

STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Lee Roberts
State Budget Director

Bill Daughtridge
Secretary of Administration

Roy Cooper
Attorney General

Lyons Gray
Secretary of Revenue

Beth Wood
State Auditor

Agenda

October 14, 2015

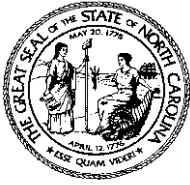
Reading of Ethics Awareness Reminder

- A. Approval of Minutes – April 8, 2015 (*Action item*)
- B. Objectives
 - 1. Annual Internal Audit Activity Report (*Action item*)
 - 2. IIA Government Group Membership Rate
- C. Council Reports
 - 1. Internal Audit Award of Excellence

COUNCIL OF INTERNAL AUDITING
ETHICS AWARENESS
AND CONFLICT OF INTEREST REMINDER

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

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



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Minutes
April 8, 2015

Call to Order

The Council of Internal Auditing held its regular meeting, Wednesday, April 8, 2015 in the Commission Room, Administration building.

Chair, Dr. Linda Combs presiding.

The following Council of Internal Audit members were present:

Dr. Linda Combs, Chair, State Controller
Nels Roseland representing Roy Cooper, Attorney General
Beth Wood, State Auditor
Kathryn Johnston representing Bill Daughtridge, Secretary of Administration
Lee Roberts, State Budget Director

Secretary of Revenue Lyons Gray was absent from the meeting.

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

A. Approval of Minutes (action item)

On a motion by State Budget Director, Lee Roberts, seconded by Nels Roseland, the Council unanimously approved the minutes of the April 8, 2015 meeting.

B. Staffing Update

Barbara Baldwin presented Office of Internal Audit staffing information:

- Shannon Byers started employment with OIA in January 2015 as the new Internal Auditor/Program Development Officer.
- Race to the Top work has been completed by Cherry Bekaert LLP and the total cost pay was less than the contract value.

C. Objectives

- Training Update

Barbara Baldwin presented information regarding an upcoming two day training provided by the Office of Internal Audit. The training will be held on June 10 and 11 at the McKimmon Center in Raleigh. The two topics covered will be: IS Auditing for Non-IS Auditors and Critical Thinking Skills. As of the meeting date, there are 128 attendees registered with space for 250 total participants. The cost for the two day training is \$80 for 16 CPE hours.

An Intermediate ACL Training class was coordinated by OIA at the request of some agencies. The training class will be held on May 6 and 7 at the Office of the State Controller. The class has a maximum attendance of 12 people and provides 16 CPE for \$636 per attendee. State Auditor Beth Wood requested to be notified if any additional spaces opened up for the training. Barbara Baldwin confirmed that one space may be available and she will contact State Auditor Beth Wood regarding the possibility.

- Internal Audit Performance Measures

Barbara Baldwin presented the annual performance measures for the Office of Internal Auditing. She noted that OIA was at 81% for actual work performed compared to work planned which was short of the 90% target. State Auditor Beth Wood verified that the missed target was due to lack of working hours and not related to OIA staff not completing the work. Ms. Baldwin explained the reason the target was not met was due to time limited position being vacate and contractors were not hired until 2015 to perform the work. Ms. Baldwin proceeded by stating that the group met budget for engagement hours, productivity, and cost. Ms. Baldwin noted that the 2014 engagement cost rate of return was almost \$53 with a target of \$10. State Auditor Beth Wood questioned how the number was formed. Ms. Baldwin explained that almost \$25 million of the \$27 million listed was from the Rural Center engagement and other saving included questioned costs related to Race to the Top.

Ms. Baldwin proceeded by reviewing the hours spent per agency noting that time on Race to the Top was all of Compliance and some of Investigation. When removed from the measure, Chart 4 shows a closer picture of Effort by Audit Type. Ms. Baldwin also noted that the time spent on Risk Assessments was a bit higher last year due to the addition of (what agencies). Staff spent longer than usual on the risk assessments getting to know the new agencies. She continued by reviewing the breakdown of time spent by training hours for staff development, and finished by reviewing the client satisfaction information. Chair Dr. Linda Combs questioned why the response rate of 17% was low. Ms. Baldwin stated that she didn't know a reason for the low response but that OIA also plans to begin following up on satisfaction surveys for a better response rate. State Auditor Beth Wood offered to send a follow-up email to OIA clients after the initial follow-up should no response occur. Nels Roseland also noted that the low response rate may indicate that the OIA clients are

satisfied with the services. Ms. Baldwin confirmed that staff would dedicate time to following up with clients regarding the satisfaction surveys and request help from State Auditor Beth Wood should it be needed.

Ms. Baldwin noted that the 2014 information regarding Council satisfaction was missing due to staffing transitions in December and a lack of oversight in submitting the request to the Council; Ms. Baldwin apologized and noted that it would be completed this December without any issues.

D. Council Reports

- Quality Assurance Update

Ms. Baldwin provided a Quality Assurance Update. She noted that ten reviews had been completed since the last Council of Internal Auditing meeting. She noted that the Department of Agriculture & Consumer Sciences (DACS) QAR Does Not Conform and the Internal Audit Director is working to improve audit process in order to comply. Another QAR has been targeted for DACS in December 2016 to provide enough time to improve the tools and templates necessary as well as complete a few audits using the new processes before a second QAR is completed. Chair Dr. Linda Combs requested to be updated regarding DACS progress at the next scheduled meeting.

Ms. Baldwin also noted that the Department of State Treasurer had contacted her regarding a QAR. Ms. Baldwin was expecting to receive the initial request form to schedule the QAR. Chair Dr. Linda Combs questioned when the QAR would be scheduled. Ms. Baldwin stated that the QAR could not be scheduled until a full team was organized to complete the review. Ms. Baldwin noted that Michele Sykes has been assigned as the lead on the QAR but that one additional team member is needed before work can begin and they are hopeful to begin between October and December of 2015. Chair Dr. Linda Combs requested to be updated regarding the date at the next scheduled meeting.

- Award of Excellence Program

Ms. Baldwin provided an update on the Award of Excellence Program. She mentioned that the nomination form had been updated in hopes of assisting the Council with improved nomination packets for this year's selections. State Auditor Beth Wood asked how the award was publicized. Ms. Baldwin stated that announcements regarding the nomination process are emailed to all Internal Auditors, Internal Audit Directors, Chief Financial Officers, and the direct reports for Internal Audit Directors. Subsequent follow-up emails are sent if nomination numbers are low.

- Legislation – Subpoena Power

Ms. Baldwin provided background regarding the discussion topic; the Department of Health and Human Services (DHHS) has legislation specifically regarding Internal

Audit and their Department in addition to the language in the Internal Audit Act. DHHS contacted OIA regarding the potential of providing all State Internal Audit Directors with the ability to have subpoena power. Ms. Baldwin also stated that when a subpoena is needed, internal auditors request services from the Office of the State Auditor. Chair Dr. Linda Combs asked for comments regarding the discussion topic. Nels Roseland stated that through the Internal Audit Act, the Council also has subpoena power should it be needed and that the request was vague. State Budget Director Lee Roberts noted that resting subpoena power into buried layers of an organization may be risky and that the process at the Office of the State Auditor provides a check and balance necessary for this type of request. State Auditor Beth Wood commented that providing subpoena power to all internal auditors is risky and Kathryn Johnston concurred. Chair Dr. Linda Combs noted that OIA chooses to use the Office of the State Auditor process when the Council subpoena power could be used. Ms. Baldwin noted that the process has worked well for OIA.

Mr. Bill Scott, representing DHHS, addressed the Council to provide additional information. DHHS has a large internal audit function and has been working with leadership to improve efficiency with the audit process. Mr. Scott noted that the intent of the request was to help reduce the subpoena work for the Office of the State Auditor while enabling DHHS to receive subpoenaed information directly rather than through the Office of the State Auditor. DHHS intends to pursue subpoena power for their agency directly with the General Assembly. Chair Dr. Linda Combs thanked Mr. Scott for the additional information and noted that the discussion did not require any further action.

Chair Dr. Linda Combs asked if there were any further questions or topics for discussion. Ms. Baldwin asked to recognize the recipients of last year's Internal Audit Award of Excellence, Lisa Outlaw, and Darryl Morrison. State Auditor Beth Wood commented that if there were more top quality internal auditors such as Lisa and Darryl in North Carolina then state government would be in a much better place. The Council thanked the award recipients for their service.

There being no further business, at 9:52 a.m., Chair Dr. Linda Combs adjourned the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held April 8, 2015.

Witness my hand, this _____ day of _____.

Linda Combs, State Controller, Chair

Secretary

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2015



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 2014 through June 2015, 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
Lee Roberts	State Budget Director
Bill Daughtridge	Secretary of Administration
Roy Cooper	Attorney General
Lyons Gray	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) support 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, 2015.

The professional credentials held by the five staff members include:

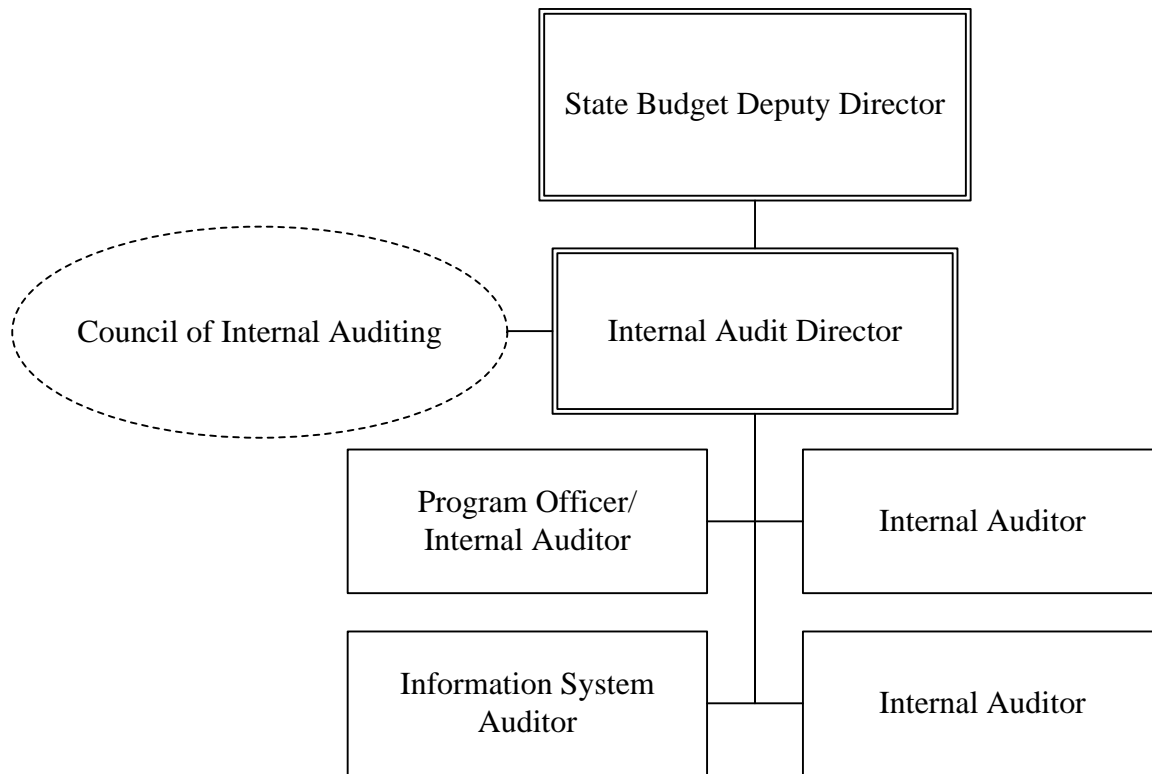
- Two Certified Public Accountants;
- Two Certified Internal Auditors;
- One Certified Internal Control Auditor;

¹ Entire Internal Audit Act is located in Appendix A.

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

- One Certified Fraud Examiner;
- One Certified Government Audit Professional;
- One Certified Government Financial Manager; and
- One Certified Project Management Professional

**Exhibit 1
Office of Internal Audit as of June 30, 2015**



The Office of Internal Audit had a 12% overall increase in expenditures during FY2014-15, while general fund expenditures decreased during the year. There major reason for the increase in overall spending relates to the Race to the Top (RttT). The RttT program ends August 31, 2015 and additional contractors were hired to complete engagements related to 90 local education agency and internal resources were shifted to this program.

The largest factor for the decrease in general funds expenditures relates to training and shifting resources to RttT. Training costs were decreased by 50% since participates were charged a fee to attend the annual training. The combined general and federal fund expenditures for FY2010-11 through FY2014-15 are shown in Table 2 on next page.

Table 2

Office of Internal Audit					
Expenditures					
	<u>FY2014/15</u>	<u>FY2013/14</u>	<u>FY2012/13</u>	<u>FY2011/12</u>	<u>FY2010/11</u>
Expenditures					
Personnel					
<i>Employee</i>	413,646	464,540	537,190	718,992	\$ 867,474
<i>Contractor</i>	172,678	33,315	21,688		
Total Personnel	586,324	497,855	558,878	718,992	867,474
Purchased Services					
<i>Software</i>	3,552	4,533			-
<i>Training & Development</i>	6,355	13,210	8,458	14,460	7,662
<i>Information Technology Services</i>	5,471	6,895	5,628	13,272	10,720
<i>Travel, Telephone, Miscellaneous</i>	2,838	8,489	10,138	12,743	8,327
Total Purchased Services	18,216	33,127	24,224	40,475	26,709
Supplies	-	-	100	100	710
Property, Plant, & Equipment	-	-	-	550	580
Other	1,191	-	-	-	-
Total Expenditures	605,731	530,982	583,202	760,117	895,473
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	382,560	452,695	417,456	425,146	429,948
ARRA State Fiscal Stabilization Fund	-	-	-	116,832	443,483
ARRA Race to the Top Fund	223,172	78,287	92,555	150,079	22,042
Early Learning Challenge	-	-	43,297	8,479	
Information Technology Services	-	-	29,894	59,583	

Efforts and Accomplishments

Over the last eight years the Council complied with all the mandated requirements in the Act. Guidelines and manuals were published in May 2008 and communicated to all internal auditors. 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 FY2014-15.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. In May 2015, OIA staff coordinated an advanced ACL training class for interested internal auditors to advance their application skills of the ACL tool. OIA contracted with ACL on behalf of the participating agencies and organized the logistics for class attendees. Eleven auditors across five agencies participated in the 2-day training session hosted at the Office of the State Controller. The cost per attendee was \$318 per day. By coordinating resources and contracting in bulk, there was a 56% savings on registration costs.

During June 2015, a 2-day training session was conducted covering two key topics in internal auditing. The first session was titled “IT Auditing for Non-IT Auditors” and the second session was titled “Critical Thinking.” The sessions provided 16 hours of certified professional education hours at a minimal cost of \$40 per day. Participants were invited from state agencies, universities, and local governments. There were 183 registered participants and the average cost per participant was just under \$44 per day. Based on participant surveys, there was an 87% very good or excellent program rating.

In addition to the 2-day training session, 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, 76 professional development opportunities were identified and communicated. There were 413.5 hours of certified professional education identified and 16% 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, nine state agencies completed reviews using the program and four other state agency reviews are in progress which should be completed by January 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 promotes excellence in internal auditing. The 2014 Internal Auditor Award of Excellence was presented to Lisa Outlaw with the Department of Commerce, Division of Employment Security and Daryl Morrison with the Department of Revenue.

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 12.

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 12.

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; enhance 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. Any government employees can join this group and receive a discount on an IIA membership. The program started with 92 individuals and throughout the first year, added 54 additional individuals. This allowed for a 42% 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 2014-2015 Legislative Session.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Personnel Resources

As shown in Table 3 on page 8, there are 194.5 internal auditor positions, which are spread across 38 state agencies. As of June 30, 2015, 88% of these positions were filled. There was a net gain of 12 positions throughout the state over the past year. Significant changes over the last year include:

- Department of Health and Human Services gained four positions which is a 10% increase.
- Department of Transportation gained three positions which is a 14% increase; and
- University of North Carolina Hospitals gained two positions which is a 25% increase.

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

- Commissioner of Banks
- Department of Labor
- North Carolina Industrial Commission
- Office of State Human Resources
- Office of the State Auditor
- Office of the Governor
- Office of State Budget and Management
- Department of Commerce (outside the Division of Employment Service)

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
- Elizabeth City State University contracts with East Carolina University for the Internal Audit Director's position
- University of North Carolina at Pembroke contracts with East Carolina University for forensic analysis of computer software

Over the past year some agencies have hired contractors and/or used 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
- Fayetteville State University
- North Carolina State University
- University of North Carolina at Chapel Hill

Agencies that use interns

- Department of Commerce – Division of Employment Security
- Department of Health and Human Services
- Department of Transportation
- UNC Charlotte

- UNC Pembroke
- UNC Wilmington
- Winston Salem State University
- Western Carolina University

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

Table 3

Statewide Internal Auditor Position Level Comparison FY2011 to FY2015											
Agency	Positions					Agency	Positions				
	2015	2014	2013	2012	2011		2015	2014	2013	2012	2011
Community College System Office	1	1	1	1	1	Office of State Controller	0.5	0.5	0	0	0
Commissioner of Banks ¹	0	0	0	0	0	Office of State Human Resources ¹	0	0	0	0	0
Department of Administration	1	1	0	0	0	Office of State Budget & Management ^{1,3}	5	4.5	6	8	11
Department of Agriculture & Consumer Services	3	3	3	1	1	Office of the State Auditor ¹	0	0	0	0	0
Department of Commerce ¹	4	5	4	3	0	Office of the Governor ¹	0	0	0	0	0
Employment Security Commission ²	N/A	N/A	N/A	N/A	2	Wildlife Resources Commission	1	1	0	0	0
Department of Cultural Resources	2	1	1	1	1	Appalachian State University	5	5	5	4	5
Department of Environment & Natural Resources	4	3	3	2	2	East Carolina University	8	7	7	7	7
Department of Health & Human Services	43	39	15	8	8	Elizabeth City State University ⁷	1	1	1	2	2
Department of Insurance	1	1	1	1	1	Fayetteville State University ⁴	1	0	1	0	2
Department of Justice	1	1	1	1	1	North Carolina Agricultural & Technical State University	4	4	5	5	4
Department of Labor ¹	0	0	0	0	0	North Carolina Central University	3	3.5	3	3	3
Department of Public Instruction	2	2	1	1	2	North Carolina School of Science and Mathematics ⁶	0	0	0	0	1
Department of Public Safety ⁸	19	20	20	19	N/A	North Carolina School of the Arts ⁵	0	0	0	0	0
Department of Correction ⁸	N/A	N/A	N/A	N/A	18	North Carolina State University	8	7	7	6.25	4.25
Department of Crime Control & Public Safety ⁷	N/A	N/A	N/A	N/A	1	University of North Carolina - Asheville	1	1	1	1	1
Department of Juvenile Justice & Delinquency Prevention ⁸	N/A	N/A	N/A	N/A	3	University of North Carolina - Chapel Hill	7	7	6	6	6
Department of Revenue	3	3	2	2	2	University of North Carolina - Charlotte	5	5	5	4	4
Department of Secretary of State	2	2	2	1	1	University of North Carolina - General Administration	1	1	1	1	1
Department of State Treasurer	3	3	4	3	2	University of North Carolina - Greensboro	2	2	2	2	2
Department of Transportation	25	22	22	22	17	University of North Carolina - Hospitals	10	8	6	5	4
Housing Finance Agency	1	2	2	0	0	University of North Carolina - Pembroke	1	1	1	1	1
Information Technology Services	3	3	2	2	3	University of North Carolina - Wilmington	4	4	4	4	4.5
North Carolina Education Lottery	3	2	2	2	2	Western Carolina University	1	1	1	2	2
North Carolina Industrial Commission ¹	0	0	0	0	0	Winston-Salem State University	5	5	3	4	4
Total							194.50	182.50	151.00	135.25	136.75

1. Utilizes the Interagency Internal Audit program

2. The Employment Security Commission merged with Department of Commerce in FY2012, Division of Employment Service has federal funded internal audit positions and the remaining Department of Commerce utilizes OSBM's Interagency Internal Audit program

3. Council of Internal Auditing Interagency Internal Audit Program, housed in the Office of State Budget and Management (OSBM)

4. Uses contract auditors

5. Contracts with Winston-Salem State University

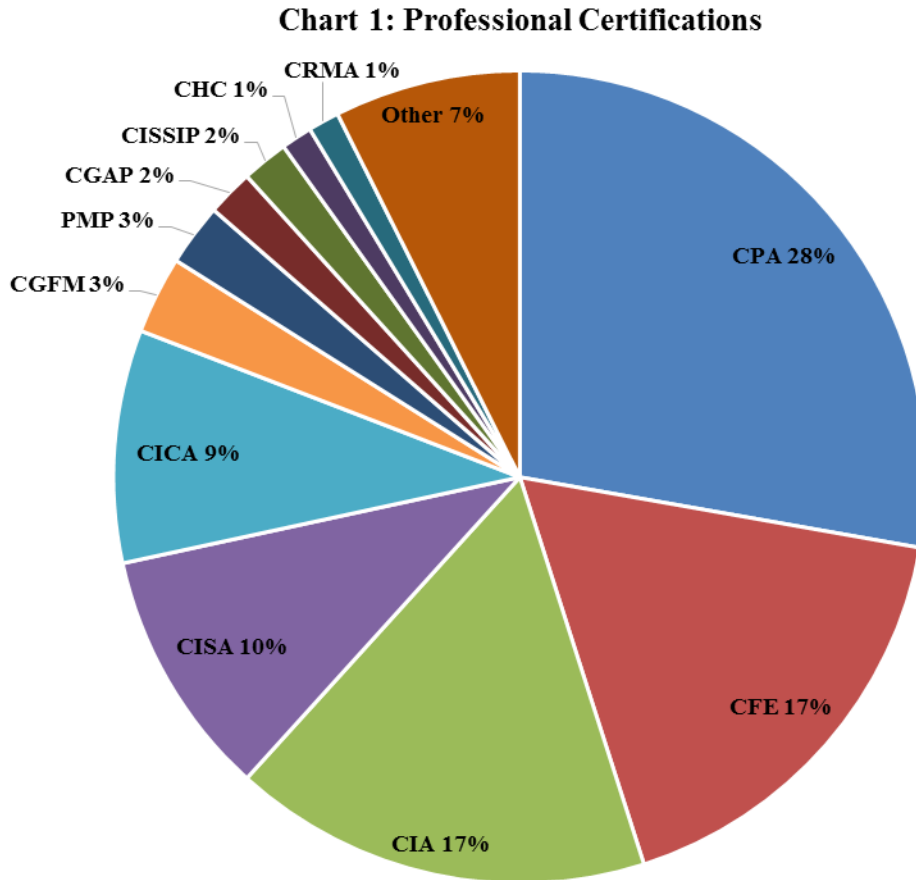
6. Contracts with UNC-General Administration

7. Contracts with East Carolina University

8. Departments of Correction, Crime Control & Public Safety, and Juvenile Justice & Delinquency Prevention consolidated as of January 1, 2012

Personnel Proficiency

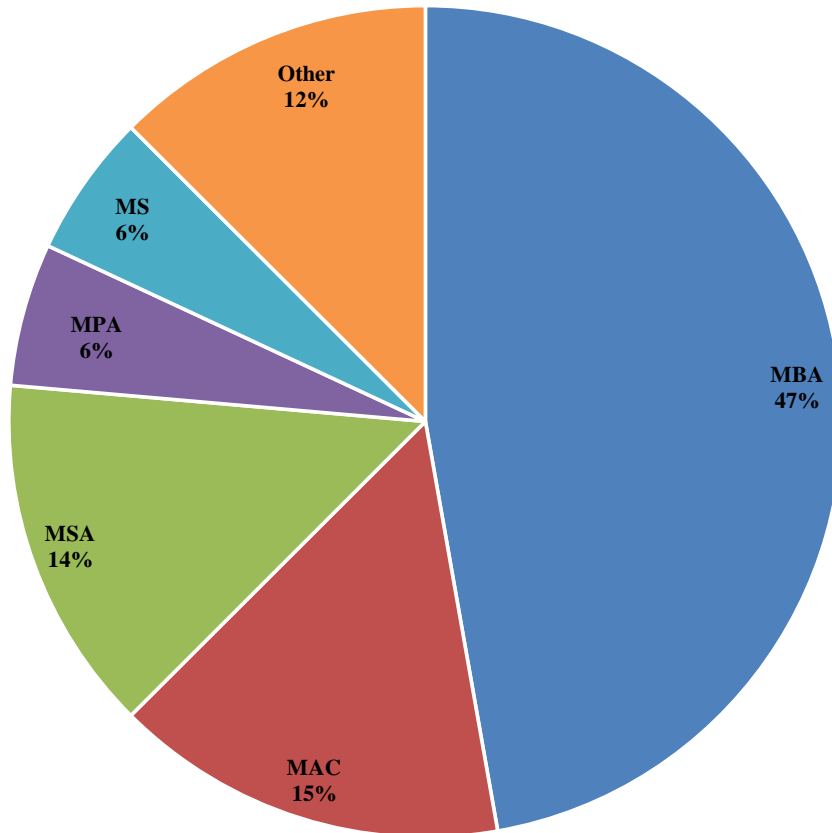
Internal auditors can demonstrate proficiency by obtaining professional certification and advanced degrees. Overall, internal auditors hold 162 professional certifications in 23 different audit areas; 72% of these being either Certified Public Accountants, Certified Internal Auditors, Certified Information 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.



- | | |
|--|---|
| 45 CPA/Certified Public Accountant | 2 Certified Financial Services Auditor |
| 28 CFE/Certified Fraud Examiner | 1 Certified Biomedical Auditor |
| 27 CIA/Certified Internal Auditor | 1 Certified Ethical Hacker |
| 16 CISA/Certified Information Systems Auditor | 1 Certified Public Manager |
| 15 CICA/Certified Internal Controls Auditor | 1 Chartered Global Management Accountant |
| 5 CGFM/Certified Government Financial Manager | 1 Certified Fraud Specialist |
| 4 PMP/Certified Project Manager | 1 Certified Forensic Investigation Professional |
| 3 CGAP/Certified Government Audit Professional | 1 WebSense Gateway Anywhere |
| 3 CISSIP/Certified IT Security | 1 Certified in Risk & Informations Systems Control |
| 2 Certified Healthcare Compliance | 1 Information Technology Infrastrurue eLibrary Foundation |
| 2 Certification in Risk Management Assurance | 1 Certified Information Security Manager |

In addition, Chart 2, on page 10, shows advanced degrees held by the agency’s internal auditors. Combined, the auditors hold 72 advanced degrees with 76% of these being Masters in Business Administration, Accounting or Accounting and Finance Management.

Chart 2: Advanced Degrees



- | | |
|--|---|
| 34 MBA /Master of Business Administration | 1 Master of Science Industrial Engineering |
| 11 MAC /Master of Accounting | 1 Master of Taxation |
| 10 MSA /Master of Science/Accounting | 1 Master of Accounting & Financial Management |
| 4 MPA /Master of Public Administration | 1 Master of Information Sciences |
| 4 MS /Master of Science | 1 Master of Education |
| 1 Master of Business Management | 1 Master of Art |
| 1 Master of Management | 1 Master of Administration & Supervision |

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 analysis such as ACL, IDEA and SAS.

Table 4 shows all internal audit functions use the Microsoft Office products to enhance productivity through automation. In addition, 18 agencies use generalized audit software tools for data extraction and analysis; and 15 agencies use productivity tools to automate work papers and work flow processes.

Table 4

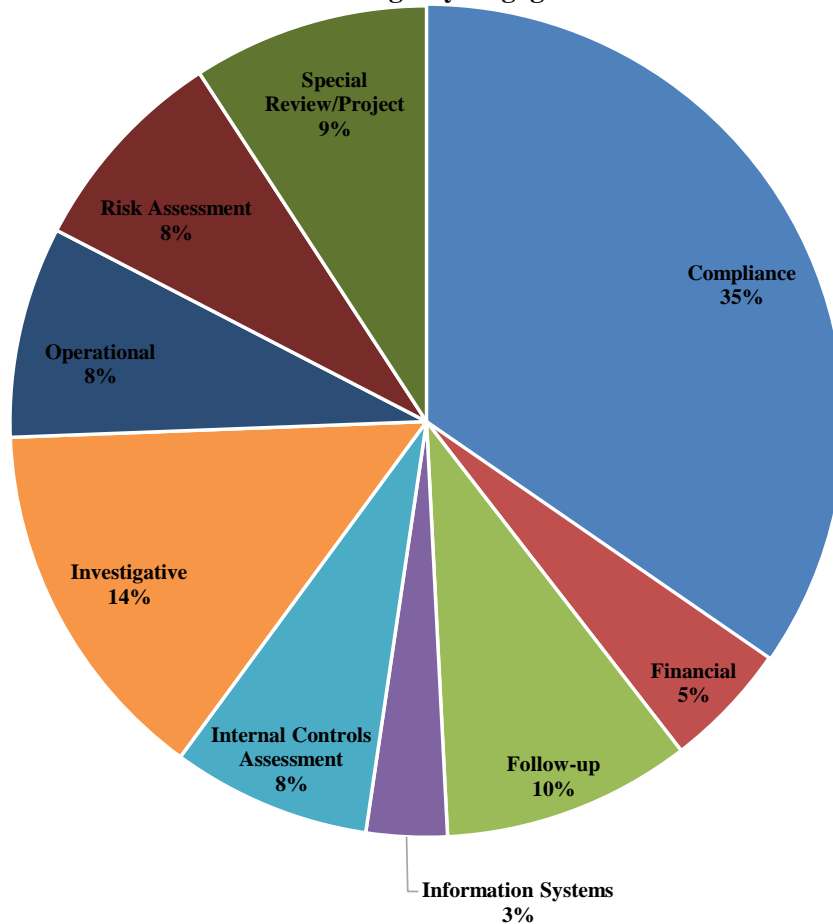
Computer Assisted Audit Tool Usage			
State Agency	Spreadsheet or Word Document¹	Generalized Audit Software²	Productivity Tool³
Community College Central Office	✓		
Department of Administration	✓		
Department of Agriculture & Consumer Services	✓		✓
Department of Commerce, Division of Employment Services	✓	✓	✓
Department of Cultural Resources	✓		
Department of Environment & Natural Resources	✓		
Department of Health and Human Services	✓	✓	✓
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	✓	✓	
Information Technology Services	✓	✓	
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 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. Microsoft Office products.
2. Perform routine task for data extract and analysis. Some products are ACL, IDEA, and EZ-R Stats.
3. 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, 2014 through June 30, 2015, the majority of activities conducted by internal auditors were compliance audits. Chart 3 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 23,060 hours of assistance to their agency's management which did not result in report issuance.

Chart 3: FY14 Agency Engagements



The audit projects by state agency are shown in Table 5 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 internal auditor which limits the number of audits that can be accomplished throughout the year.

Table 5

Agency Engagements										
Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review/Project	Technical Assistance Hours*
Community College System Office					2				1	160
Department of Administration		3	3		1					150
Department of Agriculture & Consumer Services	3		6	15	9	2		1	8	52
Department of Commerce-Division of Employment Services ¹	14	12	19	2	1	1	1	2	26	500
Department of Cultural Resources			1		2		1			704
Department of Environment & Natural Resources	3		4	1	3		1	1	1	
Department of Health & Human Services		12	26	1				7		1,073
Department of Insurance	1	1		2			1	2		160
Department of Justice	1								1	400
Department of Public Instruction		1	3		1		1	1	2	706
Department of Public Safety	5	2	7	32			1	7	7	5
Department of Revenue	10	10	2	27	14	12		14		160
Department of Secretary of State		2			1		1			40
Department of State Treasurer		3					1	17	1	309
Department of Transportation		1	53	269					24	300
Housing Finance Agency				1			2			900
Information Technology Services					30					1,500
North Carolina Education Lottery	1	1		9		2	1		1	1,500
Office of State Budget & Management ²		3	1	43	2	9	14	25	14	611
Office of the State Controller					1					25
Wildlife Resource Commission					1					100
Appalachian State University	7	1	2	4	20	1	1		1	1,150
East Carolina State University		7	13	2		3	1	13		2,302
Elizabeth City State University			2	1		1	1	3	1	220
Fayetteville State University		3			1			2		190
North Carolina Agricultural & Technical State University	6		9	1	1			2		
North Carolina Central University	2	6	9				1	2	2	200
North Carolina School of Science and Mathematics							1	1		136
North Carolina School of the Arts	1					1	1		1	404
North Carolina State University			2	1			61	1	2	2,953
University of North Carolina - Asheville		1	1	1	1		1	1	1	140
University of North Carolina - Chapel Hill			4				4			1,136
University of North Carolina - Charlotte	2	4	7	7	1	2	1		4	140
University of North Carolina - General Administration							1			323
University of North Carolina - Greensboro	1			4	1		1	2	1	40
University of North Carolina - Hospitals	1	20	1	1	2	5	1	1	9	680
University of North Carolina - Pembroke			1					1	1	600
University of North Carolina - Wilmington	1	4	1	1	1	1	1	4		1,247
Western Carolina University	2	9	2	13	1	1	1	7	1	
Winston-Salem State University	1		2	1				3	5	1,844
Totals	62	106	181	439	97	41	103	120	115	23,060

1. The Employment Security Commission merged with the Department of Commerce in FY2012, Division of Employment Services has federal funded internal audit positions and the remaining Department of Commerce utilizes the Interagency Internal Audit program housed in OSBM.
 2. OSBM's Interagency Internal Audit Program provides services to: Department of Commerce, Department of Labor, North Carolina Industrial Commission, Office of the Governor, Office of State Auditor, Office of State Budget and Management, Office of State Human Resources, and Commissioner of Banks.

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 6 shows compliance with document submission and the overall compliance rate.

Table 6

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 Cultural Resources	✓	✓
Department of Environment & Natural Resources	✓	✓
Department of Health & Human Services	✓	✓
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	✓	✓
Information Technology Services	✓	✓
North Carolina Education Lottery	✓	✓
Office of State Budget & Management ¹	✓	✓
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 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	40	40
Compliance rate	100%	100%
1. Using OIA Interagency Internal Audit Program: Commissioner of Banks, Department of Commerce, Department of Labor, North Carolina Industrial Commission, Office of State Auditor, Office of the Governor, Office of State Budget and Management, and the Office of State Human Resources.		

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, 31 have received a QAR and four are in progress as shown in Table 7.

**Table 7
QAR Compliance and Due Dates**

Compliant	Rating
Appalachian State University	Generally Conforms
Department of Agriculture & Consumer Services	Does Not Conform
Department of Cultural Resources	Generally Conforms
Department of Environment & Natural Resources	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
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 - 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 2015
Department of State Treasurer	December 2015
University of North Carolina - General Administration	December 2015
Department of Commerce, Division of Employment Services	January 2016
Not Required	Due Date
Office of the State Controller	December 2018
Information Technology Services	February 2019
Housing Finance Agency	April 2019
Department of Administration	May 2019
Wildlife Resource Commission	November 2019

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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. 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.)

**Institute of Internal Auditors
Government Group Membership**

	<u>2015</u>	<u>2016</u>	<u>Increase</u>
Summary Information:			
Total members	92	158	42%
Current IIA members	60	141	
New IIA members	32	17	
State Agency/Universty	23	48	
Total cost	\$6,900	\$10,990	
Savings:			
Regular Membership rate	\$130	\$130	
Group rate	\$75	\$70	
Savings per membership	42%	46%	

Benefits:

- Free IIA local chapter membership
- Free 8 hours CPE from IIA Local Chapter
- Free 12 hours CPE webinars
- Internal Auditor magazine
- IIA Government SmartBrief
- Discounts on conference and seminars
- Latest Industry Reseach

Award of Excellence

North Carolina Internal Audit Award of Excellence is intended to acknowledge and express appreciation for outstanding accomplishments made by an individual internal auditor or an internal audit function within North Carolina State government.

- Three nominations were submitted to the Council
- The nominations will be emailed to Council members by the end of the week
- Interviews will be scheduled in the near future
- The award will be presented during the December OSC Financial Conference