was taken and unanimously approved.

3. FY 2022-2023 Annual Activity Report

Ms. Baldwin gave an overview of the state agency Internal Audit Annual Activity Report for FY2022-2023 as noted in the materials. A detailed discussion followed. Ms. Baldwin requested approval to amend page 42 of the report, the staffing analysis table, to include two positions for the State Bureau of Investigations (SBI). Recent legislation established the SBI as an independent agency which is subject to the internal audit act. Ms. Baldwin requested approval from the Council on finalizing the report to send to the General Assembly with this addition.

State Controller Roseland motioned to approve, with the added technical correction, Mr. Stone seconded the motion. A verbal vote to approve was taken and unanimously approved.

C. Work Plan Update

1. State Term Contract Update

Ms. Baldwin and State Controller Roseland updated the Council on the progress that staff has made with regards to the State Term Contract.

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2. Training

Ms. Baldwin briefly gave an overview of the planned training event, The 8th Annual Fraud busters Conference.

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

D. Public Comments

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

E. Adjournment

Chair Roseland recognized and thanked everyone for their time. Chair Roseland then concluded the meeting at 9:30 a.m.

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

Witness my hand, this 10th day of April 2024.

Nels Roseland, State Controller, Chair

Barbara Baldwin, Executive Director

B.1 Proposed Outline for Annual Report

Intro, purpose, background (legislative reference, IA Act, # of IA teams)

Message from the Executive Director and/or Council Chair

*Stratify by size (S, M, L) by FTE for easy reference and more digestible for charts

1st KPI (Plan to Actual engagements)

1. Narrative: Changing audit plans, risk-based explanation
2. Chart includes FTE (same as FY2023) *

2nd KPI (Management Acceptance of Recommendations)

1. Narrative: Explain role of IA to make recommendations, improving processes
2. Chart with % accepted and \$ (cost avoidance) *
3. Recommendations categorized into: Compliance, safeguard assets, improve processes, IT Governance # and % for all IA functions

Conformance with the Standards

1. Internal and External Reviews
2. GC, PC, DNC Pie chart
3. Delinquent (list agencies)

3rd KPI (Productivity)

1. Narrative: How productivity is calculated. Why is it an important metric, not doing management functions
2. Charts with detailed break out *

Summary of Notable Accomplishments

1. Narrative for each Internal Audit function highlighting how they improved their organization's efficiency or effectiveness, using specific engagement examples and quantitative support or metrics if available. Limited to 200 words

Investigations

1. Examples of areas investigated, # of and total % of investigations

Proposed legislation

Appendices:

Internal Audit Act

Draft Proposal Outline for Internal Audit Annual Report

Draft Proposal Outline for Internal Audit Annual Report

Types of Engagement by IA Function

(Chart)* Pie Graph type of engagements

totals

Key Terminology

Note: RECOMMENDATION CATERGORIES FOR KPI 2

- (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.

C1: Global Internal Audit Standards

Issued: January 9, 2024

Implement: January 9, 2025

Major Changes:

Structure: 5 Domains, 15 Principles and 52 Standards

Domain 3: Essential Conditions for the Board and Senior Management

Topical Requirements: Attributes that must be included in an engagement

Standards: Two new standards and nine added elements

Training: Four 2-hour sessions held in February and March

Challenge: The board must have a majority of members from outside the organization and have governance over the organization. If no board exists, the head of the organization becomes the board.

C2: State Agency Engagement Report Validation

Engagement Report validations for five agencies were completed in January. Two audit reports from each agency were reviewed.

No Suggestions for Improvement

1. Department of Health and Human Services
2. Department of Public Instruction
3. Elizabeth City State University
4. UNC-Wilmington
5. Winston-Salem State University

Suggestions for Improvement to Move Toward Best Practice

None

Significant Deficiencies with Meeting the Standards

None

C3: Risk-Based Plan Changes and Progress

Table 1		
Changes in Risk-Based Plan		
	<u>Projects</u>	<u>Hours</u>
July 1, 2023*	93	11,939
Added to plan	16	2,001
Dropped from plan	(3)	(140)
April 1, 2024	<u>106</u>	<u>13,800</u>
<u>Contingency Hours</u>		
		<u>Hours</u>
July 1, 2023		3,300
Dropped projects		140
Added projects		(2,001)
Available hours		<u>1,439</u>

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

Table 2				
Risk-Based Plan Progress				
As of April 1, 2024				
<u>Status</u>	<u>Numbers</u>		<u>Hours</u>	
Complete	42	40%	4,580	33%
In-Progress	45	42%	7,025	51%
Not started	19	18%	2,195	16%
	<u>106</u>		<u>13,800</u>	

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