

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

July 2009



Prepared By:

***Office of Internal Audit
Office of State Budget and Management***

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INTRODUCTION

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The North Carolina Internal Audit Act¹ (the Act) was signed into law on August 31, 2007. The legislation required State agencies, meeting the conditions set forth in the legislation, to establish a program of internal auditing and for the Council of Internal Auditing to report on service efforts and accomplishments of these programs. This report documents the service efforts and accomplishments from April 1, 2008 through May 31, 2009, of the State agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Council membership, set by statute, consists of the State Controller who serves as Chair, the State Budget Officer, the Secretary of Administration, the Attorney General, the Secretary of Revenue, and the State Auditor who serves as a nonvoting member. The current Council members are listed in Table 1.

Table 1	
Council of Internal Auditing	
David T. McCoy, Chair	State Controller
Charles Perusse	State Budget Officer
Britt Cobb	Secretary of Administration
Roy Cooper	Attorney General
Kenneth Lay	Secretary of Revenue
Beth Wood	State Auditor (nonvoting)

The Council meets at the Administration Building on the 5th floor conference room and convenes at 9:00 a.m. The Council met bimonthly through December 2008 after which the schedule was modified to quarterly meetings held on the second Wednesday of the month. The 2008/09 meeting schedule approved by the Council is listed in Table 2. The July 9, 2008 meeting was canceled and the January 14, 2009 was rescheduled to January 28, 2009.

Table 2
2008/09 Council of Internal Auditing Meeting Schedule
July 9, 2008
September 10, 2008
November 12, 2008
January 14, 2009
April 8, 2009

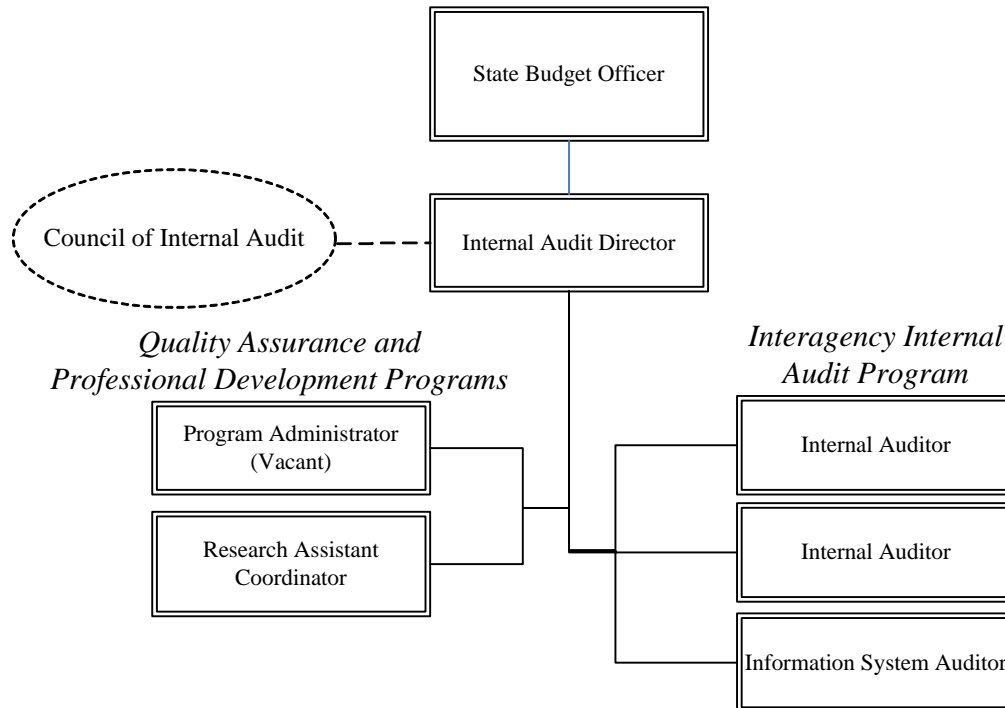
OFFICE OF INTERNAL AUDIT STAFF

The Office of State Budget and Management (OSBM) established the Office of Internal Audit to house the staff to the Council. The organizational structure of the Office is shown in Exhibit 1 on page 4. The program administrator’s position is vacant and has been eliminated in the Appropriation bill passed by the House. The professional credentials of the staff include two Certified Public Accountants, one Certified Internal Auditor, one Certified Fraud Examiner, one Certified Internal Control Auditor, one Certified Government Auditing Professional, and one Certified Government Financial Manager.

¹ Entire Internal Audit Act is located in Appendix A.

Exhibit 1

**Office of Internal Audit
Organizational Structure**



OFFICE OF INTERNAL AUDIT BUDGET

The annual State appropriation for the Office of Internal Audit is \$683,000. The FY2007/08 and FY2008/09 expenditures are shown in Table 3. The Office was allowed to carry forward almost 30% of the FY2007/08 appropriations to complete the central database and provide additional training during the next fiscal year.

During FY2008/09 the economic downturn created a budget crisis for the State causing the Office to reduce spending and divert appropriations back to the general fund. The Office of Internal Audit will revert approximately 30% of the FY2008/09 funds which includes all the carry forward funds. The effect of the reversion was a

Table 3

Office of Internal Audit Expenditures		
Expenditures	FY 2008/09	FY 2007/08
Personal Services	\$ 466,451	\$ 161,526
Purchased Services		
<i>Central Database Dev. & Maintenance</i>	96,215	-
<i>Training & Development</i>	11,205	24,500
<i>Information Technology Services</i>	40,545	6,000
<i>Travel, Telephone, Miscellaneous</i>	996	543
Total Purchased Services	148,961	31,043
Supplies	129	2,425
Property, Plant, & Equipment	516	10,042
Other	110	358
Total Expenditures	616,167	205,394
Carry forward	-	200,985
Grand Total Expenditures	616,167	406,379
Revenues		
Carry forward	200,985	-
Appropriations	683,000	683,000
Grand Total Revenues	883,985	683,000
Revenues Over Expenditures	\$ 267,818	\$ 276,621

reduction in training, postponement of audits requiring travel, and delays in purchasing professional materials and software. In addition, a hiring freeze has left the Program Administrator's position vacant since February 2009 and this position was eliminated in the Appropriation bill passed by the House.

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**COUNCIL OF INTERNAL AUDITING
EFFORTS**

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OBJECTIVES

The Council of Internal Auditing was charged with a number of tasks in the Internal Audit Act. The Staff to the Council developed objectives based on the legislative mandates and report the progress of the objectives at each Council meeting. Information on the objectives and the current status is shown below.

OBJECTIVE 1: Develop Quality Assurance Program (Peer Review)

The Peer Review Program assists State agencies to comply with the Institute of Internal Auditing external quality review standard is 100% accomplished. Training was provided in January 2009 to 27 internal auditors which represented 12 agencies and 7 universities. A policy and procedures manual was drafted and reviewed by a work team which included members from other State agencies during the spring of 2009. The program commenced services on June 15, 2009.

OBJECTIVE 2: Develop Central Database for Audit Reports

The central database for reports is 100% accomplished. The Office of Internal Audit identified needs related to a central database and purchased necessary hardware and software to support the central database. The Office of Budget and Management's Chief Information Officer develop the central database program and the Research Assistant Coordinator has input the majority of the reports submitted for FY2008-09.

OBJECTIVE 3: Develop Central Database for Audit Plans

The central database for audit plans is 100% accomplished. The Office of Internal Audit identified needs related to a central database and purchased necessary hardware and software to support the central database. The Office of Budget and Management's Chief Information Officer develop the central database program and the Research Assistant Coordinator has input all the audit plans submitted for FY2008-09.

OBJECTIVE 4: Conduct Annual Risk Assessments

The annual risk assessment for State agencies is 100% accomplished. The Office of Internal Audit's Interagency Internal Audit Program started conducting risk assessments in September 2008 and completed seven of the eight State agencies served by this program by February 2009. Due to the change in administration, the risk assessment for the Office of the Governor; was postponed until FY2009-10. Many of the business functions for the Office of the Governor, such as, human resource, payroll, and accounting are handled by the Office of State Budget and Management which has been assessed.

OBJECTIVE 5: Three-Year Audit Plan

The three-year audit plan is 100% accomplished. The Office of Internal Audit’s Interagency Internal Audit Program developed a three-year audit plan based on the agency’s risk assessment. The audit plan includes engagement services for agencies with no internal audit resources. These agencies are the Department of Labor, NC Wildlife Commission, Office of the Governor, Office of State Budget and Management, Office of the State Auditor, Department of Commerce, Department of Administration, and the North Carolina Community College Central Office. The three-year plan was approved by the Council of Internal Auditing at the April 8, 2009 meeting. A copy of the three-year audit plan is located in Appendix B.

OBJECTIVE 6: Conduct Training Needs Assessment

The training needs assessment is 100% accomplished. The Office of Internal Audit conducted a training needs assessment in December 2008. Surveys were sent to all internal audit directors for input on training needs. Responses were received in January 2009 with a response rate of 43%. Results of the training needs assessment are located in Appendix C.

OBJECTIVE 7: Conduct Quality Assurance Review Certification Training

The training session on quality assurance review is 100% accomplished. The Office of Internal Audit retained an expert in the area of quality assurance reviews to provide a two and a half day training session. Thirty internal auditors were invited to the training session and twenty-seven attended.

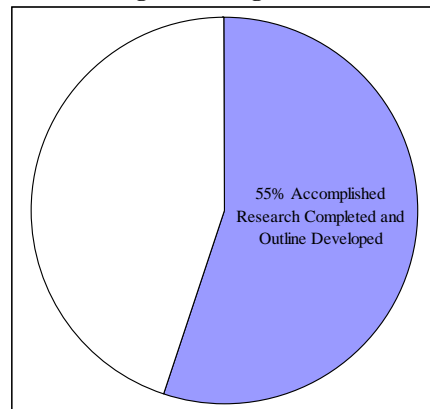
OBJECTIVE 8: Develop OIA Communication Strategy

The communication strategy is 100% accomplished. The Office of Internal Audit has determined the stakeholders as members of the Council of Internal Auditing, staff to the Council, internal audit directors, and internal auditors. Communication tools included the Council of Internal Auditing webpage, newsletters, and emails. The Office will post material and information on the webpage and email stakeholders of this update. The Office will publish a quarterly newsletter to update stakeholders of training opportunities, OIA activities and outcomes of Council meetings.

OBJECTIVE 9: Develop Internal Auditor Recognition Program

The Internal Audit Recognition Program is 55% accomplished as shown in Chart 1. The Office of Internal Audit completed; research of other recognition programs, identified State restrictions related to employee recognitions and developed an outline for the policy manual. The policies and procedures surrounding the internal audit recognition program should be developed by February 2010 and presented to the Council of Internal Auditing at the April meeting for adoption.

Recognition Program Chart 1



OBJECTIVE 10: Develop Internal Procedure Manual

The internal procedure manual for the Office of Internal Audit is 60% accomplished as shown in Chart 2. The Office of Internal Audit has conducted research, completed an outline and begun drafting the manual. The manual should be completed by April 2010.

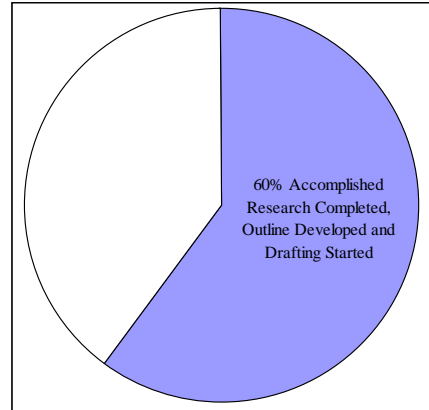
OBJECTIVE 11: Conduct Training Session on Operational Auditing

The training session on operational auditing was postponed due to the State's budget crisis.

OBJECTIVE 12: Prepare Annual Report

The Annual Internal Audit Report is 100% accomplished.

Internal Procedure Manual Chart 2



PROPOSED LEGISLATION CHANGES

The Council of Internal Auditing voted to introduce two amendments to the Internal Audit Act. The first were revisions to the Internal Audit Act and the second was an addition related to confidential work papers.

AMENDMENT 1: REVISIONS TO THE INTERNAL AUDIT ACT

The Council approved the following amendment to the Internal Audit Act.

Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

- (a) For the purposes of this section:
 - (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the Chief Justice of the Supreme Court, the President of The University of North Carolina, and the Superintendent of Public Instruction.
 - (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, the Judicial Branch, The University of North Carolina, and the Department of Public Instruction.
- (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.)

§ 143-746. Internal auditing required.

- (a) Requirements. – A State agency shall establish a program of internal auditing that:
 - (1) ~~Implements~~ Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
 - (2) ~~Ensures~~ 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. ~~Electronic data processing~~ 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 internal auditor employed by a State agency shall at a minimum have a bachelor's degree from an accredited college or university and: Any state employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Personnel.~~

- ~~(1) Certification or licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information systems auditor, professional engineer, or attorney; or~~
- ~~(2) A minimum of five years' experience in internal or external auditing, management consulting, program evaluation, management analysis, economic analysis, industrial engineering, or operations research.~~

(d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal Auditing who shall report to the agency head; deputy agency head; or the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated in a manner that avoids impairments to independence as defined in the Standards referenced in G.S. 143-746(b). ~~and shall not report to any employee subordinate to the agency head.~~ (2007-424, 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.~~
 - (6) The President of the University of North Carolina who may appoint a designee.
 - (7) 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 its first meeting before November 1, 2007, and thereafter 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.)

AMENDMENT 2: CONFIDENTIAL WORK PAPERS

The Council approved submitting two versions of confidential work papers to the General Assembly. The versions are below.

Version 1: An internal auditor shall maintain, for 10 years, a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews issued under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of that internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. To promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to issued audit reports shall be, unless otherwise prohibited by law, made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them. Except as provided above, or upon subpoena issued by a duly authorized court or court official, audit work papers shall be kept confidential. Audit reports shall be public records to the extent they do not include information which, under State laws, is confidential and exempt from Chapter 132 of the General Statutes or would compromise the security of a State agency.

Version 2: An internal auditor shall maintain, for 10 years, a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews issued under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of that auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. To promote cooperation and avoid unnecessary duplication of audit effort, audit work papers related to issued audit reports shall be, unless otherwise prohibited by law, made available for inspection by duly authorized representatives of the State and federal governments in connection with some matter officially before them. Except as otherwise provided in this subsection, or upon subpoena issued by a duly authorized court or court official, audit work papers shall be kept confidential and shall not be open to examination or inspection under G.S. 132-6 until 120 days after completion of the audit report that is based on the working paper or until such time as deficiencies noted in the audit are addresses and corrected, whichever is earlier. Audit reports and the working papers on which they are based shall be public records subject to examination and inspection to the extent that they do not include information that, under State law, is confidential and exempt from Chapter 132 of the General Statutes or would compromise the security systems of the state agency, university, or state institution. At the time that audit working papers are made available for public examination or inspection, the custodian of the audit working paper shall redact all interview notes as well as the name and personally

identifying information, and any related information or references that would reveal the identify of an agency employee, witnesses, or confidential source. Furthermore, internal audit work papers that contain business risk assessments or detailed descriptions of internal control weaknesses that if made public would expose the agency to financial fraud and abuse shall not be open to examination or inspection under G.S. 132-6. This statute does not apply to agencies with current statutes referencing internal audit work papers.

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**AGENCY INTERNAL AUDIT
EFFORTS**

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AGENCY INTERNAL AUDIT PROGRAMS

POSITIONS

A survey was conducted in early fiscal year 2008² and again in 2009 to determine the number of positions within each internal audit program. Forty-two State agencies have internal auditor positions totaling 152 positions as shown in Table 4. There are ten agencies with no internal auditor positions however, six of these agencies use the Office of Internal Audit as their internal audit program and the other four do not have to comply with the Internal Audit Act. Over the last year, seven State agencies have gained positions while four have lost positions equaling a statewide net increase of five internal auditor positions. Also noted in Table 4, ten State agencies do not have to comply with the requirements of the Internal Audit Act however six of these agencies have internal auditor positions. The information in Table 4 provides data on positions regardless of filled or vacant status. Also, based on the 2008 study, internal audit positions may have other duties outside of internal auditing³.

Table 4

Statewide Internal Auditor Position Level Comparison FY2007-08 and FY2008-09					
Agency	Positions		Agency	Positions	
	2008	2009		2008	2009
Administrative Office of the Courts	3	3	Office of Lieutenant Governor ³	0	0
Community College Central Office ¹	0	0	Office of State Controller ³	1	1
Department of Administration ¹	0	0	Office of the Governor /Office State Budget and Management ^{1, 2}	0	4
Department of Agriculture & Consumer Services	1	1	Office of the State Auditor ¹	0	0
Department of Commerce ¹	2	0	State Board of Elections ³	4	4
Department of Correction	19	18	State Health Plan ³	0	0
Department of Crime Control and Public Safety	1	1	Wildlife Resources Commission ¹	0	0
Department of Cultural Resources	1	1	Appalachian State University	5	5
Department of Environment and Natural Resources	1	2	East Carolina University	6	6
Department of Health and Human Services	8	8	Elizabeth City State University	2	2
Department of Insurance	0	1	Fayetteville State University	2	2
Department of Justice	0	1	North Carolina Agriculture and Technical State University	4	4
Department of Juvenile Justice and Delinquency Prevention	4	3	North Carolina Central University	4	3
Department of Labor ¹	0	0	North Carolina School of Science and Math	1	1
Department of Public Instruction	1	1	North Carolina School of the Arts	1	1
Department of Revenue	2	2	North Carolina State University	7	7
Department of the Secretary of State	1	1	University of North Carolina Hospitals	5	5
Department of State Treasurer	1	1	University of North Carolina - Asheville	1	1
Department of Transportation	31	31	University of North Carolina - Chapel Hill	6	6
Employment Security Commission ³	0	1	Univeristy of North Carolina - Charlotte	4	4
General Assembly ^{3, 4}	1	1	University North Carolina - General Administration	1	1
Housing Finance Agency ³	0	0	University North Carolina - Greensboro	2	3
Indigent Defense Services	1	1	University of North Carolina - Pembroke	1	1
Information Technology Services ³	1	2	University of North Carolina - Wilmington	4	4
North Carolina Education Lottery ³	2	2	Western Carolina University	2	2
Office of Administrative Hearings ³	0	0	Winston-Salem State University	3	3
Total				147	152

1. Utilizes the Interagency Internal Audit Program
 2. Council of Internal Auditing's Interagency Internal Audit Program, housed in the Office of State Budget and Management
 3. Agencies that do not meet the requirements for compliance with the Internal Audit Act
 4. General Assembly was not included in the 2008 survey and has been added to both 2008 and 2009 data

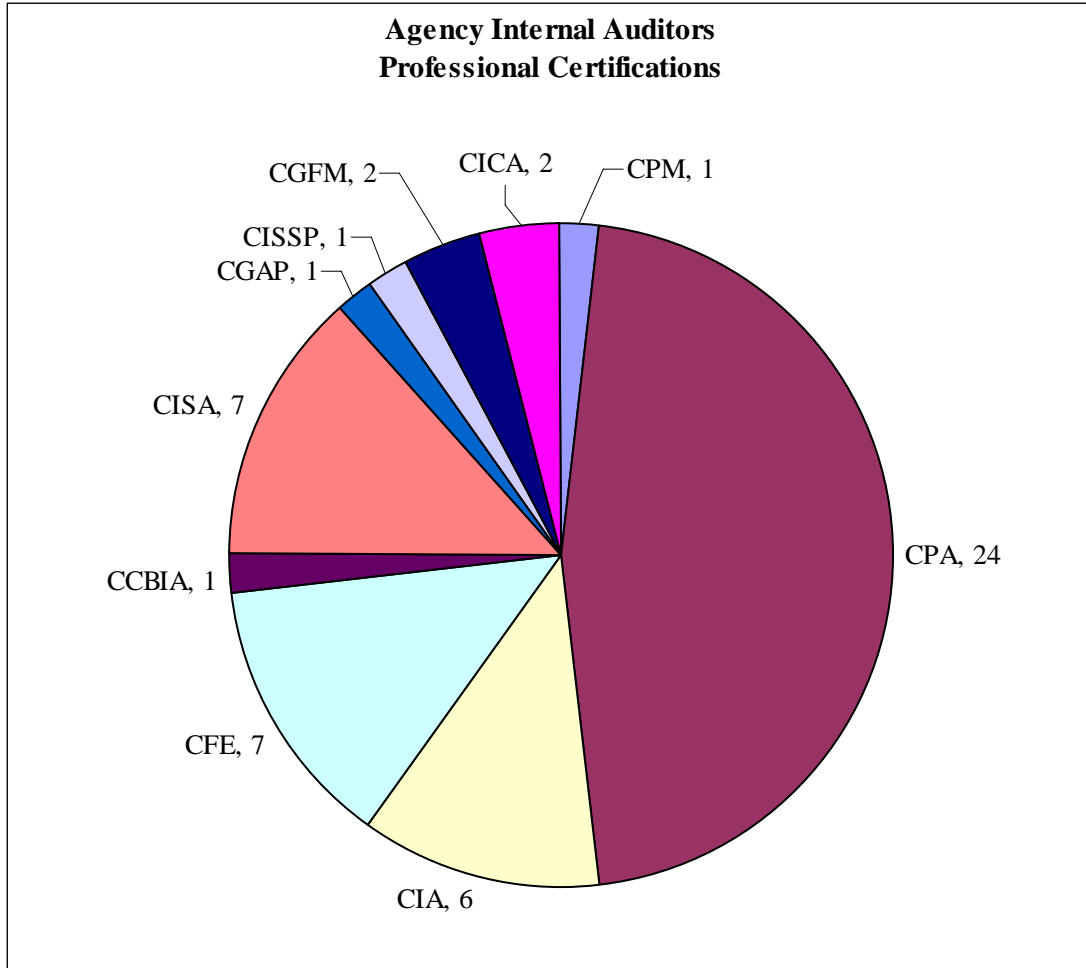
² Council of Internal Auditing provided staffing recommendation to the General Assembly which is located in Appendix D.

³ 2008 study identified 147 positions which equaled 124 FTE performing internal audit duties.

PROFESSIONAL CERTIFICATIONS AND ADVANCED DEGREES

The number and type of professional certifications held by the agency internal auditors are shown in Chart 3. In all the auditors hold 52 professional certifications.

Chart 3

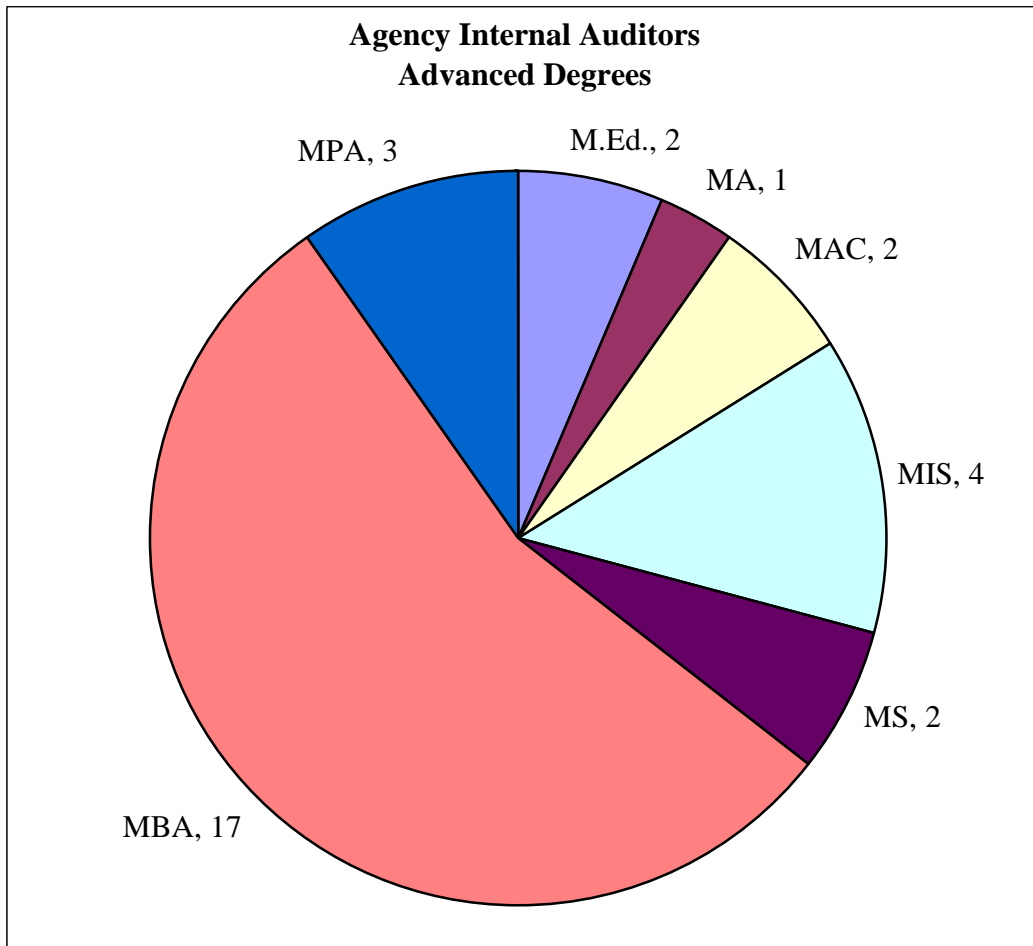


CGAP – Certified Government Auditing Professional
CGFM – Certified Government Financial Manager
CICA – Certified Internal Controls Auditor
CISA – Certified Information Systems Auditor
CCBIA – Certified Community Bank Internal Auditor

CPA – Certified Public Accountant
CIA – Certified Internal Auditor
CISSP – Certified IT Security
CFE – Certified Fraud Examiner
CPM – Certified Public Manager

In addition, Chart 4 shows advanced degrees held by the agency internal auditors. In all the auditors hold 31 advanced degrees.

Chart 4



MA – Master of Arts Management
MAC – Masters of Accounting
MBA – Master of Business Administration
MPA – Master Public Administration

MS – Masters Science
MIS – Master Information Sciences
M.Ed. – Master Education

AGENCY INTERNAL AUDIT COMPLIANCE

DOCUMENT SUBMISSION

The Internal Audit Act and the North Carolina Internal Audit Manual require internal audit functions to submit various documents and reports to the Office of Internal Audit. Documents that must be submitted are: the internal audit charter, organizational chart, audit plan, and engagement reports. There are 35 internal audit functions and Table 5 shows compliance with document submission and overall compliance rates. Reasons for noncompliance are included as a footnote in Table 5.

Table 5

Compliance with Internal Audit Act and North Carolina Internal Audit Manual				
Agency	Charter	Org Chart	Annual Plan	Reports
Administrative Office of the Courts ¹				
Department of Agriculture and Consumer Services	✓	✓	✓	✓
Department of Corrections	✓	✓	✓	✓
Department of Crime Control and Public Safety	✓	✓	✓	✓
Department of Cultural Resources	✓	✓	✓	✓
Department of Environment and Natural Resources	✓	✓	✓	✓
Department of Health and Human Services ²		✓	✓	✓
Department of Insurance	✓	✓	✓	✓
Department of Justice ³	✓	✓		✓
Department of Juvenile Justice and Delinquency Prevention	✓	✓	✓	✓
Department of Public Instruction	✓	✓	✓	✓
Department of Revenue	✓	✓	✓	✓
Department of State Treasurer	✓	✓	✓	✓
Department of the Secretary of State	✓	✓	✓	✓
Department of Transportation	✓	✓	✓	✓
OIA's Interagency Internal Audit Program ⁴	✓	✓	✓	✓
Appalachian State University	✓	✓	✓	✓
East Carolina University	✓	✓	✓	✓
Elizabeth City State University	✓	✓	✓	✓
Fayetteville State University	✓	✓	✓	✓
North Carolina Agriculture and Technical State University	✓	✓	✓	
North Carolina Central University	✓	✓	✓	✓
North Carolina School of Science and Math	✓	✓	✓	✓
North Carolina School of the Arts	✓	✓	✓	✓
North Carolina State University	✓	✓	✓	✓
University of North Carolina - Asheville	✓	✓	✓	✓
University of North Carolina - Chapel Hill	✓	✓	✓	✓
University of North Carolina - Charlotte	✓	✓	✓	✓
University of North Carolina - General Administration	✓	✓		
University of North Carolina - Greensboro	✓	✓	✓	✓
University of North Carolina - Pembroke ⁵	✓	✓		
University of North Carolina - Wilmington	✓	✓	✓	✓
University of North Carolina Hospitals				
Western Carolina University	✓	✓	✓	✓
Winston-Salem State University	✓	✓	✓	✓
TOTAL	32	33	30	30
Compliance Rate	91%	94%	86%	86%

1. There is a difference of opinion as to the application of the Internal Audit Act to the Judicial branch.
 2. Follows Government Auditing Standards which does not require an audit charter.
 3. Hired a full time Internal Auditor in October 2008 that helped create an Audit Charter and performed several risk assessments to support an annual audit work plan. This employee resigned in February 2009 and the position has not been filled due to the statewide hiring freeze.
 4. Utilizes OIA Interagency Internal Audit Program: Community College Central Office, Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, and Wildlife Resources Commission, Office of the Governor, and Office of State Budget & Management.
 5. The Internal Audit position was vacant throughout most of FY2008-09. The position was filled in February 2009.

REPORTING REQUIREMENTS

The Internal Audit Act requires State agencies to appoint a Director of Internal Auditing (Director) and the Director must report to the head of each agency. The Act defines head as Governor, A Council of State member, Cabinet Secretary, the Chief Justice of the Supreme Court, the President of the University System and the Superintendent of Public Instruction. Table 6 shows all State agencies have appointed a director and 34% of the directors' report to the head of the State agency as defined in the Act. The low reporting compliance rate is due to the definition of 'agency head' which has lead to one of the proposed legislative changes located on page 12.

Table 6

Compliance with Internal Audit Director Appointment and Reporting		
Agency	Director Appointed	Meets Reporting Requirement
Administrative Office of the Courts	✓	No
Community College Central Office	✓	No
Department of Administration	✓	Yes
Department of Agriculture and Consumer Services	✓	Yes
Department of Commerce	✓	No
Department of Correction	✓	Yes
Department of Crime Control Public Safety	✓	Yes
Department of Cultural Resources	✓	Yes
Department of Environment and Natural Resources	✓	No
Department of Health and Human Services	✓	Yes
Department of Insurance	✓	Yes
Department of Justice	✓	Yes
Department of Juvenile Justice and Delinquency Prevention	✓	Yes
Department of Labor	✓	No
Department of Public Instruction	✓	Yes
Department of Revenue	✓	Yes
Department of State Treasurer	✓	No
Department of the Secretary of State	✓	Yes
Department of Transportation	✓	Yes
Office of the Governor/Office of State Budget and Management	✓	No
Office of the State Auditor	✓	Yes
Wildlife Resources Commission	✓	No
Appalachian State University	✓	No
East Carolina University	✓	No
Elizabeth City State University	✓	No
Fayetteville State University	✓	No
North Carolina Agriculture and Technical State University	✓	No
North Carolina Central University	✓	No
North Carolina School of Science and Math	✓	No
North Carolina School of the Arts	✓	No
North Carolina State University	✓	No
University of North Carolina - Asheville	✓	No
University of North Carolina - Chapel Hill	✓	No
University of North Carolina - Charlotte	✓	No
University of North Carolina - General Administration	✓	No
University of North Carolina - Greensboro	✓	No
University of North Carolina - Pembroke	✓	No
University of North Carolina - Wilmington	✓	No
University of North Carolina Hospitals	✓	No
Westem Carolina University	✓	No
Winston-Salem State University	✓	No

AGENCY INTERNAL AUDIT ACCOMPLISHMENTS

ACTIVITIES

Internal audit functions conduct different types of activities designed to add value and improve a State agency's operations. For the period of April 1, 2008 through May 31, 2009, the majority of activities conducted by the internal auditors were compliance audits and special projects making up 57% of all work completed. Chart 5 shows the percentage of internal audit reports prepared by type. In addition to the audit work shown here, most internal audit functions provide technical assistance throughout the year. During the same time period internal auditors provided assistance to their agency's management on 121 different activities which did not result in issuing a report. The audit projects by State agency are shown in Table 7.

Chart 5

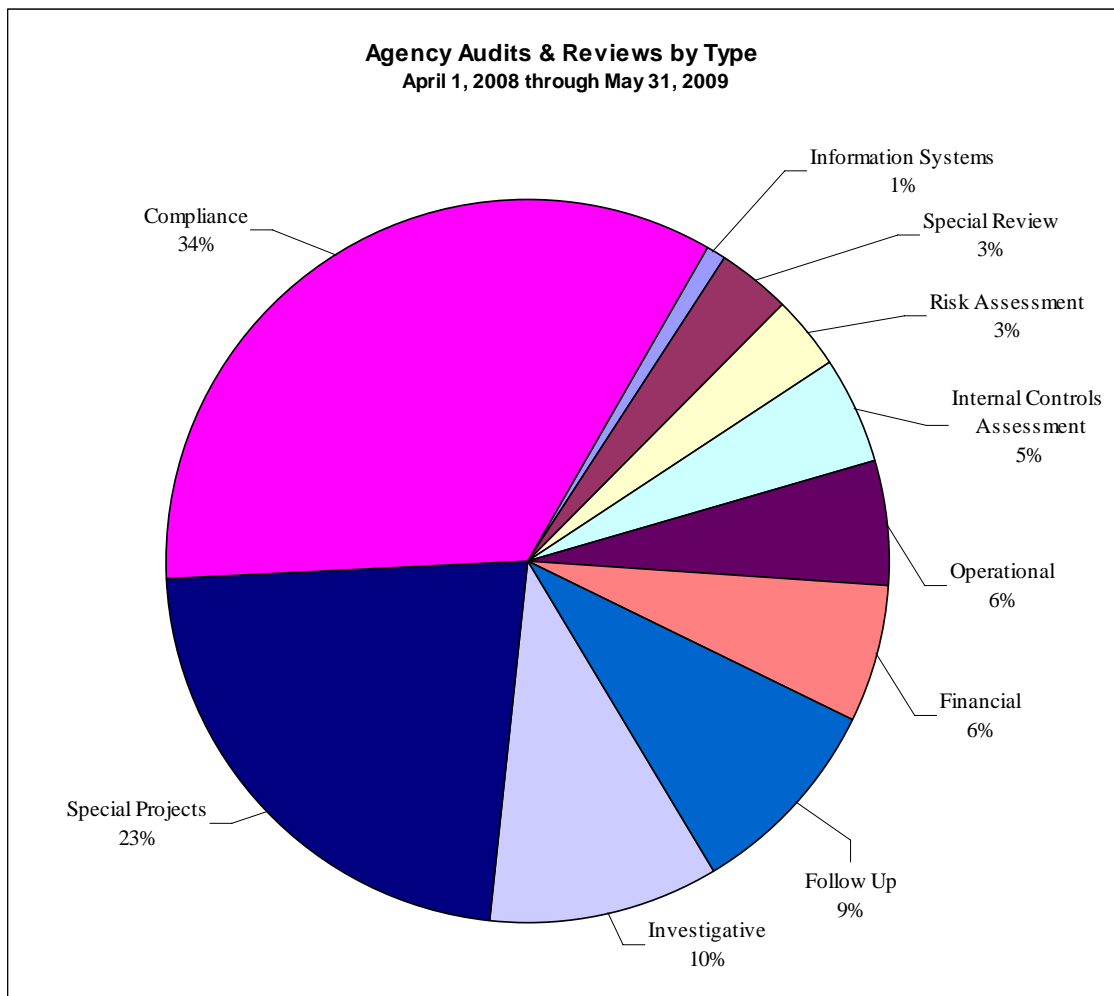


Table 7

Agency Reported Audits and Reviews April 1, 2008 through May 31, 2009										
Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review	Special Projects
Department of Agriculture and Consumer Services	5		4	2					1	
Department of Corrections				50			9	22	3	
Department of Crime Control and Public Safety	2		2						1	
Department of Cultural Resources			4		1			1		5
Department of Environment and Natural Resources	6	4	8	9	2				1	
Department of Health and Human Services			2	7	1	1		1	3	
Department of Insurance		1	1	1				2	1	1
Department of Justice	1						3			1
Department of Juvenile Justice and Delinquency Prevention	20	5		1	10		10	4		4
Department of Public Instruction	1	4	2	1			1	1		2
Department of Revenue			8	10	5					7
Department of Secretary of State							1	2		13
Department of Transportation	3		16	268	9					1
OIA's Interagency Internal Audit Program ¹		1					7		2	3
Appalachian State University	6	3	4	4	9	3	1	5	1	7
East Carolina University	3	2	13	1	1	1	1	22	8	161
Elizabeth City State University	1		2		1		1	2	1	1
Fayetteville State University		6						7	3	
North Carolina Agriculture and Technical State University	5		13	2	1	1		3	1	1
North Carolina Central University	1	1						2		
North Carolina School of Science and Math			2	2			1	6	1	2
North Carolina School of the Arts		2	3					1		11
North Carolina State University		2	8	1		1		4	1	
University of North Carolina - Asheville	1					1		1	1	
University of North Carolina - Chapel Hill	5	2	3						1	11
University of North Carolina - Charlotte	5	2	5	5	1			6	2	
University of North Carolina - Greensboro		1		4	2		1	1	1	4
University of North Carolina - Pembroke			3					1		
University of North Carolina - Wilmington	2	3	4	8	1	1	1	2		4
University of North Carolina Hospitals	3	21	1	5	7	1	1	1	1	
Western Carolina University		2	3					1		11
Winston-Salem State University			4	2	1		1	3	2	3
Totals	70	62	115	383	52	10	39	101	36	253
1. Using OIA Interagency Internal Audit Program: Community College Central Office, Department of Administration, Department of Commerce, Department of Labor, Office of the Governor, Office of State Budget and Management, Office of State Auditor, and Wildlife Resources Commission										

QUALITY ASSURANCE REVIEW (Peer Review)

Quality Assurance Reviews are required either every three or five years depending on which audit standard is being followed. Many of the state agency internal audit functions are currently being developed and have not completed a quality review cycle. Of the established programs, two offices have received external quality assurance reviews within the required time period shown in Table 8.

Table 8

State Agency Quality Assurance Reviews		
Agency	Type	Last Review
Department of Correction	Professional Practice Framework - Institute of Internal Auditors	December 2006
East Carolina University	Professional Practice Framework - Institute of Internal Auditors	May 2006

**COUNCIL OF INTERNAL AUDITING
FUTURE EFFORTS**

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CONTINUED OBJECTIVES

Two objectives approved by the Council were started but not completed during fiscal year 2008-09. In the next fiscal year (2009-10), the staff to the Council of Internal Auditing will continue their efforts on these tasks. Below are descriptions of the activities that will be addressed.

Office of Internal Audit Procedure Manual

Internal practices and procedures followed by the Office of Internal Audit staff will be documented throughout the next fiscal year. This manual will provide information based on the different requirements of the organization and roles of each team member. The document will be updated on a continual basis as new responsibilities are added to the organization.

Internal Audit Recognition Program

Research has been conducted and an Internal Audit Recognition program will be developed. The program will recognize internal auditors and teams, for their exceptional internal audit contributions to their office, State agency or to the State.

FUTURE or ONGOING OBJECTIVES

Some tasks charged to the Council will be on-going activities. In the next fiscal year (2009-10), the staff to the Council of Internal Auditing will continue their efforts on these tasks. Below are descriptions of the activities that will be addressed.

Training and Professional Development

Training and professional development is an on-going effort. Future training topics will be based on the training needs assessment conducted during 2009 and availability of funds. In addition to providing training opportunities directly, the Office of Internal Audit will provide information on training opportunities provided by other qualified organizations.

Manuals and Best Practices

Identifying best practices and updating the Statewide Internal Audit Manual and technical bulletins is a continual process. Best practices may be identified through many sources including, but not limited to, professional auditing authorities, other state's internal audit practices, and trainings and professional developments. All state internal auditors will be notified of any best practices identified and all modification to manuals and bulletins.

Risk Assessments

Audit standards require internal audit functions to conduct risk assessments annually to create or modify audit plans. The Interagency Internal Audit program will conduct risk assessments at all agencies to determine if there has been significant changes in the work environment, programs, or processes that warrant modification of the three-year audit plan.

Internal Auditing

The auditors of the Office of Internal Audit will be assigned engagements based on the three-year audit plan. The Office of Internal Audit will coordinate with the agency's director of internal auditing to conduct work. Work will include planning, fieldwork and communicating results to agency management. All reports will be included in the Council's central database.

APPENDIX A
NORTH CAROLINA INTERNAL
AUDIT ACT

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Appendix A Internal Audit Act

Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

- (a) For the purposes of this section:
 - (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the Chief Justice of the Supreme Court, the President of The University of North Carolina, and the Superintendent of Public Instruction.
 - (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, the Judicial Branch, The University of North Carolina, and the Department of Public Instruction.
- (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.)

§ 143-746. Internal auditing required.

- (a) Requirements. – A State agency shall establish a program of internal auditing that:
 - (1) Implements an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
 - (2) Ensures 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. Electronic data processing 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 internal auditor employed by a State agency shall at a minimum have a bachelor's degree from an accredited college or university and:
 - (1) Certification or licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information systems auditor, professional engineer, or attorney; or
 - (2) A minimum of five years' experience in internal or external auditing, management consulting, program evaluation, management analysis, economic analysis, industrial engineering, or operations research.
- (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal Auditing who shall report to the agency head and shall not report to any employee subordinate to the agency head. (2007-424, 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 its first meeting before November 1, 2007, and thereafter 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.)

APPENDIX B

**INTERAGENCY INTERNAL AUDIT
PROGRAM'S THREE-YEAR AUDIT
PLAN**

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Appendix B

Office of Internal Audit Interagency Internal Audit Program July 1, 2008 through June 30, 2011

Audit Area	Agency	Risk Score	Timing	Hours	% of Available Hours	Date Completed
Risk Assessments						
Community College System Office	CCS	N/A	FY2009	200		March 2009
Department of Administration	DOA	N/A	FY2009	850		December 2008
Department of Commerce	COM	N/A	FY2009	600		March 2009
Department of Labor	DOL	N/A	FY2009	225		January 2009
Office of the State Auditor	OSA	N/A	FY2009	200		January 2009
Office of State Budget and Management	OSBM	N/A	FY2009	125		December 2008
Wildlife Resources Commission	WRC	N/A	FY2009	550		December 2008
Community College System Office	CCS	N/A	FY2010	30		
Department of Administration	DOA	N/A	FY2010	40		
Department of Commerce	COM	N/A	FY2010	40		
Department of Labor	DOL	N/A	FY2010	20		
Office of the Governor	GOV	N/A	FY2010	125		
Office of the State Auditor	OSA	N/A	FY2010	20		
Office of State Budget and Management	OSBM	N/A	FY2010	20		
Wildlife Resources Commission	WRC	N/A	FY2010	30		
Community College System Office	CCS	N/A	FY2011	30		
Department of Administration	DOA	N/A	FY2011	40		
Department of Commerce	COM	N/A	FY2011	40		
Department of Labor	DOL	N/A	FY2011	20		
Office of the Governor	GOV	N/A	FY2011	20		
Office of the State Auditor	OSA	N/A	FY2011	20		
Office of State Budget and Management	OSBM	N/A	FY2011	20		
Wildlife Resources Commission	WRC	N/A	FY2011	30		
Total time on Risk assessments				3,295	22.2%	
Efficiency &/or Effectiveness (Operational) Audit						
Support Staff Analysis - Agencywide	DOA	N/A	FY2009	320		
Human Relation Program	DOA	2.55	FY2009	506		May 2009
Motor Fleet Management	DOA	2.15	FY2009	70		June 2009
State Property - Leasing	DOA	2.27	FY2009	460		
Cellular Telephone - Wildlife Management	WRC	2.58	FY2009	220		
Workforce Development	COM	2.42	FY2010	200		
Community Development	COM	2.20	FY2010	200		
State Energy ARRA	COM	3.26	FY2010	200		
BioNetwork Evaluation	CCS	1.68	FY2010	350		
Parking Division	DOA	3.35	FY2010	180		
Process review based on Customer Service Survey	DOA	N/A	FY2010	230		
Cellular Telephone - Agencywide	DOA	N/A	FY2010	180		
Purchase and Contract Division	DOA	2.44	FY2010	350		
Cellular Telephone - Agencywide	DOL	N/A	FY2010	220		
Workload Analysis - Agencywide	OSBM	N/A	FY2010	300		
Procurement Card - Agencywide	WRC	2.30	FY2010	150		
Eco-Enhancement Program	WRC	2.01	FY2010	280		
Warehouse -- Just in Time Inventory	WRC	1.75	FY2010	260		
Workforce Development	COM	2.42	FY2011	115		
Community Development	COM	2.20	FY2011	115		
Process review based on Customer Service Survey	DOA	N/A	FY2011	230		
Human Resources	WRC	2.95	FY2011	325		
Education Centers	WRC	2.40	FY2011	350		
Total Efficiency &/or Effectiveness (Operational) Audit				5,811	39.1%	

Audit Area	Agency	Risk Score	Timing	Hours	% of Available Hours	Date Completed
ARRA IC assessment Workforce Dev	COM	2.42	FY2009	80		
ARRA IC assessment Community Service	COM	2.20	FY2009	80		
ARRA IC assessment State Energy	COM	3.26	FY2009	80		
Business and Finance (EAGLE)	CCS	2.30	FY2009	60		
Fiscal (EAGLE)	COM	1.94	FY2009	80		June 2009
Fiscal Management (EAGLE)	DOA	2.41	FY2009	80		
Budget & Management (EAGLE)	DOL	2.17	FY2009	60		June 2009
Controller (EAGLE)	OSA	1.48	FY2009	60		June 2009
Fiscal Management (EAGLE)	OSBM/GOV	2.06	FY2009	60		June 2009
Business and Finance (EAGLE)	CCS	2.30	FY2010	60		
Fiscal (EAGLE)	COM	1.94	FY2010	80		
Fiscal Management (EAGLE)	DOA	2.41	FY2010	80		
Budget & Management (EAGLE)	DOL	2.17	FY2010	60		
Controller (EAGLE)	OSA	1.48	FY2010	60		
Fiscal Management (EAGLE)	OSBM/GOV	2.06	FY2010	60		
Controller (EAGLE)	WRC	2.30	FY2010	60		
Business and Finance (EAGLE)	CCS	2.30	FY2011	60		
Fiscal (EAGLE)	COM	1.94	FY2011	80		
Fiscal Management (EAGLE)	DOA	2.41	FY2011	80		
Budget & Management (EAGLE)	DOL	2.17	FY2011	60		
Controller (EAGLE)	OSA	1.48	FY2011	60		
Fiscal Management (EAGLE)	OSBM/GOV	2.06	FY2011	60		
Controller (EAGLE)	WRC	2.30	FY2011	60		
Total Internal Control Testing				1,560	10.5%	
Information System Audit						
General Control	DOA	1.62	FY2010	80		
General Control	OSA	1.45	FY2010	80		
General Control	CCS	1.88	FY2011	80		
General Control	COM	1.79	FY2011	80		
General Control	DOL	1.72	FY2011	80		
General Control	OSBM/GOV	1.64	FY2011	80		
General Control	WRC	1.90	FY2011	80		
Total Information System				560	3.8%	
Audit Follow-Up						
ARRA Workforce Dev-prior audit findings	COM	2.42	FY2009	40		
ARRA Community Service-prior audit findings	COM	2.20	FY2009	40		June 2009
ARRA State Energy-prior audit findings	COM	3.26	FY2009	40		
ARRA Veteran's Affair-prior audit findins	DOA	1.95	FY2009	40		
Follow-up for work conducted in FY2009	all	N/A	FY2010	60		
Follow-up for work conducted in FY2010	all	N/A	FY2011	270		
Follow-up for work conducted in FY2011	all	N/A	FY2011	305		
Total Audit Follow-Up				795	5.3%	
Contingency for Consulting Services						
Fiscal Management EAGLE Committee member	OSBM/GOV	2.06	FY2009	40		April 2009
Parking Division Technical Assistance	DOA	3.35	FY2009	80		March 2009
ITS Consolidation Technical Assistance	OSBM	1.78	FY2009	10		March 2009
Contingency				430		
Total Consulting Services				560	3.8%	

Audit Area	Agency	Risk Score	Timing	Hours	% of Available Hours	Date Completed
Contingency for Special Requests/Investigations						
Blount Street Cost Benefit Analysis	DOA	2.23	FY2009	180		December 2008
Agreed upon procedures - Asset review	DOL	2.17	FY2009	80		June 2009
Agreed upon procedures - Asset review	DOL	2.17	FY2011	80		
Budget Analysis	OSBM	N/A	FY2009	125		February 2009
Contingency				1,829		
Total Contingency for Special Requests/Investigations				2,294	15.4%	
Total FY2009				5,641	37.9%	
Total FY2010				4,105	27.6%	
Total FY2011				2,870	19.3%	
Remaining Contingency Hours				2,259	15.2%	
Grand Total Hours				14,875	100.0%	

* Risk score can range from low = 1 to high = 5

COM = Department of Commerce
 CCS = Community College System Office
 DOA = Department of Administration
 DOL = Department of Labor
 GOV = Office of the Governor
 OSA = Office of the State Auditor
 OSBM = Office of Budget and Management
 WRC = Wildlife Resources Commission

This document was approved by the Council of Internal Auditing during the April 2009 meeting. It has since been modified.

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APPENDIX C
TRAINING NEEDS ASSESSMENT

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Appendix C

Training Needs Assessment

The North Carolina General Assembly directed the Council of Internal Auditing to provide centralized training and professional development opportunities to internal auditors throughout state agencies and universities. The Office of Internal Audit conducted a needs assessment to obtain information from Internal Auditing Offices on training needs and preferences for internal auditors across the state agencies and universities. Based on funding availability, the OSBM Office of Internal Audit will use the information from the assessment as a basis for possible training opportunities in the coming years.

The needs assessment was distributed to Internal Audit Directors on December 22, 2008. Nineteen agencies and universities responded to the assessment. The agencies and universities who responded were:

- Appalachian State University
- Elizabeth City State University
- Department of Agriculture & Consumer Services
- Department of Correction
- Department of Crime Control and Public Safety
- Department of Cultural Resources
- Department of Environment and Natural Resources
- Department of Health and Human Services
- Department of the Secretary of State
- North Carolina A & T State University
- North Carolina Central University
- NC General Assembly
- Office of State Budget and Management
- UNC-Chapel Hill
- UNC-Charlotte
- UNC-Wilmington
- UNC School of the Arts
- Western Carolina University
- Winston-Salem State University

The top ten topics identified for training were:

- Auditing – IS Beginning
- Auditing – Intermediate Level
- Best Practices in Internal Auditing
- Data Mining
- Federal Grant Compliance
- Fraud Investigations
- IIA Standards (Red Book)
- Operational/Performance Auditing
- Quality Assurance Reviews
- Risk Assessment/Management

How effective do you feel the following mediums of training? Check the appropriate box:			
	Effective	Somewhat Effective	Not Very Effective
Classroom	19	0	0
Video	3	15	1
Internet	7	11	1
Teleconference	2	14	3
Brown bag lunches	3	9	7

Depending on your interest in the topic, would you and your staff participate in trainings conducted through the following training mediums?		
Classroom	Yes - 19	No - 0
Video	Yes - 18	No - 1
Internet	Yes - 18	No - 1
Teleconference	Yes - 16	No - 3
Brown bag lunches	Yes - 11	No - 8

How much do the following items influence you when registering for a training program?

1. Program objectives	Very Much - 18	Medium - 1	Little - 0
2. Location	Very Much - 6	Medium - 12	Little - 1
3. Facilitator/presenter	Very Much - 3	Medium - 11	Little - 5
4. Length of program	Very Much - 4	Medium - 11	Little - 4
5. Price	Very Much - 12	Medium - 7	Little - 0
6. CPE offered	Very Much - 7	Medium - 8	Little - 4

In general, what day(s) are most convenient for you to attend training?				
Monday - 9	Tuesday - 14	Wednesday - 15	Thursday - 14	Friday - 9

In general, what times are more convenient for you to attend training?	
Morning - 12	Afternoon - 11

If OIA is unable to provide free training for every class, is your office willing to pay for training per seat at a reduced rate off-set by OIA?	
Yes - 17	No - 2

APPENDIX D
2008 STAFFING RECOMMENDATION

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Appendix D Staffing Recommendation

The following was submitted to the General Assembly during the 2008 session. The recommendation was not funded.

Council of Internal Auditing State Agency Internal Audit Staffing Level Recommendation May 2008		
Agency	Recommended Number of New Positions	Estimated Cost of New Internal Audit Positions
Administrative Office of the Courts	2	\$ 186,000
Department of Administration/Office of State Personnel	2	186,000
Department of Agriculture and Consumer Services	1	93,000
Department of Crime Control and Public Safety	4	372,000
Department of Cultural Resources	1	93,000
Department of Environment and Natural Resources	7	651,000
Department of Health and Human Services	11	1,023,000
Department of Insurance	2	186,000
Department of Justice	2	186,000
Department of Public Instruction	2	186,000
Department of Revenue	2	186,000
Department of State Treasurer	3	279,000
North Carolina Community College Central Office	2	186,000
North Carolina State University	1	93,000
University of North Carolina - Chapel Hill	1	93,000
University of North Carolina - General Administration	2	186,000
University of North Carolina - Greensboro	1	93,000
University of North Carolina Hospitals	2	186,000
Total	48	\$ 4,464,000