

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 2011



Prepared By:

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

| | |
|--|----|
| Introduction..... | 1 |
| Council of Internal Auditing Efforts..... | 7 |
| Objectives | 9 |
| Proposed Legislative Changes | 11 |
| Agency Internal Audit Efforts | 15 |
| Agency Internal Audit Programs | 17 |
| Agency Internal Audit Compliance | 20 |
| Agency Internal Audit Accomplishments..... | 23 |
| Council of Internal Auditing Future Efforts | 25 |
| Continued Objectives..... | 27 |
| Future or Ongoing Objectives..... | 28 |
| Appendices | |
| Appendix A – North Carolina Internal Audit Act | 31 |
| Appendix B – Fiscal Year 2011 Staffing Recommendation..... | 35 |

[THIS PAGE INTENTIONALLY LEFT BLANK]

INTRODUCTION

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 2010 through June 2011, 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 |
| Andy Willis | State Budget Director |
| Moses Carey Jr. | Secretary of Administration |
| Roy Cooper | Attorney General |
| David Hoyle | Secretary of Revenue |
| Beth Wood | State Auditor (nonvoting) |

The Council meets quarterly in the Administration Building 5th floor conference room. The 2010-2011 meeting schedule approved by the Council is listed in Table 2.

Table 2

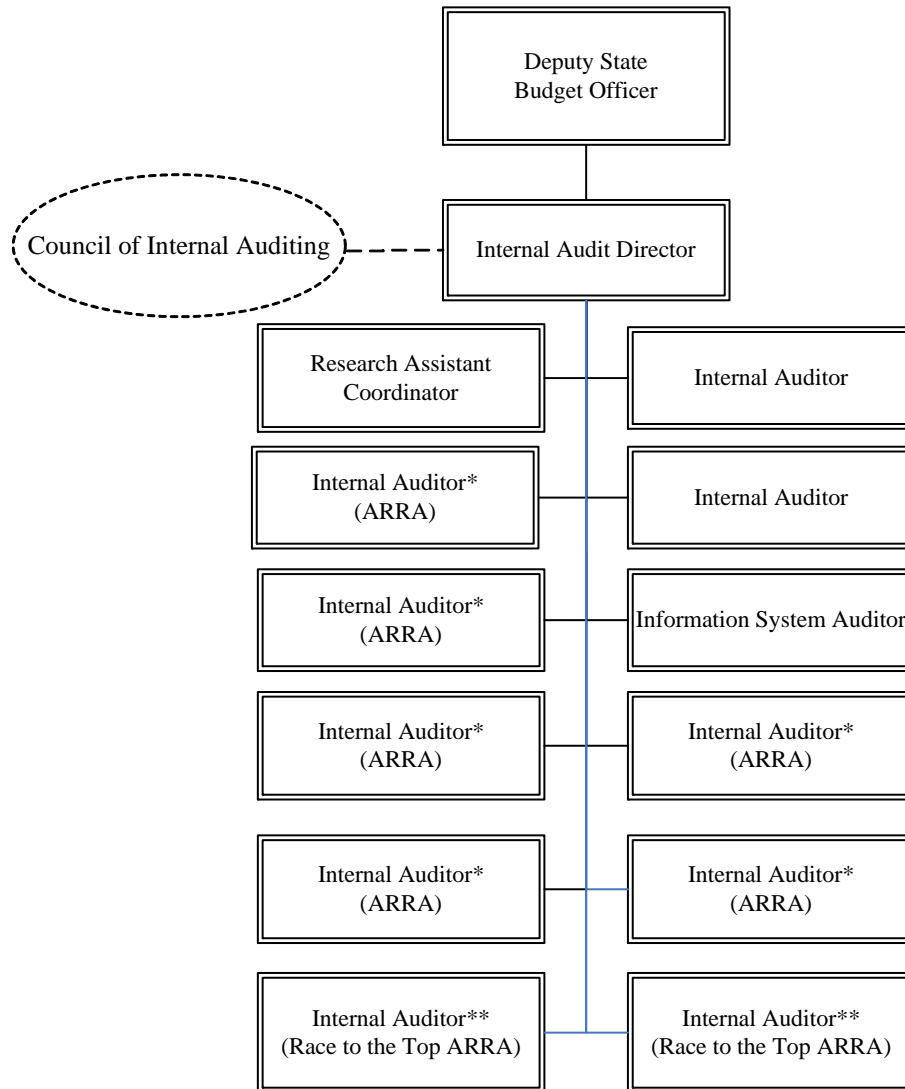
| 2010-2011 Council of Internal Auditing Meeting Schedule |
|--|
| July 14, 2010 |
| October 13, 2010 |
| January 12, 2011 |
| April 13, 2011 |

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 OIA is shown in Exhibit 1 on page 4. Six time-limited internal auditors were added to the office in fiscal year 2010. The time-limited auditors focused primarily on programs receiving American Recovery and Reinvestment Act (ARRA) funds and the positions ended September 30, 2011. In addition, two time-limited Race to the Top auditor positions were added to focus on the Race to the Top funds and these positions end August 31, 2014. The professional credentials held by the internal audit staff include: four Certified Public Accountants, two Certified Internal Auditors, two Certified Internal Control Auditors, two Certified Government Auditing Professionals, one Certified Fraud Examiner, 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, 2011**



* Time-limited positions term September 30, 2011
 ** Time-limited positions term August 31, 2014

OFFICE OF INTERNAL AUDIT BUDGET

The Office of Internal Audit had a 57% increase in expenditures during FY2010-11 compared to the prior year. The increase is related to obtaining State Fiscal Stabilization Funds to hire six internal auditors whose primary purpose was to audit and provide technical assistance to agencies receiving ARRA funds. In addition, Race to the Top provided funds for two auditors which are strictly for auditing Race to the Top funds. The FY2007-08 through FY2010-11 combined expenditures for the General funds and ARRA funds² are shown in Table 3.

As the economic downturn prolonged, the Office diligently continued to reduce spending. The Office of Internal Audit reduced 8% of its FY2010-11 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 | | | | |
|--|-------------------|-------------------|-------------------|-------------------|
| | FY2010/11 | FY2009/10 | FY 2008/09 | FY 2007/08 |
| Expenditures | | | | |
| Personal Services | \$ 867,475 | \$ 562,759 | \$ 466,451 | \$ 161,526 |
| Purchased Services | | | | |
| <i>Central Database Dev. & Maintenance</i> | - | - | 96,215 | - |
| <i>Training & Development</i> | 7,662 | 3,760 | 11,205 | 24,500 |
| <i>Information Technology Services</i> | 10,720 | 1,415 | 40,545 | 6,000 |
| <i>Travel, Telephone, Miscellaneous</i> | 8,327 | 923 | 996 | 543 |
| Total Purchased Services | 26,709 | 6,098 | 148,961 | 31,043 |
| Supplies | 710 | 1,232 | 129 | 2,425 |
| Property, Plant, & Equipment | 580 | 872 | 516 | 10,042 |
| Other | - | 60 | 110 | 358 |
| Total Expenditures | 895,474 | 571,021 | 616,167 | 205,394 |
| Carry Forward | - | - | - | 200,985 |
| Grand Total Expenditures | 895,474 | 571,021 | 616,167 | 406,379 |
| <u>BREAKDOWN BY FUND SOURCE</u> | | | | |
| General Fund | 429,948 | 469,126 | 616,176 | 406,379 |
| ARRA State Fiscal Stabilization Fund | 443,483 | 101,895 | | |
| ARRA Race to the Top Fund | 22,042 | | | |

² ARRA fund are included in FY2009-10 and FY2010-11.

[THIS PAGE INTENTIONALLY LEFT BLANK]

**COUNCIL OF INTERNAL AUDITING
EFFORTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

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: Prepare Annual Report

The annual activity report objective is 100% complete. The Office of Internal Audit presented the annual activity report to the Council on October 13, 2010.

OBJECTIVE 2: Conduct an Analysis of State Agencies Internal Audit Staff

The analysis of internal audit staffing levels is 100% complete. A total of 51 State agencies have 141 internal audit positions. Based on the analysis which accounted for the agencies expenditures, staffing levels, number of locations and risk, an additional 53 internal auditors are needed to ensure internal audit functions are at adequate levels. See Appendix B on page 37 for additional details.

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

The fiscal year 2011 plan is 81% complete. The Office of Internal Audit's Interagency Internal Audit Program planned to conduct 67 engagements. The Office completed 54 engagements, with nine still in progress. Thirteen engagements were never started due to various reasons including services not needed for EAGLE testing, and high priority services required.

OBJECTIVE 4: Conduct Professional Development Training Session

The professional development training session is 100% complete. In March 2011, the Office of Internal Audit, in conjunction with Raven Global Training, delivered a one-day training session. The training session was an operational audit workshop which included hands on case studies. Ninety-nine internal auditors and 96 non-auditors attended the training.

OBJECTIVE 5: Finalize the Internal Auditor Recognition Program

The Internal Audit Recognition Program is 100% complete. The Office of Internal Audit completed research of other recognition programs; identified State restrictions related to employee recognitions and developed a policy manual. The policies and procedures surrounding the internal audit recognition program were approved by the Council of Internal Auditing during the February 2011 meeting.

OBJECTIVE 6: Present Internal Auditor Excellence Award

Presentation of the Internal Auditor Excellence Award has not been completed. Delays in completing the program policies and procedures postponed the nomination process and the presentation.

OBJECTIVE 7: Administration of the Peer Review Services

The administration of the Peer Review Services is an ongoing process. No requests were received during the fiscal year.

OBJECTIVE 8: Conduct Annual Risk Assessments and Develop Annual Plan

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 fiscal year 2010 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.

PROPOSED LEGISLATION CHANGES

The Council of Internal Auditing voted to introduce three 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 of Internal Auditing successfully introduced House Bill 393 (see below) during the 2011-2012 General Assembly Session. House Bill 393 passed the House of Representatives and the Senate sent the Bill to the Program Evaluation Committee receiving a favorable vote, then to the Committee on Finance where no action was taken.

GENERAL ASSEMBLY OF NORTH CAROLINA SESSION 2011 HOUSE BILL 393

| | | |
|--------------|---|----------|
| Short Title: | Modify Internal Auditing Statutes. | (Public) |
| Sponsors: | Representatives Hastings and McGee (Primary Sponsors). For a complete list of Sponsors, see Bill Information on the NCGA Web Site. | |
| Referred to: | Government. | |

March 17, 2011

A BILL TO BE ENTITLED AN ACT TO MODIFY THE INTERNAL AUDITING STATUTES APPLICABLE TO LARGE STATE DEPARTMENTS AND THE UNIVERSITY SYSTEM.

The General Assembly of North Carolina enacts:

SECTION 1. Article 79 of Chapter 143 of the General Statutes reads as rewritten:

"Article 79.

"Internal Auditing.

"§ 143-745. Definitions; intent; applicability.

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

"§ 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 (i) the agency head and shall not report to any employee subordinate to the agency head; head, (ii) the chief deputy or chief administrative assistant, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated in a manner that avoids impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

"§ 143-747. Council of Internal Auditing.

- (a) The Council of Internal Auditing is created, consisting of the following members:
 - (1) The State ~~Controller~~ 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 President of The University of North Carolina, who may appoint a designee.
 - (7) The State ~~Auditor~~ 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~~ meetings at the call of the Chair or upon written request to the Chair by two members of the Council.

- (2) Keep minutes of all proceedings.
- (3) Promulgate guidelines for the uniformity and quality of State agency internal audit activities.
- (4) Recommend the number of internal audit employees required by each State agency.
- (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
- (6) Administer an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State agencies.
- (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.
- (8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.
- (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.
- (10) Require reports in writing from any State agency relative to any internal audit matter.
- (11) If determined necessary by a majority vote of the council:
 - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
 - b. Inquire as to the effectiveness of any internal audit unit.
 - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
- (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly."

SECTION 2. This act is effective when it becomes law.

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.

AMENDMENT 3: Not Subject to the Act

There are seven State agencies not subject to the Internal Audit Act. The Council approved the following amendment of 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, commissioner, director, executive director, the President of The University of North Carolina, the State Controller, the Chief Information Officer, Executive Administrator and the Department of Public Instruction.
- (2) "State agency" means each department or entity created pursuant to Chapter 143A, or 143B of the General Statutes, The University of North Carolina, the North Carolina State Board of Election, the State Health Plan for Teachers and State Employees, the Office of Information Technology Services, Employment Security Commission of North Carolina, North Carolina Housing Finance Agency, North Carolina Education Lottery, and the Department of Public Instruction.

**AGENCY INTERNAL AUDIT
EFFORTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

AGENCY INTERNAL AUDIT PROGRAMS

POSITIONS

As shown in Table 4, there are 140.75 internal auditor positions, which are spread across 38 State agencies. There was a net loss of seven and one quarter (7.25) positions throughout the State over the past year. Significant changes over the last year is the loss of eight positions within the Department of Transportation and over the last four years the Department of Transportation and North Carolina State University has lost almost half of their internal auditor positions. Over the same period a gain of eight time-limited positions (term ends September 30, 2011 for six positions and August 31, 2014 for two positions) within OSBM's Office of Internal Audit. The time-limited positions were primarily responsible for auditing programs receiving American Recovery and Reinvestment Act funds.

There are twelve agencies with no internal auditor positions. Five of these agencies use the Office of Internal Audit as their internal audit program and six agencies are not subject to the Internal Audit Act. The North Carolina School of the Arts contracts with Winston-Salem State University for audit services. The information in Table 4 provides data on positions regardless of filled or vacant status.

Table 4

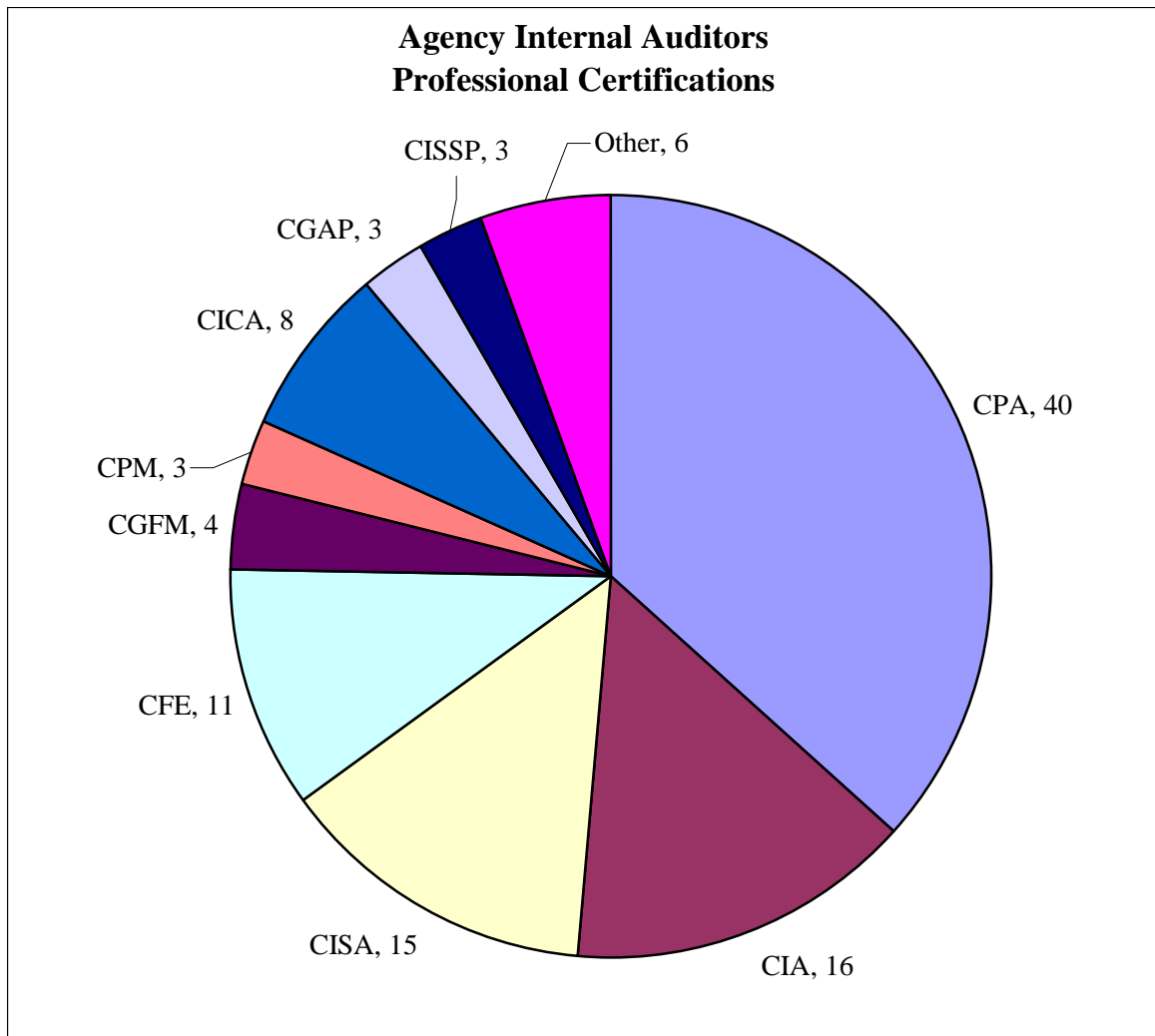
| Statewide Internal Auditor Position Level Comparison FY2008 to FY2011 | | | | | | | | | |
|--|-----------|------|------|------|--|---------------|------------|------------|------------|
| Agency | Positions | | | | Agency | Positions | | | |
| | 2011 | 2010 | 2009 | 2008 | | 2011 | 2010 | 2009 | 2008 |
| Administrative Office of the Courts ³ | 3 | 3 | 3 | 3 | Office of State Controller ³ | 0 | 0 | 1 | 1 |
| Community College System Office | 1 | 1 | 0 | 0 | Office of the Governor/Office State Budget and Management ^{1,2} | 11 | 10 | 4 | 0 |
| Department of Administration ¹ | 0 | 0 | 0 | 0 | Office of the State Auditor ¹ | 0 | 0 | 0 | 0 |
| Department of Agriculture & Consumer Services | 1 | 1 | 1 | 1 | State Board of Elections ³ | 0 | 1 | 4 | 4 |
| Department of Commerce ¹ | 0 | 0 | 0 | 2 | State Health Plan ³ | 0 | 0 | 0 | 0 |
| Department of Correction | 18 | 18 | 18 | 19 | Wildlife Resources Commission ¹ | 0 | 0 | 0 | 0 |
| Department of Crime Control and Public Safety | 1 | 1 | 1 | 1 | Appalachian State University | 5 | 4 | 5 | 5 |
| Department of Cultural Resources | 1 | 1 | 1 | 1 | East Carolina University | 7 | 7 | 6 | 6 |
| Department of Environment and Natural Resources | 2 | 2 | 2 | 1 | Elizabeth City State University | 2 | 2 | 2 | 2 |
| Department of Health and Human Services | 8 | 8 | 8 | 8 | Fayetteville State University | 2 | 2 | 2 | 2 |
| Department of Insurance | 1 | 1 | 1 | 0 | North Carolina Agriculture and Technical State University | 4 | 4 | 4 | 4 |
| Department of Justice | 1 | 1 | 1 | 0 | North Carolina Central University | 3 | 3 | 3 | 4 |
| Department of Juvenile Justice and Delinquency Prevention | 3 | 3 | 3 | 4 | North Carolina School of Science and Math | 1 | 1 | 1 | 1 |
| Department of Labor ¹ | 0 | 0 | 0 | 0 | North Carolina School of the Arts ⁴ | 0 | 1 | 1 | 1 |
| Department of Public Instruction | 2 | 1 | 1 | 1 | North Carolina State University | 4.25 | 6 | 7 | 7 |
| Department of Revenue | 2 | 2 | 2 | 2 | University of North Carolina Hospitals | 4 | 5 | 5 | 5 |
| Department of the Secretary of State | 1 | 1 | 1 | 1 | University of North Carolina - Asheville | 1 | 1 | 1 | 1 |
| Department of State Treasurer | 2 | 2 | 1 | 1 | University of North Carolina - Chapel Hill | 6 | 6 | 6 | 6 |
| Department of Transportation | 17 | 25 | 31 | 31 | University of North Carolina - Charlotte | 4 | 4 | 4 | 4 |
| Employment Security Commission ³ | 2 | 2 | 1 | 0 | University North Carolina - General Administration | 1 | 1 | 1 | 1 |
| Housing Finance Agency ³ | 0 | 0 | 0 | 0 | University North Carolina - Greensboro | 2 | 2 | 3 | 2 |
| Indigent Defense Services | 1 | 1 | 1 | 1 | University of North Carolina - Pembroke | 1 | 1 | 1 | 1 |
| Information Technology Services ³ | 3 | 2 | 2 | 1 | University of North Carolina - Wilmington | 4.5 | 4 | 4 | 4 |
| North Carolina Education Lottery ³ | 2 | 2 | 2 | 2 | Western Carolina University | 2 | 2 | 2 | 2 |
| Office of Administrative Hearings ³ | 0 | 0 | 0 | 0 | Winston-Salem State University | 4 | 3 | 3 | 3 |
| Office of Lieutenant Governor ³ | 0 | 0 | 0 | 0 | Total | 140.75 | 148 | 151 | 146 |

1. Utilizes the Interagency Internal Audit Program
2. Council of Internal Auditing Interagency Internal Audit Program, housed in the Office of State Budget and Management
3. Agency is not subject to the Internal Audit Act
4. Contracts with Winston-Salem State University

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 109 professional certifications; 75% of these being either Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors or Certified Fraud Examiners.

Chart 1

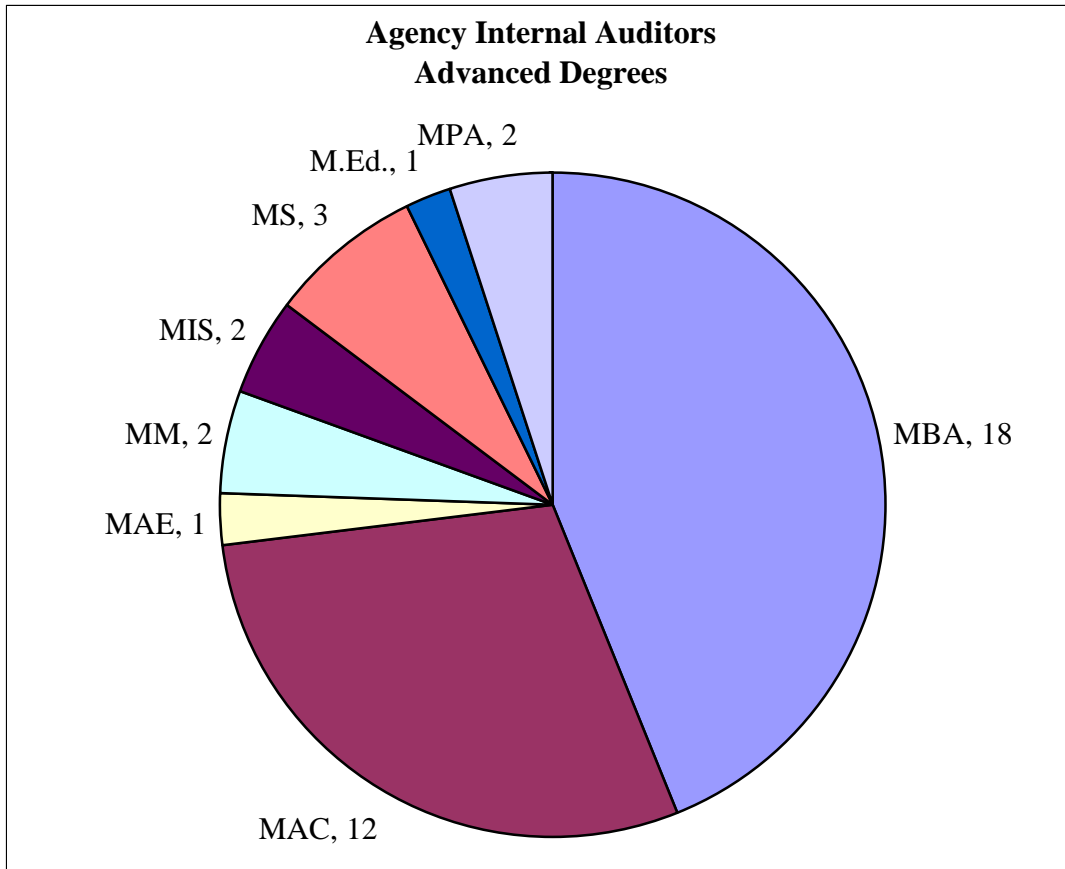


CFE/Certified Fraud Examiner
CGAP/Certified Government Audit Professional
CGFM/Certified Government Financial Manager
CIA/Certified Internal Auditor
CICA/Certified Internal Controls Auditor
CISA/Certified Information Systems Auditor
CISSP/Certified IT Security
CPA/Certified Public Accountant
CPM/Certified 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 shows advanced degrees held by the agency's internal auditors. Combined, the auditors hold 41 advanced degrees with 73% 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
MAE/Master of Agricultural Economics

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 System Office | ✓ | ✓ | ✓ | ✓ |
| 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 ² | | ✓ | ✓ | ✓ |
| Department of Insurance | ✓ | ✓ | ✓ | ✓ |
| Department of Justice | ✓ | ✓ | ✓ | ✓ |
| Department of Juvenile Justice and Delinquency Prevention | ✓ | ✓ | ✓ | ✓ |
| Department of Public Instruction | ✓ | ✓ | ✓ | ✓ |
| Department of Revenue | ✓ | ✓ | ✓ | ✓ |
| Department of Secretary of State ³ | ✓ | ✓ | ✓ | |
| Department of State Treasurer | ✓ | ✓ | ✓ | ✓ |
| Department of Transportation | ✓ | ✓ | ✓ | ✓ |
| OIA's Interagency Internal Audit Program ¹ | ✓ | ✓ | ✓ | ✓ |
| Appalachian State University | ✓ | ✓ | ✓ | ✓ |
| East Carolina 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 School of Science and Math | ✓ | ✓ | ✓ | ✓ |
| 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 | ✓ | ✓ | ✓ | ✓ |
| University of North Carolina - Wilmington | ✓ | ✓ | ✓ | ✓ |
| University of North Carolina Hospitals | ✓ | ✓ | ✓ | ✓ |
| Western Carolina University | ✓ | ✓ | ✓ | ✓ |
| Winston-Salem State University | ✓ | ✓ | ✓ | ✓ |
| TOTAL | 34 | 35 | 35 | 34 |
| Compliance rate | 97% | 100% | 100% | 97% |
| <small>1. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, Wildlife Resource Commission, Office of the Governor, and Office of State Budget and Management. 2. Follows Government Auditing Standards which does not require an audit charter. 3. Internal audit position has been vacant due to hiring freeze and budget crisis.</small> | | | | |

REPORTING REQUIREMENTS

The Internal Audit Act requires State agencies to appoint a Director of Internal Audit (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 all State agencies have appointed a director but only 43% 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 11.

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 Correction | ✓ | Yes |
| Department of Crime Control Public Safety | ✓ | Yes |
| 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 | ✓ | Yes |
| 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 |
| Compliance rate | 100% | 43% |

QUALITY ASSURANCE REVIEW (Peer Review)

Quality assurance reviews are required either every three or five years, depending on which audit standard is followed. Twelve (12) internal audit functions are currently being developed and are not required to have a review. Of the 23 internal audit functions established, only three 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. Two internal audit functions (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 | Agency Establishment Date | Date of Last QAR | Deadline For First Required QAR |
|---|----------------------------------|-------------------------|--|
| <u>Compliant</u> | | | |
| University of North Carolina - Wilmington | 1983 | June 2011 | |
| East Carolina University | | May 2011 | |
| Department of Correction | 1985 | December 2006 | |
| <u>Non-Compliant</u> | | | |
| Department of Agriculture & Consumer Services | 1969 | None | |
| Department of Health and Human Services | 1994 | March 2004 | |
| Department of Juvenile Justice and Delinquency Prevention | 2005 | None | |
| Department of Transportation | | December 2002 | |
| Appalachian State University | 1965 | None | |
| Elizabeth City State University | 1994 | None | |
| Fayetteville State University | 1998 | None | |
| North Carolina A&T State University | 1969 | July 1997 | |
| North Carolina Central University | 1997 | None | |
| North Carolina School of the Arts | 2004 | None | |
| North Carolina State University | 1963 | None | |
| University of North Carolina - Asheville | 2001 | None | |
| University of North Carolina - Chapel Hill | 1963 | None | |
| University of North Carolina - Charlotte | 1973 | None | |
| University of North Carolina - Greensboro | 1984 | None | |
| University of North Carolina - Pembroke | 1984 | None | |
| University of North Carolina Hospitals | 1988 | None | |
| Western Carolina University | 1975 | None | |
| Winston-Salem State University | 1992 | None | |
| <u>Not Required</u> | | | |
| Community College System Office | September 2009 | None | September 2014 |
| Department of Crime Control and Public Safety | June 2007 | None | June 2012 |
| Department of Cultural Resources | January 2008 | None | January 2013 |
| Department of Environment and Natural Resources | October 2008 | None | October 2013 |
| Department of Insurance | June 2008 | None | June 2013 |
| Department of Justice | February 2009 | None | February 2014 |
| Department of Public Instruction | June 2009 | None | June 2014 |
| Department of Revenue | October 2008 | None | October 2013 |
| Department of Secretary of State | July 2008 | None | July 2013 |
| Department of State Treasurer | April 2009 | None | April 2014 |
| OIA Internal Audit Interagency program ¹ | September 2008 | None | September 2013 |
| North Carolina School of Science and Math | November 2007 | None | November 2012 |
| University of North Carolina - General Administration | August 2010 | None | August 2015 |

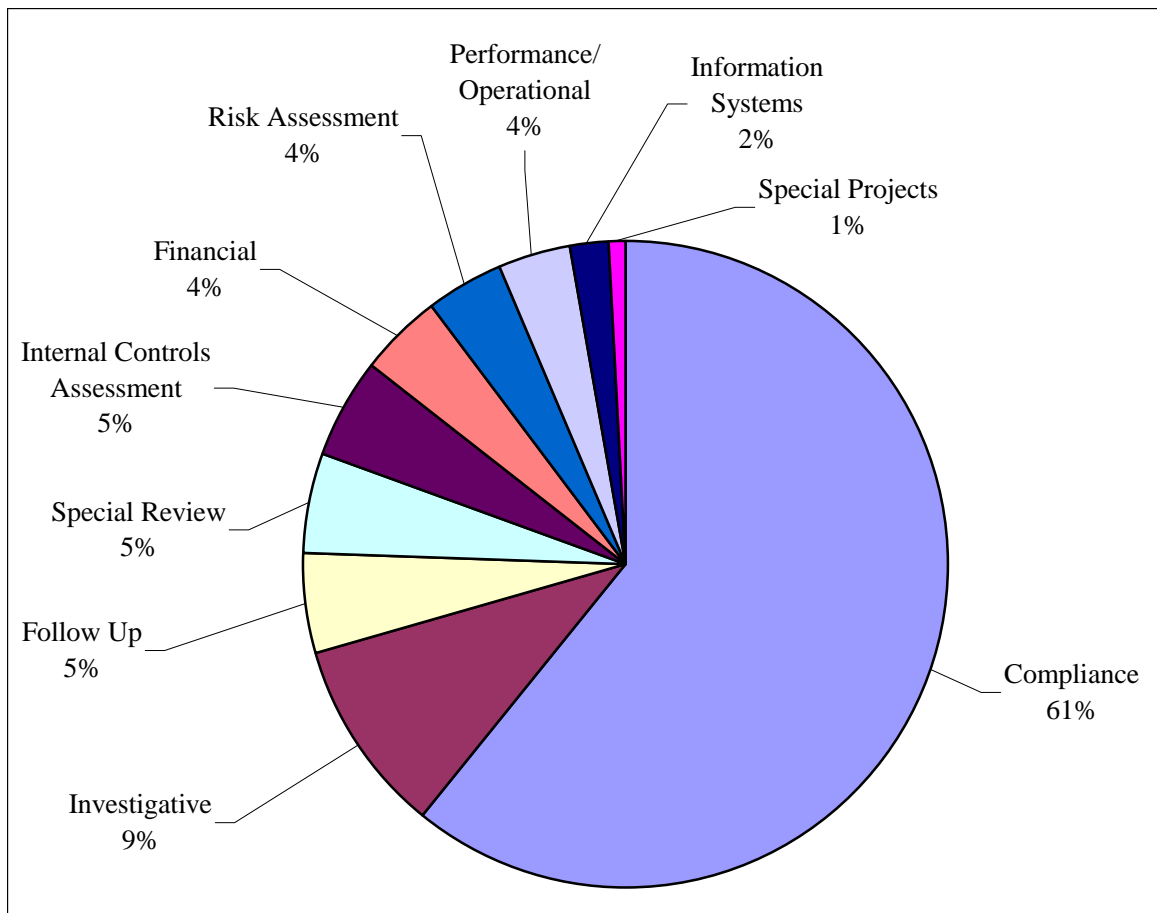
1. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, Wildlife Resource Commission, Office of the Governor, and Office of State Budget and Management.

AGENCY INTERNAL AUDIT ACCOMPLISHMENTS

ACTIVITIES

Internal audit functions conduct various activities designed to add value and improve a State agency's operations. For the period July 1, 2010 through June 30, 2011, 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 427 different activities which did not result in report issuance.

Chart 3
Agency Audits & Reviews by Type
July 1, 2010 through June 30, 2011



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 function. 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, 2010 through June 30, 2011**

| Agency | Financial | Performance/ Operational | Investigative | Compliance | Internal Controls Assessment | Information Systems | Risk Assessment | Follow Up | Special Review | Special Projects |
|---|-----------|-----------------------------|---------------|--------------|------------------------------------|------------------------|--------------------|--------------|-------------------|---------------------|
| Community College System Office | | 2 | | | | | | | 2 | |
| Department of Agriculture & Consumer Services | 5 | 1 | 3 | 3 | | | | | 2 | |
| Department of Correction | | 2 | 1 | 66 | | 2 | 28 | 7 | | |
| Department of Crime Control and Public Safety | 2 | | 1 | | | | | | 2 | |
| Department of Cultural Resources | | | | | | | | | | |
| Department of Environment and Natural Resources | 1 | 1 | 5 | 5 | | | | | 2 | |
| Department of Health and Human Services | | | 1 | 32 | 2 | | | | 3 | |
| Department of Insurance | 1 | | 1 | | | | 1 | | 1 | |
| Department of Justice | 1 | | | | | | | | 1 | |
| Department of Juvenile Justice and Delinquency Prevention | 3 | 2 | 4 | 1 | 10 | | 20 | 2 | | 3 |
| Department of Public Instruction | | 2 | 4 | 1 | 1 | | 1 | 3 | 2 | |
| Department of Revenue | | | 8 | 6 | 13 | 1 | | | 19 | |
| Department of Secretary of State | | | | | | | | | | |
| Department of State Treasurer | 1 | 4 | 2 | | 1 | | 1 | 6 | | |
| Department of Transportation | 32 | 1 | 90 | 960 | | | | | | |
| OIA's Interagency Internal Audit Program ¹ | | | 5 | 21 | 5 | | 7 | | 4 | 3 |
| Appalachian State University | 5 | 9 | 4 | 6 | 27 | 12 | 1 | 3 | 1 | |
| East Carolina University | | 5 | 13 | 2 | 1 | 4 | 1 | 16 | 1 | 1 |
| Elizabeth City State University | | | | 1 | | | | 7 | 2 | |
| Fayetteville State University | 1 | 3 | 2 | 1 | 1 | | 1 | 3 | | 2 |
| North Carolina Agriculture & Technical State University | 5 | | 5 | | 1 | | | 2 | 5 | |
| North Carolina Central University | 2 | 1 | 3 | 2 | 4 | | 1 | 2 | 6 | |
| North Carolina School of Science and Math | | | | | 1 | | | 4 | 9 | |
| North Carolina School of the Arts | | 1 | | 2 | | | | 3 | | |
| North Carolina State University | 1 | 1 | 6 | 1 | 3 | 2 | | 13 | | |
| University North Carolina - Asheville | | | 1 | 1 | 1 | | | 1 | 5 | 1 |
| University of North Carolina - Chapel Hill | 1 | 9 | 7 | | | | 1 | 1 | 4 | 2 |
| University of North Carolina - Charlotte | 2 | 6 | | 4 | 2 | 1 | 1 | 4 | 6 | |
| University of North Carolina - General Administration | | 1 | | | | 1 | 1 | | 2 | |
| University of North Carolina - Greensboro | | | | 6 | 5 | | 1 | | 2 | |
| University of North Carolina - Pembroke | 10 | | 1 | 6 | 1 | | 1 | | 5 | |
| University of North Carolina - Wilmington | 1 | 3 | 3 | 4 | 1 | 1 | | 8 | | 2 |
| University of North Carolina Hospitals | 1 | 18 | 5 | 11 | 8 | 5 | 2 | 6 | 2 | 4 |
| Western Carolina University | 4 | | 1 | 9 | 1 | 3 | 1 | 3 | | |
| Winston-Salem State University | 3 | | 3 | | 3 | | 1 | 3 | 6 | |
| Totals | 82 | 72 | 179 | 1,151 | 92 | 32 | 71 | 97 | 94 | 18 |

1. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, Wildlife Resource Commission, Office of the Governor, and Office of State Budget and Management

**COUNCIL OF INTERNAL AUDITING
FUTURE EFFORTS**

[THIS PAGE INTENTIONALLY LEFT BLANK]

CONTINUED OBJECTIVES

One approved objective, presentation of the internal auditor excellence award, was started but not completed during FY2010-11.

Presentation of the Internal Auditor Excellence Award

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. The award was not presented during fiscal year 2010-11. In the next fiscal year (2011-12), the Council of Internal Auditing Chair will present the internal auditor excellence award during the Fiscal Update Conference held in December 2011.

FUTURE or ON-GOING OBJECTIVES

Some tasks charged to the Council will be on-going activities. In the next fiscal year (201-12), 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.

Risk Assessments and Audit Plan

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.

Annual Report

Council of Internal Auditing is required by Statute to 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.

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 audit 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.

Internal Auditor Recognition program

The Internal Audit Recognition program is required by Statute. The program has two components the newsletter feature and the award of excellence. Quarterly an internal auditor is recognized in the OIA newsletter highlighting their experience and contributions to the profession and community. The Award of Excellence selects annually one outstanding internal auditor or audit teams, for their exceptional internal audit contributions to their office, State agency or to the State.

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.

Quality Assurance Review

Auditing standards require that all internal audit functions receive an external quality assurance review. The Office of Internal Audit has received two requests for reviews. 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.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX A
NORTH CAROLINA INTERNAL
AUDIT ACT

[THIS PAGE INTENTIONALLY LEFT BLANK]

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

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 |
| Community College System Office | 3 | 1 | 2 | 186,000 |
| 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 Secretary of State | Shared Pool | 1 | - | - |
| Department of State Treasurer | 2 | 2 | - | - |
| 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 | - | - |
| 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. | | | | |