STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING

INTERNAL AUDIT
ACTIVITY REPORT

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

July 1, 2015 – June 30, 2016

Prepared By:

Office of Internal Audit
Office of State Budget and Management

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INTRODUCTION

The North Carolina Internal Audit Act[1] (the Act) was signed into law on August 31, 2007. The Act established the Council of Internal Auditing (Council) and requires all Executive branch agencies[2] to establish a program of internal auditing. The Council of Internal Auditing is mandated to report on service efforts and accomplishments of these programs and propose legislation for consideration by the Governor and General Assembly. This report documents the service efforts and accomplishments from July 2015 through June 2016, of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Membership, Programs and Staff

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

Table 1

Council of Internal Auditing Members	
Dr. Linda Combs, Chair	State Controller
Andrew Heath	State Budget Director
Kathryn Johnston	Secretary of Administration
Roy Cooper	Attorney General
Jeff Epstein	Secretary of Revenue
Beth Wood	State Auditor (nonvoting)

The Council is mandated to administer programs and activities which:

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

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

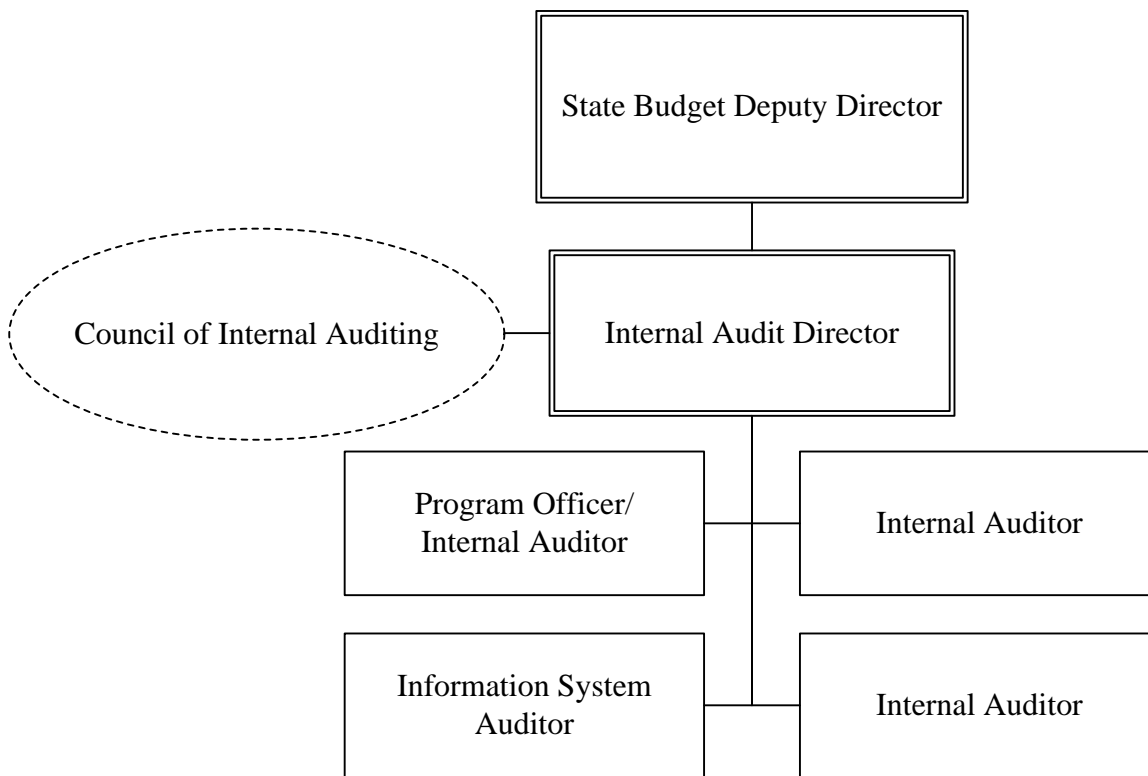The professional credentials held by the four staff members include:

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

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[1] Entire Internal Audit Act is located in Appendix A.
[2] Includes departments, offices, boards, commissions and universities.

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

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

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                          ┌──────────────────────────────┐
                          │  State Budget Deputy Director │
                          └──────────────────────────────┘
                                         │
   ⟨ Council of Internal Auditing ⟩──────┤
                                         │
                          ┌──────────────────────────────┐
                          │    Internal Audit Director    │
                          └──────────────────────────────┘
                                         │
         ┌───────────────────────────────┴───────────────────┐
  ┌─────────────────────┐                        ┌─────────────────────┐
  │  Program Officer/    │────────────────────────│  Internal Auditor   │
  │  Internal Auditor    │                        │                     │
  └─────────────────────┘                        └─────────────────────┘

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

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

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

Table 2

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

Efforts and Accomplishments

Over the last nine years the Council complied with all the mandated requirements in the Act. Guidelines and manuals were published in May 2008, communicated to all internal auditors and continue to be updated when necessary. The peer review, internal audit recognition, and shared internal audit programs were developed and operationalized. The staffing analysis is conducted every three years (See Appendix B for details) and the annual activity report is published every year. Below are specific accomplishments during FY2015-16.

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

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

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

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

In addition to the two training sessions, throughout the year, other free or low cost training is identified and communicated to all internal auditors. Communication takes place via email and postings on OSBM website. Over the past year, 46 professional development opportunities were identified and communicated. There were 160 hours of certified professional education identified and 14% of these hours were free of charge.

Peer Review Program
The Peer Review program is a cooperative effort to establish a method to comply with the Institute of Internal Auditor's external quality assurance review requirement. All internal audit functions are required to have an external quality assurance review every five years. This program enables state agencies to obtain their external assessment in a cost-effective method. During the past year, five state agencies completed reviews using the program and two other state agency reviews are in progress which should be completed by November 2016. See Table 7 on page 15 for more details.

Internal Audit Recognition Program
The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement and excellence. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a state internal auditor or a group of internal auditors who has made extraordinary contributions that promote excellence in internal auditing. The 2015 Internal Auditor Award of Excellence was presented to Lynne Sanders, University of North Carolina General Administration.

Shared Internal Audit Program
The internal audit program provides audit services to small state agencies. The guideline for state agencies to use the internal audit program for compliance with the Act is:

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

In addition, the program will provide audit assistance to any internal audit functions upon request. Services are dependent upon resource availability of the program. For accomplishment of this program, see the State Agency Internal Audit Functions section titled Efforts and Accomplishments on page 13.

Report and Audit Plan Repository
Audit reports are submitted to the office throughout the year. Agencies must also submit their audit plans by September 30th of each year. For more details on compliance with requirements and the number and types of reports, see the State Agency Internal Audit Function section titled Efforts and Accomplishments on page 13.

Institute of Internal Auditors Government Group Membership
The purpose of the program is to broaden internal audit knowledge by providing a membership reduction rate. Some benefits of a membership include free and discounted continuing education development and professional publications; enhanced networking and leadership opportunities; and exclusive on-line resource materials. The Council staff has worked with the Institute of Internal Auditors (IIA) to establish the North Carolina government group membership program that starts October 1 and ends September 30 of each year. Any government employees can join this group and receive a discount on an IIA membership. On October 1, 2015 the program

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

Proposed Legislation Changes

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

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Personnel Resources

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

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

There are eight agencies with no internal auditor positions that use OSBM services:
- Commissioner of Banks;
- Department of Labor;
- Department of Military and Veteran's Affairs;
- North Carolina Industrial Commission;
- Office of State Budget and Management;
- Office of State Human Resources;
- Office of the Governor; and
- Office of the State Auditor.

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

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

Agencies that use the State Term supplemental staffing contract or personal service contracts
- Department of Commerce – Division of Employment Security;
- Department of Health and Human Services;
- Department of Transportation;
- Office of State Budget and Management;
- University of North Carolina Chapel Hill; and
- University of North Carolina General Administration.

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

Part-time Temporary Employees
- North Carolina University Asheville;
- North Carolina State University; and
- Winston Salem State University.

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

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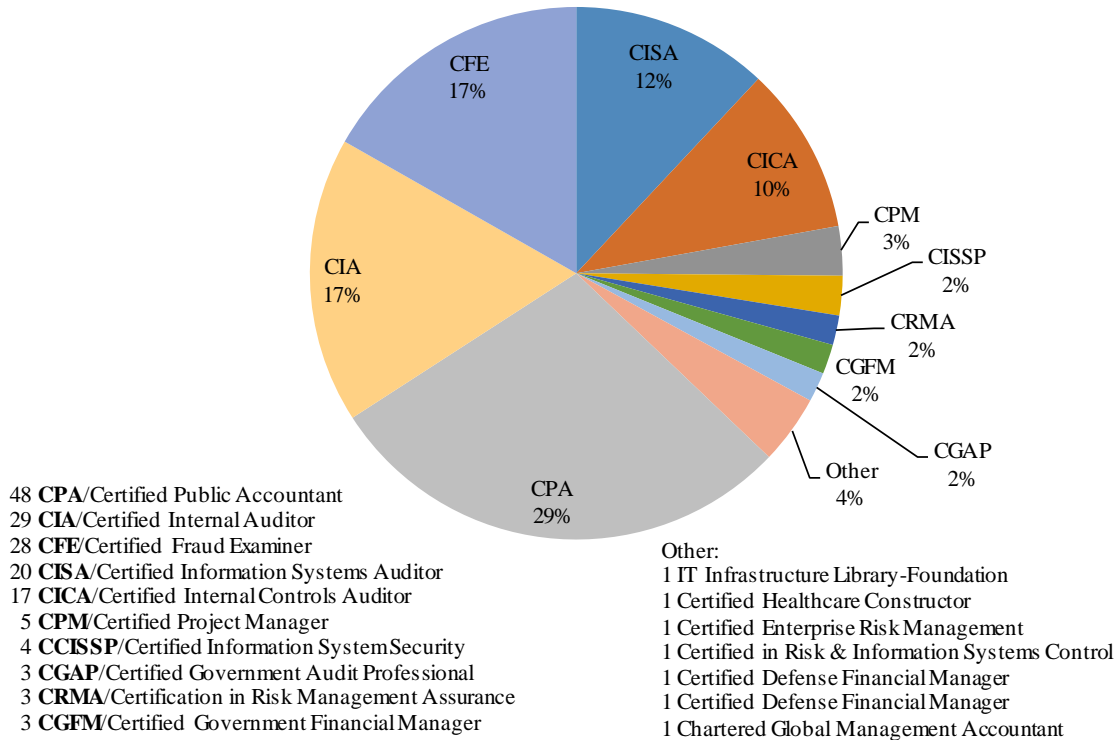
Table 3

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

Personnel Proficiency

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

Chart 1: Professional Certifications

48 **CPA**/Certified Public Accountant
29 **CIA**/Certified Internal Auditor
28 **CFE**/Certified Fraud Examiner
20 **CISA**/Certified Information Systems Auditor
17 **CICA**/Certified Internal Controls Auditor
5 **CPM**/Certified Project Manager
4 **CCISSP**/Certified Information System Security
3 **CGAP**/Certified Government Audit Professional
3 **CRMA**/Certification in Risk Management Assurance
3 **CGFM**/Certified Government Financial Manager

Other:
1 IT Infrastructure Library-Foundation
1 Certified Healthcare Constructor
1 Certified Enterprise Risk Management
1 Certified in Risk & Information Systems Control
1 Certified Defense Financial Manager
1 Certified Defense Financial Manager
1 Chartered Global Management Accountant

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

Chart 2: Growth from FY2008 to FY2016
Top Four Certifications Held by Internal Auditors
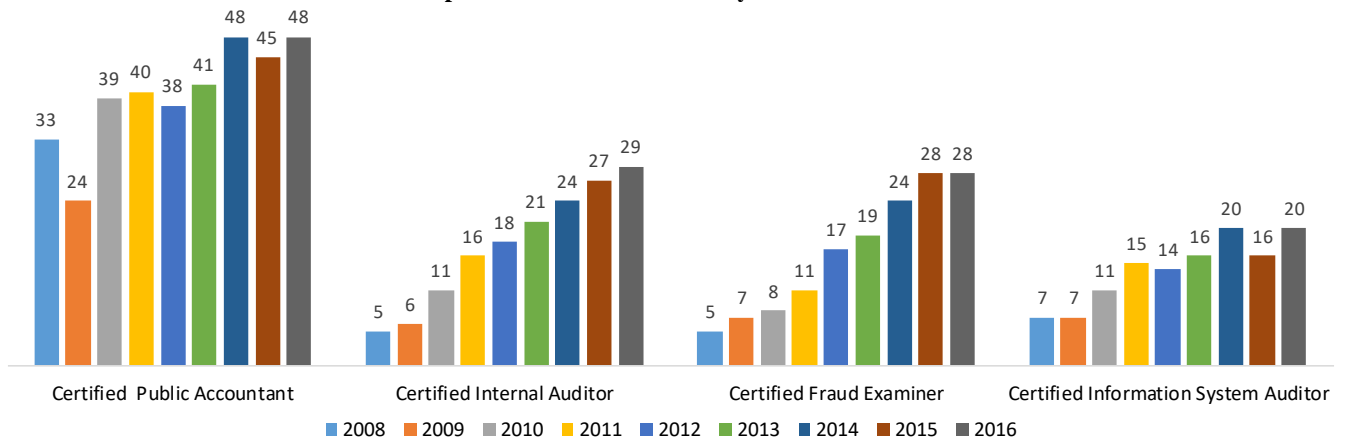
Along with the increases in professional certifications, advanced degrees held by internal auditors increased by 192% as shown in Chart 3.

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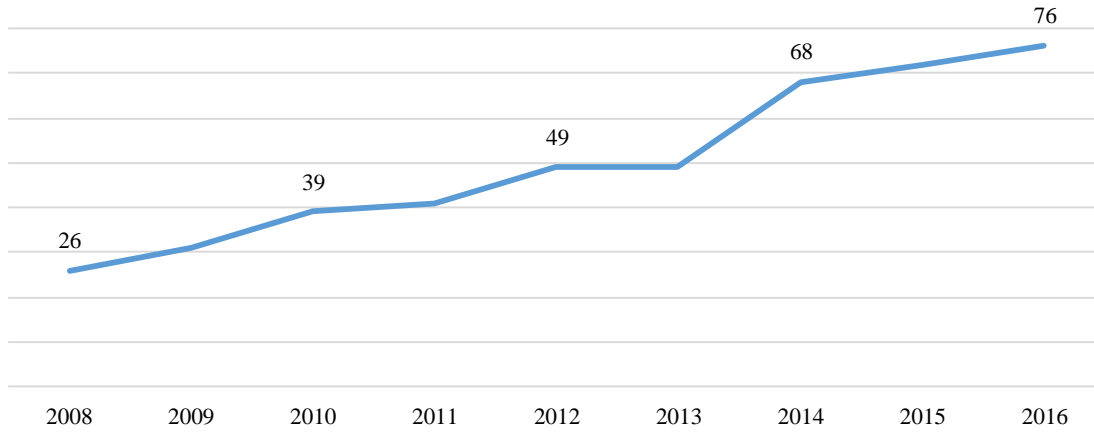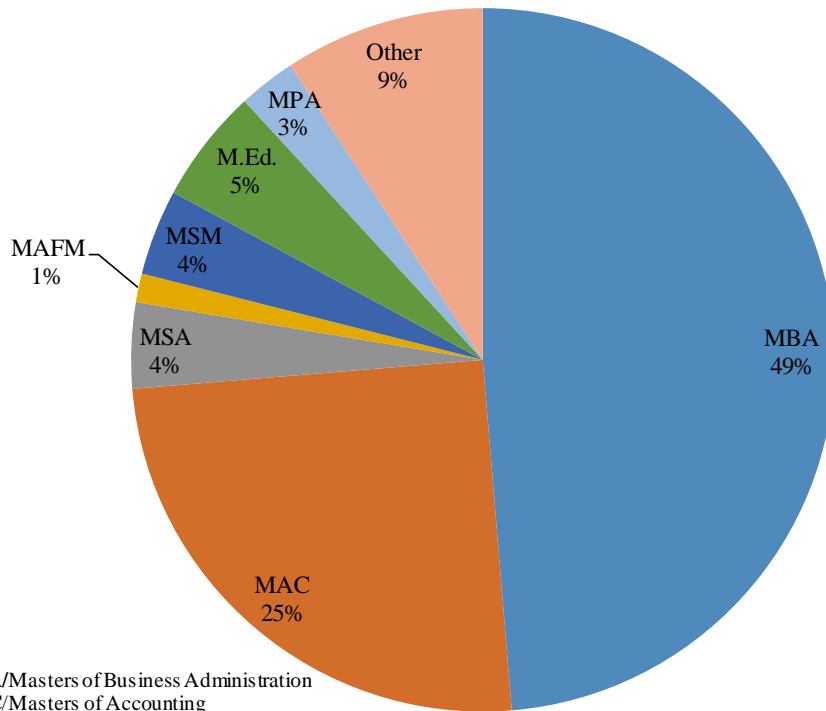**Advanced Degrees Held by Internal Auditors**

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

Chart 4: Advanced Degrees

37 **MBA/**Masters of Business Administration
19 **MAC/**Masters of Accounting
 4 **M.Ed./**Master of Education
 3 **MSM/**Masters of Science in Management
 3 **MSA/**Masters of Science/Accounting
 2 **MPA/**Masters of Public Administration
 1 **MAFM/**Masters of Accounting & Financial Management

Other:
1 Masters of Information Systems
2 Masters of Taxation
3 Master of Science
1 Master of Art Organizational Management

Computer Assisted Audit Tools

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

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

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

Table 4

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

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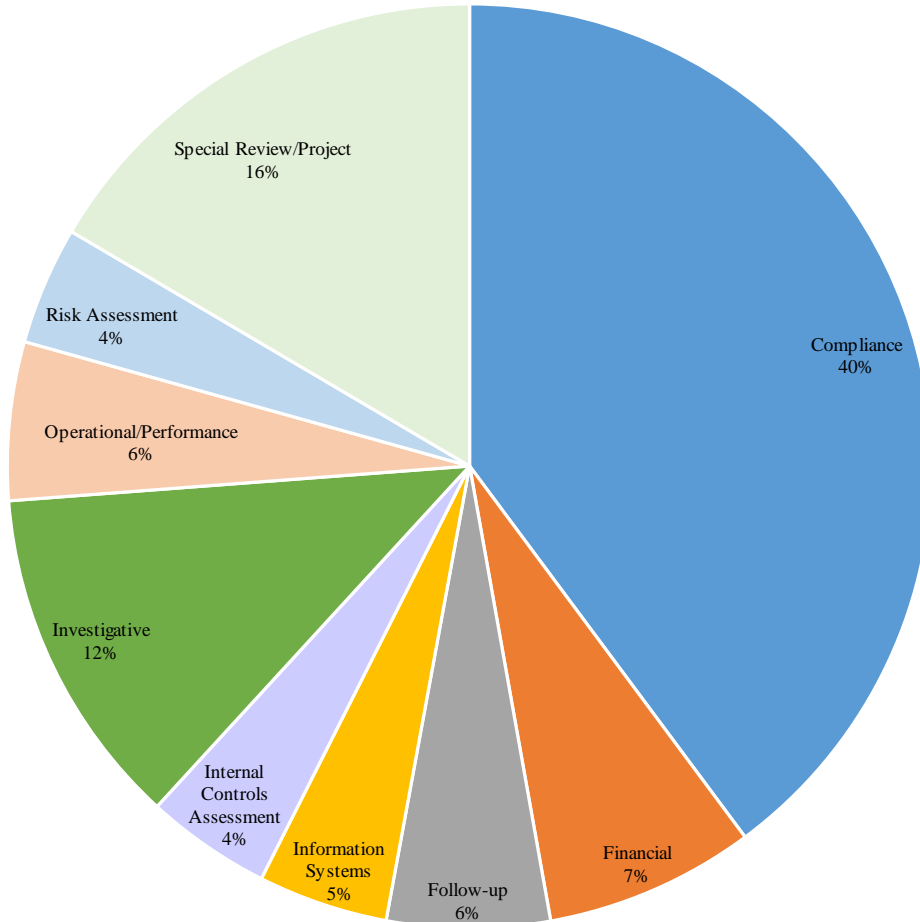
Table 5

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

Efforts and Accomplishments

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

Chart 5: FY2016 Agency Engagments

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

Table 6

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

Compliance

Internal Audit Act and Council Requirements

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

Table 7

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

External Quality Assurance Review (Peer Review)

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

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

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

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

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

Table 8

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

APPENDIX A

NORTH CAROLINA INTERNAL AUDIT ACT

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Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

(a) For the purposes of this section:

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

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

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

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

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

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

§ 143-746. Internal auditing required.

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

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

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

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

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

a. Accounting systems and controls.

b. Administrative systems and controls.

c. Information technology systems and controls.

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

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

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

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

§ 143-747. Council of Internal Auditing.

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

(1) The State Controller who shall serve as Chair.

(2) The State Budget Officer.

        (3)   The Secretary of Administration.

        (4)   The Attorney General.

        (5)   The Secretary of Revenue.

        (6)   The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.

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

    (c)   The Council shall:

        (1)   Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.

        (2)   Keep minutes of all proceedings.

        (3)   Promulgate guidelines for the uniformity and quality of State agency internal audit activities.

        (4)   Recommend the number of internal audit employees required by each State agency.

        (5)   Develop internal audit guides, technical manuals, and suggested best internal audit practices.

        (6)   Administer an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State agencies.

        (7)   Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.

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

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

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

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

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

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

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

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

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

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

§ 143-749. Obstruction of audit.

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