



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Charles Perusse
State Budget Officer

Machelle Sanders
*Secretary of
Administration*

Josh Stein
Attorney General

Ron Penny
Secretary of Revenue

Beth Wood
State Auditor

Agenda

April 11, 2018

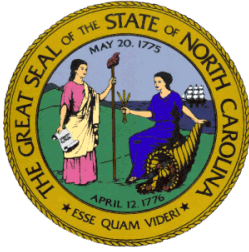
Reading of Ethics Awareness Reminder

- A. Approval of Minutes – October 11, 2017 (*Action item*)
- B. Staffing Update
- C. Objectives
 - 1. Future Training
 - 2. External Quality Assurance Review
 - 3. Performance Measures
- D. Council Reports
 - 1. Award of Excellence
 - 2. Internal Auditor Retention and Recruitment
 - 3. Future Council Meetings

COUNCIL OF INTERNAL AUDITING
ETHICS AWARENESS
AND CONFLICT OF INTEREST REMINDER

It is the duty of every Council member to avoid both conflicts of interest and the appearances of conflict.

If any Council member has any known conflict of interest or is aware of facts that might create the appearance of such conflict, with respect to any matters coming before the Council today, please identify the conflict or the facts that might create the appearance of a conflict to ensure that any inappropriate participation in that matter may be avoided. If at any time, any new matter that raises a conflicts issue arises during the meeting, please be sure to identify it at that time.



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Minutes
October 11, 2017

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, October 11, 2017 in the Commission Room located in the Administration Building, 116 West Jones Street, Raleigh, NC, with Chair Dr. Linda Combs presiding.

The following Council of Internal Auditing Members were present:

Dr. Linda Combs, Chair – State Controller
David Elliot representing Josh Stein, Attorney General
Beth Wood, State Auditor
Charles Perusse, State Budget Director
Daryl Morrison representing Ronald Penny, Secretary of Revenue

Chair Dr. Combs called the meeting to order and began by reading the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

A. Approval of Minutes

On a motion proposed by Charles Perusse, seconded by David Elliot, the Council unanimously approved the minutes of the February 8, 2017 meeting.

B. Staffing Update

Barbara Baldwin stated she now reports directly to the State Budget Director, she previously reported to the Deputy Director. Ms. Baldwin stated Chavon Robbins had been hired to fill the vacant Internal Auditor position. Chavon had been most recently employed at the NC Department of Health and Human Services. Chavon is a graduate of North Carolina Central University. She is also a certified fraud examiner and is currently pursuing her CIA.

C. Objectives

1. Training

Ms. Baldwin stated the CIA Review Part I took place on September 8, 2017 at the Administrative Office of the Courts. Part II of the course took place on October 8, 2017. Garland Granger was the instructor for the course. The fee per participant was \$66.25. There were no negative comments from the surveys.

Ms. Baldwin stated the next training held was a 2-day training on September 13-14, 2017. The topic was “Critical Thinking Skills and Risk Assessments for Audit Plans” with Raven Catlin as the speaker. There were 109 participants representing 27 different entities with 16 Continuing Professional Education (CPE) hours available. The fee for the training was \$99.00 per participant with a cost of \$105.00 per participant, resulting in a loss of approximately \$650.00. The survey results indicated 97% of attendees found the training to be valuable.

The next available training will be “Performing an Effective Quality Assessment” on November 1-2, 2017. The IIA will be conducting the training. Ms. Baldwin thanked the State Budget Director for approving this expense, which will allow individuals to attend free of cost. Auditor Wood inquired about the use of sampling among internal auditors and drawing conclusions from samples drawn from a population. Mr. Perusse stated there may be an opportunity for a future training regarding sampling for internal auditors.

2. Staffing Analysis and Recommendation

Ms. Baldwin presented an overview of the staffing analysis, emphasizing these numbers are for the minimum number of internal auditors, not the optimal number. Ms. Baldwin stated all agencies should have at least 2 internal auditors. The total number of internal auditors needed collectively by the agencies is 52.5. The number has historically been between 50 and 60. The number of agencies with only 1 auditor has decreased from 18 to 9 since the first staffing analysis. Ms. Baldwin went on to describe the methodology of the analysis and recommendations. Mr. Elliot asked if having the recommended minimum of 2 internal auditors should be an organizational priority. Dr. Combs explained how the Office of the Controller is in a similar situation, but there is a need to address the separation of duties and assess the risk in smaller audit shops. Mr. Morrison stressed the importance of the supervisory level of an internal audit stop and his support for a minimum of 2 internal auditors for each agency.

3. Two-Year Audit Plan

Ms. Baldwin explained the approval process for the two-year internal audit plan. The first page indicated engagements that had been completed in 2017. The second page is an adjusted audit plan for 2018 that takes into account risk assessments conducted in July and August. Auditor Wood inquired about the process for engagements listed as risk assessment and what that process entailed. Ms. Baldwin explained the risk assessment methodology and its relationship to complying with the IIA Standards. Ms. Baldwin went on to describe the graphs illustrating the type of audits conducted in 2017. On a motion

proposed by Mr. Perusse, seconded by Mr. Morrison, the Council unanimously approved the 2018 audit plan.

4. Annual Activity Report

Dr. Combs gave a brief introduction to the annual activity report and indicated it is an action item. Ms. Baldwin stated more effort had been placed in training, resulting in 56 available CPE hours. Dr. Combs stated she was pleased with the progress made with increasing the number of CIA's in agency internal audit shops. Ms. Baldwin stated her office held an event to spread the message about Internal Audit's role in the office and the services available. On a motion proposed by Mr. Elliot, seconded by Mr. Morrison, the Council unanimously approved the annual activity report.

D. Council Reports

1. Internal Audit Award of Excellence

Ms. Baldwin explained how it has always been difficult to collect nominations and by working with local IIA chapters will now be able to present a small financial incentive to the award recipient. The Internal Auditor's Award of Excellence will be presented at the OSC Financial Conference in December.

2. Future Meeting Schedule

The 2017-18 Council of Internal Auditing Meeting Schedule was included in the agenda. The next meeting is scheduled for 9 AM on January 10, 2018.

There being no further business, Chair Combs adjourned the meeting by acclamation and it was unanimously approved by the Council of Internal Auditing.

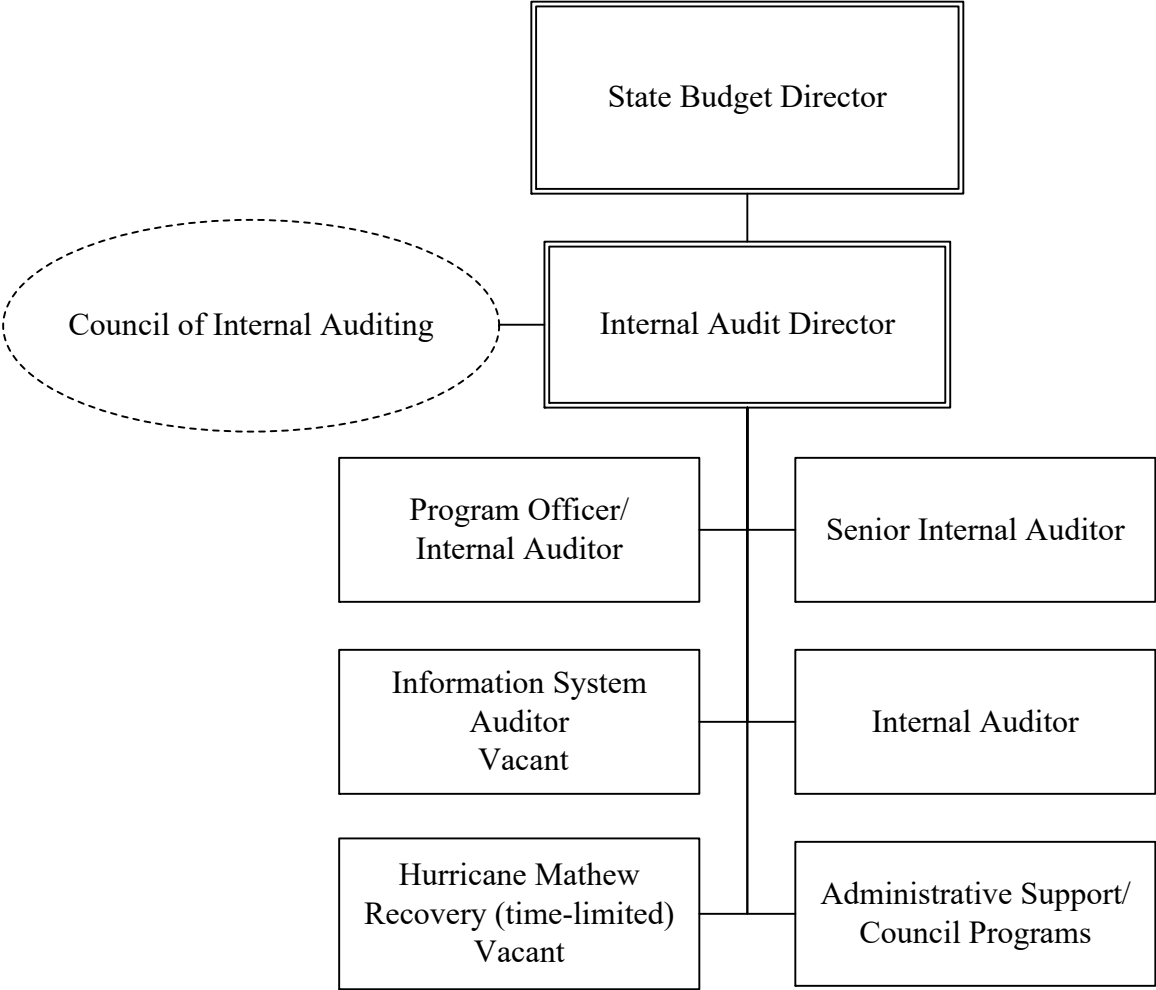
This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held October 11, 2017.

Witness my hand, this ____ day of _____ 2018.

Linda Combs, State Controller, Chair

Barbara Baldwin, Secretary

OSBM Internal Audit



Office of Internal Audit Future Training

Topic: 3rd Annual Fraud Buster Conference

Date: July 31 and August 1, 2018

Location: Joint Force Headquarters (200 seats)

CPE: 14 hours of Continuing Professional Education

Cost: \$90 per participant

Speaker: Various Speakers including:

Don Rabon retired as the Deputy Director Western Campus, North Carolina Justice Academy. He also served as the former manager of the Investigations Center of the North Carolina Justice Academy. He has law enforcement experience at rural and municipal law enforcement agencies and instructional areas including: Interviewing, Detecting Deception, Rapport Building, Interrogation, Persuasion, Audit Related Interviewing, Investigations and Investigative Discourse Analysis. Don has a B.S. in Criminal Justice Administration, from East Tennessee State University. He is a published author of 4 texts: Interviewing and Interrogation 2nd edition; Investigative Discourse Analysis 2nd Edition; Persuasive Interviewing; and Fraud Related Interviewing.

Topic: Certified Internal Auditor Review Course

CPE: 32 Continuing Professional Education hours

Date: Part I – 8:30 to 5:30 Friday, September 28, 2017
Part II – 8:30 to 5:30 Friday, October 26, 2017
Part III – 8:30 to 5:30 Friday, November 9 & 16, 2017

Location: Administrative Office of the Courts (70 seats)

Cost: \$280 per participant, Parts I, II, and III
\$160 per participant, Part III only

Speaker: Garland Granger, CPA, CIA, CFE is president of Professional Accounting Seminars, Inc. He worked for 2 years in banking, 8 years in public accounting and is Associate Professor of Accounting at Guilford College in Greensboro. Garland has extensive experience teaching the CIA Review course for several Chapters of the IIA across the Nation.

External Quality Assurance Review

Purpose of the External Quality Assurance Review is to:

- To assess efficiency and effectiveness of the function;
- Identify opportunities and offer ideas for improving the performance of the internal audit function; and
- Provide an opinion as to whether the internal audit function conforms to the IIAs *Internal Standards for the Professional Practice of Internal Auditing*.

Due date and timing:

- QAR due date September 2018
- QAR started March 1, 2018
- On-site May 7 – 11, 2018
- Final report no later the June 6, 2018

Reviewers:

- Lisa Gaetano, CIA, CPA, CISA, Chief Audit Officer at Western Carolina University
- Ryan Dupree, CIA, CPA, Internal Auditor at the Department of Public Instruction

From: [Baldwin, Barbara](#)
To: [Combs, Linda M](#); [Perusse, Charlie](#); [Sanders, Machele](#); ["Ronald Penny"](#); ["Beth Wood"](#); ["delliott@ncdoj.gov"](#)
Subject: External Quality Assurance Review
Date: Monday, March 19, 2018 1:59:00 PM
Attachments: [A3a Lisa Qualifications 2018-20.docx](#)
[image001.png](#)
[A3b Ryan Qualifications 2018.docx](#)

Good afternoon,

Our internal audit function is undergoing our 5 year external Quality Assurance Review which is due September 2018. Both of our reviews are Certified Internal Auditors and have attended our most recent QAR training (November 2017). Their Bios are attached for your review. On site will be performed in May which will provide a final report before the due date.

I am informing you of this review since you may receiving a survey or a request for an interview in the near future.

If you have any questions please contact me,
Barb

Barbara Baldwin, CPA, CIA, CICA
Assistant State Budget Officer/Internal Audit Director
Internal Audit Section
Office of State Budget and Management

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The Institute of Internal Auditors (IIA) Standard 1300 requires the establishment of a quality assurance and improvement program. This program should include internal and external quality reviews, and ongoing and periodic assessments of the internal audit function. To comply with this Standard, OIA has developed eight measures and targets to assess its performance.

1. Engagement Work Measures for FY 2017

1a. Comparison planned to completed engagements

Engagements on Audit Plan ¹	58
Engagements Completed /In-Progress	55
Actual Completed/In-Progress	95%
Target Measure	≥ 90%
1. This includes audits added during the year.	

1b. Comparison of budgeted to actual engagement hours for completed engagements

Budgeted Engagement Hours	5,764
Actual Engagement Hours ¹	6,328
Actual Variance under/(over) budget	(10%)
Target Measure	10%
1. Actual hours include employee's hours incurred in FY2016, FY2017 and/or FY2018 to complete 2017 engagements	

1c. Comparison of direct productive to available working hours for FY 2017

Work Hours Available ¹	8,009
Actual Productive Hours ²	6,685
Productivity Time	83%
Target Measure	≥ 85%
1. Working Hours Available is total hours less leave, holidays and training hours. 2. Actual FY2017 Productive hours includes engagement hours, technical assistance and Council Programs.	

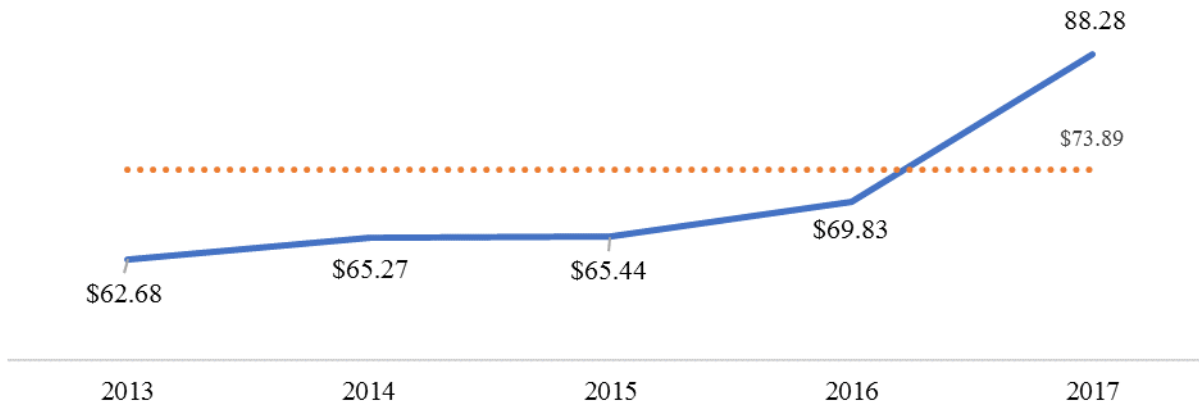
Green = Actual meets or exceeds target
 Yellow = Actual falls between 60% and 99% of the target
 Red = Actual falls below 60% of the target

2. Engagement Cost/Savings or Cost Avoidance for FY 2017

2a Rate of return on identified potential savings, cost avoidance, or revenue generation

Interagency Internal Audit Program Cost	\$558,650
Total Potential Savings Identified	\$13,754,024
Return on Potential Savings Identified	\$24.62
Target Measure	≥\$10.00

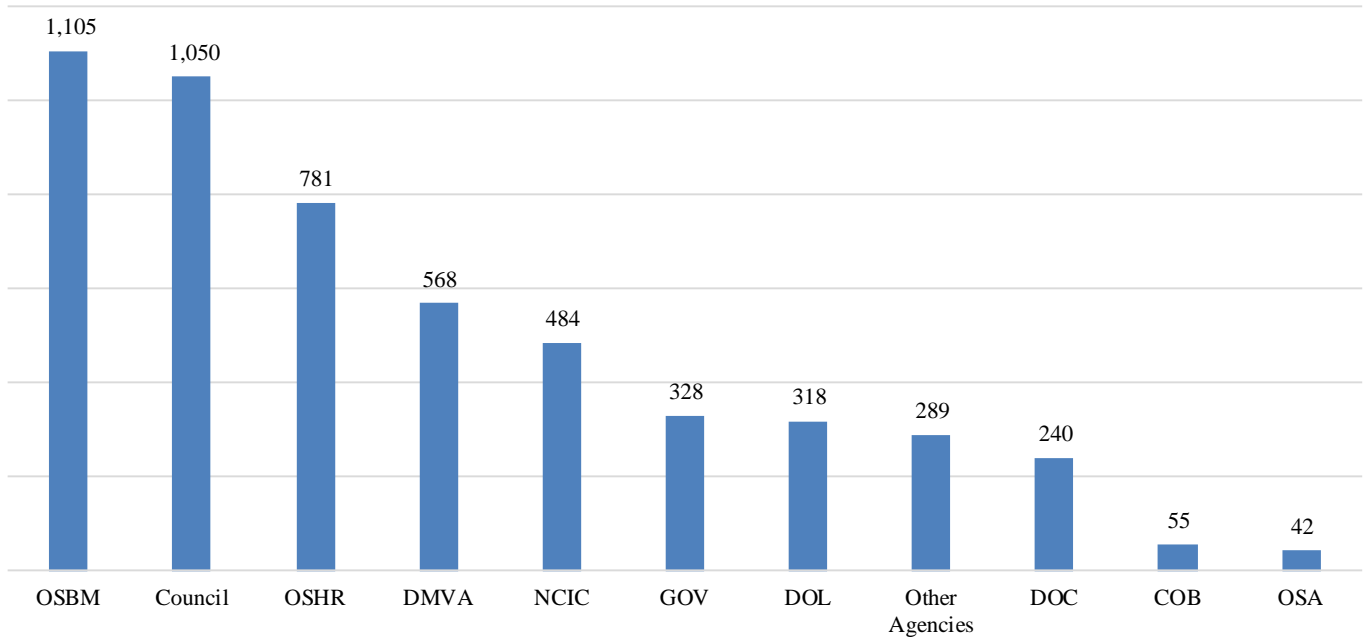
2b Hourly rate for engagements



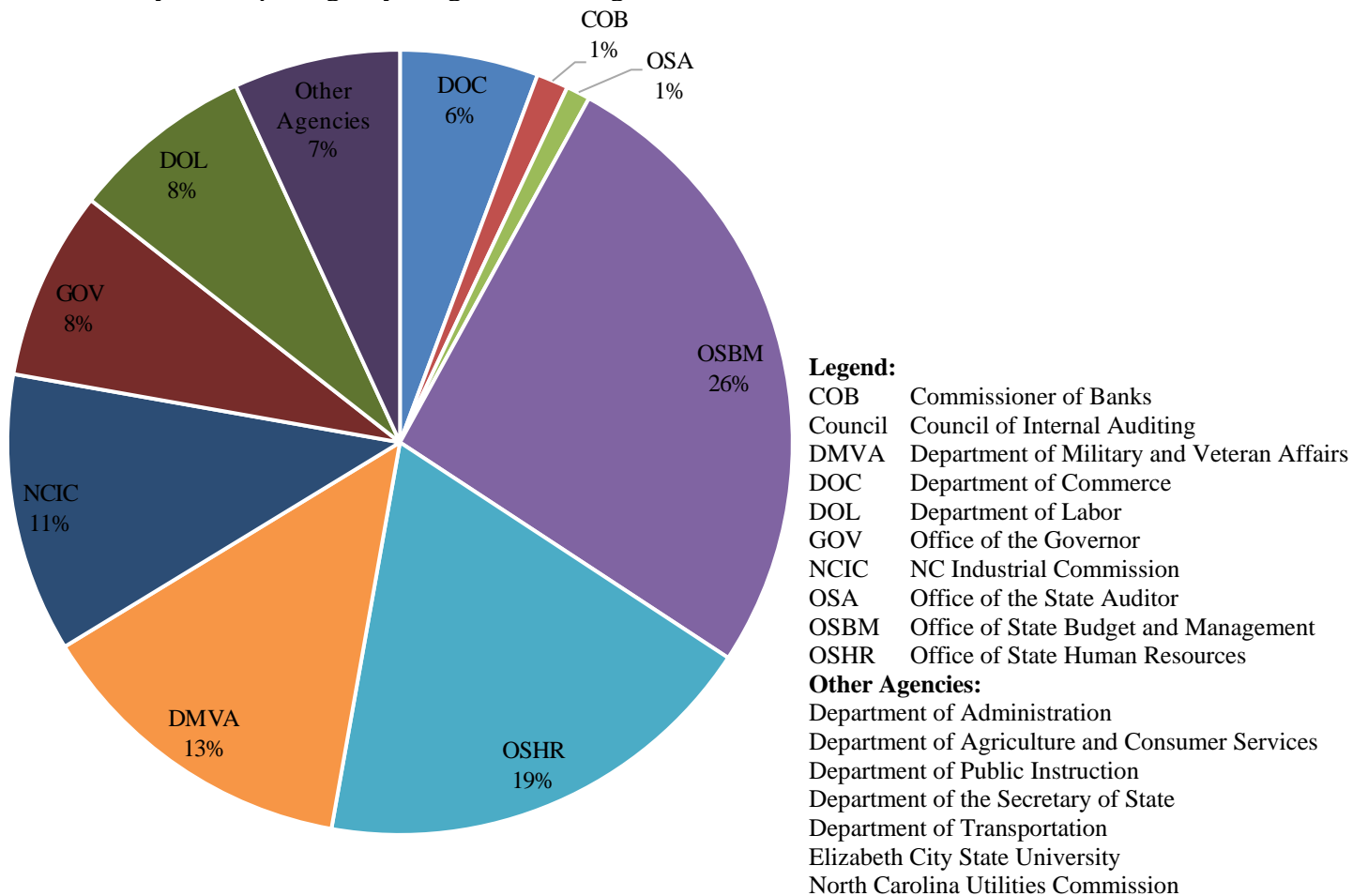
Green = Actual meets or exceeds target
Yellow = Actual falls between 60% and 99% of the target
Red = Actual falls below 60% of the target

Information on Effort by Agency and Type of Engagement for FY 2107

- Effort by Hours per Agency/Program



- Effort by Hours per Agency/Program Omitting Council

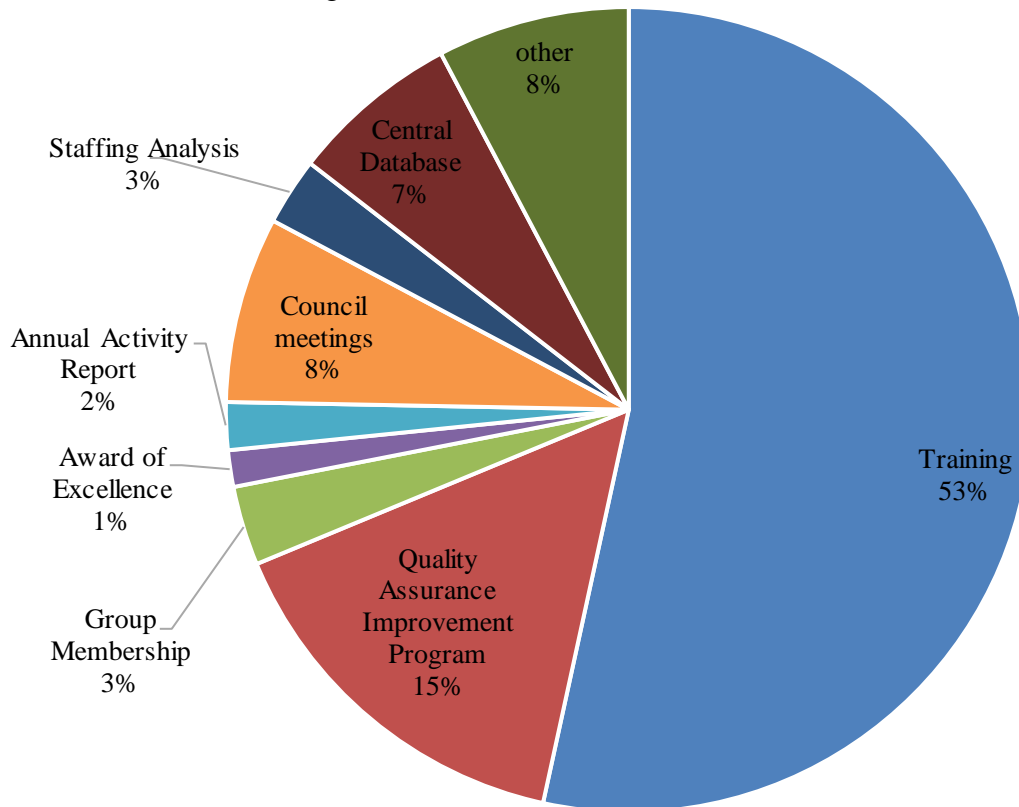


Green = Actual meets or exceeds target
 Yellow = Actual falls between 60% and 99% of the target
 Red = Actual falls below 60% of the target

- Audit Effort by Engagement Type Omitting Council Programs



- Effort on Council Programs



Other:

- New Director Orientation
- Quarterly IA Director Meetings
- Review of Fraud Emails
- IIA Conference Calls
- Manual and Charter Updates
- Internal Auditing Marketing

Green = Actual meets or exceeds target
 Yellow = Actual falls between 60% and 99% of the target
 Red = Actual falls below 60% of the target

3. Staff Development for Calendar 2017

3a. Comparison of budgeted to actual training hours

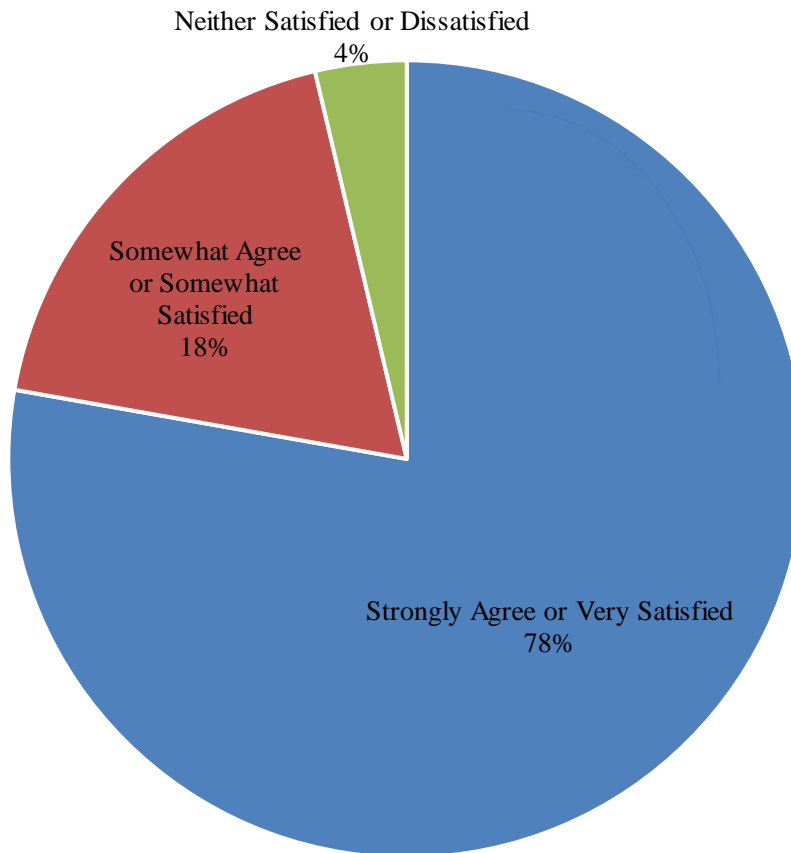
Budgeted Training Hours/Auditor	45
Actual Training Hours/Auditor	99
Variance	120%
Target Measure	< 10%

3b. Comparison of budgeted to actual training costs

Budgeted Training Cost/Auditor	\$1,000
Actual Training Cost/Auditor	\$1,280
Variance	3%
Target Measure	10%

4. Stakeholder Satisfaction

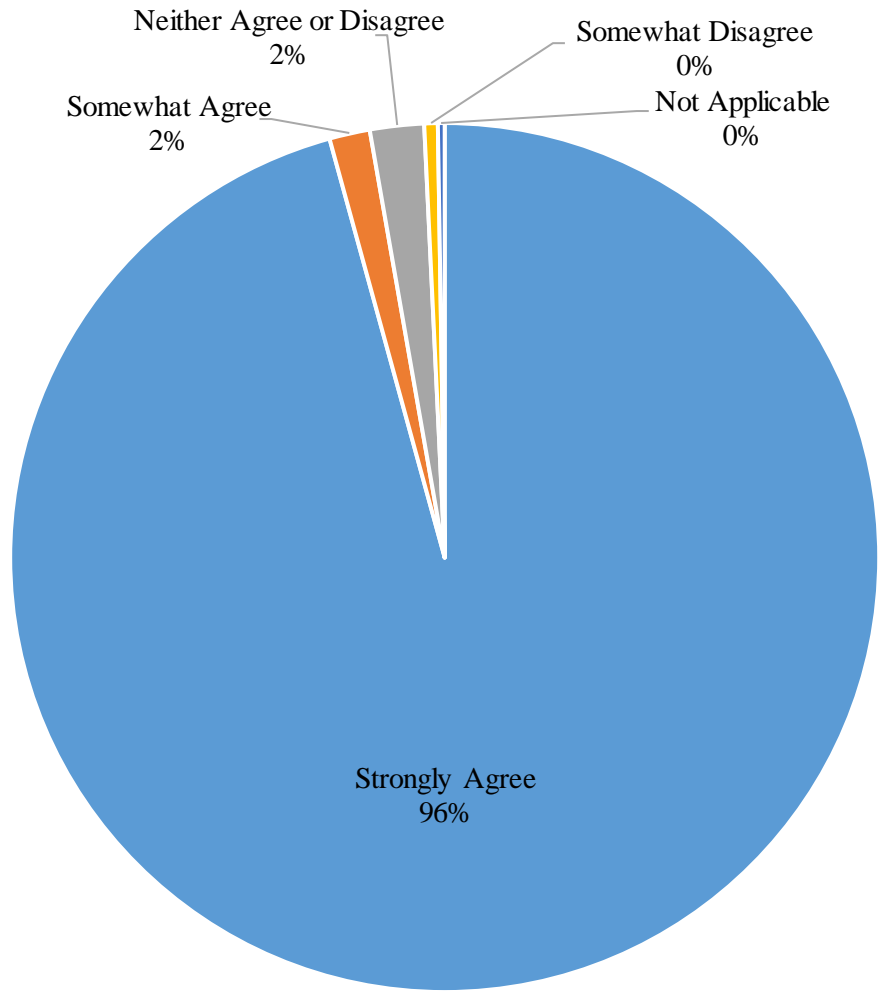
4a. Council Satisfaction (50% response rate)



Actual 96% Somewhat/Strongly Agree and Very/Somewhat Satisfied
Target 90% Somewhat/Strongly Agree and Very/Somewhat Satisfied

Green = Actual meets or exceeds target
 Yellow = Actual falls between 60% and 99% of the target
 Red = Actual falls below 60% of the target

4b. Client Satisfaction (73% response rate)



Actual 98% Somewhat Agree or Strongly Agree
Target 90 Somewhat Agree or Strongly Agree

INTENRAL AUDITOR'S AWARD OF EXCELLENCE

- Nomination notification starts June 2018
- The Local Chapters of the IIA continue to support a monetary donation
- Award marketing efforts at multiple Chief Operating Officer/Deputy and Chief Financial Officer meetings



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FY 2018-19
Council of Internal Auditing
Meeting Schedule

July 11, 2018 **9:00 a.m.**

October 10, 2018 **9:00 a.m.**

January 9, 2019 **9:00 a.m.**

April 10, 2019 **9:00 a.m.**

Meeting location: 116 W. Jones Street
Administration Building 5th floor
Commission Room