



# STATE OF NORTH CAROLINA

## *COUNCIL OF INTERNAL AUDITING*

Dr. Linda Combs  
*State Controller, Chair*

Charles Perusse  
*State Budget Officer*

Machelle Sanders  
*Secretary of  
Administration*

Josh Stein  
*Attorney General*

Ron Penny  
*Secretary of Revenue*

Beth Wood  
*State Auditor*

### Agenda

January 9, 2019

#### Reading of Ethics Awareness Reminder

- A. Approval of Minutes – October 10, 2018 (*Action item*)
- B. Objectives
  - 1. Training
  - 2. Performance Measures
- C. Council Reports
  - 1. Award of Excellence Presentation
  - 2. Future Meetings

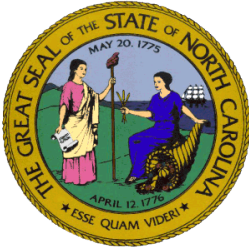


COUNCIL OF INTERNAL AUDITING  
ETHICS AWARENESS  
AND CONFLICT OF INTEREST REMINDER

It is the duty of every Council member to avoid both conflicts of interest and the appearances of conflict.

If any Council member has any known conflict of interest or is aware of facts that might create the appearance of such conflict, with respect to any matters coming before the Council today, please identify the conflict or the facts that might create the appearance of a conflict to ensure that any inappropriate participation in that matter may be avoided. If at any time, any new matter that raises a conflicts issue arises during the meeting, please be sure to identify it at that time.





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Minutes  
October 10, 2018

### Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, October 10, 2018 in the Commission Room located in the Dobbs Building, 430 North Salisbury Street, Raleigh, NC, with Chair Dr. Linda Combs presiding.

The following Council of Internal Auditing Members were present:

Dr. Linda Combs, Chair – State Controller  
David Elliot representing Josh Stein, Attorney General  
Beth Wood, State Auditor  
Nels Roseland representing Charles Perusse, State Budget Director  
Jackie McKoy representing Ronald Penny, Secretary of Revenue  
Machelle Sanders, Secretary of Administration

Chair Dr. Combs called the meeting to order and began by reading the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

### A. Approval of Minutes

On a motion proposed by Nels Roseland, seconded by Secretary Sanders, the Council unanimously approved the minutes of the April 11, 2018 meeting.

### B. Staffing Update

Barbara Baldwin stated the information system auditor position had been filled and introduced Tarveras Rogers to the Council. Ms. Baldwin stated Kela Lockamy would now be serving as administrative support to the Council. She went on to say her office was in the process of hiring a disaster recovery auditor.

## **C. Objectives**

### **1. Future Training**

Ms. Baldwin gave a brief overview of the 3<sup>rd</sup> Annual Fraud Busters Conference and thanked State Auditor Wood and David Elliot for providing speakers for the event. There were 193 in attendance and participants received 14 hours of CPE. Next Ms. Baldwin stated part one of the CIA review had occurred on September 28<sup>th</sup> at the Administrative Office of the Courts. Attendance was lower than hoped but could be attributed to upcoming changes to the CIA Exam. Ms. Baldwin explained how her office plans to partner with the local IIA chapter to provide another course in the fall of 2019.

### **2. External Quality Assurance Review**

Ms. Baldwin stated her office's External Quality Assurance Review had been completed and received the grade of Generally Conforms. She went on to explain the details of the QAR report highlighting the impairments to independence or objectivity standard. This was attributed to a lack of resources. Many members supported the idea of having a champion in the General Assembly to advocate for internal audit shops across agencies. Nels Roseland stressed that it was each agencies responsibility to advocate for their internal audit function in upcoming budget request. Secretary Sanders suggested advocating the importance of internal audit functions to cabinet Secretaries could also be an effective means of securing proper funding.

### **3. Two-Year Audit Plan**

Ms. Baldwin gave an overview of the two-year audit plan and yielded a question regarding fixed assets from Secretary Sanders. On a motion proposed by Nels Roseland, seconded by Secretary Sanders, the Council unanimously approved the two-year audit plan.

### **4. Annual Activity Report**

Ms. Baldwin started by giving an overview of the Annual Activity Report and touched on the new data analytics initiative. State Auditor Wood stressed the importance of data analytics in the future of auditing. Ms. Baldwin reminded Council members that the staffing analysis included in the annual report indicated the minimal number of auditor each agency should have, not the optimal. On a motion proposed by Nels Roseland, seconded by Secretary Sanders, the Council unanimously approved the annual activity report.

## **D. Council Reports**

### **1. Award of Excellence**

Ms. Baldwin explained how despite a significant increase in marketing her office had only received 3 nominations for this year's award. Ms. Baldwin thanked Lynne Sanders

for marketing the award at the Chancellors retreat. The 3 local IIA chapters will continue to present a \$500.00 incentive to the award recipient at the OSC Financial Conference in December. There was discussion among Council members if the nomination form was overly burdensome.

2. Internal Auditor Retention and Recruitment

Ms. Baldwin gave an overview of the provided material and highlighted the six internal auditors currently misclassified. When asked about OSHR's progress to make the requested corrections Ms. Baldwin stated she had been told there was some back log and changes should be made by the end of the calendar year.

3. Future Meeting Schedule

The 2018-19 Council of Internal Auditing Meeting Schedule was included in the agenda. The next meeting is scheduled for 9 AM on January 9, 2019.

There being no further business, Chair Combs entertained a motion to adjourn. On a motion proposed by Nels Roseland, seconded by Jackie McKoy, the Council unanimously approved to adjourn the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held October 10, 2018.

Witness my hand, this \_\_\_\_ day of \_\_\_\_\_ 2019.

\_\_\_\_\_

Linda Combs, State Controller, Chair

\_\_\_\_\_

Barbara Baldwin, Secretary





## 4 Day Training Session September through November

**Topic:** Certified Internal Auditor Review Course

**CPE Hours:** 32 Continuing Professional Education hours

**Participants:** 35 participants: 17 State Agencies; 1 University; 2 Community Colleges; 3 Local Education Agency; and 12 IIA members (private sector)

**Fee:** \$275 all Part (4 days equals \$68.75 per day)  
\$170 Part 3 (2 days equals \$85 per day)

**Cost:** \$7,410 Total

**Program Overall Evaluation:** 92% Strongly Agree or Agree

| Questions  | Strongly Agree     | Agree            | Neutral | Disagree | Strongly Disagree |
|--|--------------------|------------------|---------|----------|-------------------|
| 1. Facilities, location and food was appropriate.                                  | 64%                | 12%              | 22%     | 0%       | 2%                |
| 2. Speaker was knowledgeable, prepared and allowed time for questions.             | 84%                | 14%              | 0%      | 0%       | 2%                |
| 3. Course was timely, materials were relevant, and pace of course was appropriate. | 86%                | 10%              | 2%      | 0%       | 2%                |
| 4. Training was well organized, and objectives were met.                           | 81%                | 15%              | 2%      | 0%       | 2%                |
| 5. The overall content of the training was of value to you?                        | <b>Yes<br/>98%</b> | <b>No<br/>2%</b> |         |          |                   |

### Positive Comments:

- Mr. Granger is an Excellent instructor. He has made learning and understanding materials for the CIA Exam very interesting and easy to comprehend.
- Great experience, looking forward to next session.
- This course was fantastic!
- I passed part III Monday!

### Negative Comments:

- I would prefer less time spent on practice questions. The questions regarding formula calculations were helpful but it would have been more helpful to me to spend more time on the exam content and less on the majority of the practice questions we covered.
- More practice questions, even take-home practice questions.
- It would be beneficial to the participant to have additional study questions provided in the take-home material for study/review at a later date.



# **Fiscal Year 2018 Performance Measures And Reporting Requirements**

## **Why is this being reported?**

The Institute of Internal Auditors (IIA) Standard 1300 requires the establishment of a quality assurance and improvement program (QAIP) and results must be reported to senior management and the Board. This program should include internal and external components. Internal assessments include ongoing performance monitoring and periodic self-assessments of the internal audit function. External assessments are accomplished through the Council Peer Review Program every five years.

## **What is being reported?**

To comply with Standard 1311 internal assessment, OIA developed eight measures and targets to assess its performance and completes periodic self-assessments. Measures relate to: engagements; staff; and stakeholders. Self-assessments are conducted annually except during the year of the external assessment.

## **Who is required to report?**

Both IIA Standard 1320 and 2060 require the Chief Audit Executive report specific information to senior management and the Board. This includes: internal and external assessments; impairment to independence; resource requirements; and staffing proficiency.

## **When is this reported?**

To comply with Standard 1320, results of the QAIP must be reported at least annually.

## **How is data collected and reported?**

Tracking systems and surveys are used to collect data.

## 1. Engagement Work Measures for FY 2018

### 1a. Comparison planned to completed engagements

|  |              |
|--|--------------|
| Engagements on Audit Plan <sup>1</sup>         | 64           |
| Engagements Completed /In-Progress             | 54           |
| <b>Actual Completed/In-Progress</b>            | <b>84%</b>   |
| <b>Target Measure</b>                          | <b>≥ 90%</b> |
| 1. This includes audits added during the year. |              |

### 1b. Comparison of budgeted to actual engagement hours for completed engagements

|  |                   |
|--|-------------------|
| Budgeted Engagement Hours  | 4,315             |
| Actual Engagement Hours <sup>1</sup>   | 4,410             |
| <b>Actual Variance</b> under/(over) budget   | <b>(2.2%)</b>     |
| <b>Target Measure</b>  | <b>+ or - 10%</b> |
| 1. Actual hours include employee's hours incurred in FY2017, FY2018 and/or FY2019 to complete 2018 engagements |                   |

### 1c. Comparison of direct productive to available working hours

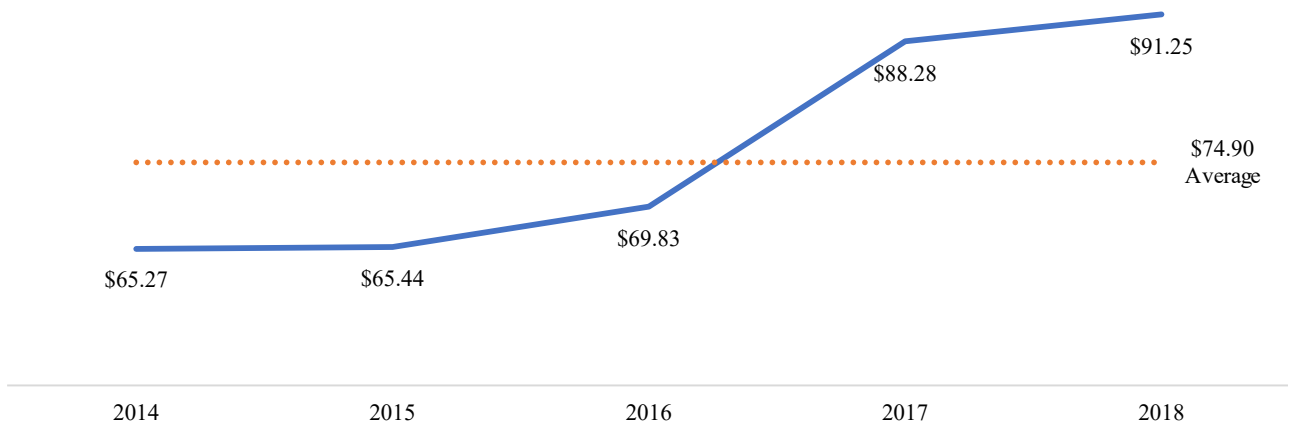
|   |              |
|---|--------------|
| Work Hours Available <sup>1</sup>   | 7,556        |
| Actual Productive Hours <sup>2</sup>  | 6,486        |
| <b>Productivity Time</b>  | <b>86%</b>   |
| <b>Target Measure</b>   | <b>≥ 85%</b> |
| 1. Working Hours Available is total hours less leave, holidays and training hours.<br>2. Actual FY2018 Productive hours includes engagement hours, technical assistance and Council Programs. |              |

## 2. Engagement Cost/Savings or Cost Avoidance for FY 2018

### 2a. Rate of return on identified potential savings, cost avoidance, or revenue generation

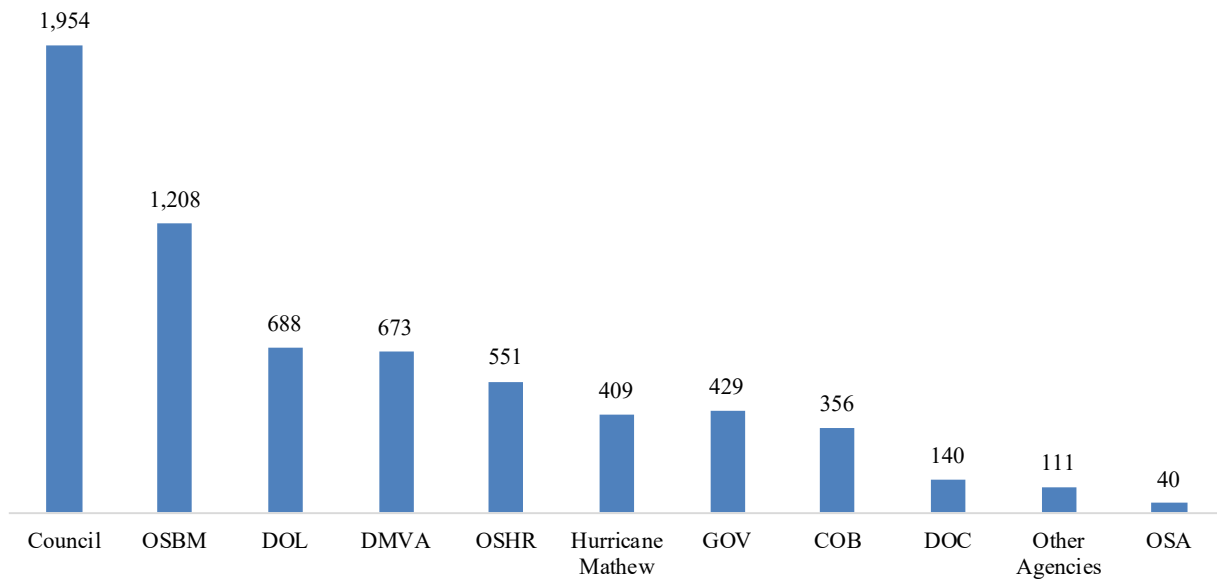
|   |                 |
|---|-----------------|
| Interagency Internal Audit Program Cost       | \$541,273       |
| Total Potential Savings Identified            | \$5,263,825     |
| <b>Return on Potential Savings Identified</b> | <b>\$9.73</b>   |
| <b>Target Measure</b>                         | <b>≥\$10.00</b> |

### 2b. Hourly rate for engagements

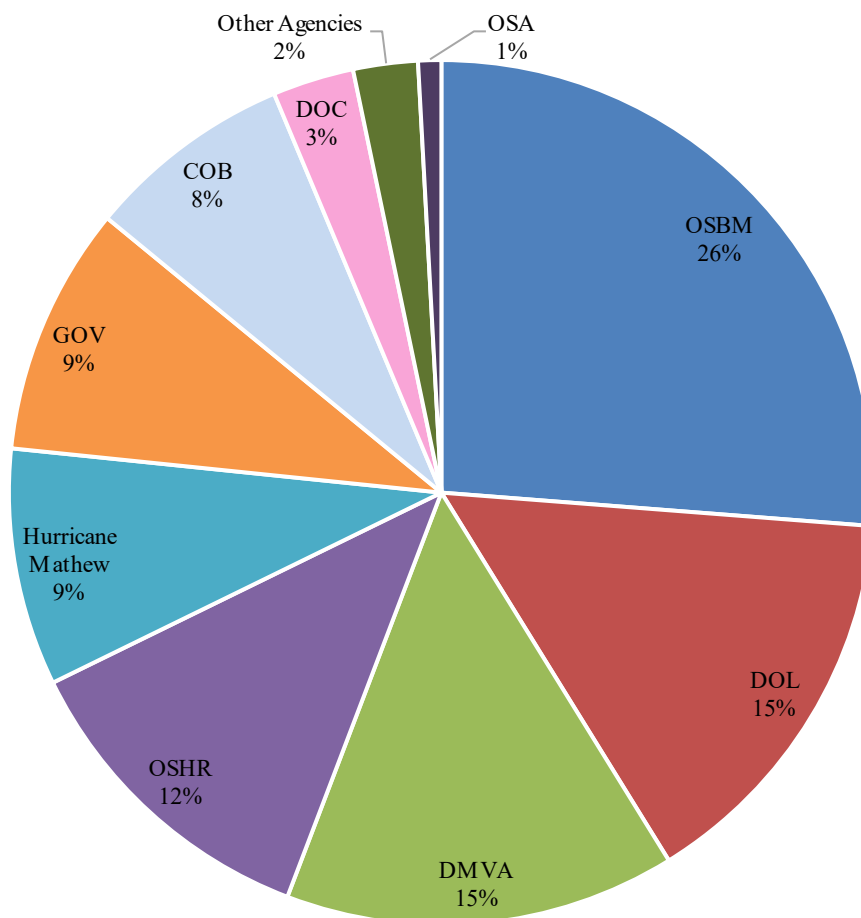


## Information on Effort by Agency and Type of Engagement for FY 2018

- Effort by Hours per Agency/Program



- Effort by Hours per Agency/Program Omitting Council



**Legend:**

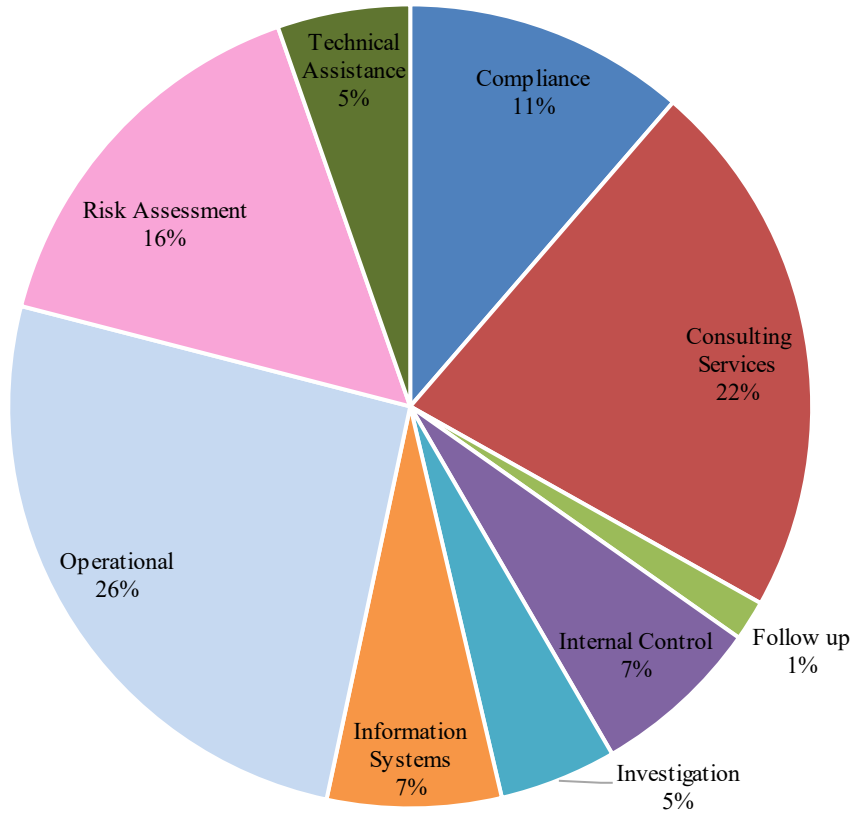
COB Commissioner of Banks  
 DMVA Department of Military and Veteran Affairs  
 DOC Department of Commerce  
 DOL Department of Labor  
 GOV Office of the Governor  
 OSA Office of the State Auditor  
 OSBM Office of State Budget and Management  
 OSHR Office of State Human Resources

**Other Agencies:**

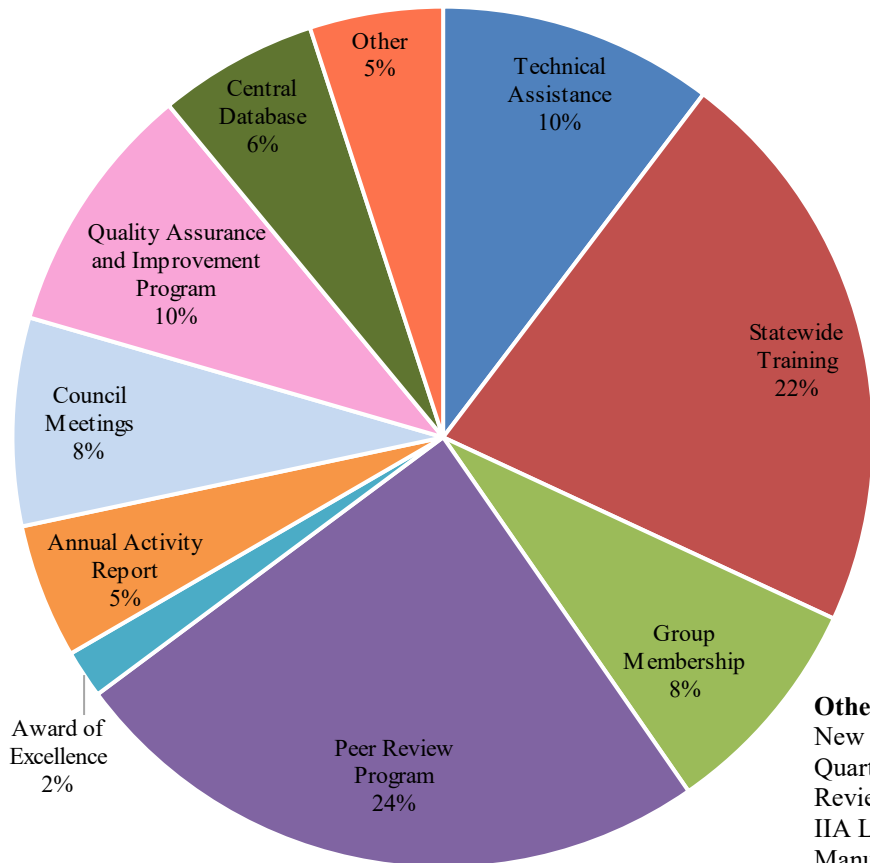
Department of Environmental Quality  
 Department of the State Treasurer  
 Veterinary Medical Board

Green = Actual meets or exceeds target  
 Yellow = Actual falls between 60% and 99% of the target  
 Red = Actual falls below 60% of the target

- Audit Effort by Engagement Type Omitting Council Programs



- Effort on Council Programs



**Other:**

- New Director Orientation
- Quarterly IA Director Meetings
- Review of Fraud Emails
- IIA Local Chapter
- Manual and Audit Charter Updates
- Data Analytics Project

Green = Actual meets or exceeds target  
 Yellow = Actual falls between 60% and 99% of the target  
 Red = Actual falls below 60% of the target

### 3. Staff Development for Calendar 2018

#### 3a. Comparison of budgeted to actual training hours

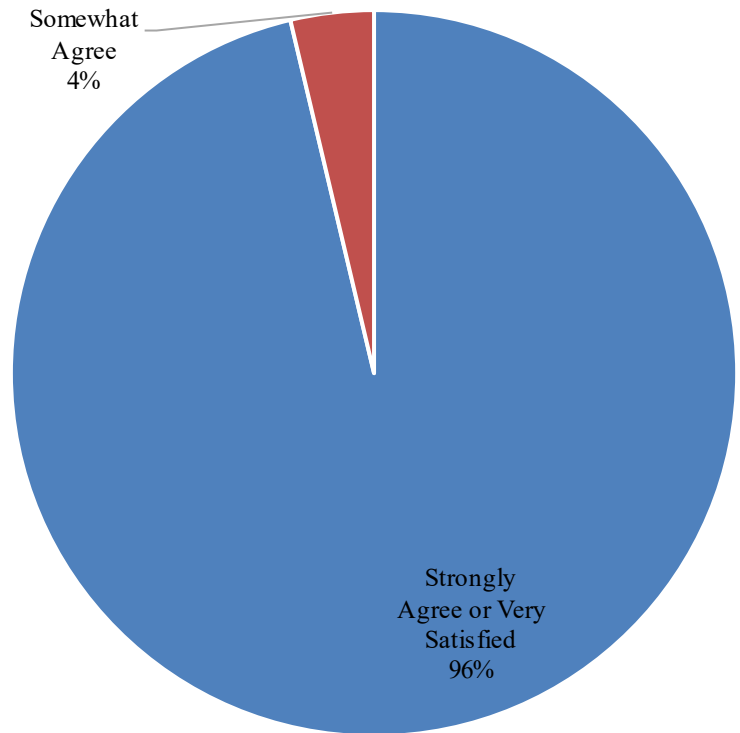
|   |                |
|---|----------------|
| Budgeted Training Hours/Auditor                   | 45             |
| Actual Training Hours/Auditor                     | 51             |
| <b>Variance</b>                                   | <b>13%</b>     |
| <b>Target Measure</b> (must have minimum 40 hrs.) | <b>≥ (10%)</b> |

#### 3b. Comparison of budgeted to actual training costs

|                                |              |
|--------------------------------|--------------|
| Budgeted Training Cost/Auditor | \$1,000      |
| Actual Training Cost/Auditor   | \$521        |
| <b>Variance</b>                | <b>-48%</b>  |
| <b>Target Measure</b>          | <b>≤ 10%</b> |

### 4. Stakeholder Satisfaction

#### 4a. Council Satisfaction (50% response rate)

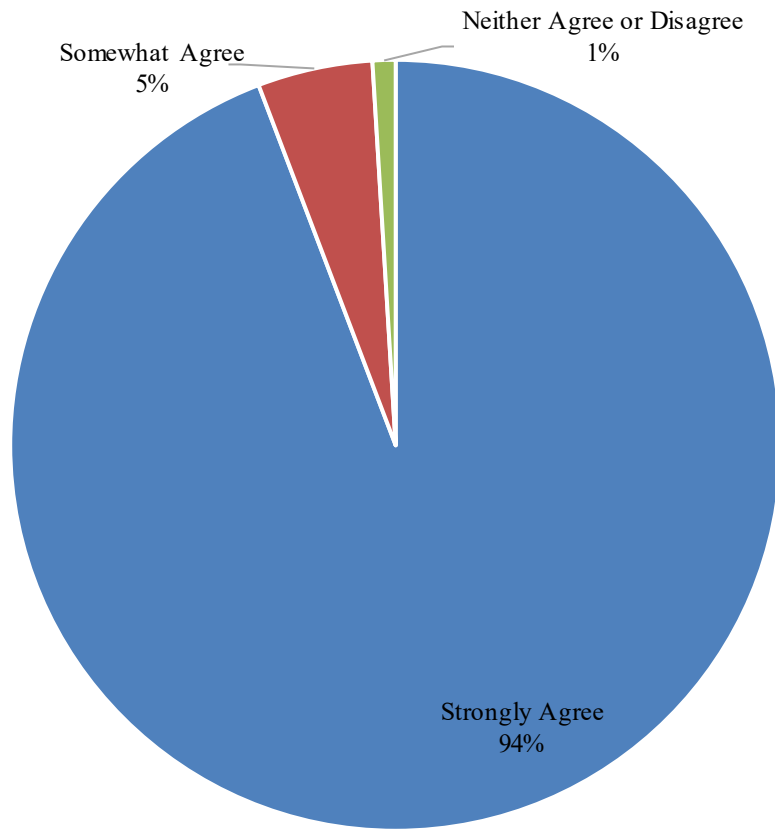


**Actual 100% Somewhat/Strongly Agree and Very/Somewhat Satisfied**  
**Target 90% Somewhat/Strongly Agree and Very/Somewhat Satisfied**

Green = Actual meets or exceeds target  
 Yellow = Actual falls between 60% and 99% of the target  
 Red = Actual falls below 60% of the target



4b. Agency Satisfaction (72% response rate)



**Actual 99% Somewhat/Strongly Agree and Very/Somewhat Satisfied**  
**Target 90% Somewhat/Strongly Agree and Very/Somewhat Satisfied**

**5. Other IIA Reporting Requirements**

5a. Periodic Internal Self-Assessment (IIA Standard 1311)

A full self-assessment was not performed during FY 2018 since an external quality review assessment was performed.

5b. Independence and Code of Ethics (IIA Standard 2060)

Internal Audit did not experience any impairments to independence or nonconformance with the IIA's Code of Ethics.

5c. External Quality Review Assessment every 5 years (IIA Standard 1312)

An External Quality Review Assessment Report was issued June 2018. The Rating was Generally Conforms (highest rating possible)

5d. Resource Management

Prior staffing analysis indicated one position is needed. Working with management to resolve by assigning a part-time administrator and purchasing technology tools.

Green = Actual meets or exceeds target  
Yellow = Actual falls between 60% and 99% of the target  
Red = Actual falls below 60% of the target





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**2018-19 and 2019-20**  
**Council of Internal Auditing**  
**Meeting Schedule**

**April 10, 2019**                      **9:00 a.m.**

**July 10, 2019**                        **9:00 a.m.**

**October 9, 2019**                    **9:00 a.m.**

**January 8, 2020**                    **9:00 a.m.**

**April 8, 2020**                        **9:00 a.m.**

**Meeting location: 430 N Salisbury Street**  
**Dobbs Building 2<sup>th</sup> floor**  
**Commission Room (2009)**