



STATE OF NORTH CAROLINA

COUNCIL OF INTERNAL AUDITING

Dr. Linda Combs
State Controller, Chair

Lee Roberts
State Budget Director

Bill Daughtridge
Secretary of Administration

Roy Cooper
Attorney General

Lyons Gray
Secretary of Revenue

Beth Wood
State Auditor

Agenda

April 8, 2015

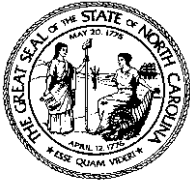
Reading of Ethics Awareness Reminder

- A. Approval of Minutes – October 8, 2014 (*Action item*)
- B. Staffing Update
- C. Objectives
 - 1. Training
 - 2. Internal Audit Performance Measures
- D. Council Reports
 - 1. Quality Assurance Update
 - 2. Internal Audit Award of Excellence Nomination Form
 - 3. Legislation – Subpoena Power

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 8, 2014

Call to Order

The Council of Internal Auditing held its regular meeting, Wednesday, October 8, 2014 in the Commission Room, Administration building. Chair, Dr. Linda Combs presiding.

The following Council of Internal Audit members were present:

Dr. Linda Combs, Chair, State Controller
Nels Roseland representing Roy Cooper, Attorney General
Beth Wood, State Auditor
Kathryn Johnston representing Bill Daughtridge, Secretary of Administration
Lee Roberts, State Budget Director

Secretary of Revenue Lyons Gray was absent from the meeting. Chair Dr. Linda Combs called the meeting to order at 9:05 a.m. and read the Ethics Awareness and Conflict of Interest Reminder. Members had no conflicts.

A. Approval of Minutes (action item)

On a motion by State Budget Director, Lee Roberts, seconded by Nels Roseland, the Council unanimously approved the minutes of the April 9, 2014 meeting.

B. Staffing Update

Barbara Baldwin presented Office of Internal Audit staffing information:

- Allison Godwin, the Program Development Officer, is no longer with OIA.
- Race to the Top has been extended until August 2015. The Office of Internal Audit extended the personal service contract for part-time person working on Race to the Top.
- Will also utilize state term contract to Race to the Top. Involves 53 LEAs and Charter schools. Received four quotes on the contract, reviewing quotes today and plan to select a vendor by Friday, October 10, 2014.

C. Objectives

- Audit Plan (Action Item)

Ms. Baldwin discussed the Office of Internal Audit audit plan information summarized in the charts and tables, the first pie chart displayed the types of audits performed and the second pie chart displayed the agency where services are provided. Mr. Roseland made a motion to accept the audit plan, Lee Roberts seconded the motion and all voting members were in favor of the updates.

- Training

The former Program Development Officer provided Adobe Forms Training to five agencies and 13 staff. Reasonably priced software that allows user to create and send out surveys.

The Office of Internal Audit has funds approved to provide training this year, currently looking for speakers. State Auditor Beth Wood agreed to pay for training space at the McKimmon Center.

- Internal Audit Award of Excellence

Only three nominations were received and the submission process closed on October 1, 2014. With only three nominations there is no need to put a committee together to evaluate. Nominations will be sent to Council Members to rank within the week and the award will be presented at the OSC Conference on December 16, 2014.

- Annual Internal Audit Activity Report (Action Item)

Mandated report issued annually, approved by the Council of Internal Audit, and then provided to the General Assembly and the Governor's Office. Ms. Baldwin discussed highlights of report.

- An increase in general fund was provided by the State Budget Officer to hire a Program Development Officer/Internal Auditor. Reduction in Race to the Top because of one part-time contractor working as opposed to two full-time employees.
- Training and Professional Development related to QAR was conducted. Two day training from the IIA, 35 registered participants, \$171 per person per day. Also posted 58 low and no cost training on OSBM website, 22% of these or 160 hours were free.
- Internal Audit Award of Excellence for 2013 was presented to Michele Sykes of OSBM.

- Overall there has been an increase statewide in internal audit positions, mainly due to DHHS. Winston Salem State and UNC Hospitals also gained positions.
- Some organizations supplement staff with contractors such as UNC-GA, DPI, DHHS, and OSBM. A few agencies use interns to supplement staff – Commerce, Pembroke and Fayetteville State. Commerce takes up to five students every semester.
- Resources being used included Computer Aided Auditing Tools (CAATs) – this includes spreadsheets or word documents, general audit software (data extraction and analysis) and productivity tools (automated work papers). Agencies using these resources are increasing each year.
- State Auditor Beth Wood asked what drives the use or lack of use of these tools. State Auditor Wood expected the numbers to be higher and was surprised at how many audit shops are pen and paper shops. Ms. Baldwin said the driving factor is costs. Many of these automated tools can range from \$30,000 - \$50,000, depending on size of staff.
- Auditors are spending majority of time on compliance engagements. However, over 12,500 hours were for technical assistance.
- State agencies and universities had a low compliance rate for submission of audit plans in accordance with Internal Audit Act requirements. Audit plans should be submitted to the Office of Internal Audit. The Office of Internal Audit did not do as good a job at sending out requests and notices as in the past and will send these out regularly in the future. Already obtained a 95% compliance rate for audit plans for next year.
- State Auditor Wood asked about the consequences of not submitting audit reports. Ms. Baldwin said there are not consequences. Many are submitting now after receiving notices that reports are due.
- Changed the format for QAR and now showing the rating.
- State Budget Officer Lee Roberts inquired about Elizabeth City State University (ECSU) not conforming. Ms. Baldwin stated that ECSU has been going through numerous personnel changes and is currently contracting with East Carolina University (ECU) to provide internal audit services. Should be resolved soon, in process of training person and should not be a problem going forward. This topic will be discussed later.

State Budget Officer Lee Roberts wanted the Council of Internal Auditing to recognize the prior year recipient of the Internal Audit Award of Excellence – Michele Sykes.

Mr. Roseland made a motion to approve the Annual Internal Audit Activity Report, Lee Roberts seconded the motion and all voting members were in favor.

D. Council Reports

- **Quality Assurance Update**

Two agencies did not get the generally conforms QAR rating for internal audit. For the QAR, 42 standards roll up into 13 major areas. An agency can receive Generally Conforms With, Partially Conforms, or Does not Conform.

Secretary of State received a partially conforms rating and are working to correct weaknesses. Conforms with seven of 13 major areas and partially conforms or does not conform with the remaining six areas. Can request another QAR after making corrective actions. Belinda Preacher, Internal Auditor for Secretary of State said they are addressing weaknesses and have scheduled another QAR in December.

Elizabeth City State University generally conformed with one area and partially or did not conform with the other 12. Will have to request a full review.

Stacie Tonto, Chief Audit Officer at East Carolina, spoke concerning ECSU. ECU is providing services to ECSU, this is going to take a while and is a time consuming process. Working with auditor in place at ECSU and hope to be ready by 2016 for QAR.

State Auditor Beth Wood inquired about using interns as part of audit staff. Ms. Baldwin explained that Commerce Division of Employment Services works with Dr. Chen at NC State to get accounting students as interns. The Commerce Audit Director allows students to plan audits but then goes behind to modify and provides feedback. Interns also perform fieldwork under supervision from an audit supervisor and the Audit Director is also involved. Interns are then given a chance to write the audit report and Audit Director revises. The process with interns is to educate them on audit practices.

- **IIA Government Group Membership Rate**

The more government members registered with the IIA through the group rate, the lower the annual rate per member. OIA developed MOUs for all state organizations and must cut one check to IIA for all members as part of the group rate process. Currently the group rate has 92 members, reduced cost from \$130 per year to \$75 per member. Membership provides 18 free hours of CPE per year and reduction in costs for training and materials.

There being no further business, at 9:42 a.m., a motion to adjourn was made by State Budget Director Roberts and seconded by Mr. Roseland. The meeting was adjourned.

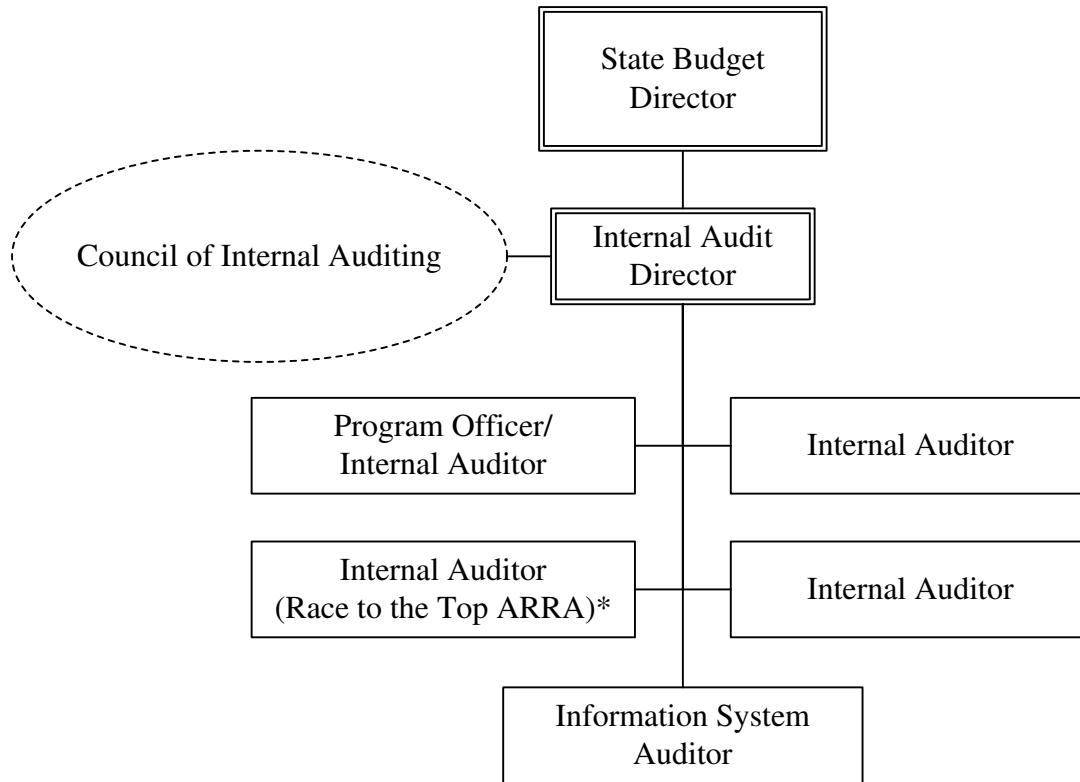
This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held October 8, 2014.

Witness my hand, this _____ day of _____.

Linda Combs, State Controller, Chair

Secretary

DRAFT



* Time limited positions term August 31, 2014

Shannon Byers – Program Officer/Internal Auditor

Shannon received her Master of Public Administration from UNC-Chapel Hill and her undergrad in Mathematics and Speech Communications from Meredith College. She is a certified Project Management Professional (PMP) and has worked as a Management Consultant with Accenture, a Program Management Analyst with NC Office of State Controller, Director of Quality Assurance and Development with Office of State Budget and Management and was most recently an Associate VP for Finance and University Efficiency at UNC General Administration before returning back to OSBM.

Training Opportunities

Annual Training:

- June 10 and 11
- 16 hours CPE
- Maximum 250 attendees
- McKimmon Center
- IS Auditing for Non-IS Auditors and Critical Thinking Skills
- Raven Gatlin, Raven Global Training
- \$80 for both days
- 120 attendees registered

Intermediate ACL Training:

- May 6 and 7
- 16 hours CPE
- Maximum 12 attendees
- Office of the State Controller – Mayberry Training Room
- ACL Trainer
- \$636 for both days

OIA Interagency Internal Audit Program Performance Measures

The Institute of Internal Auditors (IIA) Standard requires internal audit functions establish 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 the IIA Standard, OIA Interagency Internal Audit Program developed measures and targets to assess its performance. Four areas were measured and the results follow.

1. Engagement Work

1a. Comparison of planned to completed engagements

	2012	2013	2014	3-year
Engagements on Audit Plan	73	60	53	186
Engagements Completed	68	52	43	163
Actual Completed/In-Progress	90%	87%	81%	87%
Target Measure	≥ 90%	≥ 90%	≥ 90%	≥ 90%

1b. Comparison of budgeted to actual engagement hours

	2012	2013	2014	3-year
Budgeted Engagement Hours	11,592	10,832	7,748	30,559
Actual Engagement Hours ¹	12,411	11,029	8,135	31,188
Actual Variance	7%	2%	5%	4%
Target Measure	≤ 10%	≤ 10%	≤ 10%	≤ 10%

1. Actual hours include employee's hours incurred in current, prior and subsequent years to complete engagements.

1c. Comparison of direct productive to available working hours

	2012	2013	2014	3-year
Work Hours Available ¹	11,483	10,322	8,710	30,515
Actual Engagement Hours ²	9,711	9,192	7,622	26,525
Productivity Time	85%	89%	88%	87%
Target Measure	≥ 85%	≥ 85%	≥ 85%	≥ 85%

1. Working Hours Available is total hours less leave, holidays and training hours.

2. Actual Engagement Hours for current fiscal year.

2. Engagement Cost

2a. Rate of return on identified potential savings

	2012	2013	2014	3-year
Interagency Internal Audit Program Cost	\$760,117	\$597,881	\$518,982	\$1,876,980
Total Potential Savings Identified	\$7,672,678	\$6,394,237	\$27,447,983	\$41,514,898
Return on Potential Saving Identified	\$10.09	\$10.69	\$52.89	\$22.12
Target Measure	≥ \$10.00	≥ \$10.00	≥ \$10.00	≥ \$10.00

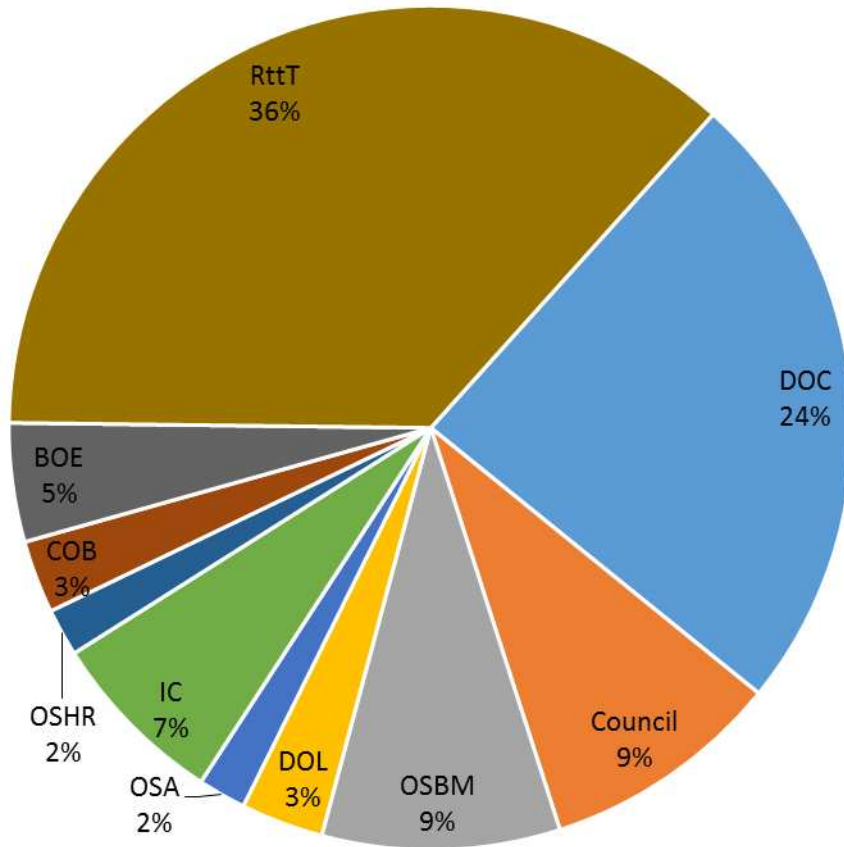
Green = Actual meets or exceeds target

Yellow = Actual falls between 60% and 99% of the target

Red = Actual falls below 60% of the target

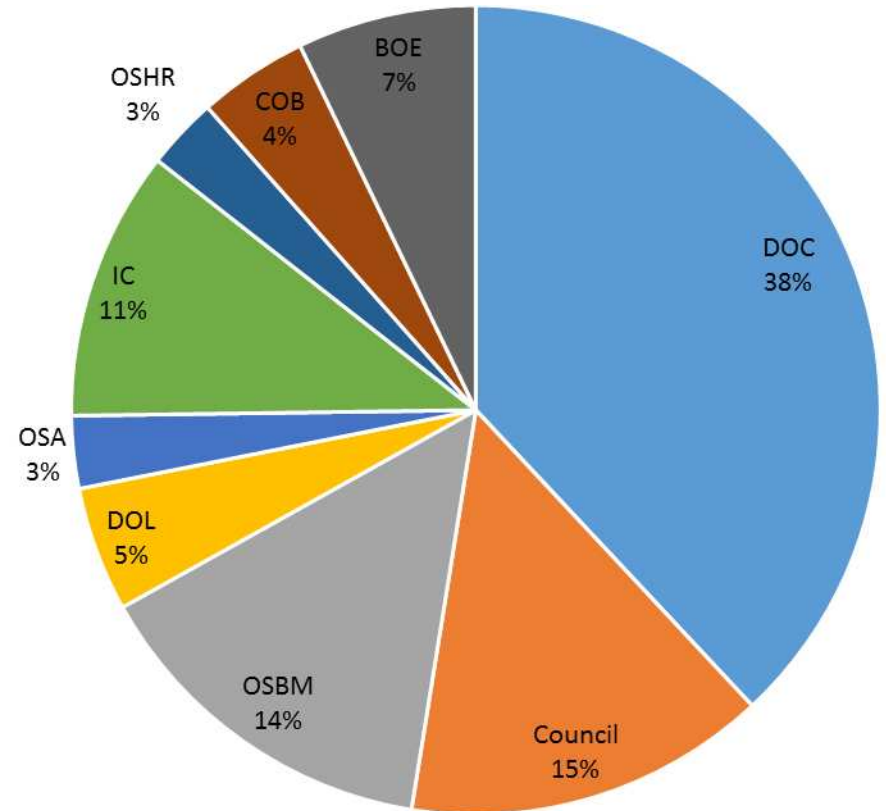
OIA Interagency Internal Audit Program Performance Measures

Chart 1
FY 2014 Effort by Agency



RttT= Race to the Top
BOE = Board of Elections
COB = Commissioner of Bank
Council = Council of Internal Auditing
DOC = Department of Commerce

Chart 2
FY 2014 Effort by Agency
Omits Race to the Top



DOL = Department of Labor
IC = Industrial Commission
OSA = Office of the State Auditor
OSBM = Office of State Budget and Management
OSHR = Office of State Human Resources

OIA Interagency Internal Audit Program Performance Measures

Chart 3
FY 2014 Effort by Audit Type

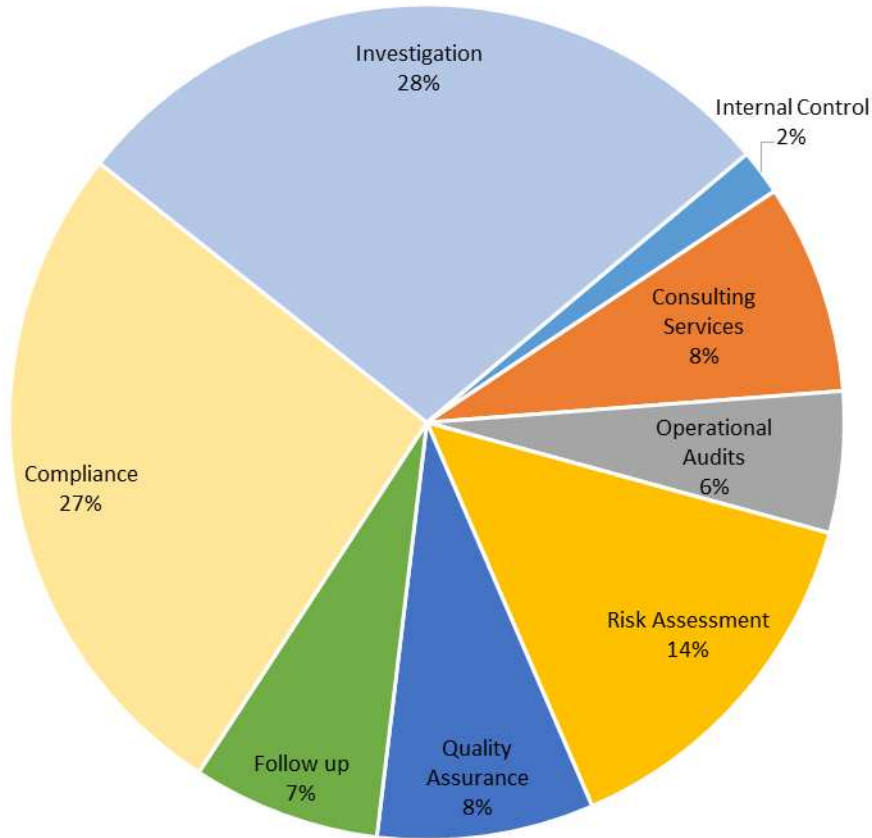
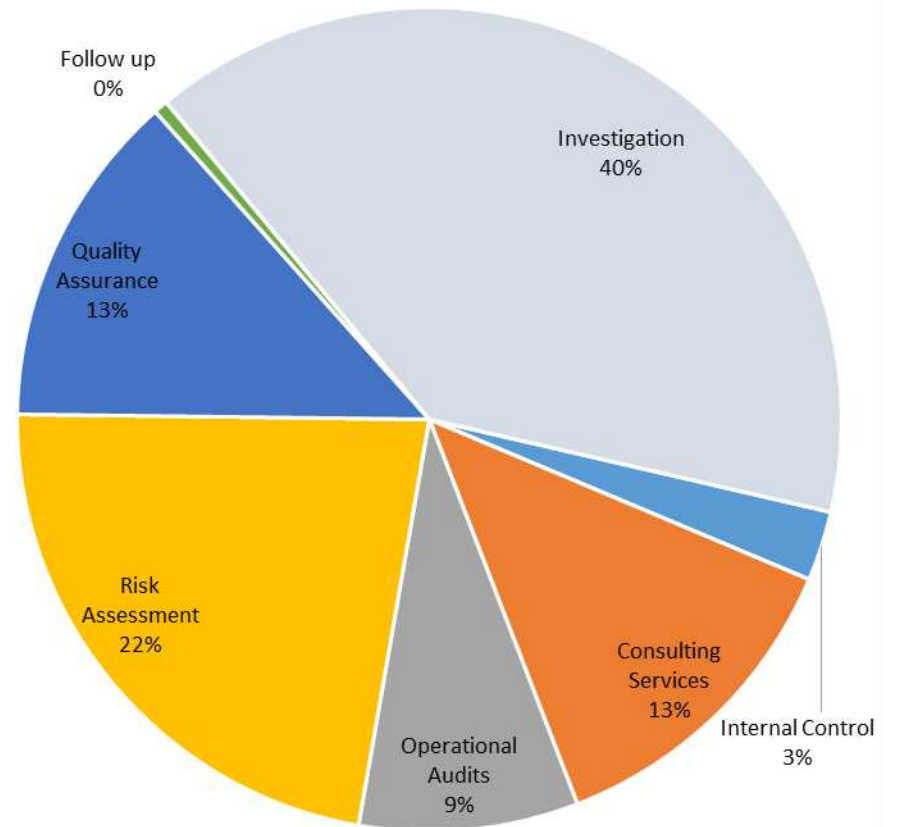


Chart 4
FY 2014 Effort by Audit Type
Omits Race to the Top



**OIA Interagency Internal Audit Program
Performance Measures**

3. Staff Development

3a. Comparison of budgeted to actual training hours

	2012	2013	2014	3-year
Budgeted Training Hours/Auditor	45	45	45	135
Actual Training Hours/Auditor	53	57	46	156
Variance	-18	-27	-2%	-16%
Target Measure	≤ 10%	≤ 10%	≤ 10%	≤ 10%

3b. Comparison of budgeted to actual training costs

	2012	2013	2014	3-year
Budgeted Training Cost/Auditor	\$1,000	\$1,000	\$1,000	\$3,000
Actual Training Cost/Auditor	\$1,152	\$262	\$486	\$1,852
Variance	15%	-73%	-51%	-38%
Target Measure	≤ 10%	≤ 10%	≤ 10%	≤ 10%

4. Client Satisfaction

4a. Agency Satisfaction

	2012	2013	2014	3-year
Response Rate	56%	29%	17%	32%
Satisfied or Very Satisfied	92%	94%	93%	93%
Target Measure	≥ 90%	≥ 90%	≥ 90%	≥ 90%

4b. Council Satisfaction

	2012	2013	2014	3-year
Response Rate	83%	83%		
Satisfied or Very Satisfied	97%	97%		
Target Measure	≥ 90%	≥ 90%	≥ 90%	≥ 90%

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 and Mathematics	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	
Winston-Salem State University	Generally Conforms	
North Carolina School of the Arts	Generally Conforms	
Department of Justice	Generally Conforms	
Department of Environment & Natural Resources	Generally Conforms	
Department of Agriculture & Consumer Services	Does Not Conform	
Department of Public Instruction	Generally Conforms	
University of North Carolina - Pembroke	Generally Conforms	
University of North Carolina - Greensboro	Generally Conforms	
North Carolina Education Lottery	Generally Conforms	
In Progress	Tentative Completion Date	
Department of Cultural Resources	June 2015	
Community College System Office	July 2015	
University of North Carolina - Hospitals	August 2015	
Non-Compliant	Due Date	Target Date
Department of State Treasurer	April 2014	October 2014
Not Required	Due Date	
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	

Highlighted items are QAR's completed since the last Council of Internal Auditing meeting

**North Carolina
Council of Internal Auditing
Award of Excellence Program
Nomination Form**

The North Carolina Award of Excellence is the Council of Internal Auditing award for outstanding achievement and excellence. To express its appreciation for excellence in the field of internal auditing, this award is presented annually to honor a State internal auditor or a group of internal auditors who has made extraordinary contributions that promotes excellence in internal auditing.

To be considered for the 2015 Award, complete the nomination form and attach any supporting materials. Information must be submitted to the Office of Internal Auditing, 116 W. Jones Street, 20320 Mail Service Center, Raleigh, North Carolina 27699-0320, Attn: North Carolina Award of Excellence Program, or via email at internalauditinfo@osbm.nc.gov no later than October 1, 2015.

A. GENERAL INFORMATION

1. Submitter information:

- a. Your Name and Title
- b. Your State Agency
- c. Your Phone Number and Email

2. Nominee(s) Information

- a. Nominee(s) Name and Title
- b. Nominee(s) State Agency
- c. Nominee(s) Phone Number and Email

**North Carolina
Council of Internal Auditing
Award of Excellence Program
Nomination Form**

B. SYNOPSIS OF THE NOMINEE'S ACCOMPLISHMENTS OR CONTRIBUTIONS

There are three criteria, as follows, for this award. Each criterion should be fully addressed. This is the only information, along with other attachments, that will be used in the evaluation process.

1. Dedication going beyond the normal requirements of an internal auditor's job responsibilities. This may include, but is not limited to: serving as a subject matter expert in a multi-agency workgroup/task force; mentoring or assisting junior internal auditors; obtaining professional certifications or assisting peers; etc...

2. Contribution to promoting the internal audit profession. This may include, but is not limited to: serving as an officer, committee or board member or volunteering with professional organizations; promoting the profession of internal auditing by educating students, agencies staff or others as to the benefits of internal auditing; articles or white papers for professional publication etc...

3. Innovation to improvement the processes related internal audit functions. This may include, but is not limited to: improvements to better administer audits; reducing auditing cycle time; improving communication of audit results; establishing continuous monitoring, or tracking management's corrective action.)

Other Attachments

Other information or documents can be submitted with this form to supplement or enhance the information provided above. This may include, but are not limited to: letters of recommendation; documents supporting achievements; membership in professional organizations; professional certification obtained; professional awards; etc...