

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

**INTERNAL AUDIT  
ACTIVITY REPORT**

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

**May 2008**



*Prepared By:*

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

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# INTRODUCTION

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The North Carolina Internal Audit Act<sup>1</sup> (the Act) was signed into law on August 31, 2007. The legislation required State agencies, meeting the conditions set forth in the legislation, to establish a program of internal auditing. This report documents the progress from implementation of the Act through May 14, 2008, of the State agencies and the Council of Internal Auditing in implementing the mandates of the legislation.

***COUNCIL OF INTERNAL AUDITING***

The Council of Internal Auditing, which was established by the Act, first met on October 31, 2007. 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.

<b>Table 1</b>	
<b>Council of Internal Auditing</b>	
Robert L. Powell, Chair	State Controller
David T. McCoy	State Budget Officer
Britt Cobb	Secretary of Administration
Roy Cooper	Attorney General
Reginald S. Hinton	Secretary of Revenue
Leslie W. Merritt, Jr.	State Auditor (nonvoting)

The Act required the Council hold its first meeting prior to November 1, 2007. Thereafter, Council meetings can be called by the Chair or upon request to the Chair by two members of the Council. The Council of Internal Auditing meets at the Administration Building in the 5<sup>th</sup> floor conference room and convenes at 9:00 a.m. The 2007/08 meeting schedule approved by the Council is listed in Table 2.

<b>Table 2</b>
<b>2007/08 Council of Internal Auditing Meeting Schedule</b>
October 31, 2007
January 30, 2008
March 12, 2008
May 14, 2008
July 9, 2008
September 10, 2008
November 12, 2008

***OFFICE OF INTERNAL AUDIT STAFF***

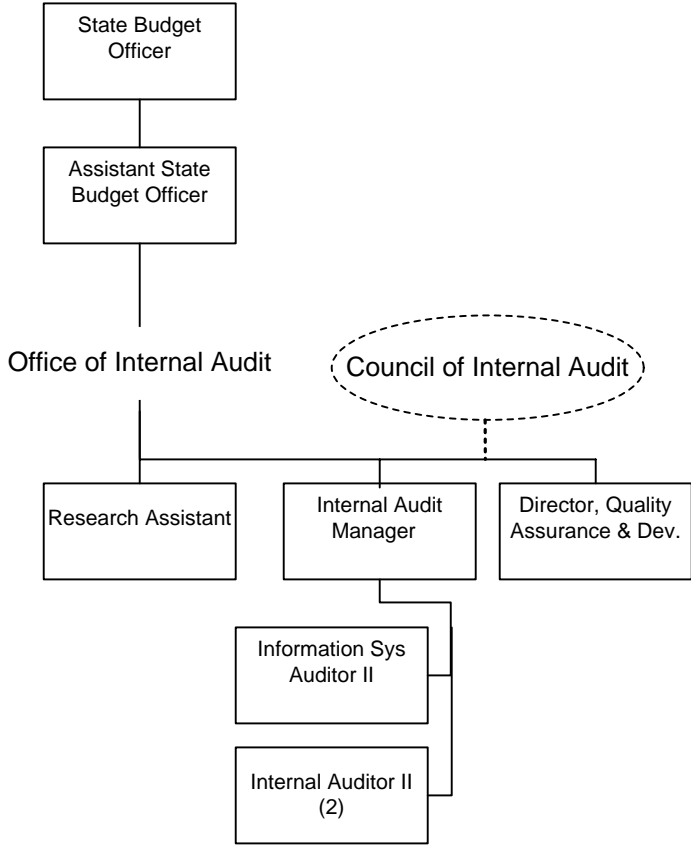
The Office of State Budget and Management (OSBM) provides support to the Council. OSBM established the Office of Internal Audit to house the staff to the Council and the pool of internal auditors. The organizational structure of the Office is shown in Exhibit 1 on page 2. All positions are filled with the exception of the Information Systems Auditor which is scheduled to be filled by the end of the current fiscal year. The professional credentials of the staff include three Certified Public Accountants, one Certified Internal Auditor, and one Certified Government Auditing Professional.

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<sup>1</sup> Entire Internal Audit Act is located in Appendix A.

**Exhibit 1**

**Office of Internal Audit  
Organizational Structure**



**OFFICE OF INTERNAL AUDIT BUDGET**

The annual State appropriation for the Office of Internal Audit is \$683,000. The FY 2007/08 and FY 2008/09 budget is shown in Table 3. Once fully staffed, salaries and benefits will make up the majority (77%) of the Office’s budget. The central database, purchased this fiscal year, will house annual internal audit plans and internal audit reports. The training and development funds will be used to provide training for internal auditors statewide. The first training is scheduled for June 12-13, 2008. Both of these components of the budget are mandated in the legislation.

Office of Internal Audit Budget		Table 3	
	FY 2007/08	FY 2008/09	
<b>Expenditures</b>			
<b>Personal Services</b>	\$ 430,310	\$ 526,851	
<b>Purchased Services</b>			
<i>Central Database Dev. &amp; Maintenance</i>	150,000	20,000	
<i>Training &amp; Development</i>	60,000	100,000	
<i>Information Technology Services</i>	14,000	14,000	
<i>Travel, Telephone, Miscellaneous</i>	7,500	14,000	
<b>Total Purchased Services</b>	<b>231,500</b>	<b>148,000</b>	
<b>Supplies</b>	<b>1,000</b>	<b>1,500</b>	
<b>Property, Plant, &amp; Equipment</b>	<b>18,500</b>	<b>5,000</b>	
<b>Total Expenditures</b>	<b>681,310</b>	<b>681,351</b>	
<b>Revenues</b>			
<b>Appropriations</b>	<b>683,000</b>	<b>683,000</b>	
<b>Revenues Over Expenditures</b>	<b>\$ 1,690</b>	<b>\$ 1,649</b>	



**COUNCIL OF INTERNAL AUDITING  
EFFORTS**

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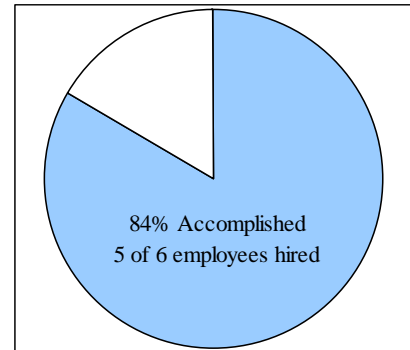
## OBJECTIVES

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

### ***Objective 1: Staff the Office of Internal Audit***

Staffing the Office of Internal Audit is 84% completed as shown in Chart 1. The process started in September 2007 with the hiring of the Director of Quality Assurance and Development and progress continues with the hiring of a Research Assistant, Internal Audit Manager, and two Internal Auditors. The information systems position has been posted for solicitation. Expectations are to fill the information systems auditor position by June 15, 2008. Once this position is filled, the Office of Internal Audit will be fully staffed.

**Chart 1**  
**Progress on Staffing OIA**



### ***Objective 2: Conduct Survey of State Agencies Internal Audit Staff***

The survey of State agencies to identify internal audit staffing levels is 100% accomplished. A survey was conducted in September 2007 to identify the total number of internal auditors within the State. A total of 51 State agencies reported 146 internal audit positions. See page 10 for additional details.

### ***Objective 3: Recommend the Number of Internal Auditors Required by State Agency/University***

Recommendation for additional agency internal audit staff is 100% accomplished. A methodology was established which included a risk assessment at the department level as well as attributes of the agencies which included agency expenditures, number of employees, and degree of decentralization. The result of this analysis was reported to the Council at the January 30, 2008 meeting. A subcommittee was created to review the analysis. The staffing recommendation prepared by the subcommittee, which proposed 48 additional internal auditing positions, was approved at the March 12, 2008 the Council meeting. See page 11 for additional details.

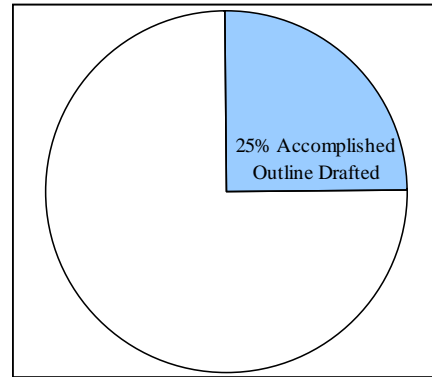
### ***Objective 4: Draft Statewide Internal Audit Guidelines, Policies, and Procedures***

Drafting statewide internal audit guidelines is 100% accomplished. A statewide manual was drafted and reviewed by a work team which included members for other departments and universities in February 2008. The draft was submitted to the Council for approval in March 2008. The Council sent the draft to a subcommittee for review and discussion related to professional audit standards. The revised document was presented at the May 14, 2008 Council meeting and it was unanimously adopted.

**Objective 5: Draft Procedures for the Office of Internal Audit**

Drafting procedures for the Office of Internal Audit is 25% accomplished as shown in Chart 2. An outline has been developed for the internal procedures manual. The Internal Audit Manager and staff will work on the procedure manual which will be complete by the end of May 2008.

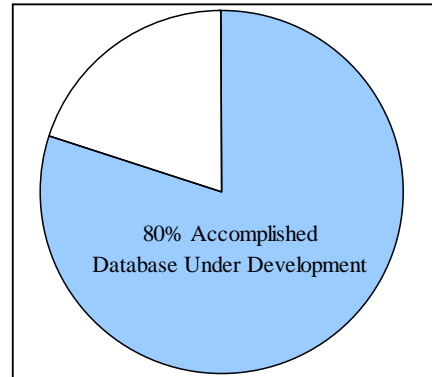
**Chart 2  
Internal Practices and Procedures**



**Objective 6: Develop Database and Input Agency Information**

The central database and data input is 80% accomplished as shown in Chart 3. The Office of Internal Audit identified the needs related to a central database, purchased necessary hardware and software to support the central database, and is in the process of developing the database. Development of the central database will be completed in June. Once completed, the Research Assistant will input State agency data which has been submitted. Input of all agency information into the central database will be completed by the end of June 2008.

**Chart 3  
Central Database**



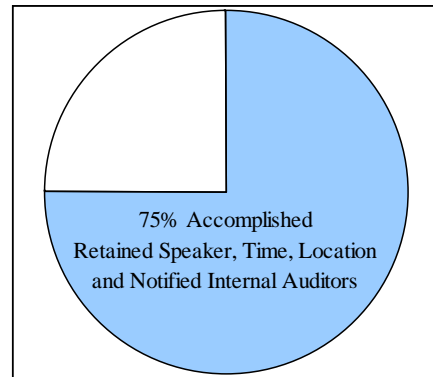
**Objective 7: Conduct Training Session on the Standards**

The training session on auditing standards is pending a final decision on which audit standards will be used as the foundation for the Statewide Internal Audit Manual.

**Objective 8: Conduct a Training Session on Audit Plans and/or Risk Assessment**

The training session on risk assessment and audit planning is 75% accomplished as shown in Chart 4. The Office of Internal Audit retained a speaker from Washington D.C. that provides training and consulting services. This will be a 2-day training held in downtown Raleigh. All State agency internal audit staff have been notified of this training opportunity. The risk assessment and audit planning training will be conducted on June 12 and 13, 2008.

**Chart 4  
Risk Assessment Training**



***Objective 9: Develop Quality Assurance Program (Peer Review)***

Development of a quality assurance program will begin in FY 2008-09. Research on the elements and needs of a quality assurance program, indentifying and training qualified internal auditors and developing quality assurance guidelines will start once the Council of Internal Auditing approves audit standards for internal auditing. This objective should be completed by October 2008.

***Objective 10: Prepare an Annual Report for the Council of Internal Auditing***

The Internal Audit Activity report is 100% accomplished.

## STATEWIDE INTERNAL AUDIT STAFFING

Below is information on the present internal audit staffing levels, Office of Internal Audit shared pooled agencies and additional internal audit staff recommended by the Council of Internal Auditing.

### **PRESENT INTERNAL AUDIT STAFFING LEVELS**

A survey was conducted in late 2007 to identify statewide internal audit staffing levels. The Office of Internal Audit received responses from 51 State agencies and Table 4 shows 146 internal audit positions reported. Some internal auditors have other duties outside of internal auditing. Of the reported 146 positions, the full-time equivalent of staff actually performing internal audit duties is 124.

**Table 4**

Summary of Internal Audit Staff			
	Number of State		
	Agencies	Positions	FTE <sup>1</sup>
Agency	19	85	68
University <sup>2</sup>	19	61	56
No Internal Audit Staff	13	N/A	N/A
<b>Total</b>	<b>51</b>	<b>146</b>	<b>124</b>
1. Performing internal audit activities			
2. Includes: UNC-General Administration, School of Science and Math, & UNC Hospital			

Thirteen agencies have no internal auditors within their organization and two of these agencies do not meet the requirements for compliance with the Internal Audit Act as shown in Table 5.

**Table 5**

Statewide Internal Audit Staff Levels			
Agency	Positions	Agency	Positions
Administrative Office of the Courts	3	Office of the Governor /OSBM	0
Indigent Defense Services	1	Office of the State Auditor	0
Department of Administration/OSP	0	Secretary of State	1
Department of Agriculture and Consumer Services	1	State Board of Elections	4
Department of Commerce	2	State Health Plan	0
Department of Correction	19	North Carolina Community College Central Office	0
Department of Crime Control & Public Safety	1	Appalachian State University	5
Department of Cultural Resources	1	East Carolina University	6
Department of Environment and Natural Resources	1	Elizabeth City State University	2
Department of Health and Human Services	8	Fayetteville State University	2
Department of Insurance	0	NC Central University	4
Department of Justice	0	NC State University	7
Department of Juvenile Justice and Delinquency Prevention	4	North Carolina A&T State University	4
Department of Labor	0	North Carolina School of Science & Math	1
Department of Public Instruction	1	North Carolina School of the Arts	1
Department of Revenue	2	UNC-Asheville	1
Department of State Treasurer	1	UNC-Chapel Hill	6
Department of Transportation	31	UNC-Charlotte	4
Employment Security Commission	0	UNC-General Administration	1
Housing Finance Agency	0	UNC-Greensboro	2
Information Technology Services	1	UNC-Pembroke	1
NC Wildlife Commission	0	UNC-Wilmington	4
North Carolina Education Lottery	2	Western Carolina University	2
Office of Administrative Hearings <sup>1</sup>	0	Winston-Salem State University	3
Office of Lieutenant Governor <sup>1</sup>	0	UNC Hospitals	5
Office of State Controller	1	Totals	146
1. Agencies that do not meet the requirements for compliance with the Internal Audit Act.			

### ***SHARED POOLED STAFFING LEVEL AND SERVICE AREA***

The Office of Internal Audit has four internal audit positions, internal audit manager, two internal auditors, and one information system auditor. The Office of Internal Audit is responsible for providing internal audit services to six agencies. These agencies are Department of Labor, NC Wildlife Commission, Office of the Governor/OSBM, Office of the State Auditor, Secretary of State, and Office of the State Controller. In addition to these agencies, requests from other State agencies for internal audit services will be provided based on available resources within the Office of Internal Audit.

### ***RECOMMENDATION FOR ADDITIONAL STAFF***

The Office of Internal Audit conducted an analysis of internal audit staffing level as legislatively mandated. In determining the appropriate number of internal auditors, the Office of Internal Audit staff researched the May 2007 MGT of America Study prepared for the General Assembly, the 2006 Office of the State Auditor Performance Audit on Internal Auditing in North Carolina, and Legislative Fiscal Note for HB 1401. Methodology for the analysis was based on a risk assessment and included several different components. The result of this analysis was reported to the Council at the January 30, 2008 meeting. A subcommittee was created to review the analysis. The staffing recommendation prepared by the subcommittee, which proposed 48 additional internal auditing positions at a cost of \$4.464 million, was approved at the March 12, 2008 Council meeting. Table 6 provides a breakdown by agency of the additional internal audit positions and cost.

Table 6

State Agency Internal Audit Staffing Level Recommendation March 2008		
Agency	Recommended Number of New Positions	Estimated Cost of New Internal Audit Positions
Administrative Office of the Courts	2	\$ 186,000
Department of Administration/OSP	2	186,000
Department of Agriculture and Consumer Services	1	93,000
Department of Commerce	-	-
Department of Correction	-	-
Department of Crime Control & Public Safety	4	372,000
Department of Cultural Resources	1	93,000
Department of Environment and Natural Resources	7	651,000
Department of Health and Human Services	11	1,023,000
Department of Insurance	2	186,000
Department of Justice	2	186,000
Department of Juvenile Justice and Delinquency Prevention	-	-
Department of Labor	-	-
Department of Public Instruction	2	186,000
Department of Revenue	2	186,000
Department of State Treasurer	3	279,000
Department of Transportation	-	-
NC Wildlife Commission	-	-
Office of Administrative Hearings	-	-
Office of Lieutenant Governor	-	-
Office of the Governor /OSBM	-	-
Office of the State Auditor	-	-
Office of State Controller	-	-
Secretary of State	-	-
North Carolina Community College Central Office	2	186,000
Appalachian State University	-	-
East Carolina University	-	-
Elizabeth City State University	-	-
Fayetteville State University	-	-
NC Central University	-	-
NC State University	1	93,000
North Carolina A&T State University	-	-
North Carolina School of Science & Math	-	-
North Carolina School of the Arts	-	-
UNC-Asheville	-	-
UNC-Chapel Hill	1	93,000
UNC-Charlotte	-	-
UNC-General Administration	2	186,000
UNC-Greensboro	1	93,000
UNC-Pembroke	-	-
UNC-Wilmington	-	-
Western Carolina University	-	-
Winston-Salem State University	-	-
UNC Hospitals	2	186,000
Total	48	4,464,000



## PROPOSED LEGISLATION CHANGES

The Council of Internal Auditing voted to introduce revisions to the Internal Audit Act. Below is the Act with the suggested revision.

### Article 79.

#### Internal Auditing.

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

- (a) For the purposes of this section:
- (1) "Agency head" means the Governor, a Council of State member, a cabinet secretary, the Chief Justice of the Supreme Court, the President of The University of North Carolina, and the Superintendent of Public Instruction.
  - (2) "State agency" means each department created pursuant to Chapter 143A or 143B of the General Statutes, the Judicial Branch, The University of North Carolina, and the Department of Public Instruction.
- (b) This Article applies only to a State agency that:
- (1) Has an annual operating budget that exceeds ten million dollars (\$10,000,000);
  - (2) Has more than 100 full-time equivalent employees; or
  - (3) Receives and processes more than ten million dollars (\$10,000,000) in cash in a fiscal year. (2007-424, s. 1.)

##### § 143-746. Internal auditing required.

- (a) Requirements. – A State agency shall establish a program of internal auditing that:
- (1) ~~Implements~~ Promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
  - (2) ~~Ensures~~ Determines if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
  - (3) Reviews the effectiveness and efficiency of agency and program operations and service delivery.
  - (4) Periodically audits the agency's major systems and controls, including:
    - a. Accounting systems and controls.
    - b. Administrative systems and controls.
    - c. ~~Electronic data processing~~ Information technology systems and controls.
- (b) Internal Audit Standards. – Internal audits shall comply with current Standards for the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors or, if appropriate, Government Auditing Standards issued by the Comptroller General of the United States.
- (c) Appointment and Qualifications of Internal Auditors. ~~Any internal auditor employed by a State agency shall at a minimum have a bachelor's degree from an accredited college or university and: Any state employee who performs the internal audit function shall meet the minimum qualifications for internal auditors established by the Office of State Personnel.~~
- (1) ~~Certification or licensure as a certified public accountant, certified internal auditor, certified fraud examiner, certified information systems auditor, professional engineer, or attorney; or~~
  - (2) ~~A minimum of five years' experience in internal or external auditing, management consulting, program evaluation, management analysis, economic analysis, industrial engineering, or operations research.~~
- (d) Director of Internal Auditing. – The agency head shall appoint a Director of Internal Auditing who shall report to the agency head; deputy agency head; or the agency governing board, or subcommittee thereof, if such a governing board exists. The Director of Internal Auditing shall be organizationally situated in a manner that avoids impairments to independence as defined in the Standards referenced in G.S. 143-746(b), and shall not report to any employee subordinate to the agency head. (2007-424, s. 1.)

**§ 143-747. Council of Internal Auditing.**

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

**AGENCY INTERNAL AUDIT  
EFFORTS**

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## AGENCY INTERNAL AUDIT PROGRAMS

### INITIAL ASSESSMENT

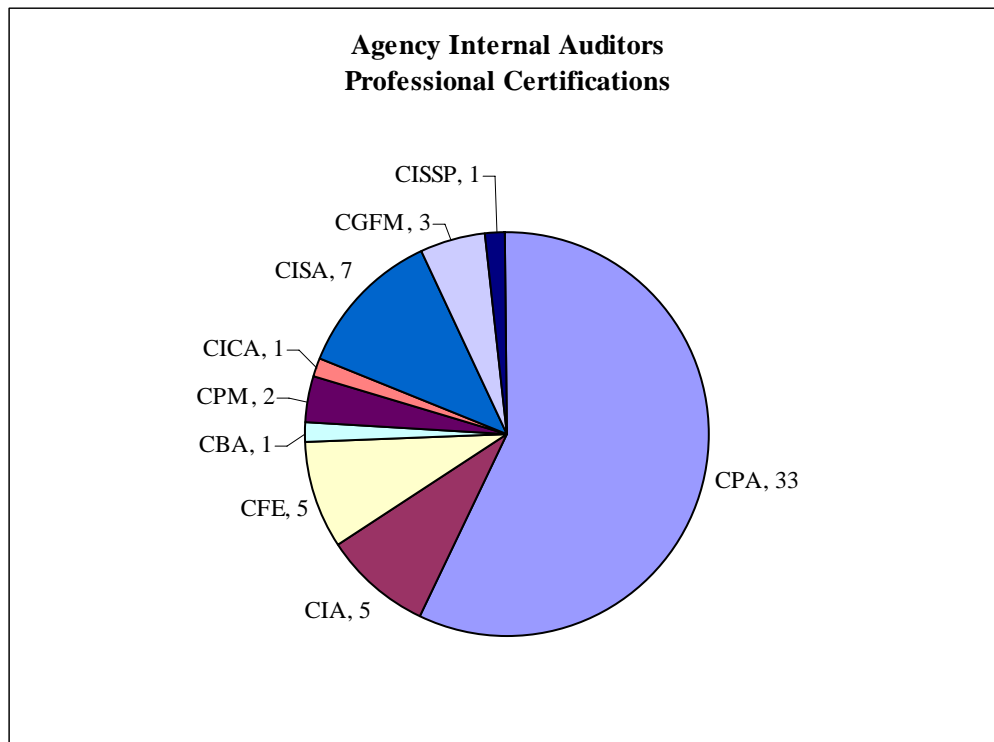
In the fall of 2007 the Office of Internal Audit conducted a survey of the internal audit programs in State agencies. The results of that survey showed that 39 of the 51 (76 percent) responding agencies currently had an internal audit function in the agency. Within those 39 State agencies, 146 positions conduct some internal audit work (Department of Justice contracts for internal audit services). Often the positions designed for internal audit work also conducted other work of the agencies. In all, State agencies reported 124 FTE was dedicated to internal auditing. The vacancy rate for these positions was 13 percent.

There has been little change to the number of internal auditor positions in State government since the initial survey as agencies are waiting for new positions and funding to support the internal audit function.

### PROFESSIONAL CERTIFICATIONS AND ADVANCED DEGREES

The number and type of professional certifications held by the agency internal auditors are shown in Chart 5. In all the auditors hold 58 professional certifications.

Chart 5

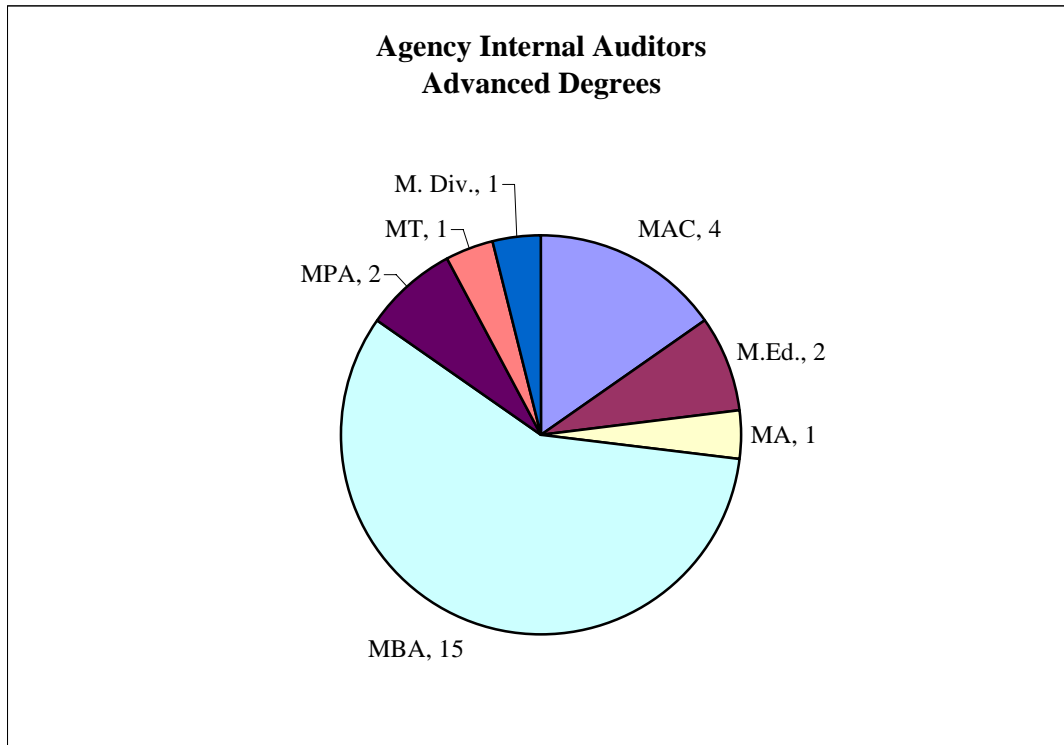


CPA – Certified Public Accountant  
CFE – Certified Fraud Examiner  
CPM – Certified Public Manager  
CISA – Certified Information Systems Auditor  
CGFM – Certified Government Financial Manager

CIA – Certified Internal Auditor  
CBA – Certified Business Analyst  
CICA – Certified Internal Controls Auditor  
CISSP – Certified IT Security

In addition, the agency internal auditors hold advanced degrees in the following areas as shown in Chart 6.

Chart 6



MBA – Masters of Business Administration  
M.Ed. – Masters of Education  
MPA – Masters of Public Administration  
M. Div. – Masters of Divinity

MAC – Masters of Accounting  
MT – Masters of Taxation  
MA – Masters of Arts – Management

## AGENCY INTERNAL AUDIT ACCOMPLISHMENTS

### ACTIVITIES

The agency internal audit offices submitted audit reports for the period of September 1, 2007 through March 31, 2008 for inclusion in the statewide central database. The majority of audits conducted by the agency internal auditors were compliance audits/reviews making up 77 percent of the reports completed. Chart 7 shows the percentage of internal audit reports prepared by type. In addition to the audit work shown here, most internal audit offices are also involved in many special projects throughout the year. During the same time period internal auditors provided assistance to their agency's management on over 750 special projects. The audit projects by State agency are shown in Table 7 on page 21.

Chart 7

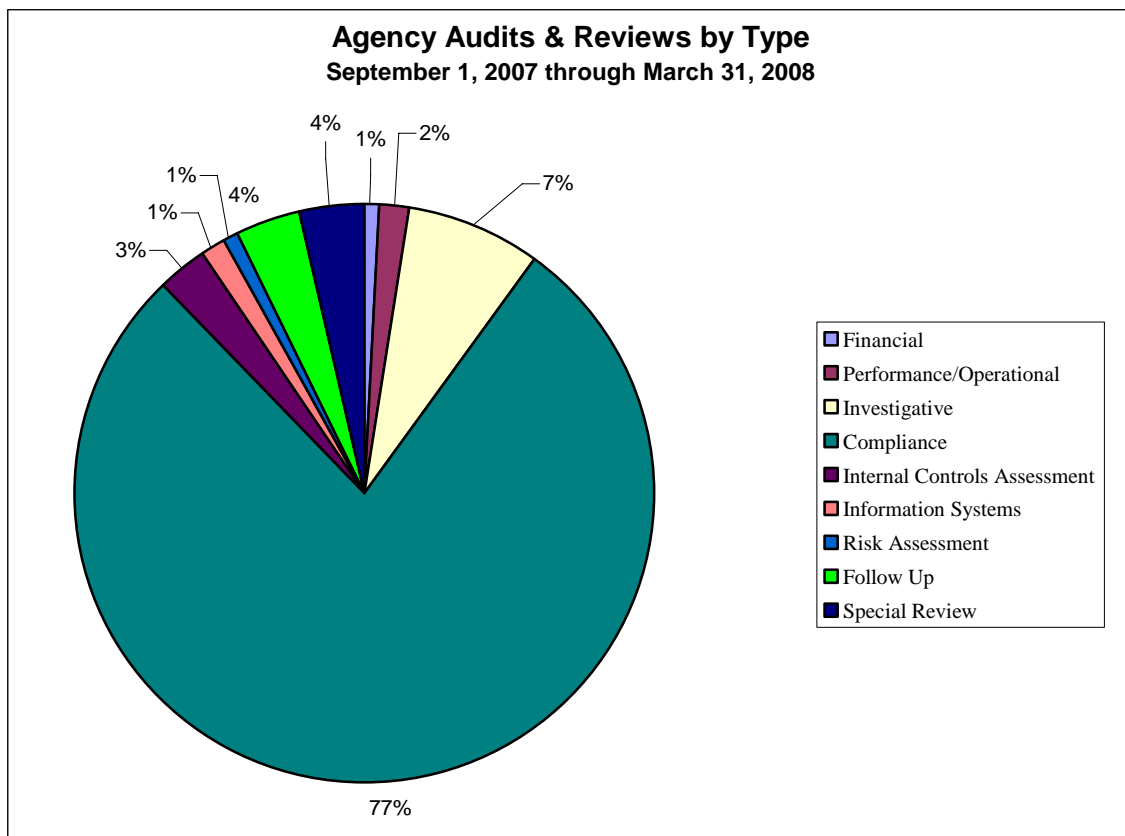


Table 7

Agency Reported Audits and Reviews September 1, 2007 through March 31, 2008										
Agency	Financial	Performance/ Operational	Investigative	Compliance	Internal Controls Assessment	Information Systems	Risk Assessment	Follow Up	Special Review	Special Projects
Department of Agriculture and Consumer Services			1	3						2
Department of Correction				31		1	5	2	1	3
Department of Crime Control and Public Safety		1	4							1
Department of Cultural Resources										9
Department of Health and Human Services			6	3				1	4	2
Department of Juvenile Justice and Delinquency Prevention				5	1					
Department of Public Instruction										12
Department of Transportation - Internal				7				1	1	
Department of Transportation - External	3		13	420						585
North Carolina Department of Revenue				3		7				22
Secretary of State										5
Appalachian State University			1	4						6
East Carolina State University		1	8	4	2			9		23
Elizabeth City State University					2			4		1
North Carolina A&T State University			4	1				2		
North Carolina Central University				1		1				5
NC School of Science and Math			1							4
North Carolina School of the Arts				1						6
North Carolina State University			7	2	1			3		
UNC Charlotte		1	1	5						3
UNC-Asheville				1						
UNC-Chapel Hill			2		2			1	9	7
UNC-General Administration			1		1					
UNC-Greensboro	1			5	1					8
UNC-Pembroke								1	2	
UNC-Wilmington	1	1		12	1			1	7	
Western Carolina University			7	1						
Winston-Salem State University				2		2				48
UNC Hospitals				16	7					1
Totals	5	11	51	526	20	9	5	25	24	753

### ***QUALITY ASSURANCE PROGRAM (Peer Review)***

Quality Assurance Reviews are required either every three or five years depending on which audit standard is being followed. Many of the State agency internal audit programs are currently being developed and have not completed a quality review cycle. Of the established programs, four offices have received external quality assurance reviews. Table 8 below shows the internal audit programs that have completed a cycle and received a review as required by standards.

Table 8 State Agency Quality Assurance Reviews		
Agency	Type	Last Review
Department of Correction	Professional Practice Framework - Institute of Internal Auditors	December 2006
East Carolina University	Professional Practice Framework - Institute of Internal Auditors	May 2006
Department of Health and Human Services	Government Auditing Standards – Comptroller General of the United States	March 2004
Department of Transportation	American Association of State Highway Transportation Officials	December 2002



**COUNCIL OF INTERNAL AUDITING  
FUTURE EFFORTS**

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## ***CONTINUED OBJECTIVES***

Several tasks charged to the Council are on-going activities. In the next fiscal year (2008-09), 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.

### ***Quality Assurance Program***

The Office of Internal Audit will identify requirements for a quality assurance program based on the Council's approved auditing standards. A systemic approach will be developed to ensure all internal audit functions comply with the frequency requirement which will be based on applicable auditing standards. Reviews will be conducted by independent qualified internal auditors from other State agencies.

### ***Training and Professional Development***

Training and professional development will be an on-going effort. Future training will include quality assurance training. This training will be provided to qualified internal auditors that want to become peer reviewers. Other training needs will be identified through Council members, Office of Internal Audit staff, or surveys of internal auditors. In addition to providing training opportunities directly, the Office of Internal Audit will provide information on training opportunities provided by other qualified organizations.

### ***Central Database***

Maintaining the central database is another on-going project. State internal audit functions will be submitting their annual audit plans and audit results as completed. Annual plans are required to be submitted by August 1 of each year. Audit results which may include reports or letters must be submitted within 10 days of completion. This information will be housed in the central database along with the findings and recommendation within each report.

### ***Manuals and Best Practices***

Identifying best practices and updating the *Statewide Internal Audit Manual* and technical bulletins is a continual process. Once the Institute of Internal Auditors and the U.S. Government Accountability Office (GAO) announce the results of their collaborative effort to blend the Standards for the Professional Practice of Internal Auditor and Government Auditing Standards for governmental internal auditors, the *Statewide Internal Audit Manual* will be reviewed and modified as needed. Best practices may be identified through many sources including, but not limited to, professional auditing authorities, other state's internal audit practices, trainings and professional developments. All State internal auditors will be notified of any best practices identified and all modification to manuals and bulletins.

## ***FUTURE OBJECTIVES***

Some tasks charged to the Council were not addressed in the current year. With the Office of Internal Audit fully staffed, the new tasks listed below will be addressed in the upcoming fiscal year.

### ***Internal Audit Recognition Program***

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

### ***Annual Audit Plans***

The Office of Internal Audit will develop annual audit plans for those State agencies<sup>2</sup> served by the pool of shared internal auditors. The engagements included in the annual plan will be based on a risk assessment. Audit work will be conducted on a priority basis with high risk engagements addressed first. All plans will be included in the Council's central database.

### ***Internal Auditing***

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

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<sup>2</sup> Department of Labor, NC Wildlife Resources Commission, Office of the Governor/OSBM, Office of the State Auditor, Department of the Secretary of State, and Office of the State Controller.

**APPENDIX A**  
**NORTH CAROLINA INTERNAL**  
**AUDIT ACT**

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## Appendix A

### 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.)