



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Charles Perusse
State Budget Officer

Machelle Sanders
*Secretary of
Administration*

Josh Stein
Attorney General

Ron Penny
Secretary of Revenue

Beth Wood
State Auditor

Agenda

October 10, 2018

Dobbs Building Room 2009, 2nd Floor

Reading of Ethics Awareness Reminder

- A. Approval of Minutes – April 11, 2018 (*Action item*)
- B. Staffing Update
- C. Objectives
 - 1. Training
 - i. 3rd Annual Fraud Busters Conference
 - ii. Certified Internal Auditor Review Course
 - 2. External Quality Assurance Review
 - 3. Two-Year Audit Plan (*Action item*)
 - 4. Annual Activity Report (*Action item*)
- D. Council Reports
 - 1. Award of Excellence
 - 2. Internal Audit Recruitment and Retention

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 11, 2018

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, April 11, 2018 in the Commission Room located in the Administration Building, 116 West Jones 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
Charles Perusse, State Budget Director
Daryl Morrison representing Ronald Penny, Secretary of Revenue
Bryan Brannon representing 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 Charles Perusse, seconded by David Elliot, the Council unanimously approved the minutes of the October 11, 2017 meeting.

B. Staffing Update

Barbara Baldwin stated the information system auditor position is vacant and has been posted. There were 41 applicants, 2 were qualified. Both qualified individuals declined an interview. Ms. Baldwin stated the position will be reposted with a higher hiring range which was approved by the State Budget Director. Ms. Baldwin hopes to be more competitive with the reposting and plans to post the position with the IIA and ISACA as well. Ms. Baldwin mentioned there will also be an addition of a support staff position. Mr.

Perusse stressed the importance of getting the right people in the right positions and that he was committed to doing so. Dr. Combs thanked Mr. Perusse for his continued support of the Council.

C. Objectives

1. Future Training

Ms. Baldwin stated her staff were working on 2 future trainings. The first being the 3rd Annual Fraud Busters Conference on July 31 and August 1, 2018. Ms. Baldwin stated there were several reasons for moving the conference into the next fiscal year. The training will be held at the Joint Force Headquarters and there are 200 available seats. Don Rabon will be the speaker for the first day of the conference. Ms. Baldwin stated the fee to attend the conference will be no more than \$90.00.

Ms. Baldwin stated the second planned training is the 4-day CIA Exam Review Course held each fall at the Administrative Office of the Courts. Garland Granger will be the instructor again and there are 70 available seats. Mr. Elliot graciously offered to have some Department of Justice employees speak at the second day of the Fraud Buster Conference. State Auditor Wood expressed some concern about the quality of risk assessments being conducted by internal audit shops around the state. State Auditor Wood asked if any trainings were being held regarding risk assessments. Ms. Baldwin stated a risk assessment and critical thinking training was held the previous year. 3 trainings regarding risk assessments have been held since 2008 and Ms. Baldwin stated it will remain an area of focus.

2. External Quality Assurance Review

Ms. Baldwin explained the purpose of the External Quality Assurance Review and touched on the timeline of the QAR process at OSBM OIA. Lisa Gaetano, CIA, CPA, CISA, Chief Audit Office at Western Carolina University and Ryan Dupree, CIA, CPA, Internal Auditor at the Department of Public Instruction have been selected as reviewers. Ms. Baldwin explained these individuals have been selected due to CIA and CISA certifications they hold. The reviewers will be on site the week of May 7th and plan to issue a report no later than June 6, 2018.

3. Performance Measures

Ms. Baldwin stated IIA Standard 1300 requires the establishment of a quality assurance and improvement program. Within this program there are quality measures that OIA uses to assess its performance. Ms. Baldwin state the first performance measure examined was engagement work. This compares the audit plan to the actual engagements completed and the target is 90%. Barbara reminded Council members the audit plan is fluid and often changes due to investigations and other requested engagements. The next performance measure compares budgeted engagement hours to actual engagement hours. Ms. Baldwin indicated the target measure of 10% variance was met. Ms. Baldwin indicated many of the engagements she worked on contributed to the 10% over variance. She went onto productivity time which compares available work hours to actual productive hours. The

goal of 85% was not met. Ms. Baldwin proceeded to explain cost savings, effort by agency and type of engagement with their accompanying graphs. State Auditor Wood pointed out the different methodology her office uses to measure productivity time. Ms. Baldwin explained how this is the first time all costs were accurately captured and could have affected the cost savings target measure. Ms. Baldwin went on to give an overview of staff development and stakeholder satisfaction.

D. Council Reports

1. Award of Excellence

Ms. Baldwin explained how the OIA has boosted its marketing effort to increase the number of nominations submitted by attending Chief Operating Officer and Deputy and Chief Financial Officer meetings. 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. The Internal Auditor’s Award of Excellence will be presented at the OSC Financial Conference in December.

2. Internal Auditor Retention and Recruitment

Ms. Baldwin stated there was no material for this topic. Ms. Baldwin continued by stating there was no longer a director’s band for internal auditors and that the cross walk seemed to have some inconsistencies. Secretary Penny agreed and stated he had been in talks with OSHR regarding the matter. Mr. Perusse described the situation as a work in progress and had spoken to Barbara Gibson about how important it was that we take a second look at this. State Auditor Wood expressed that she was not pleased with the results of this project. Dr. Combs thanked everyone for their thoughts and comments.

3. Future Meeting Schedule

The 2017-18 Council of Internal Auditing Meeting Schedule was included in the agenda. The next meeting is scheduled for 9 AM on July 11, 2018.

There being no further business, Chair Combs adjourned the meeting by acclamation and it was unanimously approved by the Council of Internal Auditing.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held April 11, 2018.

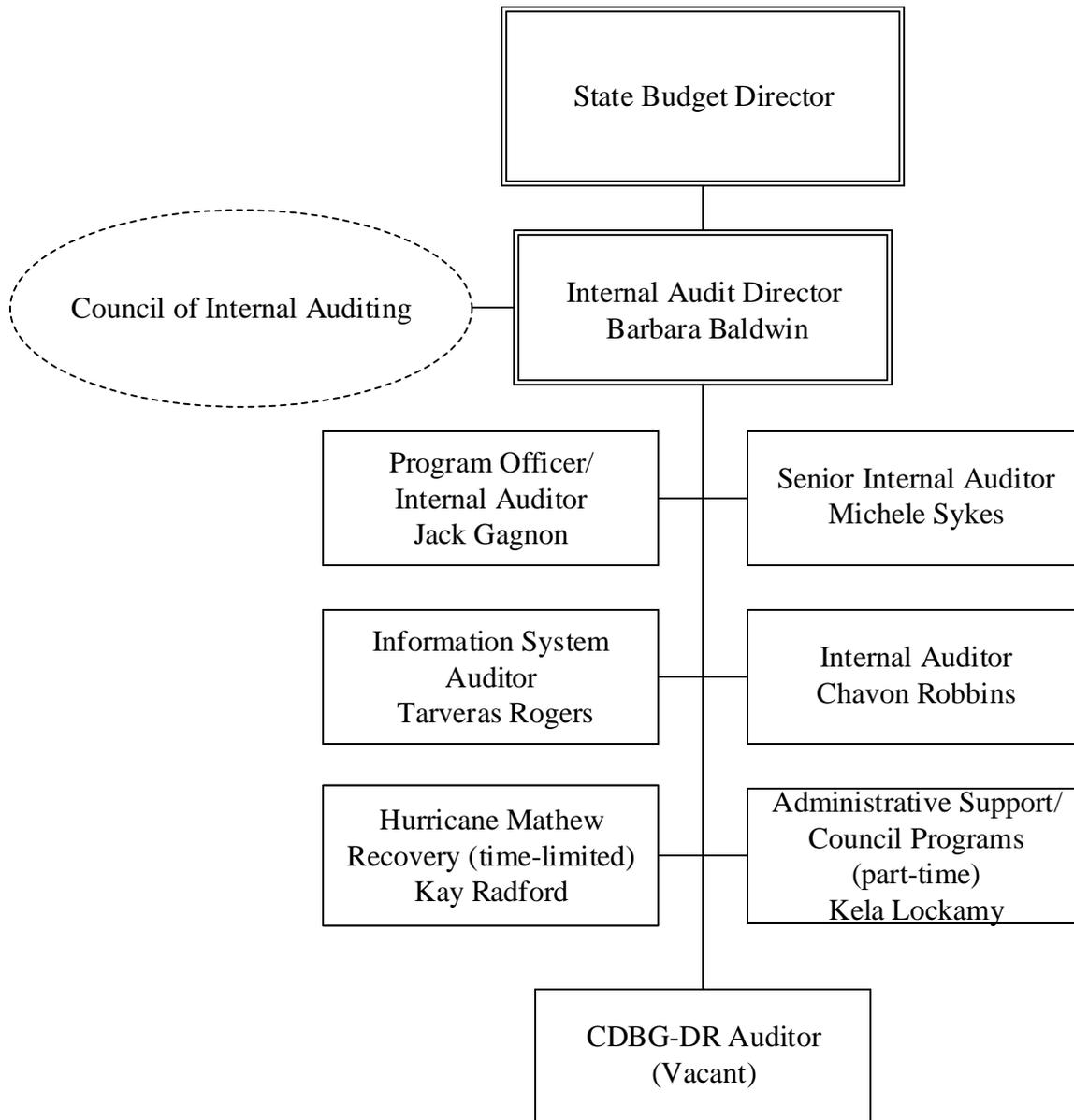
Witness my hand, this ____ day of _____ 2018.

Linda Combs, State Controller, Chair

Barbara Baldwin, Secretary

OSBM Internal Audit

October 1, 2018



2 Day Training Session July 31 and August 1, 2018

Topic: 3rd Annual Fraud Busters Conference

CPE Hours: 14 Continuing Professional Education hours

Participants: 193 participants representing: 25 State agencies; 11 State universities; 4 community colleges; 1 local education agency; 9 local governments; and 19 IIA local chapter members.

Fee: \$90 per participant

Cost: \$5,800 Total

Program Overall Evaluation: 94% Excellent or Very Good

Questions	Excellent	Very Good	Good	Fair	Poor
1. Rating on the Facilities/Location.	68%	22%	7%	1%	2%
2. Speaker's Knowledge and Presentation Skills	73%	23%	3%	1%	0%
3. Course Level/Content Matched the Description.	68%	29%	3%	0%	0%
4. Quality and Relevancy of Program Materials.	65%	31%	4%	0%	0%
5. Amount of Time Allotted for Training.	65%	28%	6%	1%	0%

Positive Comments:

- I could learn something new from Don Rabon every year! The speakers from other state agencies were great!
- Can't wait for next year's conference. I learned a lot of things that will improve my professional skepticism in the workplace and also areas which I can safeguard in my life as well.
- I have been to all three Fraud Buster trainings, and this was my favorite. All of the speakers were excellent, the facility was wonderful, and the food was delicious. Looking forward to next year!
- This was my first Fraud Busters conference and I am glad I went. I learned a lot, the speakers were effective and engaging, and I look forward to putting some of the things I learned into practice.
- Beth Woods was phenomenal in engaging the crowd and relating to everyday fraud seen in the workplace! The GA's office did a great job as well! Felt like this conference was a great opportunity to meet and network with others in our field.

Negative Comments:

- I cannot find the learning objectives for the sessions or the conference as a whole, so I wasn't able to respond to that question. Please enhance the agenda for the program. The emailed agenda did not have the name of the conference nor the date of the conference, which made submitting for travel purposes difficult.
- I wish Dan Rabon had gone through some complete interview process in an investigation and told us the resulting details of a particular case.
- There were no handouts for second day. It would have been nice if instructors had the ability to change volume while presenting.
- I would have like to see some of the speakers not read directly off the slides.
- It was very uncomfortable to sit in stadium seating for 2 days. Very little leg room for stretching and difficult to take notes.

Office of Internal Audit Future Training

- Topic:** 3rd Annual Certified Internal Auditor Review Course
- CPE:** 32 Continuing Professional Education hours
- Date:** Part I – 8:30 to 5:30 Friday, September 28, 2018
Part II – 8:30 to 5:30 Friday, October 26, 2018
Part III – 8:30 to 5:30 Friday, November 9 & 16, 2018
- Location:** Administrative Office of the Courts
- Cost:** \$275 per participant, Parts I, II, and III
\$170 per participant, Part III only
- Participants:** 39 registered as of September 20, 2018
- Speaker:** Garland Granger, CPA, CIA, CFE is president of Professional Accounting Seminars, Inc. He worked for 2 years in banking, 8 years in public accounting and is Associate Professor of Accounting at Guilford College in Greensboro.

Garland has taught the CIA Review course for the Charlotte Chapter of the IIA for the past five years. He taught a three-weekend CIA review course for the Boston Chapter of the IIA for six years. The course was offered twice a year and during that time over seven hundred attendees became CIAs. He has also taught a CIA review course for the Columbia, South Carolina Chapter of the IIA for twenty-four years. Garland has been teaching accounting seminars for the past 19 years. He has taught more than 900 continuing education seminars for CPAs in twenty states. He offers seminars to the public as well as teaching in-house seminars to CPA firms and major corporations.

COUNCIL'S PEER REVIEW PROGRAM

EXTERNAL QUALITY ASSESSMENT

OF

THE OFFICE OF STATE BUDGET AND MANAGEMENT'S

INTERNAL AUDIT FUNCTION

June 5, 2018

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June 5, 2018

Charles Perusse, State Budget Director
Office of State Budget and Management
Barbara Baldwin, Internal Audit Director
Office of State Budget and Management, Council of Internal Auditing

Greetings:

I have completed an External Quality Assessment (QA) of the Council of Internal Audit's Internal Audit Function as required every five years by the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*. The objectives of the QA were:

1. To assess conformance with the mandatory requirements of the *IIA Standards*;
2. To assess the effectiveness of the Internal Audit activity in providing services to the management of the Council of Internal Audit; and
3. To identify opportunities for improving the Internal Audit Program at the Council of Internal Audit.

Overall, it is my opinion that the Office of State Budget and Management's Internal Audit Function **Generally Conforms** to the *IIA Standards*. I noted opportunities for improvement that will enhance conformance with the *Standards* and improve the effectiveness of the Internal Audit Function. These are described in a following section of this report.

Lisa Gaetano, CPA, CIA, CISA
Chief Audit Officer
Western Carolina University

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EXECUTIVE SUMMARY

The *International Standards for the Professional Practice of Internal Auditing* requires that an external quality assessment of an internal audit activity must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the quality assessment process. The quality assessment can be accomplished through a full external assessment or a self-assessment with independent validation.

The Chief Audit Executive (CAE) discussed the form and frequency of the quality assessment, as well as the independence and qualifications of the external assessor or assessment team, including any potential conflicts of interest with the appropriate oversight. The Council's Peer Review Program selected Lisa Gaetano and Ryan Dupree as the qualified, independent assessment team to conduct a full external assessment of the internal audit function (IA) of The Office of State Budget and Management.

The Council of Internal Audit, which is supported by the Office of State Budget and Management, was created in response to the Internal Audit Act of 2007. The Internal Audit Act, § 143-175 requires that all state agencies having operating funds exceeding ten million dollars and having more than one hundred full-time equivalent employees, or receiving and processing more than ten million dollars in cash in a fiscal year shall establish a program of internal auditing. Per §143-747, the Council of Internal Auditing will recommend staffing guidelines needed by each state agency; develop internal audit guides; administer an independent peer review program for each state agency's internal audit activity; provide central training sessions, and administer a program for sharing internal auditors among State agencies needing temporary assistance.

In addition to these responsibilities, the Council of Internal Audit's audit charter requires that the Council of Internal Audit examine and evaluate the adequacy and effectiveness of the following organizations' governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve each organization's stated goals and objectives.

- The Commissioner of Banks
- The Department of Labor
- Department of Military and Veterans Affairs
- The Industrial Commission
- The Office of State Budget and Management
- The Office of State Human Resources
- The Office of the Governor
- The Office of the State Auditor

OPINION AS TO CONFORMANCE TO THE STANDARDS

It is our overall opinion that the Council of Internal Audit's IA activity ***Generally Conforms***. For a detailed list of conformance to individual *Standards*, please see Attachment A.

The IIA's *Quality Assessment Manual for the Internal Audit Activity* suggests a scale of three rankings when

opining on the internal audit function: “Generally Conforms,” “Partially Conforms,” and “Does Not Conform.” The ranking of “Generally Conforms” means that an IA has a charter, policies, and processes that are judged to be in conformance with the *Standards* and the Code of Ethics. “Partially Conforms” means that deficiencies in practice are noted and are judged to deviate from the *Standards* and the Code of Ethics; however, these deficiencies did not preclude the IA from performing its responsibilities in an acceptable manner. “Does Not Conform” means that deficiencies in practice are judged to deviate from the *Standards* and the Code of Ethics, and are significant enough to seriously impair or preclude the IA from performing adequately in all or in significant areas of its responsibilities. A detailed description of conformance criteria can be found in Attachment A.

OBJECTIVES

The principal objectives of the Quality Assessment (QA) were to:

- Assess IA’s conformance with the *Standards* and the Code of Ethics.
- Evaluate IA’s effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the expectations of management);
- Identify successful internal audit practices demonstrated by IA; and
- Identify opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and value provided to stakeholders.

SCOPE AND METHODOLOGY

As part of the preparation for the external assessment, the Internal Audit Director prepared documents outlining detailed information regarding the IA function, and sent surveys to a representative sample of the Council of Internal Audit’s key stakeholders. A summary of the survey results (without identifying the individual survey respondents) has been furnished to Western Carolina University’s Chief Audit Officer. Prior to commencement of the onsite work by the peer review team on May 7, 2018, the team lead worked with the Internal Audit Director to gather additional background information related to the IA governance, staff management and processes. During the onsite fieldwork, extensive interviews were conducted with stakeholders and IA staff. Western Carolina University’s Chief Audit Officer also reviewed IA’s risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of IA’s working papers and reports.

SUMMARY OF OBSERVATIONS AND POSITIVE ATTRIBUTES

1. Successful Internal Audit Practices – Areas where IA is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit functions. Successful internal audit practices identified during this QA are summarized and detailed in the following section(s) of this report:

- Standard 2010 – Planning – The risk-based audit plan adds value and improves the agency’s operations since it is based on both internal and external risk factors.
- Internal Audit Definition – Valued Partner – Internal audit adds value to agencies based on the numerous requests the activity receives for technical assistance, assurance and consulting services. Results from interviews and surveys further confirmed that IA is

- adding value to the agencies that it serves.
- Standard 1300 – Quality Assurance Improvement Program – Continuous improvement is embedded in the internal audit culture.
 - Standard 1230 – Continuing Professional Education – Training standards are developed and OSBM management supports this effort through payment of professional membership, training opportunities; certification examination materials and other publications.

2. Gaps to Conformance with the *Standards* or the Code of Ethics – Areas identified during the QA where the assessment team has concluded that IA is operating in a manner that falls short of achieving one or more major objectives with the *Standards* or the Code of Ethics that results in an opinion for an individual standard of “partially conforms” or “does not conform.” These items will include recommendations offered by the external assessment team for actions to be implemented for achieving “generally in conformance” with the standard and will include an IA response and an action plan to address the gap. Gaps to conformance with the *Standards* or Code of Ethics identified during this QA are summarized and detailed in the following section(s) of this report:

- Standard 1130 – Resource Limitation – Limitations with internal audit staffing increase the risk exposure to agencies that are served.

3. Opportunities for Continuous Improvement – Observations of opportunities to enhance the efficiency or effectiveness of IA’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or the Code of Ethics. They may also be operational ideas based on the experiences of the external assessment team from working with other internal audit activities. A management response and an action plan to address each opportunity for continuous improvement noted are normally included. Opportunities for continuous improvement identified during this QA are summarized and detailed in the following section(s) of this report:

- Standard 1220.A2 – Data Analytic Techniques – Lack of data analytic tools decreases the efficiency of internal audit.

DETAIL – SUCCESSFUL INTERNAL AUDIT PRACTICES

1. Robust Planning Process

Standard 2010 states that *“the Chief Audit Executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization’s goals.”*

Standard 2010.A1 states that *“The internal audit activity’s plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management...must be considered in this process.”*

Internal Audit developed a robust risk assessment which identifies internal and external risks related to eight significant business areas. In addition, a separate risk assessment was performed for information technology. Input from senior management was obtained and requested engagements were considered. The risk assessment was conducted for each of the eight agencies outlined in the audit charter. The combined results of these assessments were used to create the two-year risk-based audit plan which is modified as risk changes within the agency.

2. Valued Partner

The Definition of Internal Auditing states that *“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”*

Internal audit is highly valued not only by the agencies outlined in the audit charter but by other agencies based on requests for services. During FY 2017, ten engagements were completed based upon requests from management. Three of these were from agencies not under the authority of internal audit. Also, over 450 hours were spent providing technical assistance to agencies around the State.

Finally, feedback from interviews with senior management and key stakeholders, combined with results from management surveys, indicated a high level of satisfaction with results from consulting and assurance engagements. Below are some of the comments obtained from these interviews and surveys.

“The agency’s internal audit activity’s main strength is its added value to the executive team. It adds a good perspective of risk management to the strategic planning and analysis of the agency”

“Internal audit has spearheaded procurement reform.”

“Internal audit has definitely been helpful from a policies and procedures standpoint.”

“Barbara’s feedback helped me move through the process of developing a new IT inventory program.”

3. Strong Quality Assurance Improvement Program

Standard 1300 states that *"The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity."*

Internal audit has developed a strong program to ensure continuous efficient and effective improvements which is embedded within the internal audit culture. Major target measures tie back to the internal auditor's performance work plans to ensure goals are understood and staff contribute to their accomplishment. Tools and templates aid in monitoring auditor productivity and budget-to-actual hours allow for quick corrective action when necessary. Checklists are used for each engagement ensuring quality of work and conformance with Audit Standards. Major target measures are reported to the Council of Internal Auditing and senior management.

4. Notable Continuing Professional Education

Standard 1230 states that *"Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development."*

Internal audit has a continuing professional education (CPE) policy requiring more than the average 40 hours of CPE to ensure auditors are competent and continually improve skill sets. OSBM management is very supportive in this effort and pays for CPE training; membership to professional associations; training/study materials for certification examinations; and relevant auditing and leadership publications. In FY 2017, IA personnel obtained, on average, 99 hours of CPE.

DETAIL – GAPS TO CONFORMANCE WITH THE STANDARDS OR CODE OF ETHICS

1. Resource Limitation: Staffing Levels

Standard 1130 Impairment to Independence or Objectivity

"If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties."

Interpretation:

*"Impairment to organizational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel, and properties, and **resource limitations** such as funding."*

Condition:

Part of our review included examination of the results of the prior quality assurance review. These results indicated that there was a possible impairment to independence or objectivity due to the nature of internal audit's work as it relates to "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."

We noted the same impairment. In addition to this the internal audit activity recently lost its information technology auditor, therefore losing the proper skill set to perform information technology-related audits. Furthermore, OSBM's staffing analysis indicates that the internal audit

activity needs a minimum of six audit positions. It currently has five positions, two of which spend half their time administering the Council of Internal Auditing programs. Internal Audit currently provides audit services for seven different agencies. It also provides audit services for agencies that need assistance and may conduct investigations in any agency.

The internal audit activity does not have the resources to address all high-risk areas identified in the FY 2017 risk assessment. Approximately twenty-six high risk topics were identified during the FY 2017 risk assessment. Internal Audit was only able to include twelve of these, or forty-six percent, as audit engagements on the FY 2017-2018 audit plan. In addition to this, there were thirty-five medium risk areas identified in the FY 2017 risk assessment. Internal Audit was only able to include four of these, or twelve percent, as audit engagements on the FY 2017-2018 audit plan.

Recommendation:

Recruit talent or develop it from within to obtain the necessary skill set needed for information technology audits.

Add the necessary additional full time audit staff position(s) to the current staff to ensure Internal Audit can provide adequate coverage of high and medium risk areas identified within the risk assessment. This will help mitigate exposure to risks within the entities under the Director of Internal Audit's authority.

Response:

Internal Audit is in the process of hiring an information systems auditor. Interviews are being conducted during the week of June 4th and a hiring decision should be finalized by June 15.

OSBM Senior Management is aware of the lack of resources within Internal audit and approved one support position to administer many of the Council of Internal Auditing programs which will allow one auditor to fully-focus their efforts on assurance and consulting services.

The available staffing and resources is not set by OSBM and its Senior Management, but by the enacted state budget. OSBM has and will continue to request additional staffing and resources for Internal Audit through the budget process.

DETAIL – OPPORTUNITIES FOR CONTINUED IMPROVEMENT

1. Improve use of data analytics

Standard 1220.A2

*“In exercising due professional care internal auditors must consider the use of **technology-based audit and other data analysis techniques.**”*

Condition

Internal Audit does not utilize data analytics tools other than Excel. Data analytics performed by

internal audit is mainly a manual process. The use of data analysis technology assists auditors in increasing audit coverage, performing more thorough and consistent audits, and ultimately increasing the levels of assurance that is provided to agencies¹. Benefit of investing in data analytic tools includes the ability to:

- Analyze an entire data population
- Preserve data integrity
- Join and compare data from multiple sources
- Support continuous auditing
- Detect fraud risk

Recommendation

Purchase data analytics tools, or a set of tools, and invest in the necessary training for all internal auditors to enhance this skill set. Training is critical to the implementation and success of such tools.

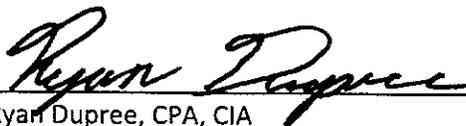
Response:

Data analytics is a major initiative within Internal Audit. Progress toward identifying the appropriate tool was placed on hold after the information technology auditor retired. The Internal Audit Director has attended several technology conference and training session to learn more about implementing a data analytics program within Internal Audit. The next step is to hire the information system auditor and work with OSBM Technology and Data Service to obtain the proper data analytic tool. The information system auditor will be responsible for developing this program and educating staff on the use of the tool.

We appreciate this opportunity to be of service to agency/university. We will be pleased to respond to further questions concerning this report and to furnish any desired information.



Lisa Gaetano, CPA, CIA, CISA
Chief Audit Officer
Western Carolina University



Ryan Dupree, CPA, CIA
Internal Auditor
Department of Public Instruction

¹ Institute of Internal Auditors Global Technology Audit Guide *Data Analysis Technology*

ATTACHMENT A: EVALUATION SUMMARY AND RATING

DEFINITIONS

	GC	PC	DNC
OVERALL EVALUATION:	X		

IIA Code of Ethics	GC	PC	DNC
Code of Ethics	X		

Attribute Standard (1000 – 1300)		Standards			Major Category		
		GC	PC	DNC	GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X			X		
1010	Recognition of the Definition of Internal Auditing	X					
1100	Independence and Objectivity				X		
1110	Organizational Independence	X					
1111	Direct Interaction with the Board	X					
1112	Chief Audit Executive Roles Beyond Internal Auditing	X					
1120	Individual Objectivity	X					
1130	Impairments to Independence or Objectivity		X				
1200	Proficiency and Due Professional Care				X		
1210	Proficiency	X					
1220	Due Professional Care	X					
1230	Continuing Professional Development	X					
1300	Quality Assurance and Improvement Program				X		
1310	Requirements of the Quality Assurance and Improvement Program	X					
1311	Internal Assessments	X					
1312	External Assessments	X					
1320	Reporting on the Quality Assurance and Improvement Program	X					
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X					
1322	Disclosure of Nonconformance	X					

Performance Standards (2000- 2600)		Standards			Major Category		
		GC	PC	DNC	GC	PC	DNC
2000	Managing the Internal Audit Activity				X		
2010	Planning	X					
2020	Communication and Approval	X					
2030	Resource Management	X					
2040	Policies and Procedures	X					
2050	Coordination	X					
2060	Reporting to Senior Management and the Board	X					
2070	External Service Provider and Organizational Responsibility for IA	X					
2100	Nature of Work				X		
2110	Governance	X					
2120	Risk Management	X					
2130	Control	X					
2200	Engagement Planning				X		
2201	Planning Considerations	X					
2210	Engagement Objectives	X					
2220	Engagement Scope	X					
2230	Engagement Resource Allocation	X					
2240	Engagement Work Program	X					
2300	Performing the Engagement				X		
2310	Identifying Information	X					
2320	Analysis and Evaluation	X					
2330	Documenting Information	X					
2340	Engagement Supervision	X					
2400	Communicating Results				X		
2410	Criteria for Communicating	X					
2420	Quality of Communications	X					
2421	Errors and Omissions	X					
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X					
2431	Engagement Disclosure of Nonconformance	X					
2440	Disseminating Results	X					
2450	Overall Opinions	X					
2500	Monitoring Progress	X			X		
2600	Communicating the Acceptance of Risks	X			X		

Rating Definitions

GC – “Generally Conforms” means that the assessor or the assessment team has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual Standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics, and has not applied them effectively or achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

PC – “Partially Conforms” means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

DNC – “Does Not Conform” means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

**Office of Internal Audit
Audit Plan
July 1, 2018 to June 30, 2020**

Engagement Topic	Agency	Type of Engagement	Fiscal Year	Hours
Risk Assessment	COB	Risk Assessment	2019	100
Risk Assessment	DMVA	Risk Assessment	2019	100
Risk Assessment	DOL	Risk Assessment	2019	85
Risk Assessment	GOV	Risk Assessment	2019	30
Risk Assessment	OSA	Risk Assessment	2019	100
Risk Assessment	OSBM	Risk Assessment	2019	105
Risk Assessment	OSHR	Risk Assessment	2019	100
DOL Federal Timekeeping (carryforward)	DOL	Compliance	2019	20
Accounting Services Fee	OSHR	Follow up	2019	10
Monthly Reconciliation	COB	Follow up	2019	40
Federal Timekeeping	DMVA	Follow up	2019	40
Fiscal Internal Controls Review	DMVA	Follow up	2019	60
Grant Process Review	DMVA	Follow up	2019	25
Fixed Asset Review (Carryforward)	GOV	Follow up	2019	40
A\R Internal Controls Assessment	OSBM	Follow up	2019	50
Temporary Solutions-AR	OSHR	Follow up	2019	40
Position Hiring	OSHR	Follow up	2019	10
EAGLE	OSBM	Internal Controls	2019	80
EAGLE	DOL	Internal Controls	2019	120
IT General Controls	OSA	Information Technology	2019	240
Network Device: Controls & Configuration	OSA	Information Technology	2019	160
Medicaid Servers: Controls & Configuration	OSA	Information Technology	2019	200
IBIS Access Reviews	OSBM	Information Technology	2019	160
Oracle DB: Controls and Configuration	OSBM	Information Technology	2019	160
Licensing Process	COB	Operational	2019	150
Mortgage Servicing Examination Process	COB	Operational	2019	250
DOA Accounting Fees	DMVA	Operational	2019	200
Contract Monitoring	DMVA	Operational	2019	200
Economic Development Partnership NC	DOC	Operational	2019	180
Budget Review (carryforward)	GOV	Operational	2019	20
On-boarding/ new analyst training	OSBM	Operational	2019	100
Grant Monitoring (carryforward)	OSBM	Operational	2019	40
Contract Administration (carryforward)	OSHR	Operational	2019	390
Temporary Solutions-Administrative Fee	OSHR	Operational	2019	320
DOC Wasteful Spending	DOC	Investigations	2019	40
Employee Timekeeping (carryforward)	DOC	Investigations	2019	25
Employee Retirement Funds	DST	Investigations	2019	10
Housing Related Needs Data Analytics	OSBM	Consulting	2019	200
Resilient Redevelopment Planning	OSBM	Consulting	2019	197
Post Implementation Study	OSHR	Consulting	2019	200
Information Technology Server Review	GOV	Consulting	2019	24
Civil Penalties payments	OSBM	Consulting	2019	75
UNC Asheville QAR	CIA	Quality Assurance Review	2019	150
OSC QAR	CIA	Quality Assurance Review	2019	150
NC State University QAR	CIA	Quality Assurance Review	2019	120
Statewide Data Analytics Programs	CIA	QAIP	2019	40
Internal Self-Assessment	CIA	QAIP	2019	40
Data Analytics Internal Program	CIA	QAIP	2019	80
Risk Assessment	COB	Risk Assessment	2020	50
Risk Assessment	DMVA	Risk Assessment	2020	50
Risk Assessment	DOL	Risk Assessment	2020	50
Risk Assessment	GOV	Risk Assessment	2020	50

Engagement Topic	Agency	Type of Engagement	Fiscal Year	Hours
Risk Assessment	OSA	Risk Assessment	2020	50
Risk Assessment	OSBM	Risk Assessment	2020	50
Risk Assessment	OSHR	Risk Assessment	2020	50
Continuous Auditing (P-cards)	DMVA	Compliance	2020	30
Continuous Auditing (P-cards)	OSA	Compliance	2020	30
Licensing Process	COB	Follow up	2020	25
Mortgage Servicing Examination Process	COB	Follow up	2020	25
DOA Accounting Fees	DMVA	Follow up	2020	40
Contract Monitoring	DMVA	Follow up	2020	40
Economic Development Partnership NC	DOC	Follow up	2020	30
On-boarding/ new analyst training	OSBM	Follow up	2020	20
Grant Monitoring	OSBM	Follow up	2020	20
Contract Management	OSHR	Follow up	2020	40
Temporary Solutions-Administrative Fee	OSHR	Follow up	2020	40
Flex Benefits Fund Analysis	OSHR	Follow up	2020	40
Information Technology (2019 engagements)	OSA	Follow up	2020	60
Information Technology (2019 engagements)	OSBM	Follow up	2020	40
EAGLE	DOL	Internal Controls	2020	120
EAGLE	OSBM	Internal Controls	2020	80
SDLC for NCCOB Online Rewrite	COB	Information Technology	2020	160
IT General Controls	COB	Information Technology	2020	160
SQL DB Controls and Configuration	COB	Information Technology	2020	120
Windows configuration	DMVA	Information Technology	2020	80
System Access Controls	OSBM	Information Technology	2020	120
Database: Controls and Configuration Baseline	OSA	Information Technology	2020	200
Mortgage Origination Examination Process	COB	Operational	2020	200
Commerce Accounting Fee	COB	Operational	2020	200
Burial Fees	DMVA	Operational	2020	400
Quarterly Review	OSBM	Operational	2020	150
Flex Benefits Fund Analysis	OSHR	Operational	2020	320
Internal Self-Assessment	CIA	QAIP	2020	40
Data Analytics Internal Program	CIA	QAIP	2020	160
Contingency				2,300
FY 2019				5,276
FY 2020				3,340
Grand Total				10,916

Legend

- CIA: Council of Internal Auditing
- COB: Commissioner of Banks
- DOC: Department of Commerce
- DOL: Department of Labor
- DMVA: Department of Military and Veteran's Affairs
- DST: Department of State Treasurer
- GOV: Office of the Governor
- OSA: Office of the State Auditor
- OSBM: Office of State Budget and Management
- OSHR: Office of State Human Resources
- QAIP: Quality Assurance Improvement Program

Chart 1: Efforts By Agency

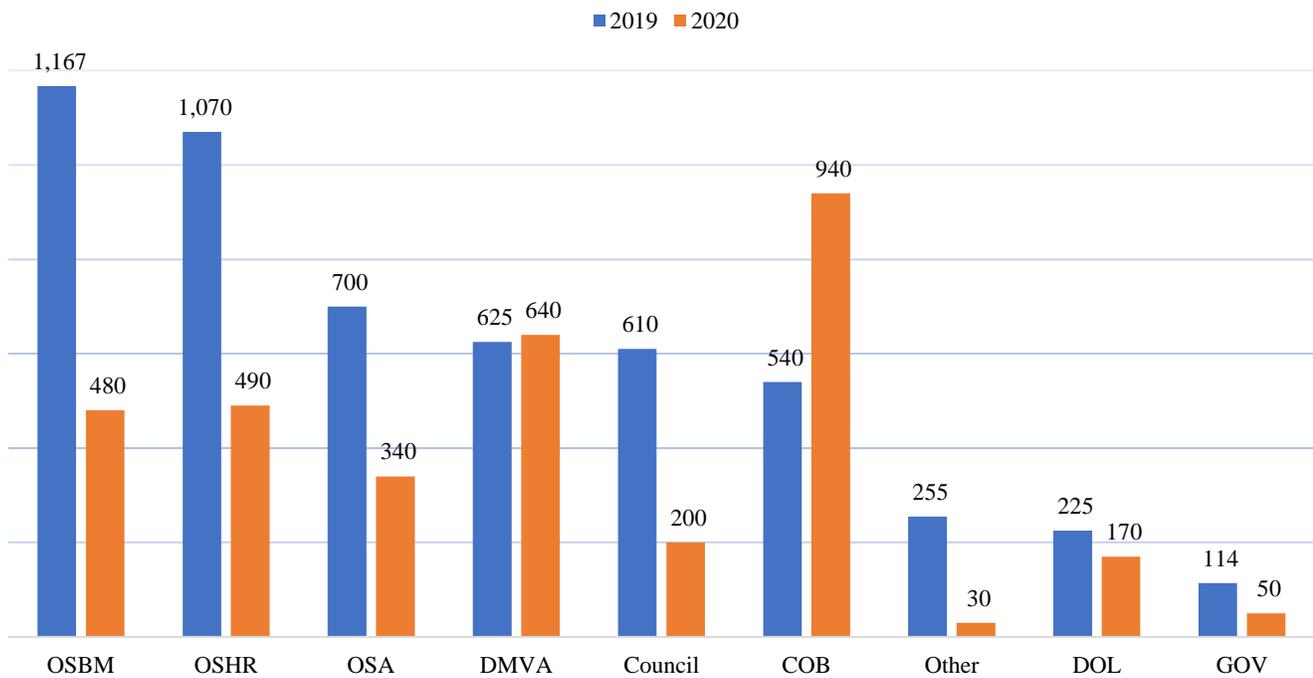
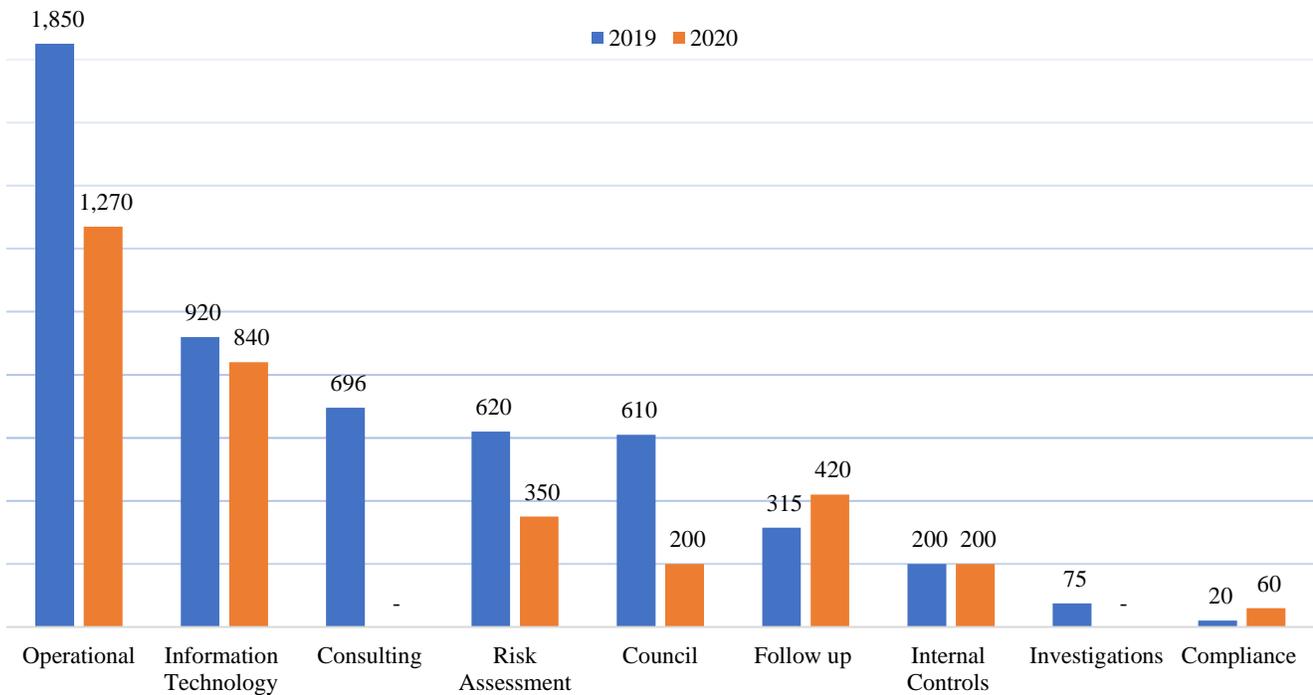


Chart 2: Effort by Engagement Type



Other Agencies:
 Department of Commerce
 Department of State Treasurer

Council 2019:
 Three Peer Review
 engagements
 Internal Self-Assessment

Council 2020:
 Internal Self-Assessment
 Data Analytic projects

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2018



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 2017 through June 2018 of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Council Resource and Requirements

Membership and Programs

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

Table 1

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

The Council is mandated to administer programs and activities which:

- 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.

¹ Entire Internal Audit Act is in Appendix A.

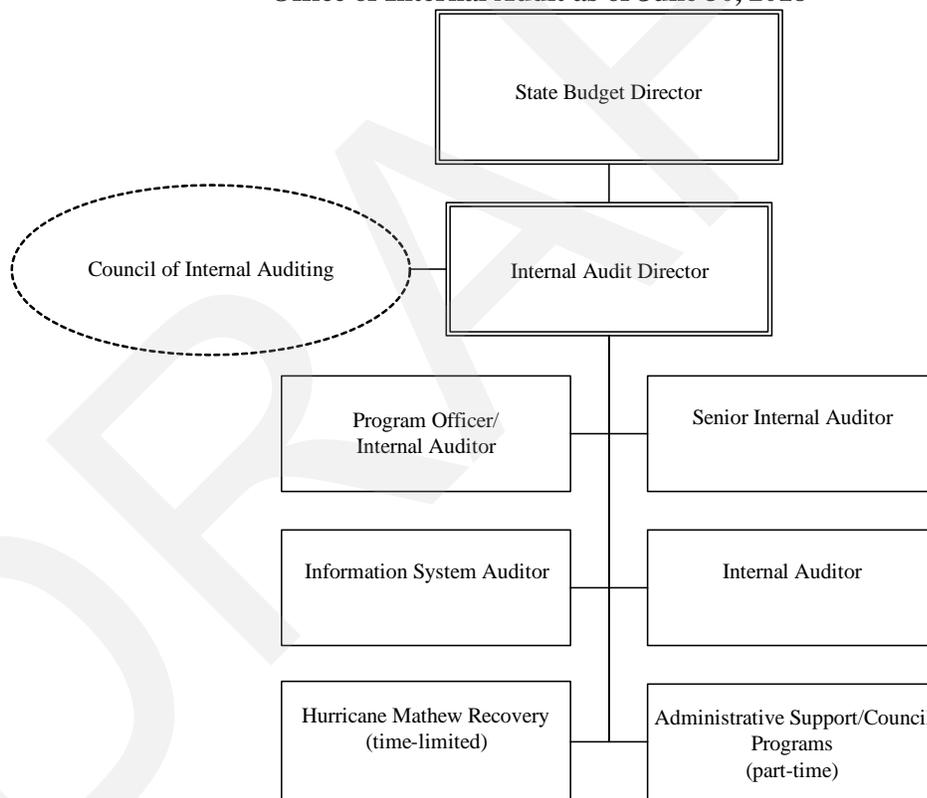
² Agency means department, office, university, commission, board.

Council Staff and Expenditures

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

- Two Certified Internal Auditors;
- Two Certified Fraud Examiner;
- One Certified Government Audit Professional;
- One Certified Public Accountants;
- One Certified Internal Control Auditor;
- One Certified Information System Auditor; and
- One Project Management Professional.

**Exhibit 1
Office of Internal Audit as of June 30, 2018**



The expenditures for FY2013-14 through FY2017-18 are shown in Table 2, on the next page. The Office of Internal Audit had a 3% overall decrease in expenditures during FY2017-18.

The decrease is attributed to: the information system auditor position's four-month vacancy; a strategic change regarding general auditing software; and less travel. Training and development increase is related to the external quality assurance training provide by the Institute of Internal Auditing which was free of charge to attendees.

Table 2

Office of Internal Audit Five Year Expenditures					
Expenditures	FY2017-18	FY2016/17	FY2015/16	FY2014/15	FY2013/14
Personnel					
<i>Employee</i>	508,707	518,220	504,252	413,646	464,540
<i>Contractor</i>	-	15,020	29,887	172,678	33,315
Total Personnel	508,707	533,240	534,139	586,324	497,855
Purchased Services					
<i>Software</i>	2,559	5,411	4,267	3,552	4,533
<i>Training & Development</i>	15,351	2,245	4,968	6,355	13,210
<i>Information Technology Services</i>	10,261	6,368	5,760	5,471	6,895
<i>Travel, Telephone, Miscellaneous</i>	2,941	7,820	2,486	2,838	8,489
Total Purchased Services	31,112	21,844	17,481	18,216	33,127
Supplies	-	-	50	-	-
Property, Plant, & Equipment	-	2,181	610	-	-
Other	1,454	1,385	452	1,191	-
Total Expenditures	541,273	558,650	552,732	605,731	530,982
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	541,273	526,422	522,845	382,560	452,695
ARRA Race to the Top Fund	-	-	29,887	223,172	78,287
Other State Agencies	-	15,020	-	-	-
Rhode Island QAR	-	17,208	-	-	-

Efforts and Accomplishments

Over the last ten years the Council complied with the mandated requirements in the Act. Guidelines and manuals were published in May 2008, communicated to all internal auditors and continue to be updated when necessary. The peer review, internal audit recognition and shared internal audit programs were developed and operationalized. Below are specific accomplishments during FY2017-18.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. During FY2017-18, the Council sponsored three trainings which provided internal auditors the opportunity to earn up to 64 certified professional education (CPE) hours.

A two-day training session was held in September 2017, covering critical thinking and risk assessments to develop an audit plan. The training session provided 16 hours of certified professional education (CPE) hours and charged a fee of \$99.00 per participant. Participants were invited from state agencies, universities, community colleges, local education agencies, local governments and IIA members. There were 118 registered participants and the cost of sponsoring the training session was approximately \$105 per participant. Based on participant surveys, 94% responded that the overall contract of the sessions provided value.

OIA staff coordinated a four-day Certified Internal Auditor (CIA) review course that corresponded to the three parts of the Certified Internal Auditor examination administered by the *Institute of Internal Auditors* (IIA). The training occurred between September and November 2017. The training sessions provided 32 hours of CPE hours and charged a fee of \$265.00 per participant. There were 52 registered

participants and the cost of sponsoring the training was about \$263.00 per participant per day. Based on 33 survey responses, 20 participants attempted to take one or more parts of the examination and results are; 7 participants successfully passed two parts of the examination and 10 participants passed all three parts obtaining the CIA designation.

To increase the number of qualified reviewers for the peer review program, a two-day training was sponsored by OSBM. Performing an Effective Quality Assessment training was held in November 2017, provided 16 CPE hours at no charge to attendees. Participants from state agencies and universities attended under the condition of participating in the peer review program. There were 37 registered participants and the cost of sponsoring this conference \$12,700.

In addition to the three training sessions throughout the year, other free or low-cost training is identified and communicated to all internal auditors. Communication takes place via email and postings on the OSBM website. Over the past year, 56 professional development opportunities were identified and communicated. There were 188.75 CPE hours identified and 36% 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 Auditors' 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. For FY2017-18, seven agencies requested services from the Peer Review program. Four reviews are complete and three are in progress. See page 17 for more details related to the outcomes of the Peer Review program.

Internal Audit Recognition Program

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement in internal auditing. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a state internal auditor or a group of internal auditors who has made extraordinary contributions that promote excellence in internal auditing. The 2017 Internal Auditor Award of Excellence was presented to Stacie Tronto, Chief Audit Officer at East Carolina University.

Shared Internal Audit Program

The internal audit program provides audit services to small state agencies. The guidelines 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 to eight agencies are using this program, audit assistance may be provided to 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 14.

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 14.

Staffing Analysis

The Council's staffing analysis is a cursory review to identify the minimal number of internal audit positions needed, not the optimal. A more extensive review must be conducted to determine the optimal number of positions need in each internal audit function. The fiscal year 2017 analysis identified 24 agencies under the minimal number of internal auditors needed to address risk within their agencies. Positions needed to get all agencies to the minimal number is 52.50 positions at a cost³ just under \$5 million. Details of the specific staffing recommendations can be seen in Appendix B.

Institute of Internal Auditors Government Group Membership

The purpose of the program is to broaden internal audit knowledge by providing a membership reduction rate. Some benefits of a membership include free and discounted continuing education development and professional publications; enhanced networking; and exclusive on-line resource materials. The Council staff has worked with the IIA to establish the State of North Carolina Government Group membership program that starts October 1 and ends September 30 of each year. Any government employee can join this group and receive a discount on an IIA membership. On October 1, 2017, the program registered 185 individuals and throughout the year, added 21 individuals allowing for a 41% reduction of the membership rate.

New Initiative

Data Analytics

Staff to the Council is working on a statewide efficiency improvement initiative related to data analytics. Data analytics can be embedded throughout the audit process to perform audits faster, cheaper, and better. To provide all internal audit functions the opportunity to utilize data analytics, the software, training, support and annual licensing fee will be provided free of charge⁴.

A cross agency workgroup is managing this initiative. Research was conducted on data analytics and software tools; demonstrations were provided by some internal audit functions to showcase a specific tool and the types of data analytics performed, such as: duplicate payments; Pcard usage; and fraud risk analysis. The group determined there is no one perfect tool for data analytics but will select a user-friendly tool with visualize to improve in data presentation.

Major steps remaining are to negotiate with a vendor to identify cost; develop a business case to support the initiative; and working with executive leadership to fund the initiative.

Proposed Legislation Changes

The Council of Internal Auditing did not sponsor changes related to the Internal Audit Act during the 2017-2018 Legislative Session.

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

⁴ This initiative is depending on identification of funding.

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STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Positions and Contracting

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

As shown in Table 3 on the next page, there are 194.5 internal audit positions, which are spread across 36 state agencies. As of June 30, 2018, 84% of these positions were filled. There was a net gain of 3.25 positions throughout the state over the past year. Significant changes over the last year include:

- Two “one-person” functions, Elizabeth City State University and Western Carolina University, gained one position;
- Department of the State Treasurer gained three positions;
- Department of Environmental Quality gained one position;
- Department of Information Systems lost one position;
- Department of Health and Human Services lost two positions;
- Secretary of State lost one position that was never filled; and
- UNC Chapel Hill lost .75 positions.

Agencies under \$70 million in operating funds can use OSBM as their internal audit function. During fiscal year 2017, eight agencies used OSBM services instead of having an in-house internal audit function. The Department of Military and Veterans Affairs is the only agency that is above the required threshold but uses OSBM due to a lack of resources. Agencies serviced by OSBM during FY2017-18 are:

- Commissioner of Banks;
- Department of Labor;
- Department of Military and Veterans Affairs;
- Office of State Budget and Management;
- Office of State Human Resources;
- Office of the Governor; and
- Office of the State Auditor.

The following agencies outsource 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 System Office;
- North Carolina State Education Assistance Authority contracts with the University of North Carolina System Office;
- Fayetteville State University contracts with an individual; and
- Housing Finance Agency contracts with Cherry Bekaert.

Table 3

Statewide Internal Audit Positions Five Year History					
	2018	2017	2016	2015	2014
Community College System Office	2	2	1	1	1
Commissioner of Banks ¹	0	0	0	0	0
Department of Administration	1	1	1	1	1
Department of Agriculture & Consumer Services	4	4	4	3	3
Department of Commerce	4	4	4	4	5
Department of Natural and Cultural Resources	2	2	2	2	1
Department of Environmental Quality	3	2	2	4	3
Department of Health & Human Services	39	41	41	43	39
Department of Information Technology	2	3	3	3	3
Department of Insurance	1	1	1	1	1
Department of Justice	1	1	1	1	1
Department of Labor ¹	0	0	0	0	0
Department of Military and Veterans Affairs ¹	0	0	0	N/A	N/A
Department of Public Instruction	2	2	2	2	2
Department of Public Safety	20	20	20	19	20
Department of Revenue	3	3	3	3	3
Department of Secretary of State	1	2	1	2	2
Department of State Treasurer	6	3	3	3	3
Department of Transportation	25	25	25	25	22
Housing Finance Agency ²	0	0	1	1	2
North Carolina Education Lottery	3	3	3	3	2
Office of State Controller	0.5	0.5	0.5	0.5	0.5
Office of State Human Resources ¹	0	0	0	0	0
Office of State Budget & Management ¹	5	5	5	5	4.5
Office of the Governor ¹	0	0	0	0	0
Office of the State Auditor ¹	0	0	0	0	0
Wildlife Resources Commission	1	1	1	1	1
Appalachian State University	5	5	5	5	5
East Carolina University	9	8	8	8	7
Elizabeth City State University	2	1	1	1	1
Fayetteville State University ²	0	0	0	1	0
North Carolina Agricultural & Technical State University	4	4	4	4	4
North Carolina Central University	4	4	4	3	3.5
North Carolina School of Science and Mathematics ⁴	0	0	0	0	0
North Carolina School of the Arts ³	0	0	0	0	0
North Carolina State Education Assistance Authority ⁴	0	0	0	N/A	N/A
North Carolina State University	7	7	7	8	7
University of North Carolina - Asheville	1	1	1	1	1
University of North Carolina - Chapel Hill	7	7.75	7	7	7
University of North Carolina - Charlotte	5	5	5	5	5
University of North Carolina - System Office	2	2	1	1	1
University of North Carolina - Greensboro	2	2	2	2	2
University of North Carolina - Health Care System ⁵	7	7	9	10	8
University of North Carolina - Pembroke	2	2	2	1	1
University of North Carolina - Wilmington	4	4	4	4	4
Western Carolina University	2	1	1	1	1
Winston-Salem State University	6	5	5	5	5
Total	194.50	191.25	190.50	194.50	182.50
1. Utilizes Office of State Budget and Management Internal Audit program 2. Uses contract auditors 3. Contracts with Winston-Salem State University 4. Contracts with University of North Carolina System Office 5. FY2017 corrected from 12 to 7 positions.					

Supplement Staffing Efforts

Agencies continue efforts to supplement staffing levels by using: the state term internal audit supplemental staffing convenience contract; and hiring interns and temporary employees. Over the past year, 20 agencies have utilized alternative methods to address resource limitations as shown in Table 4.

Table 4

Supplemental Staffing Efforts				
Agency	State Term Contract	Interns	Temporary Employees	Other
Department of Adminstartion		✓		
Department of Agriculture and Consumer Services		✓		
Department of Commerce		✓	✓	✓
Department of Health & Human Services	✓	✓	✓	
Department of Information Technology		✓		
Department of Public Instruction			✓	
Department of Secretary of State		✓	✓	
Department of Transportation	✓		✓	✓
Office of State Budget and Mangement			✓	
East Carolina University		✓		
North Carolina Agricultural & Technical State University			✓	
North Carolina Central University			✓	
North Carolina State University		✓	✓	
University of North Carolina - Asheville		✓		
University of North Carolina - Chapel Hill			✓	
University of North Carolina - Charlotte				✓
University of North Carolina - Health Care System			✓	
University of North Carolina - Wilmington		✓	✓	
Western Carolina University		✓	✓	
Winston-Salem State University			✓	
Total	2	11	14	3
Other: UNC-Charlotte used a contractor; Department of Transportation borrowed a agency staff member; and Commerce has three Special Project Administrators.				

Personnel Proficiency

Internal auditors can demonstrate proficiency by obtaining professional certifications and advanced degrees. Overall, internal auditors hold 189 professional certifications in 19 different areas; an increase of less than 1% over last year. Eighty-seven percent of the designations held by agency’s internal auditors are in five of the 19 areas which are: Certified Public Accountants; Certified Internal Auditors; Certified Information Systems Auditors; Certified Internal Control Auditor; and Certified Fraud Examiners. A breakdown of all designation held by agency’s internal auditors is shown in Chart 1, on the next page.

Chart 1: FY2017-18 Professional Certification

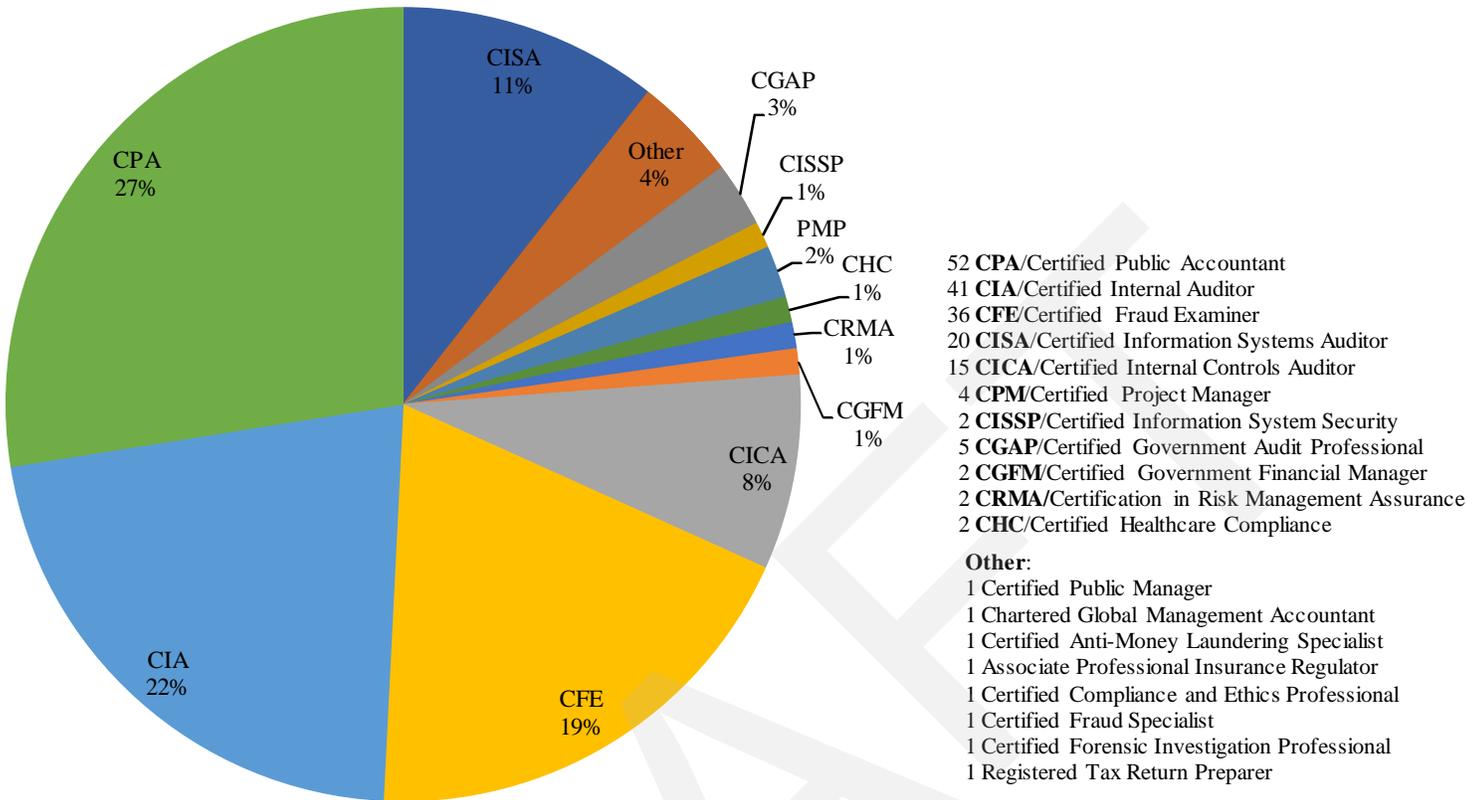
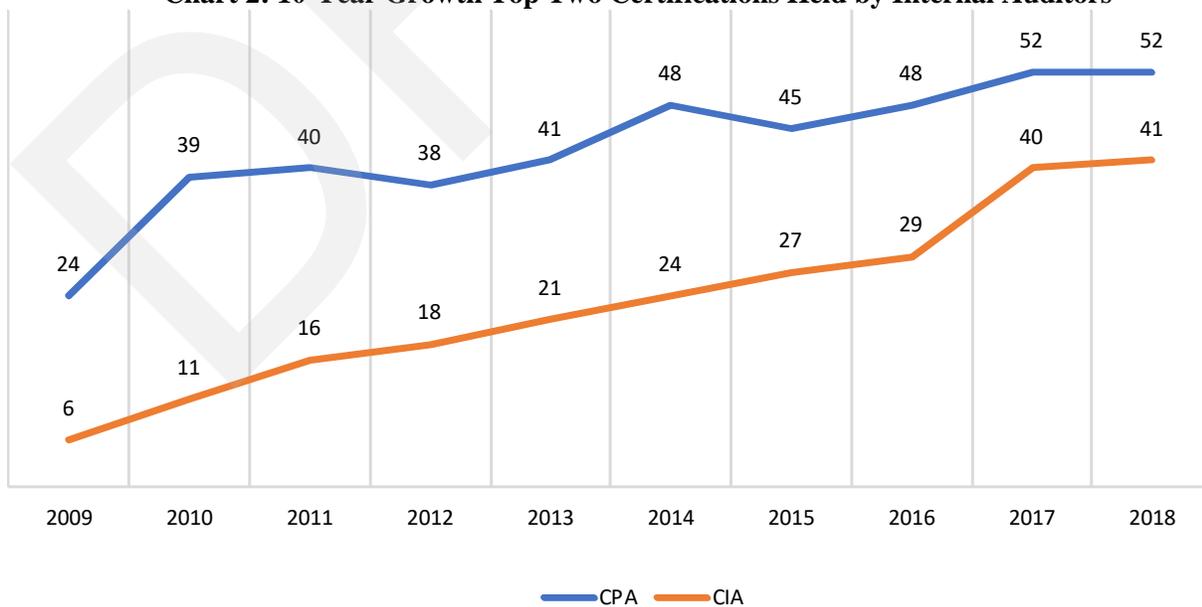


Chart 2 is a historical view of the top two certifications held by internal auditors. Over the last year, the CIA designation increased slightly. However; two significant changes are: the CFE designation increased by 24%; and the CICA decreased by 21%.

Chart 2: 10-Year Growth Top Two Certifications Held by Internal Auditors



Along with the increases in professional certifications, advanced degrees held by internal auditors had a modest increase of 3% over the last year; however, over a ten-year period there has been a 158% increase, as shown in Chart 3 below.

**Chart 3: Advanced Degrees
Ten Year History**

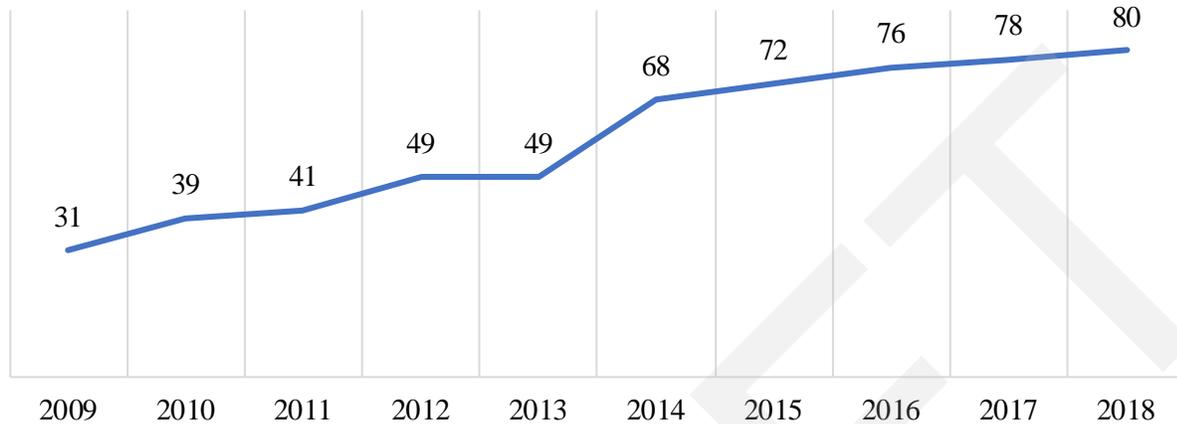
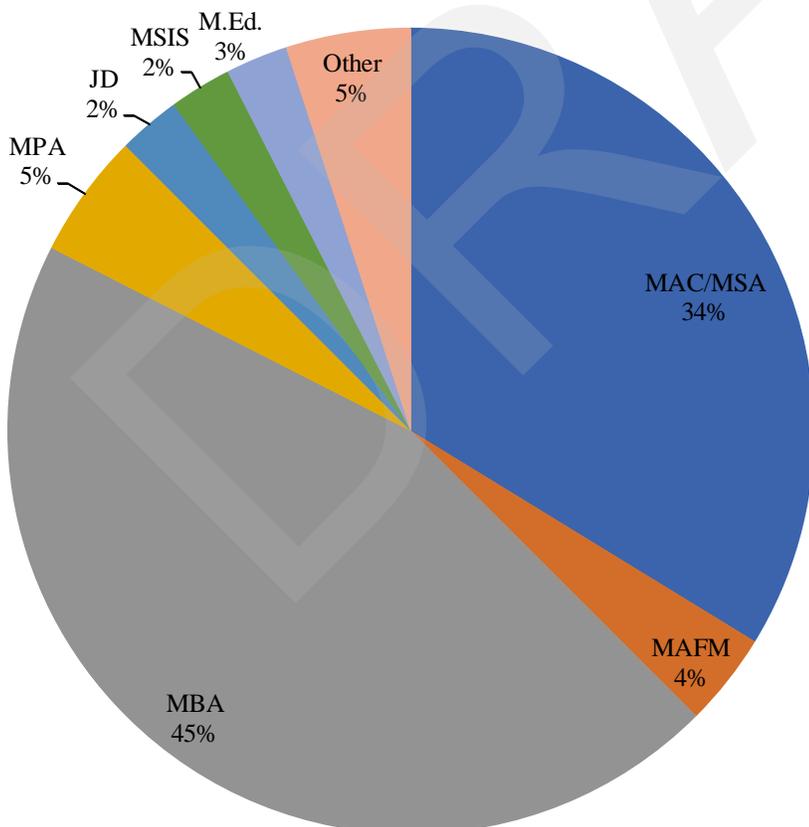


Chart 4, shows the type of advanced degrees held by the agency’s internal auditors during fiscal year. Auditors hold 80 advanced degrees with 83% of these being Masters in Business Administration, Accounting or Accounting and Finance Management

Chart 4: FY2017-18 Advanced Degrees



- 36 **MBA**/Master of Business Administration
- 27 **MAC**/Master of Accounting & **MSA**/Master of Science Accountancy
- 2 **MSIS**./Master of Information Systems
- 3 **MAFM**/Master of Accounting & Financial Management
- 2 **M.Ed.**/Master of Education
- 4 **MPA**/Master of Public Administration
- 2 **JD**/Juris Doctorate
- Other:**
- 1 PhD Accounting
- 1 Master of Art Organizational Management
- 1 Master of Science of Oceanography
- 1 Master of Bible Studies

Computer Assisted Audit Tools

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

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

Table 5 identifies the types of CAAT products used throughout State government and the number of internal audit functions using these products during fiscal year 2018. Some internal audit functions use more than one generalized audit software or productivity tool which is depicted in Table 6, on the next page. Currently, 23 agencies use generalized audit software and 22 agencies use productivity tools.

A 5-year historic view shows growth in agencies use of CAATs as illustrated in Chart 5. Over the last year, both generalized audit software and productivity tools have increased by 28% and 57%, respectively.

Table 5

Computer Assisted Audit Tools			
Generalized Audit		Productivity Tool	
Software	Users	Software	Users
IDEA	7	SharePoint	12
Active Data	7	Teammate	3
Tableau	6	Auto Audit	5
ACL	6	Note One	2
SQL	3	Auditor Assistant	1
TLO	2	Project Pro	1
Truven	1		
SAS	1		
Power BI	1		
Forensic Tool Kit	1		
EnCase	1		
Total	36	Total	24

Chart 5: Number of Agencies Using CAATs Five Year History

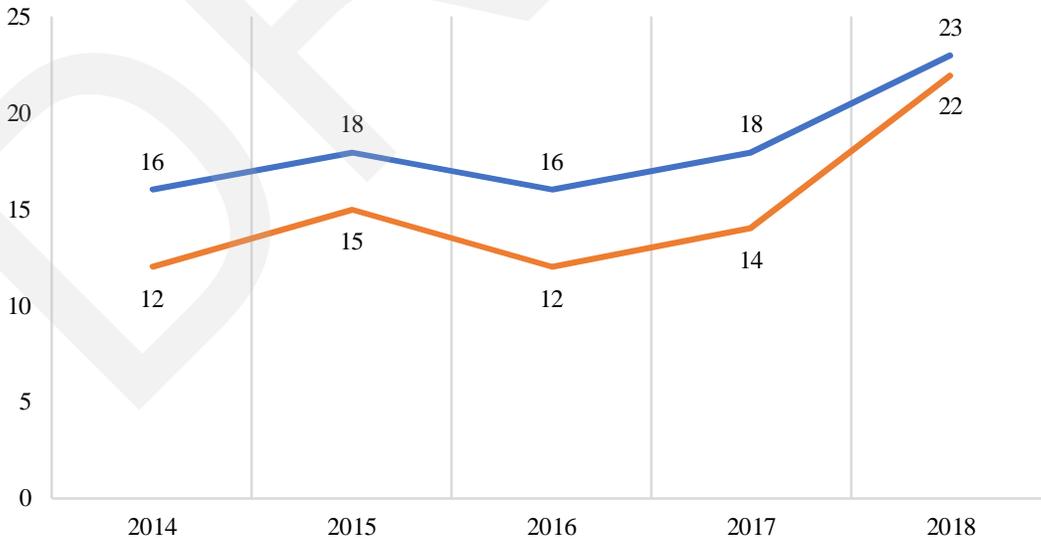


Table 6, on the next page, shows all internal audit functions use Microsoft Office products to enhance productivity through automation and which agencies employ the use of other CAAT products.

Table 6

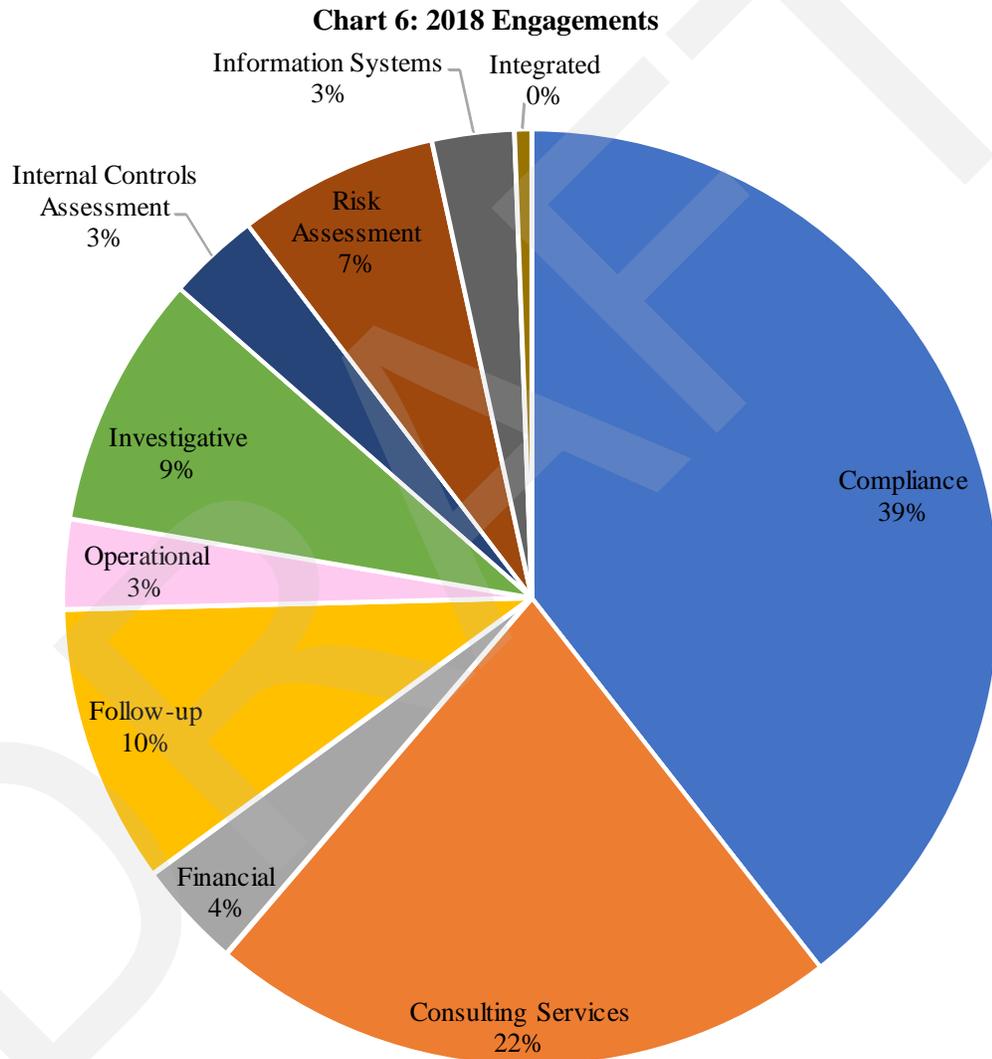
Computer Assisted Audit Tool Usage			
State Agency	Office Products	Generalized Audit Software¹	Productivity Tool²
Community College Central Office	✓	✓	✓
Department of Administration	✓		✓
Department of Agriculture & Consumer Services	✓	✓	✓
Department of Commerce ³	✓	✓	✓
Department of Natural and Cultural Resources	✓		
Department of Environmental Quality	✓		✓
Department of Health and Human Services ^{3,4}	✓	✓	✓
Department of Information Technology	✓	✓	✓
Department of Insurance	✓	✓	✓
Department of Justice	✓	✓	✓
Department of Public Instruction	✓		
Department of Public Safety	✓		
Department of Revenue	✓		
Department of Secretary of State	✓		
Department of State Treasurer ⁴	✓		✓
Department of Transportation	✓	✓	✓
North Carolina Education Lottery	✓	✓	✓
Office of State Budget & Management ³	✓	✓	
Office of the State Controller	✓		✓
Wildlife Resource Commission	✓		
Appalachian State University ³	✓	✓	✓
East Carolina University ³	✓	✓	✓
Elizabeth City State University	✓	✓	
Fayetteville State University	✓		
North Carolina Agricultural & Technical State University	✓	✓	
North Carolina Central University	✓		
North Carolina State University ³	✓	✓	✓
University of North Carolina - Asheville ³	✓	✓	✓
University of North Carolina - Chapel Hill	✓	✓	✓
University of North Carolina - Charlotte	✓	✓	✓
University of North Carolina - System Office	✓	✓	
University of North Carolina - Greensboro	✓		
University of North Carolina - Heath Care System	✓	✓	✓
University of North Carolina - Pembroke	✓		
University of North Carolina - Wilmington	✓	✓	✓
Western Carolina University ³	✓	✓	
Winston-Salem State University	✓	✓	✓

1. Perform routine audit tasks including data extract, analytics, and testing.
2. Streamline processes to manage audits through electronic work papers and work flows.
3. Uses multiple generalized audit tools.
4. Uses multiple productivity tools.

Efforts and Accomplishments

Internal Audit Engagements

Internal audit functions conduct various activities designed to add value and improve a state agency's operations. From July 1, 2017 through June 30, 2018, more compliance audits were completed when compared to other internal audit engagements. Chart 6 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, internal auditors provided just under 47,700 hours of assistance to their agency's management which did not result in report issuance.



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

Table 7 (Continued on next page)

Agency Engagements												
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational/Performance	Risk Assessment	Consulting Service	Integrated	Total Reports	Technical Assistance Hours
Community College System Office	1							1	1		3	160
Department of Administration					1	1					2	240
Department of Agriculture and Consumer Services	1		16			1	1		1	3	23	113
Department of Commerce	4	6		1		10	2	5	108		136	13,824
Department of Environmental Quality	1				2	2		1	1		7	750
Department of Health and Human Services	20	7	5	7		2	1				42	15,600
Department of Information Technology	1	1	5	2							9	1,000
Department of Insurance	1		1		1		2	1	1		7	144
Department of Justice			1		1		2	1	1		6	160
Department of Natural and Cultural Resources		1			5	1					7	400
Department of Public Instruction					1	4		1	1		7	917
Department of Public Safety	29	18	3			2			1		53	30
Department of Revenue	2		1			1			1	6	11	400
Department of Secretary of State					1		1	1	1		4	12
Department of State Treasurer			1		1		3				5	-
Department of Transportation	468				1	32		1	52		554	2,000
North Carolina Education Lottery	9			2	1		1	1			14	200
North Carolina Housing Finance Agency	1				1						2	20
Office of State Budget and Management	7		2	5	3	5	4	8	11		45	447
Office of the State Controller			2	1			1				4	40
Wildlife Resources Commission					1				5		6	1,122

Table 7 (Continued from previous page)

Agency Engagements												
Agency	Compliance	Financial	Follow-up	Information Systems	Internal Controls Assessment	Investigative	Operational Performance	Risk Assessment	Consulting Service	Integrated	Total Reports	Technical Assistance Hours
Appalachian State University	6	8	6	8	24	4	1	1	3		61	712
East Carolina University	3		10	3		22	4	1	8		51	2,000
Elizabeth City State University			5			1			2		8	75
Fayetteville State University	1		1		1	1					4	50
North Carolina Agricultural & Technical State University	2	3	2			1					8	450
North Carolina School of Science and Math			1					1	12		14	239
North Carolina School of the Arts			2			1		1	8		12	307
North Carolina State Education & Assistance Authority	1								9		10	58
North Carolina Central University	1	1	13	0	0	2	4	1	4		26	-
North Carolina State University				1	1	12		69	2		85	3,765
University of North Carolina - Asheville			1	1	1			1	2		6	239
University of North Carolina - Chapel Hill	0	0	28	0	0	1	0	1			30	762
University of North Carolina - Charlotte	5	1		1		3	5	1	1		17	120
University of North Carolina - System Office			2	1		1		1	14		19	166
University of North Carolina - Greensboro	6	1			1			1			9	40
University of North Carolina - Health Care System	1	8		9			12		6		36	-
University of North Carolina - Pembroke	3		2			9					14	80
University of North Carolina - Wilmington		1	35			1	3	3	61		104	53
Western Carolina University	24			1		4		1	3		33	214
Winston-Salem State University			1			9		1	11		22	781

Compliance

Internal Audit Act and Council Requirements

The Internal Audit Act requires internal audit functions to submit its annual audit plan and final reports to the Council and the North Carolina Internal Audit Manual requires submission of audit plans by September 30 of each year and engagement reports 10 days after final. Compliance rates for reports were low as shown in Table 8 and two agencies submitted their audit plan three days late.

Table 8

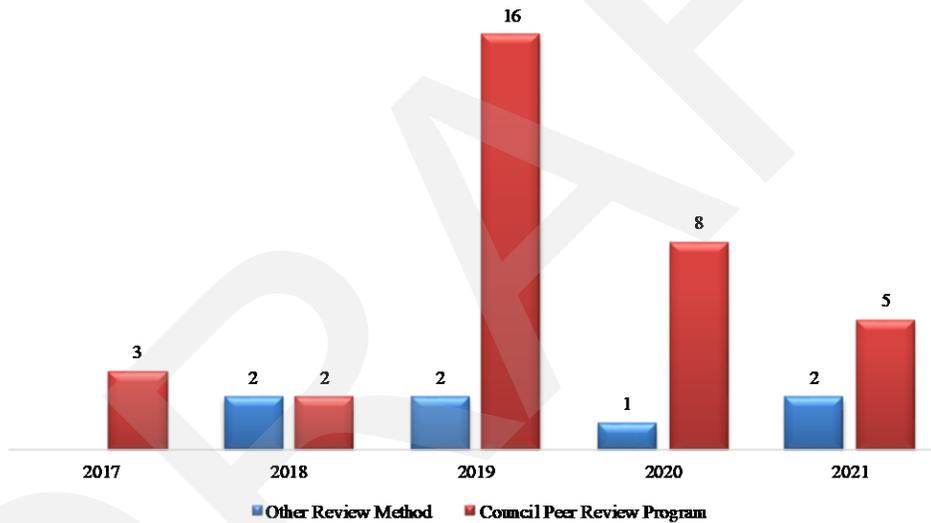
Submission of Plans and Reports					
Agency	Audit Plan	Reports	Agency	Audit Plan	Reports
Community College Central Office	✓		Appalachian State University	✓	✓
Department of Administration	✓		East Carolina University	✓	✓
Department of Agriculture & Consumer Services	✓	✓	Elizabeth City State University	✓	
Department of Commerce	✓		Fayetteville State University	✓	✓
Department of Environmental Quality	✓		North Carolina Agricultural & Technical State University	✓	✓
Department of Health & Human Services	✓		North Carolina Central University	✓	
Department of Information Technology	✓		North Carolina School of the Arts	✓	
Department of Insurance	✓	✓	North Carolina School of Science and Mathematics	✓	
Department of Justice	✓		North Carolina State Education Assistance Authority	✓	
Department of Natural and Cultural Resources	✓	✓	North Carolina State University	✓	✓
Department of Public Instruction	✓		University of North Carolina - Asheville	✓	✓
Department of Public Safety	✓		University of North Carolina - Chapel Hill	✓	
Department of Revenue	✓	✓	University of North Carolina - Charlotte	✓	
Department of Secretary of State	✓		University of North Carolina - System Office	✓	
Department of State Treasurer		✓	University of North Carolina - Greensboro	✓	
Department of Transportation	✓		University of North Carolina Health Care System	✓	
Housing Finance Agency	✓	✓	University of North Carolina - Pembroke	✓	✓
North Carolina Education Lottery	✓		University of North Carolina - Wilmington	✓	✓
Office of State Budget & Management	✓		Western Carolina University	✓	
Office of the State Controller	✓	✓	Winston-Salem State University	✓	
Wildlife Resource Commission			TOTAL	39	15
			Compliance rate	95%	37%

External Quality Assurance Review

To comply with internal audit standards, external quality assurance reviews (QAR) are required every five years. This is the second cycle of obtaining QAR, since the enactment of the Internal Audit Act. Thirty-five internal audit functions have received a QAR in the current or prior cycle and obtained a generally conforms rating⁵ for the most recent review, except for the Department of the Secretary of State which received a partially conforms opinion on their last QAR. The Department of the Secretary of State is undergoing a QAR that will be completed by November 2018. The remaining six internal audit functions are due to receive its first QAR because those agencies either were not subject to the Internal Audit Act until amended in FY2014 or established an in-house internal audit function after FY2014. Information on each internal audit functions QAR progress and conformance over the prior and current cycle is list in Table 9, on the next page.

Chart 7 illustrate the timing and method used by internal audit functions to obtain a QAR. Seven internal audit functions did not or do not intent to use the Council’s Peer Review program. For FY2019, there are seven QARs in progress, six are using the Council’s program and one is using an outside source. Use of outside sources include professional associations⁶ or contractors.

Chart 7: Timing and Method of QAR



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

⁶ Institute of Internal Auditors, American Association of State Highway Transportation Officials, and Association of College and University Auditors.

Table 9

QAR Compliance and Current Due Dates			
Agency	Prior QAR Cycle	Current QAR Cycle	
		Due Date	Progress*
Elizabeth City State University	Does Not Conform	December 2016	Generally Conforms
Department of Commerce	New	December 2016	Generally Conforms
Community College Central Office	New	April 2017	Generally Conforms
Department of Agriculture & Consumer Services	Generally Conforms	September 2017	Generally Conforms
North Carolina State University	Generally Conforms	September 2017	Generally Conforms
Department of Transportation	Generally Conforms	January 2018	Generally Conforms
University of North Carolina - Charlotte	Generally Conforms	May 2018	Generally Conforms
Appalachian State University	Generally Conforms	August 2018	Generally Conforms
Western Carolina University	Generally Conforms	August 2018	In Progress
Fayetteville State University	Generally Conforms	August 2018	In Progress
North Carolina Central University	Generally Conforms	August 2018	In Progress
University of North Carolina - Asheville	Generally Conforms	August 2018	In Progress
Office of State Budget and Management	Generally Conforms	September 2018	Generally Conforms
Department of Secretary of State	Partial Conforms	November 2018	In Progress
Office of the State Controller	New	December 2018	In Progress
University of North Carolina - Chapel Hill	Generally Conforms	January 2019	In Progress
North Carolina A&T State University	Generally Conforms	February 2019	Not Due
North Carolina School of Science and Math	Generally Conforms	February 2019	Not Due
Department of Information Technology	New	February 2019	Not Due
Department of Administration	New	February 2019	Not Due
Department of Public Safety	Generally Conforms	March 2019	Not Due
Department of Revenue	Generally Conforms	March 2019	Not Due
Housing Finance Agency	New	April 2019	Not Due
Department of Health and Human Services	Generally Conforms	May 2019	Not Due
Department of Insurance	Generally Conforms	May 2019	Not Due
Department of Environmental Quality	Generally Conforms	October 2019	Not Due
North Carolina School of the Arts	Generally Conforms	October 2019	Not Due
Winston-Salem State University	Generally Conforms	October 2019	Not Due
Department of Justice	Generally Conforms	November 2019	Not Due
Department of Public Instruction	Generally Conforms	February 2020	Not Due
University of North Carolina - Pembroke	Generally Conforms	February 2020	Not Due
NC Education Lottery	Generally Conforms	February 2020	Not Due
University of North Carolina - Greensboro	Generally Conforms	March 2020	Not Due
Wildlife Resources Commission	New	May 2020	Not Due
Department of Cultural and Natural Resources	Generally Conforms	July 2020	Not Due
University of North Carolina - Health Care	Generally Conforms	August 2020	Not Due
State Education Assistance Authority	New	September 2020	Not Due
Department of State Treasurer	Generally Conforms	March 2021	Not Due
East Carolina University	Generally Conforms	April 2021	Not Due
University of North Carolina - System Office	Generally Conforms	May 2021	Not Due
University of North Carolina - Wilmington	Generally Conforms	May 2021	Not Due

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

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APPENDIX A
NORTH CAROLINA INTERNAL AUDIT ACT

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Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

- (a) For the purposes of this section:
 - (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency. 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.)

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APPENDIX B
STAFFING RECOMMENDATIONS

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Internal Audit Staffing Analysis and Recommendation for Minimal Staff Level

As of June 30, 2017

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

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

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

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

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

3. Outsourced internal audit services.

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

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

Internal Audit Recruitment and Retention

- Create an Internal Audit Classification. Internal Auditing is a professional career hence the establishment of the Institute of Internal Auditing which is a globally recognized professional organization.
- Different grade for Auditor III and Manager I because both are a GN15. The Auditor III manages project, while the Manager I manages people.
- Elevate grades for all internal audit positions. Internal audit is the only audit group that had the maximum compensation down-graded although internal audit faces similar recruitment and retention issues as the Office of the State Auditor and Department of Revenue.
- Consult with Council of Internal Auditing on minimum education and experience requirements. This is mandated by G.S. 143-746 and current minimums do not allow for hiring recent graduates.
- Develop Internal Audit class concept and knowledge skill and abilities. Current description focuses heavily on financial statement and financial related audits instead of consulting and operational engagements.
- Identify internal auditors that are misclassified. Six individuals are currently misclassified.