STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING

INTERNAL AUDIT ACTIVITY REPORT

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

October 2019

Prepared By:

Office of Internal Audit
Office of State Budget and Management

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INTRODUCTION

The North Carolina Internal Audit Act[1] (the Act) was signed into law on August 31, 2007. The Act established the Council of Internal Auditing (Council) and requires all Executive branch agencies[2] to establish a program of internal auditing. The Council of Internal Auditing is mandated to: report on service efforts and accomplishments of these programs; and propose legislation for consideration by the Governor and General Assembly. This report documents the service efforts and accomplishments from July 2018 through June 2019 of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Council Resource and Requirements

Membership and Programs

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

Table 1

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

The Council is mandated to administer programs and activities which:

- Promulgate guidelines, develop technical manuals and suggest best practices;
- Conduct statewide internal audit staffing analysis;
- Provide training and professional development opportunities;
- Report on statewide internal audit service efforts and accomplishments;
- Develop and administer a peer review program;
- Develop and administer an internal audit recognition program;
- Develop and administer a shared internal audit program; and
- Maintain a report and audit plan repository.

[1] Entire Internal Audit Act is in Appendix A.

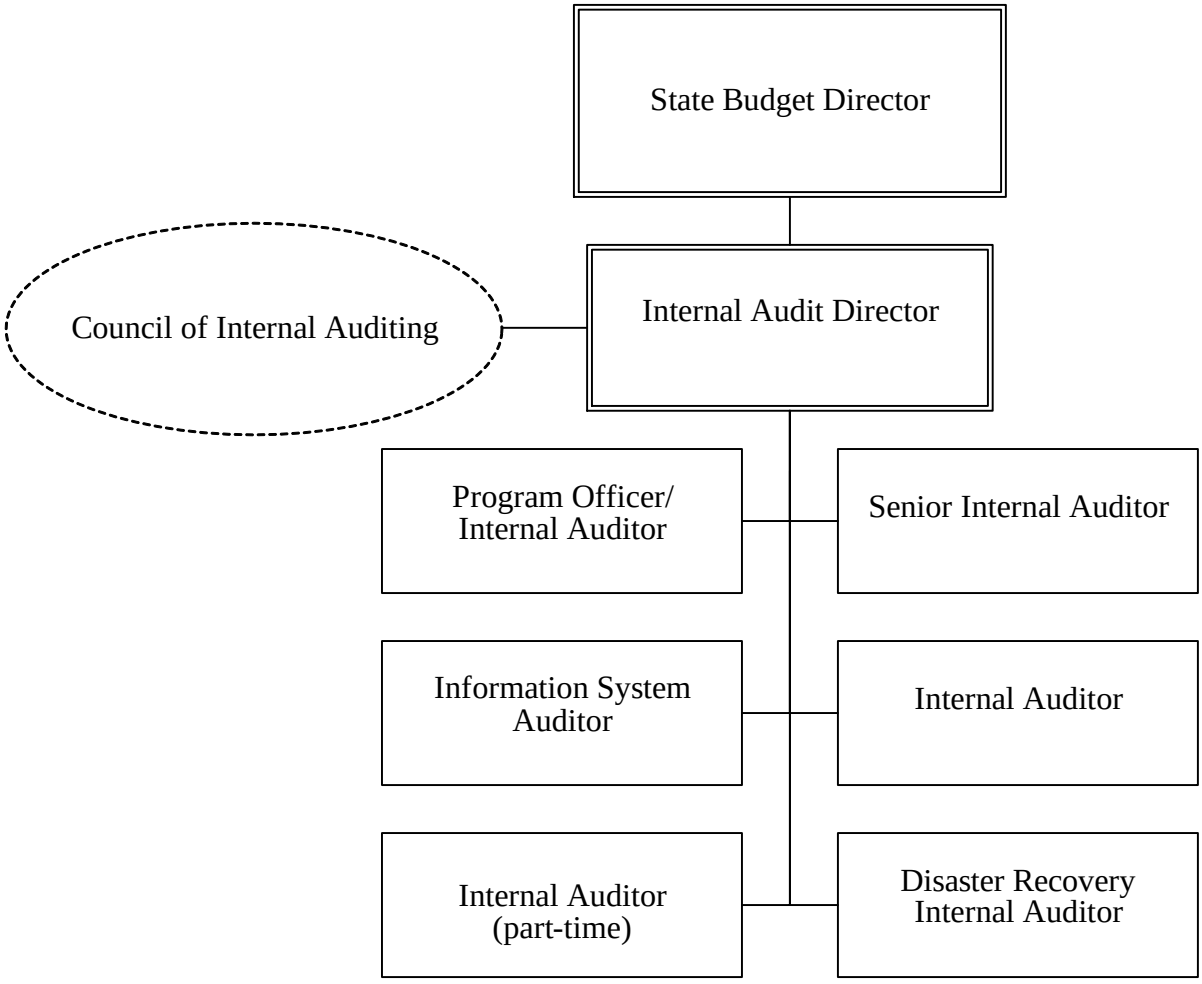
[2] Agency means department, office, university, commission, board.

Council Staff and Expenditures

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

- Two Certified Internal Auditors;
- Two Certified Fraud Examiner;
- One Certified Government Audit Professional;
- Two Certified Public Accountants;
- One Certified Internal Control Auditor;
- One Certified Information System Auditor; and
- One Project Management Professional.

Exhibit 1
Office of Internal Audit as of June 30, 2018



The expenditures for FY2014-15 through FY2018-19 are shown in Table 2. The Office of Internal Audit had a fifteen percent (15%) overall increase in expenditures. Eleven percent (11%) of the increase is attributed to the addition of the disaster recovery position which is offset with special recovery funds. The four percent (4%) increase in general funds is attributed to legislative salary increase, data analytics software provided to each internal audit function and training for data analytics software.

Table 2

Office of Internal Audit Five Year Expenditures					
Expenditures	**FY2018-19**	**FY2017-18**	**FY2016/17**	**FY2015/16**	**FY2014/15**
Personnel					
Employee	*561,399*	*508,707*	*518,220*	*504,252*	*413,646*
Contractor	-	-	*15,020*	*29,887*	*172,678*
Total Personnel	**561,399**	**508,707**	**533,240**	**534,139**	**586,324**
Purchased Services					
Software	*32,096*	*2,559*	*5,411*	*4,267*	*3,552*
Training & Development	*16,440*	*15,351*	*2,244*	*4,968*	*6,355*
Information Technology Services	*11,792*	*10,261*	*6,368*	*5,760*	*5,471*
Travel, Telephone, Miscellaneous	*1,728*	*2,941*	*7,820*	*2,486*	*2,838*
Total Purchased Services	**62,056**	**31,112**	**21,844**	**17,481**	**18,216**
Supplies	-	-	-	**50**	-
Property, Plant, & Equipment	-	-	**2,181**	**610**	-
Other	**1,414**	**1,279**	**1,385**	**452**	**1,191**
Total Expenditures	**624,869**	**541,098**	**558,650**	**552,732**	**605,731**
BREAKDOWN BY FUND SOURCE					
General Fund	**562,833**	**541,098**	**526,422**	**522,845**	**382,560**
State Disaster Funds	**51,324**				
ARRA Race to the Top Fund			-	**29,887**	**223,172**
Other State Agencies	**10,712**		**15,020**	-	-
Rhode Island QAR			**17,208**	-	-

Efforts and Accomplishments

Over the last ten years the Council complied with the mandated requirements in the Act. Guidelines and manuals were published in May 2008, communicated to all internal auditors and continue to be updated when necessary. The peer review, internal audit recognition and shared internal audit programs were developed and operationalized. Below are specific accomplishments during FY2018-19.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. During FY2018-19, the Council sponsored three trainings which provided internal auditors the opportunity to earn up to 70 certified professional education (CPE) hours.

The 3nd Annual Fraud Audit Conference was held in July 2019. This two-day training session provided 14 CPE hours at a cost of $90 per participant. Participants were invited from state agencies, universities, community colleges, local education agencies, and local governments. There were 193 registered participants with a total cost of approximately $6,000. Based on participant surveys, there was a 94% very good or excellent program rating.

OIA staff coordinated a four-day Certified Internal Auditor (CIA) review course that corresponded to the three parts of the Certified Internal Auditor examination administered by the *Institute of Internal Auditors* (IIA). The training occurred between September and November 2018. The training sessions provided 32 CPE hours. There were 35 registered participants and the cost of sponsoring the training was about $7,500. Based on survey responses 98% found the training sessions valuable and eleven participants attempted to take one or more parts of the examination, eight participants passed all three parts obtaining the CIA designation.

As part of the data analytic initiative, two three-day trainings were held in May 2019. The training sessions provided an understanding of the functionality of the software application and participants received 24 CPE hours. There were 57 participants and no fee was charged to the attendees. The total cost of the training was approximately $15,000. Based on the survey responses, 90% found the training session valuable.

In addition to the three training sessions throughout the year, other free or low-cost training are identified and communicated to all internal auditors. Communication takes place via email and postings on the OSBM website. Over the past year, 42 professional development opportunities were identified, providing 143 CPE hours. Over 50% of the trainings, which provided 29 CPE, were free of charge.

Peer Review Program

The Peer Review program is a cooperative effort to establish a method to comply with the Institute of Internal Auditors' external quality assurance review requirement. All internal audit functions are required to have an external quality assurance review every five years. This program enables state agencies to obtain their external assessment in a cost-effective method. For FY2018-19, 11 agencies requested services from the Peer Review program. Nine reviews were complete and two are in progress. See page 18 for more details related to the outcomes of the Peer Review program.

Internal Audit Recognition Program

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement in internal auditing. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a state internal auditor or a group of internal auditors who has made extraordinary contributions that promote excellence in internal auditing. The 2018 Internal Auditor Award of Excellence was presented to Mike Suggs, Internal Audit Director at the North Carolina Education Lottery.

Shared Internal Audit Program

The internal audit program provides audit services to small state agencies. The guidelines for state agencies to use the internal audit program for compliance with the Act is:

1. Has an annual operating budget exceeding ten million dollars but is less than seventy million dollars; or
2. Has less than 100 full-time equivalent employees; or
3. Receives and processes more than ten million dollars but less than seventy million dollars in cash in a fiscal year; or
4. Is deemed appropriate by the Council of Internal Auditing.

In addition to servicing seven agencies, the program is responsible for conducting audits of the community development block grant disaster recovery funds and providing assistance to internal audit functions upon request. Services are dependent upon resource availability of the program. For

accomplishment of this program, see the State Agency Internal Audit Functions section titled Efforts and Accomplishments on page 14.

Report and Audit Plan Repository

Audit reports are submitted to the office throughout the year. Agencies must also submit their audit plans by September 30th of each year. For more details on compliance with requirements and the number and types of reports, see the State Agency Internal Audit Function section titled Efforts and Accomplishments on page 14.

Staffing Analysis

The Council's staffing analysis is a cursory review to identify the minimal number of internal audit positions needed, not the optimal. A more extensive review must be conducted to determine the optimal number of positions need in each internal audit function. The fiscal year 2017 analysis identified 24 agencies under the minimal number of internal auditors needed to address risk within their agencies. Positions needed to get all agencies to the minimal number is 52.50 positions at a cost[3] just under $5 million. Details of the specific staffing recommendations can be seen in Appendix B.

Institute of Internal Auditors Government Group Membership

The purpose of the program is to broaden internal audit knowledge by providing a membership reduction rate. Some benefits of a membership include free and discounted continuing education development and professional publications; enhanced networking; and exclusive on-line resource materials. The Council staff has worked with the IIA to establish the State of North Carolina Government Group membership program that starts October 1 and ends September 30 of each year. Any government employee can join this group and receive a discount on an IIA membership. On October 1, 2018, the program registered 200 individuals and throughout the year, added 8 individuals allowing for a 39% reduction of the membership rate.

New Initiative

Data Analytics

Data analytics can be embedded throughout the audit process to perform audits faster, cheaper, and better. A statewide efficiency improvement initiative utilizing data analytics started June 2018.

A cross agency workgroup conducted research on data analytics and software tools; demonstrations were provided by some internal audit functions to showcase a specific tool and the types of data analytics performed, such as: duplicate payments; Pcard usage; and fraud risk analysis. The group determined there is no one perfect tool for data analytics but did select a user-friendly tool with visualization to improve data presentation.

A one-year software license was provided to each internal audit functions costing $27,552. Internal audit functions can purchase additional software license at a 20% discount. Beginning training was provided to internal audit function in May 2019. For more details on training, see section entitled *Training and Professional Development Opportunities* on page 3.

Council staff has developed a continuous procurement card audit using this software. Instructions were developed to allow other agencies and universities to conduct continuous procurement card audits. The

[3] Annual cost of a position includes: Salary and Benefits – $91,200; and operating cost of $3,800.

procurement card audit is currently being piloted with two agencies and one university. Staff plans to roll out this continuous audit to all internal audit functions by December 2019.

Proposed Legislation Changes

The Council of Internal Auditing did not sponsor changes related to the Internal Audit Act during the 2018-2019 Legislative Session.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Positions and Contracting

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

As shown in Table 3 on the next page, there are 187.25 internal audit positions, which are spread across 36 state agencies. As of June 30, 2019, 81% of these positions were filled. There was a net loss of 3.25 positions throughout the state over the past year. Significant changes over the last year include:

- Department of Revenue lost 1 position
- Department of Treasurer lost 1 position
- Department of Justice lost .5 position
- UNC – Chapel Hill lost 1 position
- Office of State Budget and Management gained 1 position

Agencies under $70 million in operating funds can use OSBM as their internal audit function. During fiscal year 2019, eight agencies used OSBM services instead of having an in-house internal audit function. Agencies serviced by OSBM during FY2018-19 are:

- Commissioner of Banks;
- Department of Labor;
- Department of Military and Veterans Affairs;
- Office of State Budget and Management;
- Office of State Human Resources;
- Office of the Governor;
- Office of the State Auditor; and
- Office of Recovery and Resiliency.

The Department of Military and Veterans Affairs is above the required threshold but uses OSBM due to a lack of resources. The Office of Recovery and Resiliency is required to have an independent internal auditor per the State's application to the Federal granting agency.

The following agencies outsource their internal audit function:

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

Table 3

Statewide Internal Audit Positions Five Year History					
	2019	**2018**	**2017**	**2016**	**2015**
Community College System Office	2	2	2	1	1
Commissioner of Banks[1]	0	0	0	0	0
Department of Administration	1	1	1	1	1
Department of Agriculture & Consumer Services	4	4	4	4	3
Department of Commerce	4	4	4	4	4
Department of Natural and Cultural Resources	2	2	2	2	2
Department of Environmental Quality	3	3	2	2	4
Department of Health & Human Services	38	39	41	41	43
Department of Information Technology	2	2	3	3	3
Department of Insurance	1	1	1	1	1
Department of Justice	0.5	1	1	1	1
Department of Labor[1]	0	0	0	0	0
Department of Military and Veterans Affair[1]	0	0	0	0	N/A
Department of Public Instruction	2	2	2	2	2
Department of Public Safety[7]	18	18	18	18	19
Department of Revenue	2	3	3	3	3
Department of Secretary of State	1	1	2	1	2
Department of State Treasurer	5	6	3	3	3
Department of Transportation	25	25	25	25	25
Housing Finance Agency[2]	0	0	0	1	1
North Carolina Education Lottery	3	3	3	3	3
Office of State Controller	0.75	0.5	0.5	0.5	0.5
Office of State Human Resources[1]	0	0	0	0	0
Office of State Budget & Management[1]	6	5	5	5	5
Office of the Governor[1]	0	0	0	0	0
Office of the State Auditor[1]	0	0	0	0	0
Wildlife Resources Commission	1	1	1	1	1
Appalachian State University	5	5	5	5	5
East Carolina University[6]	7	7	8	8	8
Elizabeth City State University	2	2	1	1	1
Fayetteville State University[2]	0	0	0	0	1
North Carolina Agricultural & Technical State University	4	4	4	4	4
North Carolina Central University	4	4	4	4	3
North Carolina School of Science and Mathematics[4]	0	0	0	0	0
North Carolina School of the Arts[3]	0	0	0	0	0
North Carolina State Education Assistance Authority[4]	0	0	0	0	N/A
North Carolina State University	7	7	7	7	8
University of North Carolina - Asheville	1	1	1	1	1
University of North Carolina - Chapel Hill	6	7	7.75	7	7
University of North Carolina - Charlotte	5	5	5	5	5
University of North Carolina - System Office	2	2	2	1	1
University of North Carolina - Greensboro	2	2	2	2	2
University of North Carolina - Health Care System[5]	7	7	7	9	10
University of North Carolina - Pembroke	2	2	2	2	1
University of North Carolina - Wilmington	4	4	4	4	4
Western Carolina University	2	2	1	1	1
Winston-Salem State University	6	6	5	5	5
Total	**187.25**	**190.50**	**189.25**	**188.50**	**194.50**

1. Utilizes Office of State Budget and Management Internal Audit program
2. Uses contract auditors
3. Contracts with Winston-Salem State University
4. Contracts with University of North Carolina System Office
5. FY2017 corrected from 12 to 7 positions
6. FY2018 corrected from 9 to 7 positions
7. FY 2016-2018 corrected from 20 to 18 positions

Supplement Staffing Efforts

Agencies continue efforts to supplement staffing levels by using: the state term internal audit supplemental staffing convenience contract; and hiring interns and temporary employees. Over the past year, 18 agencies have utilized alternative methods to address resource limitations as shown in Table 4.

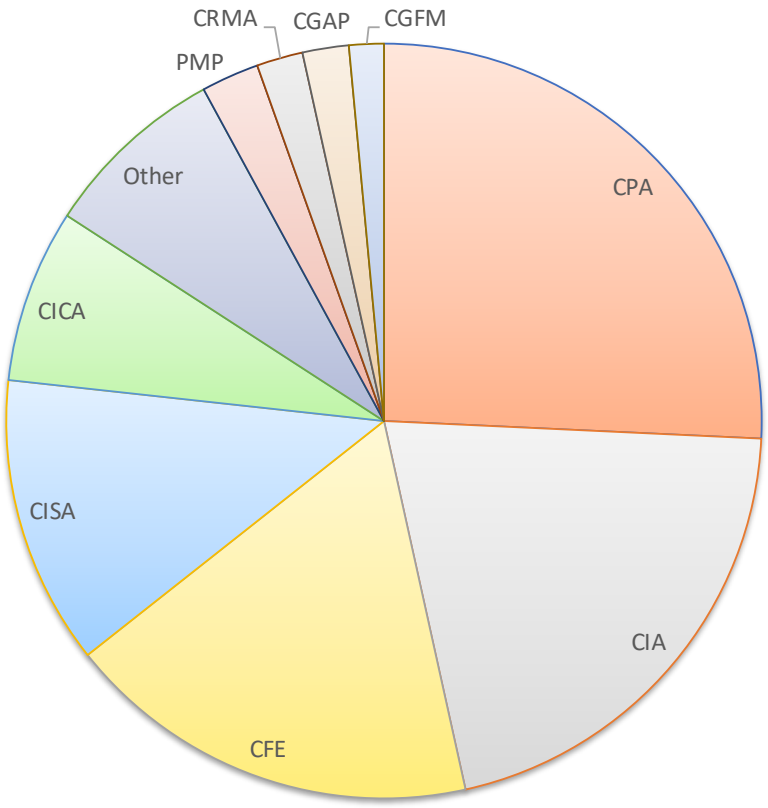
Table 4

Supplemental Staffing Efforts				
Agency	**State Term Contract**	**Interns**	**Temporary Employees**	**Other**
Department of Commerce			✓	
Department of Health & Human Services		✓	✓	
Department of Information Technology	✓		✓	
Department of Public Instruction			✓	
Department of Transportation	✓		✓	
North Carolina Education Lottery				✓
Office of State Budget and Management			✓	
East Carolina University		✓		
North Carolina Central University			✓	
North Carolina State University		✓		
North Carolina School of Arts			✓	
University of North Carolina - Asheville		✓		
University of North Carolina - Charlotte				✓
University of North Carolina - Health Care System			✓	
University of North Carolina - System Office	✓			
University of North Carolina - Wilmington		✓	✓	
Western Carolina University		✓		
Winston-Salem State University			✓	
Total	**3**	**6**	**11**	**2**
Other: UNC-Charlotte and North Carolina Education Lottery used a non-STC contractor				

Personnel Proficiency

Internal auditors can demonstrate proficiency by obtaining professional certifications and advanced degrees. Overall, internal auditors hold 202 professional certifications in 22 different areas; an increase of 6% over last year. Eighty-four percent of the designations held by internal auditors are in five of the 22 areas which are: Certified Public Accountants; Certified Internal Auditors; Certified Information Systems Auditors; Certified Internal Control Auditor; and Certified Fraud Examiners. A breakdown of all designation held by agency's internal auditors is shown in Chart 1, on the next page.

Chart 1: FY2018-19 Professional Certifications



52 **CPA**/Certified Public Accountant
42 **CIA**/Certified Internal Auditor
36 **CFE**/Certified Fraud Examiner
25 **CISA**/Certified Information Systems Auditor
15 **CICA**/Certified Internal Controls Auditor
5 **PMP**/Project Manager Professional
4 **CGAP**/Certified Government Audit Professional
4 **CRMA**/Certification in Risk Management Assurance
3 **CGFM**/Certified Government Financial Manager

Other:
2 Certified Healthcare Compliance
2 Certified in Risk and Information Systems Control
2 Certified Public Manager
1 Chartered Global Management Accountant
1 Certified Anti-Money Laundering Specialist
1 Certified Compliance and Ethics Professional
1 Certified Fraud Specialist
1 Certified Forensic Investigation Professional
1 Certified Information System Security Professional
1 Certified Information System Manager
1 Certified Government Chief Information Officer
1 Certified Network+
1 Certified in Healthcare Research Compliance

Chart 2 is a historical view of all certifications with an emphasis on the top four certifications held by internal auditors. Although the CIA designation lags the CPA designation, over the last 12 years, the CIA designation held by internal auditors has increased from 5 to 42. Currently 27% of internal auditors hold the CIA designation.

Chart 2: 12-Year Growth in Certifications Held by Internal Auditors
Emphasis on Top Four Certification

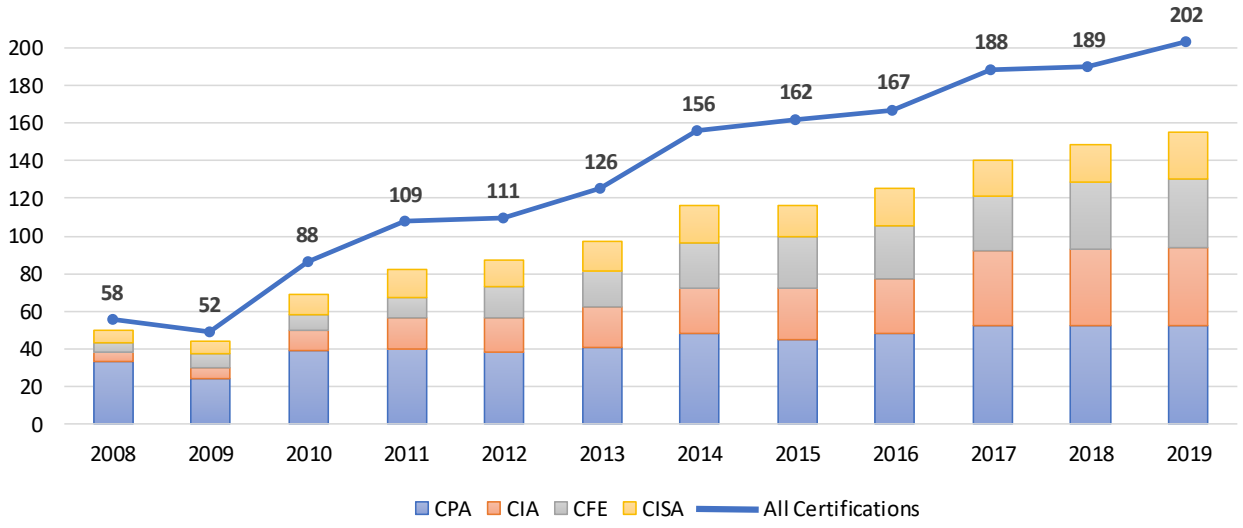
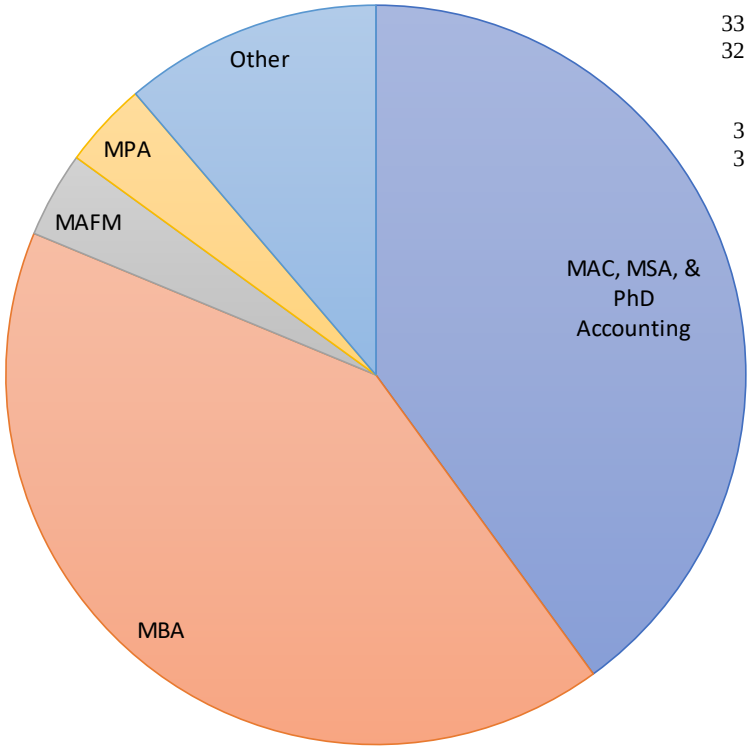


Chart 3 shows the type of advanced degrees held by the agency's internal auditors during fiscal year. Auditors hold 80 advanced degrees with 82% of these being master's in business administration or accounting.

Chart 3: FY2018-19 Advanced Degrees

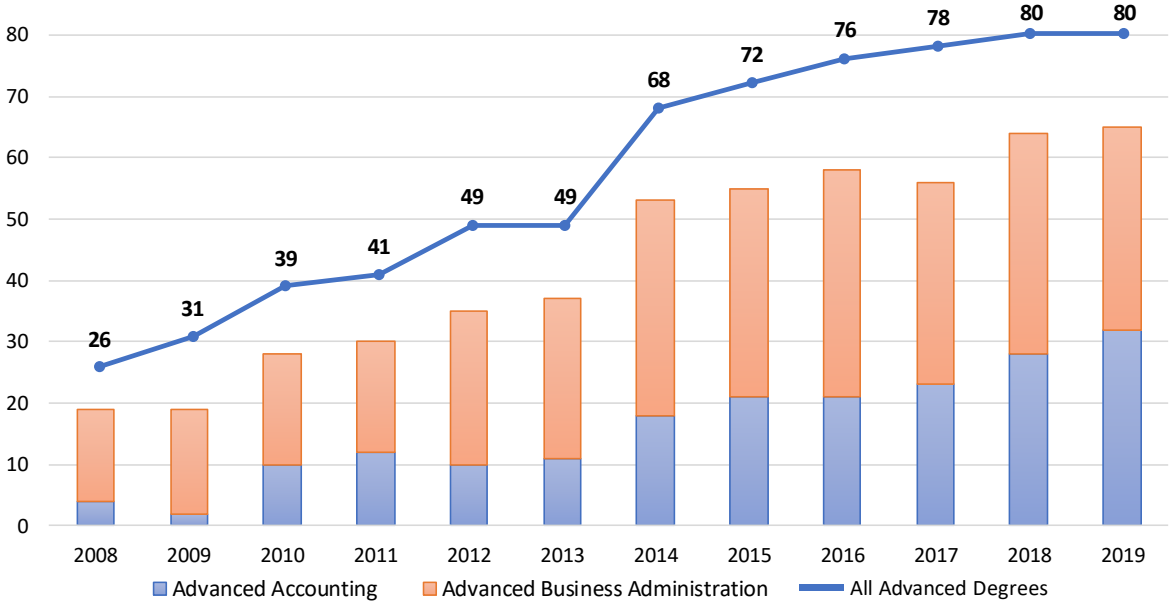


33 **MBA**/Master of Business Administration
32 **MAC**/Master of Accounting,
MSA/Master of Science Accountancy, &
PhD Accounting
3 **MAFM**/Master of Accounting & Financial Management
3 **MPA**/Master of Public Administration

Other:
2 Juris Doctorate
2 Master Education
1 Master of Organizational Management
1 Master of Science of Oceanography
1 Master of Information Systems
1 Master of Information Assurance
1 Master of Bible Studies

Chart 4 is a historical view of the all advanced degrees with an emphasis on the top two advanced degrees. Advanced accounting degrees increased by 14% while business administration dropped by 8%.

Chart 4: 12-Year Growth in Advanced Degrees Held by Internal Auditors
Emphasis on Top Two Advanced Degrees



Computer Assisted Audit Tools

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

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

Table 5 identifies the types of CAAT products used throughout State government and the number of internal audit functions using these products during fiscal year 2019. Eighteen internal audit functions use more than one generalized audit software tool which is depicted in Table 6, on the next page. Also shown in Table 6, all internal audit functions use Microsoft Office products to enhance productivity through automation and which agencies employ other CAAT products. Currently, 30 agencies use generalized audit software and 22 agencies use productivity tools.

A 5-year historic view shows growth in agencies use of CAATs as illustrated in Chart 5. Over the last year, generalized audit software has increased by 30%. The increase in generalized audit software is attributed to the data analytics initiative discussed on page 5.

Table 5

Use by Internal Audit Functions			
Generalized Audit Software		Productivity Tool	
Software	Users	Software	Users
IDEA	9	SharePoint	12
Active Data	7	Teammate	1
Tableau	25	Auto Audit	5
ACL	5	Note One	2
SQL	4	Auditor Assistant	1
Truven	1	Secured Share Drive	1
SAS	1		
Power BI	3		
EnCase	1		
Total	56	Total	22

Chart 5: Number of Agencies Using CAATs
Eight Year History

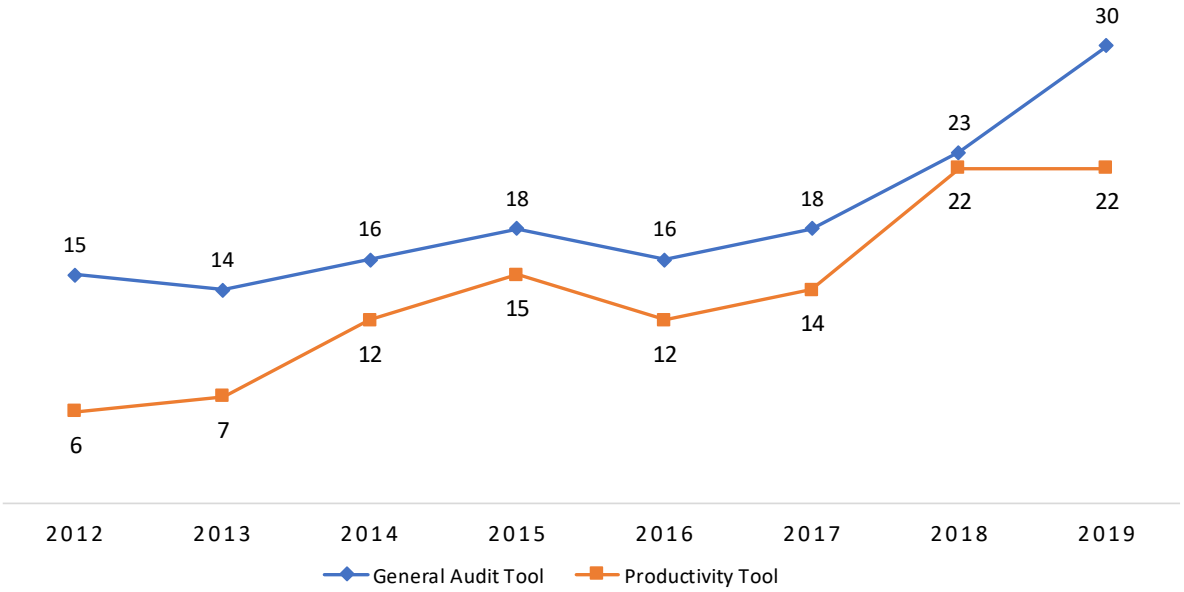


Table 6

Computer Assisted Audit Tool Usage			
State Agency	Microsoft Office Products	Generalized Audit Software[1]	Productivity Tool[2]
Community College Central Office	✓	✓	✓
Department of Administration[3]	✓	✓	✓
Department of Agriculture & Consumer Services[3]	✓	✓	✓
Department of Commerce[3]	✓	✓	✓
Department of Natural and Cultural Resources	✓	✓	
Department of Environmental Quality[3]	✓	✓	✓
Department of Health and Human Services[3]	✓	✓	✓
Department of Information Technology	✓	✓	✓
Department of Insurance	✓	✓	✓
Department of Justice	✓	✓	✓
Department of Public Instruction	✓	✓	
Department of Public Safety	✓		
Department of Revenue	✓		
Department of Secretary of State	✓		
Department of State Treasurer	✓	✓	✓
Department of Transportation[3]	✓	✓	✓
North Carolina Education Lottery[3]	✓	✓	✓
Office of State Budget & Management[3]	✓	✓	
Office of the State Controller	✓	✓	✓
Wildlife Resource Commission	✓		
Appalachian State University[3]	✓	✓	✓
East Carolina University[3]	✓	✓	✓
Elizabeth City State University[3]	✓	✓	✓
Fayetteville State University	✓		
North Carolina Agricultural & Technical State University	✓	✓	
North Carolina Central University[3]	✓	✓	
North Carolina State University[3]	✓	✓	✓
University of North Carolina - Asheville[3]	✓	✓	✓
University of North Carolina - Chapel Hill	✓	✓	✓
University of North Carolina - Charlotte	✓	✓	
University of North Carolina - System Office[3]	✓	✓	
University of North Carolina - Greensboro	✓		
University of North Carolina - Heath Care System[3]	✓	✓	✓
University of North Carolina - Pembroke	✓		
University of North Carolina - Wilmington[3]	✓	✓	✓
Western Carolina University[3]	✓	✓	
Winston-Salem State University	✓	✓	✓

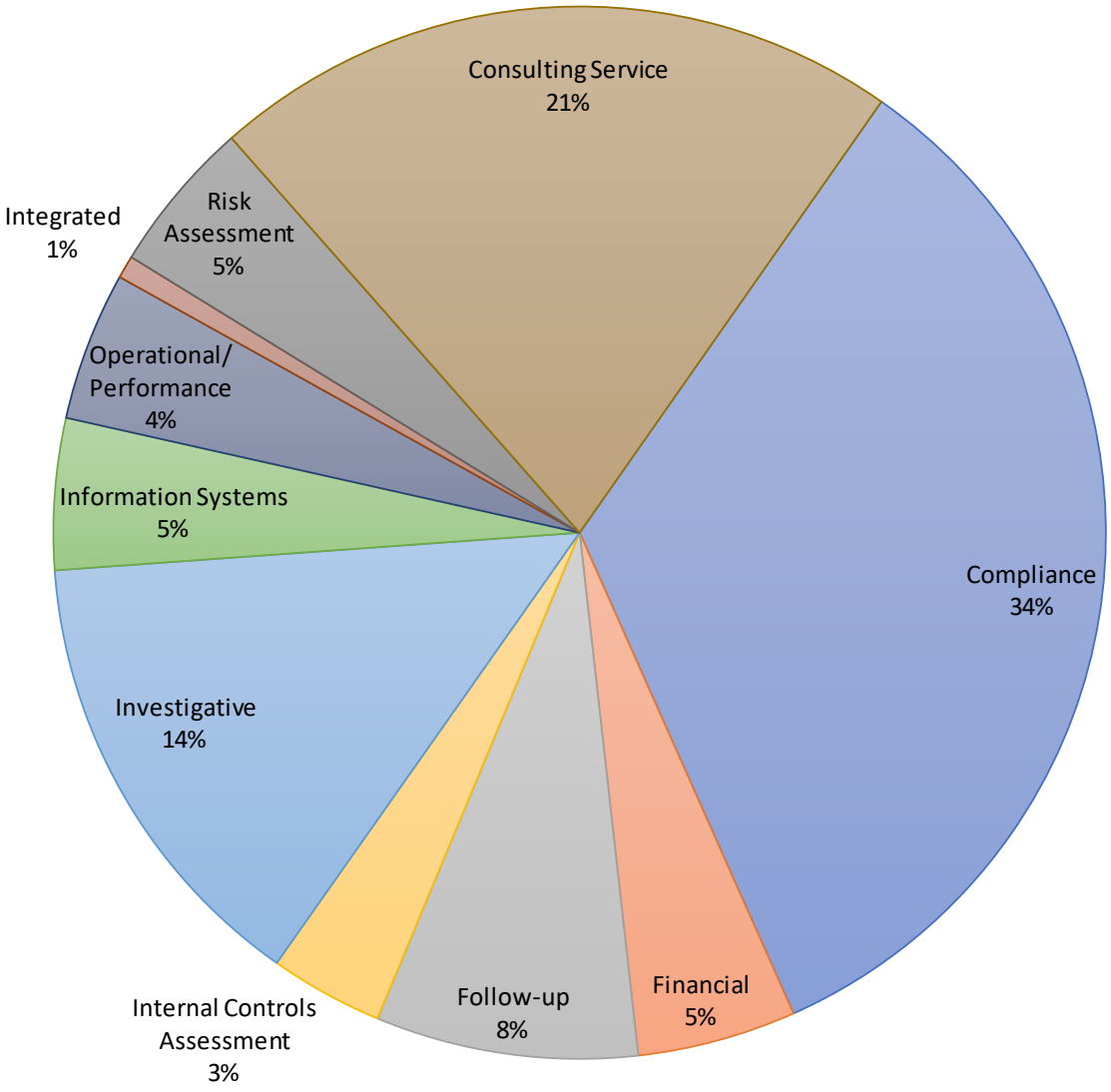
1. Perform routine audit tasks including data extract, analytics, and testing.
2. Streamline processes to manage audits through electronic work papers and work flows.
3. Uses multiple generalized audit tools.

Efforts and Accomplishments

Internal Audit Engagements

Internal audit functions conduct various activities designed to add value and improve a state agency's operations. From July 1, 2018 through June 30, 2019, more compliance engagements was completed when compared to other internal audit engagements. Chart 6 shows the percentage of internal audit engagements completed by type. In addition to the engagement work shown here, most internal audit functions provide technical assistance throughout the year. During the same time, internal auditors provided just under 17,485 hours of assistance to their agency's management which did not result in issuance of a report.

Chart 6: 2019 Engagements



Audit engagements by state agencies are shown in Table 7 on the next two pages. The Table depicts the efforts of each internal audit function. Efforts are directly related to the size of the audit function and the complexity of the engagement. Half of the state agencies have one or two internal auditors which limits the number of engagements that can be accomplished throughout the year.

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

Agency Engagements													
Agency	**Compliance**	**Financial**	**Follow-up**	**Information Systems**	**Internal Controls Assessment**	**Investigative**	**Operational/ Performance**	**Risk Assessment**	**Consulting Service**	**Integrated**	**Total Reports**	**Technical Assistance Hours**
Community College System Office	5				1				3		9	120
Department of Administration						3	1		1		5	350
Department of Agriculture and Consumer Services	1		1			2	4		2	2	12	113
Department of Commerce	3	6	1	1	4	3	8		20		46	448
Department of Environmental Quality			1		1	2					4	505
Department of Health and Human Services	22	7	2	10		37	2		27		107	2,400
Department of Information Technology	2	4	7	3	1	1		2	15		35	10
Department of Insurance	1		1		1		3	1	1		8	88
Department of Justice									4		4	500
Department of Natural and Cultural Resources	1				4				1		6	400
Department of Public Instruction			1		1	1	1	1	1		6	670
Department of Public Safety	55	8	4			3					70	16
Department of Revenue	4			1			1		2		8	400
Department of Secretary of State				1	1						2	-
Department of State Treasurer		1					1	1			3	-
Department of Transportation	277					42	1	1	68		389	1,500
North Carolina Education Lottery	9			2		1	1				13	240
North Carolina Housing Finance Agency	2							1			3	-
Office of State Budget and Management	1		9	3	2	4	11	10	17		57	315
Office of the State Controller		1					1				2	-
Wildlife Resources Commission					1				9		10	500

Table 7 (Continued from previous page)

Agency Engagements												
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational/ Performance	Risk Assessment	Consulting Service	Integrated	Total Reports	Technical Assistance Hours
Appalachian State University	4	8	14	6	20	5	1	1	7	0	66	600
East Carolina University	1		5	3		18		1	13	6	47	1,282
Elizabeth City State University	2		2	1		3	1	1			10	80
Fayetteville State University	2					6					8	-
North Carolina Agricultural & Technical State University			5		2	2		1	1		11	587
North Carolina Central University	2		15			3	4	2	5		31	40
North Carolina School of the Arts			1		2			1	5		9	75
North Carolina School of Science and Math	1		1					1	3		6	229
North Carolina State University			2			18		2	18		40	2,985
North Carolina State Education & Assistance Authority							1	1			2	74
University of North Carolina - Asheville	2		1	2				1	3		9	460
University of North Carolina - Chapel Hill	1		16	1		7	1				26	475
University of North Carolina - Charlotte	3	2		1	1	2	6				15	180
University of North Carolina - System Office			1			1		1	1		4	165
University of North Carolina - Greensboro	6	1			1			1			9	40
University of North Carolina - Pembroke	3	2	4			3					12	180
University of North Carolina - Wilmington	2	1	2			5	2			1	13	1,292
University of North Carolina Health Care System	3	15		21			5		14		58	-
Western Carolina University	16		7	2		4		1	21		51	-
Winston-Salem State University		1	2	1	2	4		1	12		23	166

Compliance

Internal Audit Act and Council Requirements

The Internal Audit Act requires internal audit functions to submit its annual audit plan and final reports to the Council and the North Carolina Internal Audit Manual requires submission of audit plans by September 30 of each year. All internal audit functions submitted its audit plan timely, however, one was late. The Department of Information Technology was one day late, submitting the report on October 1.

Engagement reports should be submitted 10 days after issuance of the final report. Table 8 identifies 15 agencies that submitted its reports late. Eleven of the fifteen agencies had only one or two reports submitted late.

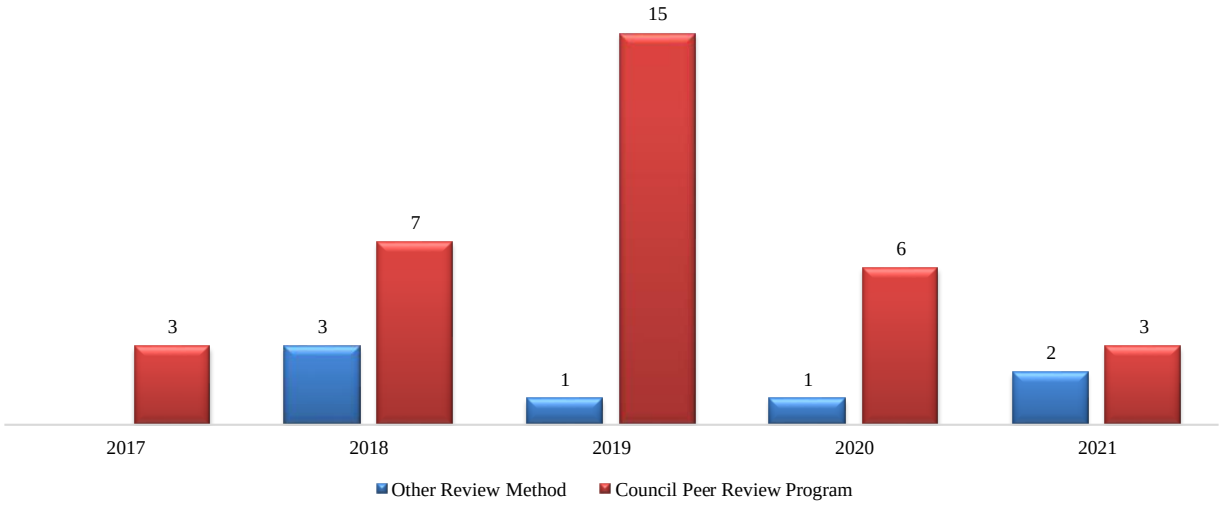
Table 8

Submission of Plans and Reports					
Agency	**Audit Plan**	**Reports**	**Agency**	**Audit Plan**	**Reports**
Community College Central Office	✓	✓	Appalachian State University	✓	✓
Department of Administration	✓	✓	East Carolina University	✓	✓
Department of Agriculture & Consumer Services	✓	✓	Elizabeth City State University	✓	
Department of Commerce	✓		Fayetteville State University	✓	
Department of Environmental Quality	✓	✓	North Carolina Agricultural & Technical State University	✓	
Department of Health & Human Services	✓	✓	North Carolina Central University	✓	
Department of Information Technology		✓	North Carolina School of the Arts	✓	
Department of Insurance	✓	✓	North Carolina School of Science and Mathematics	✓	✓
Department of Justice	✓	✓	North Carolina State Education Assistance Authority	✓	✓
Department of Natural and Cultural Resources	✓		North Carolina State University	✓	✓
Department of Public Instruction	✓	✓	University of North Carolina - Asheville	✓	✓
Department of Public Safety	✓		University of North Carolina - Chapel Hill	✓	
Department of Revenue	✓	✓	University of North Carolina - Charlotte	✓	✓
Department of Secretary of State	✓		University of North Carolina - System Office	✓	✓
Department of State Treasurer	✓	✓	University of North Carolina - Greensboro	✓	
Department of Transportation	✓		University of North Carolina Health Care System	✓	✓
Housing Finance Agency	✓	✓	University of North Carolina - Pembroke	✓	✓
North Carolina Education Lottery	✓		University of North Carolina - Wilmington	✓	✓
Office of State Budget & Management	✓		Western Carolina University	✓	✓
Office of the State Controller	✓	✓	Winston-Salem State University	✓	
Wildlife Resource Commission	✓	✓	**TOTAL**	**40**	**26**
			Compliance rate	**98%**	**63%**

External Quality Assurance Review

To comply with internal audit standards, external quality assurance reviews (QAR) are required every five years. Agencies can use the Council's Peer Review program or use other methods to obtain the external quality assurance review. For calendar year 2019, nine QAR were completed, three are in progress, and four are preparing to request a QAR. Chart 7 illustrate the timing and method used by internal audit functions to obtain a QAR. Seven internal audit functions did not or do not intent to use the Council's Peer Review program. Use of outside sources to obtain a QAR include professional associations[4] or contractors.

Chart 7: Timing and Method of QAR



This is the second cycle of obtaining QAR, since the enactment of the Internal Audit Act. Forty agency's internal audit functions have received a QAR in the current or prior cycle and obtained a generally conforms rating[5] for the most recent review, except for the Department of Administration and Department of Information Technology that received a partially conforms and does not conform opinion, respectively. The Wildlife Resources Commission's internal audit function is due to receive its first QAR in 2020 because it established an in-house internal audit function in FY2015. Information on each internal audit functions QAR progress and conformance over the prior and current cycle is list in Table 9, on the next page.

[4] Institute of Internal Auditors, American Association of State Highway Transportation Officials, and Association of College and University Auditors.

[5] Generally Conforms with the *Internal Professional Practice Framework* is the highest rating that can be received for an external quality assurance review.

Table 9

External Quality Review Calendar Year 2017-2022				
Agency	**Conformance Rating***	**Due Date**		**Progress**
		Month	**Year**	
Community College Central Office	Generally Conforms	April	2017	Complete
Department of Agriculture & Consumer Services	Generally Conforms	August	2017	Complete
North Carolina State University	Generally Conforms	July	2017	Complete
Appalachian State University	Generally Conforms	August	2018	Complete
Department of Secretary of State	Generally Conforms	December	2018	Complete
Office of the State Controller	Generally Conforms	December	2018	Complete
University of North Carolina - Chapel Hill	Generally Conforms	December	2018	Complete
Department of Transportation	Generally Conforms	January	2018	Complete
Office of State Budget and Management	Generally Conforms	June	2018	Complete
University of North Carolina - Charlotte	Generally Conforms	May	2018	Complete
Western Carolina University	Generally Conforms	October	2018	Complete
North Carolina Central University	Generally Conforms	October	2018	Complete
University of North Carolina - Asheville	Generally Conforms	October	2018	Complete
Fayetteville State University	Generally Conforms	May	2019	Complete
Department of Revenue	Generally Conforms	August	2019	Complete
Department of Administration	Partially Conforms	July	2019	Complete
North Carolina A&T State University	Generally Conforms	June	2019	Complete
Housing Finance Agency	Generally Conforms	March	2019	Complete
North Carolina School of Science and Math	Generally Conforms	May	2019	Complete
State Education Assistance Authority	Generally Conforms	May	2019	Complete
University of North Carolina - System Office	Generally Conforms	May	2019	Complete
Department of Information Technology	Does Not Conforms	September	2019	Complete
Department of Public Safety	Generally Conforms	March	2019	Due
Department of Health and Human Services	Generally Conforms	May	2019	In Progress
Department of Insurance	Generally Conforms	May	2019	In Progress
Department of Environmental Quality	Generally Conforms	October	2019	In Progress
Department of Justice	Generally Conforms	November	2019	Not Due
North Carolina School of the Arts	Generally Conforms	October	2019	Not Due
Winston-Salem State University	Generally Conforms	October	2019	Not Due
University of North Carolina - Health Care	Generally Conforms	August	2020	Not Due
Department of Public Instruction	Generally Conforms	February	2020	Not Due
University of North Carolina - Pembroke	Generally Conforms	February	2020	Not Due
NC Education Lottery	Generally Conforms	February	2020	Not Due
Department of Cultural and Natural Resources	Generally Conforms	July	2020	Not Due
University of North Carolina - Greensboro	Generally Conforms	March	2020	Not Due
Wildlife Resources Commission	New	May	2020	Not Due
East Carolina University	Generally Conforms	April	2021	Complete
Department of Commerce	Generally Conforms	December	2021	Complete
Department of State Treasurer	Generally Conforms	March	2021	Complete
University of North Carolina - Wilmington	Generally Conforms	May	2021	Complete
Elizabeth City State University	Generally Conforms	November	2021	Complete

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

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APPENDIX A

NORTH CAROLINA INTERNAL AUDIT ACT

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Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

(a) For the purposes of this section:

(1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency.

(2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Community Colleges System Office. The term does not include a unit of local government.

(b) This Article applies only to a State agency that:

(1) Has an annual operating budget that exceeds ten million dollars ($10,000,000);

(2) Has more than 100 full-time equivalent employees; or

(3) Receives and processes more than ten million dollars ($10,000,000) in cash in a fiscal year. (2007-424, s. 1; 2009-516, s. 2; 2013-406, s. 1; 2016-126, 4th Ex. Sess., s. 9.)

§ 143-746. Internal auditing required.

(a) Requirements. - A State agency shall establish a program of internal auditing that:

(1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.

(2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.

(3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.

(4) Periodically audits the agency's major systems and controls, including:

a. Accounting systems and controls.

b. Administrative systems and controls.

c. Information technology systems and controls.

(b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.

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

(d) Director of Internal Auditing. - The agency head shall appoint a Director of Internal Auditing who shall report to, as designated by the agency head, (i) the agency head, (ii) the chief deputy or chief administrative assistant, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

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

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

§ 143-747. Council of Internal Auditing.

(a) The Council of Internal Auditing is created, consisting of the following members:
- (1) The State Controller who shall serve as Chair.
- (2) The State Budget Officer.
- (3) The Secretary of Administration.
- (4) The Attorney General.
- (5) The Secretary of Revenue.
- (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.

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

(c) The Council shall:
- (1) Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.
- (2) Keep minutes of all proceedings.
- (3) Promulgate guidelines for the uniformity and quality of State agency internal audit activities.
- (4) Recommend the number of internal audit employees required by each State agency.
- (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
- (6) Administer an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State agencies.
- (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.

(8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.

(9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.

(10) Require reports in writing from any State agency relative to any internal audit matter.

(11) If determined necessary by a majority vote of the council:

a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.

b. Inquire as to the effectiveness of any internal audit unit.

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

(12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. (2007-424, s. 1; 2013-406, s. 1.)

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

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

§ 143-749. Obstruction of audit.

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State agency subject to the provisions of this Article to willfully make or cause to be made to a State agency internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State agency internal auditor or the internal auditor's designated representatives in the performance of their duties. (2013-406, s. 1.)

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APPENDIX B

STAFFING RECOMMENDATIONS

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Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level As of June 30, 2017				
Agency	**Current Positions**	**Minimal Positions Needed**	**Recommended New Positions**	**Estimated Cost of New Positions**
Administrative Office of the Courts	4.00	6.00	2.00	190,000
Department of Administration	1.00	3.00	2.00	190,000
Department of Commerce	4.00	11.00	7.00	665,000
Department of Natural and Cultural Resources	2.00	3.00	1.00	95,000
Department of Environment Quality	2.00	3.00	1.00	95,000
Department of Insurance	1.00	2.00	1.00	95,000
Department of Justice	1.00	2.00	1.00	95,000
Department of Military and Veterans Affairs[1]	-	2.00	2.00	190,000
Department of Public Instruction	2.00	8.00	6.00	570,000
Department of State Treasurer	3.00	13.00	10.00	950,000
North Carolina Education Lottery	3.00	6.00	3.00	285,000
North Carolina Housing Finance Agency[3, 5]	-	2.00	2.00	190,000
Office of State Budget and Management[1]	5.00	6.00	1.00	95,000
Office of State Controller[5]	0.50	2.00	1.50	142,500
Wildlife Resources Commission	1.00	2.00	1.00	95,000
Elizabeth City State University[5]	1.00	2.00	1.00	95,000
Fayetteville State University[3]	-	2.00	2.00	190,000
North Carolina State University	7.00	8.00	1.00	95,000
University of North Health Care System	12.00	14.00	2.00	190,000
University of North Carolina-Asheville	1.00	2.00	1.00	95,000
University of North Carolina-Chapel Hill	7.75	9.00	1.00	95,000
University of North Carolina-Greensboro	2.00	3.00	1.00	95,000
University of North Carolina-General Administration[2]	2.00	3.00	1.00	95,000
Western Carolina University	1.00	2.00	1.00	95,000
Grand Total			**52.50**	**4,987,500**

Agencies at or above Minimum, Using Contractors or Using Shared Pool	
Department of Agriculture and Consumer Services	4.00
Department of Health and Human Services	41.00
Department of Information Technology	3.00
Department of Public Safety	20.00
Department of Revenue	3.00
Department of Secretary of State[5]	2.00
Department of Transportation	25.00
North Carolina Community College Central Office	2.00
Appalachian State University	5.00
East Carolina University	8.00
North Carolina A&T State University	4.00
North Carolina Central University	4.00
University of North Carolina-Charlotte	5.00
University of North Carolina-Pembroke	2.00
University of North Carolina-Wilmington	4.00
Winston-Salem State University[4]	5.00
North Carolina School of Science & Math	Contracting
North Carolina School of the Arts	Contracting
North Carolina State Education Assistance Authority	Contracting
Commissioner of Banks	Shared Pool
Department of Labor	Shared Pool
Office of State Auditor	Shared Pool
Office of State Human Resources	Shared Pool
Office of the Governor	Shared Pool
State Board of Elections	Shared Pool

1. Provides internal audit services to agencies under $70 million expenditures; Shared Pool agencies listed above. Department of Military and Veteran's Affairs receives service; however, they are not included in OSBM calculation.
2. Provides internal audit services to North Carolina School for Science and Mathematics and NC State Education Assistance Authority which was considered in the calculation.
3. Outsourced internal audit services.
4. Provides internal audit services to North Carolina School for the Arts which was considered in the calculation.
5. Agencies under $70 million operating may use OSBM internal audit services instead established an in-house internal audit function.