



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Andrew T. Heath
State Budget Director

Kathryn L. Johnston
Secretary of Administration

Roy Cooper
Attorney General

Jeff Epstein
Secretary of Revenue

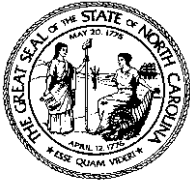
Beth Wood
State Auditor

Agenda

October 12, 2016

Reading of Ethics Awareness Reminder

- A. Approval of Minutes – April 13, 2016 (*Action item*)
- B. Staffing Update
- C. Objectives
 - 1. 2017 IIA Government Group Membership Rate
 - 2. Training
 - 3. Self-Assessment: Audit Charter Modification (*Action item*)
 - 4. Internal Audit Plan (*Action item*)
 - 5. Annual Internal Audit Activity Report (*Action item*)
- D. Council Reports
 - 1. Internal Audit Award of Excellence
 - 2. Future Meeting Schedule



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Minutes
April 13, 2016

Call to Order

The Council of Internal Auditing held its regular meeting, Wednesday, April 13, 2016 in the Commission Room, Administration building.

Chair, Dr. Linda Combs presiding.

The following Council of Internal Audit members were present:

Dr. Linda Combs, Chair, State Controller, via telephone
Nels Roseland representing Roy Cooper, Attorney General
Beth Wood, State Auditor
Kathryn Johnston, Secretary of Administration
Nathan Knuffman representing Andrew T. Heath, State Budget Director
Jeff Epstein, Secretary of Revenue

Chair Dr. Linda Combs called the meeting to order at 9:04 a.m. and read the Ethics Awareness and Conflict of Interest Reminder. Members had no conflicts.

A. Approval of Minutes (action item)

On a motion proposed by Kathryn Johnston, seconded by Nels Roseland, the Council unanimously approved the minutes of the October 14, 2015 meeting with one modification noted. The modification was to change the name listed for Secretary of Revenue on the left margin from Jeff Epstein to Lyons Gray. Lyons Gray was the Secretary at the time of the meeting.

B. Staffing Update

Barbara Baldwin stated the former program development officer and internal auditor Shannon Byers had left employment with OSBM in January 2016. Courtney Michelle has stepped up to take on these duties permanently. The vacant internal audit position has been posted at the contributing level and closed on April 4, 2016. Ms. Baldwin is now waiting to review applications and start interviewing candidates.

C. Objectives

- **Audit Charter (action item)**

The last Audit Charter for the Office of Internal Audit was signed in 2014. The Institute of Internal Auditors issued a new model for internal audit charters that includes a few changes to be fully implemented in 2017. Ms. Baldwin explained this would put the Office of Internal Audit ahead of the game to ensure we are complying with all the changes by that time. The old model had (5) five areas, the new model has (10) ten areas.

Ms. Baldwin explained the new charter focuses on responsibility, independence and objectivity, reporting and monitoring, and quality assurance and improvement programs. She also stated that the new charter is much longer and more comprehensive. Chair Dr. Linda Combs expressed approval of the new audit charter due to its much improved clarity. Kathryn Johnston asked a question regarding the organizational change, specifically confirming that the Internal Audit Director report to the State Budget Deputy Director, and to whom holds that position. Ms. Baldwin confirmed the organizational change and stated she would report to Nathan Knuffman, State Budget Deputy Director. Ms. Baldwin concluded by stating that the Internal Audit Charter is the contract between the Council, senior management, and Internal Audit as to what our responsibilities are, how we will be successful implementing those responsibilities, and our authority to conduct audits. Once approved the audit charter will be provided to all agencies affected.

Nels Roseland made a motion to approve the Audit Charter, Nathan Knuffman seconded the motion and all voting members were in favor.

- **Performance Measures**

Ms. Baldwin stated Engagement Work Measures was broken down into 3 parts. The first compares planned engagements to completed engagements, OIA completed 91% percent of planned annual audits. This surpasses the target of 90%. The second was comparing budgeted hours to actual engagement hours because OIA budgets for every engagement by the hour. Ms. Baldwin stated she was pleasantly surprised that OIA was under the allotted budgeted hours and was still able to reach its other goals. Productivity based on available hours was the next comparison in which OIA reached 91% with a target of 85%, the best showing in the 8 years OIA has been established. Ms. Baldwin continued with the rate of return on identified potential savings and recommendations to management, reminding us it is up to management to implement the recommendations. Ms. Baldwin stated it cost OIA around \$600,000 to operate and OIA identified \$11.5 million in savings. The rate of return was \$19 per \$1 spent. The target was to aim for a \$10-\$1 ratio.

DOA Secretary Johnston asked if OIA followed up with agencies to get an actual rate of return from implemented recommendations. Ms. Baldwin stated that no, OIA does not track that measure, however OIA does perform follow-up procedures to confirm if management did or did not implement recommendations. Chair Dr. Combs stated that

tracking the recommendation was good and emphasized that internal audit is extremely important.

The next topic covered information on where OIA spends audit hours. This was explained in graphs and charts provided in the materials. Also included was a breakdown of what types of audit services OIA has provided which was also included in a pie chart. In the prior year, nineteen percent of the time was spent performing QARs due to the lack of QAR staff. On average, OIA spends 160 hours on an audit engagement resulting in a cost of approximately \$65 an hour.

Regarding staff development, Ms. Baldwin stated the goal was for each auditor to complete 45 hours of training. Actual hours of training was 62 hours per auditor. The goal was to spend \$1,000.00 per auditor on training, OIA went slightly over budget due to sending one member to training in Louisiana. The last measurement was how our clients view OIA after each engagement. OIA provides a post audit survey to clients and received a 48% response rate, which Ms. Baldwin stated was very good. From this survey we learned that 99% of respondents to the survey either agree or strongly agree with how OIA conducted itself.

Chair Dr. Combs concluded by thanking Ms. Baldwin for reaching new milestones and for her hard work and dedication.

- Professional Development

Ms. Baldwin stated OSMB conducted a training on March 23rd, 2016 at the Friday Center in Chapel Hill. There were 100 participants from 14 agencies and 11 universities, each of whom received 8 hours of CPE. Ms. Baldwin went on to thank State Auditor, Beth Wood for being 1 of the 6 speakers at the training. The cost of the training was \$72 per participant and OSBM charged \$50 per participant, leaving the remainder to be picked up by OSBM. Participants were surveyed after the training and 96% evaluated the overall program as excellent or very good. Ms. Baldwin went on to say that participants from the Raleigh area did not enjoy the 5:00 PM traffic leaving Chapel Hill after the training and this was reflected in the survey results.

There will be a two-day training session on topics related to fraud June 20-21st. OSBM will be teaming up with DPI and UNC-GA for this training session. DPI will be providing the facility for the training at no cost and UNC-GA is creating the web site for registration with automatic confirmation, which Ms. Baldwin stated has helped out greatly. The cost of the training will be \$80 per attendee and will provide 16 hours of CPE. Ms. Baldwin explained that without a facility fee the training session will likely break even and any profit will offset the March training cost deficit. Ms. Baldwin went on to say there will be a new quarterly internal audit directors meeting, allowing for improved networking and sharing of information. The first meeting will be during the last week of April.

D. Council Reports

- **Future Council Meetings**

The Council of Internal Auditing will meet at the following dates: July 13, 2016; October 12, 2016; January 11, 2017; April 12, 2017.

- **Term Contract Supplemental Staffing**

Ms. Baldwin explained she had been working with the Division of Purchase and Contract to evaluate bid proposals, but the process had not been finalized. At this time, she could only provide a list of who bid on the contract, though she did note there were more bids this time than last. State Auditor Beth Wood asked if we are accepting several bids, Ms. Baldwin replied yes. State Auditor Beth Wood went on to inquire if we are requiring them to disclose if they are under investigation. Ms. Baldwin responded that we require knowledge of any sanctions or pending hearings with governing boards as well as a certified statement that all taxes are current. Beth Wood expressed concerns regarding employees of the firms that would be working with the state. Ms. Baldwin explained that all employees working with the firm would be provided on the RFP and that she had done extensive research to ensure the company and individuals have not been sanctioned or have a pending hearing with any state or federal governing board. State Auditor Beth Wood then inquired if we require a copy of their peer review. Ms. Baldwin responded that we do require a copy of their peer review, but companies not required to have peer review must submit detailed information on their internal review quality process to ensure quality measures are in place. State Auditor Beth Wood concluded by asking when this process would be complete. Ms. Baldwin stated that she was a quarter of the way through the detailed documentation, but planned on sending it back to Purchase and Contract by the end of next week.

- **Quality Assurance Review Update**

Ms. Baldwin stated since the last meeting we finalized (1) one QAR at the Department of State Treasurer. There are (3) three QAR's in progress, all being conducted by OIA staff. The Department of Commerce is being headed up by Courtney Michelle with the assistance of a team member from the Department of Revenue. There are (2) two agencies that require a QAR this year that have already had one. These agencies are the Department of Health and Human Services and the University of North Carolina at Wilmington. Ms. Baldwin has spoken with them and they have an RFP out, bids are back, and plan to hire someone to complete their QAR in order to meet the deadline.

Ms. Baldwin stated there were (3) three agencies that did not receive the generally conforms rating. Elizabeth City State University had an employee below competency and East Carolina University has reached out to assist them, because they would continue to fail until the employee was brought up to speed. Elizabeth City State University has a target date of 2018. Department of Agriculture lost their internal audit director to retirement and the vacancy will be filled this week. The new hire has been told that this is his first priority. Department of Agriculture has a target date set for 2017-2018 because

they must work under their policy and procedures for a year before someone can come in and review the work. The Department of the Secretary of State received a partial due to losing one of their employees. State Auditor Beth Wood inquired about the staffing issues at the Secretary of State and if the Secretary was made aware of the issue. Ms. Baldwin replied that it had been a combination of personal leave for extenuating circumstances and the loss of a staff member, but was unsure if the Secretary was kept informed. State Auditor Beth Wood mentioned helping this individual step back and take care of personal things before jumping into a lot of responsibility because this has gone on for (2) two years now. Chair Dr. Combs stated she would be glad to initiate a contact there. Ms. Baldwin went on to say she would try to work with the Director of Internal Audit at Secretary of State on the areas that need improvement to finish the QAR before the date that was provided.

Chair Dr. Linda Combs asked if there were any further questions or topics for discussion. Bill Scott, Senior Audit Manager with Health and Human Services wanted to thank Barbara for assisting in the QAR process and helping to secure a vendor to complete the review. He also wanted to thank the State Auditor for giving them the opportunity to move from Generally Accepted Government Auditing Standards to Red Book to be compliant with the other internal audit groups. State Auditor Beth Wood wanted to close by thanking Ms. Baldwin for the level of quality of internal audit. Nathan Knuffman echoed the same complements to Ms. Baldwin for her quality of work. There being no further business, at 9:52 a.m., Chair Dr. Linda Combs adjourned the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held April 13, 2016.

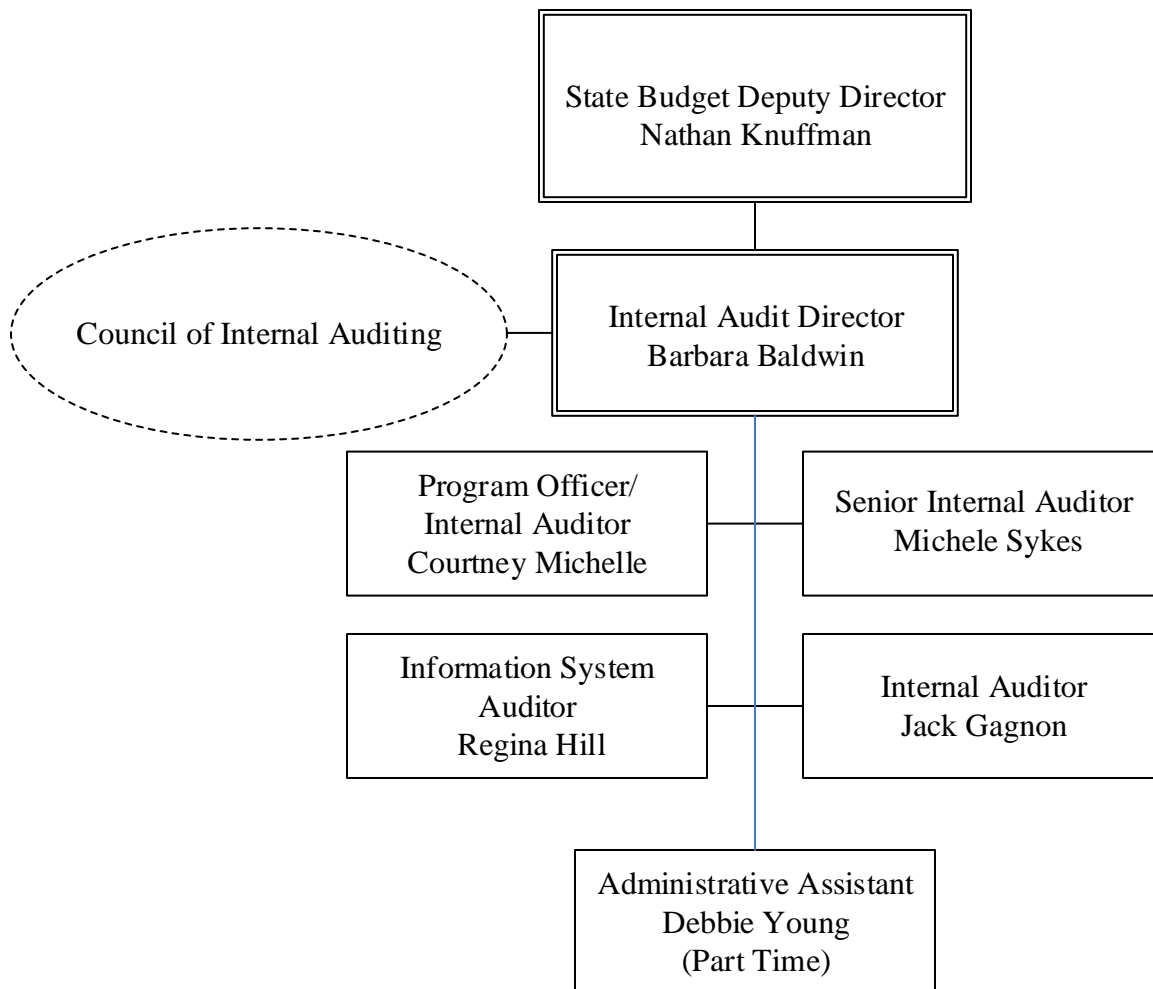
Witness my hand, this _____ day of _____.

Linda Combs, State Controller, Chair

Secretary

OSBM Internal Audit

August 1, 2016



**Institute of Internal Auditors
Government Group Membership
October 1, 2016 to September 30, 2017**

Summary Information:

Total members	170
Current IIA members	145
New IIA members	25
State Agency/University	37
Total cost	\$13,600

Savings:

Regular Membership rate	\$140
Group rate	\$80
Savings per membership	43%

Benefits:

- Free IIA local chapter membership
- Free 8 hours CPE from IIA local chapter
- Free 12 hours CPE webinars
- Internal Auditor magazine
- IIA Government Smart Brief
- Discounts on conference and seminars
- Latest industry research
- Discounts on publications

Office of Internal Audit

2 Day Training Session

June 20-21, 2016

Topic: Fraud Busters

Collaboration: Department of Public Instruction and UNC-General Administration

CPE Hours: 16

Participants: 147 representing 55 different entities

Cost \$ 9,575 Total
\$ 80 Participant Fee

Program Overall Evaluation: 96% Excellent or Very Good

	Excellent	Very Good	Good	Fair	Poor
1. Overall Rating for Training	62%	34%	4%	0%	0%
2. Rating on the Facilities/Location	39%	39%	20%	2%	0%
3. Speaker's Knowledge of Subject & Presentation Skills	79%	19%	2%	0%	0%
4. Quality of the Program Materials	63%	31%	6%	0%	0%
5. Course Level/Content Matched the Description	75%	22%	3%	0%	0%
6. Amount of Time Allotted for Training	72%	23%	4%	1%	0%
7. Relevancy of Program Materials	72%	22%	6%	0%	0%
8. Information Presented was Timely & Relevant	71%	26%	3%	0%	0%
Was the overall content of the sessions provided at the training of value to you?	YES 99%	NO 1%			

Some Comments

Positive:

- Great use of local talent and experts!
- This was by far the best training I have attended in my career. It was well-planned, relevant, and professional.
- One of the better training sessions I've attended in a long time. interesting and useful information. presenters were mostly engaging and informative. I would recommend to other accounting/auditing/financial professionals.
- The Fraud Busters session provided the best training I have received in several years and was an amazing value at \$5/CPE. The speakers were extremely engaging and knowledgeable.

Negative:

- I was expecting to walk into the conference and be informed of ways to identify fraud and ways fraud had occurred. In many of the examples, they depicted what fraud they uncovered, and not specifically the "how" and the reasoning behind looking at it from that particular angle. Additionally, some of the presentations were very similar and could have been in collaboration with others.
- Not enough time for ID theft (excellent speaker), too much for Catch Me / would like to see more shorter sessions, 2 hrs is a long time to sit in those chairs.
- [Speaker name omitted] came across as being unprepared and rambled for the first 20 minutes with no clear focus on any one topic. Overall, they went well past his allotted time and added nothing of substance or value to the overall training program. Very disappointing.

Office of Internal Audit Future Training

Topic: How to Audit Better (see next page for details)

Date: December 5, 2016

Location: Administrative Office of the Courts

Cost: \$50 per participant

Speaker: John J. Hall, CPA, is an author, speaker and results expert who presents around the world at conventions, corporate meetings and association events.

Throughout his 38-year career as a business consultant, corporate executive and professional speaker, John has helped organizations and individuals achieve measurable results. He inspires audience members in corporations, not-for-profit organizations and professional associations to step up, take action and “do what you can.”

How to Audit...Better!

Summary

This powerful seminar contains our **BEST** ideas for internal auditors. The fast-paced format is packed with 'how to' advice on individual, department and audit project effectiveness. Participants will leave the program with a tailored list of action items that they can use on the job immediately. Short on theory and deep into 'what to do' instructions, the lecture, discussion, exercises and case examples provide a structure for applying leading edge ideas efficiently and effectively in any audit group and on any audit project.

Learning Objectives

Participants will learn:

- ✓ *Better!* risk assessment and audit plans
- ✓ *Better!* audit project planning
- ✓ *Better!* execution and fieldwork
- ✓ *Better!* audit communications and reporting
- ✓ *Better!* audit staff skill development – technical, behavioral, and leadership
- ✓ *Better!* use of continuous auditing and monitoring of key indicators

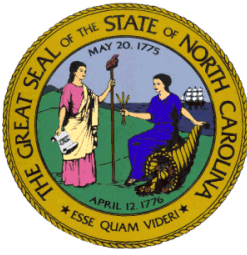
Program Content

- ✓ Opening lecture: "**The Goal is...Better!**"
- ✓ Applying the ***Do What You Can! Six-Step System*** to personal and departmental team goals
- ✓ The practical problems solved by *Better!* auditing
- ✓ The auditor's role in process improvement and driving change
- ✓ Developing and using *Better!* audit project practices
- ✓ Communicating *Better!*
- ✓ Executing *Better!*
- ✓ Reporting *Better!*
- ✓ Follow-up *Better!*
- ✓ The 10 reasons controls break down – and *Better!* ideas on what auditors can do about
- ✓ Developing *Better!* auditors
- ✓ The IIA International and IIA Australia Internal Audit Competency Frameworks (quick lecture)
- ✓ 'The John Hall Internal Auditor Competency Framework':
 - Level 1: Mastery of Core Competencies
 - Level 2: Mastery of Interpersonal and Communication Skills
 - Level 3: Mastery of Auditor Internal Consulting Skills
- ✓ The role of coaches
- ✓ Seminar summary, action steps, wrapping it all together – ***and performance challenge!***

Instructional Method, Program Length and Continuing Education Credits

This seminar utilizes a combination of lecture, discussion and exercises. The minimum program length is one full day. A tailored two-day version is available upon request. In accordance with the standards of the National Association of CPE Sponsors, Continuing Professional Education credits have been granted based on a 50-minute hour. National Registry of CPE Sponsors ID Number: 108226

Program Level:	Intermediate
Prerequisites:	A solid working knowledge of internal auditing theory and practices will be helpful for best participant results
Advance Preparation:	None
Delivery Method:	Group-Live
Field of Study:	Auditing
Recommended CPE Credits:	8 credits (16 credits for tailored two-day version)



Office of Internal Audit

Internal Audit 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 the Commissioner of Banks, Department of Labor, **Department of Military and Veterans Affairs**, Industrial Commission, Office of State Budget and Management, Office of State Human Resources, Office of the Governor, and Office of the State Auditor. 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, internal control.

ROLE:

The internal audit activity is established by General Statute Chapter 143, Article 79. The internal audit activity's responsibilities are defined by these laws. The Council of Internal Auditing has authority to set policy related to the internal audit function.

PROFESSIONALISM:

The internal audit activity 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 internal audit activity's performance.

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

AUTHORITY:

The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Commissioner of Banks, Department of Labor, **Department of Military and Veterans Affairs**, Industrial Commission, Office of State Budget and Management, Office of State Human Resources, Office of the Governor, and Office of the State Auditor records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities.

ORGANIZATION:

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

The Council will

- Approve the internal audit charter.
- Approve the risk based internal audit plan.
- Receive communications from the Internal Audit Director on the internal audit activity's performance relative to its plan and other matters.
- Make appropriate inquiries of management and the Internal Audit Director to determine whether there is inappropriate scope or resource limitations.

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

INDEPENDENCE AND OBJECTIVITY:

The internal audit activity 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 Internal Audit Director will confirm to the Council, at least annually, the organizational independence of the internal audit activity.

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 internal audit activity's purpose, authority, responsibility, and performance relative to its plan.
- Evaluating specific operations at the request of the Council or management, as appropriate.

INTERNAL AUDIT PLAN:

At least biannually, the Internal Audit Director will submit to senior management and the Council an internal audit plan for review and approval. The Internal Audit Director will communicate the impact of resource limitations and significant interim changes to 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 senior management and the Council. The 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 senior management and the Council.

REPORTING AND MONITORING:

A written report will be prepared and issued by the 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, whether included within the original audit report or provided thereafter (i.e. within thirty days) by management of the audited area 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 internal audit activity 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 Internal Audit Director will periodically report to senior management and the Council on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity'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 internal audit activity and identifies opportunities for improvement.

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

Linda Combs, Chairman of the Council of Internal Auditing

Approval Date

Andrew Heath, State Budget Director

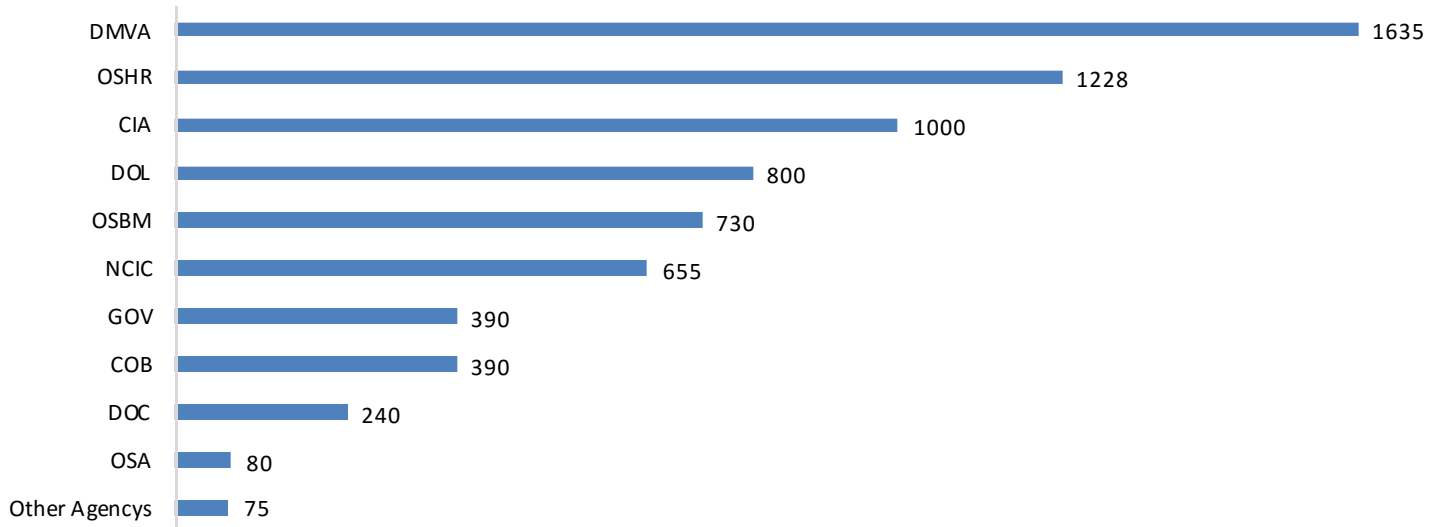
Approval Date

Barbara Baldwin, Internal Audit Director

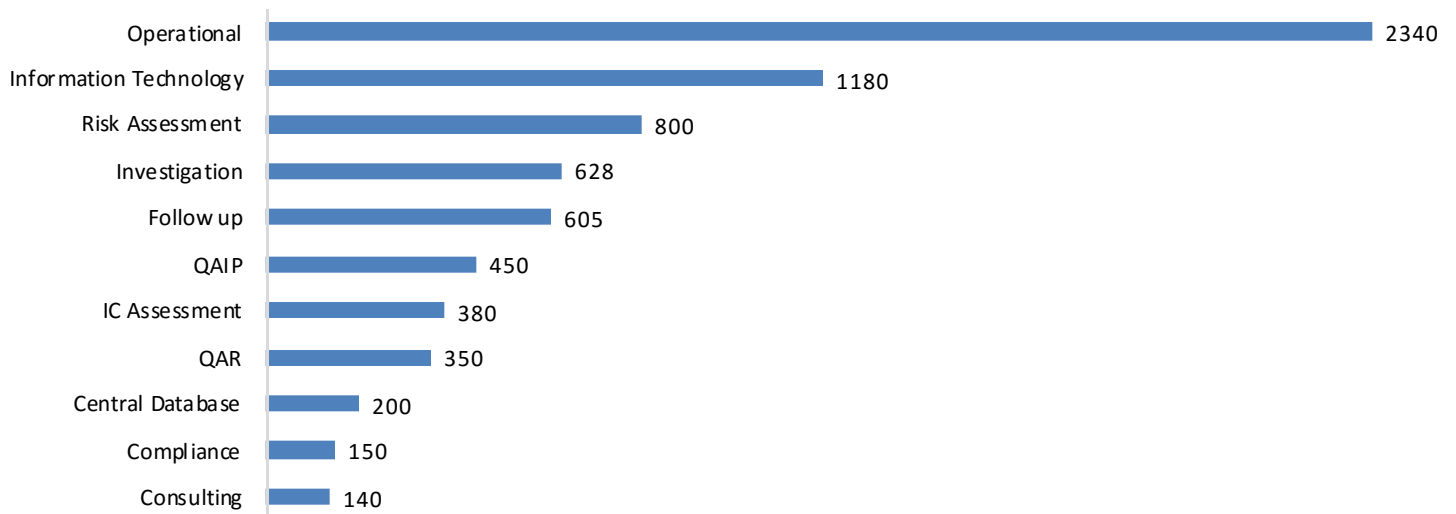
Approval Date

Summary of Internal Audit Planned Efforts

Planned Effort by Agency



Planned Effort by Audit Type



Office of Internal Audit
Interagency Internal Audit Program
Audit Plan
July 1, 2016 to June 30, 2018

Audit Topic	Agency	Type of Audit	Risk Score	Fiscal Year	Hours
Risk Assessment	COB	Risk Assessment	N/A	2017	40
Risk Assessment	DMVA	Risk Assessment	N/A	2017	60
Operational Assessment	DMVA	Risk Assessment	N/A	2017	80
Risk Assessment	DOL	Risk Assessment	N/A	2017	60
Risk Assessment	GOV	Risk Assessment	N/A	2017	40
Risk Assessment	NCIC	Risk Assessment	N/A	2017	40
Risk Assessment	OSA	Risk Assessment	N/A	2017	40
Risk Assessment	OSBM	Risk Assessment	N/A	2017	40
Risk Assessment	OSHR	Risk Assessment	N/A	2017	60
Risk Assessment	COB	Risk Assessment	N/A	2018	40
Risk Assessment	DMVA	Risk Assessment	N/A	2018	40
Risk Assessment	DOL	Risk Assessment	N/A	2018	40
Risk Assessment	GOV	Risk Assessment	N/A	2018	40
Risk Assessment	NCIC	Risk Assessment	N/A	2018	40
Risk Assessment	OSA	Risk Assessment	N/A	2018	40
Risk Assessment	OSBM	Risk Assessment	N/A	2018	40
Risk Assessment	OSHR	Risk Assessment	N/A	2018	60
Economic Development Partnership	DOC	Operational	N/A	2017	200
Cemetery Maintenance Operational Audit	DMVA	Operational	2.59	2017	300
NCIC Worker Misclassification (Carry Forward)	NCIC	Operational	2.27	2017	120
Claims Processing	NCIC	Operational	2.45	2017	200
Grant Monitoring	OSBM	Operational	2.51	2017	100
Licensing	COB	Operational	2.56	2018	280
Veterans Affairs Grant Monitoring	DMVA	Operational	2.30	2018	220
Military Affairs Grant Monitoring	DMVA	Operational	2.08	2018	220
Hospital Operations	DMVA	Operational	2.58	2018	300
Contract Administration	OSHR	Operational	2.06	2018	400
IT Inventory Review	COB	IT	2.08	2017	15
IT Inventory Review	DMVA	IT	2.00	2017	50
IT Inventory Review	DOL	IT	2.04	2017	120
IT Inventory Review	GOV	IT	1.61	2017	15
IT Inventory Review	NCIC	IT	2.43	2017	40
IT General Controls	NCIC	IT	2.43	2017	120
IT Inventory Review	OSBM	IT	2.40	2017	15
IBIS Access	OSBM	IT	2.40	2017	100
IT Inventory Review	OSHR	IT	1.81	2017	15
IT Inventory Review	COB	IT	2.08	2018	15
IT Inventory Review	DMVA	IT	2.00	2018	15
IT General Controls	DMVA	IT	2.00	2018	120
IT Inventory Review	DOL	IT	2.04	2018	40
IT Governance OSHA Security	DOL	IT	2.04	2018	300
IT Inventory Review	GOV	IT	1.61	2018	15
IT Governance (AmeriCorps) Gap Analysis	GOV	IT	2.31	2018	100
IT Inventory Review	NCIC	IT	2.43	2018	15
IT Inventory Review	OSBM	IT	2.40	2018	15
IBIS Access	OSBM	IT	2.40	2018	40
IT Inventory Review	OSHR	IT	1.81	2018	15
P-Card Audit	DMVA	Compliance	2.00	2017	150
Close Out Process	OSBM	IC Assessment	2.28	2017	60
EAGLE	DOL	IC Assessment	2.52	2017	120
EAGLE	OSBM/GOV	IC Assessment	2.51	2017	40
EAGLE	DOL	IC Assessment	2.52	2018	120
EAGLE	OSBM/GOV	IC Assessment	2.51	2018	40
AON Review (carryover)	OSHR	Investigation	N/A	2017	320
NC Flex FICA savings	OSHR	Investigation	N/A	2017	20
Nepotism	NCUC	Investigation	N/A	2017	20
IT Salary Increases	DOT	Investigation	N/A	2017	10

Audit Topic	Agency	Type of Audit	Risk Score	Fiscal Year	Hours
NC Flex Contracts (carryover)	OSHR	Investigation	N/A	2017	218
Virtual Public Schools Temp Employees	DPI	Investigation	N/A	2017	40
Audit Follow-up (Janitorial bid)	DOA	Follow up	N/A	2017	5
audit Follow-up (IBIS Improvement)	OSBM	Follow up	N/A	2017	60
Audit Follow-up (EWIP)	GOV	Follow up	N/A	2017	180
Audit Follow-up (NC Flex)	OSHR	Follow up	N/A	2017	40
Audit Follow-up (Governor's Award Program)	OSHR	Follow up	N/A	2017	40
Audit Follow-up (Cemetery Maintenance)	DMVA	Follow up	N/A	2018	40
Audit Follow-up (Commerce P3)	DOC	Follow up	N/A	2018	40
Audit Follow-up (Work Misclass)	NCIC	Follow up	N/A	2018	40
Audit Follow up (Pcard)	DMVA	Follow Up	N/A	2018	40
Audit Follow-up (AON)	OSHR	Follow up	N/A	2018	40
Audit Follow-up (Claims Process)	NCIC	Follow up	N/A	2018	40
Audit Follow-up (Grant Monitoring)	OSBM	Follow up	N/A	2018	40
Process Mapping Document Flow/Retention	OSBM	Consulting	2.24	2017	100
BEACON Timeliness Error Rate	OSBM	Consulting	2.51	2017	40
Central Database	CIA	Central Database	N/A	2017	200
Community College System Office	CIA	QAR	N/A	2017	200
DOC- DES (Carryforward)	CIA	QAR	N/A	2017	150
QAIP Full Self-assessment	CIA	QAIP	N/A	2017	100
QAIP Work paper Review (Carry Forward)	CIA	QAIP	N/A	2017	150
QAIP Work paper Review	CIA	QAIP	N/A	2018	200
Contingency		Contingency	N/A	2017	1,190
Contingency		Contingency	N/A	2018	2,150
Total FY2017					5,323
Total FY2018					5,240
Grand Total Hours					10,563

Legend

CIA: Council of Internal Auditing
 COB: Commissioner of Banks
 DOA: Department of Administration
 DOC: Department of Commerce
 DOL: Department of Labor
 DMVA: Department of Military and Veteran's Affairs
 DOT: Department of Transportation
 DPI: Department of Public Instruction

GOV: Office of the Governor
 NCIC: Industrial Commission
 NCUC: Utilities Commission
 OSA: Office of the State Auditor
 OSBM: Office of State Budget and Management
 OSHR: Office of State Human Resources
 QAIP: Quality Assurance Improvement Program

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2016



Prepared By:

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

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INTRODUCTION

The North Carolina Internal Audit Act¹ (the Act) was signed into law on August 31, 2007. The Act established the Council of Internal Auditing (Council) and requires all Executive branch agencies² 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 2015 through June 2016, of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Membership, Programs and Staff

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
Andrew Heath	State Budget Director
Kathryn Johnston	Secretary of Administration
Roy Cooper	Attorney General
Jeff Epstein	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.

The Office of State Budget and Management (OSBM) supports the Council and established the Office of Internal Audit (OIA) to house the staff to the Council. The organizational structure of the OIA is shown in Exhibit 1 on the next page. There are five positions as of June 30, 2016 and one position remained vacant from January through June 2016 due to delays in hiring.

The professional credentials held by the four staff members include:

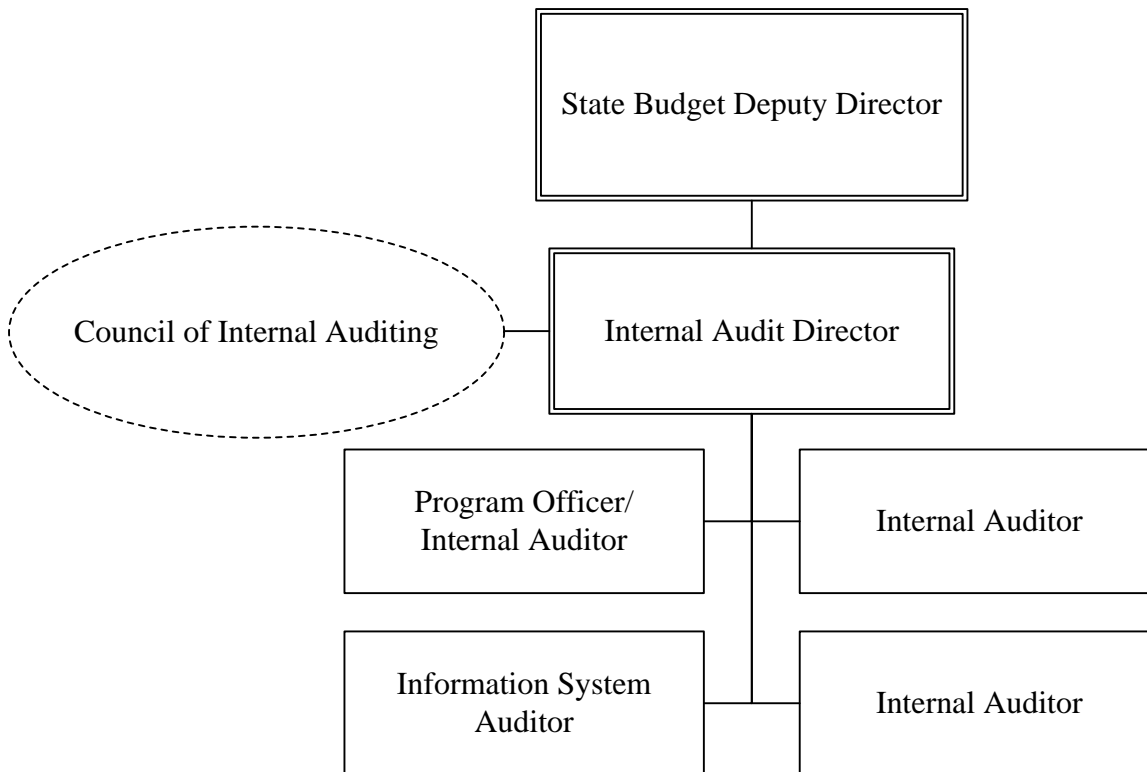
- Two Certified Public Accountants;
- Two Certified Internal Auditors;

¹ Entire Internal Audit Act is located in Appendix A.

² Includes departments, offices, boards, commissions and universities.

- One Certified Internal Control Auditor;
- One Certified Fraud Examiner;
- One Certified Government Audit Professional;
- One Certified Government Financial Manager; and

Exhibit 1
Office of Internal Audit as of June 30, 2016



The Office of Internal Audit had a 9% overall decrease in expenditures during FY2015-16, while general fund expenditures increased during the year. The major reason for the decrease in overall spending relates to the Race to the Top (RttT) which terminated August 2015. OIA had limited expenditure in FY 2015-16 related to a contractor completing work on the RttT program.

The largest factor for the 37% increase in general funds expenditures relates to employee salaries. The employee overseeing the RttT program was partially funded with RttT and was fully funded with general funds in FY2015-16. Also, the Internal Audit Director spent time between Internal Audit and Statewide Management Evaluation employees; therefore, only half of the Internal Audit Director salary was charged to OIA in FY2014-15.

Also, training expenditures continue to decrease due to a small fee being charged to participants attending the training sessions. The expenditures for FY2010-11 through FY2014-15 are shown in Table 2 on next page.

Table 2

Office of Internal Audit					
Expenditures					
	<u>FY2015/16</u>	<u>FY2014/15</u>	<u>FY2013/14</u>	<u>FY2012/13</u>	<u>FY2011/12</u>
Expenditures					
Personnel					
<i>Employee</i>	504,252	413,646	464,540	537,190	\$ 718,992
<i>Contractor</i>	29,887	172,678	33,315	21,688	
Total Personnel	534,139	586,324	497,855	558,878	718,992
Purchased Services					
<i>Software</i>	4,267	3,552	4,533		
<i>Training & Development</i>	4,968	6,355	13,210	8,458	14,460
<i>Information Technology Services</i>	5,760	5,471	6,895	5,628	13,272
<i>Travel, Telephone, Miscellaneous</i>	2,486	2,838	8,489	10,138	12,743
Total Purchased Services	17,480	18,216	33,127	24,224	40,475
Supplies	50	-	-	100	100
Property, Plant, & Equipment	610	-	-	-	550
Other	452	1,191	-	-	-
Total Expenditures	552,731	605,731	530,982	583,202	760,117
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	522,844	382,560	452,695	417,456	425,146
ARRA State Fiscal Stabilization Fund	-	-	-	-	116,832
ARRA Race to the Top Fund	29,887	223,172	78,287	92,555	150,079
Early Learning Challenge	-	-	-	43,297	8478.56
Information Technology Services	-	-	-	29,894	59,583

Efforts and Accomplishments

Over the last nine years the Council complied with all 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. The staffing analysis is conducted every three years (See Appendix B for details) and the annual activity report is published every year. Below are specific accomplishments during FY2015-16.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. During FY 2015-16, OIA sponsored two training which allowed internal auditors the opportunity to earn up to 24 certified professional education (CPE) hours.

In March 2016, OIA staff in conjunction with the University of North Carolina General Administration, coordinated a training session for interested internal auditors to advance their knowledge on general auditing topics. One hundred auditors across 14 agencies and 11 universities participated in the 1-day training session held at the Friday Center in Chapel Hill. The training provided internal auditors the opportunity to earn 8 hours of CPE. The cost per participant was \$72 per day which was offset by charging a \$50 participant fee. Based on participant surveys, there was a 96% very good or excellent program rating.

In June 2016, OIA staff in conjunction with the Department of Public Instructions and the University of North Carolina General Administration conducted a 2-day training session on various fraud topics. The sessions

registered 157 individuals and throughout the year, added 18 additional individuals. At this level of registration, internal auditors obtained a 46% reduction of the membership rate.

Proposed Legislation Changes

The Council of Internal Auditing did not sponsor changes related to the Internal Audit Act during the 2015-2016 Legislative Session.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Personnel Resources

As shown in Table 3 on page 8, there are 190.5 internal auditor positions, which are spread across 37 state agencies. As of June 30, 2015, 88% of these positions were filled. There was a net loss of four positions throughout the state over the past year. Significant changes over the last year include:

- Department of Environmental Quality transferred two positions to the Department of Natural and Cultural Resource related to the reorganization which is a 50% decrease.
- Department of Secretary of State, UNC Healthcare and North Carolina State University each lost one position; and
- Three smaller functions, Department of Agriculture and Consumer Services, North Carolina Central University, and University of North Carolina Pembroke each gained one position.

There are eight agencies with no internal auditor positions that use OSBM services:

- Commissioner of Banks;
- Department of Labor;
- Department of Military and Veteran's Affairs;
- North Carolina Industrial Commission;
- Office of State Budget and Management;
- Office of State Human Resources;
- Office of the Governor; and
- Office of the State Auditor.

The following Universities outsource, some or all of 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 General Administration;
- North Carolina State Education Assistance Authority contracts with the University of North Carolina General Administration;
- Fayetteville State University contracts with a private individual;
- Housing Finance Agency contracts with Cherry Bekaert; and
- Elizabeth City State University contracts with East Carolina University for the Internal Audit Director's position.

Over the past year some agencies have hired contractors, temporary employees and/or interns to address staffing resources needs. Listed below are the agencies and methods used to supplement staffing levels.

Agencies that use the State Term supplemental staffing contract or personal service contracts

- Department of Commerce – Division of Employment Security;
- Department of Health and Human Services;
- Department of Transportation;
- Office of State Budget and Management;
- University of North Carolina Chapel Hill; and
- University of North Carolina General Administration.

provided 16 hours of CPE hours at a minimal cost of \$40 per day which was hosted by the Department of Public Instruction. Participants were invited from state agencies, universities, community colleges, local education agencies, local governments and IIA members. There were 147 registered participants. Based on participant surveys, there was an 96% very good or excellent program rating.

In addition to the two training sessions, throughout the year, other free or low cost training is identified and communicated to all internal auditors. Communication takes place via email and postings on OSBM website. Over the past year, 46 professional development opportunities were identified and communicated. There were 160 hours of certified professional education identified and 14% of these hours 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 Auditor's 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. During the past year, five state agencies completed reviews using the program and two other state agency reviews are in progress which should be completed by November 2016. See Table 7 on page 15 for more details.

Internal Audit Recognition Program

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement and excellence. 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 2015 Internal Auditor Award of Excellence was presented to Lynne Sanders, University of North Carolina General Administration.

Shared Internal Audit Program

The internal audit program provides audit services to small state agencies. The guideline 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, the program will provide audit assistance to any 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 13.

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 13.

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 leadership opportunities; and exclusive on-line resource materials. The Council staff has worked with the Institute of Internal Auditors (IIA) to establish the North Carolina government group membership program that starts October 1 and ends September 30 of each year. Any government employees can join this group and receive a discount on an IIA membership. On October 1, 2015 the program

Agencies that utilize interns

- Department of Commerce – Division of Employment Security;
- Department of Health and Human Services;
- Department of Transportation;
- North Carolina Central University;
- North Carolina State University;
- Office of State Budget and Management;
- North Carolina University Asheville;
- North Carolina University Charlotte;
- North Carolina University Pembroke;
- North Carolina University Wilmington;
- Winston Salem State University; and
- Western Carolina University.

Part-time Temporary Employees

- North Carolina University Asheville;
- North Carolina State University; and
- Winston Salem State University.

The final method of supplementing staff is using guest auditors. A guest auditor operates as a subject matter expert providing additional insight on the audit approach and/or interpretation of results. University of North Carolina General Administration used guest auditors on a limited basis during FY2016.

The information in Table 3 provides data on positions regardless of filled or vacant status.

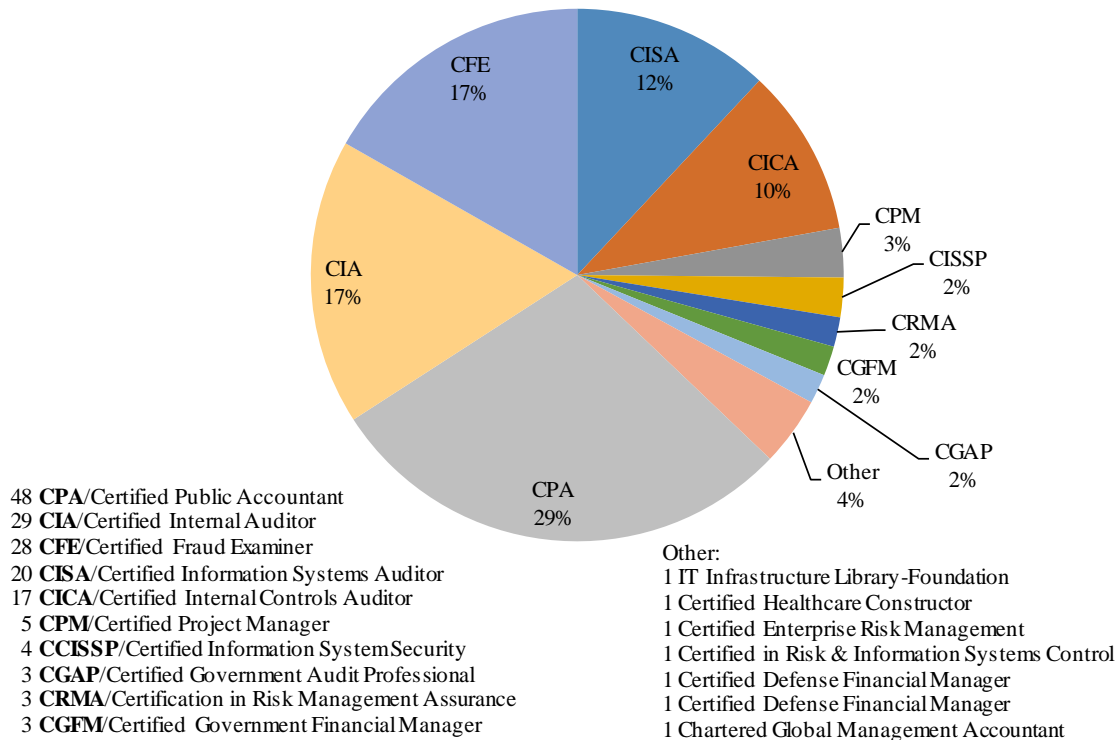
Table 3

Statewide Internal Auditor Position Level Comparison FY2012 to FY2016					
Agency	Positions				
	2016	2015	2014	2013	2012
Community College System Office	1	1	1	1	1
Commissioner of Banks ¹	0	0	0	0	0
Department of Administration	1	1	1	0	0
Department of Agriculture & Consumer Services	4	3	3	3	1
Department of Commerce	4	4	5	4	3
Department of Natural and Cultural Resources	2	2	1	1	1
Department of Environmental Quality	2	4	3	3	2
Department of Health & Human Services	41	43	39	15	8
Department of Information Technology	3	3	3	2	2
Department of Insurance	1	1	1	1	1
Department of Justice	1	1	1	1	1
Department of Labor ¹	0	0	0	0	0
Department of Military and Veteran's Affairs ¹	0	N/A	N/A	N/A	N/A
Department of Public Instruction	2	2	2	1	1
Department of Public Safety	20	19	20	20	19
Department of Revenue	3	3	3	2	2
Department of Secretary of State	1	2	2	2	1
Department of State Treasurer	3	3	3	4	3
Department of Transportation	25	25	22	22	22
Housing Finance Agency ²	1	1	2	2	0
North Carolina Education Lottery	3	3	2	2	2
North Carolina Industrial Commission ¹	0	0	0	0	0
Office of State Controller	0.5	0.5	0.5	0	0
Office of State Human Resources ¹	0	0	0	0	0
Office of State Budget & Management ¹	5	5	4.5	6	8
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	0	0
Appalachian State University	5	5	5	5	4
East Carolina University	8	8	7	7	7
Elizabeth City State University ⁵	1	1	1	1	2
Fayetteville State University ²	0	1	0	1	0
North Carolina Agricultural & Technical State University	4	4	4	5	5
North Carolina Central University	4	3	3.5	3	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	N/A	N/A	N/A	N/A
North Carolina State University	7	8	7	7	6.25
University of North Carolina - Asheville	1	1	1	1	1
University of North Carolina - Chapel Hill	7	7	7	6	6
University of North Carolina - Charlotte	5	5	5	5	4
University of North Carolina - General Administration	1	1	1	1	1
University of North Carolina - Greensboro	2	2	2	2	2
University of North Carolina - Hospitals	9	10	8	6	5
University of North Carolina - Pembroke	2	1	1	1	1
University of North Carolina - Wilmington	4	4	4	4	4
Western Carolina University	1	1	1	1	2
Winston-Salem State University	5	5	5	3	4
Total	190.50	194.50	182.50	151.00	135.25
1. Utilizes OSBM Internal Audit program 2. Uses contract auditors 3. Contracts with Winston-Salem State University 4. Contracts with UNC-General Administration 5. Contracts with East Carolina University					

Personnel Proficiency

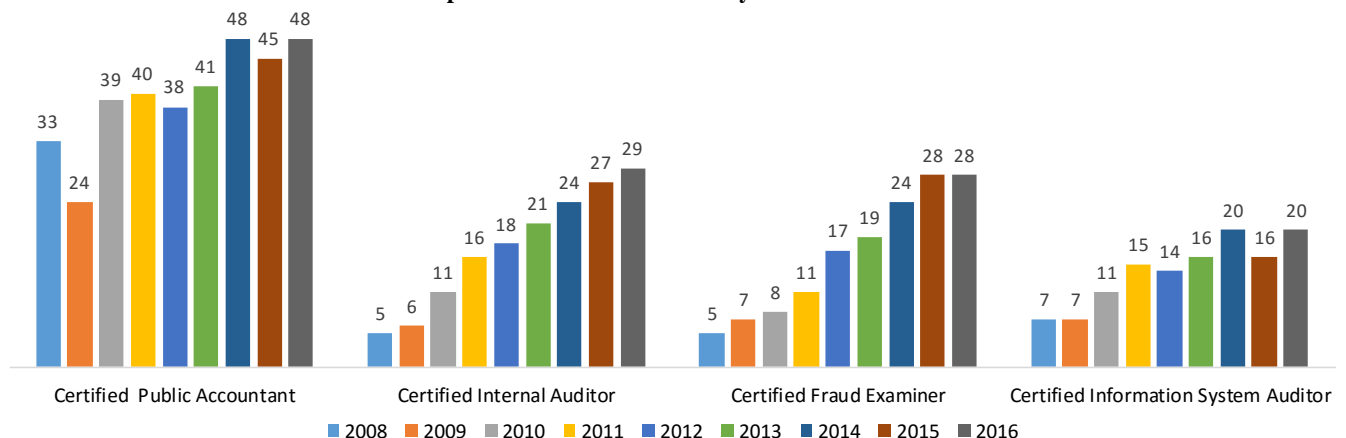
Internal auditors can demonstrate proficiency by obtaining professional certification and advanced degrees. Overall, internal auditors hold 167 professional certifications in 16 different areas; 75% of these being either Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors or Certified Fraud Examiners. The number and type of professional certifications held by the agency's internal auditors are shown in Chart 1 below.

Chart 1: Professional Certifications



Since the inception of the Internal Audit Act in August 2007 professional certification held by internal auditors has increased 188%, from 58 to 167 certifications. During the same period staffing levels increased by 30% revealing internal auditors in North Carolina are focusing on proficiency by obtaining professional certifications. Chart 2 provides a historical view of the top four certifications held by internal auditors. Certified Internal Auditor and Certified Fraud Examiners have the largest growth at 480% and 460%, respectively, during the eight-year period.

**Chart 2: Growth from FY2008 to FY2016
Top Four Certifications Held by Internal Auditors**



Along with the increases in professional certifications, advanced degrees held by internal auditors increased by 192% as shown in Chart 3.

**Chart 3: Growth from FY2008 to FY2016
Advanced Degrees Held by Internal Auditors**

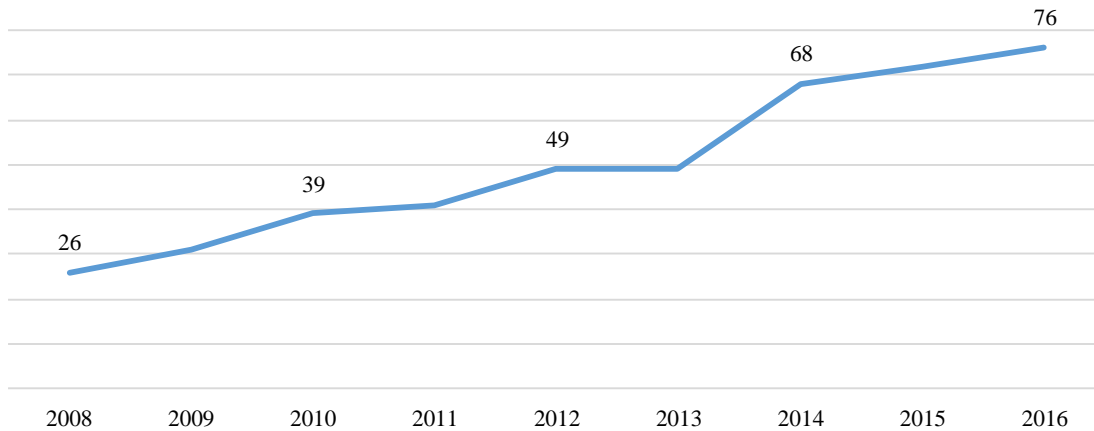
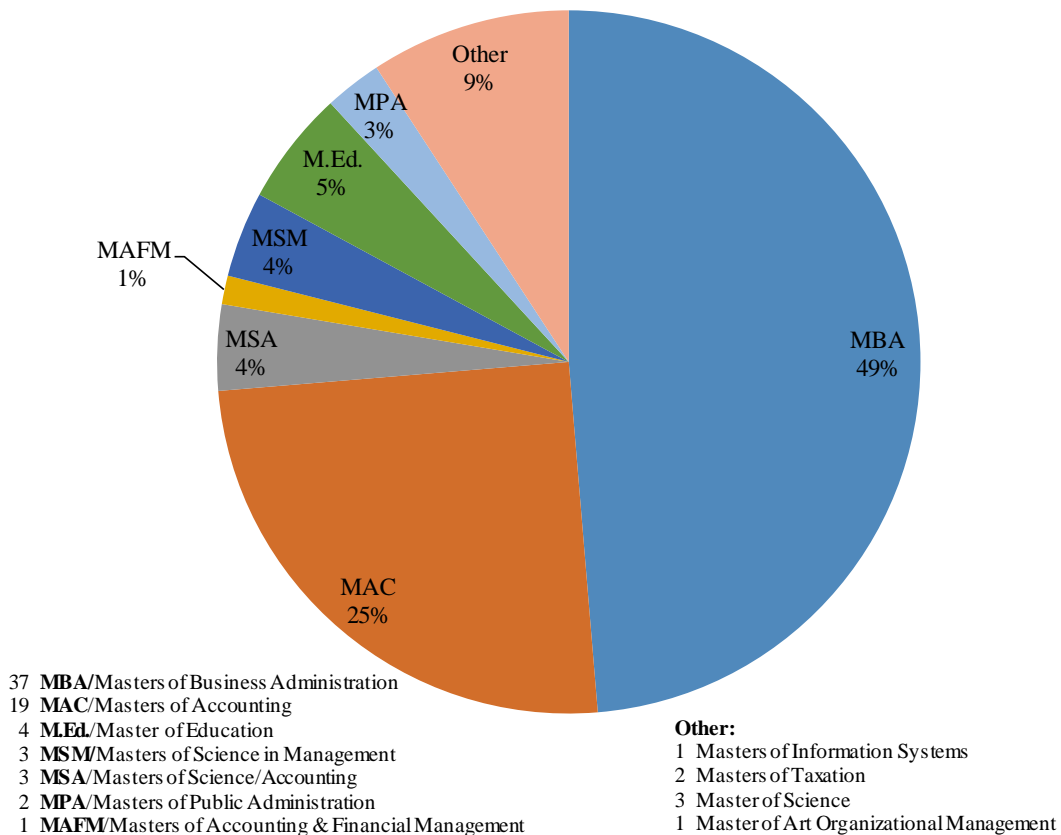


Chart 4, shows the type of advanced degrees held by the agency's internal auditors during FY2016. Combined, the auditors hold 76 advanced degrees with 79% of these being Masters in Business Administration, Accounting or Accounting and Finance Management.

Chart 4: Advanced Degrees



Computer Assisted Audit Tools

In addition to personnel, 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 aid with the administration and management of the audit processes such as Teammate and SharePoint. Generalized audit software tools assist with data extraction and analytics such as ACL, IDEA and SAS.

Table 4 identifies the types of productivity tools or generalized audit software used throughout State government and the number of internal audit functions using these products.

Computer Assisted Audit Tools Use by Internal Audit Functions			
<u>Generalized Audit Software</u>		<u>Productivity Tool</u>	
Software	Number Agencies Using	Software	Number Agencies Using
ACL	9	SharePoint	8
IDEA	5	Teammate	3
Tableau	3	Auditor Assistant	1
ActiveData for Excel	2	AutoAudit	1
CLEAR	1		
EnCase	1		
Total	21	Total	13

Table 5, on the next page, shows all internal audit functions that use the Microsoft Office products to enhance productivity through automation. In addition, 16 agencies use generalized audit software tools for data extraction and analysis; and 12 agencies use productivity tools to automate work papers and work flow processes. The Department of Health and Human Services, East Carolina University, University of North Carolina Asheville, and Western Carolina University use more than one CAATs to perform audit work.

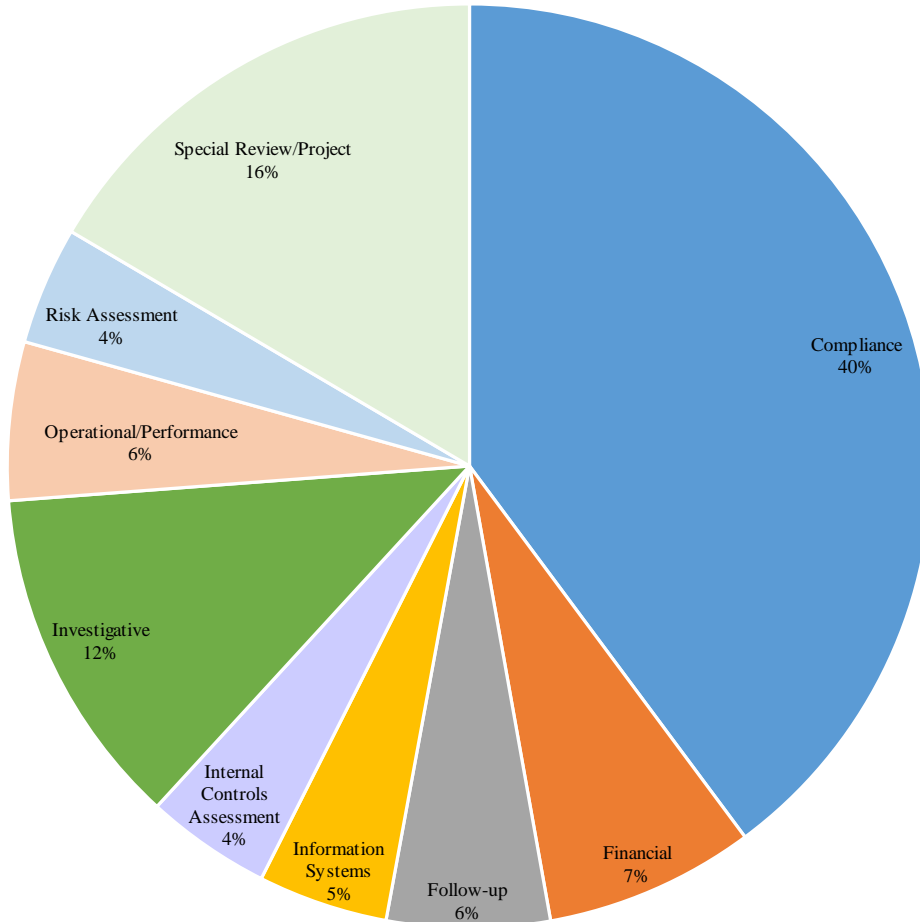
Table 5

Computer Assisted Audit Tool Usage			
State Agency	Microsoft Office Products	Generalized Audit Software¹	Productivity Tool²
Community College Central Office	✓		
Department of Administration	✓		
Department of Agriculture & Consumer Services	✓		
Department of Commerce	✓	✓	✓
Department of Natural and Cultural Resources	✓		
Department of Environmental Quality	✓		
Department of Health and Human Services	✓		✓
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	✓	✓	
North Carolina Education Lottery	✓	✓	✓
Office of State Budget & Management	✓	✓	
Office of the State Controller	✓		✓
Wildlife Resource Commission	✓		✓
Appalachian State University	✓		
East Carolina University	✓	✓	
Elizabeth City State University	✓		
Fayetteville State University	✓		
North Carolina Agricultural & Technical State University	✓		
North Carolina Central University	✓		
North Carolina State University	✓	✓	
University of North Carolina - Asheville	✓	✓	
University of North Carolina - Chapel Hill	✓	✓	✓
University of North Carolina - Charlotte	✓	✓	
University of North Carolina - General Administration	✓	✓	
University of North Carolina - Greensboro	✓		
University of North Carolina - Hospitals	✓	✓	✓
University of North Carolina - Pembroke	✓		
University of North Carolina - Wilmington	✓	✓	✓
Western Carolina University	✓	✓	
Winston-Salem State University	✓	✓	✓
1. Perform routine task for data extract and analysis. Some products are ACL, Tableau and IDEA. 2. Streamline process to manage audits through electronic work papers and work flows. Some products are Teammate and SharePoint.			

Efforts and Accomplishments

Internal audit functions conduct various activities designed to add value and improve a state agency's operations. For the period July 1, 2015 through June 30, 2016, the majority of activities conducted by internal auditors were compliance audits. Chart 5 shows the percentage of internal audit reports prepared by type. In addition to the audit work shown here, most internal audit functions provide technical assistance throughout the year. During the same time period, internal auditors provided over 23,400 hours of assistance to their agency's management which did not result in report issuance.

Chart 5: FY2016 Agency Engagments



The audit engagements by state agency are shown in Table 6 on the next page. The Table depicts the efforts of each internal audit function. Efforts are directly related to the size of the audit function. There are many state agencies that have one or two internal auditors which limits the number of audits that can be accomplished throughout the year.

Table 6

Agency Engagements											
State Agency	Compliance	Financial	Follow Up	Information Systems	Internal Controls Assessment	Investigative	Operational/ Performance	Risk Assessment	Special Review/ Project	Total Reports	Technical Assistance Hours
Community College System Office										0	200
Department of Administration	1		2		1				1	5	120
Department of Agriculture and Consumer Services					1	6			1	8	20
Department of Commerce	4	23	2	2	1	16	3	3	85	139	678
Department of Natural and Cultural Resources					8					8	400
Department of Environment Quality	1				2	2	2			7	160
Department of Health and Human Services	2		4	4		16	3		2	31	1,000
Department of Information Technology		9		11	1	1				22	1,872
Department of Insurance		1	1	2	1		1	1		7	120
Department of Justice				1			1	1		3	212
Department of Public Instruction					3	4	3	1		11	382
Department of Public Safety	26	16	12			3	2		1	60	12
Department of Revenue	13	8		7	13	1	8		5	55	480
Department of Secretary of State				1	1			1		3	100
Department of State Treasurer						1	2		2	5	400
Department of Transpiration	384					25	1	1	65	476	500
Housing Finance Agency	1				1			1	1	4	
Office of the State Controller					2					2	25
Office of State Budget and Management	3		1	8	3	5	2	12	9	43	308
Wildlife Resources Commission					1		1	1		3	250
Appalachian State University	4	9	2	2		2	3	17		39	940
East Carolina University	1		11	5		11	5	1	1	35	3,296
Elizabeth City State University	1		6			2	1		6	16	651
Fayetteville State University	1	2	1		1					5	150
NC Agricultural & Technical State University		3	2	1	3	5				14	477
NC Central University	1	3	1		1	4		1		11	80
NC School of Science and Mathematics			3				1		1	5	240
NC School of the Arts						2				2	240
NC Education Lottery	6		1	2		2	2		2	15	1,000
NC State Education Assistance Authority									1	1	160
NC State University			2	1	1	6	1		4	15	5,234
UNC Asheville			2		1			1	3	7	947
UNC Chapel Hill			3			12		1		16	25
UNC Charlotte	7	1				2	6		4	20	200
UNC General Administration	1		1			2		1		5	105
UNC Greensboro	7	1			1			1		10	40
UNC Hospitals	5	6		6	1	1	5		4	28	125
UNC Pembroke			1		1	1		1	1	5	315
UNC Wilmington	2	1	3		1	6	4	1	1	19	633
Western Carolina University	10	5	6	2	2	3	10	1		39	
Winston-Salem State University	1	1	2		1	4		2		11	1,352

Compliance

Internal Audit Act and Council Requirements

The Internal Audit Act and the North Carolina Internal Audit Manual require internal audit functions to submit their annual audit plan as well as engagement reports. Table 7 shows compliance with document submission and the overall compliance rate.

Table 7

Compliance with Internal Audit Act and Statewide Internal Audit Manual		
Agency	Audit Plan	Reports
Community College Central Office	✓	✓
Department of Administration	✓	✓
Department of Agriculture & Consumer Services	✓	✓
Department of Commerce - Division of Employment Services	✓	✓
Department of Natural and Cultural Resources	✓	✓
Department of Environmental Quality	✓	✓
Department of Health & Human Services	✓	✓
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	✓	✓
Housing Finance Agency	✓	✓
North Carolina Education Lottery	✓	✓
Office of State Budget & Management	✓	✓
Office of the State Controller	✓	✓
Wildlife Resource Commission	✓	✓
Appalachian State University	✓	✓
East Carolina University	✓	✓
Elizabeth City State University	✓	✓
Fayetteville State University	✓	✓
North Carolina Agricultural & Technical State University	✓	✓
North Carolina Central University	✓	✓
North Carolina School of the Arts	✓	✓
North Carolina School of Science and Mathematics	✓	✓
North Carolina State Education Assistance Authority	✓	✓
North Carolina State University	✓	✓
University of North Carolina - Asheville	✓	✓
University of North Carolina - Chapel Hill	✓	✓
University of North Carolina - Charlotte	✓	✓
University of North Carolina - General Administration	✓	✓
University of North Carolina - Greensboro	✓	✓
University of North Carolina - Hospitals	✓	✓
University of North Carolina - Pembroke	✓	✓
University of North Carolina - Wilmington	✓	✓
Western Carolina University	✓	✓
Winston-Salem State University	✓	✓
TOTAL	41	41
Compliance rate	100%	100%

External Quality Assurance Review (Peer Review)

To comply with audit standards, external quality assurance reviews (QAR) are required every five years. Five internal audit functions are not required to have a QAR at this time because the function has not met the requirement timeframe. Of the 35 internal audit functions remaining, 33 have received a QAR and two are in progress as shown in Table 8.

Three agencies received a QAR but did not obtain a generally conforms opinion. The three internal audit functions are working toward conformance.

The Department of Agriculture and Consumer Services hired a new Internal Audit Director in April 2016. The new Internal Audit Director must develop policies and procedures and conduct audit engagements before requesting a QAR. The tentative target date to request a follow up QAR is June/July 2017

The Department of the Secretary of State is in the process of hiring a new Internal Audit Director. Interviews are taking place in September/October 2016. The top priority of the new Internal Audit Director will be to focus conformance with IIA Standards to allow for a follow up QAR.

Elizabeth City State University is working toward conformance with the IIA Standards. As noted earlier in this report, the Chief Audit Officer at East Carolina University is acting Director and assisting with this priority. The tentative target date for completing the QAR is March 2017.

Table 8

QAR Compliance and Due Dates	
Compliant	Rating
Appalachian State University	Generally Conforms
Department of Agriculture & Consumer Services	Does Not Conform
Department of Natural and Cultural Resources	Generally Conforms
Department of Environmental Quality	Generally Conforms
Department of Health & Human Services	Generally Conforms
Department of Insurance	Generally Conforms
Department of Justice	Generally Conforms
Department of Public Instruction	Generally Conforms
Department of Public Safety	Generally Conforms
Department of Revenue	Generally Conforms
Department of Secretary of State	Partially Conforms
Department of Transportation	Generally Conforms
Department of State Treasurer	Generally Conforms
East Carolina University	Generally Conforms
Elizabeth City State University	Does Not Conform
Fayetteville State University	Generally Conforms
North Carolina Agriculture & Technical State University	Generally Conforms
North Carolina Central University	Generally Conforms
North Carolina Education Lottery	Generally Conforms
North Carolina School of Science and Mathematics	Generally Conforms
North Carolina School of the Arts	Generally Conforms
North Carolina State University	Generally Conforms
Office of State Budget & Management	Generally Conforms
University of North Carolina - Asheville	Generally Conforms
University of North Carolina - Chapel Hill	Generally Conforms
University of North Carolina - Charlotte	Generally Conforms
University of North Carolina - General Administration	Generally Conforms
University of North Carolina - Greensboro	Generally Conforms
University of North Carolina - Hospitals	Generally Conforms
University of North Carolina - Pembroke	Generally Conforms
University of North Carolina - Wilmington	Generally Conforms
Winston-Salem State University	Generally Conforms
Western Carolina University	Generally Conforms
In Progress	Tentative Completion Date
Community College System Office	November 2016
Department of Commerce	November 2016
Not Required	Due Date
Office of the State Controller	December 2018
Department of Information Technology	February 2019
Housing Finance Agency	April 2019
Department of Administration	May 2019
Wildlife Resource Commission	November 2019

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. The agency head for the Department of Public Instruction shall be the State Board of Education.
 - (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.)

§ 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) If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1.)

§ 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.)

2016 North Carolina Internal Auditor's Award of Excellence

- Four nominees
- Council will review all four packets
- Set up interviews for late October or early November
- Award presentation December



Dr. Linda Combs
State Controller, Chair

Andrew T. Heath
State Budget Director

Kathryn L. Johnston
*Secretary of
Administration*

Roy Cooper
Attorney General

Jeff Epstein
Secretary of Revenue

Beth A. Wood
State Auditor

2016-17 Council of Internal Auditing Meeting Schedule

July 13, 2016 9:00 a.m.

October 12, 2016 9:00 a.m.

January 11, 2017 9:00 a.m.

April 12, 2017 9:00 a.m.

**Meeting location: 116 W. Jones Street
Administration Building 5th floor
Commission Room**