Agenda

January 9, 2019

Reading of Ethics Awareness Reminder

A. Approval of Minutes – October 10, 2018 *(Action item)*

B. Objectives
   1. Training
   2. Performance Measures

C. Council Reports
   1. Award of Excellence Presentation
   2. Future Meetings
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.
Minutes
October 10, 2018

Call to Order

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

The following Council of Internal Auditing Members were present:

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

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

A. Approval of Minutes

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

B. Staffing Update

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

1. Future Training

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

2. External Quality Assurance Review

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

3. Two-Year Audit Plan

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

4. Annual Activity Report

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

D. Council Reports

1. Award of Excellence

Ms. Baldwin explained how despite a significant increase in marketing her office had only received 3 nominations for this year’s award. Ms. Baldwin thanked Lynne Sanders
for marketing the award at the Chancellors retreat. The 3 local IIA chapters will continue to present a $500.00 incentive to the award recipient at the OSC Financial Conference in December. There was discussion among Council members if the nomination form was overly onerous.

2. Internal Auditor Retention and Recruitment

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

3. Future Meeting Schedule

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

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

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

Witness my hand, this ____ day of __________ 2019.

__________________________________________  ______________________________
Linda Combs, State Controller, Chair       Barbara Baldwin, Secretary
4 Day Training Session
September through November

Topic: Certified Internal Auditor Review Course

CPE Hours: 32 Continuing Professional Education hours

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

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

Cost: $7,410 Total

Program Overall Evaluation: 92% Strongly Agree or Agree

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

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

Negative Comments:
- I would prefer less time spent on practice questions. The questions regarding formula calculations were helpful but it would have been more helpful to me to spend more time on the exam content and less on the majority of the practice questions we covered.
- More practice questions, even take-home practice questions.
- It would be beneficial to the participant to have additional study questions provided in the take-home material for study/review at a later date.
Fiscal Year 2018
Performance Measures
And
Reporting Requirements

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

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

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

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

How is data collected and reported?
Tracking systems and surveys are used to collect data.
1. Engagement Work Measures for FY 2018

1a. Comparison planned to completed engagements

<table>
<thead>
<tr>
<th>Engagements on Audit Plan</th>
<th>64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engagements Completed /In-Progress</td>
<td>54</td>
</tr>
<tr>
<td><strong>Actual Completed/In-Progress</strong></td>
<td><strong>84%</strong></td>
</tr>
<tr>
<td><strong>Target Measure</strong></td>
<td><strong>≥ 90%</strong></td>
</tr>
</tbody>
</table>

1. This includes audits added during the year.

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

<table>
<thead>
<tr>
<th>Budgeted Engagement Hours</th>
<th>4,315</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Engagement Hours$^1$</td>
<td>4,410</td>
</tr>
<tr>
<td><strong>Actual Variance</strong> under/(over) budget</td>
<td><strong>(2.2%)</strong></td>
</tr>
<tr>
<td><strong>Target Measure</strong></td>
<td><strong>± or - 10%</strong></td>
</tr>
</tbody>
</table>

1. Actual hours include employee’s hours incurred in FY2017, FY2018 and/or FY2019 to complete 2018 engagements.

1c. Comparison of direct productive to available working hours

<table>
<thead>
<tr>
<th>Work Hours Available$^1$</th>
<th>7,556</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Productive Hours$^2$</td>
<td>6,486</td>
</tr>
<tr>
<td><strong>Productivity Time</strong></td>
<td><strong>86%</strong></td>
</tr>
<tr>
<td><strong>Target Measure</strong></td>
<td><strong>&gt; 85%</strong></td>
</tr>
</tbody>
</table>

1. Working Hours Available is total hours less leave, holidays and training hours.
2. Actual FY2018 Productive hours includes engagement hours, technical assistance and Council Programs.
2. Engagement Cost/Savings or Cost Avoidance for FY 2018

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

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interagency Internal Audit Program Cost</td>
<td>$74.90</td>
<td>$74.90</td>
<td>$69.83</td>
<td>$88.28</td>
<td>$91.25</td>
</tr>
<tr>
<td>Total Potential Savings Identified</td>
<td>$5,263,825</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Potential Savings Identified</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$9.73</td>
</tr>
<tr>
<td>Target Measure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>&gt;$10.00</td>
</tr>
</tbody>
</table>

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

2b. Hourly rate for engagements
Information on Effort by Agency and Type of Engagement for FY 2018

- **Effort by Hours per Agency/Program**

- **Effort by Hours per Agency/Program Omitting Council**

Legend:
- COB  Commissioner of Banks
- DMVA  Department of Military and Veteran Affairs
- DOC  Department of Commerce
- DOL  Department of Labor
- GOV  Office of the Governor
- OSA  Office of the State Auditor
- OSHR  Office of State Human Resources
- Other Agencies:
  - Department of Environmental Quality
  - Department of the State Treasurer
  - Veterinary Medical Board

Green = Actual meets or exceeds target
Yellow = Actual falls between 60% and 99% of the target
Red = Actual falls below 60% of the target
• **Audit Effort by Engagement Type Omitting Council Programs**

- Technical Assistance: 5%
- Compliance: 11%
- Consulting Services: 22%
- Internal Control: 7%
- Investigation: 5%
- Follow up: 1%
- Information Systems: 7%
- Operational: 26%
- Risk Assessment: 16%
- Audit Effort on Council Programs
  - Technical Assistance: 10%
  - Statewide Training: 22%
  - Group Membership: 8%
  - Peer Review Program: 24%
  - Other: 5%
  - Council Meetings: 8%
  - Quality Assurance and Improvement Program: 10%
  - Central Database: 6%
  - Annual Activity Report: 5%
  - Award of Excellence: 2%
  - Peer Review Program: 24%

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

Green = Actual meets or exceeds target
Yellow = Actual falls between 60% and 99% of the target
Red = Actual falls below 60% of the target
3. Staff Development for Calendar 2018

3a. Comparison of budgeted to actual training hours

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Training Hours/Auditor</th>
<th>45</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Training Hours/Auditor</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td><strong>13%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Target Measure</strong></td>
<td>(must have minimum 40 hrs.)</td>
<td>≥ (10%)</td>
</tr>
</tbody>
</table>

3b. Comparison of budgeted to actual training costs

<table>
<thead>
<tr>
<th></th>
<th>Budgeted Training Cost/Auditor</th>
<th>$1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual Training Cost/Auditor</td>
<td>$521</td>
<td></td>
</tr>
<tr>
<td><strong>Variance</strong></td>
<td><strong>-48%</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Target Measure</strong></td>
<td>≤ 10%</td>
<td></td>
</tr>
</tbody>
</table>

4. Stakeholder Satisfaction

4a. Council Satisfaction (50% response rate)

Actual 100% Somewhat/Strongly Agree and Very/Somewhat Satisfied

Target 90% Somewhat/Strongly Agree and Very/Somewhat Satisfied
4b. **Agency Satisfaction (72% response rate)**

![Pie chart showing agency satisfaction]

- **Strongly Agree**: 94%
- **Somewhat Agree**: 5%
- **Neither Agree or Disagree**: 1%

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

5. **Other IIA Reporting Requirements**

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

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

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

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

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

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

5d. **Resource Management**

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

COUNCIL OF INTERNAL AUDITING

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

April 10, 2019 9:00 a.m.
July 10, 2019 9:00 a.m.
October 9, 2019 9:00 a.m.
January 8, 2020 9:00 a.m.
April 8, 2020 9:00 a.m.

Meeting location: 430 N Salisbury Street
Dobbs Building 2\(^{\text{nd}}\) floor
Commission Room (2009)