



STATE OF NORTH CAROLINA *COUNCIL OF INTERNAL AUDITING*

Nels Roseland
State Controller, Chair

Kristin Walker
State Budget Officer

Pamela Cashwell
*Secretary of
Administration*

Joshua Stein
Attorney General

Ron Penny
Secretary of Revenue

Bradly Newkirk
Senate appointment

Nicholas Stone
*House of Representatives
appointment*

Beth A. Wood
State Auditor

Agenda

January 11, 2023

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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
October 12, 2022

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, October 12, 2022, 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.

A note was made by Chair Roseland that the State Ethics Commission is reviewing the membership of the Council and is considering a vote to have the members be subject to the ethics disclosure policies.

Chair Roseland then took a roll call of members.

The following Council of Internal Auditing Members were present:

Nels Roseland, Chair – State Controller
Charles Perusse, State Budget Director
Pam Cashwell, Secretary of the Department of Administration
Ron Penny, Secretary of the Department of Revenue
Tiffany Lucas representing Attorney General Josh Stein
Beth Wood, State Auditor
Bradley Newkirk – Appointee
Barbara Baldwin, Executive Director, OSBM

A. Approval of Minutes

No corrections were made to the July 13, 2022, minutes. Secretary Cashwell, moved to approve the July 13, 2022, minutes and Mr. Newkirk seconded the motion. The Council unanimously approved as follows.

Charles Perusse - Approved
Pam Cashwell - Approved
Ron Penny - Approved
Tiffany Lucas - Approved
Bradley Newkirk - Approved

B. Council Items

1. Modification to Plan Attestations

Ms. Baldwin reviewed changes to the risk-based audit plan attestation based on conversations and concerns at the previous Council meeting. The changes highlighted on page 12 of the Council materials added statements to show that there would be a conversation between the internal audit director and the head of the agency detailing how the audit plan was developed based on the Standards, what high-risk areas were not included in the plan, and why. Both parties would sign and date the audit plan attestation to acknowledge the discussion of their agencies' high-risk factors.

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.

Ms. Lucas motioned to approve the attestation as presented. Mr. Newkirk seconded the motion. A verbal vote to adopt the proposed changes to the Attestation for Internal Audit Plans was taken and unanimously approved as follows.

Charles Perusse - Approved
Pam Cashwell - Approved
Ron Penny - Approved
Tiffany Lucas - Approved
Bradley Newkirk - Approved

2. FY 2021-22 Annual Internal Audit Activity

Ms. Baldwin reviewed the Annual Activity Report. The Annual Activity Report details the Council activities in one section and state agencies activities which are self-reported in the second section.

Ms. Baldwin reviewed the Council and staff to the Council's activity sections from pages 19-20 noting Council staff changes that would be reflected in the next report due to the reclassification of the new positions given. Ms. Baldwin detailed the Central Internal Audit Office's expenses pointing out where significant increases occurred including the internship program, contracting for the Class and Comp project, and the QAR training.

Chair Roseland asked about the status of the recruitment process. Ms. Baldwin introduced Megan Bartee, recently hired as Program Support Specialist, and stated she herself had been appointed Executive Director. The remaining positions are presenting a challenge to find qualified candidates and therefore, positions need to be re-classified to

fill. Chair Roseland commented that this was a continued effort and that most agencies are having the same challenges.

Ms. Baldwin then reviewed the Council Activities section on page 22 which is broken down by the mandated activities in the law and the projects that Council staff worked on throughout the year. The Council staff provided three different training opportunities throughout the year, one on QAR, a four-day training to prepare for the Certified Internal Auditor Certification, and the annual Fraud Busters Conference. Ms. Baldwin expressed her appreciation to State Auditor Wood for speaking at the Fraud Busters Conference. There were no hearings, inquiries, or subpoenas in the last year. Page 25 detailed the group membership to the IIA which reduced the cost for state internal auditors by 25%. New initiatives included the required SAMM tool by each agency on September 30th and the internship program which had a total of 25 students in the fall and spring semesters. One noted success from the internship program is the hiring of an employee to work in OSBM's Central Internal Audit Office.

Ms. Baldwin went over the results of the Self-Assessment tool (tool) noting that the agencies with no scores either contracted with another agency or had no internal audit director at the time this was due which is the case for Western Carolina University and the Secretary of State's Office. Western Carolina University was noted to have hired someone recently who had been in contact with Ms. Baldwin on how to get started on this assessment and catch up on the September 30th requirements, but the Secretary of State's Office was still working to fill this position.

Mr. Newkirk asked a question about agencies that performed below the desired score and what remediation steps will be for those agencies that continue to fall below. Ms. Baldwin explained if scores fall below a 3, a corrective action must be included in the tool. Council staff will review items under a score of 3 to ensure a corrective action plan was provided and in subsequent years, the plan was implemented.

State Auditor Wood pointed out to the Council that these are self-assessments and that agencies understand that a rating of 3 and below is underperforming, so there is concern that some of the numbers could be inflated. However, it was her understanding that in the future the Council staff would be asking for justification of ratings 3 and above to verify the information in these assessments. This validation would be critical to holding staff accountable and letting agency heads know where improvement is needed. She reiterated that the internal audit function was one of the most important programs in state government, so the self-assessments need to be accurate. Ms. Baldwin agreed that justifications, verifications, and validations would be starting soon.

A discussion was held on internal audit staffing requirements, position classifications, and the duties and qualifications required of an internal audit director. It was noted that the universities did not fall under the OSHR umbrella. Fourteen audit programs do not have an internal audit director position. Some of these programs are one person shops using an Auditor-II or III to fill their positions. Secretary Penny posed a question about the differences in the designation of an internal audit director and an employee who was qualified to perform the duties of one. Ms. Baldwin and State Auditor Wood confirmed that the issue was not in nomenclature but in qualifications. State Auditor Wood emphasized her involvement with OSHR and reiterated the point that a director is not just

someone with a certain number of employees under them but instead it is about responsibilities and extensive experience.

Chair Roseland wondered if it would be helpful to modify this final report to include a list of organizations that have no director. State Auditor Wood responded by stating the report would be modified a lot going forward as had been previously discussed. Discussion on the intricacies of how the risk assessment should be done and who should be leading the internal audit function at an agency continued. Auditor Wood continued to reiterate the importance of having the right people for the right job lest the agency suffer. Secretary Cashwell noted that you cannot discuss positions and level of positions needed without mentioning how budget drives this, you cannot have a director-level position if there is no budget for it, and that there must be a mindfulness of small agencies who request these positions but are not given the budget. State Auditor Wood reiterated that though this is something to be mindful of, the law must also be considered, and the Council must bring to light the criticality of these positions.

Chair Roseland noted that there is a good faith effort to request positions in budget cycles and although they may not be funded, there are non-recurring sources of funds that may be used to contract pre-vetted CPA firms that could help the agency perform the work of internal audit and get meaningful work done when there is no budget for a full-time audit director. State Auditor Wood agreed with this and stated that the other critical piece is to make the General Assembly aware that they have put a law in place and have not funded it.

Ms. Baldwin went on to detail the Audit Resources Section beginning on page 28 which highlights the significant number of positions added and taken from agencies. State Auditor Wood questioned whether it was being verified that internal audit positions were performing internal audit duties. Ms. Baldwin replied that the only current verification is the submission of plans and reports. It was noted by Secretary Penny that this was a form of verification. State Auditor Wood reiterated that if the audit plan did not match the number of reports submitted, then the question is what the internal auditors are doing.

Ms. Baldwin reviewed Supplemental Staffing as detailed on Page 30, Table 5. Charts 1 through 4, on pages 31 and 32 showcase professional certifications and advanced degrees. Page 33 shows the Computer Assisted Auditing Tools that agencies use broken down by type, General Auditing Software, and Productivity tools and page 34 breaks this down by which agency uses what type of tool.

Ms. Baldwin then gave an overview of the next section detailing work done by agencies in Chart 6, noting that compliance and investigative engagements were the engagements most performed. Table 8 shows the type and number of engagements completed by agencies and hours spent on technical assistance. State Auditor Wood reiterated the importance of tracking where time is spent. Ms. Baldwin mentioned the new productivity tool and noted that auditors had received information on the new tool. She then mentioned each agency is required to submit annual plans by September 30th and reports within 10 days of the close of the engagement. While reports are due 10 days after the closure of engagement it was a deadline decided on several years ago and with the change of having quarterly report attestations it would make sense to have all the reports due at the same time. Ms. Baldwin asked for the Council's support to change this

deadline of submission from 10 days to the end of the quarter when the attestation was due for consistency in timing. After clarification from Ms. Baldwin about the difference in the 10 days versus quarterly submission deadline, the Council agreed that the end of the quarter would be a more efficient and consistent deadline. Ms. Baldwin noted that this would be put into practice going forward.

Ms. Baldwin went on to detail the Peer Review (QAR) program on page 39 starting with Chart 7 which gives the timeline of when peer reviews are due. Table 10 shows audit programs that are overdue, partially, or not conforming according to these reviews. These agencies have been contacted by Council staff and are working to correct any areas that are not conforming and to request a review. Auditor Wood had a question about the Department of Justice's (DOJ) conformance rating of Overdue since 2019. Ms. Baldwin and Ms. Lucas explained that they were working together to correct the conformance issues at DOJ's internal audit program. A vendor was hired to perform the risk assessment and develop a risk-based audit plan which was submitted timely for the current year. Although it will take 24 months to be back in conformance and request a peer review, the agency is trending in the right direction. Secretary Penny asked about the discrepancies in the rating system for the self-assessment tool and the conformance rating as some agencies with threes and above were partially conforming. There was a discussion on the difference between the self-reported tool and the conformance rating. The Council discussed the positive steps that will be taken by the Council staff to verify the information they receive, thus reflecting the true nature of the program. This concluded the review of the Annual Activity Report.

Chair Roseland asked if there was a motion to approve the Annual Activity Report. Secretary Penny moved to approve. State Budget Director Perusse seconded the motion. A verbal vote was taken to approve the Annual Activity Report and was unanimously approved as noted below.

Charles Perusse - Approved
Pam Cashwell - Approved
Ron Penny - Approved
Tiffany Lucas - Approved
Bradley Newkirk – Approved

C. Work Plan Update

1. Progress on FY 2021-2022 Risk-Based Audit Plan

Ms. Baldwin gave an update to the Council on the risk-based audit plan from the 2021-2022 fiscal year, starting on page 49 of the Council materials. Projects started but not completed in the previous year's plan were carried forward and 50 more engagements were added and included Council projects and mandated requirements. Ms. Baldwin stated that her office was at a 70 percent completion rate due to some NCPRO projects that were dropped due to changing guidance from the U.S. Treasury. There were no other suggestions, clarifications, or questions from the Council to these updates.

2. FY 2022-23 Risk-Based Audit Plan

Several engagements on the audit plan were carried forward since they were not completed by end of the fiscal year 2022. There are 89 items on the plan including special projects which are Council projects. The next section details the hours, noting that NCPRO displays the most hours due to the pandemic office paying for four positions that focus on COVID funds.

There were no suggestions, clarifications, or questions from the Council to these updates

Chair Roseland noted that this was an action item and asked if there was a motion to approve the 2022-2023 risk-based audit plan. State Budget Director Perusse moved to approve. Mr. Newkirk seconded the motion. A verbal vote was taken to approve the 2022-2023 risk-based audit plan and was unanimously approved as noted below.

Charles Perusse - Approved
Pam Cashwell - Approved
Ron Penny - Approved
Tiffany Lucas - Approved
Bradley Newkirk - Approved

D. Public Comments

There were no comments.

Chair Roseland recognized and thanked everyone for their time and the incredible amount of work Ms. Baldwin, and her team had done, as well as the agencies involved. While not perfect, it is a concerted effort and there is a plan to improve.

On a personal note, Chair Roseland informed Mr. Perusse that it was a privilege to be at his last meeting and work with him throughout the years under his leadership, seeing his passion for this effort and the financial management of State government.

He also noted his excitement to work with the new State Budget Director, Kristin Walker.

Mr. Perusse expressed his gratitude for his ability to be involved in this work.

Chair Roseland noted that there was unfinished business from the last Council meeting regarding an obstruction of audit policy change. Draft work had been done but would need to be moved to the next Council meeting as Ms. Baldwin was working with experts in the Attorney General’s office. This may be seen on a future agenda item.

E. Adjournment

State Budget Director Perusse moved to adjourn with the motion seconded by Secretary Penny.

The adjournment roll call Vote was acknowledged as follows:

- Nels Roseland, Chair – State Controller
- Bradley Newkirk – Appointee
- Charles Perusse, State Budget Director
- Pam Cashwell, Secretary of the Department of Administration
- Ronald Penny, Secretary of the Department of Revenue
- Tiffany Lucas representing Attorney General Josh Stein

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held on October 12, 2022.

Witness my hand, this 11th day of January 2023.

Nels Roseland, State Controller, Chair

Barbara Baldwin, Executive Director

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The Council of Internal Auditing’s 2022 Internal Audit Award of Excellence Winner



The North Carolina Council of Internal Auditing has selected Derek Allred, Chief Audit Officer for the Department of Agriculture and Consumer Services, as the 2022 Internal Audit Award of Excellence recipient because of his dedication, contribution, and innovation in internal auditing.

Derek is **dedicated** to internal auditing. He holds professional certifications in internal auditing (CIA), information systems auditing (CISA), fraud examination (CFE) and risk management assurance (CRMA). He obtained three of these certifications (CISA, CFE, and CRMA) since joining the Department as Chief Audit Officer in 2016.

Derek’s hard work and extra effort allowed his internal audit program to go from a peer review rating of “Does Not Conform” prior to his tenure to “Generally Conforms¹” in less

¹ Highest rating issued by the Institute of Internal Auditing

than two years. In addition, he's volunteered to lead the peer review at Appalachian State University and the Department of Public Safety.

Over the past six years, Derek's **contribution** to the profession has shown to be admirable. He continues to volunteer on many statewide initiatives which are spearheaded by the Council staff. He has participated on many work groups including the workgroup that developed the Self-Assessment Maturity Model (SAMM) which is used by all state agency and university internal audit functions to assess conformance with the IIA Standards and make necessary improvements.

Derek took a leading role on the Internal Audit Job Descriptions Task Force and was instrumental in ensuring that the knowledge, skills, and abilities in each job description would reflect what an internal auditor needs to be successful. In addition, Derek's input on the Data Analytics Software Task Force contributed to a one-year pilot program for Tableau visual analytics software.

Innovation has been a key to Derek's success. He implemented an audit management system, Auto Audit, to streamline audit work to gain efficiency within his section. Derek used this system to streamline the monitoring of his agencies corrective action plans, reducing time spent by 67%. Derek uses Tableau to educate DACS employees to allow them to perform monthly procurement card monitoring and improve state fair gate ticket scanning by assisting with crowd and staffing management.

Congratulation Derek!



STATE ETHICS COMMISSION

POST OFFICE BOX 27685

RALEIGH, NC 27611

PHONE: 919-814-3600

November 15, 2022

Via email

To: Nels Roseland, State Controller and Chair of NC Council of Internal Auditing

Re: Council of Internal Auditing -- Notice of Ethics Act Coverage

At its meeting on November 10, 2022, the State Ethics Commission ("the Commission") considered whether to make the Council of Internal Auditing ("the Council") subject to the State Government Ethics Act ("the Ethics Act"). Pursuant to G.S. § 138A-10(a)(3), it voted to cover the Council.

Upon your receipt of this notice, those 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. Additional requirements include the following:

- Newly-covered Council members are required to file a Statement of Economic Interest ("SEI") by **January 16, 2023**, (60 days from this notification of the designation of coverage) and annually thereafter. G.S. § 138A-22(e). Members may file the SEI manually or electronically, although we highly recommend electronic filing. Further information about filing an SEI is available on our website: <https://ethics.nc.gov/seis>. Members may also contact Mary Roerden in our SEI Unit by calling (919) 814-3600 for further assistance.
- Council members and the Council's designated ethics liaison are required to attend a live Ethics and Lobbying Education Presentation or complete the Online Ethics Education by **May 15, 2023**. G.S. § 138A-14(c). A schedule of monthly webinars as well as a link to our on-demand online ethics education course are available on our website: <https://ethics.nc.gov/education>.
- The Council must identify an ethics liaison who will assist members in complying with the Ethics Act, as required by G.S. § 138A-14(e). Please provide the name of that individual.

Council members may have many questions about the Ethics Act and how to comply with its requirements. Please know that we are here to help answer any questions and address any

concerns they may have. I have also enclosed a newsletter with additional information about Ethics Act coverage.

We look forward to working with you in the future. Please feel free to contact us at 919-814-3600 if you have any questions or concerns.

Sincerely,

A handwritten signature in blue ink that reads "Kathleen S. Edwards". The signature is fluid and cursive, with a long horizontal stroke at the end.

Kathleen S. Edwards
Executive Director

cc: Michel Euliss
Barbara Baldwin
Kela Lockamy

ADD NEW SECTION TO STATEWIDE MANUAL

8.0 OBSTRUCTION

8.1 Purpose

The purpose of this section is to define and codify procedures related to the offense “Obstruction of audit” codified at N.C. Gen. Stat. § 143-749. Section 143-749 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.

For the purpose of this section obstruction is an intentional act of blocking or hindering the progress of the internal audit process or deceiving an internal auditor during the performance of their official duties for the purpose of changing the outcome of the audit work or preventing the publication of an audit report. This includes but is not limited to:

- Restricting certain audit topics from inclusion on the risk-based audit plan.
- Intentional attempts to halt an audit report from being published when that report is supported by facts or meets the IIA Standards.
- Intentional attempts to withhold existing documents or relevant information during an audit.
- Intentional misrepresentation of documents or misleading conversations to deceive or change the outcome or hinder the completion of an audit.

8.2 Reporting

Any person can report to the Executive Director of the Council of Internal Auditing any intentional action in which a state agency employee attempts to obstruct an agency’s internal auditor or the internal auditor’s designated representatives in the performance of their official duties.

The person must provide all the facts related to the situation and any documentation that support these facts. Reporting can be accomplished via email, telephone, or a virtual or in-person meeting.

8.3 Executive Director Responsibility

The Executive Director will review the information reported. The Executive Director may provide advice to the internal audit director on actions they may take to resolve the issue. The internal auditor director has the discretion to follow the advice provided by the Executive

Director and work to address the issue on their own or request the Executive Director report this information to the Council.

Should the internal auditor request to have this information reported to the Council, the Executive Director will notify the Council Chair within five business days of the request.

8.4 Council Responsibility

It is the Council's responsibility to hear complaints related to allegations of interference or obstruction of an internal audit. The Executive Director will bring forth complaints to the Council.

At the discretion of the Council Chair, and upon a motion duly made and adopted at an open meeting, a closed session may be held to hear the information related to an obstruction complaint, as permitted by N.C. Gen. Stat. § 143-318.11(a)(1) (legally confidential information), § 143-318.11(a)(6) (specific personnel matter), and/or § 143-318.11(a) (7) (criminal investigations).

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.



CENTRAL INTERNAL AUDIT OFFICE CHARTER

INTRODUCTION:

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of state agencies. It assists these agencies in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control.

ROLE:

The Central Internal Audit Office is established by Article 79 within Chapter 143 of the General Statute. The Central Internal Audit Office's responsibilities are defined by these laws to include staffing the Council of Internal Auditing. The Council of Internal Auditing has authority to set policy and direct the work of the Central Internal Audit Office.

PROFESSIONALISM:

The Central Internal Audit Office will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, the Core Principles, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Central Internal Audit Office's performance.

Article 79 of Chapter 143 within the General Statute will also be adhered to as applicable to guide operations. In addition, the Central Internal Audit Office will adhere to the Office of State Budget and Management's relevant policies and procedures and the Central Internal Audit Office's internal procedure manual.

AUTHORITY:

The Central Internal Audit Office, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all state agency's records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Central Internal Audit Office in fulfilling its roles and responsibilities.

ORGANIZATION:

The Central Internal Audit Director will report functionally to the Council of Internal Auditing (Council) and administratively to the State Budget Director.

The functional oversight of the Council includes:

- Approve the internal audit charter.
- Approve the risk-based internal audit plan.
- Receive communications from the Central Internal Audit Director on the Central Internal Audit Office's performance relative to its plan and other matters.
- Make appropriate inquiries of the Central Internal Audit Director to determine whether there is inappropriate scope or resource limitations.
- Approve the hiring of the Executive Director (a.k.a. Central Internal Audit Director), Internal Auditor, and Program Support Specialist.

The Central Internal Audit Director will communicate and interact directly with the Council, including in executive sessions and between Council meetings as appropriate.

Central Internal Audit Director reports administratively to the State Budget Director. The OSBM management structure facilitates the day-to-day operations of Central Internal Audit Office. Administrative reporting includes:

- Budgeting and management accounting.
- Human resource administration, including personnel evaluation and compensation.
- Internal communications and information flows.
- Administration of the Central Internal Audit Office's policies and procedures.

INDEPENDENCE AND OBJECTIVITY:

The Central Internal Audit Office will remain free from interference by any element in the agencies, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Central Internal Audit Director will confirm to the Council, at least annually, the organizational independence of the Central Internal Audit Office.

RESPONSIBILITY:

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. This may include:

- Evaluating risk exposure relating to achievement of the organization's strategic objectives.
- Evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information.
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Evaluating the effectiveness and efficiency with which resources are employed.
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
- Monitoring and evaluating governance processes.
- Monitoring and evaluating the effectiveness of the organization's risk management processes.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
- Reporting periodically on the Central Internal Audit Office's purpose, authority, responsibility, and performance relative to its plan.
- Evaluating specific operations at the request of the Council or management, as appropriate.

Additional responsibility includes administration of the Council programs. These duties include:

- Administering and coordinating of the peer review program.
- Identifying and providing training to state government internal auditors.
- Staffing the Council meetings.
- Developing and maintaining guideline and best practice manual.
- Administering the Internal Auditor's Award of Excellence program.
- Drafting the annual accomplishment report.
- Conducting staffing analysis for internal audit resources.
- Maintaining a repository of internal audit reports, plans and attestation.
- **Collecting and validating internal audit program's key performance measures.**
- Conduct special project at the request of the Council.

INTERNAL AUDIT PLAN:

At least annually, the Central Internal Audit Director will submit to OSBM senior management and the Council a risk-based internal audit plan for review and approval. The Central Internal Audit Director will communicate the impact of resource limitations and significant interim changes to OSBM senior management and the Council.

The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of OSBM senior management. The Central Internal Audit Director will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved internal audit plan will be communicated to OSBM senior management and the Council.

REPORTING AND MONITORING:

A written report will be prepared and issued by the Central Internal Audit Director or designee following the conclusion of each internal audit engagement and will be distributed as appropriate.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented. The Central Internal Audit Office will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

The Central Internal Audit Director will periodically report to OSBM senior management and the Council on the Central Internal Audit Office's purpose, authority, and responsibility, as well as performance relative to its plan.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The Central Internal Audit Office will maintain a quality assurance and improvement program that covers all aspects of the Central Internal Audit Office. The program will include an evaluation of the Central Internal Audit Office's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the Central Internal Audit Office and identifies opportunities for improvement.

The Central Internal Audit Director will communicate to OSBM senior management and the Council on the Central Internal Audit Office's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

This Internal Audit Charter was approved on this day January 11, 2023.

Nels Roseland, Chairman of the Council of Internal Auditing

Kristin Walker, State Budget Officer

Barbara Baldwin, Executive Director of the Council of
Internal Auditing and Central Internal Audit Director

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C1. Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level
As of June 30, 2022

Agency	Current Positions	Minimal Positions Needed	Recommended New Positions	Manager	Supervisor	IA3	IA2	IA1	Cost ⁵
Dept. of Agriculture and Consumer Services	3.00	6.00	3.00			1	1	1	295,811.74
Dept. of Commerce	3.00	7.00	4.00			1	2	1	393,699.76
Dept. of Natural and Cultural Resources	2.00	4.00	2.00			1	1		210,833.49
Dept. of Environment Quality	5.00	6.00	1.00				1		97,888.02
Dept. of Information Technology	4.00	7.00	3.00			1	1	1	295,811.74
Dept. of Insurance	1.00	2.00	1.00			1			112,945.47
Dept. of Justice	0.50	3.00	3.00	1		1	1		359,180.63
Dept. of Labor	1.00	2.00	1.00			1			112,945.47
Dept. of Military and Veterans Affairs	1.00	2.00	1.00	1					148,347.14
Dept. of Public Instruction	9.00	14.00	5.00		1	1	1	2	511,299.18
Dept. of Revenue	3.00	4.00	1.00				1		97,888.02
Dept. of Secretary of State	1.00	2.00	1.00	1					148,347.14
NC Education Lottery	3.00	5.00	2.00				1	1	182,866.27
NC Housing Finance Agency ³	0.00	3.00	3.00	1		1	1		359,180.63
Office of State Budget and Management ¹	9.00	10.00	1.00				1		97,888.02
Office of State Controller	0.75	2.00	1.00			1			112,945.47
Wildlife Resources Commission	1.00	3.00	2.00	1			1		246,235.16
NC Community College System Office	1.00	3.00	2.00	1			1		246,235.16
Fayetteville State University	1.00	3.00	2.00			1	1		210,833.49
North Carolina State University	7.00	8.00	1.00				1		97,888.02
UNC -- Hospitals	6.00	8.00	2.00				1	1	182,866.27
UNC -- Asheville	1.00	3.00	2.00			1	1		210,833.49
UNC -- Chapel Hill	7.00	8.00	1.00				1		97,888.02
UNC -- Greensboro	2.00	4.00	2.00			1	1		210,833.49
UNC -- System Office ²	3.00	5.00	2.00			1	1		210,833.49
Western Carolina University	2.00	4.00	2.00			1	1		210,833.49
Grand Total			51.00						5,463,158.26

Agencies at or above Minimum	
Dept. of Administration	3.00
Dept. of Health and Human Services	33.80
Dept. of Public Safety	23.00
Dept. of State Treasurer	5.00
Dept. of Transportation	16.00
Appalachian State University	5.00
East Carolina University	7.00
Elizabeth City State University	2.00
NC A&T State University	4.00
NC Central University	4.00
UNC -- Charlotte	6.00
UNC -- Pembroke	3.00
UNC -- Wilmington	5.00
Winston-Salem State University ⁴	6.00

1. Provides internal audit services to the Office of the Governor, Office of State Budget and Management, Office of State Human Resources which are included in the calculations. Has a contract for servicing the Office of the State Auditor.
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. Includes Salaries at midpoint and benefits.

Internal Audit functions with 1 or less positions. Total cost to meet minimum needs is \$1,908,849.00

Determination of the Minimal Number of Auditors Need within an Internal Audit Function

1. Budget of less than \$70 million = used the Shared Pool
2. Budget of \$70 million = 2 auditors
3. Add 1 auditor for amounts over \$70 Million. State Aid and Construction Expenditures should be omitted.

Expenditures in millions	Positions	Expenditures in millions	Positions
0-70	2	6,000-8,000	9
70-250	3	8,000-10,000	10
250-500	4	10,000-15,000	11
500-1,000	5	15,000-20,000	12
1,000-2,000	6	20,000-30,000	13
2,000-4,000	7	30,000-40,000	14
4,000-6,000	8	>50,000	15

4. The number of internal audit positions needed was multiplied by the corresponding factor:
 - a. Risk related to the number of agency employees.

Number of Employees	Factor
Below 200	0.90
200-500 employees	0.95
500-1,000	1.00
1,000-5,000 employees	1.05
5,000-10,000 employees	1.10
10,000-20,000 employees	1.20
Over 20,000 employees	1.30

- b. The risk associated with the agency organization. The risk components considered were: financial, operational, criticality of the unit, technology, probability of fraud, and public or political sensitivity.

Risk Level	Factor
Risk Level 1	0.90
Risk Level 2	0.95
Risk Level 3	1.00
Risk Level 4	1.05
Risk Level 5	1.10
Risk Level 6	1.20

- c. The risk associated with the degree of decentralization of the agency with the more decentralized agencies having a higher factor than centralized organizations. This includes home based employees.

Decentralization	Factor
1 location	0.90
2 to 10 locations	0.95
11 to 50 locations	1.00
51 to 499 locations	1.05
500 to 999 locations	1.10
1,000 or more locations	1.20

- d. The risk associated with the grants passed through the agency will increase overall risk. This includes direct appropriation, formula grants and competitive grants.

Grants	Factor
No grants	.90
\$1 to 999,999	.95
\$1,000,000 to \$499,999,999	1.00
\$500,000,000 to \$2,999,999,999	1.05
\$3 Billion to \$9,999,999,999	1.10
\$10 Billion or more	1.20

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C.2 Risk-Based Audit Plan Validation 3-Year Cycle

Methodology: 39 internal audit risk-based audit plans will be reviewed within a three year cycle.

The internal audit's Quality Assurance Review (QAR) score and size were used to select agencies for each year.

Agencies selected for each year are listed below

Year (1,2,3)	First Review Date	Agency	QAR Rating	Number of Staff	IA Function Size (SM 1-3, MD4-9, LG <10)
1	FY 22-23	Department of Administration	Partially Conforms	3	SM
1	FY 22-23	Department of Commerce	Partially Conforms	3	SM
1	FY 22-23	University of North Carolina - Pembroke	Partially Conforms	3	SM
1	FY 22-23	Department of Cultural and Natural Resources	Partially Conforms	2	SM
1	FY 22-23	University of North Carolina - Greensboro	Partially Conforms	2	SM
1	FY 22-23	Wildlife Resources Commission	Does Not Conform	1	SM
1	FY 22-23	Department of Justice	No rating	0.5	SM
1	FY 22-23	East Carolina University	Generally Conforms	7	MD
1	FY 22-23	University of North Carolina - Charlotte	Generally Conforms	6	MD
1	FY 22-23	Appalachian State University	Generally Conforms	5	MD
1	FY 22-23	Department of State Treasurer	Does Not Conform	5	MD
1	FY 22-23	Department of Information Technology	Does Not Conform	4	MD
1	FY 22-23	Department of Public Safety	Partially Conforms	23	LG
2	FY 23-24	Department of Agriculture & Consumer Services	Generally Conforms	3	SM
2	FY 23-24	Department of Revenue	Generally Conforms	3	SM
2	FY 23-24	NC Education Lottery	Generally Conforms	3	SM
2	FY 23-24	Community College System Office	No rating	1	SM
2	FY 23-24	Department of Insurance	Generally Conforms	1	SM
2	FY 23-24	Department of Labor	New	1	SM
2	FY 23-24	University of North Carolina - System Office	Generally Conforms	3	SM
2	FY 23-24	North Carolina Central University	Generally Conforms	4	MD
2	FY 23-24	North Carolina State University	Generally Conforms	7	MD
2	FY 23-24	University of North Carolina Hospital	Generally Conforms	6	MD
2	FY 23-24	Department of Environmental Quality	Generally Conforms	5	MD
2	FY 23-24	North Carolina A&T State University	Generally Conforms	4	MD
2	FY 23-24	Department of Transportation	Generally Conforms	16	LG

Year (1,2,3)	First Review Date	Agency	QAR Rating	Number of Staff	IA Function Size (SM 1-3, MD4-9, LG <10)
3	FY 24-25	Elizabeth City State University	Generally Conforms	2	SM
3	FY 24-25	Western Carolina University	Generally Conforms	2	SM
3	FY 24-25	Department of Secretary of State	Generally Conforms	1	SM
3	FY 24-25	Fayetteville State University	Generally Conforms	1	SM
3	FY 24-25	University of North Carolina - Asheville	Generally Conforms	1	SM
3	FY 24-25	Office of the State Controller	Generally Conforms	0.75	SM
3	FY 24-25	Housing Finance Agency	Generally Conforms	0	SM
3	FY 24-25	Department of Public Instruction	Generally Conforms	9	MD
3	FY 24-25	University of North Carolina - Chapel Hill	Generally Conforms	7	MD
3	FY 24-25	Winston-Salem State University	Generally Conforms	6	MD
3	FY 24-25	University of North Carolina - Wilmington	Generally Conforms	5	MD
3	FY 24-25	Office of State Budget and Management	Generally Conforms	11	LG
3	FY 24-25	Department of Health and Human Services	Generally Conforms	33.8	LG

Validation of Risk-Based Plans -- Checklist

This checklist will be used by Council staff to complete the review of risk assessments and risk-based audit plans to ensure conformance with the appropriate IIA Standards.

The list includes the appropriate IIA Standards that must be conformed with when conducting a risk assessment to develop a risk-based plan.

Council staff will review supporting documentation to determine if the risk assessment and risk-based plan are in conformance with the Standards.

Performance Standards	Description	Critical Question(s)	Example/ Interpretation	Yes or No	Documentation Reference
2010-Planning		Does the audit universe represent the agency program, activities, sections, or process, systems, controls?	review org chart, program list, or strategic plan		
		How does IA ensure the audit universe is complete?	review org chart, program list, or strategic plan, and survey/interview program/division/section heads		
		Were risk categories identified?	operational risk, compliance risk, financial risk, reputational risk, etc....		
		Was the agency's ERM or EAGLE or AICFR (Universities) considered during the assessment?	include documentation related to the ERM, AICFR, EAGLE, or other relevant processes		
		Was information technology included in the risk assessment?	Review for IT assessment.		
		Was a risk rating method used?	1 to 3, 1 to 5, 1 to 10. may use a weighted factor		
		Was impact and likelihood assessed?	Review assessment and calculations		
		Is audit plan aligned with strategic plan or another internal document?	Goals may be found in the Agencies Strategic/webpage/other documents		
		Are high risk items included on the plan?	Is there rational if high risk items are not on plan like, lack of IT skills, limited recourses		
2010.A1		Is Risk Assessment undertaken at least annually?	interviews, survey, workshop		
		Is the process documented?	review completed templates, surveys, other docs; this might include risk assessments completed by the ERM office/committee, and/or others (not limited to Internal Audit risk assessments)		
		How was input from senior management and the board considered?	Review documents for interviews, survey, workshop notes		
		Are the items on audit plan, identified as high risk on risk assessment, and/or linked to the entity's strategy and goals?	Compare risk score for each item on the plan to the audit universe risk scores.		
2010.A2		Were senior management expectations identified and considered? Were inputs obtained from second line professionals (such as compliance officers, etc.)?	Review documents for interviews, survey, workshop notes for management request (review risk score if added to plan). Are there 2nd line of defense within agency and was their workplan considered to avoid duplication.		
		Were the boards expectations identified and considered?	Review interviews, survey, workshop		
2010.C1		Were any consulting engagements proposed?	Review interviews, survey, workshop		
		If consulting engagements were accepted are they included on audit plan?	review plan to see if proposed consulting was added to the plan.		
		Do accepted consulting engagements add value, improve operations or risk management?	identify objective of consulting engagement		

Performance Standards	Description	Critical Question(s)	Example/ Interpretation	Yes or No	Documentation Reference
2020 – Communication and Approval	The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.	Does the plan designate assurance and consulting engagements?	may identify assurance as the type of engagement i.e. compliance, operational, etc....		
		Was the plan based on a quantifiable amount of anticipated resources (i.e., auditor hours)?	review documents for available hours		
		Was the plan approved by senior management and the board?	Could be signatures on the plan, meeting minutes.		
		Was impact of resource limitations discussed?	discussion high risk items not on plan due to limited resources or lack of skills to perform engagements		
2030 – Resource Management	The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.	Does the IA function have the appropriate skills to complete the planned items?	Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.		
		Were contractors or guest auditors considered to cover the lack of skills?	review resources assigned to engagements		
2040 – Policies and Procedures	The chief audit executive must establish policies and procedures to guide the internal audit activity.	Are there policies and procedures for the risk assessment?	request and review the manuals		
2050 – Coordination and Reliance	The chief audit executive should share information, coordinate activities, and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimize duplication of efforts.	Were internal and/or external assurance provider's planned work considered to avoid duplication of efforts?			
2060 – Reporting to Senior Management and the Board	The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues, and other matters that require the attention of senior management and/or the board.	Were significant risk issues reported to senior management and the board?	this includes unaddressed risk (high risk engagement that are not on other audit plan)		
2110 – Governance	The internal audit activity must assess and make appropriate recommendations to improve the organization's governance processes.	Were the agency's governance processes considered in the risk assessment?	Are any of these considered during the assessment, included in the audit universe, and/or included on the plan: <ul style="list-style-type: none"> - Making strategic and operational decisions. - Overseeing risk management and control. - Promoting appropriate ethics and values within the organization. - Ensuring effective organizational performance management and accountability. - Communicating risk and control information to appropriate areas of the organization. - Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management. 		
2330 – Documenting Information	Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions	Is risk assessment documented sufficiently to support engagements included on audit plan?	The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and for deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.		

Performance Standards	Description	Critical Question(s)	Example/ Interpretation	Yes or No	Documentation Reference
2440 – Disseminating Results	The chief audit executive must communicate results to the appropriate parties.	Were the results of the risk assessment reviewed with and provided to senior management and the board?	review meeting minute, meeting notes		

Glossary

Add Value

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Agency

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, Community Colleges System Office.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Board

The highest level governing body (e.g., a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organization's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the Standards refers to a group or person charged with governance of the organization. Furthermore, "board" in the Standards may refer to a committee or another body to which the governing body has delegated certain functions (e.g., an audit committee).

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

External Service Provider

A person or firm outside of the organization that has special knowledge, skill, and experience in a particular discipline.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Independence

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Information Technology Controls
Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure, and people.
Internal Audit Function
A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
Internal Audit Director
Internal Audit Director (IAD) describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The internal audit director or others reporting to the internal audit director will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the internal audit director may vary across organizations.
Internal auditing
An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. (IIA)
International Professional Practices Framework
The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories - (1) mandatory and (2) recommended.
Must
The <i>Standards</i> use the word "must" to specify an unconditional requirement.
Objectivity
An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.
Risk
The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
Risk Appetite
The level of risk that an organization is willing to accept.
Risk Management
A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.
Senior management
Generally a team of individuals at the highest level of management of an organization who have the day-to-day tasks of managing the organization
Should
The <i>Standards</i> use the word "should" where conformance is expected unless, when applying professional judgment, circumstances justify deviation.
Significance
The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.
Standard
A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

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C3 Risk-Based Audit Plan Changes and Progress

Table 1		
Changes in Risk-Based Plan		
	Projects	Hours
Plan as of July 1, 2022	81	14,673
Added to plan	11	1,885
Plan as of December 31, 2022	92	16,558
 <u>Contingency Hours</u> 		
		<u>Hours</u>
As of July 1, 2022		2,506
Added 11 projects		(1,885)
Lost Hours Due to Vacancies		(1,613)
Deficit in available hours		(992)

Table 2				
Risk-Based Plan Progress				
Audit plan vs actual				
As of December 31, 2022				
<u>Status</u>	<u>Numbers</u>		<u>Hours</u>	
Complete	29	32%	1,612	10%
In-Progress	42	46%	11,907	72%
Not Started	21	23%	3,039	18%
	<u>92</u>		<u>16,558</u>	