



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

November 18, 2020

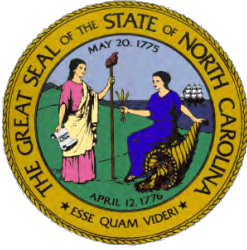
Reading of Ethics Awareness Reminder

- A. Approval of Minutes
 - 1. August 17, 2020 (*Action item*)
 - 2. August 31, 2020 (*Action item*)
- B. Staffing Update
- C. Objectives
 - 1. Annual Activity Report (*Action item for December*)
- D. Council Items
 - 1. Internal Auditor's Award of Excellence
 - 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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State Auditor

Minutes
August 17, 2020

Call to Order

The Council of Internal Auditing held a special meeting, Wednesday, August 17, 2020. The meeting was held virtually via Microsoft Teams with Chair Dr. Linda Combs presiding.

The following Council of Internal Auditing Members were present virtually by video:

Dr. Linda Combs, Chair – State Controller
David Elliot representing Josh Stein, Attorney General
Beth Wood, State Auditor
Charles Perusse, State Budget Director
Ronald Penny, Secretary, Revenue Dept.
Machelle Sanders, Secretary, Administration (by phone)

Michael Euliss, Host, explained navigating the Go To Webinar software.

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

By individual motions proposed for approval of meeting minutes for October 9, 2019 and July 8, 2020, State Budget Director Charles Perusse made the initial motions with Secretary Ronald Penny seconding them. The Council unanimously approved the minutes for both meeting dates.

B. Council Reports

Chair Dr. Combs called on members to comment on the Program Evaluation Division's Report and proposed legislation titled, Department of Transportation and Council of Internal Auditing Did Not Ensure DOT Compliance With Internal Audit Act.

Charles Perusse: The topic at hand is important to all of us. He had mixed emotions regarding recommendations in PED report as the State Budget Director and Chief Operation Officer at UNC. Internal Audit function has always reported to upper management; professional staff have always reported to executive staff of the agency. This situation with DOT, seems too much and at end of day DOT Audit needs to be managed at executive level not the Council. Internal Audit staff would have to be doubled or tripled if we get into the day to day operations as mentioned in the PED report. We should work through this to find a middle ground.

Secretary Penny: Agrees with Charlie, to find a reasonable medium. Departments are accountable for their decisions and responsibility for operating in efficient manner consistent with their mission.

David Elliott: Agrees with previous comments but would like to know more about the peer review process.

Beth Wood: I'm going to speak to the bill draft and then David help you through some of your questions. In response to the bill draft, the ultimate responsibility for good internal audit division is at the agency heads level, no doubt about that. I'm not trying to get in the middle of that. So having said that, if you look at the bill draft in front of us, under Section 2, Item 3 needs to be struck. Because this says the Council to work jointly with DOT to implement the recommendations of our Council once we hear them speak. That is not our job. If they come to us and tells us what they are going to do to fix their problems, then it is up to the Secretary to make sure that they do what they say they are going to do. I'm saying in Section 2 Item 3 that sentence needs to be stuck. That is not the job of the Council.

The other thing I would say is under Section 3 Item 2, something needs to be done about that also because in my opinion and based on what I have seen and I have actually gone through and looked at the plans for several agencies, I've actually read reports, look at legislation and I look at the Internal Audit Standards and the Peer Review process is not working. If it were, then DOT would have been called down a long time ago. Because they are saying they are putting out, I don't know, 289 or 389 reports. The law states they got to put out the reports and the audits or even consultative engagements have to be done in accordance with internal audit standards and I will tell you I have gone back and look at their work and it does not. So, the peer review process or the QAR was working like it should, they would have been caught years ago. So that piece doesn't appear to be working, but that is not unlike the peer review process for CPA review in my own practice.

I would liken our Council to the Local Government Commission (LGC). LGC is responsible for putting out guidance on how to account for your transactions, how you are to put together your financial statements, how you are supposed to put together your audit reports for federal grants. There is just a ton of information and guidance and direction. Local Governments are allowed to go out and get a CPA to perform an audit. These are CPA that have their own peer review but the LGC reviews every report, of every local government in State of North Carolina. When I was working for the LGC, CPA did those audits and I reviewed half of 750 reports and our rejection rate was 52%, done by CPA across this State and our rejection rate was 52%.

So, I got involved with the peer review process for CPAs and it supposed to be a remedial, lets help everyone out, kumbaya. So right now, when the LGC believes they have a poor CPA, I go in, I take my staff and look at the work and then we refer it the NC CPA Board. This has nothing to do with State Auditor and auditing, it is a collaboration between the LGC, OSA, and NC CPA Board to get the bad CPAs off the street. So, I am proposing that we do what Section 3 says is that we establish minimal performance standard, and that, Charlie, we do put on extra staff to do what the LGC is doing right now, Linda I said 6 or 8, I think it is more like 5 or 6 people and they

review 1,300 plus reports a year, accept them or reject them on behalf of the State of North Carolina. About half of those have federal grants audit attached to them also which are much more complex and much more complicated than what internal auditors are doing.

I am saying let's put the standards out there of what they should be doing; put some dashboards that tell the General Assembly when they are not doing it; and let the General Assembly get on the Agency Head to do their job.

Machelle Sanders: Agrees that accountability needs to be held by each agency head. In regards to the PED report recommendations, she feels it's the responsibility of the COIA to provide support versus auditing function for the agency.

C. NEXT STEPS

Dr. Combs stated the Council members are all committed to ensuring the situation at DOT does not happen again; as a Council we are looking for a solution and be a part of the solution but not the total answer. We want reasonable and workable solutions.

1. Seek more information about oversight that the COIA needs. Dr. Combs plans to meet with the Joint Legislative Program Evaluation Oversight Committee Chairs to inquire about what information that they need as it pertains to Internal Audit in State Government. She invited the Council members who are interested to join her.
2. Schedule another meeting within 2-3 weeks to go over Quality Assurance Reviews. Request 4-5 agencies to attend a COIA meeting and advise the Council as to what they are doing to conform to the standards. Agencies that are having difficulty with their Peer Reviews and request DOT to attend as well to advise as to what they are doing.

Dr. Combs requests the Council members to notify her or Barbara Baldwin with suggestions for next steps or to share additional thoughts they may not have had time to mention during the meeting today.

The Council needs to do a better job communicating as the auditors are doing a good job.

D. FUTURE MEETING DATES

When scheduling the meeting between the Council and agencies regarding their Quality Assurance Review, both Auditor Beth Wood and Secretary Ronald Penny recommended the Agency Heads to attend. However, Secretary Penny recommended the Agency Head to provide a written response to include their intended action prior to the meeting. Dr. Combs as Chair would extend the invitation to agency heads and to make sure they understand that Senior Leadership takes responsibility to ensure standards are met.

Dr. Combs advised the Joint Legislative Program Evaluation Oversight Chairs that she would report back to them with a response regarding the PED report on August 14th after the meeting with the Council. Timetable regarding the bill draft would be sometime in January according to Dr. Combs understanding.

Regular Council of Internal Auditing Meeting is scheduled for October 14, 2020.

E. OTHER MATTERS

Drew Elliott, Attorney General's Office advised regarding the virtual meeting legislation, a roll call vote should be taken during meetings. The minutes previously voted upon at the beginning of

the meeting were voted upon again using the roll call method. Approval of the October 9, 2019 meeting and July 8, 2020 meeting minutes.

Charles Perusse made motion to approve the minutes. Secretary Penny seconded. The roll call voter was:

Secretary Sanders approved

Charles Perusse approved

David Elliott approved

Secretary Penny approved

Dr. Combs approved

Dr. Combs thanks the Council for their comments and requested they stay safe. There being no further business and with a motion moved to adjourn by Charles Perusse and seconded by Secretary Penny, Chair Combs adjourned the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held August 17, 2020.

Witness my hand, this ____ day of _____ 2020.

Linda Combs, State Controller, Chair

Barbara Baldwin, Secretary



STATE OF NORTH CAROLINA

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Administration

Josh Stein
Attorney General

Ronald Penny
Secretary of Revenue

Beth Wood
State Auditor

Minutes
August 31, 2020

Call to Order

Michael Euliss with OSC served as Host and explained how to navigate the Go To Webinar software prior to the start of the meeting.

The Council of Internal Auditing (COIA) held a special called meeting, Monday, August 31, 2020 virtually. Chair Dr. Linda Combs presided. 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.

The following Council of Internal Auditing Members were present virtually by video:

Dr. Linda Combs, Chair – State Controller
David Elliot, representing Josh Stein, Attorney General
Beth Wood, State Auditor
Charles Perusse, State Budget Director
Ronald Penny, Secretary of Revenue
Machelle Sanders, Secretary of Administration (**by phone**)

A. Approval of Minutes

Dr. Combs asked if there were any corrections to be made to the August 17th minutes. State Auditor Wood stated “that on the first paragraph where it says section 2 is not the job of the Council, that is not what I said, section 2 item 3 is not the job of the Council. The other thing is this makes it sound like I lean really heavy on it being the agency heads responsibility and I thought I made it clear that I think accountability for a good internal audit shop is the responsibility of the agency head, but I was also very clear I believe oversight of some sort whatever we end up looking like, there needs to be oversight by the Council. This makes it look like I am only leaning towards the agency heads responsibly, but I think I spoke extensively of the responsibility of Council too. If it could be fixed to be a 50/50. Responsibility for the Agency head and the Council of Internal Auditing has the responsibility to tell them when it not going on, given our resources.”

Barbara Baldwin indicated the minutes would be corrected to include the requested changes, emailed to the members to be reviewed and voted on at the October meeting. There were no other corrections to the minutes.

B. Agency Reports

An Executive Summary from each of the following agencies was provided to the Council members in advance of the meeting. The agencies listed below were given opportunity to discuss their Quality Assurance Program.

1. Department of Public Safety
2. Department of Justice
3. Department of Administration
4. Department of Information Technology
5. Department of Transportation

Department of Public Safety

Pam Cashwell, Chief Deputy Secretary
Timothy Harrell, Director of Internal Audit

In addition to the information provided in their Executive Summary, Pam indicated their agency is not making excuses for the delay in completing their agencies Quality Assurance Review but want the Council to know that she and Secretary Hooks were not aware of the requirement. Secretary Hooks has asked Pam to handle the matter; the process has begun, and there will be a request into OSBM by Friday, September 4th, if not sooner. Tim Harrell, Director of Internal Audit, joined Pam and was available for questions.

Auditor Wood stated “one of the things that has been talked about a lot is the agency heads responsibility and lets leave this up to the agency head because they got this, should have this, but what else is going on in Internal Audit that you and Secretary Hooks do not know about?” mentioned the responsibility that lies with the agency heads and their understanding of internal audit and asked specifically, “What else is going on in your Internal Audit Division that you and Secretary Hooks do not know about?”

Pam’s response was “That’s a good question.” She stated that it’s a five-year responsibility. They should have known, and their Director should have brought this to their attention. She stated that she is not making excuses, but she doesn’t know what she doesn’t know.

Auditor Wood stated “the issue is you know that they must come up with an annual audit plan based upon using the resources you have and a risk assessment done for your agency, and the work tied to their highest risk audit. So I guess I am questioning have you and Secretary Hooks looked at this risk assessment and knowing your agency like you know it, does the risk assessment make sense and given the number of resources you have, is there enough audits scheduled to be done and what I am finding in many of the departments is that they say their audits are done in accordance with Internal Auditing Standards and in fact they are not. So there is a lot here that rest at the agency head and I am not picking on Secretary Hooks he is just the first on the list but again a lot of the action this Council takes moving forward will depend on the knowing and not knowing the responsibilities of the agency heads and so again that audit plan to begin with at the first of the year and it’s all associated with the highest risk areas of your agency down and some of the risk plans I’ve looked at, some of the things being chosen for audit and I don’t even work over at some of these agencies and I know they are not high risk.”

Pam emphasized that “Secretary Hooks takes Internal Audit extraordinarily seriously” and indicated that Auditor Wood knows that the Secretary calls her whenever he sees an issue that needs to be run by her. She is aware of the annual program for Internal Audit. Pam shared that their agency is particularly proud as their Human Resources did a review of their Internal Audit

Office related to staffing and the value and workload of internal audit over the course of the last year. As a result, they have added new positions two internal audit and reclassified some positions to focus on internal audit to ensure that they have the best Internal Audit Office within State Government. It was very disappointing to them to learn of their delay.

Secretary Penny inquired as to who their Internal Audit Director reports to. Pam indicated that they report to her, which is even more disappointing. Dr. Combs stated to let the Council know if they can assist them with the review.

Department of Justice

David Elliot, Deputy Chief of Staff and Council member
Sarah Farber, Internal Audit Director

David Elliott reported on behalf of Attorney General Josh Stein and Sarah Farber, Director of Internal Audit. Their Internal Auditor left the Department due to family responsibilities which was also around the time of the various budget cuts within their agency. David mentioned that there were several budget cuts and that the Attorney General was faced with a tough decision to fill the position directly or cut the Internal Audit position; they attempted to combine the role of ombudsman to include the internal audit responsibilities, but it was not a good decision due to the skill set needed and lack of time. David participates in the Internal Audit Council and reported back to the Attorney General and Chief of Staff the importance of the position requiring not only accounting skills but also internal auditing experience to provide certain standards. With much discussion regarding risk assessment and lack of resources, the Department consulted with an outside firm (Cherry Bekaert) to take a look at their travel services section, which is only a very small sample, to find out if there were any issues and to consider that firm for handling internal audit responsibility for their office.

Auditor Wood stated "you've picked a good firm, I've dealt with them governmental, you've picked a good firm but don't just confuse the litigation I mean what is your agency supposed to be doing versus what it is doing and the risk that comes with that but I think if you can explain the objective of what you are looking for to Internal Audit then I think that is a great way to go, with an outside CPA firm that has governmental experience and integrity, I think you've gone down the right path."

David mentioned that they may need some assistance on what issues need to be addressed. He shared that, due to COVID, there are many risks related to staff working remotely while spread out across the state, state equipment used in homes across the state, providing legal expertise for the state, information maintained within homes, as well as other critical issues, so they must seek guidance on how to plan their internal audit engagements.

Auditor Wood stated "I would be glad to talk to them David and sort of what the objective of internal audit from the state agency perspective should look like. I worked with them myself, I even hired them myself to help us with some work, that's how I am so comfortable and when I've done some peer reviews, when I've done some quality checks on some of the CPA firms that have done work for the State of North Carolina, I picked 5 to look at their work, Cherry Bekaert was the only one that passed. Out of the 5, 4 failed but I would be glad to talk to them if they need some guidance." Dr. Combs thanked the Attorney General for embracing the issue.

Department of Administration

Machelle Sanders, Secretary
Trissa Teel, Internal Audit Director

Secretary Sanders has made progress in establishing an internal audit division within the last 2-3 years, although there are areas that stand improvement; When Secretary Sanders came on board in February 2017, she determined that there was a need to restructure and refine the Internal Audit Division. She didn't find previous internal audit documentation or the internal audit policies. The previous internal auditor reported directly to the head of one of the divisions, which she felt did not support independence from operations. There wasn't visibility of internal audit's function or the role of the internal auditor. When she saw the audit plan, it didn't look like what she expected. Trissa was hired in May 2018 and taken on the Internal Audit function. The June 2018 QAR assessed their internal audit as partially conforming. We have requested additional resources for staffing and have posted one additional position. We have established a Quality Assurance Improvement Plan with ongoing conversations regarding identifying risks for risk assessment. Trissa reports directly to the Secretary and has a positive, instrumental relationship with Barbara Baldwin and thanked Barbara for her insight, expertise and assistance for improving their audit. Discrepancies found are in the process of rectifying or implementing processes to bring into compliance and achieve a fully conforming assessment.

Auditor Wood stated "for the benefit of everyone serving on this Council, I am convinced that 1 internal auditor is never going to be enough I do not care how small the agency is, 1 is never going to be enough so I appreciate when Secretary Sanders is moving to get another but I am saying if done well, the risk assessment and the audit plan, if done well finding another position that can be moved over into internal audit will be more beneficial to you than 5 positions anywhere else. For the sake of this Council, 1 is never going to be enough, 2 is the minimum and that's still not enough in my opinion and I think like David was saying they've gone out and hired. If you can't get 3 positions then the best thing to do is go hire someone that is already skilled in this arena because you are right David those skills don't come, they're not a dime a dozen. So if we can't hold that talent in our agencies then we need to hire it which the State Auditors Office has done. Well not exactly, we're suing yours Madam Secretary."

Department of Information Technology

Nate Denny, Chief of Staff and Legislative Liaison
Landon Perry, Internal Audit Director

DIT was made aware that their audit did not conform in September of 2019. The Quality Assessment Review provided last October under the former Secretary (Eric Boyette) served as a roadmap to making improvements to the Division. Secretary Boyette was committed to an Internal Audit operation that supported their growing department and their statewide critical government mission. Two secretaries later, their internal audit remains strong. Landon and Nate have briefed Acting Secretary Parrish and are working together to address deficiencies and provide remediation work. Their Internal Audit Charter and Audit Committee Charter were signed by Secretary Parrish the previous week, committing to some much needed improvements. Considerable progress has been made in remediating the problems. There were 14 areas identified during the Peer Review for improvement. Landon Perry was hired to assist in the Internal Audit Peer Review function. They have established an internal audit committee that includes both internal staff and external independent committee members and updated their audit charter and policy manual to conform to internal auditing standards. Their FY 2020-21 risk assessment is nearly completed, and their audit plan will be completed by the end of September 2020.

Auditor Wood stated "I am looking at your reviewed implemented corrective actions and it says you hired a new internal audit director and additional staff with professional certifications. How many internal auditors do you have at this time?" Nate responded, "there are three internal auditors and one vacancy within the agency, and we've enlisted Cherry Bekaert to help develop our risk assessment plan and will continue to rely on contract support to meet our obligations."

Auditor Wood stated” the sentence in all of this, that gives me a little angst is at the end of that first bullet that says: DIT is pursuing additional positions as agency resources allow. I just cannot emphasize enough that internal audit is absolutely where you should be concentrating because you are not going to have hackers and a lot of issues if your internal auditors find this stuff first, we don’t want to wait until we see it from the outside and so again I just can’t emphasize enough how critical internal audit is going to be so I am glad to hear you are using a contractor also until you can get the expertise going in your agency because again making sure you identify the right risk and making sure you are concentrating on those risk and you’re your putting the resources towards those risk is critical but it looks like while you are getting your audit team in position your using some contractors too. Again, it worries me when I see we’re hiring people as resources become available and I am saying get rid of someone somewhere else and put them in internal audit because it’s that important.” Nate indicated that the message was received.

Department of Transportation

Eric Boyette, Secretary

Mary Morton, Inspector General

Upon arrival to the Department of Transportation (DOT), Secretary Boyette indicated that there were matters ready for him to address. As was seen in his previous position with the Department of Information Technology (DIT), he is committed to Internal Audit and will bring the same dedication there to DOT. He has been having more frequent sessions with Mary Morton regarding their plans for their future team and what is expected, to find resources to hire the correct staff with the skillset needed for an internal audit team.

Mary Morton stated the Office of Inspector General at DOT has fifteen internal audit positions total, allocating four positions for their Internal Audit Unit, one position for the single audit compliance, seven positions for consulting for utilities and the turnpike unit, and two positions for their Investigations Unit.

The primary focus today concerns the report from the Program Evaluation Division. They have started working on a dashboard for the September audit committee meeting. They have already updated it to reflect the current plan, and it will be ready this week. It lists the ongoing engagements, their status, focus, current phase, and assigned auditors. It also lists outstanding engagements, due to staffing turnover, for which they have scoped out and assigned resources and have expected timelines for completion. They will update the dashboard and provide it to the committee.

They are in the risk analysis process and are finalizing the FY2021 audit plan by starting with their Executive Level and going down, Senior Management, District Management, as well as getting the audit committee feedback. One performance audit and follow up was completed in March 2020.

Performance Engagement Review Reports are due September 30, 2020, October 2020, and November 2020. They are looking at combining the single-state audit function with the internal audit unit. They are reviewing their consultant contracts to compare cost impacts to DOT. They are adding an Audit and Accounting Guide for audits of A & E Consulting firms. They are also looking at the workflow for invoice approvals. Working on responses to the PED report and how to improve their operations. They will continue to move forward to make sure they have dedicated resources for the performance audit. They have started benchmarking to other states’ DOTs invoicing process and rate and overhead charges. We are moving toward dedicating more resources to internal audit performance engagements.

State Auditor Wood greeted Secretary Boyette and stated “I hear the conversation with you and your OIG and I hear that there will be more conversations with the Board of Transportation. A couple of issues that I’m having particularly with DOT is the reports. You’re talking about there were 389 reports; the law says that consultative engagements, as well as audits, must be done in accordance with internal audit standards. I’ve not picked up one report yet that is written in accordance with internal audit standards. The 227 reports where you’re looking at overhead, that is not an internal audit done in accordance with standards. It is a review of agreements for payment of some sort. If you’re only getting one internal audit a year then that’s what you need to report to us and the Board of Transportation, but making it look like there were 389 internal audit reports done in 2019 is misleading. So one of the things I’m proposing to the Council is to have every agency head sign off on every report certifying that the reports send us are done in accordance with auditing standards. The reports I’ve read don’t even say that they have been done in accordance with standards, so you’ve not said anything wrong. We just need to stop reporting that you have done 389 reports because you are way, way far away from that. I see 42 investigations, of which most investigations were not done in accordance with standards, so that needs to come off. It’s an investigation and that’s important, but it’s not looking at the risk assessment and doing internal audit work towards your risk assessment plan. Then I see that you’ve got 68 consultative services. Again, there are internal audit standards that go around that, and I have yet to read one of your reports that meets those standards. So I am saying this really more to Mary, you’re the oversight that Sec. Boyette is depending on, and he will either look good or bad depending upon the job you do. So again, there’s a lot going on at DOT in your internal audit arena that doesn’t meet standards at all. As State Auditor of North Carolina, I’m going to be looking at that closely, not with just DOT but with other state agencies. I have reviewed their Internal Audit Reports, and I have reviewed their Audit Risk Assessments, and I believe they are not done well and as soon as we can get over this COVID19 money be beware, I’m going after those things. I don’t want you on my list, sir.”

Secretary Boyette indicated he shared some of the same issues in regards to all the reporting, which looks good on paper; however, their agency has secured software to ensure their reports are conforming to the standards, meet the agency requirements and thus provide the needed information for the audits. For us, we also have ASHTO standards that we have to follow for FHWA approval. We’re going to have to make sure that we do a great job. Mary and I have had that conversation.

State Auditor Beth Wood added “That is another thing that I would bring up. I really wonder how you passed your QAR. I would look for someone other than ASHTO to perform your QAR.”

Dr. Combs thanked each of the speakers for presenting as this will help the Council to improve the consultative role as an Internal Audit Council and asked them to let the Council know if they can assist.

C. NEXT STEPS

Find ways to help the Council identify things that will assist with the annual report.
Meet with the legislative staff to see what they would like to see in the upcoming report.

D. FUTURE MEETING DATES

Regular Council of Internal Auditing Meeting is scheduled for October 14, 2020.

E. OTHER MATTERS

Dr. Combs thanked the Council for their time and participation. With no further discussion, Secretary Ron Penny made the motion to adjourn, Drew Elliott seconded the motion.

Roll call to adjourn:

Charles Perusse – not available to respond

Machelle Sanders – approved

Drew Elliott – approved

Ron Penny – approved

Linda Combs – approved

The meeting adjourned.

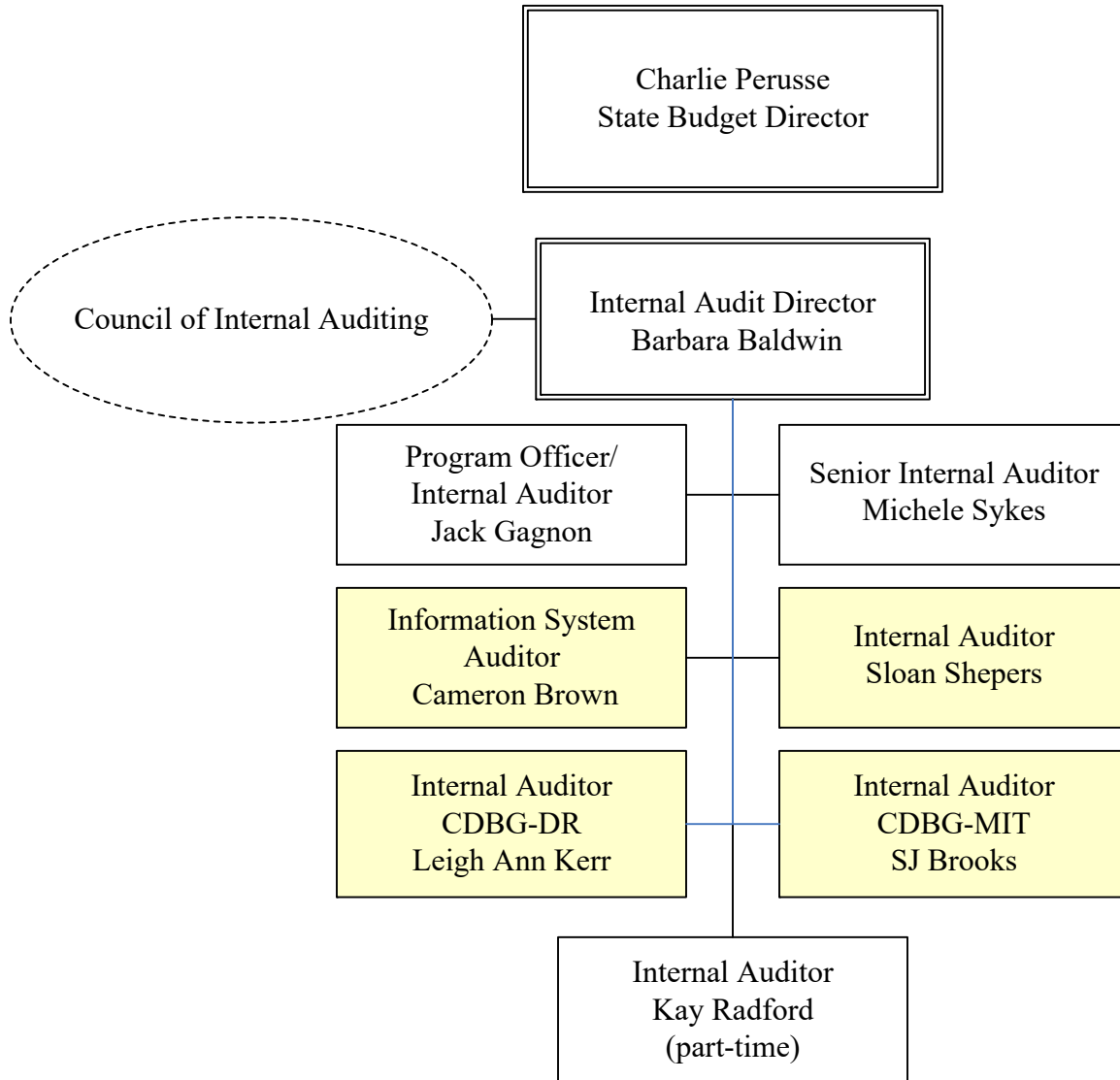
Witness my hand, this ____ day of _____ 2020.


Linda Combs, State Controller, Chair

Barbara Baldwin, Secretary

OSBM Internal Audit

July 1, 2020



 New Employee

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2019



Prepared By:

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

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INTRODUCTION

The North Carolina Internal Audit 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 2018 through June 2019 of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Council Resource and Requirements

Membership and Programs

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

Table 1

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

The Council is mandated to administer programs and activities which include:

- Holding meetings and keep minutes of the proceedings
- 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
- Maintain a report and audit plan repository

¹ Entire Internal Audit Act is in Appendix A.

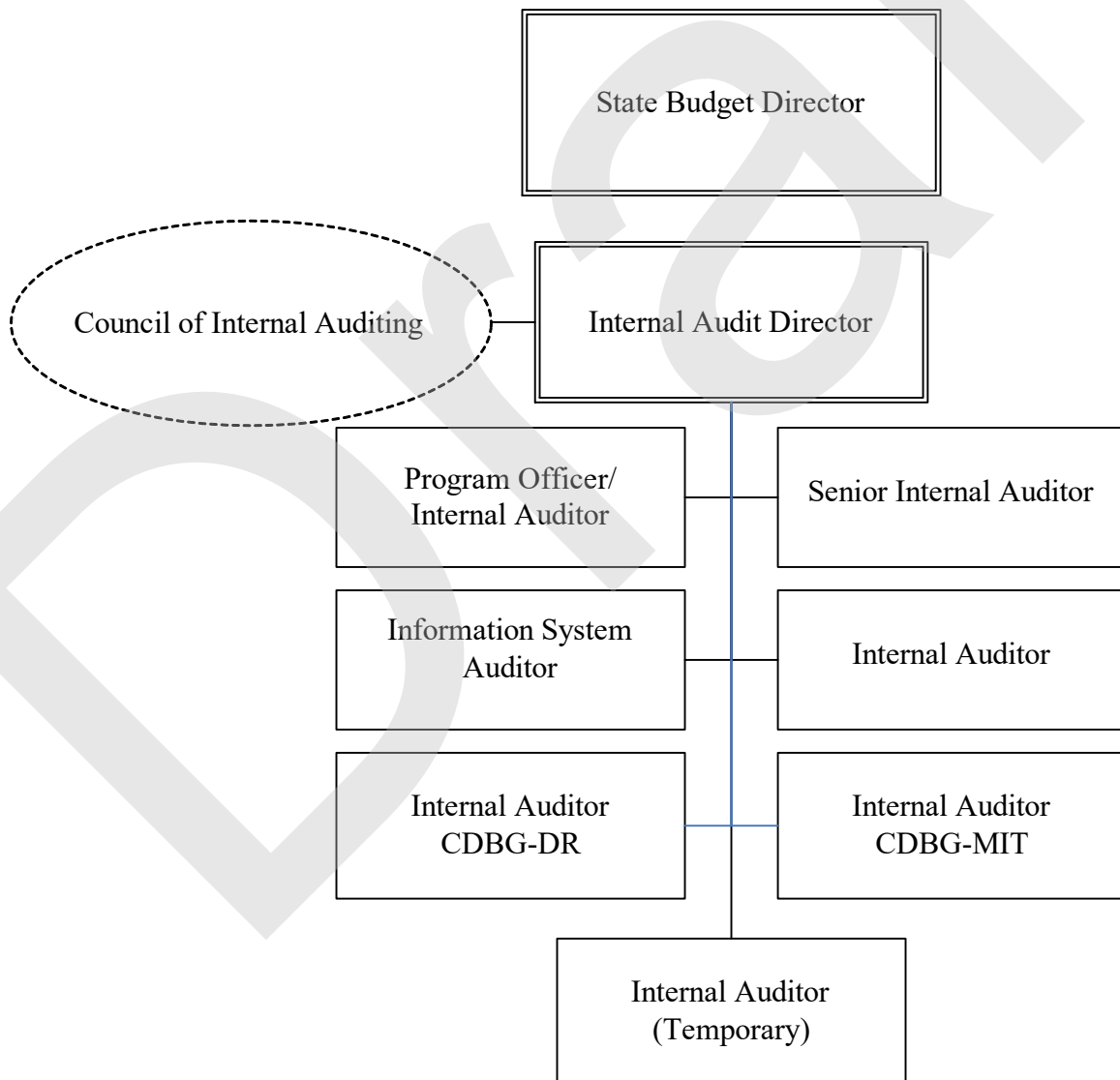
² Agency means department, office, university, commission, board.

Council Staff and Expenditures

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

- Three Certified Internal Auditors
- Two Certified Fraud Examiners
- One Certified Government Audit Professional
- Two Certified Public Accountants
- One Certified Internal Control Auditor
- One Certified Information System Auditor

Exhibit 1
Office of Internal Audit as of June 30, 2020



The expenditures for FY2015-16 through FY2019-20 are shown in Table 2. The Office of Internal Audit had a seven percent (7%) overall decrease in expenditures compared to the prior year. The decrease is attributed to the completion of the data analytics initiative which provided software and training to enhance internal audit effort through data analytics.

Table 2

Office of Internal Audit Five Year Expenditures					
Expenditures	<u>FY2019-20</u>	<u>FY2018-19</u>	<u>FY2017-18</u>	<u>FY2016-17</u>	<u>FY2015-16</u>
Personnel					
<i>Employee</i>	560,123	561,399	508,707	518,220	504,252
<i>Contractor</i>	0	0	0	15,020	29,887
Total Personnel	560,123	561,399	508,707	533,240	534,139
Purchased Services					
<i>Software</i>	5,360	32,096	2,559	5,411	4,267
<i>Training & Development</i>	1,852	16,440	15,351	2,244	4,968
<i>Information Technology Services</i>	8,946	11,792	10,261	6,368	5,760
<i>Travel</i>	1,710	1,728	2,941	7,820	2,486
Total Purchased Services	17,867	62,056	31,112	21,844	17,481
Supplies	0	0	0	0	50
Property, Plant, & Equipment	0	0	0	2,181	610
Other	1,394	1,414	1,279	1,385	452
Total Expenditures	579,383	624,869	541,098	558,650	552,732
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	514,525	562,833	541,098	526,422	522,845
CDBG-DR Funds	64,858				
State Disaster Funds		51,324			
Other State Agencies		10,712		15,020	
ARRA Race to the Top Fund					29,887
Rhode Island QAR				17,208	

Efforts and Accomplishments

The Internal Audit Act sets specific requirements for the Council. In addition to these mandated requirements, the Council has initiated other programs to support internal audit function with efficiency and effectiveness.

Council Mandated Requirements

There are twelve mandated requirements within the Act which the Council is responsible for implementing and administer throughout the year.

G.S. 147-747(c)(1) Meetings and Minutes

This mandate requires the Council to hold meetings, and G.S. 147-747(c)(2) requires keeping minutes of those proceedings. The Council has regularly scheduled quarterly meetings. In June 2020, the Council called for a special meeting to discuss a confidential report drafted by the Program Evaluation Division of Legislative Services. The purpose of this meeting was to develop a response to the draft report. An additional special meeting was called for in August 2020. For more information on special meetings and reports to the Council, see Reports on Internal Audit Matters on page 6.

Council staff keeps minutes to all meetings held. Draft minutes are published in the meeting materials for the Council members to review and approve. Approved minutes are maintained by the Council staff.

G.S. 147-747(c)(3) Guidelines and Manuals

This mandate requires the Council to promulgate guidelines for the uniformity and quality of internal audit activities, and G.S. 147-747(c)(5) requires development of audit guides, technical manuals and suggested best practices. The Statewide Internal Audit Manual (manual) was published in May 2008 and communicated to all internal auditors. The Institute of Internal Auditor's Standards (IIA Standards) is used as its framework, and the manual is updated when necessary. The last update to the manual coincided with the last update to the IIA Standards in 2017. In addition, the Council developed a technical bulletin to provide additional guidance and best practices to internal auditors.

G.S. 147-747(c)(4) Staffing Analysis

This mandate requires the Council to recommend the number of internal audit employees required by each State agency. The Council staff refreshes the staffing analysis every three to four years. The staffing analysis is a cursory review to identify the minimal number of internal audit positions needed, not the optimal. A more extensive review must be conducted to determine the optimal number of positions needed in each internal audit function. The last review was completed in June 2017, which identified 24 agencies with internal audit staffing levels under the minimum needed to address risk within their agencies. Positions needed to get all agencies to the minimal number is 52.5 positions at a cost³ of under \$5 million. Details of the specific staffing recommendations can be seen in Appendix B.

G.S. 147-747(c)(6) Peer Review Program

This mandate requires the Council to 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 the selection of independent peer reviewers from other State agencies. Council staff established a Peer Review program, which is a cooperative amongst internal audit functions. All internal audit functions are required to have an external quality assurance review every five years, as set by the IIA Standards. The Peer Review program was modeled after and follows all the requirements included in the Institute of Internal Auditors Quality Assessment manual. Training is provided to internal auditors on how to conduct a review and how to use the tools and templates for completed the review. Council staff receives requests, selects review team members, assists team members during the process, and conducts a quality review of each peer review conducted. A manual has been established for this program to outline the process, roles and responsibilities of the review team, internal audit functions and the Council staff.

For FY2019-20, Twelve agencies requested services from the Peer Review program. Six reviews were completed, and five are in progress. See page 18 for more details related to the outcomes of the Peer Review program.

G.S. 147-747(c)(7) Training and Recognition Programs

This mandate requires the Council to provide central training sessions, professional development opportunities, and recognition programs for internal auditors.

To maintain proficiency, audit standards require internal auditor participation in professional development. During FY2019-20, the Council sponsored four trainings, which provided internal auditors the opportunity to earn up to 78 certified professional education (CPE) hours.

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

The 4th Annual Fraud Audit Conference was held July 31 and August 1, 2019. This two-day training session provided 14 CPE hours at a cost of \$95 per participant. Participants were invited from state agencies, universities, community colleges, local education agencies, and local governments. There were 183 registered participants with a total cost of approximately \$9,800. Based on participant surveys, 97% found value in the training contact.

OIA staff coordinated a four-day Certified Internal Auditor (CIA) review course in conjunction with the Local Chapter of the Institute of Internal Auditors (IIA). The review course corresponded to the three parts of the Certified Internal Auditor examination administered by the IIA. The training occurred between September and November 2019 and provided 32 CPE hours. There were 32 registered participants, and the cost of sponsoring the training totaled approximately \$7,500. Based on survey responses, 91% found the training sessions valuable.

As part of the data analytic initiative, two training sessions were held in September 2019, a two-day beginner course and a two-day intermediate course. The beginner training provided an understanding of the software application and functionality of visualizing data. The intermediate course focused on data preparation and provided an understanding of combining, shaping, and cleaning. Participants received 16 CPE hours for each course attended. There were 14 participants at the beginner training, and 100% found value in the training content. The intermediate training had 21 participants, and 87% found value in the training content.

In addition to the four training sessions throughout the year, other free or low-cost training was identified and communicated to all internal auditors. Communication takes place via email and postings on the OSBM website. Over the past year, 51 professional development opportunities were identified, providing 140 CPE hours. Over 27% of the training events, which provided 38 CPE, were free of charge.

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement in internal auditing. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a state internal auditor or a group of internal auditors who have made extraordinary contributions that promote excellence in internal auditing. The 2019 Internal Auditor Award of Excellence was presented to the Winston-Salem State University Internal Audit Function.

G.S. 147-747(c)(8) Shared Internal Audit Program

This mandate requires the Council to administer a program for sharing internal auditors among State agencies needing temporary assistance and an assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency. The shared internal audit program provides audit services to small state agencies. To use the internal audit program, a state agency must:

1. Have an annual operating budget exceeding ten million dollars but less than seventy million dollars; or
2. Employ less than 100 full-time equivalent employees; or
3. Receive and process more than ten million dollars but less than seventy million dollars in cash in a fiscal year; or
4. Be deemed an appropriate recipient of internal audit services by the Council of Internal Auditing.

In addition to servicing six agencies, the program is responsible for conducting audits of the community development block grant disaster recovery and mitigation funds. Finally, the program will assist internal audit functions upon request. Services are dependent upon resource availability of the program. For accomplishments of this program, see the State Agency Internal Audit Functions section titled Efforts and Accomplishments on page 14.

G.S. 147-747(c)(9) Report and Audit Plan Repository

This mandate requires that the Council 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. Internal audit functions submitted the audit plans and reports via a SharePoint. Agencies must submit their audit plans by September 30th of each year and audit reports should be submitted within ten days of the issued date. For more details on compliance with requirements, see the State Agency Internal Audit Function section titled Efforts and Accomplishments on page 14.

G.S. 147-747(c)(10) Reports on Internal Audit Matters

This mandate allows the Council to require reports in writing from any State agency relative to any internal audit matter. During the October 2019 meeting, the Department of Information Technology provided a verbal report to the Council on why audit reports were submitted late and corrective action DIT's internal audit function will implement to conformance with the IIA Standards. Prior to the special meeting in August 2020, five agency leaders were required to provide written reports to the Council. The Departments of Justice and Public Safety reported on why the external quality assurance review was overdue; the Departments of Administration and Information Technology reported on how the internal audit function will come into compliance with the IIA Standards; and the Department of Transportation reported on corrective action related to the recommendations within the Program Evaluation report.

G.S. 147-747(c) (11) Hearings, Inquiries, and Subpoenas

This mandate allows the Council, when determined necessary by a majority vote of the Council to conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor, and to inquire as to the effectiveness of any internal audit unit and 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. During FY 2019-20 the Council did not hold any hearing related to interference, compromise or intimidation of internal auditors, and no subpoenas were issued.

The Department of Transportation was required to report to the Council on corrective action related to the Program Evaluation report finding that DOT's Office of the Inspector General was ineffective. The inquiry was held in August 2020.

G.S. 147-747(c)(12) Annual report

This mandate requires the Council to 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. This report fills the requirement of an annual report.

Council Initiatives

Institute of Internal Auditors Government Group Membership

The purpose of the program is to broaden internal audit knowledge by providing a reduced membership rate. Some benefits of membership include free and discounted continuing education development and professional publications; enhanced networking; and exclusive on-line resource materials. The Council staff has worked with the IIA to establish the State of North Carolina Government Group membership program that starts October 1 and ends September 30 of each year. Any government employee can join this group and receive a discount on an IIA membership. On October 1, 2019, the program registered 193 individuals and, throughout the year, added 16 individuals, resulting in a 39% reduction of the regular membership rate.

Data Analytics

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

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

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

Council staff has developed a continuous procurement card audit using this software. Instructions were developed and training was provided in January 2020 on the use of the tool. The procurement card audit and instructions were rolled out to all internal audit functions in January 2020.

Proposed Legislation Changes

The Council of Internal Auditing did not sponsor any changes related to the Internal Audit Act during the 2019-2020 Legislative Session. However, PED conducted a study and draft proposed legislation which would, if enacted, change the Council's responsibility. The Council will continue to work within the legislative process and has offered to take a leading role in working with PED and the Legislature.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Positions and Contracting

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

As shown in Table 3 on the next page, there are 186.25 internal audit positions, which are spread across 38 state agencies. As of June 30, 2020, 85% of these positions were filled. Although there was one net gain in total position across the State, there were some significant changes within certain state agencies that included:

- Department of Labor and Fayetteville State University established in-house, one-person internal audit functions
- Department of Transportation lost 10 positions, which represented 40% of its internal audit staff
- Department of Information Technology doubled its size by adding 2 positions
- Department of Administration moved from a one-person to a two-person internal audit function
- Department of Health and Human Services lost two positions this year and 4 positions over the last three years

Four agencies outsource their internal audit function to other agencies or private contractors as follows:

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

Agencies under \$70 million in operating funds may use OSBM as their internal audit function. During fiscal year 2020, seven agencies used OSBM services instead of having an in-house internal audit function. Agencies serviced by OSBM during FY2019-20 are:

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

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

Table 3

Statewide Internal Audit Positions ⁵					
Five-Year History					
	2020	2019	2018	2017	2016
Community College System Office	2	2	2	2	1
Commissioner of Banks ¹	0	0	0	0	0
Department of Administration	2	1	1	1	1
Department of Agriculture & Consumer Services	3	4	4	4	4
Department of Commerce	3	4	4	4	4
Department of Environmental Quality	3	3	3	2	2
Department of Health & Human Services	36	38	39	41	41
Department of Information Technology	4	2	2	3	3
Department of Insurance	1	1	1	1	1
Department of Justice	0.5	0.5	1	1	1
Department of Labor	1	0	0	0	0
Department of Military and Veterans Affairs ¹	0	0	0	0	0
Department of Natural and Cultural Resources	2	2	2	2	2
Department of Public Instruction	2	2	2	2	2
Department of Public Safety	19	18	18	18	18
Department of Revenue	3	2	3	3	3
Department of Secretary of State	1	1	1	2	1
Department of State Treasurer	5	5	6	3	3
Department of Transportation	15	25	25	25	25
Housing Finance Agency ²	0	0	0	0	1
North Carolina Education Lottery	3	3	3	3	3
Office of State Controller	0.75	0.75	0.5	0.5	0.5
Office of State Human Resources ¹	0	0	0	0	0
Office of State Budget & Management ¹	7	6	5	5	5
Office of the Governor ¹	0	0	0	0	0
Office of the State Auditor ¹	0	0	0	0	0
Wildlife Resources Commission	1	1	1	1	1
Appalachian State University	5	5	5	5	5
East Carolina University	7	7	7	8	8
Elizabeth City State University	2	2	2	1	1
Fayetteville State University	1	0	0	0	0
North Carolina Agricultural & Technical State University	4	4	4	4	4
North Carolina Central University	4	4	4	4	4
North Carolina School of Science and Mathematics ⁴	0	0	0	0	0
North Carolina School of the Arts ³	0	0	0	0	0
North Carolina State Education Assistance Authority ⁴	0	0	0	0	0
North Carolina State University	7	7	7	7	7
University of North Carolina - Asheville	1	1	1	1	1
University of North Carolina - Chapel Hill	8	6	7	7.75	7
University of North Carolina - Charlotte	6	5	5	5	5
University of North Carolina - System Office	3	2	2	2	1
University of North Carolina - Greensboro	2	2	2	2	2
University of North Carolina - Pembroke	2	2	2	2	2
University of North Carolina - Wilmington	5	4	4	4	4
Western Carolina University	2	2	2	1	1
Winston-Salem State University	6	6	6	5	5
University of North Carolina - Hospital	7	7	7	7	9
Total	186.25	187.25	190.50	189.25	188.50

1. Utilizes Office of State Budget and Management Internal Audit program

2. Uses contract auditors

3. Contracts with Winston-Salem State University

4. Contracts with University of North Carolina System Office

5. Position numbers are self-reported by each internal audit function

Supplement Staffing Efforts

Agencies continue efforts to supplement staffing levels by using: the state term internal audit supplemental staffing convenience contract; and hiring interns and temporary employees. Over the past year, 15 agencies have utilized alternative methods to address resource limitations as shown in Table 4.

Table 4

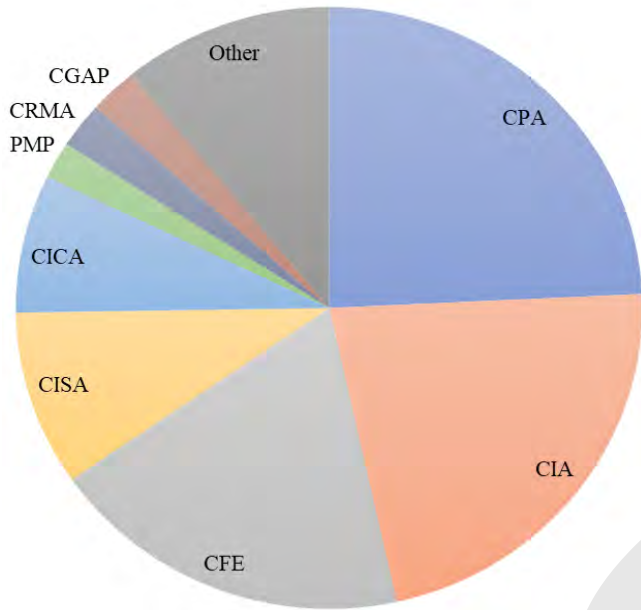
Supplemental Staffing Efforts¹			
Agency	State Term Contract	Interns	Temporary Employees
Department of Commerce			✓
Department of Health & Human Services		✓	✓
Department of Information Technology	✓		✓
Department of Justice	✓		
Department of Public Instruction			✓
Department of Transportation	✓		
Office of State Budget and Management			✓
East Carolina University		✓	
North Carolina Central University			✓
North Carolina State University		✓	✓
North Carolina School of Arts		✓	✓
University of North Carolina - Asheville		✓	
University of North Carolina - Wilmington		✓	
Western Carolina University		✓	
Winston-Salem State University		✓	✓
Total	2	8	9

1. Information is self-reported by each internal audit function

Personnel Proficiency

Internal auditors can demonstrate proficiency by obtaining professional certifications and advanced degrees. Overall, internal auditors hold 202 professional certifications in 26 different areas, which is no change from last year. Eighty-two percent of the designations held by internal auditors are in five of the 26 areas which are: Certified Public Accountants; Certified Internal Auditors; Certified Information Systems Auditors; Certified Internal Control Auditor; and Certified Fraud Examiners. A breakdown of all designations held by agencies' internal auditors is shown in Chart 1, on the next page.

Chart 1: FY2019-20 Professional Certifications¹

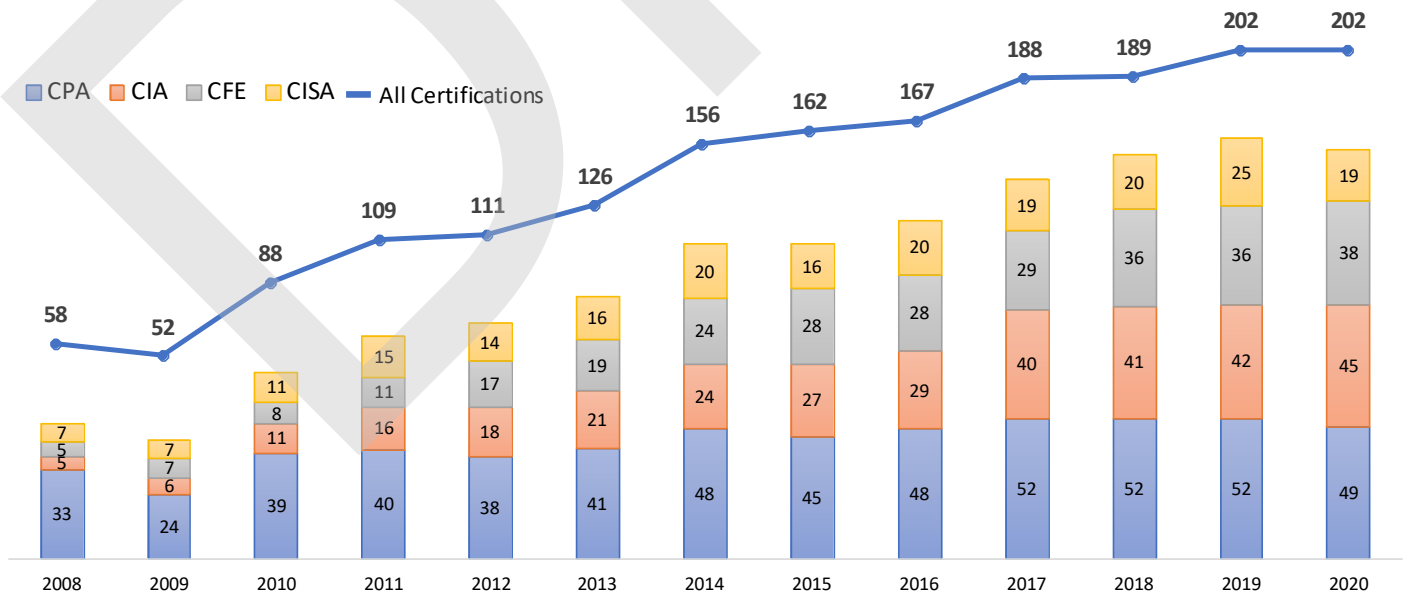


- 49 CPA/Certified Public Accountant
- 45 CIA/Certified Internal Auditor
- 38 CFE/Certified Fraud Examiner
- 19 CISA/Certified Information Systems Auditor
- 15 CICA/Certified Internal Controls Auditor
- 5 CGAP/Certified Government Audit Professional
- 5 CRMA/Certification in Risk Management Assurance
- 4 PMP/Project Manager Professional
- Other:**
 - 2 Certified Government Financial Manager
 - 2 Certified Information System Security Professional
 - 2 Certified Network Defense Architect
 - 2 Certified Risk and Information Systems Control
 - 1 Certified Anti-Money Laundering Specialist
 - 1 Certified Compliance and Ethics Professional
 - 1 Certified Ethical Hacker
 - 1 Certified Fraud Specialist
 - 1 Certified Forensic Investigation Professional
 - 1 Certified Healthcare Compliance
 - 1 Certified Health Research Compliance
 - 1 Certified Information System Manager
 - 1 Certified Public Manager
 - 1 Certified Network+
 - 1 Chartered Global Management Accountant
 - 1 Computer Hacking Forensic Investigator
 - 1 EC-Council Certified Security Analyst
 - 1 Lean Six Sigma - Greenbelt

1. Information is self-reported by each internal audit function

Chart 2 is a historical view of all certifications with an emphasis on the top four certifications held by internal auditors. Although the CIA designation lags the CPA designation, over the last 12 years, the CIA designation held by internal auditors has increased from 5 to 45. Currently, 28% of internal auditors hold the CIA designation.

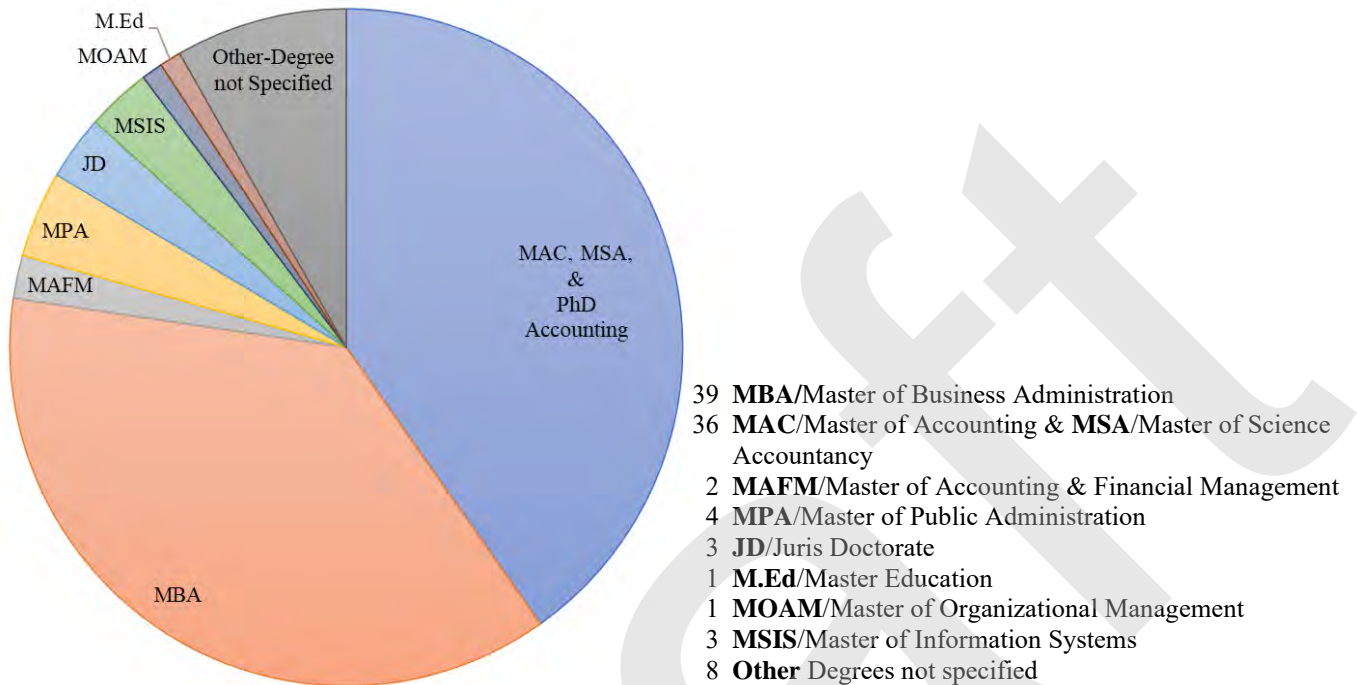
**Chart 2: 13-Year Growth in Certifications Held by Internal Auditors
Emphasis on the Top Four Certifications¹**



1. Information is self-reported by each internal audit function

Chart 3 illustrates the type of advanced degrees held by the agency’s internal auditors during the fiscal year. Auditors held 97 advanced degrees, with 77% of these being master’s degrees in business administration or accounting.

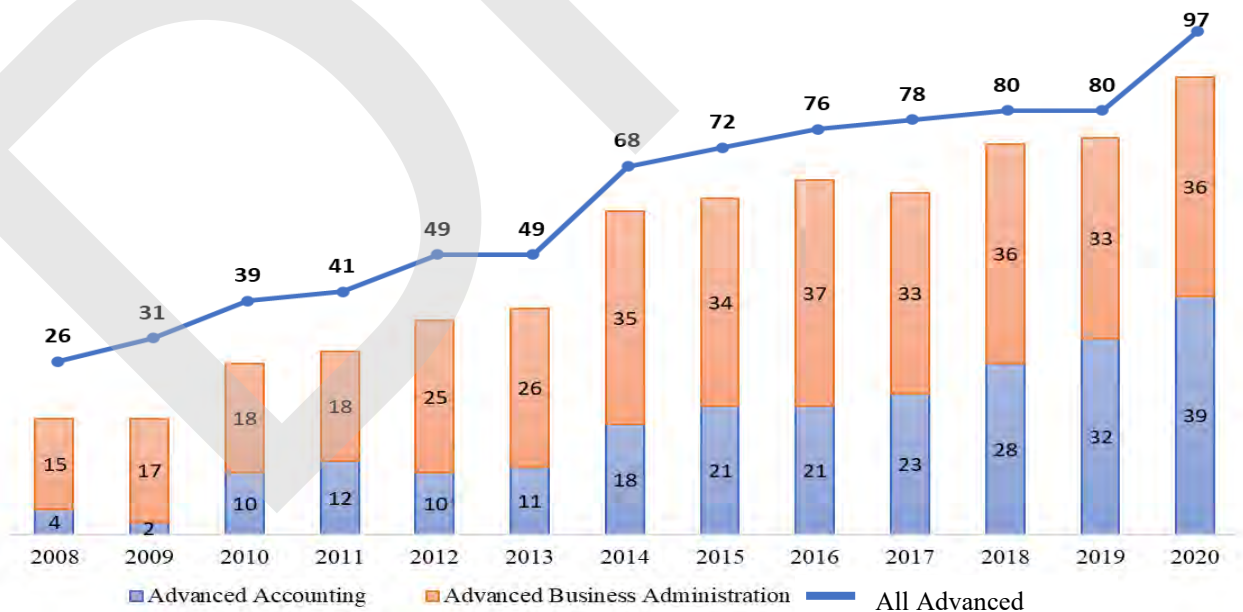
Chart 3: FY2019-20 Advanced Degrees¹



1. Information is self-reported by each internal audit function

Chart 4 is a historical view of all advanced degrees which increased 21% over the last year. The Chart emphasis accounting and business administration which increased by 22% and 9%, respectively, in 2020.

**Chart 4: 13-Year Growth in Advanced Degrees Held by Internal Auditors
Emphasis on Top Two Advanced Degrees¹**



1. Information is self-reported by each internal audit function

Computer Assisted Audit Tools

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

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

Table 5 identifies the types of CAAT products used throughout State government and the number of internal audit functions using these products during the fiscal year 2020. Internal audit functions that use more than one generalized audit software or productivity tool which is depicted in Table 6 on the next page. Also shown in Table 6, all internal audit functions use Microsoft Office products to enhance productivity through automation. Currently, 30 agencies use generalized audit software with 18 having multiple tools, and 21 agencies use productivity tools with six have multiple tools.

A 9-year historic view shows a significant growth in agencies’ use of CAATs as illustrated in Chart 5.

Table 5
Computer Assisted Audit Tools Use by Internal Audit Functions¹

<u>Generalized Audit Software</u>		<u>Productivity Tool</u>	
<u>Software</u>	<u>Users</u>	<u>Software</u>	<u>Users</u>
Tableau	27	SharePoint	14
Active Data	9	Auto Audit	5
Power BI	7	TeamMate	3
IDEA	6	Note One	2
ACL	4	Auditor Assistant	1
SQL	2	HighBond	1
TeamMate Analytics	2	ShareFile for Windows	1
Truven	1		
SAS	1		
EnCase	1		
Bank of American Works	1		

1. Information is self-reported by each internal audit function

**Chart 5: Number of Agencies Using CAATs
Nine Year History**

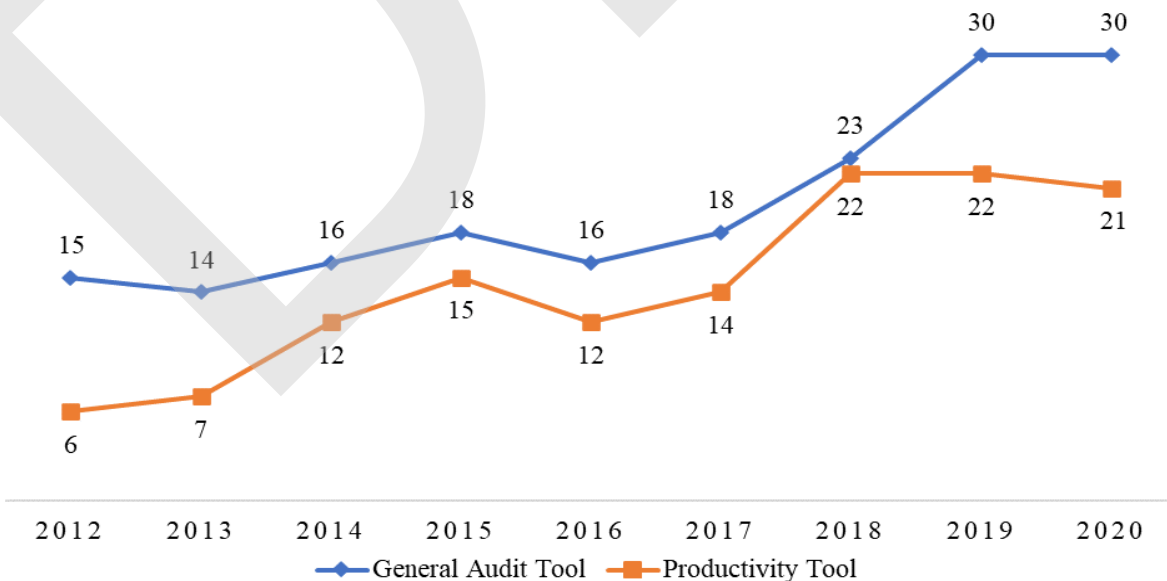


Table 6

Computer Assisted Audit Tool Usage⁵			
State Agency	Microsoft Office Products	Generalized Audit Software¹	Productivity Tool²
Community College Central Office	✓	✓	✓
Department of Administration	✓	✓	
Department of Agriculture & Consumer Services ³	✓	✓	✓
Department of Commerce ³	✓	✓	✓
Department of Environmental Quality ³	✓	✓	✓
Department of Health and Human Services ^{3,4}	✓	✓	✓
Department of Information Technology ⁴	✓	✓	✓
Department of Insurance	✓	✓	
Department of Justice	✓		
Department of Labor	✓	✓	
Department of Natural and Cultural Resources	✓	✓	
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 ³	✓	✓	
Office of State Budget & Management ^{3,4}	✓	✓	✓
Office of the State Controller	✓	✓	✓
Wildlife Resource Commission	✓		
Appalachian State University ⁴	✓	✓	✓
East Carolina University ³	✓	✓	✓
Elizabeth City State University ³	✓	✓	✓
Fayetteville State University	✓		
North Carolina Agricultural & Technical State University ³	✓	✓	
North Carolina Central University ³	✓	✓	
North Carolina State University	✓	✓	
University of North Carolina - Asheville ³	✓	✓	✓
University of North Carolina - Chapel Hill ³	✓	✓	✓
University of North Carolina - Charlotte ^{3,4}	✓	✓	
University of North Carolina - System Office ³	✓	✓	
University of North Carolina - Greensboro	✓	✓	
University of North Carolina - Hospital ³	✓	✓	✓
University of North Carolina - Pembroke	✓		✓
University of North Carolina - Wilmington ³	✓	✓	✓
Westem Carolina University ³	✓	✓	✓
Winston-Salem State University ³	✓	✓	✓

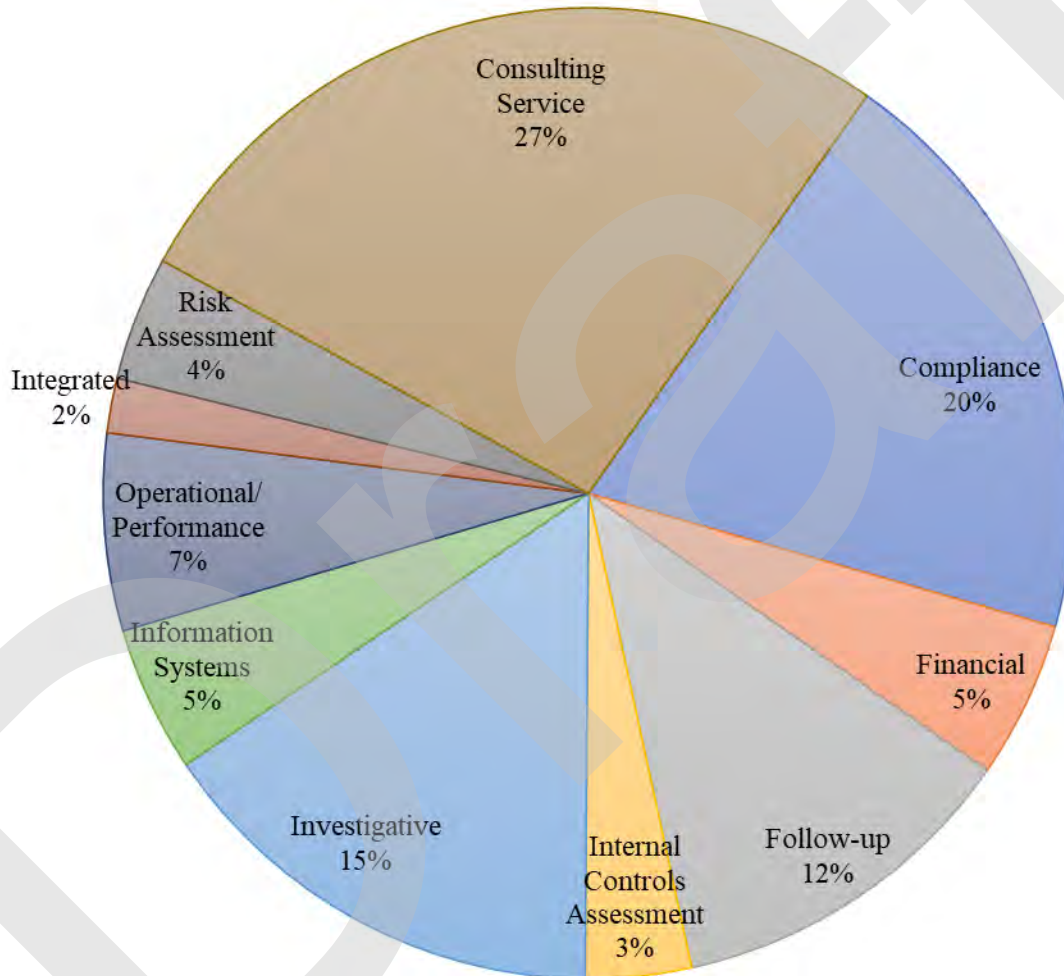
1. Perform routine audit tasks including data extract, analytics, and testing.
2. Streamline processes to manage audits through electronic work papers and work flows.
3. Uses multiple generalized audit tools.
4. Uses multiple productivity tools.
5. Information is self-reported by each internal audit function.

Efforts and Accomplishments

Internal Audit Engagements

Internal audit functions conducted various activities designed to add value and improve a state agency's operations. From July 1, 2019 through June 30, 2020, more consulting engagements were completed when compared to other internal audit engagements. Chart 6 shows the percentage of internal audit engagements completed by type. In addition to the engagement work shown here, most internal audit functions provided technical assistance throughout the year. During the same time, internal auditors provided just under 23,000 hours of assistance to their agency's management which did not result in the issuance of a report.

Chart 6: 2020 Engagements Statewide



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

Table 7 (Continued on next page)

Agency Engagements												
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational Performance	Integrated	Risk Assessment	Consulting Service	Total Engagements	Technical Assistance Hours
Community College System Office	1		1		1				1	2	6	80
Department of Administration						1				5	6	500
Department of Agriculture and Consumer Services	1		1			1		3		7	13	85
Department of Commerce	1	5		1		1	3		4	86	101	80
Department of Environmental Quality			1		1				1	3	6	694
Department of Health and Human Services	21	8	24	4		28				25	110	6,263
Department of Information Technology				2	1				1		4	600
Department of Insurance					1		2		1	2	6	240
Department of Justice												240
Department of Labor						8				3	11	464
Department of Natural and Cultural Resources					4	2				1	7	120
Department of Public Instruction					1	3			1		5	1,016
Department of Public Safety	54	8	4			3					69	
Department of Revenue	1			1		1	3	5			11	544
Department of Secretary of State												
Department of State Treasurer		1					4		1		6	120
Department of Transportation	1				1	33	1				36	1,688
North Carolina Education Lottery	10		1	1		1			1		14	1,800
North Carolina Housing Finance Agency	3			1	1		1				6	
Office of State Budget and Management	3			1	1	8	2		6	7	28	367
Office of the State Controller	1									2	3	
Wildlife Resources Commission					1					2	3	810

Self reported by each Internal Audit function

Table 7 (Continued from previous page)

Agency Engagements												
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational Performance	Integrated	Risk Assessment	Consulting Service	Total Engagements	Technical Assistance Hours
Appalachian State University	12	8	7	6	11	1	2				47	344
East Carolina University	3		9	2		12		6	1	16	49	1,091
Elizabeth City State University			4	1		1	2		1	2	11	50
Fayetteville State University					1	3					4	402
North Carolina Agricultural & Technical State University	1		2		2	3			1		9	53
North Carolina Central University	7		4			4	1		1	3	20	
North Carolina School of the Arts	1		2						1	1	5	12
North Carolina School of Science and Math	1		1						1		3	340
North Carolina State University			10	1			5	1		6	23	1,915
North Carolina State Education & Assistance Authority	1		1						1		3	75
University of North Carolina - Asheville				2					1	5	8	351
University of North Carolina - Chapel Hill	3	3	12	2			5		1	15	41	483
University of North Carolina - Charlotte	4	1	1	3	1	4	6		1	1	22	
University of North Carolina - System Office	1		3	1		1	1		1	1	9	457
University of North Carolina - Greensboro	5			1	1	1			1		9	40
University of North Carolina - Pembroke	2	2	1			1					6	
University of North Carolina - Wilmington	2	1	5			1	3		3	3	18	956
University of North Carolina - Hospital	4	6	1	10		2	7			12	42	
Western Carolina University	18		1			1	6		1	6	33	526
Winston-Salem State University			2			2			1	4	9	130

Self reported by each Internal Audit function

Compliance

Internal Audit Act and Council Requirements

The Internal Audit Act requires internal audit functions to submit their annual audit plans and final reports to the Council, and the North Carolina Internal Audit Manual requires submission of audit plans by September 30 of each year. All but two internal audit functions submitted their audit plans on time. The Departments of Justice and Secretary of State did not submit an audit plan for FY 2020.

Engagement reports should be submitted 10 days after the issuance of the final report. Table 8 identifies eight agencies that submitted their reports late and six did not submitted any reports.

Table 8

Submission of Plans and Reports					
Agency	Audit Plan	Reports	Agency	Audit Plan	Reports
Community College Central Office	✓	×	Appalachian State University	✓	✓
Department of Administration	✓	⊙	East Carolina University	✓	✓
Department of Agriculture & Consumer Services	✓	✓	Elizabeth City State University	✓	✓
Department of Commerce	✓	✓	Fayetteville State University	✓	✓
Department of Environmental Quality	✓	⊙	North Carolina Agricultural & Technical State University	✓	✓
Department of Health & Human Services	✓	×	North Carolina Central University	✓	✓
Department of Information Technology	✓	⊙	North Carolina School of the Arts	✓	✓
Department of Insurance	✓	✓	North Carolina School of Science and Mathematics	✓	✓
Department of Justice	⊙	⊙	North Carolina State Education Assistance Authority	✓	✓
Department of Labor	✓	⊙	North Carolina State University	✓	✓
Department of Natural and Cultural Resources	✓	✓	University of North Carolina - Asheville	✓	✓
Department of Public Instruction	✓	×	University of North Carolina - Chapel Hill	✓	×
Department of Public Safety	✓	✓	University of North Carolina - Charlotte	✓	✓
Department of Revenue	✓	✓	University of North Carolina - System Office	✓	✓
Department of Secretary of State	⊙	⊙	University of North Carolina - Greensboro	✓	✓
Department of State Treasurer	✓	✓	University of North Carolina - Hospital	✓	×
Department of Transportation	✓	×	University of North Carolina - Pembroke	✓	✓
Housing Finance Agency	✓	×	University of North Carolina - Wilmington	✓	✓
North Carolina Education Lottery	✓	✓	Western Carolina University	✓	×
Office of State Budget & Management	✓	✓	Winston-Salem State University	✓	✓
Office of the State Controller	✓	✓		Timely	40
Wildlife Resource Commission	✓	✓		Late	0
				No Submission	2
					6

✓ Timely

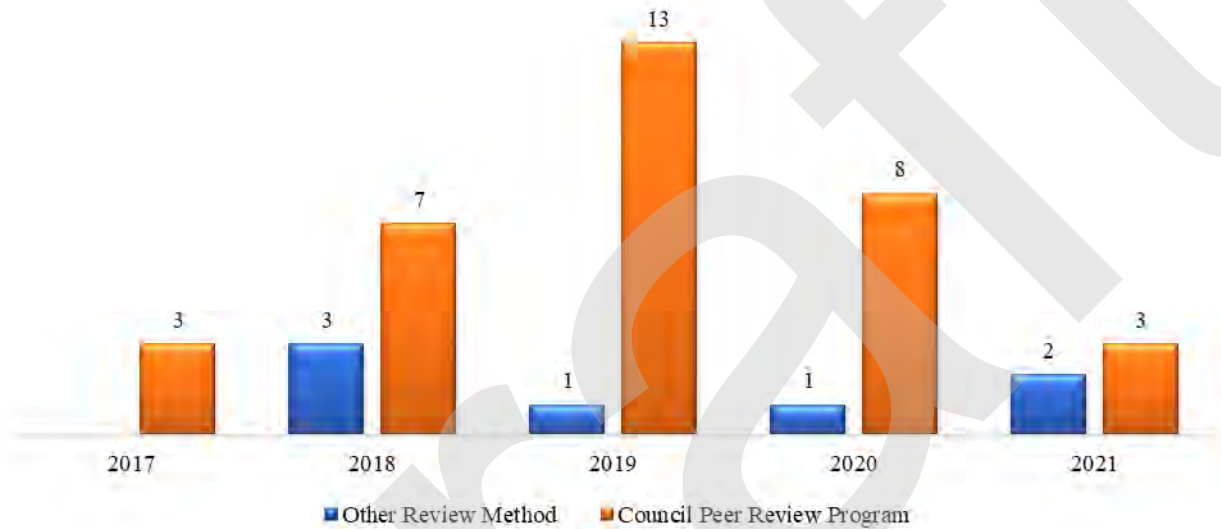
× Late

⊙ No Submissions

External Quality Assurance Review

To comply with internal audit standards, external quality assurance reviews (QAR) are required every five years. Agencies can use the Council’s Peer Review program or use other methods to obtain the external quality assurance review. For calendar year 2020, three QAR’s were completed, five QAR’s were in progress, and two agencies were preparing to request a QAR. Chart 7 illustrates the timing and method by internal audit functions to obtain a QAR. One internal audit functions did not use the Council’s Peer Review program. The use of outside sources to obtain a QAR includes professional associations⁴ or contractors.

Chart 7: Timing and Method of QAR



This is the second cycle of obtaining QAR since the enactment of the Internal Audit Act. Forty agencies’ internal audit functions have received a QAR in the current or prior cycle and obtained a “generally conforms” rating⁵ for the most recent review, except for the Department of Administration and Department of Information Technology, which received a “partially conforms” and “does not conform” opinion, respectively. The Wildlife Resources Commission’s internal audit functions is due to receive its first QAR in 2020 because it established an in-house internal audit function in 2015. Department of Labor established an in-house internal audit function in 2019 requiring the first QAR in 2024.

Information on each internal audit function’s QAR progress and conformance over the prior and current cycle is listed in Table 9 on the next page. Nine QARs were due in FY 2020. Three are completed, four are in progress and two are currently due. The Department of Justice is over due for a QAR since it was required in 2019.

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

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

Table 9

External Quality Assurance Review Calendar Year 2017-2022				
Agency	Rating*	Due Date		Progress
		Month	Year	
Community College Central Office	Generally Conforms	April	2017	Complete
Department of Agriculture & Consumer Services	Generally Conforms	August	2017	Complete
North Carolina State University	Generally Conforms	July	2017	Complete
Department of Transportation	Generally Conforms	January	2018	Complete
Office of State Budget and Management	Generally Conforms	June	2018	Complete
University of North Carolina - Charlotte	Generally Conforms	May	2018	Complete
Appalachian State University	Generally Conforms	September	2018	Complete
Western Carolina University	Generally Conforms	October	2018	Complete
North Carolina Central University	Generally Conforms	October	2018	Complete
University of North Carolina - Asheville	Generally Conforms	October	2018	Complete
Department of Secretary of State	Generally Conforms	December	2018	Complete
Office of the State Controller	Generally Conforms	December	2018	Complete
University of North Carolina - Chapel Hill	Generally Conforms	December	2018	Complete
Housing Finance Agency	Generally Conforms	March	2019	Complete
Department of Public Safety	Generally Conforms	March	2019	In Progress
Fayetteville State University	Generally Conforms	May	2019	Complete
North Carolina School of Science and Math	Generally Conforms	May	2019	Complete
State Education Assistance Authority	Generally Conforms	May	2019	Complete
University of North Carolina - System Office	Generally Conforms	May	2019	Complete
Department of Health and Human Services	Generally Conforms	December	2019	Complete
Department of Insurance	Generally Conforms	May	2019	Complete
North Carolina A&T State University	Generally Conforms	June	2019	Complete
Department of Administration	Partially Conforms	July	2019	Complete
Department of Revenue	Generally Conforms	August	2019	Complete
Department of Information Technology	Does Not Conforms	September	2019	Complete
Department of Environmental Quality	Generally Conforms	December	2019	Complete
Department of Justice	Generally Conforms	November	2019	Over Due
University of North Carolina - Hospital	Generally Conforms	August	2020	In Progress
North Carolina School of the Arts	Generally Conforms	February	2020	Complete
Winston-Salem State University	Generally Conforms	February	2020	Complete
Department of Public Instruction	Generally Conforms	February	2020	In Progress
University of North Carolina - Pembroke	Generally Conforms	February	2020	In Progress
NC Education Lottery	Generally Conforms	February	2020	Complete
University of North Carolina - Greensboro	Generally Conforms	March	2020	Due
Wildlife Resources Commission	New	May	2020	Due
Department of Cultural and Natural Resources	Generally Conforms	July	2020	In Progress
Department of Commerce	Generally Conforms	December	2021	Complete
Elizabeth City State University	Generally Conforms	November	2021	Complete
East Carolina University	Generally Conforms	April	2021	Not Due
Department of State Treasurer	Generally Conforms	March	2021	Not Due
University of North Carolina - Wilmington	Generally Conforms	May	2021	Not Due
Department of Labor	New	April	2024	Not Due

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

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APPENDIX A
NORTH CAROLINA INTERNAL AUDIT ACT

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Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

- (a) For the purposes of this section:
 - (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency.
 - (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Community Colleges System Office. The term does not include a unit of local government.
- (b) This Article applies only to a State agency that:
 - (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
 - (2) Has more than 100 full-time equivalent employees; or
 - (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year. (2007-424, s. 1; 2009-516, s. 2; 2013-406, s. 1; 2016-126, 4th Ex. Sess., s. 9.)

§ 143-746. Internal auditing required.

- (a) Requirements. - A State agency shall establish a program of internal auditing that:
 - (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
 - (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
 - (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.
 - (4) Periodically audits the agency's major systems and controls, including:
 - a. Accounting systems and controls.
 - b. Administrative systems and controls.
 - c. Information technology systems and controls.
- (b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.
- (c) Appointment and Qualifications of Internal Auditors. - Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.

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

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

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

§ 143-747. Council of Internal Auditing.

(a) The Council of Internal Auditing is created, consisting of the following members:

- (1) The State Controller who shall serve as Chair.
- (2) The State Budget Officer.
- (3) The Secretary of Administration.
- (4) The Attorney General.
- (5) The Secretary of Revenue.
- (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.

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

(c) The Council shall:

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

- (8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.
- (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.
- (10) Require reports in writing from any State agency relative to any internal audit matter.
- (11) If determined necessary by a majority vote of the council:
 - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
 - b. Inquire as to the effectiveness of any internal audit unit.
 - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
- (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. (2007-424, s. 1; 2013-406, s. 1.)

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

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

§ 143-749. Obstruction of audit.

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

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APPENDIX B
STAFFING RECOMMENDATIONS

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Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level

As of June 30, 2017

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

Agencies at or above Minimum, Using Contractors or Using Shared Pool

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

1. Provides internal audit services to agencies under \$70 million expenditures; Shared Pool agencies listed above. Department of Military and Veteran's Affairs receives service; however, they are not included in OSBM calculation.

2. Provides internal audit services to North Carolina School for Science and Mathematics and NC State Education Assistance Authority which was considered in the calculation.

3. Outsourced internal audit services.

4. Provides internal audit services to North Carolina School for the Arts which was considered in the calculation.

5. Agencies under \$70 million operating may use OSBM internal audit services instead established an in-house internal audit function.



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Charles Perusse
State Budget Director

Machelle Sanders
Secretary of Administration

Josh Stein
Attorney General

Ron Penny
Secretary of Revenue

Beth A. Wood
State Auditor

FY2020-21 and FY 2021-22

Council of Internal Auditing

Meeting Schedule

January 13, 2021 9:00 a.m.

April 14, 2021 9:00 a.m.

July 14, 2021 9:00 a.m.

October 13, 2021 9:00 a.m.

January 12, 2022 9:00 a.m.

April 13, 2022 9:00 a.m.

