

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

**October 2013
(Updated January 2014)**



Prepared By:

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

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INTRODUCTION

The North Carolina Internal Audit Act¹ (the Act) was signed into law on August 31, 2007. The Act established the Council of Internal Auditing (Council) and required State agencies and universities (agencies) to establish a program of internal auditing. The Council of Internal Auditing is mandated to report on service efforts and accomplishments of these programs and propose legislation for consideration by the Governor and General Assembly. This report documents the service efforts and accomplishments from July 2012 through June 2013, of State agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

COUNCIL OF INTERNAL AUDITING

Membership, Programs and Staff

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

Table 1

Council of Internal Auditing Members	
David T. McCoy, Chair	State Controller
Art Pope	State Budget Director
Bill Daughtridge	Secretary of Administration
Roy Cooper	Attorney General
Lyons Gray	Secretary of Revenue
Beth Wood	State Auditor (nonvoting)

The Council is mandated to administer programs and activities which:

- Promulgate guidelines, develop technical manuals and suggest best practices;
- Conduct statewide internal audit staffing analysis;
- Provide training and professional development opportunities;
- Report on statewide internal audit service efforts and accomplishments;
- Develop and administer a peer review program;
- Develop and administer an internal audit recognition program;
- Develop and administer a shared internal audit program; and
- Maintain a report and audit plan repository.

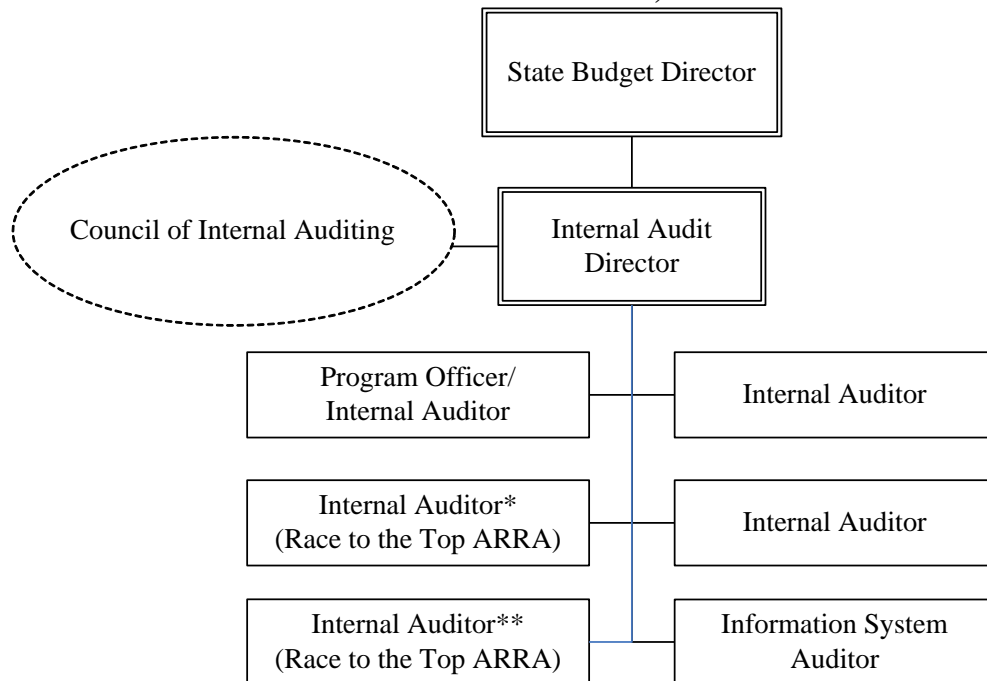
The Office of State Budget and Management (OSBM) support the Council and established the Office of Internal Audit (OIA) to house the staff to the Council. The organizational structure of the OIA is shown in Exhibit 1 on page 2. There are five permanent positions and two time-limited positions, as of June 30, 2013. The time-limited positions focus their efforts on Race to the Top funded activities. In addition to the seven positions shown in Exhibit 1, there were three time-limited positions which terminated during the fiscal year. Two ITS positions terminated by October 31, 2012 and the Early Learning Challenge position terminated December 31, 2012

¹ Entire Internal Audit Act is located in Appendix A.

The professional credentials held by the seven internal audit staff include:

- Two Certified Public Accountants;
- Two Certified Internal Auditors;
- One Certified Internal Control Auditor;
- One Certified Fraud Examiner;
- One Certified Government Audit Professional; and
- One Certified Government Financial Manager.

**Exhibit 1
Internal Audit as of June 30, 2013**



* Time-limited position termed July 31, 2013
 ** Time-limited position termed September 30, 2013

The Office of Internal Audit had a 23% reduction in expenditures during FY2012-13 compared to the prior year. The decrease is related to:

- Reduction of two audit positions funded through a memorandum of understanding to provide audit services to the Office of Information Technology Services;
- Reduction of one audit position fund through the Federal Early Learning Challenge grant program; and
- Vacancies attributed to the Race to the Top (RttT) time-limited positions.

The combined general and federal fund expenditures for FY2008-09 through FY2012-13 are shown in Table 2 on the next page.

As recovery efforts from the economic downturn prolonged, the Office diligently continued to reduce spending. The Office of Internal Audit general fund reduction was 32% between FY2008/09 and FY2012/13. The effect of the reduction was elimination of two positions that staffed the Council, reduction in training funds, postponement of audits requiring travel and delays in purchasing professional materials and software. The current year reduction equals 2% of the prior year's general fund expenditures.

Table 2

Office of Internal Audit Expenditures					
	FY2012-13	FY2011/12	FY2010/11	FY2009/10	FY 2008/09
Expenditures					
Personal Services	558,878	718,992	\$ 867,475	\$ 562,759	\$ 466,451
Purchased Services					
<i>Central Database Dev. & Maintenance</i>			-	-	96,215
<i>Training & Development</i>	8,458	14,460	7,662	3,760	11,205
<i>Information Technology Services</i>	5,628	13,272	10,720	1,415	40,545
<i>Travel, Telephone, Miscellaneous</i>	10,138	12,743	8,327	923	996
Total Purchased Services	24,224	40,475	26,709	6,098	148,961
Supplies	100	100	710	1,232	129
Property, Plant, & Equipment	-	550	580	872	516
Other	-	-	-	60	110
Total Expenditures	583,202	760,117	895,474	571,021	616,167
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	417,456	425,146	429,948	469,126	616,176
ARRA State Fiscal Stabilization Fund	-	116,832	443,483	101,895	
ARRA Race to the Top Fund	92,556	150,079	22,042		
Early Learning Challenge	43,297	8,479			
Information Technology Services	29,894	59,583			

Efforts and Accomplishments

Over the last five years the Council complied with all the mandated requirements in the Act. Guidelines and manuals were published in May 2008 and communicated to all internal auditors. The peer review, internal audit recognition, and shared internal audit programs were developed and operational. The staffing analysis is conducted every three years (See Appendix B for details) and the annual activity report is published every year. Below is specific accomplishment during FY2012-13.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. During May 2013, a 2-day training session was conducted on the topics of best practices and trends in internal auditing, the use of computer assisted audit techniques and information systems auditing for non-information systems auditors. The session provided 16 hours of certified professional education hours and was free to participants. Participants were invited from State agencies, universities, community colleges, public schools, local governments and airport authorities. There were 243 registered participants and the average cost per participant was just under \$14.50 per day. Based on participant surveys, there was a 94% very good or excellent program rating.

In addition to the 2-day training session, throughout the year, other free or low cost training is identified and communicated to all internal auditors. Communication takes place via email and posting on OSBM website. Over the past year, 59 professional development opportunities were identified and communicated. There was a total of 150 hours of certified professional education hours possible and 33% of these hours were free of charge.

Peer Review Program

The Peer Review program is a cooperative effort to establish a method to comply with the Institute of Internal Auditor's external quality assurance review requirement. All internal audit functions are required to have an external quality assurance review every five years. This program enables agencies and universities to obtain their external assessment in a cost-effective method. North Carolina State University, Fayetteville State University and the Office of State Budget and Management have completed reviews using the program. The Departments of Insurance, Public Safety and Secretary of State are underway and should be completed before the end of the 2013 calendar year.

Internal Audit Recognition Program

The recognition program consists of two activities. First, in the quarterly newsletter an internal auditor or audit group is profiled. Second, the Award of Excellence is bestowed upon an internal auditor or group of internal auditors that goes above and beyond normal expectations of their job requirements to improve or promote internal auditing. East Carolina University's Office of Internal Audit and Management Advisory Service was presented the award for fiscal year 2012-2013 at the annual State Controller's Fiscal Update Conference.

Shared Internal Audit Program

The internal audit program provides audit services to small State agencies. The guideline for State agencies to use the internal audit program for compliance with the Act is:

1. Has an annual operating budget exceeding ten million dollars but is less than seventy million dollars; or
2. Has less than 100 full-time equivalent employees; or
3. Receives and processes more than ten million dollars but less than seventy million dollars in cash in a fiscal year; or
4. Is deemed appropriate by the Council of Internal Auditing.

In addition, the program will provide audit assistance to any internal audit functions upon request. Services are dependent upon resource availability of the program. For accomplishment of this program, see the State Agency Internal Audit Functions section titled Efforts and Accomplishments on page 9.

Report and Audit Plan Repository

Audit reports are submitted to the office throughout the year. Agencies must also submit their audit plans by September 30th of each year. For more details on compliance with requirements and the number and types of reports, see the State Agency Internal Audit Function section titled Efforts and Accomplishments on page 9.

Proposed Legislation Changes

During the 2013-2014 Legislative Session, the Council supported the adoption of House Bill 417 which became law on August 23, 2013. The amendment includes:

1. Technical Correction. Major changes included: expanding the reporting requirement of the internal audit director and allowing the Office of State Human Resources to develop auditor qualifications.
2. Confidential Work Papers. Allows internal audit work papers to be exempt from public records laws, with few exceptions.
3. Subject to the Act. All agencies included in the Executive branch must comply with the Internal Audit Act.
4. Obstruction of Audit. Stipulates the penalty for willfully attempting to hinder, interfere or obstruct an audit.

The Session Law 2014-406 can be seen in Appendix C.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Personnel Resources

As shown in Table 3 on page 6, there are 151 internal auditor positions, which are spread across 35 State agencies. There was a net gain of 15.75 positions throughout the State over the past year. Significant changes over the last year include:

- Department of Agriculture and Consumer Services gained two positions for a 200% increase.
- Department of Health and Human Services gained seven positions which is an 88% increase. These positions are temporarily being staffed through the State Term Contract for Internal Audit Supplemental Staffing.
- Department of the State Treasurer gained two positions which is a 50% increase.

There are 10 agencies with no internal auditor positions. Four of these agencies use the OSBM's Office of Internal Audit as their internal audit program and four agencies were not subject to the Internal Audit Act as of June 30, 2013. Two universities contract for audit service. In addition, one university supplements the internal audit function by contracting. Universities contracting are:

- North Carolina School of the Arts contracts with Winston-Salem State University for audit services;
- North Carolina School of Science and Math contracts with the University of North Carolina General Administration; and
- Fayetteville State University utilizes contracted auditors.

The information in Table 3, on page 6, provides data on positions regardless of filled or vacant status.

Personnel Proficiency

Internal auditors can demonstrate proficiency by obtaining professional certification and advanced degrees. Overall, internal auditors hold 126 professional certifications in 17 different audit areas; 77% of these being either Certified Public Accountants, Certified Internal Auditors, Certified Information Systems Auditors or Certified Fraud Examiners. The number and type of professional certifications held by the agency's internal auditors are shown in Chart 1 on page 7.

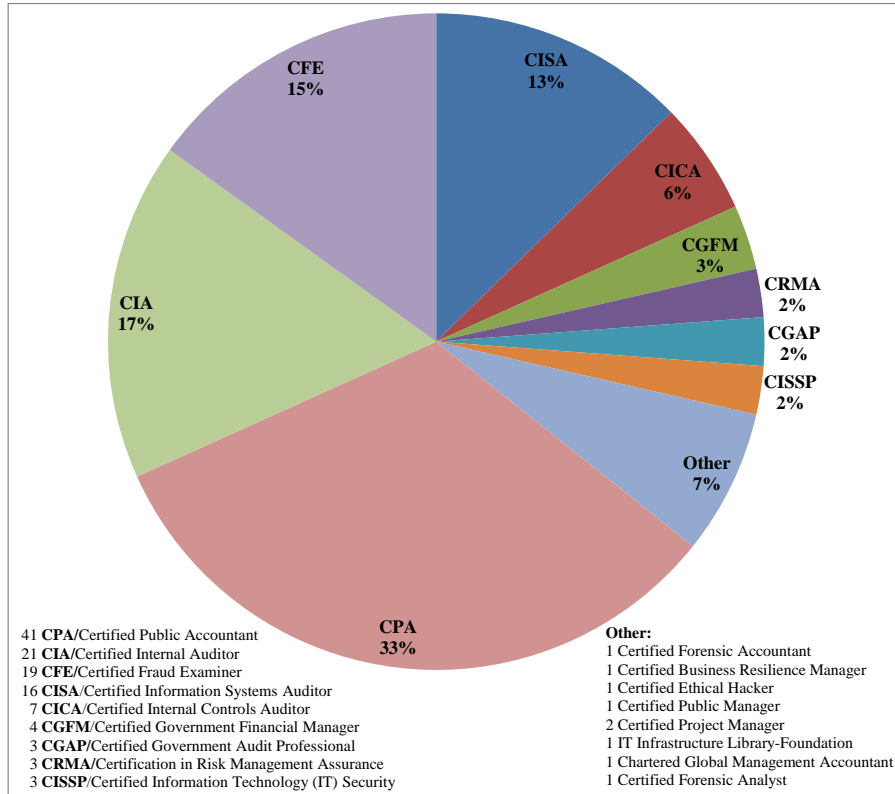
In addition, Chart 2, on page 7, shows advanced degrees held by the agency's internal auditors. Combined, the auditors hold 49 advanced degrees with 80% of these being Masters in Business Administration, Accounting or Accounting and Finance Management.

Table 3

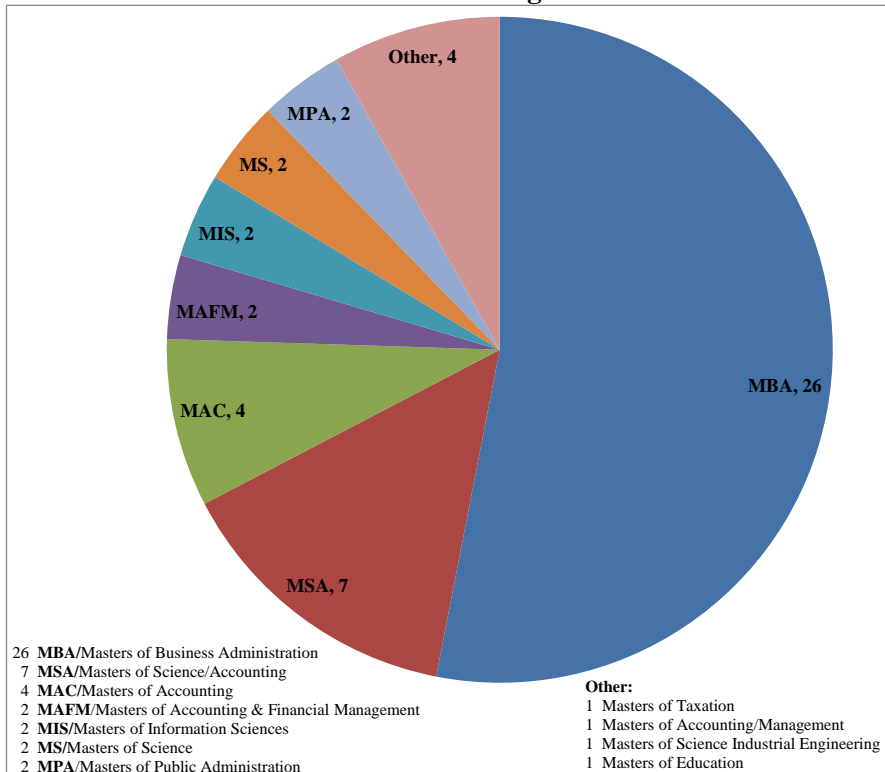
Statewide Internal Auditor Position Level Comparison FY2009 to FY2013											
Agency	Positions					Agency	Positions				
	2013	2012	2011	2010	2009		2013	2012	2011	2010	2009
Community College System Office	1	1	1	1	0	Office of State Controller ⁴	0	0	0	0	1
Department of Administration ¹	0	0	0	0	0	Office of the Governor/Office of State Budget & Management ^{1,3}	6	8	11	10	4
Department of Agriculture & Consumer Services	3	1	1	1	1	Office of the State Auditor ¹	0	0	0	0	0
Department of Commerce ¹	4	3	0	0	0	State Board of Elections ⁴	0	0	0	1	4
Department of Commerce, Division of Employment Services ²	N/A	N/A	2	2	1	State Health Plan ⁸	N/A	N/A	0	0	0
Department of Cultural Resources	1	1	1	1	1	Wildlife Resources Commission ¹	0	0	0	0	0
Department of Environment & Natural Resources	3	2	2	2	2	Appalachian State University	5	4	5	4	5
Department of Health & Human Services	15	8	8	8	8	East Carolina University	7	7	7	7	6
Department of Insurance	1	1	1	1	1	Elizabeth City State University	1	2	2	2	2
Department of Justice	1	1	1	1	1	Fayetteville State University ⁵	1	0	2	2	2
Department of Labor ¹	0	0	0	0	0	North Carolina Agriculture & Technical State University	5	5	4	4	4
Department of Public Instruction	1	1	2	1	1	North Carolina Central University	3	3	3	3	3
Department of Public Safety ⁹	20	19	N/A	N/A	N/A	North Carolina School of Science and Math ⁷	0	0	1	1	1
Department of Correction ⁹	N/A	N/A	18	18	18	North Carolina School of the Arts ⁶	0	0	0	1	1
Department of Crime Control & Public Safety ⁹	N/A	N/A	1	1	1	North Carolina State University	7	6.25	4.25	6	7
Department of Juvenile Justice & Delinquency Prevention ⁹	N/A	N/A	3	3	3	University of North Carolina - Asheville	1	1	1	1	1
Department of Revenue	2	2	2	2	2	University of North Carolina - Chapel Hill	6	6	6	6	6
Department of Secretary of State	2	1	1	1	1	University of North Carolina - Charlotte	5	4	4	4	4
Department of State Treasurer	4	3	2	2	1	University of North Carolina - General Administration	1	1	1	1	1
Department of Transportation	22	22	17	25	31	University of North Carolina - Greensboro	2	2	2	2	3
Housing Finance Agency ⁴	2	0	0	0	0	University of North Carolina - Hospitals	6	5	4	5	5
Information Technology Services ⁴	2	2	3	2	2	University of North Carolina - Pembroke	1	1	1	1	1
North Carolina Education Lottery ⁴	2	2	2	2	2	University of North Carolina - Wilmington	4	4	4.5	4	4
Office of Administrative Hearings ⁴	0	0	0	0	0	Western Carolina University	1	2	2	2	2
Office of Lieutenant Governor ⁴	0	0	0	0	0	Winston-Salem State University	3	4	4	3	3
Total							151.00	135.25	136.75	144.00	147.00

1. Utilizes the Interagency Internal Audit program
2. The Employment Security Commission merged with Department of Commerce in FY2012, Division of Employment Service has federal funded internal audit positions and the remaining Department of Commerce utilizes OSBM's Interagency Internal Audit program
3. Council of Internal Auditing Interagency Internal Audit Program, housed in the Office of State Budget and Management (OSBM)
4. Agency is not subject to the Internal Audit Act as of June 30, 2013
5. Uses contract auditors
6. Contracts with Winston-Salem State University
7. Contracts with UNC-General Administration
8. State Health Plan merged with Department of State Treasurer in FY2012
9. Departments of Correction, Crime Control & Public Safety, and Juvenile Justice & Delinquency Prevention consolidated as of January 1, 2012

**Chart 1
Professional Certifications**



**Chart 2
Advanced Degrees**



Computer Assisted Audit Tools

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

The advanced software products are typically productivity tools or generalized audit software. Productivity tools aid with the administrative and management of the audit processes such as Teammate and SharePoint. Generalized audit software tools assist with data extract and analysis such as ACL, IDEA and SAS.

Table 4 shows all internal audit functions use the Microsoft Office products to enhance productivity through automation. In addition, 14 agencies use generalized audit software tools for data extraction and analysis; and 7 agencies use productivity tools to automate work papers and work flow processes.

Table 4

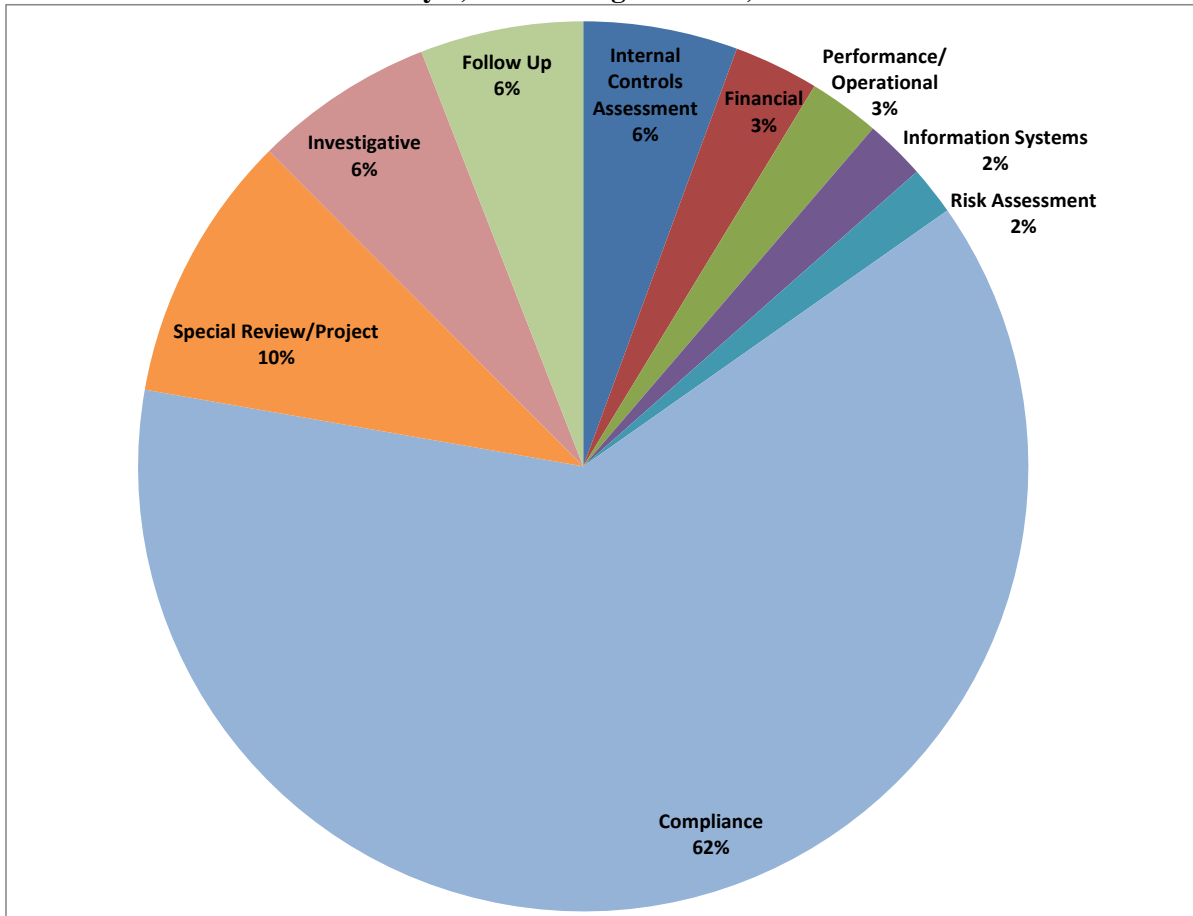
Computer Assisted Audit Tool Usage			
State Agency	Spreadsheet or Word Document¹	Generalized Audit Software²	Productivity Tool³
Community College System Office	✓		
Department of Agriculture & Consumer Services	✓		
Department of Commerce, Division of Employment Services	✓	✓	✓
Department of Cultural Resources	✓		
Department of Environment & Natural Resources	✓		
Department of Health and Human Services	✓	✓	
Department of Insurance	✓		
Department of Justice	✓		
Department of Public Instruction	✓		
Department of Public Safety	✓		
Department of Revenue	✓		
Department of Secretary of State	✓	✓	
Department of State Treasurer	✓		✓
Department of Transportation	✓	✓	✓
Office of the Governor/Office of State Budget & Management	✓	✓	
Appalachian State University	✓		
East Carolina University	✓	✓	
Elizabeth City State University	✓		
Fayetteville State University	✓		
North Carolina Agriculture & Technical State University	✓		
North Carolina Central University	✓	✓	
North Carolina State University	✓	✓	✓
University of North Carolina - Asheville	✓	✓	
University of North Carolina - Chapel Hill	✓	✓	
University of North Carolina - Charlotte	✓	✓	
University of North Carolina - General Administration	✓		
University of North Carolina - Greensboro	✓		
University of North Carolina - Hospitals	✓	✓	✓
University of North Carolina - Pembroke	✓		
University of North Carolina - Wilmington	✓	✓	✓
Western Carolina University	✓		
Winston-Salem State University	✓	✓	✓

1. Microsoft Office products.
2. Perform routine task for data extract and analysis. Some products are ACL, IDEA, and EZ-R Stats.
3. Streamline process to manage audits through electronic work papers and work flows. Some products are Teammate and SharePoint.

Efforts and Accomplishments

Internal audit functions conduct various activities designed to add value and improve a State agency's operations. For the period July 1, 2012 through June 30, 2013, the majority of activities conducted by 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 849 different activities which did not result in report issuance.

Chart 3
Agency Engagements
July 1, 2012 through June 30, 2013



The audit projects by State agency are shown in Table 5 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 5

**Agency Engagements
July 1, 2012-June 30, 2013**

Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review/ Project
Community College System Office			1						2
Department of Agriculture & Consumer Services	3	1	8	4					6
Department of Commerce-Division of Employment Services ¹	14	3	26	8	22	3	1	1	14
Department of Cultural Resources									
Department of Environment & Natural Resources	1		2	8	3				4
Department of Health & Human Services		1	1	44	1			2	1
Department of Insurance	1	2		2			1	2	2
Department of Justice	1			1			1		1
Department of Public Instruction		1	4		1		1		3
Department of Public Safety	1			63			1	5	5
Department of Revenue			1	6	12	1			
Department of Secretary of State				1	1		1		1
Department of State Treasurer		8		2					2
Department of Transportation	6	4		808					10
Office of the Governor/Office of State Budget & Management ²			3	14	4		7	12	14
Appalachian State University	6	1	1	5	25	15		2	7
East Carolina State University		1	13	6		4	1	17	4
Elizabeth City State University			1				1	2	2
Fayetteville State University		1	1	2	1	1		2	2
North Carolina Agriculture & Technical State University	5		6		2			4	
North Carolina Central University		3	2		1	1		1	
North Carolina School of Science & Math	1			1	1		1		
North Carolina School of the Arts	1			1	1				1
North Carolina State University			2	3	1	3	0	19	25
University of North Carolina - Asheville		1		1	1	1	1	1	2
University of North Carolina - Chapel Hill	1	6	11		1	1	1	2	21
University of North Carolina - Charlotte	1	3	3	3	1	1	1	1	4
University of North Carolina - General Administration	2			1	1		1	1	2
University of North Carolina - Greensboro	3			3	1		1		1
University of North Carolina - Hospitals		1	5		1		4		5
University of North Carolina - Pembroke			1		2		1	2	
University of North Carolina - Wilmington	1	2	7	2		1	1	15	12
Western Carolina University		2	2	2	1	2	1		2
Winston-Salem State University	1		3	1	4	1		3	
Totals	49	41	104	992	89	35	28	94	155

1. The Employment Security Commission merged with the Department of Commerce in FY2012, Division of Employment Services has federal funded internal audit positions and the remaining Department of Commerce utilizes the Interagency Internal Audit program housed in OSBM.

2. OSBM's Interagency Internal Audit Program provides services to: Department of Administration, Department of Commerce, Department of Labor, Office of the Governor, Office of State Auditor, Office of State Budget and Management, and Wildlife Resources Commission.

Compliance

Internal Audit Act and Council Requirements

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 6 shows compliance with document submission and overall compliance rates for all 34 internal audit functions.

Table 6

Compliance with Internal Audit Act and Statewide Internal Audit Manual				
Agency	Charter	Org Chart	Audit Plan	Reports
Community College System Office	✓	✓	✓	✓
Department of Agriculture & Consumer Services	✓	✓	✓	✓
Department of Commerce Division of Employment Services	✓	✓	✓	✓
Department of Cultural Resources	✓	✓	✓	
Department of Environment & Natural Resources ⁴	✓	✓		✓
Department of Health & Human Services ¹		✓	✓	✓
Department of Insurance	✓	✓	✓	✓
Department of Justice	✓	✓	✓	✓
Department of Public Instruction	✓	✓	✓	✓
Department of Public Safety	✓	✓	✓	✓
Department of Revenue	✓	✓	✓	✓
Department of Secretary of State	✓	✓	✓	✓
Department of State Treasurer	✓	✓	✓	✓
Department of Transportation	✓	✓	✓	✓
Office of the Governor/Office of State Budget & Management ²	✓	✓	✓	✓
Appalachian State University	✓	✓	✓	✓
East Carolina University	✓	✓	✓	✓
Elizabeth City State University	✓	✓	✓	✓
Fayetteville State University	✓	✓	✓	✓
North Carolina Agriculturur & Technical State University ⁴	✓	✓		✓
North Carolina Central University ⁴	✓	✓		✓
North Carolina School of the Arts ^{3, 4}	✓	✓		✓
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 - Hospitals	✓	✓		✓
University of North Carolina - Pembroke	✓	✓	✓	✓
University of North Carolina - Wilmington	✓	✓	✓	✓
Western Carolina University	✓	✓	✓	✓
Winston-Salem State University ⁴	✓	✓		✓
TOTAL	33	34	28	33
Compliance rate	97%	100%	82%	97%
1. Follows Government Auditing Standards which does not require an audit charter.				
2. Using OIA Interagency Internal Audit Program: Department of Administration, Department of Commerce, Department of Labor, Office of State Auditor, Wildlife Resources Commission, Office of the Governor, and Office of State Budget and Management.				
3. Contracts with Winston-Salem State University.				
4. Did not submit audit plan timely.				

Internal Audit Director

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 President of the University System or the Superintendent of Public Instruction. Table 7 shows all State agencies have appointed a director but only 39% of the director’s 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 led to legislative amendments located on Appendix C.

Table 7

Compliance with Internal Audit Director Appointment and Reporting		
Agency	Director Appointed	Meets Reporting Requirement
Community College System Office	✓	Yes
Department of Administration	✓	Yes
Department of Agriculture & Consumer Services	✓	Yes
Department of Commerce	✓	No
Department of Cultural Resources	✓	Yes
Department of Environment & Natural Resources	✓	Yes
Department of Health & Human Services	✓	Yes
Department of Insurance	✓	Yes
Department of Justice	✓	Yes
Department of Labor	✓	No
Department of Public Instruction	✓	Yes
Department of Public Safety	✓	No
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 & Management	✓	Yes
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 & Technical State University	✓	No
North Carolina Central University	✓	No
North Carolina School of Science & 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 - Hospitals	✓	No
University of North Carolina - Pembroke	✓	No
University of North Carolina - Wilmington	✓	No
Western Carolina University	✓	No
Winston-Salem State University	✓	No
Compliance Rate	100%	39%

External Quality Assurance Review (Peer Review)

To comply with audit standards, external quality assurance reviews (QAR) are required either every three or five years, depending on which audit standard is followed. Six internal audit functions are not required to have a QAR at this time because the function has not met the requirement timeframe. Of the 27 internal audit functions remaining, 11 have received a QAR, 3 are in progress, and 13 are overdue for a review as shown in Table 8.

Table 8

QAR Compliance and Due Dates			
Agency/University	Compliant Date of Last QAR	Deadline For Required QAR	Tentative Date for QAR
<i>Compliant</i>			
East Carolina University	May 2011		
University of North Carolina - Wilmington	June 2011		
North Carolina State University	September 2012		
Department of Transportation	October 2012		
Department of Health & Human Services	February 2013		
University of North Carolina - Charlotte	May 2013		
Appalachian State University	August 2013		
Fayetteville State University	August 2013		
University of North Carolina - Asheville	August 2013		
Western Carolina University	August 2013		
North Carolina Central University	August 2013		
Office of the Governor/Office of State Budget & Management	September 2013		
<i>Peer Review Program QAR in Progress</i>			
Department of Insurance	December 2013	June 2013	
Department of Secretary of State	December 2013	July 2013	
Department of Public Safety	December 2013	December 2012	
<i>Non-Compliant</i>			
North Carolina Agriculture & Technical State University		NOW	October 2013
Department of Environment & Natural Resources		NOW	October 2013
Department of Revenue		NOW	October 2013
Department of Agriculture & Consumer Services		NOW	December 2013
North Carolina School of the Arts		NOW	December 2013
University of North Carolina - Greensboro		NOW	December 2013
University of North Carolina - Hospitals		NOW	December 2013
Winston-Salem State University		NOW	December 2013
Elizabeth City State University		NOW	February 2014
North Carolina School of Science & Math		NOW	February 2014
University of North Carolina - Chapel Hill		NOW	February 2014
University of North Carolina - Pembroke		NOW	February 2014
Department of Cultural Resources		NOW	April 2014
<i>Not Required</i>			
Department of Justice		February 2014	
Department of State Treasurer		April 2014	
Department of Public Instruction		June 2014	
Community College System Office		September 2014	
Department of Commerce, Division of Employment Services		July 2015	
University of North Carolina - General Administration		August 2015	

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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 Minimum Staffing Level Recommendation January 2014				
Agency	Total Internal Audit Positions Needed	Current Internal Audit Positions	Recommended Number of New Positions	Estimated Cost of New Internal Audit Positions
Administrative Office of the Courts	6	3	3	279,000
Commissioner of Banks	Shared Pool	-	-	-
Department of Administration	3	1	2	186,000
Department of Agriculture and Consumer Services	4	3	1	93,000
Department of Commerce	10	5	5	465,000
Department of Cultural Resources	2	1	1	93,000
Department of Environment and Natural Resources	5	3	2	186,000
Department of Health and Human Services	22	8	14	1,302,000
Department of Insurance	2	1	1	93,000
Department of Justice	2	1	1	93,000
Department of Labor	Shared Pool	-	-	-
Department of Public Instruction	8	2	6	558,000
Department of Public Safety	20	20	-	-
Department of Revenue	5	3	2	186,000
Department of Secretary of State	2	2	-	-
Department of State Treasurer	12	3	9	837,000
Department of Transportation	22	22	-	-
Education Lottery	5	2	3	279,000
Housing Finance Agency	Shared Pool	2	-	-
Industrial Commission	Shared Pool	-	-	-
Information Technology Services	4	4	-	-
Office of Administrative Hearings	n/a	-	-	-
Office of Governor /Office of State Budget and Management	4	4	-	-
Office of Lieutenant Governor	n/a	-	-	-
Office of State Auditor	Shared Pool	-	-	-
Office of State Controller	2	1	1	93,000
Office of State Human Resources	Shared Pool	-	-	-
State Board of Elections	Shared Pool	-	-	-
Wildlife Resources Commission	2	1	1	93,000
North Carolina Community College Central Office	2	1	1	93,000
Appalachian State University	4	4	-	-
East Carolina University	7	7	-	-
Elizabeth City State University	2	2	-	-
Fayetteville State University	2	-	2	186,000
North Carolina A&T State University	4	4	-	-
North Carolina Central University	3	3	-	-
North Carolina School of Science & Math	Contracting	-	-	-
North Carolina School of the Arts	Contracting	-	-	-
North Carolina State University	8	5	3	279,000
University of North Carolina Hospitals	7	5	2	186,000
University of North Carolina-Asheville	2	1	1	93,000
University of North Carolina-Chapel Hill	9	7	2	186,000
University of North Carolina-Charlotte	5	5	-	-
University of North Carolina-General Administration ¹	2	1	1	93,000
University of North Carolina-Greensboro	4	2	2	186,000
University of North Carolina-Pembroke	2	1	1	93,000
University of North Carolina-Wilmington	4	4	-	-
Western Carolina University	3	1	2	186,000
Winston-Salem State University ²	5	5	-	-
Subtotal	217	150	69	6,417,000
1. Provides internal audit services to North Carolina School for Science and Math which was considered in the calculation.				
2. Provides internal audit services to North Carolina School of the Arts which was considered in the calculation.				

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APPENDIX C
Session Law 2013-406

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Appendix C
Proposed Legislation

The Council of Internal Auditing voted to support the following amendments to the Internal Audit Act. On July 26, 2013 the General Assembly ratified House Bill 417 and on August 23, 2013, the Governor signed the bill to law. The following is the adopted bill:

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2013
SESSION LAW 2013-406
HOUSE BILL 417

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, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency.~~and the Superintendent of Public Instruction.~~ The agency head for the Department of Public Instruction shall be the State Board of Education.

(2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Department of Public Instruction.~~Community Colleges System Office.~~ The term does not include a unit of local government.

(b) This Article applies only to a State agency that:

(1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);

(2) Has more than 100 full-time equivalent employees; or

(3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year.

"§ 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, in consultation with the Council of Internal Auditing.

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

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

"§ 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~~ 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.

"§ 143-748. Confidentiality of internal audit work papers.

Internal audit work papers are confidential except as otherwise provided in this section or upon subpoena issued by a duly authorized court. A published internal audit report is a public record as defined in G.S. 132-1 to the extent it does not include information which is confidential under State or federal law or would compromise the security of a State agency. An internal auditor shall maintain for 10 years a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews conducted under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of the internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them.

"§ 143-749. Obstruction of audit.

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State agency subject to the provisions of this Article to willfully make or cause to be made to a State agency internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State agency internal auditor or the internal auditor's designated representatives in the performance of their duties."

SECTION 2. This act is effective when it becomes law. G.S. 143-749, as enacted in Section 1 of this act, applies to offenses committed on or after December 1, 2013.
In the General Assembly read three times and ratified this the 26th day of July, 2013.

s/ Philip E. Berger
Senate President Pro Tempore

s/ Thom Tillis
Speaker of the House of Representatives

s/ Pat McCrory
Governor

Approved 10:50 a.m. this 23rd day of August, 2013