

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2010



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 Act required State agencies 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 July 2009 through June 2010, 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 Members	
David T. McCoy, Chair	State Controller
Charles Perusse	State Budget Director
Carey Moses Jr.	Secretary of Administration
Roy Cooper	Attorney General
Kenneth Lay	Secretary of Revenue
Beth Wood	State Auditor (nonvoting)

The Council meets quarterly in the Administration Building 5th floor conference room. The 2009-2010 meeting schedule approved by the Council is listed in Table 2.

Table 2

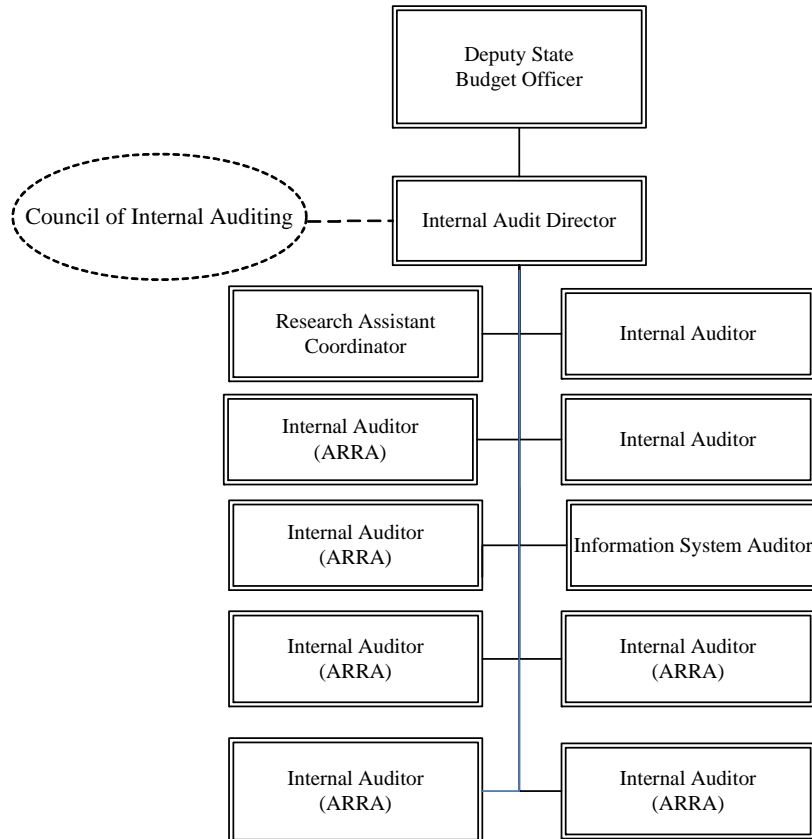
2009-2010 Council of Internal Auditing Meeting Schedule
July 8, 2009
October 14, 2009
January 13, 2010
April 14, 2010

OFFICE OF INTERNAL AUDIT STAFF

The Office of State Budget and Management (OSBM) established the Office of Internal Audit (OIA) to house the staff to the Council. The organizational structure of the Office is shown in Exhibit 1 on page 4. The Director of Quality Assurance and Development was eliminated in the Appropriation Act of 2009 and six time-limited internal auditors were added to the office. The time-limited auditors focus primarily on programs receiving American Recovery and Reinvestment Act (ARRA) funds and the positions end September 30, 2011. The professional credentials held by the internal audit staff include four Certified Public Accountants, two Certified Internal Auditors, one Certified Fraud Examiner, one Certified Internal Control Auditor, two Certified Government Auditing Professionals, one Certified Financial Services Auditor and one Certified Government Financial Manager.

¹ Entire Internal Audit Act is located in Appendix A.

**Exhibit 1
Office of Internal Audit
Organizational Structure
June 30, 2010**



OFFICE OF INTERNAL AUDIT BUDGET

The annual State general fund appropriation for the Office of Internal Audit was reduced by 22% to \$530,974 during FY2009-10. The reduction relates to the elimination of the Director of Quality Assurance and Development plus a 10% reduction. The Office obtained \$412,959 of State Fiscal Stabilization Funds to hire four internal auditors² whose primary purpose is to audit and provide technical assistance to agencies receiving ARRA funds. Just under \$102,000 of the ARRA funds were expended during the fiscal year since ARRA positions were not filled until February and March of 2010. The FY2007-08 through FY2009-10 combined expenditures for the General funds and ARRA funds³ are shown in Table 3.

As the economic downturn prolonged, the Office diligently continued to reduce spending. The Office of Internal Audit reverted back approximately 11% of its FY2009-10 general fund. The effect of the reversion was a reduction in training, postponement of audits requiring travel and delays in purchasing professional materials and software.

Table 3

Office of Internal Audit Expenditures			
	<u>FY2009/10</u>	<u>FY 2008/09</u>	<u>FY 2007/08</u>
Expenditures			
Personal Services	\$ 562,759	\$ 466,451	\$ 161,526
Purchased Services			
<i>Central Database Dev. & Maintenance</i>	-	96,215	-
<i>Training & Development</i>	3,760	11,205	24,500
<i>Information Technology Services</i>	1,415	40,545	6,000
<i>Travel, Telephone, Miscellaneous</i>	923	996	543
Total Purchased Services	6,098	148,961	31,043
Supplies	1,232	129	2,425
Property, Plant, & Equipment	872	516	10,042
Other	60	110	358
Total Expenditures	571,021	616,167	205,394
Carry Forward	-	-	200,985
Grand Total Expenditures	571,021	616,167	406,379
Revenues			
Carry Forward	-	200,985	-
General Fund Appropriations	530,974	683,000	683,000
Federal ARRA Stabilization Funds	412,959		
Grand Total Revenues	943,933	883,985	683,000
Revenues Over Expenditures	\$ 372,912	\$ 267,818	\$ 276,621

² Funds for two additional positions are not included since positions were not filled until July 2010.

³ ARRA fund are included in FY2009-10 only.

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**COUNCIL OF INTERNAL AUDITING
EFFORTS**

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OBJECTIVES

The Internal Audit Act required the Council of Internal Auditing to complete a number of tasks. The staff to the Council developed objectives based on these legislative mandates and reports the progress of the objectives at each Council meeting. Information on the objectives and the current status is shown below.

OBJECTIVE 1: Communication Strategy

The communication strategy is 100% complete. The Office of Internal Audit has determined communication purposes for stakeholders to be: members of the Council of Internal Auditing, staff to the Council, internal audit directors and internal auditors. Communication tools include 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 2: Conduct Annual Risk Assessments

The annual risk assessment for State agencies is 100% complete. The Office of Internal Audit's Interagency Internal Audit Program conducted abbreviated risk assessments during July and August 2010. The purpose of the risk assessment was to determine if the agencies had any substantial changes during FY2010 that warranted modification of the three-year audit plan. In addition, the risk assessment is conducted to comply with the Institute of Internal Auditing Standards.

OBJECTIVE 3: Conduct Engagements on the Three-Year Audit Plan

The FY2010 plan is 83% complete. The Office of Internal Audit's Interagency Internal Audit Program planned to conduct 51 engagements. The Office completed 42 of those engagements with four still in progress. Nine engagements were never started due to various reasons including services not needed for EAGLE testing, Community College System office not serviced by the program and loss of the energy auditor position.

OBJECTIVE 4: Conduct First Professional Development Training Session

The first professional development training session was not completed since the OIA staff were unable to identify a low cost training opportunity. Due to the continuing budget crisis, OIA did not conduct the early year professional development training session.

OBJECTIVE 5: Develop Internal Auditor Recognition Program

The Internal Audit Recognition Program is 90% complete. 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 are 95% drafted and should be ready to present to the Council of Internal Auditing at the January 2011 meeting.

OBJECTIVE 6: Develop Internal Procedures Manual

The internal procedures manual for the Office of Internal Audit is 100% complete. The manual has been provided to all OIA internal auditors to ensure consistent and reliable performance while conducting engagements. The manual will also aid in complying with the Institute of Internal Auditor's auditing standards.

OBJECTIVE 7: Conduct Second Professional Development Training Session

The second professional development training session is 100% complete. The Office of Internal Auditing, in conjunction with EZ-R Stats Training, delivered seven one-day training sessions over a four week period. There was a selection of five courses to choose from which were: Fraud Risk, Sampling, Advanced Excel, Program Monitoring and Data Mining. Each training session earned attendees eight hours of continuing professional development credits. Ninety-four internal auditors attended this training.

PROPOSED LEGISLATION CHANGES

The Council of Internal Auditing voted to introduce two amendments to the Internal Audit Act, one being a revision and the other an addition to the Act.

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 the following amendment to the Internal Audit Act.

N.C. Gen Stat. § 143-748

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.

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**AGENCY INTERNAL AUDIT
EFFORTS**

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AGENCY INTERNAL AUDIT PROGRAMS

POSITIONS

As shown in Table 4, there are 149 internal auditor positions, which are spread across 42 State agencies. There was a net loss of three positions throughout the State over the past year. Significant changes included the loss of six positions within the Department of Transportation, Inspector General Division and a gain of six time-limited positions (term ends September 30, 2011) within OSBM's Office of Internal Audit. The time-limited positions are primarily responsible for auditing programs receiving American Recovery and Reinvestment Act funds.

There are ten agencies with no internal auditor positions. Five of these agencies use the Office of Internal Audit as their internal audit program and the other five agencies are not subject to the Internal Audit Act. The information in Table 4 provides data on positions regardless of filled or vacant status.

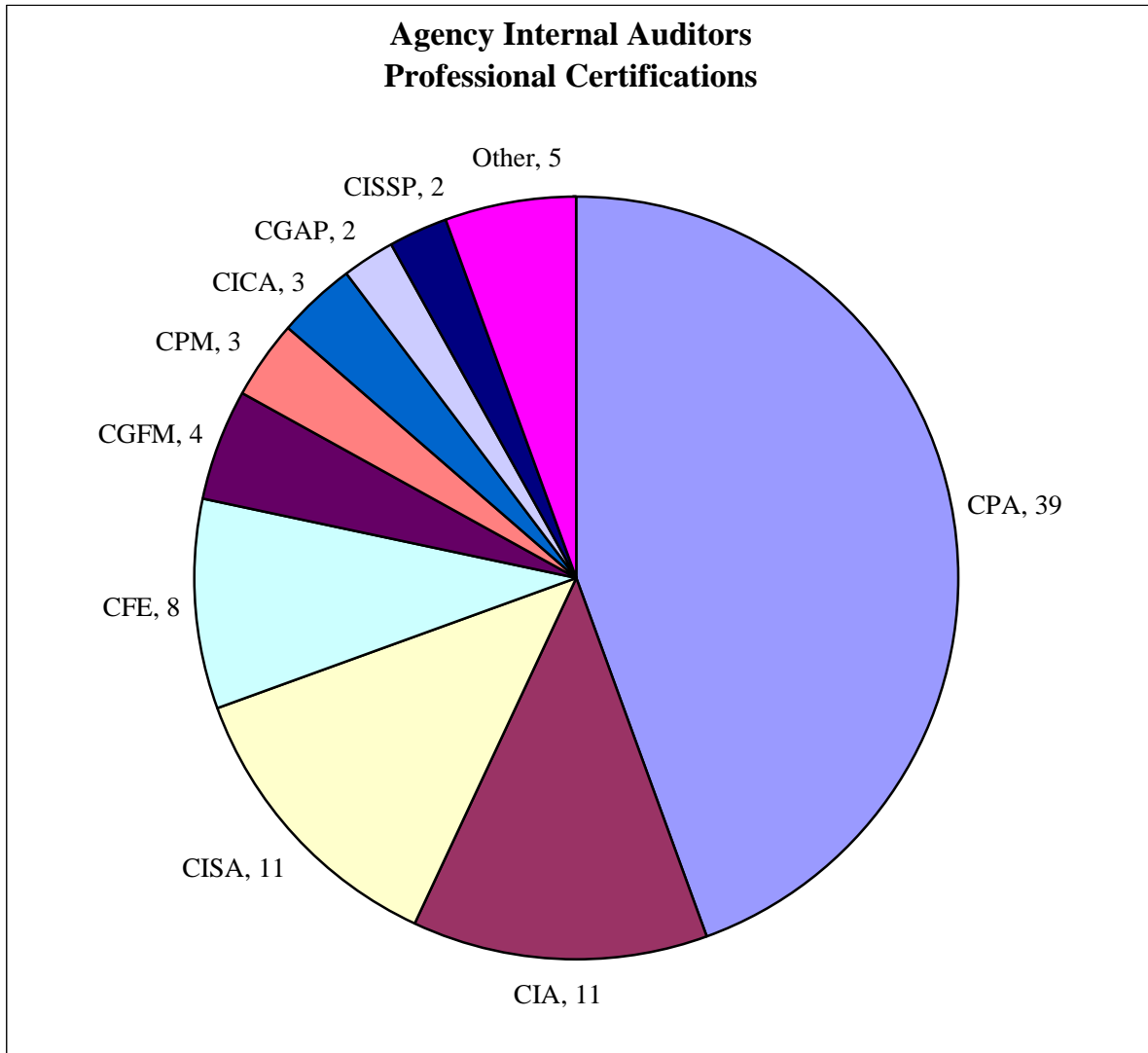
Table 4
Statewide Internal Auditor Position Level Comparison
FY2008-09 and FY2009-10

Agency	Positions		Agency	Positions	
	2009	2010		2009	2010
Administrative Office of the Courts ³	3	3	Office of Lieutenant Governor ³	0	0
Community College Central Office	0	1	Office of State Controller ³	1	0
Department of Administration ¹	0	0	Office of the Governor /Office State Budget and Management ^{1,2}	4	10
Department of Agriculture & Consumer Services	1	1	Office of the State Auditor ¹	0	0
Department of Commerce ¹	0	0	State Board of Elections ³	4	1
Department of Correction	18	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	4
Department of Environment and Natural Resources	2	2	East Carolina University	6	7
Department of Health and Human Services	8	8	Elizabeth City State University	2	2
Department of Insurance	1	1	Fayetteville State University	2	2
Department of Justice	1	1	North Carolina Agriculture and Technical State University	4	4
Department of Juvenile Justice and Delinquency Prevention	3	3	North Carolina Central University	3	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	6
Department of the Secretary of State	1	1	University of North Carolina Hospitals	5	5
Department of State Treasurer	1	2	University of North Carolina - Asheville	1	1
Department of Transportation	31	25	University of North Carolina - Chapel Hill	6	6
Employment Security Commission ³	1	2	University of North Carolina - Charlotte	4	4
General Assembly ³	1	1	University North Carolina - General Administration	1	1
Housing Finance Agency ³	0	0	University North Carolina - Greensboro	3	2
Indigent Defense Services	1	1	University of North Carolina - Pembroke	1	1
Information Technology Services ³	2	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	152	149
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 are not subject to the Internal Audit Act					

PROFESSIONAL CERTIFICATIONS AND ADVANCED DEGREES

The number and type of professional certifications held by the agency’s internal auditors are shown in Chart 1. Overall, the auditors hold 88 professional certifications; 69% of these being either Certified Public Accountants, Certified Internal Auditors or Certified Information Systems Auditors.

Chart 1

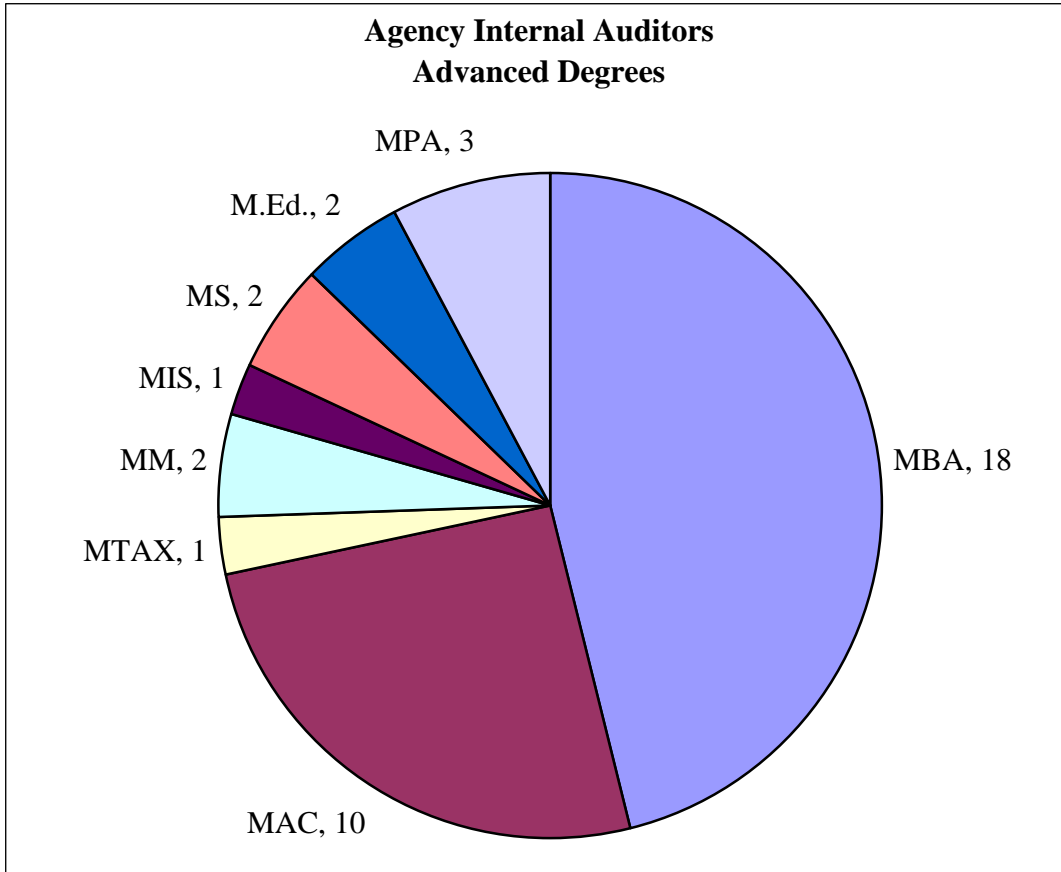


- CFE**/Certified Fraud Examiner
- CGAP**/Certified Government Audit Professional
- CGFM**/Certified Government Financial Manager
- CIA**/Certified Internal Auditor
- CICA**/Certified Internal Controls Auditor
- CISA**/Certified Information Systems Auditor
- CISSP**/Certified IT Security
- CPA**/Certified Public Accountant
- CPM**/Certified Public Manager

- OTHER:**
- CBA**/Certified Business Analyst
 - CBRM**/Certified Business Resilience Manager
 - CCSP**/Cisco Certified Security Professional
 - CEH**/Certified Ethical Hacker
 - CFSA**/Certified Financial Services Auditor

In addition, Chart 2 below shows advanced degrees held by the agency's internal auditors. Combined, the auditors hold 39 advanced degrees with 72% of these being Masters in Business Administration or Accounting.

Chart 2



MAC/Masters of Accounting
MBA/Master of Business Administration
M.Ed./Master of Education
MIS/Master of Information Sciences

MM/Master of Management
MPA/Master of Public Administration
MS/Masters of Science
MTAX/Masters of Taxation

AGENCY INTERNAL AUDIT COMPLIANCE

DOCUMENT SUBMISSION

The Internal Audit Act and the North Carolina Internal Audit Manual require internal audit functions to submit the following documents and reports to the Office of Internal Audit: internal audit charter, organizational chart, audit plan and engagement reports. Table 5 shows compliance with document submission and overall compliance rates for all 35 internal audit functions.

Table 5

Compliance with Internal Audit Act and Statewide Internal Audit Manual				
Agency	Charter	Org Chart	Annual Plan	Reports
Community College Central Office	✓	✓	✓	✓
Department of Insurance	✓	✓	✓	✓
Department Crime Control and Public Safety	✓	✓	✓	✓
Department Health and Human Services ¹	✓	✓	✓	✓
Department of Agriculture & Consumer Services	✓	✓	✓	✓
Department of Corrections	✓	✓	✓	✓
Department of Cultural Resources	✓	✓	✓	✓
Department of Environment and Natural Resources	✓	✓	✓	✓
Department of Justice ²	✓	✓	✓	✓
Department of Juvenile Justice and Delinquency Prevention	✓	✓	✓	✓
Department of Revenue	✓	✓	✓	✓
Department of Secretary of State	✓	✓	✓	✓
Department of State Treasurer	✓	✓	✓	✓
Department of Transportation	✓	✓	✓	✓
North Carolina Department of Public Instruction	✓	✓	✓	✓
North Carolina School of Science and Math	✓	✓	✓	✓
OIA's Interagency Internal Audit Program ³	✓	✓	✓	✓
Appalachian State University	✓	✓	✓	✓
East Carolina State University	✓	✓	✓	✓
Elizabeth City State University	✓	✓	✓	✓
Fayetteville State University	✓	✓	✓	✓
North Carolina A&T State University	✓	✓	✓	✓
North Carolina Central University	✓	✓	✓	✓
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 ⁴	✓	✓	✓	✓
University of North Carolina - Greensboro	✓	✓	✓	✓
University of North Carolina - Pembroke	✓	✓	✓	✓
University of North Carolina - Wilmington	✓	✓	✓	✓
University of North Carolina Hospitals	✓	✓	✓	✓
Western Carolina University	✓	✓	✓	✓
Winston-Salem State University	✓	✓	✓	✓
TOTAL	34	35	34	33
Compliance rate	97%	100%	97%	94%

1. Follows Government Auditing Standards which does not require an audit charter.
 2. Unintentional oversight
 3. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, and Wildlife Resource Commission, Office of the Governor, and Office of Budget and Management.
 4. Internal audit position was been vacant due to hiring freeze and budget crisis but has recently been filled.

REPORTING REQUIREMENTS

The Internal Audit Act requires State agencies to appoint a Director of Internal Auditing (Director) who must report to the head of the agency. The Act defines head as Governor, Council of State member, Cabinet Secretary, the Chief Justice of the Supreme Court, the President of the University System or the Superintendent of Public Instruction. Table 6 shows that all State agencies have appointed a director but only 38% of the directors report to the head of the State agency as defined in the Act. The low reporting compliance rate is most likely due to the strict definition of ‘agency head’ which has lead to one of the proposed legislative changes located on page 12.

Table 6

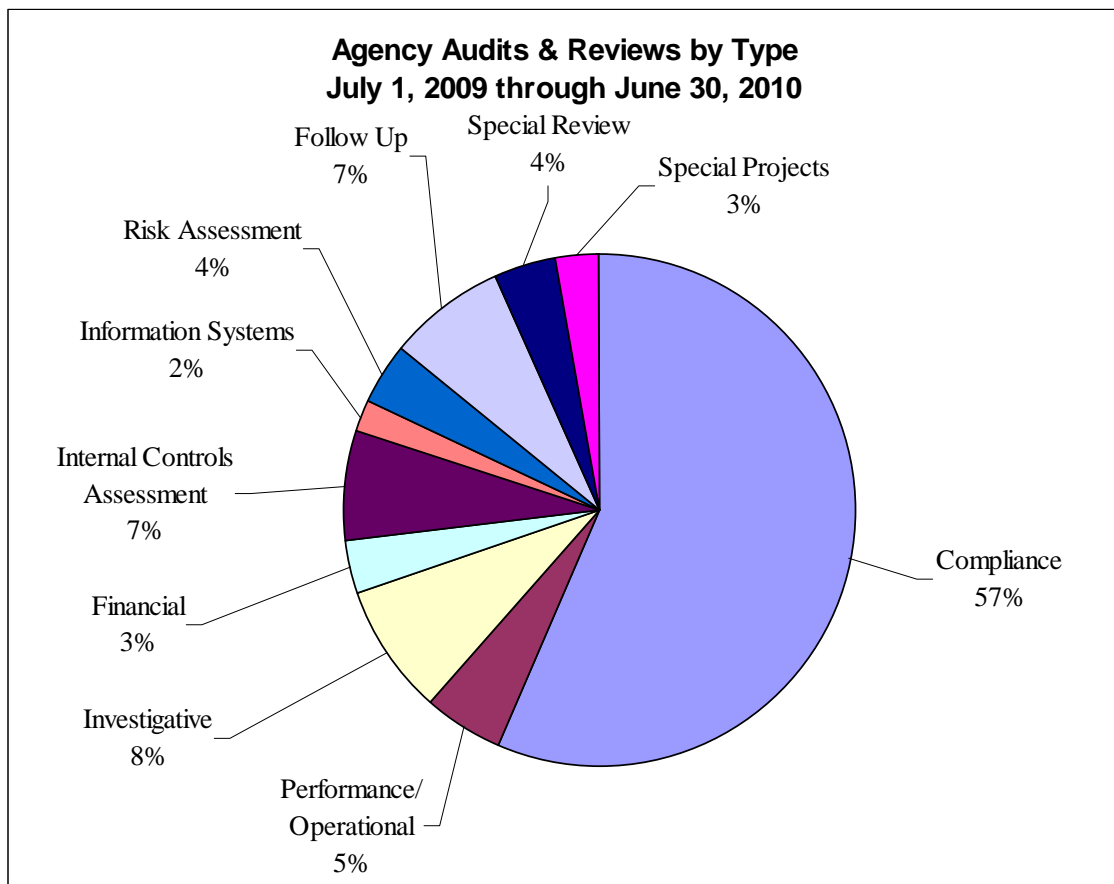
Compliance with Internal Audit Director Appointment and Reporting		
Agency	Director Appointed	Meets Reporting Requirement
Community College Central Office	✓	Yes
Department of Administration	✓	Yes
Department of Agriculture and Consumer Services	✓	Yes
Department of Commerce	✓	No
Department of Corrections	✓	Yes
Department of Crime Control Public Safety	✓	No
Department of Cultural Resources	✓	Yes
Department of Environment and Natural Resources	✓	Yes
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
Western 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 July 1, 2009 through June 30, 2010, the majority of activities conducted by the internal auditors were compliance audits. Chart 3 shows the percentage of internal audit reports prepared by type. In addition to the audit work shown here, most internal audit functions provide technical assistance throughout the year. During the same time period, internal auditors provided assistance to their agency's management on 444 different activities which did not result in report issuance.

Chart 3



The audit projects by State agency are shown in Table 7 on the next page. The Table depicts the efforts of each internal audit function. Efforts are directly related to the size of the audit functions. There are many State agencies that have one internal auditor which limits the number of audits that can be accomplished throughout the year.

Table 7

Agency Reported Audits and Reviews July 1, 2009 through June 30, 2010										
Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review	Special Projects
Community College Central Office		1			1					
Department Crime Control and Public Safety	2								1	
Department Environment and Natural Resources	4		4	3					1	7
Department Health and Human Services			2	2	1			1	1	
Department of Agriculture & Consumer Services	3	1	7	2	1	3			2	
Department of Corrections			1	40		2	30	15	6	
Department of Cultural Resources			1					2		
Department of Insurance	2	1		1				1	1	
Department of Justice							1		1	
Department of Juvenile Justice and Delinquency Prevention	4	3		2	10				2	
Department of Revenue			7	13	11				14	
Department of Secretary of State	3	1				1	1	3	3	
Department of State Treasurer		5		4	1		1	1		5
Department of Transportation	2		49	723	35	1		3		1
Department Public Instruction		3	2		1		2	2		1
OIA's Interagency Internal Audit Program ¹		4	1	5	6		12	4	5	6
Appalachian State University	4	7	3	4	5	9	1	3	8	
East Carolina State University		6	9	2		1	2	19		2
Elizabeth City State University	2				1		1	4		
Fayetteville State University	2	6		1	1	1		1	4	3
North Carolina Agriculture & Technical State University	7		13		1			3		
North Carolina Central University	4	2	1	3	1			3		3
North Carolina School of Science and Math		1	2		1				1	
North Carolina School of the Arts		1	1	1	2	1	1	4	3	
North Carolina State University	4		8	2	1	3		6		2
University of North Carolina - Chapel Hill	2	6		1		2				8
University of North Carolina - Asheville					1			4	1	
University of North Carolina - Charlotte		5	2	7	1		1	5		
University of North Carolina Hospitals	1	14	2	12	12	3	2	7	1	2
University of North Carolina - General Administration										
University of North Carolina - Greensboro				3	4		2	2	1	1
University of North Carolina - Pembroke					1					
University of North Carolina - Wilmington	1	9	1	5	2	2		12		
Western Carolina University	2		3	2	1		1	4		
Winston-Salem State University			3		2		1	2	1	
Totals	49	76	122	838	104	29	59	111	57	41

¹ Using OIA Interagency Internal Audit Program: 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. As of now, 12 internal audit functions are currently being developed and are not required to have a review. Of the 23 internal audit functions established, only two have received external quality assurance reviews within the required time period as shown in Table 8. It can take 6 to 12 months to prepare for an external quality assurance review. Three internal audit functions (UNC-Wilmington, North Carolina State University and the Department of Juvenile Justice and Delinquency Prevention) have currently requested reviews and are in the process of completing the self assessment. The reviews are expected to begin between late fall and late spring.

Table 8
Agency Establishment Date
and
Compliance with Quality Assurance Review (QAR) Requirement

Agency/University	Internal Audit Establishment Date	Date of Last QAR	Compliant with Standard	Deadline for First Required QAR
Community College System Office ¹		None	Not required	
Department of Insurance	June 2008	None	Not required	June 2013
Department Crime Control and Public Safety	June 2007	None	No	
Department Health and Human Services	1994	March 2004	No	
Department of Agriculture & Consumer Services	1969	None	No	
Department of Corrections	1985	December 2006	Yes	
Department of Cultural Resources	January 2008	None	Not required	January 2013
Department of Environment and Natural Resources	October 2008	None	Not required	October 2013
Department of Justice	February 2009	None	Not required	February 2014
Department of Juvenile Justice and Delinquency Prevention	March 2005	None	No	
Department of Public Instruction	June 2009	None	Not required	June 2014
Department of Revenue	October 2008	None	Not required	October 2013
Department of Secretary of State	July 2008	None	Not required	July 2013
Department of State Treasurer	April 2009	None	Not required	April 2014
Department of Transportation	August 2008	December 2002	No	August 2013
OIA Internal Audit Interagency program ²	September 2008	None	Not required	September 2013
Appalachian State University	1965	None	No	
East Carolina State University		May 2006	Yes	
Elizabeth City State University	1994	None	No	
Fayetteville State University	1998	None	No	
North Carolina A&T State University	1969	July 1997	No	
North Carolina Central University	1997	None	No	
North Carolina School of Science and Math	November 2007	None	Not required	November 2012
North Carolina School of the Arts	2004	None	No	
North Carolina State University	1963	None	No	
University of North Carolina - Asheville	2001	None	No	
University of North Carolina - Chapel Hill	1965	None	No	
University of North Carolina - Charlotte	1973	None	No	
University of North Carolina - General Administration ³		None	Not required	
University of North Carolina - Greensboro	1984	None	No	
University of North Carolina - Pembroke	1984	None	No	
University of North Carolina - Wilmington	1983	None	No	
University of North Carolina Hospitals	1988	None	No	
Western Carolina University	1975	None	No	
Winston-Salem State University	1992	None	No	

1. Just filled position creating audit charter
2. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Department of State Auditor, and Department of Wildlife Resources, Office of the Governor, and OSBM.
3. Internal auditor position has recently been filled.

**COUNCIL OF INTERNAL AUDITING
FUTURE EFFORTS**

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CONTINUED OBJECTIVES

One approved objective, implementation of an internal audit recognition program, was started but not completed during FY2009-10. In the next fiscal year (2010-11), the staff to the Council of Internal Auditing will continue their efforts on this objective. Below are descriptions of the activities in progress and tasks that will be addressed.

Internal Audit Recognition Program

The program will recognize an internal auditor or a team of internal auditors for their exceptional internal audit contribution to the State, State agency, or respective office. Activities completed thus far include research and development of policies and procedures. The policies and procedures will be reviewed and finalized prior to being presented to the Council for approval. The first award will be presented during FY2010-11.

FUTURE or ON-GOING OBJECTIVES

Some tasks charged to the Council will be on-going activities. In the next fiscal year (2010-11), 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.

Internal Audit Staff Analysis

A staffing analysis is conducted every three-years to determine the number of internal audit positions needed in each agency's internal audit program. The methodology includes a risk assessment at the department level as well as attributes of the agencies which included agency expenditures, number of employees, and degree of decentralization.

Training and Professional Development

Training and professional development is a continuous 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. The professional development opportunities will be posted on the Council of Internal Audit website and communicated to all internal auditors.

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 receiving services, which will be used to develop a three-year audit plan for FY2012 through FY2014.

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 communication of results to agency management. All reports will be included in the Council's central database.

Quality Assurance Review

Auditing standards require that all internal audit functions receive an external quality assurance review. The Office of Internal Audit has received three requests for review. The reviews are expected to begin later this year. The office is responsible for coordinating the reviews, ensuring timeliness of the process and reviewing the working papers prior to issuance of the final report.

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
Staffing Recommendation

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Appendix B Staffing Recommendation

Council of Internal Auditing State Agency Internal Audit Staffing Level Recommendation October 2010				
Agency	Total Internal Audit Positions Needed	Current Internal Audit Positions	Recommended Number of New Positions	Estimated Cost of New Internal Audit Positions
Department of Administration	3	0	3	279,000
Department of Agriculture and Consumer Services	3	1	2	186,000
Department of Commerce	5	0	5	465,000
Department of Correction	18	18	-	-
Department of Crime Control & Public Safety	5	1	4	372,000
Department of Cultural Resources	2	1	1	93,000
Department of Environment and Natural Resources	8	2	6	558,000
Department of Health and Human Services	19	8	11	1,023,000
Department of Insurance	2	1	1	93,000
Department of Justice	3	1	2	186,000
Department of Juvenile Justice and Delinquency Prevention	3	3	-	-
Department of Labor	Shared Pool	0	-	-
Department of Public Instruction	3	1	2	186,000
Department of Revenue	2	2	-	-
Department of State Treasurer	2	2	-	-
Department of the Secretary of State	Shared Pool	1	-	-
Department of Transportation	31	25	6	558,000
Office of Administrative Hearings	n/a	0	-	-
Office of Lieutenant Governor	n/a	0	-	-
Office of the Governor /Office of State Budget and Management	Shared Pool	4	-	-
Office of the State Auditor	Shared Pool	0	-	-
Wildlife Resource Commission	Shared Pool	0	-	-
North Carolina Community College Central Office	3	1	2	186,000
Appalachian State University	4	4	-	-
East Carolina University	7	7	-	-
Elizabeth City State University	2	2	-	-
Fayetteville State University	2	2	-	-
North Carolina A&T State University	4	4	-	-
North Carolina Central University	3	3	-	-
North Carolina School of Science & Math	1	1	-	-
North Carolina School of the Arts	1	1	-	-
North Carolina State University	7	6	1	93,000
University of North Carolina Hospitals	7	5	2	186,000
University of North Carolina-Asheville	1	1	-	-
University of North Carolina-Chapel Hill	8	6	2	186,000
University of North Carolina-Charlotte	4	4	-	-
University of North Carolina-General Administration	3	1	2	186,000
University of North Carolina-Greensboro	3	2	1	93,000
University of North Carolina-Pembroke	1	1	-	-
University of North Carolina-Wilmington	4	4	-	-
Western Carolina University	2	2	-	-
Winston-Salem State University	3	3	-	-
Subtotal	179	131	53	4,929,000
Agencies Not Subject to Legislation				
Administrative Office of the Courts	6	3	-	-
Employment Security Commission	10	2	-	-
Housing Finance Agency	Shared Pool	0	-	-
Information Technology Services	3	2	-	-
North Carolina Education Lottery	6	2	-	-
Office of State Controller	Shared Pool	0	-	-
State Board of Elections	Shared Pool	1	-	-
State Health Plan	18	0	-	-
Subtotal	43	10	0	0
Grand Total	222	141	53	4,929,000
Notes:				
1 - Agencies with an established internal audit function with one position may utilize the shared pool for support.				
2 - Six time-limited positions within the Office of Budget and Management are not included. The positions terminate September 30, 2011 and are only used to audit American Recovery and Reinvestment Act funds through State government.				