

# **ANNUAL ACTIVITY REPORT**

**As Required by G.S. 143-747(c)(11a) and (12)**

**October 12, 2023**



**PREPARED FOR:**

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

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# EXECUTIVE SUMMARY

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## **PURPOSE**

This report provides information on the service efforts and accomplishments<sup>1</sup> of state agencies'<sup>2</sup> internal audit programs from July 1, 2022, through June 30, 2023 (FY2023), as required by the North Carolina Internal Audit Act<sup>3</sup> (Act).

## **BACKGROUND**

The Act requires Executive Branch agencies, meeting certain criteria, to establish a program of internal auditing that (1) promotes an effective system of internal controls, (2) determines if the agency complies with federal and state laws, regulations, and other requirements, (3) reviews the effectiveness and efficiency of agency program operations and service delivery, and (4) periodically audits the agency's accounting, administrative, and information technology systems and controls.

The Act also established the Council of Internal Auditing (Council) to provide services to agency internal audit programs, issue an annual report on agencies' internal audit service efforts and accomplishments, and propose legislation for consideration by the Governor and General Assembly.

There were 181.25 internal audit positions spread across 39 of the 46 state agencies subject to the Act from July 1, 2022, through June 30, 2023 (FY2023). The Department of Adult Corrections was established on January 1, 2023, and is included within figures listed for the Department of Public Safety throughout this report. The 181.25 internal audit positions were budgeted at a total cost of approximately \$22.7 million<sup>4</sup>.

## **Key Observations**

- During FY2023 internal auditors made 855 recommendations through assurance and consulting engagements. Of these, 839 (98%) recommendations were accepted by management. Providing guidance to management in the form of recommendations is one of the key aspects of internal auditing. These recommendations are suggested approaches to correcting or enhancing performance and achieving desired results.
- Twenty-six agencies did not have an information technology engagement completed by their internal audit program during FY2023.
- Approximately 35 full-time equivalent Internal Audit positions were vacant during FY2023.
- Internal auditors completed 92 investigative engagements, 50 (53%) of these were substantiated.

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<sup>1</sup> Although not defined in statute, the Government Accounting Standards Board (GASB) defines service efforts and accomplishments reporting as reporting that is "intended to include information about the services provided and the effect of those services to assist users in assessing the degree to which the government is achieving its program or government-wide goals."

<sup>2</sup> Agency means department, office, university, commission, board.

<sup>3</sup> Entire Internal Audit Act is in the Appendix.

<sup>4</sup> Figure includes salaries and benefits.

# Introduction

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The North Carolina Internal Auditing Act requires state agencies to establish an internal auditing program that meets one or more of the following criteria: annual operating budget exceeding \$10,000,000; more than 100 full-time equivalent employees; or receiving and processing more than \$10,000,000 in a fiscal year. In addition, the Act requires agencies to 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." These Standards require internal auditors to follow a methodology that includes developing a risk-based audit plan.

An internal audit risk assessment is a process that helps an organization's internal audit program identify, evaluate, and prioritize risk factors within its immediate landscape. It is a crucial part of the internal audit program and plays a significant role in enhancing an organization's risk management capabilities. A risk assessment or the identification and analysis of relevant risks to the achievement of an organization's objectives, for the purpose of determining how those risks should be managed, is integral to each agency's internal audit program to perform.

A risk assessment performed in accordance with IIA Standards is critical for the determination of the vulnerabilities of an agency in meeting their objectives. Therefore, risk assessment directs internal auditors where to concentrate their audit efforts. The risk assessment is also used to determine the "type" of audit that needs to be performed. Consequently, the internal audit program may perform several different types of audits to meet risk assessment needs. The internal audit program also performs investigations when necessary. Additionally, the Standards require periodic internal and external quality assessments of the internal audit program.

Of the 46 state agencies subject to the Act during FY2023, 39 maintained an internal audit program. Four of the 46 state agencies outsourced their internal audit program to other agencies or private contractors as follows:

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

The remaining three state agencies used the Office of State Budget and Management (OSBM) services instead of having an in-house internal audit program. OSBM provided internal audit services for the following agencies during FY2023:

- Office of State Human Resources
- Office of the Governor
- Office of the State Auditor

This report has been presented with **eight sections**:

- **Section 1** provides information on internal audit risk assessments and their role in promoting effective systems of internal controls.
- **Sections 2 through 5** report the different types of audits performed, based on risk assessments, and the results of those audits.
- **Section 6** reports the results of investigative engagements.
- **Section 7** provides the results of the internal and external quality assurance assessments.
- **Section 8** provides the details of Internal Audit programs' productivity time throughout the fiscal year.

# Service Efforts and Accomplishments

The following eight sections provide information about the internal audit services provided and the effect of those services to assist readers of this report in assessing the degree to which the internal audit program is achieving its goals.

## 1. Promoting Effective Systems of Internal Controls

*North Carolina General Statute (NCGS) 143-746(a)(1)* requires state agencies to establish a program of internal auditing that “promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.”

Establishing and adhering to a risk-based audit plan, or a plan that is focused on the inherent risk involved in the activities or system and provides assurance that risk is being managed, as required by Institute of Internal Auditors Standards helps to ensure compliance with NCGS 143-746 and provide reasonable assurance that agency plans, methods, policies, and procedures will result in the successful achievement of the entity’s mission, strategic plan, goals, and objectives.

The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute for Internal Auditors states:

The chief audit executive<sup>5</sup> must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.

Agency management are responsible for ensuring that the internal audit program complies with the Standards listed above. Therefore, the Council of Internal Auditing requires the internal audit director (director) and the agency head to certify that the audit plan was prepared in accordance with Standards. The Act also requires state agencies to submit their risk-based audit plans to the Council. It is imperative that each agency conform to the Standards and create a risk-based audit plan.

A risk-based audit plan is a living document and is constantly updated and monitored. Directors may find that risks change and must add, drop, or change the plan as new information is gathered. This can cause a lower percentage of completion rate to show when comparing engagements completed to the original plan. Consideration of other outside factors such as resources available, longevity of the internal audit director and investigations added must be considered when viewing information on Table 1.

Table 1 below shows state agencies’ efforts and accomplishments in establishing and adhering to a risk-based audit plan that promotes effective systems of internal control. An effective system of internal controls is one that ensures all mechanisms, rules, and procedures implemented by management ensure the integrity of information, promote accountability, and prevent fraud. This means planning engagements of a variety of types to help ensure that agencies are complying with rules and regulations and are being reviewed for any value that could be added. The table shows the audits and other engagements planned and percentage of the audit plan completed.

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<sup>5</sup> Generally, the Director of Internal Audit is the chief audit executive in state agencies and universities.

## Key Terminology

- **Budgeted Positions:** The number of full time equivalent (FTE) internal audit positions an organization has in its budget for FY2023. This figure does not include administrative staff.
- **FY 2023 Full-Time Equivalent:** One FTE for each full-time worker an organization has classified as an internal auditor.
  - There are four agencies with unique circumstances regarding FTE for FY2023. These are denoted in the table as follows:
    - \* Outsourced to Vendor
    - \*\* Outsourced to UNC-System Office
    - \*\*\* Outsourced to Winston Salem State University
- **Engagement:** An independent and systematic examination of an agency's financial records, systems, and controls performed by the internal auditor.
- **Beginning Plan:** The total number of assurance and consulting engagements listed on the organizations FY 2023 Internal Audit Plan.
- **Additions to Plan:** Engagements completed that were not on the original audit plan at the beginning of FY2023.
- **Ending Plan:** The sum of engagements from the beginning audit plan and additional engagements completed throughout FY2023.
- **Engagements Completed:** Total number of audit engagements completed and uploaded to the central database for FY2023.
- **Percent of Audit Plan Completed:** Calculated as completed / (planned + added) = % audit plan completed. Cancelled or deferred engagements have not been removed from this calculation.

**Table 1: Adherence to Risk-Based Audit Plans**

<b>Agency</b>	<b>Budgeted Positions</b>	<b>FY2023 Full-Time Equivalent</b>	<b>Beginning Plan</b>	<b>Additions to Plan</b>	<b>Ending Plan Total</b>	<b>Engagements Completed</b>	<b>Percent of Audit Plan Completed</b>
Appalachian State University	5.00	4.38	36	4	40	21	53%
Community College System Office	1.00	0.68	5	0	5	3	60%
Dept of Administration	3.00	2.44	8	0	8	2	25%
Dept of Agriculture & Consumer Services	3.00	2.66	9	1	10	8	80%
Dept of Commerce	3.00	3.00	14	7	21	14	67%
Dept of Environmental Quality	4.00	1.90	8	1	9	3	33%
Dept of Health & Human Services	27.00	22.79	57	14	71	54	76%
Dept of Information Technology	5.00	3.44	10	1	11	6	55%
Dept of Insurance	1.00	0.75	7	0	7	3	43%
Dept of Justice	0.50	0.00	4	0	4	1	25%
Dept of Labor	1.00	1.00	3	4	7	5	71%
Dept of Military & Veterans Affairs	1.00	0.25	4	0	4	0	0%
Dept of Natural & Cultural Resources	2.00	2.00	9	2	11	6	55%
Dept of Public Instruction	9.00	3.00	14	2	16	13	81%
Dept of Public Safety	23.00	20.29	66	19	85	72	85%
Dept of Revenue	3.00	3.00	10	4	14	12	86%
Dept of Secretary of State	1.00	0.08	0	0	0	0	0%
Dept of State Treasurer	3.00	2.00	6	4	10	9	90%
Dept of Transportation	5.00	3.30	12	0	12	7	58%
East Carolina University	7.00	7.53	28	15	43	34	79%
Elizabeth City State University	2.00	1.35	9	0	9	5	56%
Fayetteville State University	1.00	0.00	6	2	8	4	50%
NC A&T State University	4.00	1.87	18	9	27	16	59%
NC Central University	4.00	2.70	10	6	16	8	50%
NC Education Lottery	3.00	2.83	14	1	15	11	73%
NC Housing Finance Agency*	0.00	0.00	5	0	5	4	80%
NC School of Science & Math**	0.00	0.00	7	1	8	8	100%
NC School of the Arts***	0.00	0.00	12	1	13	6	46%
NC State Education Assistance Authority**	0.00	0.00	4	0	4	3	75%
NC State University	7.00	7.06	22	12	34	19	56%
Office of State Budget & Management	12.00	10.30	57	10	67	49	73%
Office of the State Controller	0.75	0.70	6	0	6	3	50%
UNC - Asheville	1.00	1.00	7	0	7	1	14%
UNC - Chapel Hill	7.00	6.73	25	15	40	36	90%
UNC- Charlotte	6.00	6.00	17	0	17	17	100%
UNC - Greensboro	2.00	1.83	12	0	12	7	58%
UNC - Hospital	5.00	4.88	48	6	54	29	54%
UNC - Pembroke	2.00	1.75	10	0	10	2	20%
UNC - System Office	3.00	2.67	5	0	5	4	80%
UNC - Wilmington	5.00	4.04	16	4	20	15	75%
Western Carolina University	2.00	0.75	12	0	12	5	42%
Wildlife Resources Commission	1.00	1.00	7	1	8	2	25%
Winston-Salem State University	6.00	3.69	17	3	20	9	45%

## 2. Determining Compliance with Laws and Regulations

Based on a risk assessment performed in accordance with the Standards, internal auditors may conduct compliance audits to determine if agency “programs and business operations are administered in accordance with federal and state laws, regulations, and other requirements” as described in *North Carolina General Statute (NCGS) 143-746(a)(2)*.

Table 2 below shows state agencies’ efforts and accomplishments in performing compliance audits. An agency plans and completes compliance engagements to ensure that targeted departments processes adhere to policies, plans, procedures, laws, regulations, contracts, or other requirements. Processes targeted could be on a timely basis or based off the risks involved with the processes that may become part of the engagement. Each engagement will conclude with any observation of processes that can be improved to streamline procedures, prevent fraud, and recommendations on how to improve these procedures. If no observations are found recommendations may not be given. Management will then give a response to any observations and recommendations in the form of a corrective action plan of how to initiate recommendations, if accepted. The table below shows the number of compliance audits planned, added, and completed, recommendations accepted, corrective action plans written by agency management, and any questionable cost that may have been identified by the internal audit program.

### Key Terminology

- **Compliance Engagements Planned:** All compliance engagements that were identified and included on the risk-based audit plan submitted for FY2023.
- **Compliance Engagements Added:** Any compliance engagement that was identified and completed during FY2023 that was not included in the audit plan.
- **Compliance Engagements Completed:** A combination of all planned and added compliance engagements that were completed during FY2023.
- **Recommendations Made:** Any suggestion for improvement made by Internal Audit that were included on any compliance engagement report. There can be multiple recommendations in one report or none.
- **Recommendations Accepted:** Any suggestion for improvement made by internal audit on any compliance audit report that was accepted by management.
- **Corrective Action Plan Written:** The corrective action plans written by management to address observations and recommendations for each report. Each engagement would have either one or no corrective action plan.
- **Questionable Cost Identified:** The total amount of funds for which there is inadequate support, or the nature, purpose, and reasonableness of an expenditure is in question.

**Table 2: Compliance Audits**

Agency	Compliance Engagements Planned	Compliance Engagements Added	Compliance Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written	Questionable Cost Identified
Appalachian State University	10	1	7	4	4	3	\$0.00
Community College System Office	1	0	1	4	4	1	\$578.00
Dept of Administration	3	0	0	0	0	0	\$0.00
Dept of Agriculture & Consumer Services	2	0	1	3	3	1	\$0.00
Dept of Commerce	2	0	2	16	16	1	\$0.00
Dept of Environmental Quality	4	0	0	0	0	0	\$0.00
Dept of Health & Human Services	21	1	21	66	66	18	\$0.00
Dept of Information Technology	0	1	1	2	2	1	\$0.00
Dept of Insurance	3	0	0	0	0	0	\$0.00
Dept of Justice	1	0	0	0	0	0	\$0.00
Dept of Labor	0	0	0	0	0	0	\$0.00
Dept of Military & Veterans Affairs	0	0	0	0	0	0	\$0.00
Dept of Natural & Cultural Resources	4	0	3	19	19	3	\$0.00
Dept of Public Instruction	0	0	0	0	0	0	\$0.00
Dept of Public Safety	48	6	48	173	173	33	\$1,268,322.00
Dept of Revenue	5	0	5	3	3	2	\$0.00
Dept of Secretary of State	0	0	0	0	0	0	\$0.00
Dept of State Treasurer	0	0	0	0	0	0	\$0.00
Dept of Transportation	8	0	4	16	16	4	\$656,055.00
East Carolina University	3	0	3	13	13	3	\$0.00
Elizabeth City State University	1	0	0	0	0	0	\$0.00
Fayetteville State University	3	2	4	14	14	1	\$0.00
NC A&T State University	1	0	1	1	1	1	\$0.00
NC Central University	0	0	0	0	0	0	\$0.00
NC Education Lottery	10	1	9	37	37	7	\$0.00
NC Housing Finance Agency	3	0	2	4	3	1	\$0.00
NC School of Science & Math	0	0	0	0	0	0	\$0.00
NC School of the Arts	1	0	0	0	0	0	\$0.00
NC State Education & Assistance Authority	0	0	0	0	0	0	\$0.00
NC State University	4	2	3	8	8	3	\$0.00
Office of State Budget & Management	12	1	9	12	12	4	\$494,089.00
Office of the State Controller	4	0	2	7	7	2	\$0.00
UNC - Asheville	2	0	0	0	0	0	\$0.00
UNC - Chapel Hill	6	0	6	7	7	5	\$0.00
UNC - Charlotte	3	0	3	0	0	2	\$0.00
UNC - Greensboro	2	0	0	0	0	0	\$0.00
UNC - Hospital	5	0	0	0	0	0	\$0.00
UNC - Pembroke	3	0	0	0	0	0	\$0.00
UNC - System Office	0	0	1	0	0	0	\$0.00
UNC - Wilmington	2	0	1	3	3	1	\$0.00
Western Carolina University	2	0	0	0	0	0	\$0.00
Wildlife Resources Commission	5	1	1	4	4	1	\$0.00
Winston-Salem State University	0	0	0	0	0	0	\$0.00

### 3. Promoting Effective and Efficient Operations

Based on a risk assessment performed in accordance with the Standards, internal auditors may conduct performance and operational audits to determine the “effectiveness and efficiency of agency’s program operations and service delivery” as described in *North Carolina General Statute (NCGS) 143-746(a)(3)*.

Table 3 below shows state agencies’ efforts and accomplishments in conducting performance and operational audits. Performance and operational audits are performed to determine the effectiveness, productivity, and cost efficiency of the operations of the business. When completing operational engagements, the auditor must consider how recommendations can improve the efficiency or effectiveness of the agency’s processes and categorize them as such. For reference, efficiency can be defined as making sure processes are running smoothly to maximize resources, while effectiveness is ensuring that agencies are pursuing the right goals and objectives. The table shows the number of performance and operational audits planned, added, and completed, the number of efficiency and effectiveness recommendations made and accepted, the number of other recommendations made, and accepted, and corrective action plans written by agency management.

#### Key Terminology

- **Operational Engagements Planned:** The number of operational engagements identified on the risk-based audit plan submitted for FY2023.
- **Operational Engagements Added:** Any operational engagements completed during FY2023 that were not identified on the audit plan.
- **Operational Engagements Completed:** The total number of operational engagements completed during FY2023.
- **Efficiency/ Effectiveness Recommendations Made:** The number of Internal Audit’s suggested approaches to correcting or enhancing efficient or effective performance as a guide for management in achieving desired results.
- **Efficiency/ Effectiveness Recommendations Accepted:** The number of recommendations accepted by management related to the efficiency or effectiveness of processes.
- **Other Recommendations Made:** The number of Internal Audit’s suggested approaches to correcting or enhancing performance (that do not fall into the categories of efficiency or effectiveness) as a guide for management in achieving desired results.
- **Other Recommendations Accepted:** The number of recommendations accepted by management that do not fall into the categories of efficiency or effectiveness.
- **Corrective Action Plans Written:** The corrective action plans written by management to address observations and recommendations for each report. Each engagement would have either one or no corrective action plan.

**Table 3: Operational Audits**

Agency	Operational Engagements Planned	Operational Engagements Added	Operational Engagements Completed	Efficiency/ Effectiveness Recommendations Made	Efficiency/ Effectiveness Recommendations Accepted	Other Recommendations Made	Other Recommendations Accepted	Corrective Action Plans Written
Appalachian State University	3	0	3	2	2	0	0	1
Community College System Office	1	0	0	0	0	0	0	0
Dept of Administration	4	0	1	0	0	6	6	1
Dept of Agriculture & Consumer Services	2	0	2	3	3	5	5	2
Dept of Commerce	6	0	3	0	0	3	2	1
Dept of Environmental Quality	3	0	0	0	0	0	0	0
Dept of Health and Human Services	0	0	0	0	0	0	0	0
Dept of Information Technology	1	0	0	0	0	0	0	0
Dept of Insurance	2	0	2	2	2	7	7	0
Dept of Justice	0	0	0	0	0	0	0	0
Dept of Labor	0	0	0	0	0	0	0	0
Dept of Military & Veterans Affairs	2	0	0	0	0	0	0	0
Dept of Natural & Cultural Resources	3	0	0	0	0	0	0	0
Dept of Public Instruction	7	0	4	7	7	2	2	4
Dept of Public Safety	2	0	0	0	0	0	0	0
Dept of Revenue	2	0	1	0	0	6	6	1
Dept of Secretary of State	0	0	0	0	0	0	0	0
Dept of State Treasurer	5	0	4	0	0	7	7	3
Dept of Transportation	2	0	1	5	5	0	0	1
East Carolina University	11	1	7	11	11	27	27	7
Elizabeth City State University	1	0	0	0	0	0	0	0
Fayetteville State University	1	0	0	0	0	0	0	0
NC A&T State University	2	0	1	0	0	0	0	0
NC Central University	6	1	2	6	6	10	10	2
NC Education Lottery	1	0	1	0	0	6	6	0
NC Housing Finance Agency	0	0	0	0	0	0	0	0
NC School of Science & Math	2	0	2	3	3	0	0	1
NC School of the Arts	3	0	2	9	9	0	0	2
NC State Education Assistance Authority	0	0	0	0	0	0	0	0
NC State University	4	2	2	1	1	6	6	2
Office of State Budget & Management	7	0	1	1	1	0	0	1
Office of the State Controller	0	0	0	0	0	0	0	0
UNC - Asheville	0	0	0	0	0	0	0	0
UNC - Chapel Hill	6	0	5	13	13	0	0	4
UNC - Charlotte	6	0	6	7	7	13	13	6
UNC - Greensboro	2	0	2	6	5	1	1	2
UNC - Hospital	20	0	6	23	23	3	3	6
UNC - Pembroke	1	0	0	0	0	0	0	0
UNC - System Office	0	0	0	0	0	0	0	0
UNC - Wilmington	5	0	2	17	17	4	4	2
Western Carolina University	1	0	1	4	4	0	0	1
Wildlife Resources Commission	0	0	0	0	0	0	0	0
Winston-Salem State University	1	0	1	0	0	5	5	1

## 4. Auditing Major Systems and Controls

Based on a risk assessment performed in accordance with the Standards, internal auditors may conduct financial and information technology (IT) audits to evaluate an agency's "major systems and controls" as described in *North Carolina General Statute (NCGS) 143-746(a)(4)*.

Financial audits determine whether an entity's financial statements are fairly presented and in accordance with established financial accounting criteria. Financial audits address questions regarding the validity of internal controls, accounting, budgeting, and the propriety of financial transactions. IT audits evaluate, assess, and verify that information systems maintain data integrity, produce reliable and accurate information, protect agency assets, ensure availability and performance, and comply with IT-specific laws, policies, and standards.

Table 4 below shows state agencies' efforts and accomplishments in conducting financial and IT audits. The table shows the number of financial and IT audits planned, added, and completed and the number of recommendations made, accepted, and corrective action plans written by agency management.

### Key Terminology:

- **Financial Engagements Planned:** All financial engagements that were identified and included on the risk-based audit plan submitted for FY2023.
- **Financial Engagements Added:** Any financial engagement that was identified and completed during FY2023 that was not included on the audit plan.
- **Financial Engagements Completed:** A combination of all planned and added financial engagements that were completed during FY2023.
- **IT Engagements Planned:** All information technology engagements that were identified and included in the risk-based audit plan submitted for FY2023.
- **IT Engagements Added:** Any information technology engagement that was identified and completed during FY2023 that was not included on the audit plan.
- **IT Engagements Completed:** A combination of all planned and added information technology engagements that were completed during FY2023.
- **Recommendations Made:** Any suggestion for improvement made by Internal Audit that was included on any financial or IT engagement report. There can be multiple recommendations in one report or none.
- **Recommendations Accepted:** Any suggestion for improvement made by internal audit on any financial or IT audit report that was accepted by management.
- **Corrective Action Plan Written:** The corrective action plans written by management to address observations and recommendations for each report. Each engagement would have either one or no corrective action plan.

**Table 4: Audits of Major Systems and Controls**

Agency	Financial Engagements Planned	Financial Engagements Added	Financial Engagements Completed	IT Engagements Planned	IT Engagements Added	IT Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written
Appalachian State University	10	0	5	5	0	2	5	5	2
Community College System Office	0	0	0	0	0	0	0	0	0
Dept of Administration	0	0	0	0	0	0	0	0	0
Dept of Agriculture & Consumer Services	0	0	0	1	0	0	0	0	0
Dept of Commerce	2	0	0	2	0	0	0	0	0
Dept of Environmental Quality	0	0	0	1	0	1	1	0	0
Dept of Health & Human Services	2	0	2	9	1	6	19	19	6
Dept of Information Technology	0	0	0	3	0	1	12	12	1
Dept of Insurance	1	0	0	0	0	0	0	0	0
Dept of Justice	0	0	0	0	0	0	0	0	0
Dept of Labor	0	0	0	0	0	0	0	0	0
Dept of Military & Veterans Affairs	0	0	0	0	0	0	0	0	0
Dept of Natural & Cultural Resources	0	0	0	0	0	0	0	0	0
Dept of Public Instruction	0	0	0	0	0	0	0	0	0
Dept of Public Safety	6	3	8	2	0	0	7	7	3
Dept of Revenue	0	0	0	2	1	2	7	7	1
Dept of Secretary of State	0	0	0	0	0	0	0	0	0
Dept of State Treasurer	0	0	0	0	0	0	0	0	0
Dept of Transportation	0	0	0	1	0	1	4	4	1
East Carolina University	0	0	0	4	0	3	19	19	3
Elizabeth City State University	1	0	0	2	0	2	2	2	0
Fayetteville State University	0	0	0	1	0	0	0	0	0
NC A&T State University	0	0	0	1	0	0	0	0	0
NC Central University	0	0	0	0	0	0	0	0	0
NC Education Lottery	0	0	0	2	0	0	0	0	0
NC Housing Finance Agency	0	0	0	0	0	0	0	0	0
NC School of Science & Math	0	0	0	0	0	0	0	0	0
NC School of the Arts	0	0	0	1	0	1	2	2	1
NC State Education Assistance Authority	0	0	0	1	0	0	0	0	0
NC State University	0	1	1	4	1	1	5	5	2
Office of State Budget & Management	0	0	0	3	0	1	3	3	1
Office of the State Controller	0	0	0	0	0	0	0	0	0
UNC - Asheville	0	0	0	1	0	0	0	0	0
UNC - Chapel Hill	7	0	6	3	1	2	8	8	4
UNC - Charlotte	1	0	1	4	0	4	9	9	4
UNC - Greensboro	0	0	0	1	0	0	0	0	0
UNC- Hospital	5	0	1	14	0	10	18	18	11
UNC - Pembroke	1	0	0	1	0	0	0	0	0
UNC - System Office	1	0	1	1	0	1	1	1	1
UNC - Wilmington	2	0	2	2	0	2	4	4	2
Western Carolina University	1	0	1	2	0	0	0	0	0
Wildlife Resources Commission	0	0	0	0	0	0	0	0	0
Winston-Salem State University	3	0	1	2	0	1	4	4	1

## 5. Consulting Engagements

Consulting engagements are not identified by a risk assessment performed in accordance with the Standards. Internal auditors perform consulting engagements at management's request to improve state agency governance, risk management, and control processes. Consulting engagements are advisory and related services activities, the nature and scope of which are agreed with management. These engagements are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

The International Standards for the Professional Practice of Internal Auditing provides the following definition:

Consulting services are advisory in nature and are generally performed at the specific request of an engagement client. The nature and scope of the consulting engagement are subject to the agreement with the engagement client. Consulting services generally involve two parties: (1) the person or group offering the advice — the internal auditor, and (2) the person or group seeking and receiving the advice — the engagement client. When performing consulting services, the internal auditor should maintain objectivity and not assume management responsibility.

Table 5 below shows state agencies' efforts and accomplishments in performing consulting engagements. The table shows the number of consulting engagements planned, added, and completed and the number of recommendations made and accepted, as well as corrective action plans written by agency management. It should be noted that because consulting engagements are advisory in nature, often there is not a corrective action plan written as the results can be presented informally depending on the specific engagement.

### Key Terminology:

- **Consulting Engagements Planned:** The number of consulting engagements identified on the risk-based audit plan submitted for FY2023.
- **Consulting Engagements Added:** Any consulting engagements completed during FY2023 that were not identified on the audit plan.
- **Consulting Engagements Completed:** The total number of consulting engagements completed during FY2023.
- **Recommendations Made:** The total number of Internal Audit's suggested approaches to correcting or enhancing performance as a guide for management in achieving desired results.
- **Recommendations Accepted:** The number of recommendations accepted by management that do not fall into the categories of efficiency or effectiveness.
- **Corrective Action Plans Written:** The number of corrective action plans written by management based on Internal Audit's observations and recommendations. Corrective action plans are often not provided due to the collaborative nature of consulting engagements.

**Table 5: Consulting Engagements**

Agency	Consulting Engagements Planned	Consulting Engagements Added	Consulting Engagements Completed	Recommendations Made	Recommendations Accepted	Corrective Action Plans Written
Appalachian State University	1	1	1	0	0	0
Community College System Office	0	0	0	0	0	0
Dept of Administration	0	0	0	0	0	0
Dept of Agriculture & Consumer Services	2	0	2	6	6	0
Dept of Commerce	0	0	0	0	0	0
Dept of Environmental Quality	2	0	0	0	0	0
Dept of Health & Human Services	17	3	13	0	0	0
Dept of Information Technology	4	0	2	7	7	2
Dept of Insurance	0	0	0	0	0	0
Dept of Justice	3	0	1	3	3	1
Dept of Labor	2	0	0	0	0	0
Dept of Military & Veterans Affairs	1	0	0	0	0	0
Dept of Natural & Cultural Resources	0	0	0	0	0	0
Dept of Public Instruction	1	0	1	0	0	0
Dept of Public Safety	4	0	0	0	0	0
Dept of Revenue	0	0	0	0	0	0
Dept of Secretary of State	0	0	0	0	0	0
Dept of State Treasurer	0	1	1	1	1	0
Dept of Transportation	0	0	0	0	0	0
East Carolina University	3	2	5	21	21	1
Elizabeth City State University	0	0	0	0	0	0
Fayetteville State University	0	0	0	0	0	0
NC A&T State University	0	2	2	0	0	0
NC Central University	0	0	0	0	0	0
NC Education Lottery	0	0	0	0	0	0
NC Housing Finance Agency	1	0	1	30	18	1
NC School of Science & Math	1	1	2	0	0	0
NC School of the Arts	0	0	0	0	0	0
NC State Education Assistance Authority	1	0	1	4	0	0
NC State University	2	1	3	2	0	1
Office of State Budget & Management	10	4	14	0	0	0
Office of the State Controller	0	0	0	0	0	0
UNC - Asheville	3	0	0	0	0	0
UNC - Chapel Hill	2	4	6	0	0	0
UNC - Charlotte	2	0	2	3	0	1
UNC - Greensboro	3	0	1	0	0	1
UNC - Hospital	3	4	8	0	0	0
UNC - Pembroke	0	0	0	0	0	0
UNC - System Office	1	0	0	0	0	0
UNC - Wilmington	1	1	1	1	0	1
Western Carolina University	3	0	1	0	0	0
Wildlife Resources Commission	1	0	0	0	0	0
Winston-Salem State University	2	0	0	0	0	0

## 6. Investigative Engagements

Investigative engagements are not identified by a risk assessment performed in accordance with the Standards. Internal auditors perform investigative engagements to evaluate allegations surrounding suspected incidents of fraud, misuse of assets, abuse, or waste of agency funds. When performing investigative engagement, the claim can be found to be substantiated or unsubstantiated, this must be documented along with hours used on these engagements. Unsubstantiated claims will take the same amount of effort and documentation as substantiated and can be useful when finding improvements to be made in a department's processes.

Table 6 below shows state agencies' efforts and accomplishments in performing investigative engagements. The table shows the number of investigative engagements completed, the hours spent on investigations, number of recommendations made for corrective action (disciplinary action, recover monies, correct internal control weaknesses), number of disciplinary or other administrative actions taken (terminations, suspensions, debarments, personnel actions), number of investigations not substantiated, and hours spent on unsubstantiated investigations.

### Key Terminology:

- **Investigative Engagements Completed:** The total number of investigative engagements completed during FY2023.
- **Total Investigative Hours:** The total number of hours spent on conducting investigative engagements during FY2023.
- **Recommendations Made:** The number of Internal Audit's suggested approaches to correcting or enhancing performance as a guide for management in achieving desired results.
- **Disciplinary/Corrective Action Taken:** A reprimand or corrective action taken by management in response to internal audit's findings and recommendations.
- **Number of Unsubstantiated Investigations:** The total number of investigative engagements conducted for which the allegations were unsubstantiated.
- **Hours for Unsubstantiated:** The total number of hours spent on conducting investigative engagements for which the allegations were unsubstantiated.
- **Questionable Costs Identified:** The total amount of costs for which there is inadequate support, or the nature, purpose, and reasonableness of an expenditure is in question.

**Table 6: Investigative Engagements**

Agency	Investigative Engagements Completed	Total Investigative Hours	Recommendations Made	Disciplinary/ Corrective Action Taken	Number of Unsubstantiated Investigations	Hour for Unsubstantiated	Questionable Cost Identified
Appalachian State University	1	70	0	0	1	70	\$0.00
Community College System Office	0	0	0	0	0	0	\$0.00
Dept of Administration	0	0	0	0	0	0	\$0.00
Dept of Agriculture & Consumer Services	1	86	3	1	0	0	\$55.00
Dept of Commerce	7	515	5	6	1	150	\$0.00
Dept of Environmental Quality	1	35	0	0	1	35	\$0.00
Dept of Health & Human Services	2	777	0	0	2	777	\$0.00
Dept of Information Technology	0	0	0	0	0	0	\$0.00
Dept of Insurance	0	0	0	0	0	0	\$0.00
Dept of Justice	0	0	0	0	0	0	\$0.00
Dept of Labor	4	210	5	4	0	0	\$0.00
Dept of Military & Veterans Affairs	0	0	0	0	0	0	\$0.00
Dept of Natural & Cultural Resources	2	98	0	0	2	98	\$0.00
Dept of Public Instruction	6	877	2	2	4	716	\$2,120.00
Dept of Public Safety	9	173	9	8	1	20	\$7,113.00
Dept of Revenue	3	363	2	0	3	363	\$0.00
Dept of Secretary of State	0	0	0	0	0	0	\$0.00
Dept of State Treasurer	3	112	2	2	1	40	\$0.00
Dept of Transportation	0	0	0	0	0	0	\$0.00
East Carolina University	12	1,385	20	7	5	773	\$117,956.00
Elizabeth City State University	0	0	0	0	0	0	\$0.00
Fayetteville State University	0	0	0	0	0	0	\$0.00
NC A&T State University	5	798	2	2	3	502	\$14,705.00
NC Central University	5	663	6	0	2	80	\$0.00
NC Education Lottery	0	0	0	0	0	0	\$0.00
NC Housing Finance Agency	0	0	0	0	0	0	\$0.00
NC School of Science & Math	2	16	0	0	2	16	\$0.00
NC School of the Arts	2	251	7	0	1	1	\$0.00
NC State Education Assistance Authority	0	0	0	0	0	0	\$0.00
NC State University	4	1,421	2	2	2	166	\$1,097.00
Office of State Budget & Management	3	2,230	11	1	2	92	\$138,070.00
Office of the State Controller	0	0	0	0	0	0	\$0.00
UNC - Asheville	0	0	0	0	0	0	\$0.00
UNC - Chapel Hill	8	989	4	3	2	219	\$87,074.00
UNC - Charlotte	0	0	0	0	0	0	\$0.00
UNC - Greensboro	0	0	0	0	0	0	\$0.00
UNC - Hospital	2	268	8	2	0	0	\$27,160.00
UNC - Pembroke	1	929	3	1	0	0	\$0.00
UNC - System Office	0	0	0	0	0	0	\$0.00
UNC - Wilmington	3	387	0	0	3	387	\$0.00
Western Carolina University	1	17	0	0	1	17	\$0.00
Wildlife Resources Commission	0	0	0	0	0	0	\$0.00
Winston-Salem State University	5	1,278	11	0	3	502	\$0.00

## 7. Internal and External Assessments of Internal Audit Quality

To comply with the Standards, internal audit programs must obtain an external quality assurance review (QAR) “at least once every five years by a qualified, independent assessor or assessment team from outside the organization.”

According to the Institute of Internal Auditors, external quality assurance reviews validate that the internal audit program conforms with the International Standards for the Professional Practice of Internal Auditing and internal auditors apply The Institute of Internal Auditor’s Code of Ethics.

Agencies can use the Council of Internal Auditing’s (Council’s) Peer Review program or use other methods to obtain the QAR. The Council’s Peer Review program was modeled after and follows all the requirements included in the Institute of Internal Auditors Quality Assessment manual. Internal audit programs receive a rating of (1) generally conforms, (2) partially conforms, or (3) does not conform.

To ensure that agencies are conforming to and reflecting on their own adherence to the Standards, they are required annually to complete and submit a Self-Assurance Maturity Model (SAMM). Once completed, SAMM calculates an average score ranging from 1 to 5 and conformance with the Standards requires a score of 3 or above. Scores below three require the development of a corrective action plan. Scores above 3 reflect internal audit’s ability to implement best practices.

These self-assessments are often used by internal audit programs to improve their own processes and reflect upon challenges. Small internal audit programs (one or two positions) will have the most difficulties conforming with the Standards due to resource limitations.

Table 7 below shows the results of the internal assessments from the previous three years and the results of the external assessments and the year it was performed. FY2023 FTE were included in Table 7 because resources limitations can have a direct impact on an internal audit program’s ability to conform with the Standards.

There are circumstances where internal audit programs have no score for internal assessments or no rating for external quality assurance review. These are denoted in the table below as follows:

- \* No auditor in place at time of required submission
- \*\* Outsourced to vendor
- \*\*\* Uses services of the Office of State Budget and Management (OSBM)
- New = internal audit programs established less than five years includes due date for first QAR

**Table 7: Internal and External Assessments**

Agency	Budgeted Positions	Internal Assessment (SAMM)			External Assessment (QAR)	
		FY2021 Score	FY2022 Score	FY2023 Score	QAR Score	Year Received
Appalachian State University	5.00	3.66	3.85	3.98	Generally Conforms	2023
Community College System Office	1.00	3.26	2.63	3.18	Generally Conforms	2017
Dept of Administration	3.00	2.95	2.50	3.03	Partially Conforms	2019
Dept of Agriculture & Consumer Services	3.00	3.45	3.81	3.50	Generally Conforms	2022
Dept of Commerce	3.00	3.29	2.76	2.96	Partially Conforms	2021
Dept of Environmental Quality	4.00	2.84	3.41	3.53	Generally Conforms	2019
Dept of Health & Human Services	27.00	3.34	3.35	3.43	Generally Conforms	2022
Dept of Information Technology	5.00	3.03	2.63	3.35	Does Not Conform	2019
Dept of Insurance	1.00	*	3.15	*	Generally Conforms	2019
Dept of Justice	0.50	*	2.53	*	Generally Conforms	2014
Dept of Labor	1.00	2.79	2.88	2.93	New (due 2024)	
Dept of Military & Veterans Affairs	1.00	***	***	*	New (due 2025)	
Dept of Natural & Cultural Resources	2.00	2.87	2.98	3.08	Partially Conforms	2020
Dept of Public Instruction	9.00	3.24	3.30	3.46	Partially Conforms	2020
Dept of Public Safety	23.00	3.26	3.28	3.31	Partially Conforms	2019
Dept of Revenue	3.00	3.47	3.40	3.40	Generally Conforms	2019
Dept of Secretary of State	1.00	2.79	*	*	Generally Conforms	2018
Dept of State Treasurer	3.00	3.29	2.36	3.18	Does Not Conform	2021
Dept of Transportation	5.00	2.53	2.85	3.05	Partially Conforms	2018
East Carolina University	7.00	3.55	3.78	3.60	Generally Conforms	2021
Elizabeth City State University	2.00	3.34	3.30	3.16	Generally Conforms	2021
Fayetteville State University	1.00	3.18	3.45	*	Generally Conforms	2019
NC A&T State University	4.00	2.94	3.30	3.45	Generally Conforms	2019
NC Education Lottery	4.00	3.97	4.15	3.76	Generally Conforms	2020
NC Housing Finance Agency	3.00	3.34	3.30	3.01	Generally Conforms	2019
NC School of Science & Math	0.00	**	**	**	Generally Conforms	2019
NC School of the Arts	0.00	3.18	**	3.45	Generally Conforms	2020
NC State Education Assistance Authority	0.00	**	**	**	Generally Conforms	2019
NC Central University	0.00	3.21	3.31	2.98	Generally Conforms	2018
NC State University	7.00	4.47	4.20	3.88	Generally Conforms	2023
Office of State Budget & Management	12.00	3.16	3.45	4.46	Generally Conforms	2023
Office of the State Controller	0.75	3.00	2.98	3.16	Generally Conforms	2018
UNC - Asheville	1.00	3.00	2.70	2.92	Generally Conforms	2018
UNC - Chapel Hill	7.00	3.32	3.38	3.30	Generally Conforms	2018
UNC - Charlotte	6.00	4.45	4.51	4.50	Generally Conforms	2023
UNC - Greensboro	2.00	3.24	2.60	3.06	Partially Conforms	2020
UNC - Hospital	5.00	3.61	3.93	4.06	Generally Conforms	2020
UNC - Pembroke	2.00	3.08	3.10	3.22	Partially Conforms	2020
UNC - System Office	3.00	3.11	3.15	3.18	Generally Conforms	2019
UNC - Wilmington	5.00	3.47	3.56	3.56	Generally Conforms	2021
Western Carolina University	2.00	3.16	*	3.06	Generally Conforms	2023
Wildlife Resources Commission	1.00	2.39	2.96	2.53	Does Not Conform	2020
Winston-Salem State University	6.00	3.21	3.51	3.58	Generally Conforms	2020

\* No Auditor at time of required submission  
 \*\*Contracts out  
 \*\*\*Uses services of OSBM

## 8. Internal Audit Staff Productivity

Table 8 below shows the productivity time listed out by category for each agency. There are 10 categories identified and defined in the Key Terminology section below.

Eight agencies did not report productivity in FY2023 because they outsourced the internal audit program to a vendor, or other agency, or the internal audit position was vacant at the time of submission. These are denoted in the table as follows:

- \* No auditor in place at time of required submission
- \*\* Outsourced to vendor
- \*\*\* Outsourced to UNC-System Office
- \*\*\*\* Outsourced to Winston Salem State University

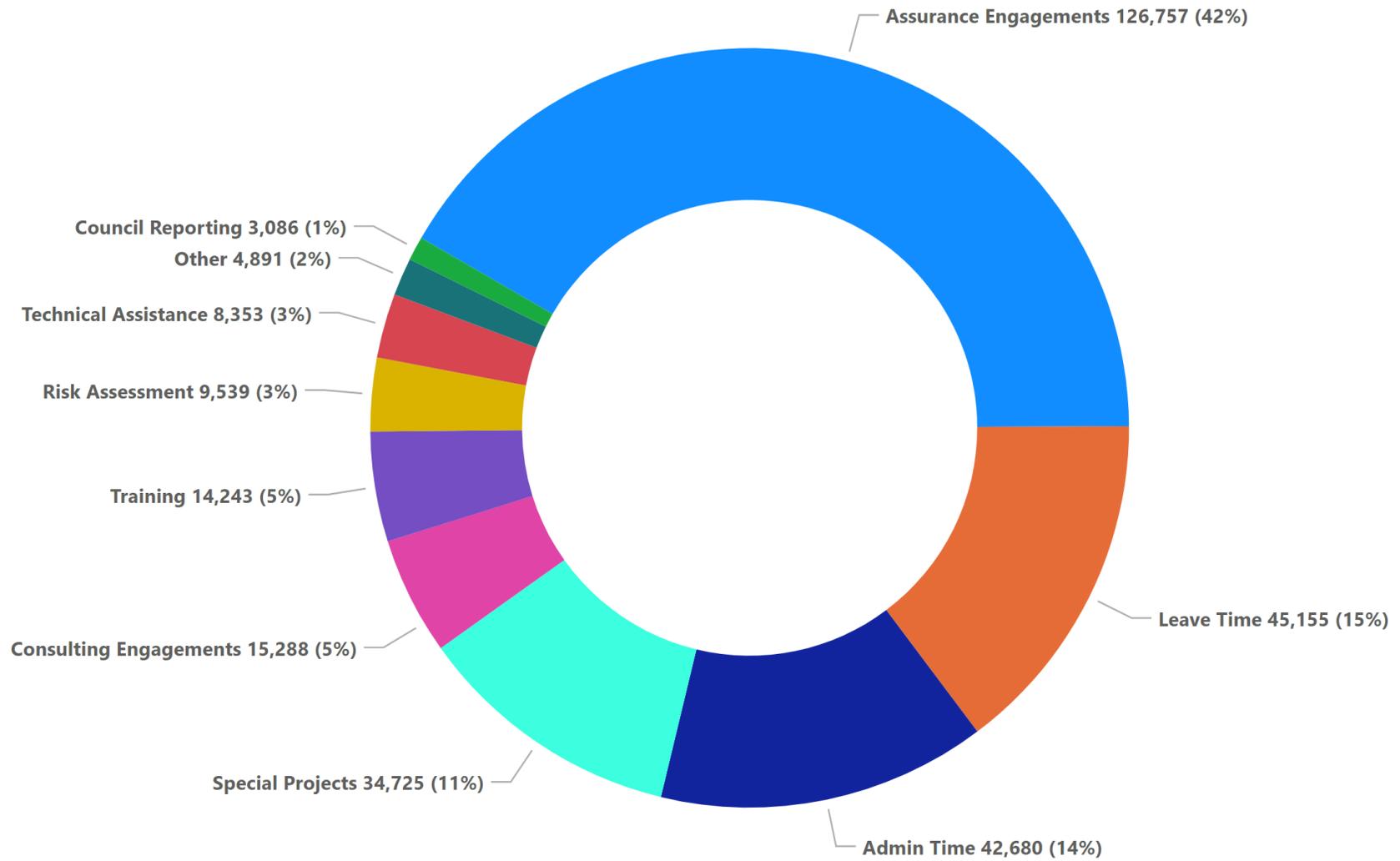
### Key Terminology:

- **Risk Assessments:** Identifies events that may give rise to risk and opportunities for the achievement of the agency's objectives. The consideration of the probable material facts of uncertain events. It is the identification, measurement, and prioritization of risks and auditable areas. Risk assessments are performed to develop an agency's internal audit plan.
- **Assurance Engagements:** Includes the following types of engagements: Compliance, Financial, Follow-up, IT, Investigative, Operational.
- **Consulting Engagements:** Advisory and related client services activities. The nature and scope of which are agreed with the client and are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.
- **Technical Assistance:** Projects or tasks that are limited in time, effort, and scope which provide advice and insight to agency management outside of any of the other formal project types. Can include "routine" consultative interactions with management, service on agency committees, and/or other similar tasks.
- **Special Projects:** Projects that are related to the performance, mission, success, and ongoing viability of the internal audit program, that do not fall in any of the other project categories. They are directly relevant to the ongoing ability of the internal audit program to meet the needs of the agency and to comply with Standards but are not assurance or consulting projects. Typical activities are software implementation or upgrades, the Quality Assurance, and Improvement Program (e.g. self-assessments, policy manual updates, key performance indicators), receiving a QAR, participating on a QAR team, sponsoring a conference or providing other support to the state or the profession.
- **Other:** Activities that are not related to internal auditing, nor the internal audit program but may be specific requirements completed by internal audit at the request of management. These activities can be temporary or permanent. Examples may include supervising a group of individuals which are not internal auditors; performing

a process or procedure that is typically performed by other agency staff; developing/writing policies or procedures for activities not related to internal auditing; developing/writing state compliance supplements; etc.

- **Council Reporting Requirements:** Resources spent on audit plan and report attestations, SAMM, productivity tool, central database submissions, and annual report.
- **Administrative Time:** Routine activities not attributable to a specific project required to effectively manage and direct the internal audit program; examples may include general tasks related to purchasing, scheduling, budgeting, and human resource management (employee recruitment, screening, selection, hiring, evaluations, etc.)
- **Leave Time:** employees' personal time spent away from the agency on vacation leave, sick leave, holidays, community service, or other types of leave (paid or unpaid, including compensatory time).
- **Training:** Activities related to learning new skills or reinforcing existing skills. This generally consists of development opportunities organizationally or professionally recommended or required that enhance knowledge, skills, and other competencies; examples may include new employee orientation, continuing professional education, and user training for new or existing systems.
- **Productive Rate:** Staff time is the primary resource used by internal audit programs to produce audit work. Productivity looks at how individual staff members' time is used. This measure identifies the ratio of indirect hours (Administration and Other) to direct hours (assurance, consulting services, risk assessments, technical assistance, and special projects). Leave time is omitted due to its unpredictable nature.

**Chart 1: Total Time Spent (hours) by Category**



**Table 8: Productivity Time**

Agency	Risk Assessments	Assurance Engagements	Consulting Engagements	Technical Assistance	Special Projects	Council Reporting Requirements	Training	Other Totals	Administration Time	Leave Time	Productive Rate
Appalachian State University	183	3,651	100	416	1,104	250	487	-	1,644	1,470	73%
Community College System Office	141	316	3	9	456	38	40	-	200	212	80%
Dept of Military & Veterans Affairs*											
Dept of Administration	339	1,778		52	1,401	25	316	-	690	508	82%
Dept of Agriculture & Consumer Services	223	1,442	898	108	1,274	18	248	-	548	871	87%
Dept of Commerce	240	2,292		211	1,375	6	168	-	942	1,030	78%
Dept of Environmental Quality	141	832	226	303	528	74	294	-	913	655	62%
Dept of Health & Human Services	60	19,823	6,966	26	3,644	89	2,404	-	7,530	6,857	77%
Dept of Information Technology	920	925	636	681	1,066	52	326	-	1,646	901	64%
Dept of Insurance*											
Dept of Justice*											
Dept of Labor	60	378	-	172	576	150	35	180	142	388	76%
Dept of Natural & Cultural Resources	534	1,292		13	240	123	132	-	1,176	666	50%
Dept of Public Instruction	605	1,699	3	363	1,140	68	181	-	1,118	1,104	72%
Dept of Public Safety	1,280	22,850	844		2,110	120	1,085	2,076	5,373	6,376	74%
Dept of Revenue	40	3,972		124	343	56	315	-	677	739	86%
Dept of Secretary of State	10	145	-	-	-	5	24	-	40	-	78%
Dept of State Treasurer	138	1,571	40	3	151	141	140		1,085	893	50%
Dept of Transportation	48	2,174		432	134	20	520	1,237	1,124	1,278	29%
East Carolina University	89	8,875	332	910	1,450	33	862	-	1,661	2,326	87%
Elizabeth City State University	127	1,268			284	90	178	-	340	521	83%
Fayetteville State University*											
Housing Finance Agency**											
NC A&T State University	238	1,671	306		369	134	166	-	480	621	83%
NC Central University	199	3,610	-	174	154	28	180	-	474	820	89%
NC Education Lottery	43	2,248	-	53	967	180	248	177	1,032	961	68%
NC School of Science & Math***											
NC School of the Arts***											
NC State University	286	5,495	230	1,234	1,797	111	596	-	2,281	2,992	77%
Office of State Budget & Management	729	7,113	684	274	6,906	84	1,476	-	2,002	2,162	88%
Office of the State Controller	60	240	60	208	250	123	121	-	200	498	81%
NC State Education Assistance Authority***											
UNC - Asheville	472	246	472	109	172	92	62	25	320	590	79%
UNC - Chapel Hill	198	6,424	198	721	1,685	94	516	-	2,081	2,334	79%
UNC - Charlotte	411	6,919	1,058	-	821	262	727	-	869	1,596	91%
UNC - Greensboro	175	1,198	240	-	581	49	303	-	684	690	73%
UNC - Pembroke	85	1,087	85	25	272	58	824	-	857	433	65%
UNC - System Office	194	3,119	371	-	751	104	100	-	288	620	94%
UNC - Wilmington	171	3,789	196	239	981	70	411	-	1,069	1,712	82%
UNC Hospital	151	3,883	919	1,072	512	163	414	-	2,130	975	70%
Western Carolina University	197	485	304	24	67	88	52	-	289	54	76%
Wildlife Resources Commission	100	160	100	185	-	39	50	1,100	250	200	-113%
Winston-Salem State University	652	3,792	20	217	1,168	53	245	96	528	1,103	90%

\* No auditor in place at time of requirement submission

\*\* Outsourced to vendor

\*\*\* Outsourced to UNC-System Office

\*\*\*\* Outsourced to Winston Salem State University

## Proposed legislation for consideration by the Governor and General Assembly.

### 1. Submission Date Alignment.

The Internal Audit Act currently requires the annual internal audit report to be submitted by November 1 each year and the performance measures to be submitted on or before December 31. This creates inconsistency since the annual internal audit report includes the performance measures and the submission dates do not align. To eliminate this inconsistency, and issue one report to the General Assembly, the Council recommends amending the submission due date for the annual internal audit report to December 31. Below is the drafted amendment change.

#### "§ 143-747. Council of Internal Auditing.

...

(c) The Council shall:

...

(11a) Gather and assess the extent to which State agencies have met the minimum key performance indicators and criteria required under subdivision (3a) of this subsection. The Council shall ~~report~~ include its findings in the report required in 143-747(c)12. and to the Joint Legislative Commission on Governmental Operations on or before December 31, 2022, and annually thereafter.

(12) No later than ~~November 1~~ December 31 of each year, issue a report that shall include, but not be limited to, service efforts and accomplishments of State agency internal auditors and proposed legislation for consideration by the Governor and General Assembly. The annual report shall be prepared by the Office of State Budget and Management and shall be submitted to the Joint Legislative Oversight Committee on General Government."

### 2. Staffing Recommendation

Table 9 contains recommendations to increase staffing levels at 23 agencies, nine of which have one internal audit position. The outcome of the analysis is based on the Council's staffing analysis and adjustment made to account for position, salary and benefit increases included in House Bill 239. The analysis includes the level of position(s) needed to ensure internal audit will have the ability to conform with the Act. The Council recommends funding 48 positions costing approximately \$5.4 million. Details are included in Table 9.

**Table 9: Staffing Recommendation**

Agency	Current Positions	Minimal Positions Needed	Recommended New Positions	Manager	Supervisor	IA3	IA2	IA1	Cost*
Dept of Agriculture & Consumer Services	3.00	6.00	3.00			1.00	1.00	1.00	\$ 309,028
Dept of Commerce	4.00	7.00	3.00			1.00	1.00	1.00	\$ 309,028
Dept of Natural & Cultural Resources	2.00	4.00	2.00			1.00	1.00		\$ 220,279
Dept of Environmental Quality	4.00	6.00	2.00				1.00	1.00	\$ 191,010
Dept of Information Technology	4.00	7.00	3.00			1.00	1.00	1.00	\$ 309,028
Dept of Insurance	1.00	2.00	1.00			1.00			\$ 118,018
Dept of Justice	0.50	3.00	3.00	1.00		1.00	1.00		\$ 375,347
Dept of Labor	1.00	2.00	1.00			1.00			\$ 118,018
Dept of Military and Veterans Affairs	1.00	2.00	1.00	1.00					\$ 155,068
Dept of Public Instruction	9.00	14.00	5.00		1.00	1.00	1.00	2.00	\$ 534,177
NC Education Lottery	3.00	5.00	2.00				1.00	1.00	\$ 191,010
NC Housing Finance Agency	0.00	3.00	3.00	1.00		1.00	1.00		\$ 375,347
Office of State Controller	0.75	2.00	1.00			1.00			\$ 118,018
State Bureau of Investigation	0.00	2.00	2.00	1.00			1.00		\$ 257,328
Wildlife Resources Commission	1.00	3.00	2.00	1.00			1.00		\$ 257,328
Community College System Office	1.00	3.00	2.00	1.00			1.00		\$ 257,328
Fayetteville State University	1.00	3.00	2.00			1.00	1.00		\$ 220,279
North Carolina State University	7.00	8.00	1.00				1.00		\$ 102,260
UNC - Hospitals	6.00	8.00	2.00				1.00	1.00	\$ 191,010
UNC - Asheville	1.00	3.00	2.00			1.00	1.00		\$ 220,279
UNC - Chapel Hill	7.00	8.00	1.00				1.00		\$ 102,260
UNC - Greensboro	2.00	4.00	2.00			1.00	1.00		\$ 220,279
UNC - System Office	3.00	5.00	2.00			1.00	1.00		\$ 220,279
Western Carolina University	2.00	4.00	2.00			1.00	1.00		\$ 220,279
<b>Grand Total</b>			50.00						\$5,592,283

\* Includes Salaries at midpoint and benefits.  
 Blue rows indicate an Internal Audit program with 1 or less positions.

# APPENDIX

## ***NORTH CAROLINA INTERNAL AUDIT ACT***

### Article 79. Internal Auditing.

#### **§ 143-745. Definitions; intent; applicability.**

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

#### **§ 143-746. Internal auditing required.**

- (a) Requirements. - A State agency shall establish a program of internal auditing that:
  - (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
  - (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
  - (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.
  - (4) Periodically audits the agency's major systems and controls, including:
    - a. Accounting systems and controls.
    - b. Administrative systems and controls.
    - c. Information technology systems and controls.
- (a1) Key Performance Indicators and Criteria. - In addition to the requirements of subsection (a) of this section, each agency head shall be responsible for ensuring that agency's internal audit unit meets the required key indicators and criteria established by the Council under G.S. 143-747(c)(3a).
- (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. Each agency head shall annually certify to the Council that the audit plan was developed and the audit reports were conducted and reported in accordance with required standards.

(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 of staff, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

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

(f) Reporting Fraudulent Activity. - If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1; 2015-241, s. 25.1(a); 2015-268, s. 7.4; 2021-180, s. 24.5(a).)

#### **§ 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. The Attorney General may appoint a designee.
  - (5) The Secretary of Revenue.
  - (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.
  - (7) One member appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of Certified Public Accountant Examiners. The member shall be appointed for a term of four years and shall serve until a successor is appointed. A vacancy for a member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.
  - (8) One member appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of Certified Public Accountant Examiners. The member shall be appointed for a term of four years and shall serve until a successor is appointed. A vacancy for a

member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.

(a1) The Council shall hire an Executive Director as selected by a majority of the Council. The Executive Director shall serve at the will of the Council and be exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.

(a2) The Council shall hire two full-time employees, as selected by a majority of the Council, to provide assistance to the Executive Director and to other staff of the Council of Internal Auditing. The employees shall perform any duties delegated by the Executive Director, serve at the will of the Council, and are exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.

(b) The Council, including the position of Executive Director, 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.
- (3a) Establish required minimum key performance indicators and criteria that comply with the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors.
- (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.

- (11a) Gather and assess the extent to which State agencies have met the minimum key performance indicators and criteria required under subdivision (3a) of this subsection. The Council shall report its findings to the Joint Legislative Commission on Governmental Operations on or before December 31, 2022, and annually thereafter.
- (12) No later than November 1 of each year, issue a report that shall include, but not be limited to, service efforts and accomplishments of State agency internal auditors and proposed legislation for consideration by the Governor and General Assembly. The annual report shall be prepared by the Office of State Budget and Management and shall be submitted to the Joint Legislative Oversight Committee on General Government. (2007-424, s. 1; 2013-406, s. 1; 2021-180, ss. 24.5(b), 37.1(f); 2022-6, s. 10.2.)

**§ 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.)