

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

**INTERNAL AUDIT
ACTIVITY REPORT**

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

October 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 requires all Executive branch agencies² to establish a program of internal auditing. The Council of Internal Auditing is mandated to report on service efforts and accomplishments of these programs and propose legislation for consideration by the Governor and General Assembly. This report documents the service efforts and accomplishments from July 2013 through June 2014, of agencies and the Council of Internal Auditing in fulfilling the mandates of the legislation.

¹ Entire Internal Audit Act is located in Appendix A.

² Includes departments, offices, boards, commissions and universities.

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	
Dr. Linda Combs, Chair	State Controller
Lee Roberts	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:

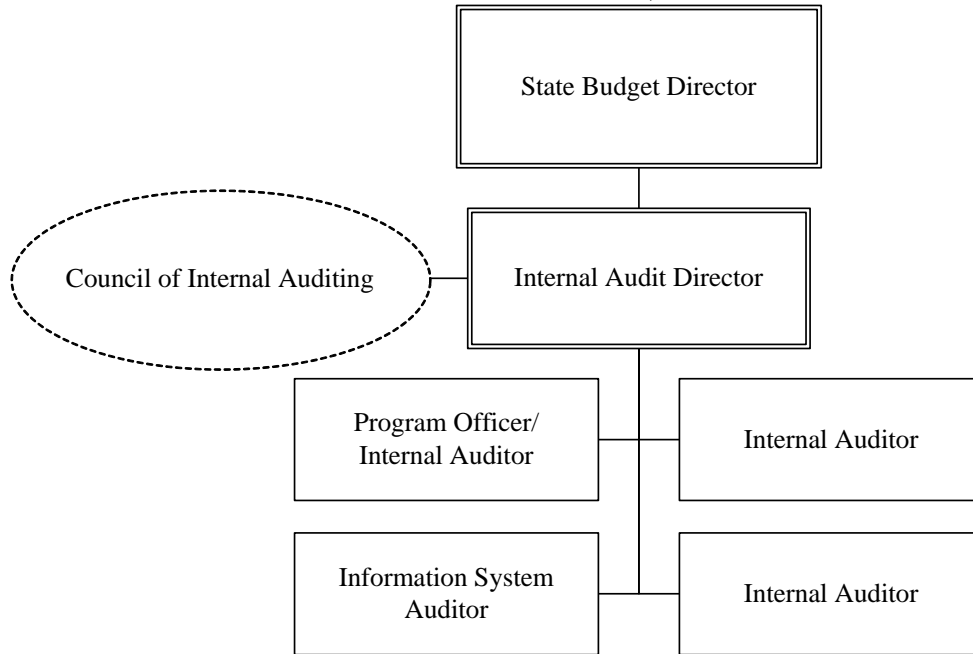
- Promulgate guidelines, develop technical manuals and suggest best practices;
- Conduct statewide internal audit staffing analysis;
- Provide training and professional development opportunities;
- Report on statewide internal audit service efforts and accomplishments;
- Develop and administer a peer 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 the next page. There are five positions as of June 30, 2014.

The professional credentials held by the five staff members 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, 2014**



Although, the Office of Internal Audit had a 9% reduction in expenditures during FY2013-14, general fund expenditures increased during the year. Race to the Top (RtT) expenditures decreased by 18% due to the reduction of time-limited positions. General funds expenditures increased by 9% related to the addition of one position. The position is responsible for Council programs and conducting internal audits. The combined general and federal fund expenditures for FY2009-10 through FY2013-14 are shown in Table 2.

Table 2

Office of Internal Audit					
Expenditures					
	FY2013/14	FY2012/13	FY2011/12	FY2010/11	FY2009/10
Expenditures					
Personnel					
<i>Employee</i>	464,540	537,190	718,992	\$ 867,475	\$ 562,759
<i>Contractor</i>	33,315	21,688			
Total Personnel	497,855	558,878	718,992	867,475	562,759
Purchased Services					
<i>Software</i>	4,533			-	-
<i>Training & Development</i>	13,210	8,458	14,460	7,662	3,760
<i>Information Technology Services</i>	6,895	5,628	13,272	10,720	1,415
<i>Travel, Telephone, Miscellaneous</i>	8,489	10,138	12,743	8,327	923
Total Purchased Services	33,127	24,224	40,475	26,709	6,098
Supplies	-	100	100	710	1,232
Property, Plant, & Equipment	-	-	550	580	872
Other	-	-	-	-	60
Total Expenditures	530,982	583,202	760,117	895,474	571,021
<u>BREAKDOWN BY FUND SOURCE</u>					
General Fund	452,695	417,456	425,146	429,948	469,126
ARRA State Fiscal Stabilization Fund	-	-	116,832	443,483	101,895
ARRA Race to the Top Fund	78,287	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 seven 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 are specific accomplishments during FY2013-14.

Training and Professional Development Opportunities

To maintain proficiency, audit standards require internal auditor participation in professional development. During January 2014, a 2-day training session was conducted entitled “Performing an Effective Quality Assessment.” The purpose of this training was to further develop the peer review program by increasing the number of participants who are well versed on the quality assurance review process. The session provided 16 hours of certified professional education hours and was free to participants. Participants were invited from State agencies and universities. There were 35 registered participants and the average cost per participant was just under \$171 per day. Based on participant surveys, there was a 86% 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 postings on OSBM website. Over the past year, 58 professional development opportunities were identified and communicated. There were 160.5 hours of certified professional education identified and 22% 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. During the past year, the Departments of Insurance, Public Safety, Revenue, and Secretary of State, as well as Elizabeth City State University, North Carolina Agricultural & Technical University, and North Carolina School of Science and Math have all completed reviews using the program. Eight other agency and university reviews are in progress and should be completed before January 2015. See Table 7 on page 13 for more details.

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. The 2013 Internal Auditor Award of Excellence was presented to Michele Sykes, CIA, CGAP, Senior Internal Auditor at the Office of State Budget and Management (OSBM) during the Office of the State Controller’s Financial Conference on December 12, 2013.

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 10.

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 10.

Proposed Legislation Changes

During the 2013-2014 Legislative Session, there were no legislative changes related to the Internal Audit Act.

STATE AGENCY INTERNAL AUDIT FUNCTIONS

Audit Resources

Personnel Resources

As shown in Table 3 on the next page, there are 182.5 internal auditor positions, which are spread across 37 State agencies. As of June 30, 2014, 79% of these positions were filled. There was a net gain of 31.5 positions throughout the State over the past year. Significant changes over the last year include:

- Department of Health and Human Services gained twenty four positions which is a 160% increase. These positions are temporarily being staffed through the State Term Contract for Internal Audit Supplemental Staffing;
- Winston-Salem State University gained two positions which is a 67% increase; and
- University of North Carolina Hospitals gained two positions which is a 33% increase.

There are nine agencies with no internal auditor positions that either contract or use OSBM services:

- North Carolina School of the Arts contracts with Winston-Salem State University for audit services;
- North Carolina School of Science and Mathematics contracts with the University of North Carolina General Administration;
- Fayetteville State University internal audit function is performed by a contractor; and
- Commissioner of Banks, Board of Election, Department of Labor, Industrial Commission, Office of State Human Resources, and Office of the State Auditor utilizes OSBM's interagency internal audit program.

The following universities either contract for internal audit service or utilize interns to supplement staffing:

- University of North Carolina-General Administration, Departments of Health and Human Services, Public Instruction, and the Office of State Budget and Management utilize contracted auditors to supplement staffing levels; and
- Fayetteville State University, University of Pembroke and Department of Commerce, Division of Employment Service utilizes student interns.

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

Personnel Proficiency

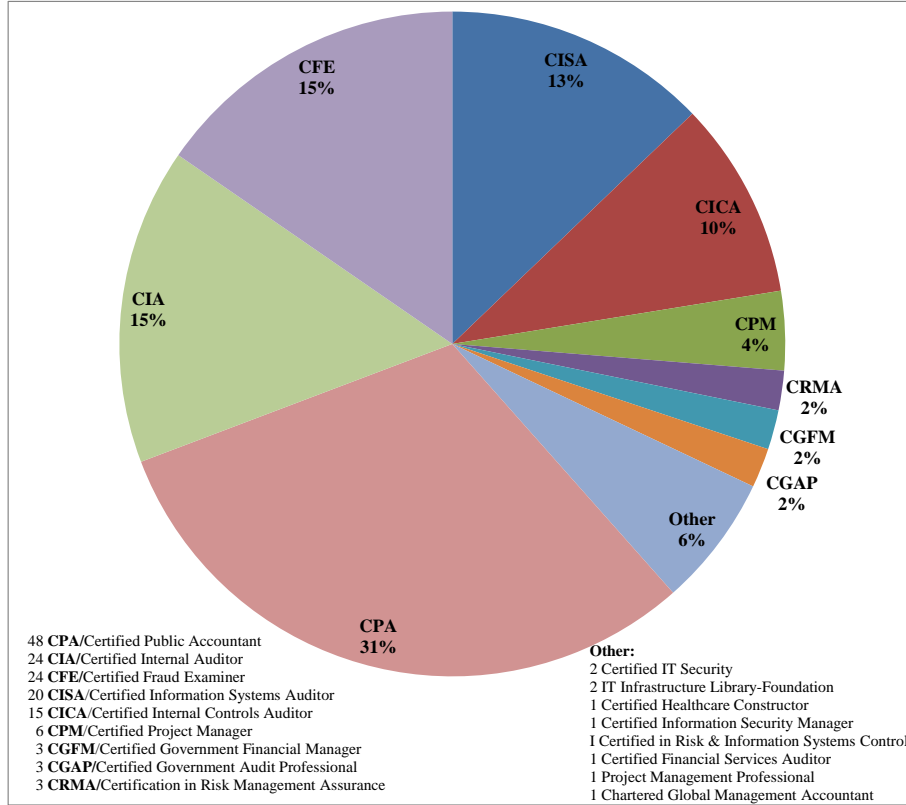
Internal auditors can demonstrate proficiency by obtaining professional certification and advanced degrees. Overall, internal auditors hold 156 professional certifications in 17 different audit areas; 74% of these being either Certified Public Accountants, Certified Internal Auditors, Certified Information 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 8.

In addition, Chart 2, on page 8, shows advanced degrees held by the agency's internal auditors. Combined, the auditors hold 68 advanced degrees with 81% of these being Masters in Business Administration, Accounting or Accounting and Finance Management.

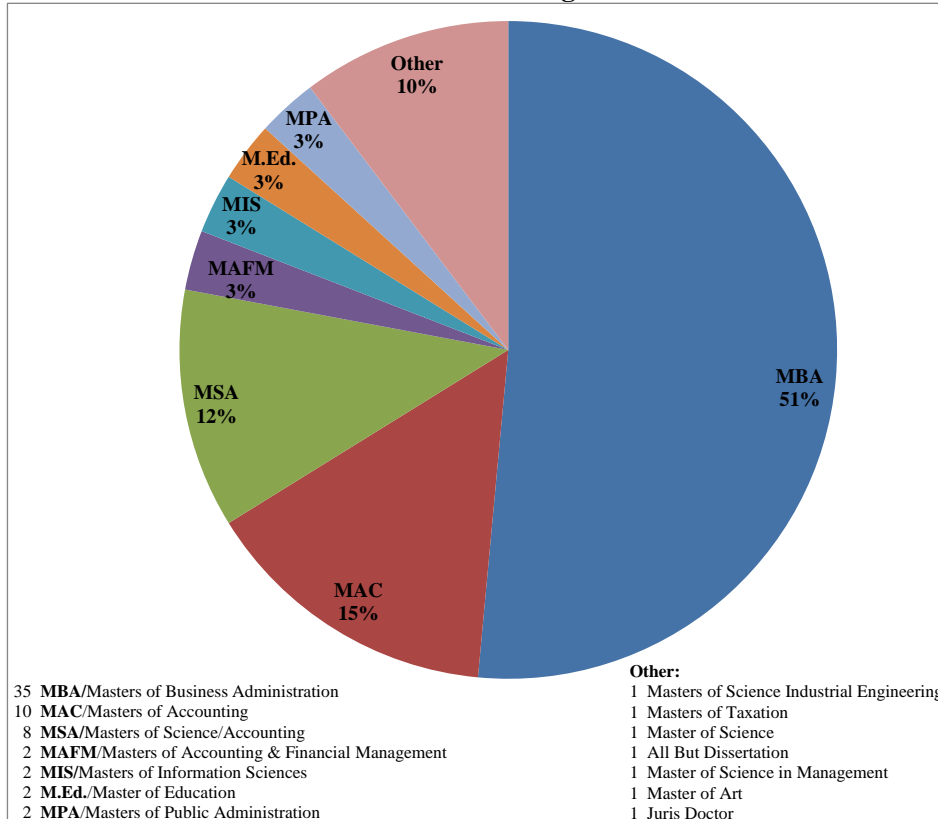
Table 3

Statewide Internal Auditor Position Level Comparison FY2010 to FY2014											
Agency	Positions					Agency	Positions				
	2014	2013	2012	2011	2010		2014	2013	2012	2011	2010
Community College System Office	1	1	1	1	1	Office of State Controller	0.5	0	0	0	0
Commissioner of Banks ¹	0	0	0	0	0	Office of State Human Resources ¹	0	0	0	0	0
Department of Administration	1	0	0	0	0	Office of the Governor/Office of State Budget & Management ^{1,3}	4.5	6	8	11	10
Department of Agriculture & Consumer Services	3	3	1	1	1	Office of the State Auditor ¹	0	0	0	0	0
Department of Commerce ²	5	4	3	0	0	State Board of Elections ¹	0	0	0	0	1
Employment Security Commission ²	N/A	N/A	N/A	2	2	Wildlife Resources Commission	1	0	0	0	0
Department of Cultural Resources	1	1	1	1	1	Appalachian State University	5	5	4	5	4
Department of Environment & Natural Resources	3	3	2	2	2	East Carolina University	7	7	7	7	7
Department of Health & Human Services	39	15	8	8	8	Elizabeth City State University	1	1	2	2	2
Department of Insurance	1	1	1	1	1	Fayetteville State University ⁴	0	1	0	2	2
Department of Justice	1	1	1	1	1	North Carolina Agricultural & Technical State University	4	5	5	4	4
Department of Labor ¹	0	0	0	0	0	North Carolina Central University	3.5	3	3	3	3
Department of Public Instruction	2	1	1	2	1	North Carolina School of Science and Math ⁶	0	0	0	1	1
Department of Public Safety ⁷	20	20	19	N/A	N/A	North Carolina School of the Arts ⁵	0	0	0	0	1
Department of Correction ⁷	N/A	N/A	N/A	18	18	North Carolina State University	7	7	6.25	4.25	6
Department of Crime Control & Public Safety ⁷	N/A	N/A	N/A	1	1	University of North Carolina - Asheville	1	1	1	1	1
Department of Juvenile Justice & Delinquency Prevention ⁷	N/A	N/A	N/A	3	3	University of North Carolina - Chapel Hill	7	6	6	6	6
Department of Revenue	3	2	2	2	2	University of North Carolina - Charlotte	5	5	4	4	4
Department of Secretary of State	2	2	1	1	1	University of North Carolina - General Administration	1	1	1	1	1
Department of State Treasurer	3	4	3	2	2	University of North Carolina - Greensboro	2	2	2	2	2
Department of Transportation	22	22	22	17	25	University of North Carolina - Hospitals	8	6	5	4	5
Housing Finance Agency	2	2	0	0	0	University of North Carolina - Pembroke	1	1	1	1	1
Information Technology Services	3	2	2	3	2	University of North Carolina - Wilmington	4	4	4	4.5	4
North Carolina Education Lottery	2	2	2	2	2	Western Carolina University	1	1	2	2	2
North Carolina Industrial Commission ¹	0	0	0	0	0	Winston-Salem State University	5	3	4	4	3
Total							182.50	151.00	135.25	136.75	144.00
<p>1. Utilizes the Interagency Internal Audit program</p> <p>2. The Employment Security Commission merged with Department of Commerce in FY2012, Division of Employment Service has federal funded internal audit positions and OSBM's Interagency Internal Audit program provides limited services to the remaining Department of Commerce</p> <p>3. Council of Internal Auditing Interagency Internal Audit Program, housed in OSBM</p> <p>4. Uses contract auditors</p> <p>5. Contracts with Winston-Salem State University</p> <p>6. Contracts with University of North Carolina-General Administration</p> <p>7. Departments of Correction, Crime Control & Public Safety, and Juvenile Justice & Delinquency Prevention consolidated as of January 1, 2012</p>											

**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 spreadsheets, word processors and text editing programs to more advanced software packages involving the use of statistical analysis and business intelligence tools.

The advanced software products are typically productivity tools or generalized audit software. Productivity tools aid with the administration and management of the audit processes such as Teammate and SharePoint. Generalized audit software tools assist with data extraction 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, 16 agencies use generalized audit software tools for data extraction and analysis; and 12 agencies use productivity tools to automate work papers and work flow processes.

Table 4

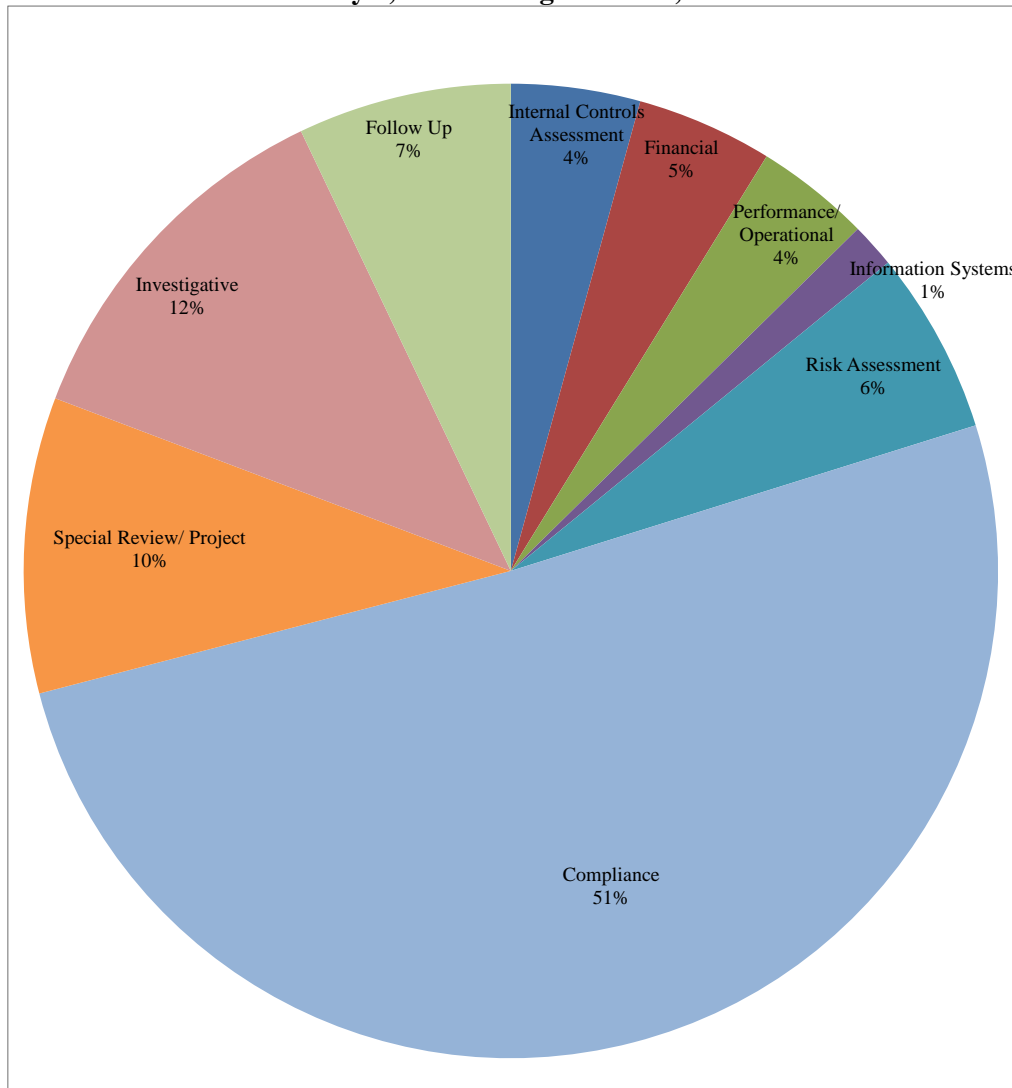
Computer Assisted Audit Tool Usage			
State Agency	Spreadsheet or Word Document¹	Generalized Audit Software²	Productivity Tool³
Community College Central Office	✓		
Department of Administration	✓		
Department of Agriculture & Consumer Services	✓		
Department of Commerce, Division of Employment Services	✓	✓	✓
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	✓	✓	✓
Housing Finance Agency	✓	✓	✓
Information Technology Services			
North Carolina Education Lottery	✓	✓	
Office of the Governor/Office of State Budget & Management	✓	✓	
Office of the State Controller	✓		✓
Wildlife Resource Commission	✓		
Appalachian State University	✓		
East Carolina University	✓	✓	
Elizabeth City State University	✓		
Fayetteville State University	✓		
North Carolina Agricultural & Technical 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 - 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, 2013 through June 30, 2014, 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 over 12,500 hours of assistance to their agency's management which did not result in report issuance.

Chart 3
Agency Engagements
July 1, 2013 through June 30, 2014



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, 2013-June 30, 2014**

Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review/ Project	Technical Assistance Hours ³
Community College System Office		1	1						1	160
Department of Administration									3	120
Department of Agriculture & Consumer Services	3	1	7	11				1	3	45
Department of Commerce-Division of Employment Services ¹	22	14	19	5		1	1	1	40	40
Department of Cultural Resources			1		2					1,500
Department of Environment & Natural Resources	2	1	1	3	1		1	1		400
Department of Health & Human Services		1	26	14	4			1		0
Department of Insurance	1	1		2			1	1	2	12
Department of Justice	1									0
Department of Public Instruction		1	5		1		1		2	174
Department of Public Safety	2		3	48			2	9	3	40
Department of Revenue	2	2	1	14		1				100
Department of Secretary of State			1	1	1		1	2	1	0
Department of State Treasurer		3					1	7	3	225
Department of Transportation				480					5	0
Housing Finance Agency							1			360
Information Technology Services										0
North Carolina Education Lottery		1	1	7	5	1	1	1	4	0
Office of the Governor/Office of State Budget & Management ²			5	5	3		15	6	6	109
Office of the State Controller								1		25
Wildlife Resource Commission					1					300
Appalachian State University	7		3	5	21	3	1	2	5	700
East Carolina State University		4	15	1		4	1	14	2	3,041
Elizabeth City State University			1	1						0
Fayetteville State University	1	2	3	1	1		1	2	3	32
North Carolina Agricultural & Technical State University	5		9	1	1	1		2	1	120
North Carolina Central University		2	9				1	3	5	120
North Carolina School of Science & Math			2			2	1	1	2	378
North Carolina School of the Arts	1			1				1		0
North Carolina State University		1	8	3	4	1	42	9	5	480
University of North Carolina - Asheville		1		2	1		1		1	0
University of North Carolina - Chapel Hill	1	3	5				1	4	16	750
University of North Carolina - Charlotte	2	7	4	5	2	1		1		200
University of North Carolina - General Administration	1		1	1	1			4		40
University of North Carolina - Greensboro	1			5	1		1			40
University of North Carolina - Hospitals	3		4	2	1				3	2,550
University of North Carolina - Pembroke	1	1	4	1	1		1	2	2	150
University of North Carolina - Wilmington	1	2	4	3		2	1	9	7	435
Western Carolina University			1	29	1	1	1	5	1	99
Winston-Salem State University	1		12	1	2	1		1		0
Totals	58	49	156	652	55	19	78	91	126	12,745

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 Commerce, Department of Labor, North Carolina Industrial Commission, Office of the Governor, Office of State Auditor, Office of State Budget and Management, State Board of Elections, and Commissioner of Banks.
 3. Assistance provided to management which does not result in the issuance of a report.

Compliance

Internal Audit Act and Council Requirements

The Internal Audit Act and the North Carolina Internal Audit Manual require internal audit functions to submit their annual audit plan as well as engagement reports. Table 6 shows compliance with document submission and the overall compliance rate.

Table 6

Compliance with Internal Audit Act and Statewide Internal Audit Manual		
Agency	Audit Plan	Reports
Community College Central Office	✓	✓
Department of Administration	✓	✓
Department of Agriculture & Consumer Services	✓	✓
Department of Commerce - Division of Employment Services	✓	✓
Department of Cultural Resources	✓	✓
Department of Environment & Natural Resources ²		✓
Department of Health & Human Services ³		
Department of Insurance	✓	✓
Department of Justice	✓	✓
Department of Public Instruction	✓	✓
Department of Public Safety ²		✓
Department of Revenue	✓	✓
Department of Secretary of State	✓	
Department of State Treasurer	✓	✓
Department of Transportation	✓	✓
Housing Finance Agency	✓	✓
Information Technology Services ²		
North Carolina Education Lottery	✓	✓
Office of the Governor/Office of State Budget & Management ¹	✓	✓
Office of the State Controller	✓	✓
Wildlife Resource Commission ⁴		✓
Appalachian State University ²		✓
East Carolina University	✓	✓
Elizabeth City State University ³		
Fayetteville State University	✓	✓
North Carolina Agricultural & Technical State University	✓	✓
North Carolina Central University ²		✓
North Carolina School of the Arts	✓	✓
North Carolina School of Science and Mathematics ²		✓
North Carolina State University	✓	✓
University of North Carolina - Asheville	✓	✓
University of North Carolina - Chapel Hill ²		✓
University of North Carolina - Charlotte	✓	
University of North Carolina - General Administration ²		✓
University of North Carolina - Greensboro	✓	✓
University of North Carolina - Hospitals ²		✓
University of North Carolina - Pembroke	✓	✓
University of North Carolina - Wilmington	✓	✓
Western Carolina University ²		✓
Winston-Salem State University	✓	✓
TOTAL	27	35
Compliance rate	68%	88%
1. Using OIA Interagency Internal Audit Program: Commissioner of Banks, Department of Commerce, Department of Labor, North Carolina Industrial Commission, Office of State Auditor, Office of the Governor/Office of State Budget and Management, and State Board of Elections.		
2. Submitted after September 30.		
3. Never submitted.		
4. Internal Audit position vacant.		

External Quality Assurance Review (Peer Review)

To comply with audit standards, external quality assurance reviews (QAR) are required every five years. Eight internal audit functions are not required to have a QAR at this time because the function has not met the requirement timeframe. Of the 32 internal audit functions remaining, 20 have received a QAR, 8 are in progress, and 4 are overdue for a review as shown in Table 7.

Table 7

QAR Compliance and Due Dates		
Compliant	Rating	
Appalachian State University	Generally Conforms	
Department of Health & Human Services	Generally Conforms	
Department of Insurance	Generally Conforms	
Department of Public Safety	Generally Conforms	
Department of Revenue	Generally Conforms	
Department of Secretary of State	Partially Conforms	
Department of Transportation	Generally Conforms	
East Carolina University	Generally Conforms	
Elizabeth City State University	Does Not Conform	
Fayetteville State University	Generally Conforms	
North Carolina Agriculture & Technical State University	Generally Conforms	
North Carolina Central University	Generally Conforms	
North Carolina School of Science & Math	Generally Conforms	
North Carolina State University	Generally Conforms	
Office of the Governor/Office of State Budget & Management	Generally Conforms	
University of North Carolina - Asheville	Generally Conforms	
University of North Carolina - Chapel Hill	Generally Conforms	
University of North Carolina - Charlotte	Generally Conforms	
University of North Carolina - Wilmington	Generally Conforms	
Western Carolina University	Generally Conforms	
In Progress	Tentative Completion Date	
Winston-Salem State University	November 2014	
North Carolina School of the Arts	November 2014	
Department of Justice	November 2014	
Department of Environment & Natural Resources	November 2014	
Department of Agriculture & Consumer Services	November 2014	
University of North Carolina - Pembroke	November 2014	
Department of Public Instruction	February 2015	
University of North Carolina - Greensboro	February 2015	
Non-Compliant	Due Date	Target Date
Department of Cultural Resources	January 2013	November 2014
Department of State Treasurer	April 2014	October 2014
North Carolina Education Lottery	August 2012	January 2015
University of North Carolina - Hospitals	August 2012	August 2014
Not Required	Due Date	
Community College System Office	September 2014	
Department of Commerce, Division of Employment Services	July 2015	
University of North Carolina - General Administration	August 2015	
Office of the State Controller	December 2018	
Information Technology Services	February 2019	
Housing Finance Agency	April 2019	
Department of Administration	May 2019	
Wildlife Resource Commission	November 2019	

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APPENDIX A
NORTH CAROLINA INTERNAL AUDIT ACT

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Article 79.

Internal Auditing.

§ 143-745. Definitions; intent; applicability.

- (a) For the purposes of this section:
 - (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the President of The University of North Carolina, the President of the Community College System, the State Controller, and other independent appointed officers with authority over a State agency. The agency head for the Department of Public Instruction shall be the State Board of Education.
 - (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, and includes all institutions, boards, commissions, authorities, by whatever name, that is a unit of the executive branch of State government, including The University of North Carolina, and the Community Colleges System Office. The term does not include a unit of local government.
- (b) This Article applies only to a State agency that:
 - (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
 - (2) Has more than 100 full-time equivalent employees; or
 - (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year. (2007-424, s. 1; 2009-516, s. 2; 2013-406, s. 1.)

§ 143-746. Internal auditing required.

- (a) Requirements. - A State agency shall establish a program of internal auditing that:
 - (1) Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
 - (2) Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
 - (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.
 - (4) Periodically audits the agency's major systems and controls, including:
 - a. Accounting systems and controls.
 - b. Administrative systems and controls.
 - c. Information technology systems and controls.
- (b) Internal Audit Standards. - Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.
- (c) Appointment and Qualifications of Internal Auditors. - Any State employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Human Resources, in consultation with the Council of Internal Auditing.
- (d) Director of Internal Auditing. - The agency head shall appoint a Director of Internal Auditing who shall report to, as designated by the agency head, (i) the agency head, (ii) the chief deputy or chief administrative assistant, or (iii) the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated to avoid impairments to independence as defined in the auditing standards referenced in subsection (b) of this section.

(e) If a State agency has insufficient personnel to comply with this section, the Office of State Budget and Management shall provide technical assistance. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1.)

§ 143-747. Council of Internal Auditing.

- (a) The Council of Internal Auditing is created, consisting of the following members:
 - (1) The State Controller who shall serve as Chair.
 - (2) The State Budget Officer.
 - (3) The Secretary of Administration.
 - (4) The Attorney General.
 - (5) The Secretary of Revenue.
 - (6) The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.
- (b) The Council shall be supported by the Office of State Budget and Management.
- (c) The Council shall:
 - (1) Hold meetings at the call of the Chair or upon written request to the Chair by two members of the Council.
 - (2) Keep minutes of all proceedings.
 - (3) Promulgate guidelines for the uniformity and quality of State agency internal audit activities.
 - (4) Recommend the number of internal audit employees required by each State agency.
 - (5) Develop internal audit guides, technical manuals, and suggested best internal audit practices.
 - (6) Administer an independent peer review system for each State agency internal audit activity; specify the frequency of such reviews consistent with applicable national standards; and assist agencies with selection of independent peer reviewers from other State agencies.
 - (7) Provide central training sessions, professional development opportunities, and recognition programs for internal auditors.
 - (8) Administer a program for sharing internal auditors among State agencies needing temporary assistance and assembly of interagency teams of internal auditors to conduct internal audits beyond the capacity of a single agency.
 - (9) Maintain a central database of all annual internal audit plans; topics for review proposed by internal audit plans; internal audit reports issued and individual findings and recommendations from those reports.
 - (10) Require reports in writing from any State agency relative to any internal audit matter.
 - (11) If determined necessary by a majority vote of the council:
 - a. Conduct hearings relative to any attempts to interfere with, compromise, or intimidate an internal auditor.
 - b. Inquire as to the effectiveness of any internal audit unit.
 - c. Authorize the Chair to issue subpoenas for the appearance of any person or internal audit working papers, report drafts, and any other pertinent document or record regardless of physical form needed for the hearing.
 - (12) Issue an annual report including, but not limited to, service efforts and accomplishments of State agency internal auditors and to propose legislation for consideration by the Governor and General Assembly. (2007-424, s. 1; 2013-406, s. 1.)

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

Internal audit work papers are confidential except as otherwise provided in this section or upon subpoena issued by a duly authorized court. A published internal audit report is a public record as defined in G.S. 132-1 to the extent it does not include information which is confidential under State or federal law or would compromise the security of a State agency. An internal auditor shall maintain for 10 years a complete file of all audit reports and reports of other examinations, investigations, surveys, and reviews conducted under the internal auditor's authority. Audit work papers and other evidence and related supportive material directly pertaining to the work of the internal auditor's office shall be retained in accordance with Chapter 132 of the General Statutes. Unless otherwise prohibited by law and to promote intergovernmental cooperation and avoid unnecessary duplication of audit effort, audit work papers related to released audit reports shall be made available for inspection by duly authorized representatives of the State and federal government in connection with some matter officially before them. (2013-406, s. 1.)

§ 143-749. Obstruction of audit.

It shall be a Class 2 misdemeanor for any officer, employee, or agent of a State agency subject to the provisions of this Article to willfully make or cause to be made to a State agency internal auditor or the internal auditor's designated representatives any false, misleading, or unfounded report for the purpose of interfering with the performance of any audit, special review, or investigation or to hinder or obstruct the State agency internal auditor or the internal auditor's designated representatives in the performance of their duties. (2013-406, s. 1.)

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APPENDIX B
Staffing Recommendation

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Appendix B Minimum 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
<p>1. Provides internal audit services to North Carolina School for Science and Math which was considered in the calculation.</p> <p>2. Provides internal audit services to North Carolina School of the Arts which was considered in the calculation.</p>				