STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING

Nels Roseland
State Controller, Chair

Kristin Walker
State Budget Director

Pamela Cashwell
Secretary of Administration

Joshua Stein
Attorney General

Ronald Penny
Secretary of Revenue

Bradly Newkirk
Senate appointment

Nicholas Stone
House of Representatives appointment

Jessica Holmes
State Auditor

Agenda

October 9, 2024

Call to Order

Adjourn

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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
July 10, 2024

Call to Order

The Council of Internal Auditing held its quarterly meeting, Wednesday, July 10th, 2024, in room A309 of the 3rd floor in the Old Revenue Building, 2 S. Salisbury St, Raleigh, NC, with Chair Nels Roseland presiding (Remotely).

Chair Roseland called the meeting to order at 9:00 a.m. and began by reading the Ethics Awareness and Conflict of Interest Reminder. No conflicts were noted by the members.

Chair Roseland then took a roll call of members.

The following Council of Internal Auditing Members were present:

Nels Roseland, Chair, State Controller (Joined Remotely)
Kristin Walker, State Budget Director
Ronald Penny, Secretary of the Department of Revenue
Tiffany Lucas, representing Attorney General Josh Stein
Nicholas Stone, Appointee (Joined Remotely)
Bradley Newkirk, Appointee
Barbara Baldwin, Executive Director, OSBM

Jessica Holmes, State Auditor, and Pamala Cashwell Secretary of Administration were absent for this meeting.

A. Approval of Minutes

No corrections were made to the April 10th, 2024, minutes. Representative Newkirk moved to approve the April 10th, 2024, minutes, Secretary Penny seconded the motion. The Council unanimously approved the minutes as presented.

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B. Council Items

1. Internal Audit Charter

Ms. Baldwin informed the council that OSBM has implemented the new audit standards as of July 1, 2024. She explained the new Standards required some modifications to the internal audit charter. Ms. Baldwin presented the audit charter stating that she constructed the audit charter based on the model audit charter provided by the IIA. The Audit Charter defines the responsibilities related to the Council, the State Budget Director and the Executive Director of the Council and then the types of services her team provides.

Representative Newkirk motioned to approve. Secretary Penny seconded the motion. The Council unanimously approved the internal audit charter update.

2. Statewide Internal Audit Manual

Ms. Baldwin provided an outline of updates to the Statewide Internal Audit Manual, stating that the new Standard requires these to be implemented by January 9, 2025. A copy of the manual was provided to each member of the council in their materials.

State Budget Director Walker motioned to approve. Representative Newkirk seconded the motion. The Council unanimously approved the internal audit manual update.

3. Annual Work Plan

Ms. Baldwin shared that each year her team provides a risk assessment to set their audit plan which also includes council projects and initiatives that are being worked on. She stated that the plan includes 25 projects that are being carried over from last fiscal year and 99 new engagements. She provided a breakdown of the plan which includes 65% assurance projects and 33% Council program projects. This percentage of projects aligns with the split of staffing within the department.

Representative Newkirk motioned to approve. State Budget Director Walker seconded the motion. The Council unanimously approved the Annual Work Plan update.

C. Work Plan Update

1. External Quality Assurance Review Update

Ms. Baldwin provided an update, stating that a few groups were late conforming to the standards. She shared the list of those partially conforming or not conforming, respectively, and those that are late in requesting their Quality Assurance Review (QAR). Ms. Baldwin stated that she reached out to those entities that are late and discussed their timeline for requesting their QAR. She noted some groups will take up to18 months due to extraneous circumstances leading to a lack of engagements to review.

2. State Agency Risk-Based Audit Plan Validation

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Ms. Baldwin shared that her team is on their second round of reviewing risk-based audit plans and that there are three categories. The first category had no suggestions for improvements. The second group conformed to the standards, but they had recommendations for improvements to move towards best practices. The third group included those that were deficient in meeting the standards.

She noted that Council Staff is working with these departments to help clean up deficiencies and implement recommendations.

3. Annual work Plan Year end Results

Ms. Baldwin shared that her team made their target goal of 91% in completing 86 engagements, carrying forward 25, deferring 3 and dropping 7. The seven engagements dropped were to reduce duplication with other agency staff.

4. Training Update

Ms. Baldwin shared that her team wrapped up their final spring training last month. The Operational Audits and Report Writing training was held in person for 16 CPEs with 130 individuals attending. There was an $85 fee per attendee to offset speaker fees and provide lunch. Ms. Baldwin then thanked State Budget Director Walker for providing funds for this training. Ms. Baldwin shared the survey results from the training that showed on a scale from 1 to 5 the average was 4.72, overall satisfaction with the training.

D. Public Comments

There were no other comments at this time.

E. Adjournment
Chair Roseland recognized and thanked everyone for their time. Secretary Penny motioned to adjourn. Representative Newkirk seconded the motion. The Council unanimously approved to adjourn the meeting.

This is to certify that the foregoing comprises the minutes of the Council of Internal Auditing at the meeting held on July 10, 2024.

Witness my hand, this 9th day of October 2024.

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 Nels Roseland, State Controller, Chair

 _____
 Barbara Baldwin, Executive Director

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ANNUAL ACTIVITY REPORT

As Required by G.S. 143-747(c)(11a) and (12)

October 9, 2024

PREPARED FOR:
STATE OF NORTH CAROLINA
COUNCIL OF INTERNAL AUDITING

Prepared By:

Central Internal Audit Office
Office of State Budget and Management

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Table of Contents

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EXECUTIVE SUMMARY

PURPOSE

This report provides information on the service efforts and accomplishments[1] of state agencies'[2] internal audit programs from July 1, 2023, through June 30, 2024 (FY2024) as required by the North Carolina Internal Audit Act[3] (Act).

BACKGROUND

The Act requires Executive Branch agencies, meeting certain criteria, to establish a program of internal auditing that (1) promotes an effective system of internal controls,(2) determines if the agency complies with federal and state laws, regulations, and other requirements, (3) reviews the effectiveness and efficiency of agency program operations and service delivery, and (4) periodically audits the agency's accounting, administrative, and information technology systems and controls.

The Act also established the Council of Internal Auditing (Council) to provide services to agency internal audit programs, issue an annual report on agencies' internal audit service efforts and accomplishments, and propose legislation for consideration by the Governor and General Assembly.

There were 184.25 budgeted internal audit positions spread across 42 internal audit programs of the 47 state agencies subject to the Act from July 1, 2023, through June 30, 2024. The following Key Performance Indicators (KPIs) are required in the Internal Audit Act as a way of ensuring alignment with the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, as mandated by the Act:

- Audit Plan Completion: Ensures that the internal audit plan is executed within the designated time frame, demonstrating effective risk management and resource allocation. In total, 72% of audit plans were completed.
- Acceptance of Recommendations by Management: Measures the percentage of internal audit recommendations accepted by management, reflecting the relevance and value of audit findings. Across all agencies, 99% of recommendations made were accepted by management. Internal audit programs also identified $15,813,885.21 in cost avoidance across state agencies.
- Productive Use of Time: Tracks the efficient use of audit resources, ensuring that most of the time is spent on core audit activities, adding value to the organization. The statewide productivity rate is 82%.
- Conformance with IIA Standards: Ensures that all internal audit activities comply with the standards set forth by the Institute of Internal Auditors, maintaining professionalism and ethical integrity throughout the audit process. Sixty-nine percent of internal audit programs generally conform with IIA Standards.

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[1] Although not defined in statute, the Government Accounting Standards Board (GASB) defines service efforts and accomplishments reporting as reporting that is "intended to include information about the services provided and the effect of those services to assist users in assessing the degree to which the government is achieving its program or government-wide goals."

[2] Agency means department, office, university, commission, board.

[3] Entire Internal Audit Act is in the Appendix.

MESSAGE FROM THE CHAIR

Dear Mr. Speaker, President Pro-Tempore, and members of the General Assembly:

It is my pleasure to submit to you a summary of statewide internal audit results and accomplishments for the period ending June 30, 2024. This report is required by NCGS 143-747 (c)(11a) and (12).

This report captures the results of 45 state agencies and universities. Overall, professional internal audit staff have worked tirelessly to add value to their organizations and are dedicated to reducing and eliminating fraud, waste and abuse in state government. Their work is critical to provide the public they serve with improved confidence and assurance that our state institutions utilize exemplary governance practices in their daily operations.

Results Focus: Over the last year, the Council of Internal Audit (Council) has required that each agency succinctly summarize the most notable results and accomplishments. A few examples of notable internal audit results include:

- The Department of Health and Human Services audit team identified $1,090,590 in questionable payments provided to executives of local managed care organizations and public assistance providers. The audit recommended needed governance improvements and recoupment of the problem payments.

- The Department of Revenue audit team reviewed human resource staff processes and provided recommendations to improve efficiency. This review identified nearly $300,000 in potential federal fines which were avoided and also identified $201,000 in employee leave related overpayments.

Increased Audit & Advisory Capacity: Another key result and focus of the Council was to expand and approve a much broader bench of ready to deploy CPA, audit and advisory firms that can assist state agencies, universities and local governments in their daily work. In addition to NC based firms, large national firms including Deloitte, KPMG and McKinsey & Company can now be readily engaged to perform needed support with operational accounting, performance and efficiency audits, data analytics and related critical advisory services. This effort expanded the bench from 3 firms to 14 easy to deploy firms, a 360% increase. There are additional notable results captured in this report. Please feel free to reach out to myself or Barbara Baldwin, our COIA Director, if you have any questions.

With kind regards,

Nels C. Roseland
State Controller

Introduction

Internal auditing is an independent, objective assurance and advisory activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The North Carolina Internal Auditing Act requires state agencies to establish an internal auditing program that meets one or more of the following criteria: annual operating budget exceeding $10,000,000; more than 100 full-time equivalent employees; or receiving and processing more than $10,000,000 in a fiscal year. In addition, the Act requires agencies to 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." These Standards require internal auditors to follow a methodology that includes developing a risk-based audit plan.

A risk assessment is integral to each agency's internal audit program to perform and should be performed in accordance with IIA Standards. This assessment helps an organization's internal audit program identify, evaluate, and prioritize risk factors within its immediate landscape. It is a crucial part of the internal audit program and plays a significant role in enhancing an organization's risk management capabilities and directing internal auditors on where to concentrate their audit efforts. The risk assessment is also used to determine the "type" of audit that needs to be performed. Consequently, several different types of audits may be performed to meet risk assessment needs. The internal audit program also performs investigations when necessary. Additionally, Standards require periodic internal and external quality assessments of the internal audit program.

Of the 47 state agencies subject to the Act during FY2024, 42 maintained an internal audit program. Four of the 47 state agencies outsourced their internal audit program to other agencies or private contractors as follows:
- North Carolina School of the Arts contracted Winston-Salem State University for audit services
- North Carolina School of Science and Mathematics contracted with the University of North Carolina System Office
- North Carolina State Education Assistance Authority contracted with the University of North Carolina System Office
- North Carolina Housing Finance Agency contracted with Cherry Bekaert for part of the Fiscal Year before bringing the program in house.

The remaining two state agencies used the Office of State Budget and Management (OSBM) services instead of having an in-house internal audit program. OSBM provided internal audit services for the following agencies during FY2024:

- Office of the Governor
- Office of the State Auditor

This report has been presented in the following six sections to provide information about the internal audit services provided and the effect of those services to assist readers of this report in assessing the degree to which the internal audit program is achieving its goals:

- **Section 1:** Provides information on State agencies' efforts and accomplishments in establishing and adhering to a risk-based audit plan.
- **Section 2:** Reports the types of recommendations issued by internal audit programs, managements acceptance rate of the recommendations, and cost avoidance identified by the program.
- **Section 3:** Provides the results of the internal and external quality assurance assessments.
- **Section 4:** Provides details of internal audit programs' productivity time throughout the fiscal year.
- **Section 5:** Provides an overview of some of the notable highlights and accomplishments achieved by internal audit programs.
- **Section 6:** Details the results of investigative engagement efforts.

1. Risk-Based Audit Plan

North Carolina General Statute (NCGS) 143-746(a)(1) requires state agencies to establish a program of internal auditing that "promotes an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse."

Establishing and adhering to a risk-based audit plan, or a plan that is focused on the inherent risk involved in the activities or system and provides assurance that risk is being managed, as required by Institute of Internal Auditors Standards helps to ensure compliance with NCGS 143-746 and provide reasonable assurance that agency plans, methods, policies, and procedures will result in the successful achievement of the entity's mission, strategic plan, goals, and objectives.

The International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute for Internal Auditors states: The chief audit executive[4] must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

Agency management are responsible for ensuring that the internal audit program complies with the Standards listed above. Therefore, the Council of Internal Auditing requires the internal audit director (director) and the agency head to certify that the audit plan was prepared in accordance with the Standards. The Act also requires state agencies to submit their risk-based audit plans to the Council. It is imperative that each agency conform to the Standards and create a risk-based audit plan.

Table 1 below shows state agencies' efforts and accomplishments in establishing and adhering to a risk-based audit plan. Planned engagements should vary in type to help ensure that agencies are complying with rules and regulations and are being reviewed for any value that could be added. The table arranges each internal audit program into categories based on size according to FY2024 full-time equivalent (FTE). The table also shows the number of budgeted positions, audits engagements planned including additions to the audit plan and the percentage of the audit plan completed. Based on the table's data, 72% of planned audit engagements were completed across all agencies accounted for.

Since risk-based audit plans are living documents and are constantly updated and monitored, directors may find that risks change and engagements must be added, dropped, or modified as new information is gathered. This can cause a lower percentage of completion rate to show when comparing engagements completed to the original plan. Internal audit programs that use continuous risk assessment or an agile approach may address urgent or high-risk areas more quickly, improving responsiveness. However, this agility can cause disruptions to the initial audit plan, as resources are often reallocated to address immediate risks. Consideration of other outside factors such as resources available, longevity of the internal audit director and investigations added must be considered when viewing information on Table 1.

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[4] Generally, the Director of Internal Audit is the chief audit executive in state agencies and universities.

Table 1: Adherence to Risk-Based Audit Plans

Agency	FY2024 Full-Time Equivalent	Budgeted Positions	Plan Total	Engagements Completed	Percent of Audit Plan Completed
Internal Audit Department Size ≤ 1.2 FTE					
NC School of Science & Math*	0.00	0.00	10	8	80%
NC School of the Arts**	0.00	0.00	9	6	67%
NC State Education Assistance Authority*	0.00	0.00	4	3	75%
Dept of Military & Veterans Affairs	0.00	1.00	0	0	0%
Dept of Justice	0.17	0.50	0	0	0%
Wildlife Resources Commission	0.33	1.00	5	1	20%
Dept of Insurance	0.33	2.00	0	0	0%
Fayetteville State University	0.67	1.00	5	1	20%
NC Housing Finance Agency	0.75	0.50	5	5	100%
Office of State Human Resources	1.00	1.00	9	6	67%
Dept of Secretary of State	1.00	1.00	7	6	86%
Community College System Office	1.00	1.00	9	7	78%
Dept of Labor	1.00	1.00	3	1	33%
UNC - Asheville	1.00	1.00	10	4	40%
Office of the State Controller	1.20	0.75	12	6	50%
Internal Audit Department Size 1.57-3.02 FTE					
Dept of State Treasurer	1.57	3.00	7	5	71%
Western Carolina University	1.58	2.00	17	13	76%
UNC - Pembroke	2.00	2.00	9	4	44%
UNC - Greensboro	2.00	2.00	10	5	50%
Dept of Natural & Cultural Resources	2.00	2.00	7	4	57%
Elizabeth City State University	2.05	2.00	12	10	83%
Dept of Agriculture & Consumer Services	2.07	3.00	8	6	75%
Dept of Administration	2.54	3.00	7	7	100%
NC Education Lottery	2.58	3.00	14	9	64%
NC Central University	2.85	4.00	7	4	57%
Dept of Environmental Quality	2.86	4.00	14	4	29%
UNC - System Office	3.00	3.00	6	3	50%
Dept of Revenue	3.00	4.00	10	9	90%
Dept of Public Instruction	3.00	6.00	7	6	86%
NC A&T State University	3.02	4.00	18	12	67%
Internal Audit Department Size ≥ 3.2 FTE					
Dept of Commerce	3.20	4.00	23	12	52%
Winston-Salem State University	4.00	4.00	17	11	65%
UNC - Wilmington	4.25	5.00	14	9	64%
Appalachian State University	4.63	6.00	50	34	68%
Dept of Transportation	5.00	5.00	14	8	57%
Dept of Information Technology	5.00	5.00	17	11	65%
UNC - Hospitals	5.33	5.00	56	28	50%
UNC- Charlotte	6.00	6.00	20	17	85%
NC State University	6.39	9.00	33	19	58%
Dept of Public Safety	7.26	9.00	52	51	98%
East Carolina University	7.65	7.00	36	33	92%
UNC - Chapel Hill	7.66	8.00	38	32	82%
Office of State Budget & Management	10.44	11.00	64	56	88%
Dept of Adult Corrections	14.67	15.00	59	50	85%
Dept of Health & Human Services	22.45	26.00	75	55	73%

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2. Management Acceptance of Recommendations

Each audit engagement concludes with any observation of processes that can be improved to streamline procedures and prevent fraud. Additionally, recommendations are provided that address the causes of identified conditions and provide guidance highlighting actions to be taken by management. When implemented these actions help mitigate risks and enhance performance. If no observations are found recommendations may not be given. Reporting recommendations and findings are crucial to an audit plan because they answer the question, "How should this problem be fixed?" A quality recommendation should address the condition as well as the cause of a problem.

Recommendations can be general or specific. For example, in some cases, the internal auditor may recommend a general course of action and specific suggestions for implementation, while in other cases, further investigation, monitoring, or research may be suggested.

Table 2 on page 12 shows the total number of recommendations made and accepted across all agencies, and cost avoidance identified by the internal audit programs. The last column details the percentage of recommendations accepted from those that were made. Based on the table's data, 99% of recommendations made across all agencies represented were accepted by management. Additionally, internal audit programs identified $15,813,885.21 in cost avoidance across state agencies.

The North Carolina Internal Audit Act states that agencies internal audit programs should:

(1) promote an effective system of internal controls that safeguards public funds and assets and minimizes incidences of fraud, waste, and abuse.
(2) determine if programs and business operations are administered in compliance with federal and state laws, regulations, and other requirements.
(3) review 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.
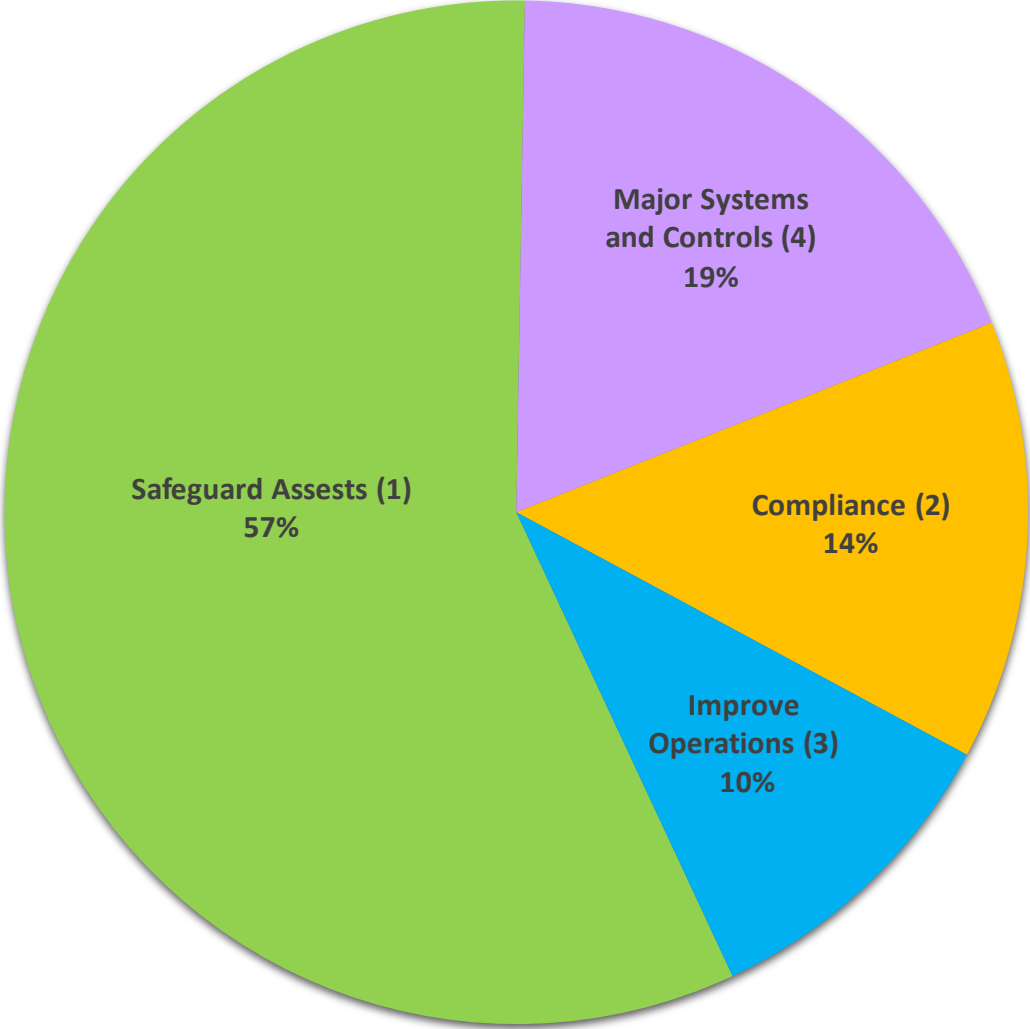   c. Information technology systems and controls.

Chart 1 on page 13 breaks down the percentage of each of the recommendation types that were issued by internal audit programs with the categories being labeled as follows to correspond with the descriptions above:

(1) Safeguard Assets
(2) Compliance
(3) Improve Operations
(4) Major Systems and Controls

Table 2: Recommendations Accepted

Agency	Recommendations Made	Recommendations Accepted	Cost Avoidance	Percent of Recommendations Accepted
Internal Audit Department Size ≤ 1.2 FTE				
NC School of Science & Math	0	0	-	0%
NC School of the Arts	7	7	-	100%
NC State Education Assistance Authority	0	0	-	0%
Fayetteville State University	0	0	-	0%
Dept of Military & Veterans Affairs	0	0	-	0%
Dept of Justice	0	0	-	0%
Wildlife Resources Commission	0	0	-	0%
Dept of Insurance	0	0	-	0%
NC Housing Finance Agency	34	34	-	100%
Office of State Human Resources	10	10	$ 72,000.00	100%
Dept of Secretary of State	19	16	-	84%
Community College System Office	8	7	-	88%
Dept of Labor	0	0	-	0%
UNC - Asheville	1	1	$ 5,578.00	100%
Office of the State Controller	17	17	-	100%
Internal Audit Department Size 1.57-3.02 FTE				
Dept of State Treasurer	2	2	-	100%
Western Carolina University	5	5	-	100%
UNC - Pembroke	4	4	-	100%
UNC - Greensboro	3	3	-	100%
Dept of Natural & Cultural Resources	22	22	-	100%
Elizabeth City State University	9	9	-	100%
Dept of Agriculture & Consumer Services	21	21	$ 1,722,280.21	100%
Dept of Administration	9	7	-	78%
NC Education Lottery	19	19	-	100%
NC Central University	17	17	$ 20,000.00	100%
Dept of Environmental Quality	8	8	-	100%
UNC - System Office	3	3	-	100%
Dept of Revenue	22	22	$ 500,000.00	100%
Dept of Public Instruction	16	16	-	100%
NC A&T State University	10	10	-	100%
Internal Audit Department Size ≥ 3.2 FTE				
Dept of Commerce	11	11	-	100%
Winston-Salem State University	17	17	-	100%
UNC - Wilmington	18	18	-	100%
Appalachian State University	19	19	-	100%
Dept of Transportation	26	26	$ 130,000.00	100%
Dept of Information Technology	21	21	-	100%
UNC - Hospitals	53	53	-	100%
UNC- Charlotte	39	39	-	100%
NC State University	59	59	-	100%
Dept of Public Safety	36	36	$ 250,000.00	100%
East Carolina University	96	96	$ 44,810.00	100%
UNC - Chapel Hill	40	40	$ 55,000.00	100%
Office of State Budget & Management	74	71	$ 5,000,081.00	96%
Dept of Adult Corrections	153	153	-	100%
Dept of Health & Human Services	76	76	$ 8,014,136.00	100%

Chart 1: Recommendations by Type

Major Systems and Controls (4) 19%

Compliance (2) 14%

Safeguard Assests (1) 57%

Improve Operations (3) 10%

3. Internal and External Assessments of Internal Audit Quality

To comply with the Standards, internal audit programs must obtain an external quality assurance review (QAR) "at least once every five years by a qualified, independent assessor or assessment team from outside the organization."

According to the Institute of Internal Auditors, external quality assurance reviews validate that the internal audit program conforms with the International Standards for the Professional Practice of Internal Auditing and internal auditors apply The Institute of Internal Auditor's Code of Ethics.

Agencies can use the Council of Internal Auditing's (Council's) Peer Review program or use other methods to obtain the QAR. The Council's Peer Review program was modeled after and follows all the requirements included in the Institute of Internal Auditors Quality Assessment manual. Internal audit programs receive a rating of (1) generally conforms, (2) partially conforms, or (3) does not conform.

To ensure that agencies are conforming to and reflecting on their own adherence to the Standards, they are required annually to complete and submit a Self-Assurance Maturity Model (SAMM). Once completed, SAMM calculates an average score ranging from 1 to 5 and conformance with the Standards requires a score of 3 or above. Scores below three require the development of a corrective action plan. Scores above 3 reflect internal audit's ability to implement best practices.

These self-assessments are often used by internal audit programs to improve their own processes and reflect upon challenges. Small internal audit programs (one or two positions) will have the most difficulties conforming with the Standards due to resource limitations.

Table 3 on page 11 shows the results of the internal assessments from the previous three years and the results of the external assessments and the year it was performed. FY2024 FTEs were included in Table 3 because resources limitations can have a direct impact on an internal audit program's ability to conform with the Standards. Chart 2 on page 16 breaks down the percentage of internal audit programs that: are new and therefore have yet to have an assessment as well as those that generally (GC), partially (PC), or does not conform (DNC) with the Standards based on the results of the external assessments. Table 4 on page 15 lists the internal audit programs who are delinquent in having the QAR completed.

There are circumstances where internal audit programs have no score for internal assessments or no rating for external quality assurance review. These are denoted in the table below as follows:

- ▪ * No auditor in place at time of required submission
- ▪ ** Outsourced to vendor or another agency
- ▪ *** Uses services of the Office of State Budget and Management (OSBM)
- ▪ New = internal audit programs established less than five years includes due date for first QAR

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Table 3: Internal and External Assessments

Agency	FY2024 Full-Time Equivalent	Internal Assessment			External Assessment	
		FY2022 Score	FY2023 Score	FY2024 Score	QAR Score	Year Received
Internal Audit Department Size ≤ 1.2 FTE						
NC School of Science & Math	0.00	**	**	**	Generally Conforms	2024
NC School of the Arts	0.00	**	**	3.48	Generally Conforms	2020
NC State Education Assistance Authority	0.00	**	**	**	Generally Conforms	2024
Dept of Military & Veterans Affairs	0.00	***	*	*	New (Due 2025)	New
Dept of Justice	0.17	2.53	*	*	Generally Conforms	2014
Wildlife Resources Commission	0.33	2.96	2.53	2.26	Does Not Conform	2020
Dept of Insurance	0.33	3.15	*	*	Generally Conforms	2019
Fayetteville State University	0.67	3.45	*	3.23	Generally Conforms	2019
NC Housing Finance Agency	0.75	3.30	3.01	3.15	Generally Conforms	2024
Office of State Human Resources	1.00	***	***	3.23	New (Due 2028)	New
Dept of Secretary of State	1.00	*	*	3.11	Generally Conforms	2018
Community College System Office	1.00	2.63	3.18	3.36	Generally Conforms	2017
Dept of Labor	1.00	2.88	2.93	2.91	New (due 2024)	New
UNC - Asheville	1.00	2.70	2.92	2.86	Generally Conforms	2018
Office of the State Controller	1.20	2.98	3.16	3.41	Generally Conforms	2023
Internal Audit Department Size 1.57-3.02 FTE						
Dept of State Treasurer	1.57	2.36	3.18	3.18	Does Not Conform	2021
Western Carolina University	1.58	*	3.06	3.36	Generally Conforms	2023
UNC - Pembroke	2.00	3.10	3.22	3.26	Partially Conforms	2020
UNC - Greensboro	2.00	2.60	3.06	3.50	Partially Conforms	2020
Dept of Natural & Cultural Resources	2.00	2.98	3.08	3.20	Partially Conforms	2020
Elizabeth City State University	2.05	3.30	3.16	3.11	Generally Conforms	2021
Dept of Agriculture & Consumer Services	2.07	3.81	3.50	3.51	Generally Conforms	2022
Dept of Administration	2.54	2.50	3.03	2.83	Partially Conforms	2019
NC Education Lottery	2.58	4.15	3.76	3.81	Generally Conforms	2020
NC Central University	2.85	3.31	2.98	3.30	Generally Conforms	2018
Dept of Environmental Quality	2.86	3.41	3.53	3.63	Generally Conforms	2019
UNC - System Office	3.00	3.15	3.18	3.18	Generally Conforms	2024
Dept of Revenue	3.00	3.40	3.40	3.75	Generally Conforms	2024
Dept of Public Instruction	3.00	3.30	3.46	3.55	Partially Conforms	2020
NC A&T State University	3.02	3.30	3.45	3.53	Generally Conforms	2024
Internal Audit Department Size (IAD) ≥ 3.2 FTE						
Dept of Commerce	3.20	2.76	2.96	3.01	Partially Conforms	2021
Winston-Salem State University	4.00	3.51	3.58	3.61	Generally Conforms	2020
UNC - Wilmington	4.25	3.56	3.56	3.66	Generally Conforms	2021
Appalachian State University	4.63	3.85	3.98	4.05	Generally Conforms	2023
Dept of Transportation	5.00	2.85	3.05	3.40	Partially Conforms	2023
Dept of Information Technology	5.00	2.63	3.35	3.58	Generally Conforms	2024
UNC - Hospitals	5.33	3.93	4.06	4.06	Generally Conforms	2020
UNC- Charlotte	6.00	4.51	4.50	4.61	Generally Conforms	2023
UNC - Chapel Hill	8.00	3.38	3.30	3.48	Generally Conforms	2023
NC State University	6.39	4.20	3.88	4.18	Generally Conforms	2023
Dept of Public Safety	7.26	3.28	3.31	3.31	Partially Conforms	2019
East Carolina University	7.65	3.78	3.60	3.66	Generally Conforms	2021
Office of State Budget & Management	10.44	3.45	4.46	4.56	Generally Conforms	2023
Dept of Adult Corrections	14.67	3.28	3.31	3.31	Partially Conforms	2019
Dept of Health & Human Services	22.45	3.35	3.43	3.46	Generally Conforms	2022

Chart 2: Conformance With the Standards (External)
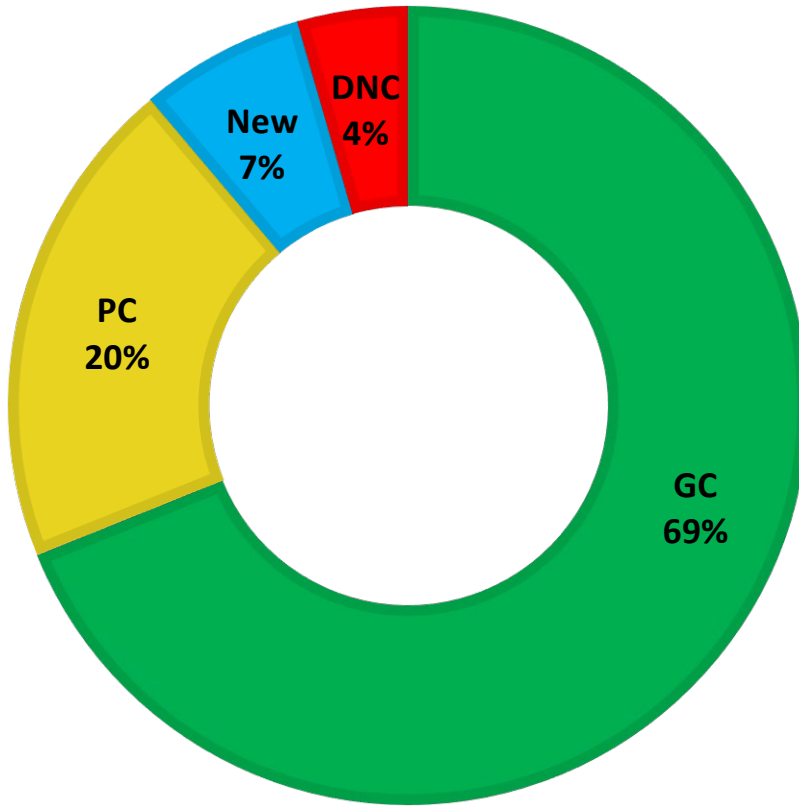

Segment	Percentage
DNC	4%
New	7%
PC	20%
GC	69%

Table 4: Delinquent External Assessments

Agency	Overdue Since
Department of Justice	2019
Fayetteville State University	2024
Department of Labor	2024

4. Internal Audit Staff Productivity

Staff time is the primary resource used by internal audit programs to produce audit work. Productivity looks at how individual staff members' time is used. The following 10 categories are used to measure Productivity:

- **Risk Assessments:** Risk assessments are performed to develop an agency's internal audit plan. They identify events that may give rise to risk and opportunities for the achievement of the agency's objectives.

- **Assurance Engagements:** Includes the following types of engagements: Compliance, Financial, Follow-up, IT, Investigative, Operational.

- **Advisory Engagements:** Advisory and related client services activities. Advisory engagements are intended to add value and improve an organization's governance, risk management, and control processes. Examples include counsel, advice, facilitation, and training.

- **Technical Assistance:** Projects or tasks that are limited in time, effort, and scope which provide advice and insight to agency management outside of any of the other formal project types. Examples include service on agency committees and/or other similar tasks.

- **Special Projects:** Projects that are related to the performance, mission, success, and ongoing viability of the internal audit program, that do not fall in any of the other project categories. Examples include software implementation or upgrades, the Quality Assurance, and Improvement Program, receiving a QAR, participating on a QAR team, sponsoring a conference or providing other support to the state or the profession.

- **Management Functions:** Activities that are not related to internal auditing, nor the internal audit program but may be specific requirements completed by internal audit at the request of management. Examples may include supervising a group of individuals which are not internal auditors and developing/writing policies or procedures for activities not related to internal auditing.

- **Council Reporting Requirements:** Resources spent on audit plan and report attestations, SAMM, productivity tool, central database submissions, and annual report.

- **Administration Time:** Routine activities not attributable to a specific project required to effectively manage and direct the internal audit program. Examples may include general tasks related to purchasing, scheduling, budgeting, and human resource management.

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- **Leave Time:** Employees' personal time spent away from the agency on vacation leave, sick leave, holidays, community service, or other types of leave (paid or unpaid, including compensatory time).

- **Training:** Activities related to learning new skills or reinforcing existing skills. This generally consists of development opportunities organizationally or professionally recommended or required that enhance knowledge, skills, and other competencies. Examples may include new employee orientation, continuing professional education, and user training for new or existing systems.

While management functions may occupy a small portion of time, internal audit programs should avoid performing management functions, as it is essential to maintain independence and objectivity. The primary value of internal audit lies in its ability to provide impartial assurance and oversight, separate from management activities. This independence ensures that audits are conducted objectively, free from any influence or bias that could compromise the integrity of findings. By maintaining autonomy, internal audit enhances its credibility both within the organization and to external stakeholders, instilling trust in the reliability of its assessments and recommendations. It enables auditors to identify and evaluate risks, ensure compliance, detect fraud, and facilitate organizational improvement with an unbiased perspective. Moreover, an independent internal audit program supports effective board oversight by providing unbiased information for governance and risk management. In essence, the importance of internal audit is underscored by its role in promoting transparency, accountability, and organizational effectiveness through its impartial and objective assessments.

To get the overall productivity rate the measure used identifies the ratio of indirect hours (administration and management functions) to direct hours (assurance, consulting services, risk assessments, technical assistance, and special projects). Leave time is omitted due to its unpredictable nature. Table 4 on page 19 shows the productivity time listed out by category for each agency. Additionally, chart 3 on page 20 breaks down the percentage of time spent on each category.
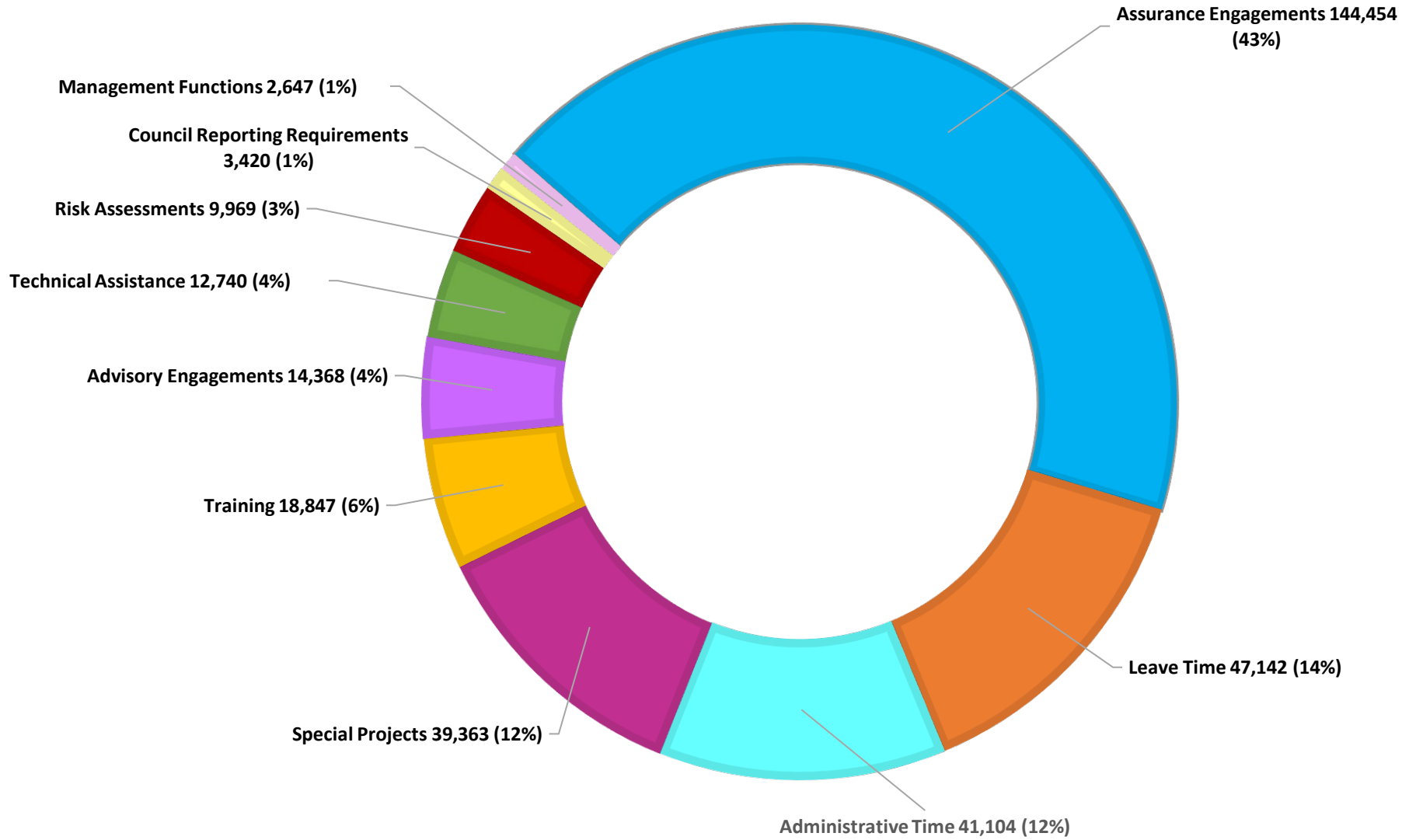
Four agencies did not report productivity in FY2024 because they outsourced the internal audit program to a vendor, or other agency, or the internal audit position was vacant at the time of submission. These are denoted in the table as follows:

- * No auditor in place at time of required submission
- ** Outsourced to UNC-System Office
- *** Outsourced to Winston Salem State University

Table 4: Productivity Time

Agency	Risk Assessments	Assurance Engagements	Advisory Engagements	Technical Assistance	Special Projects	Management Functions	Council Reporting Requirements	Administration Time	Leave Time	Training	Productive Rate
Internal Audit Department Size ≤ 1.2 FTE											
NC School of Science & Math**											
NC School of the Arts***											
NC State Education Assistance Authority**											
Dept of Military & Veterans Affairs*											
Dept of Justice	120.50		-	-	139.50	5.00	10.50	41.00	16.00	32.50	84%
Wildlife Resources Commission	153.25	-		19.00	230.50	-	14.00	152.75	43.50	75.00	68%
Dept of Insurance	-	-	-	-	530.64	-	2.00	60.00	40.00	60.00	90%
Fayetteville State University	77.00	390.00	-	132.00	332.00	-	73.00	231.00	92.00	72.00	77%
NC Housing Finance Agency	76.00	188.50	-	-	944.00	-	24.00	250.50	55.00	28.00	80%
Office of State Human Resources	240.00	725.00	240.00	-	428.00	-	24.00	110.00	261.00	60.00	94%
Dept of Secretary of State	200.00	1,275.00	-	20.00	-	-	90.00	275.00	120.00	70.00	82%
Community College System Office	309.25	248.75	239.50	95.25	402.25	-	49.50	299.50	289.50	146.50	79%
Dept of Labor	40.00	618.00	-	192.00	464.00	-	174.00	143.50	358.00	90.50	90%
UNC - Asheville	400.00	1,579.00	-	24.00	172.00	25.00	92.00	84.00	-	51.50	95%
Office of the State Controller	76.00	660.00	68.00	497.00	358.00	-	229.00	275.00	193.00	169.00	85%
Internal Audit Department Size 1.57-3.02 FTE											
Dept of State Treasurer	172.25	698.50	60.50	-	161.50	-	56.00	1,432.25	391.00	300.00	-3%
Western Carolina University	295.00	1,940.00	410.00	-	285.00	-	82.00	360.00	110.00	170.00	88%
UNC - Pembroke	136.00	1,251.50	85.00	122.00	1,228.50	-	84.00	315.00	790.00	164.00	89%
UNC - Greensboro	64.00	980.00	877.50	-	630.50	-	113.00	589.50	691.50	269.00	79%
Dept of Natural & Cultural Resources	263.50	1,814.50	-	7.50	245.25	13.50	59.50	952.00	660.75	143.50	61%
Elizabeth City State University	201.50	1,953.00	64.50	-	254.00	-	83.00	748.90	638.50	337.00	73%
Dept of Agriculture & Consumer Services	150.60	1,978.23	-	152.50	944.87	-	19.50	542.50	648.00	132.00	84%
Dept of Administration	12.00	2,940.00	-	27.00	148.00	35.00	25.00	1,258.00	403.00	441.00	64%
NC Education Lottery	32.00	2,533.00	-	35.70	734.00	162.00	169.00	780.00	753.45	167.25	73%
NC Central University	546.00	2,201.00	-	24.00	476.00	380.00	60.00	847.00	995.00	398.00	66%
Dept of Environmental Quality	176.50	1,342.75	431.50	29.00	411.25	1,274.00	58.75	535.50	1,235.25	467.00	37%
UNC - System Office	291.00	1,298.00	489.50	2,043.50	629.50	-	110.00	313.00	933.00	132.50	94%
Dept of Revenue	107.25	3,561.25	-	143.00	792.75	-	72.50	633.00	639.50	290.25	87%
Dept of Public Instruction	262.00	1,592.00	-	204.50	2,038.50	-	106.00	916.50	560.50	311.00	79%
NC A&T State University	235.25	2,285.00	376.00	4.00	1,272.75	-	71.00	719.00	721.00	858.50	86%
Internal Audit Department Size ≥ 3.2 FTE											
Dept of Commerce	115.00	2,360.75	-	1,199.00	566.50	-	90.00	785.25	1,121.50	442.00	83%
Winston-Salem State University	757.00	4,042.50	32.50	76.50	1,471.75	84.00	72.00	465.00	1,369.00	288.50	92%
UNC - Wilmington	231.75	3,659.90	48.50	240.25	1,336.50	173.00	51.50	1,049.65	1,579.50	639.20	80%
Appalachian State University	169.00	3,692.92	244.50	467.50	883.67	-	183.50	1,550.08	1,836.25	726.58	75%
Dept of Transportation	83.75	5,194.25	9.50	363.75	191.00	171.25	55.25	1,794.75	2,114.00	664.00	70%
Dept of Information Technology	716.00	2,599.15	1,024.00	822.30	908.50	-	57.25	2,170.95	1,324.25	819.50	68%
UNC - Hospitals	221.00	5,117.00	787.00	627.00	466.00	-	193.00	2,309.00	1,068.00	527.00	70%
UNC- Charlotte	460.00	7,866.00	-	276.00	557.00	28.00	103.00	872.00	1,721.00	633.00	91%
NC State University	675.00	4,039.75	403.25	2,156.50	1,830.00	-	265.00	1,543.25	1,788.50	576.25	84%
Dept of Public Safety	161.00	10,385.00	8.00	907.00	483.00	-	59.00	246.00	2,569.00	283.00	98%
East Carolina University	138.00	10,070.75	258.00	949.25	1,173.50	-	33.25	1,605.00	2,503.25	768.75	88%
UNC - Chapel Hill	225.50	8,480.50	577.00	117.00	1,564.75	221.00	81.00	1,215.75	2,751.00	758.50	88%
Office of State Budget & Management	304.00	6,999.50	772.50	420.50	7,550.50	-	116.75	2,349.00	2,161.00	1,260.25	86%
Dept of Adult Corrections	916.00	17,007.60	28.00	324.50	1,816.50	72.00	40.00	3,293.50	4,249.00	2,766.50	85%
Dept of Health & Human Services	159.25	18,885.75	6,832.90	20.50	4,310.50	3.50	68.00	6,990.25	7,348.10	2,257.50	78%

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Chart 3: Productivity Time Spent (hours) by Category

Assurance Engagements 144,454 (43%)

Management Functions 2,647 (1%)

Council Reporting Requirements 3,420 (1%)

Risk Assessments 9,969 (3%)

Technical Assistance 12,740 (4%)

Advisory Engagements 14,368 (4%)

Training 18,847 (6%)

Special Projects 39,363 (12%)

Administrative Time 41,104 (12%)

Leave Time 47,142 (14%)

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5. Summary of Notable Accomplishments

The following section highlights notable accomplishments of various internal audit teams, showcasing their efforts in enhancing organizational governance, risk management, and compliance. These achievements reflect the team's dedication to ensuring accountability and operational efficiency. Due to the length of certain detailed accomplishments, some have been included in the appendix for further reference.

Department of Agriculture and Consumer Services: NCDACS Internal Audit's most notable FY2024 accomplishments focused on federal grants management and data analytics. Our compliance audits identified opportunities for improvement in performance monitoring, risk assessments, tracking of non-federal matching costs, and avoiding unallowable costs. In data analytics, we launched a monthly p-card billing analysis using Tableau to help prevent unallowable charges and finalized the NCDACS Open Checkbook project, which integrates historical financial data for audits and operations, offering key insights on vendor payments, expenditures, revenues, grants, and more.

Department of Commerce: The Department of Commerce (DOC) Office of Internal Audit (OIA) identified key areas for improvement. In the Commerce Finance Center, OIA audited cash collection controls and recommended switching from checks to ACH for payments to reduce fraud risk and improve efficiency. They also advised capturing the agreement signature date to prevent payments before approvals. In HR, OIA suggested adopting a modern, interactive application for data analytics and reporting, and recommended Employee Relations to improve exit interview analysis and action planning. Within the Division of Employment Security (DES), OIA addressed recurring breaches of personally identifiable information (PII) and enforced mandatory privacy training. They also identified delays in federal reporting due to staff shortages and system errors, recommending staff training and consistent reporting processes.

East Carolina University: This year, the internal audit engagements addressed key risks and strategic opportunities for the University, including academic advising, student-athlete health, sponsored programs effort reporting, succession planning, IT/cybersecurity risks, campus safety, and business process controls in high-turnover areas such as Transit. Additionally, 7% of the time was dedicated to consultations, including nearly 100 routine consultations and leadership on committees. Notably, the team led the bi-annual risk survey, updating the University's Enterprise Risk register, and the Chief Audit Officer co-chaired the Regulatory Compliance Committee, which recommended key measures, such as establishing a Privacy Incident Response process.

Western Carolina University: Office of Internal Audit at Western Carolina University strengthened the university's risk management, control, and governance processes through a robust audit plan developed from interviews with leadership and management. The plan included two assurance audits, such as a continuous audit of purchasing card transactions and an audit of Clery Act compliance, as well as various advisory engagements. Our team participated in committees addressing IT issues, strategic planning, compliance, and enterprise risk management, maintaining communication with management to discuss findings and recommendations focused on compliance, internal controls, and operational efficiency.

6. Investigating Fraud, Waste and Abuse

Internal auditors in the State of North Carolina play a crucial role in conducting fraud investigations, ensuring transparency and accountability while safeguarding public resources. The majority of fraud is identified through tips from employees, customers, or anonymous whistleblowers, making hotlines and reporting mechanisms the most effective tools for fraud detection. This fiscal year, 86 investigative engagements were conducted with 57 (66%) resulting in substantiated claims and 29 (34%) found to be unsubstantiated. Despite being unsubstantiated, four of the 29 cases still resulted in reports with recommendations to strengthen internal controls. While unsubstantiated claims do not yield the same outcomes as those that were substantiated, they do take the same amount of effort and documentation and can be useful when finding improvements to be made in a department's processes

The 57 substantiated claims, on the other hand, have led to disciplinary action, legal consequences, and recovery of funds. Below is a breakout of the fraud schemes they encountered:

Twenty-eight or 49% of substantiated investigations conducted by internal audit programs involved misallocation of funds. Misallocation of funds via grant programs often begins with deceptive applications, where individuals or organizations submit fraudulent proposals containing false information, such as inflated project costs, fictitious beneficiaries, or misrepresented capabilities. Once grants are awarded, the funds may be improperly distributed, diverted for personal expenses, unrelated projects, or to benefit third parties not included in the original proposal. Fraudsters frequently create or manipulate documentation.

Twelve or 21% of substantiated investigations conducted by internal audit programs involved asset misappropriation. Asset misappropriation refers to the theft or misuse of an organization's resources, often by employees. Examples include falsifying expense reports, misusing purchase cards, and embezzling payroll funds through inflated hours

Nine or 16% of substantiated investigations conducted by internal audit programs involved unauthorized access to information. Unauthorized access to information, in the context of an internal audit investigation, refers to obtaining or using confidential, or restricted data without proper authorization. This occurs when individuals inadvertently accessed records they are not cleared to see, such as financial data or personal information of others.

Five or 9% of substantiated investigations conducted by internal audit programs involved noncompliance with organization policy. Noncompliance with organizational policy, in the context of an internal audit fraud investigation, refers to the failure to follow established rules, procedures, or guidelines set by the organization. This involves bypassing controls and ignoring approval processes.

Three or 5% of substantiated investigations conducted by internal audit programs involved conflict of interest. Nepotism and vendor relationships, in an internal audit investigation, involve preferential treatment in hiring or contracting based on personal connections.

APPENDIX

NORTH CAROLINA INTERNAL AUDIT ACT

Article 79.
Internal Auditing.

§ 143-745. Definitions; intent; applicability.

    (a)   For the purposes of this section:
- (1)   "Agency head" means the Governor, a Council of State member, a cabinet secretary, the 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.
- (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; 2016-126, 4th Ex. Sess., s. 9.)

§ 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.

    (a1)   Key Performance Indicators and Criteria. - In addition to the requirements of subsection (a) of this section, each agency head shall be responsible for ensuring that agency's internal audit unit meets the required key indicators and criteria established by the Council under G.S. 143-747(c)(3a).

    (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

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United States. Each agency head shall annually certify to the Council that the audit plan was developed, and the audit reports were conducted and reported in accordance with required standards.

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

(f)   Reporting Fraudulent Activity. - If an internal audit conducted pursuant to this section results in a finding that a private person or entity has received public funds as a result of fraud, misrepresentation, or other deceptive acts or practices while doing business with the State agency, the internal auditor shall submit a detailed written report of the finding, and any additional necessary supporting documentation, to the State Purchasing Officer. A report submitted under this subsection may include a recommendation that the private person or entity be debarred from doing business with the State or a political subdivision thereof. (2007-424, s. 1; 2013-382, s. 9.1(c); 2013-406, s. 1; 2015-241, s. 25.1(a); 2015-268, s. 7.4; 2021-180, s. 24.5(a).)

§ 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. The Attorney General may appoint a designee.
   (5)   The Secretary of Revenue.
   (6)   The State Auditor who shall serve as a nonvoting member. The State Auditor may appoint a designee.
   (7)   One member appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of Certified Public Accountant Examiners. The member shall be appointed for a term of four years and shall serve until a successor is appointed. A vacancy for a member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.
   (8)   One member appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives pursuant to G.S. 120-121. The member appointed must be a certified public accountant licensed in this State who has experience with internal auditing and is in good standing with the North Carolina State Board of Certified Public Accountant Examiners. The member shall be appointed for a term

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of four years and shall serve until a successor is appointed. A vacancy for a member appointed under this subdivision shall be filled by the appointing authority set forth in this subdivision to serve the remainder of the unexpired term.

(a1)   The Council shall hire an Executive Director as selected by a majority of the Council. The Executive Director shall serve at the will of the Council and be exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.

(a2)   The Council shall hire two full-time employees, as selected by a majority of the Council, to provide assistance to the Executive Director and to other staff of the Council of Internal Auditing. The employees shall perform any duties delegated by the Executive Director, serve at the will of the Council, and are exempt from the provisions of the North Carolina Human Resources Act under Chapter 126 of the General Statutes.

(b)   The Council, including the position of Executive Director, 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.
   (3a)   Establish required minimum key performance indicators and criteria that comply with the Professional Practice of Internal Auditing issued by the Institute for Internal Auditors.
   (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.

    (11a)   Gather and assess the extent to which State agencies have met the minimum key performance indicators and criteria required under subdivision (3a) of this subsection. The Council shall report its findings to the Joint Legislative Commission on Governmental Operations on or before December 31, 2022, and annually thereafter.

    (12)   No later than November 1 of each year, issue a report that shall include, but not be limited to, service efforts and accomplishments of State agency internal auditors and proposed legislation for consideration by the Governor and General Assembly. The annual report shall be prepared by the Office of State Budget and Management and shall be submitted to the Joint Legislative Oversight Committee on General Government. (2007-424, s. 1; 2013-406, s. 1; 2021-180, ss. 24.5(b), 37.1(f); 2022-6, s. 10.2.)

§ 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.)

Notable Accomplishments Continued

Appalachian State University: The Appalachian State University Office of Internal Audit (OIA) achieved several significant milestones, including successfully completing an external Quality Assurance Review that confirmed compliance with Institute of Internal Audit Standards. The OIA saw a notable increase in hotline allegations, driven by efforts to raise awareness through digital signage, presentations, and promotional events distributing hotline information. Additionally, a dashboard was created for OIA staff to access essential audit information quickly, enhancing audit efficiency. Kristi Gragg, OIA Audit Manager, served as President of the UNC Auditor's Association, and OIA contracted with the Huron Group to assess staffing levels and competencies, providing recommendations to align with the evolving risk landscape and best practices.

Community College System Office: An automated system for recording audit recommendations was designed and implemented, allowing for tracking of all recommendations and sending automatic notifications to auditors and recommendation owners upon any changes. The system also requests updates on open recommendations every May and November, enabling comprehensive reporting on their status to management and the Board. As a "studio application" in ServiceNow, it can be utilized by other state agencies, increasing the visibility of recommendations and providing the Board with updates when risks are accepted by management. Previously, the status of audit recommendations was not presented to management or the Board.

Department of Administration: The Office of Internal Audit (OIA) at the Department of Administration has made significant progress in enhancing accountability, efficiency, and compliance. The Purchase Card Audit revealed key insights into the Agency's spending patterns, leading to streamlined procurement processes and improved oversight, empowering divisions to strengthen controls and budget management. The FY 2019 Motor Fleet Audit Follow-up demonstrated our commitment to ongoing evaluation by ensuring the implementation of prior recommendations and verifying their impact on cost-effectiveness and sustainability. The State Surplus Audit highlighted our dedication to transparency by identifying opportunities for enhanced asset recovery, maximizing resource utilization. Additionally, OIA created the Agency's audit universe, facilitating better risk assessment for the annual audit plan and providing visibility of risks across divisions. Through these efforts, OIA has fostered a culture of continuous improvement and accountability within the Agency, contributing to a more efficient and transparent government.

Department of Environmental Quality: The DEQ Office of Internal Audit emphasized ARPA funding across several divisions to ensure the proper use of over $2 billion in appropriated funds. Through engagements, consultations, and feedback to leadership, the Office reviewed and improved various processes for more effective administration of these funds, with a focus on SOPs and documented processes. Looking forward, the Office aims to create excitement within DEQ by launching a clear vision and developing new opportunities for success. This includes providing foundational education for division leadership, offering realistic and actionable recommendations, and fostering a proactive approach to highlight the value of the audit staff's expertise and support.

Department of Health and Human Services: The DHHS Office of Internal Audit (OIA) consists of three audit teams that provide advisory and audit services to enhance organizational performance and governance. In FY 2024, OIA completed 55 engagements, including compliance and operational audits, follow-up assessments, EAGLE internal control

reviews, and data analytics. Key initiatives included information technology audits on cloud computing governance, antivirus deployment, and disaster recovery planning, which identified operational improvements to enhance NCDHHS data security. A review of transactions before the consolidation of two Department subrecipients uncovered unusual transactions, leading to recommendations for recouping $1,090,590 in payments to two executives and enhancing governance. OIA also highlighted the LME/MCO's failure to provide required public notices and meeting minutes. Overall, OIA contributed significant strategic value by improving decision-making and operational excellence through proactive risk assessment.

Department of Information Technology: The NCDIT Audit Management Module in ServiceNow has fostered a collaborative environment for seamless communication and information sharing between the audit team and business units. As part of OIA's commitment to enhancing internal audit programs and operational efficiency, we successfully implemented this module for better tracking and remediation of audit findings, thereby improving governance, risk management, and compliance across NCDIT. Additionally, OIA completed an external peer review following the Institute of Internal Auditors (IIA) Red Book Standards, receiving a rating of "Generally Conforms" across all standards. This achievement highlights OIA's adherence to the highest professional internal audit practices and reflects our dedication to delivering quality audits while continuously improving the audit program.

Department of Insurance: The Department of Insurance successfully recruited and hired two full-time auditors, marking a significant milestone as it previously had no filled internal audit positions.

Department of Justice: Department of Justice established an internal audit program to enhance governance, risk management, and operational efficiency. This process started with the development of a charter that outlines the internal audit's purpose, authority, responsibilities, and reporting structure, ensuring alignment with strategic objectives. The implementation of Standard Operating Procedures (SOPs) provided guidance on audit methodologies, including planning, execution, and reporting processes. A risk assessment framework was also introduced to identify and prioritize high-risk areas, allowing the audit program to focus on critical issues.

Department of Labor: NCDOL launched a continuous monitoring program to reduce excessive speeding in state vehicles. In the first six months, the program recorded an average of 4.33 individuals and 6.33 instances of excessive speeding per month. By the end of the first full year, these averages dropped to 1.92 employees and 2.5 instances monthly. This reduction in excessive speeding has also led to improvements in other driving metrics, with the number of vehicles rated Below Expectations for fuel economy decreasing from four to one, and those Meeting Expectations dropping from 15 to six. Fuel economy improved significantly, increasing from an average of 25.13 to 38.95 MPG.

Department of Natural and Cultural Resources: The Internal Audit (IA) division launched its first client satisfaction survey, sharing results with executive management that highlighted feedback from a recent audit engagement, particularly comments on scores of 2 and below, to outline plans for continuous improvement. In addition, IA completed one planned audit and four carry-forward audits from FY2023, ensuring all outstanding audits are resolved and reported to relevant stakeholders. As of this report, DNCR management has accepted ten recommendations to enhance operational efficiency, with 20 recommendations currently in

progress and implementation monitored through quarterly follow-ups. To strengthen relationships, IA conducted a site visit to Falls Lake, gaining insights into facility operations that will enhance future audits. IA also introduced a self-assessment for each completed engagement to improve workpaper review processes in line with IIA Standards, sharing the final assessment report with management to support improvement initiatives. Finally, auditors pursued professional development by attending the 2024 General Auditing Management Conferences and the 35th Annual ACFE Global Fraud Conference, ensuring the team maintains current certifications and stays informed in the field.

Department of Public Instruction: In FY 2024, with just three audit staff, DPI Internal Audit completed 6 of 7 planned engagements (86% of the audit plan), conducted two external Quality Assurance Reviews (QARs) for other state agencies, provided approximately 205 hours of technical assistance, and dedicated 657 hours to coordinating between DPI and external auditors. Technical assistance and liaison activities are key ways internal audit adds value to DPI by sharing audit expertise across the agency. One auditor also earned Certified Fraud Examiner certification. The team continues to report to both the State Superintendent and State Board of Education, ensuring independence and support for the internal audit program.

Department of Public Safety: During the last fiscal year, the internal audit team fully implemented a paperless, automated auditing process, enabling audits to be tracked and completed within a 480-hour timeframe in compliance with IIA Standards. Additionally, a new training platform was introduced to efficiently onboard auditors and support staff.

Department of Revenue: During Q4 of FYE 2024, the internal audit team completed early adoption of the IIA's revised Standards, which are due by January 9, 2025, and successfully passed an external QAR with the highest rating. The team conducted a comprehensive review of HR processes, providing recommendations to enhance efficiency and effectiveness in areas such as Form I-9s, Family Medical Leave, Military Leave, State of Emergency Leave, Voluntary Shared Leave, Time Administration, Record Maintenance & Retention, and Succession Planning. If implemented, these recommendations could potentially avoid costs of $299,000 in fines and penalties related to Form I-9s and $201,000 in employee overpayments across various leave categories.

Department of State Treasurer: The Department of State Treasurer (DST) established the Investigative Incidents Program as an extension of the existing Ethics and Conduct Hotline, managed by the Compliance Officer. The hotline allows staff to report improper activity via the intranet, including policy violations. The Internal Audit Section (IAS) oversees the Investigative Incidents Program, which uses a systematic approach to investigate incidents reported directly to the Director of Internal Auditing or referred by the hotline. A quarterly summary is provided to the State Treasurer and Chief of Staff. Since its inception, three incidents, including missing property and internal control evaluations, have been reported.

Department of Transportation: Since 2022, under the leadership of Lonnetta Raynor, the NCDOT Office of Inspector General has made significant progress and added value. Internal Audit has become more productive, conducting more engagements to improve program efficiency and effectiveness within NCDOT. NCDOT Board Members have recognized and welcomed the increased activity and data provided by Internal Audit, noting its value to the agency. The Inspector General maintains strong relationships with both the Chairman of the Inspector General Committee and the Secretary, with whom she meets monthly to discuss updates and accomplishments.

Elizabeth City State University: By increasing audits and reviews by 50%, the ECSU Office of Internal Audit significantly enhanced efficiency and effectiveness. The team identified and managed risks, improving internal controls and streamlining university processes. Audits ensured compliance with laws, regulations, and policies, reducing the risk of non-compliance. They also verified the efficient use of resources, contributing to the university's financial health. Regular audits fostered continuous improvement by identifying areas for enhancement and ensuring corrective actions. Overall, these efforts have built stakeholder trust by demonstrating transparency and accountability.

Fayetteville State University: Fayetteville State University's Internal Audit program made significant strides in improving organizational efficiency and effectiveness, with a focus on integrity and compliance. Internal Audit guided the University and Board of Trustees through an investigative audit by the OSA on purchasing and compliance, collaborating with Business and Finance to implement a corrective action plan. This led to increased monitoring, a strengthened control environment, and a culture of accountability. Internal Audit's investigations and audits fostered trust and improved risk assessment, aligning more closely with the University's strategic goals.

North Carolina Agricultural & Technical State University: The Office of Internal Auditing at North Carolina Agricultural & Technical State University (NC A&T SU) achieved several key milestones. Senior Auditor LaShonna Frederick received the 2023 Award of Excellence from the North Carolina Council of Internal Auditing. The Office successfully implemented new audit software, improving efficiency, and completed an external Quality Assurance Review, confirming compliance with IIA Standards and Code of Ethics. Additionally, the Office conducted an annual risk assessment validated by OSBM, launched the bi-annual newsletter "The Internal Audit Insight," and hosted the 2023 UNCAA Conference. Efforts were also made to restore staffing levels, including hiring an Internal Auditor II and developing an IS Auditor position, along with creating a New Auditor Binder/On-Boarding process.

North Carolina Education Lottery: FY2024 was a year of transition for the NCEL Internal Audit team. The team began with two members, an Internal Auditor and an Audit Assistant, but in September 2023, Kim Thomas, the Internal Auditor of nine years, was promoted to Internal Audit Director, and in November, Abby Fusca, an Elon University graduate, was hired as the new Internal Auditor. The team of three completed nine of the thirteen audits in the audit plan, achieving a 64% completion rate. As the Lottery expanded to include digital platforms and Sports Betting, Internal Audit proposed adding an IT Auditor position to address the growing complexity. This proposal was approved and included in the Fiscal Year 2025 budget, leading to the hiring of Matthew Ford as IT Auditor in August 2024.

North Carolina Housing Finance Agency: In January 2024, the North Carolina Housing Finance Agency established the Lead Internal Auditor position to transition from outsourced internal audit services to an in-house program. This move aligns with the IIA's belief that a fully internally resourced audit program is most effective when its resources, competence, and structure are aligned with organizational strategy, as outlined in the IIA's Position Paper, "Staffing/Resources Considerations for Internal Audit Activity." The Agency is committed to meeting the IIA's definition of internal auditing by providing independent, objective assurance and advising activities that add value and enhance its operations.

North Carolina Central University: For the first time in three years, NCCU achieved full staffing, marking a pivotal milestone in strengthening its operational capacity. This accomplishment was further enhanced by expanding opportunities for professional development, empowering the team to elevate their skills and drive greater institutional success.

Office of State Budget and Management: In FY 2024, the Central Internal Audit Office (CIAO) identified $1.1 million in questionable costs related to state grant and disaster funds, uncovered noncompliance with grant requirements, and contributed to critical IT system improvements. These efforts strengthened governance, risk management, and internal controls across agencies. Additionally, CIAO established a state term contract with 14 firms, including two Big Four firms, to provide internal audit, accounting, data analytics, and advisory services. The statewide internship program further enhanced audit capacity by supporting small audit programs and offering students valuable government experience.

Office of the State Controller: The Office of the State Controller's Internal Audit Department successfully completed its FY 2024 activities, demonstrating excellence in evaluating internal controls, risk management, and governance. Amid significant changes, including the rollout of a new statewide accounting system, IT independence, and management turnover, the team of 1.2 FTEs delivered exceptional results. They completed the annual risk assessment, reviewed Management Action Plans, conducted two assurance engagements, and one consulting engagement, offering 13 recommendations—all of which management committed to implementing. Additionally, the department earned the highest rating of "General Conforms" in its external Quality Assurance Review.

Office of State Human Resources: In June 2023, NC OSHR appointed its first on-staff Internal Auditor, transitioning from reliance on OSBM's Internal Audit team. The newly hired Internal Auditor quickly assisted OSBM in completing the FY 2024 Risk Assessment, which informed the development of OSHR's inaugural Internal Audit Plan. This plan facilitated the establishment of OSHR's internal audit program through the implementation of an Internal Audit Activity Charter, an Internal Audit Manual, and agency-specific audit templates, all aimed at fostering a culture of continuous improvement. Notable accomplishments include a comprehensive audit of the Workers' Compensation Department, which led to a consulting engagement addressing billing issues, as well as an agency-wide audit of Standard Operating Procedures (SOPs) that evaluated operational consistency, efficiency, and quality while enhancing the audit team's understanding of various programs and their responsibilities.

University of North Carolina at Asheville: In FY2024, a comprehensive risk-based annual audit plan was developed and approved by the Board, marking a significant step forward for the organization. The Director prepared for a Quality Assurance Review (QAR), which had been delayed due to previous turnover and COVID-related reassignments. Despite these challenges, the Director successfully completed and released four audits by year-end to support the QAR preparation: FY23-AUD-01 Software Systems Inventory, FY24-AUD-01 Clery Act Reporting Compliance, FY24-AUD-03 Travel Compliance, and FY24-AUD-04 Purchasing Card Compliance. Shortly after the fiscal year concluded, the final audit required for the QAR, FY24-AUD-02 I-9 Compliance, was completed, leading to a request for the QAR soon after year-end.

University of North Carolina at Chapel Hill: The Office of Internal Audit issued 25 reports on planned engagements, successfully completing 25 of the 27 planned audits, which

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included operational, compliance, financial, technology, and consulting projects. Furthermore, the office issued ten communications regarding completed investigative, special project, and technical assistance engagements. The OIA also verified that 45 management action plans from prior engagements were successfully implemented during FY24, significantly enhancing operational efficiency and ensuring compliance.

University of North Carolina at Charlotte: Successfully completed our Internal Audit Plan despite facing four unexpected investigations and special projects. Our efforts led to significant improvements in internal controls over critical processes, identifying compliance and efficiency issues related to grants, P-Cards, and Environmental Health & Safety. Addressing these issues will enable UNC Charlotte to avoid costly violations, enhance the management of grant funds, and improve overall campus safety.

University of North Carolina at Greensboro: UNCG's Office of Internal Audit achieved a significant milestone by enhancing audit processes, procedures, documentation, and activities to ensure full compliance with Internal Audit Standards while meeting all reporting requirements and deadlines. The implementation of new audit software automated management activities, boosting the efficiency and accountability of the office. This software will streamline the updating of key documents, such as the Internal Audit Charter, Manual, and Risk Assessment, in alignment with the revised Global Internal Audit Standards. The efficiencies gained will enable the office to conduct a broader range of engagements, including consulting activities aimed at providing proactive support to the University. We anticipate receiving a "generally conforms" rating on our upcoming external Quality Assessment Review (QAR) from independent assessors.

UNC-Hospitals: The UNC Health Audit Department has been instrumental in supporting various COVID-related initiatives, playing a critical role in the internal COVID Task Force. The department has assisted with 30 FEMA projects and several CARES Act audits, completing over 50 assurance and advisory engagements to bolster UNC Health's COVID response. These efforts resulted in more than $300 million in CARES Act funding and approximately $73 million in FEMA funds, enabling UNC Health to provide essential care during an unprecedented crisis. Notably, this marked the first instance for many hospitals of reaching the dollar threshold necessitating a single audit. The Audit Department established internal controls and collaborated with external auditors to complete 33 single audits, yielding clean reports for all UNC Health-owned and managed hospitals. Furthermore, the Audit team partnered with Supply Chain leadership on re-engineering initiatives, enhancing efficiency and effectiveness through standardization. In the IT audit realm, the team successfully completed 12 projects aimed at mitigating information and security risks, thereby protecting patient privacy and safeguarding organizational assets.

UNC System Office: The UNC System Office's Office of Internal Audit (OIA) achieved significant milestones, reflecting its commitment to excellence. The office successfully completed an external Quality Assurance Review (QAR), receiving a prestigious "Generally Conforms" rating—the highest possible—meeting the Institute of Internal Auditors (IIA) Standards. This achievement extended to the North Carolina School of Science and Mathematics and the North Carolina State Education Assistance Authority, both of which also received a "Generally Conforms" rating under OIA's oversight. Furthermore, the Chief Audit Officer of the UNC System Office played a vital role in enhancing collaboration among internal audit programs across constituent institutions. This included organizing conference calls and a two-day retreat for Chief Audit Officers to share best practices, address common

challenges, ensure consistency in reporting to the Council of Internal Auditing, and clarify UNC System requirements, fostering a culture of communication and cooperation.

University of North Carolina at Wilmington: FY 2024 was a highly successful year for the Office of Internal Audit at the University of North Carolina at Wilmington (UNCW), which, despite staffing transitions, maintained a professional team that collaborated effectively with campus constituents. The Office completed five audits, two follow-up audits, and two formal advisory engagements, with all value-added recommendations accepted by university leadership. Additionally, we provided informal advisory services through thirty-four minor projects and requests, while also conducting outreach and education activities that included training for forty employees from twenty-seven units across four divisions on internal controls. Furthermore, we engaged with UNCW business students to enhance their understanding of the internal audit profession.

Wildlife Resource Commission: As of May 1, 2024, the NCWRC Internal Audit has successfully undergone a leadership transition, with new leadership emphasizing the development and implementation of processes to comply with the Institute of Internal Audit's Global Standards. Key initiatives include the adoption of a new workpaper storage system for enhanced security and accessibility of audit documentation, the establishment of standardized engagement procedures for risk assessments, assurance engagements, consultations, and follow-ups, and the creation of uniform workpaper templates to streamline documentation. Additionally, the Internal Audit Charter has been revised and approved to clarify the program's purpose and responsibilities, and a comprehensive risk assessment has been completed to guide the development of the internal audit plan. Collectively, these initiatives aim to strengthen the internal audit program and effectively support NCWRC in achieving its goals and objectives.

Winston Salem State University: Internal Audit (IA) at WSSU continues to enhance its value to the university through a successful shared service agreement with UNCSA, efficiently servicing two institutions despite limited resources. IA's student success initiative fosters engagement with the student population via the class presentation, "IA at WSSU," in collaboration with the academic business department, and a student intern program that provides valuable real-world experience to enhance critical business skills. This collaboration brings fresh perspectives to IA, notably improving the risk assessment process through AI-assisted risk identification. Additionally, IA launched its first food drive in partnership with Student Affairs to address food insecurity among students. A significant follow-up initiative was also conducted to evaluate the implementation of corrective measures for outstanding observations at both universities, supporting risk mitigation. Overall, IA continues to offer training while increasing productivity, effectively addressing and assessing risks to support strategic success and enhance value for the universities served.

Key Terminology

Budgeted Positions: The number of full time equivalent (FTE) internal audit positions an organization has in its budget for FY2024. This figure does not include administrative staff.

Corrective Action Plan Written: The corrective action plans written by management to address observations and recommendations for each report. Corrective action plans indicate management's acceptance of recommendations.

Engagement: An independent and systematic examination of an agency's financial records, systems, and controls performed by the internal auditor.

Engagements Completed: Total number of audit engagements completed and uploaded to the central database for FY2024.

FY 2024 Full-Time Equivalent: One FTE for each full-time worker an organization has classified as an internal auditor. o There are four agencies with unique circumstances regarding FTE for FY2024. These are denoted in the table as follows:

- ▪ * Outsourced to Vendor
- ▪ ** Outsourced to UNC-System Office
- ▪ *** Outsourced to Winston Salem State University

Percent of Audit Plan Completed: Calculated as completed / (planned + added) = % audit plan completed. Cancelled or deferred engagements have not been removed from this calculation.

Plan total: The sum of engagements from the beginning audit plan and additional engagements completed throughout FY2024.

Cost Avoidance Identified: The total amount of funds for which there is inadequate support, or the nature, purpose, and reasonableness of an expenditure is in question.

Recommendations Accepted: Any suggestion for improvement made by internal audit on any assurance or advisory audit report that was accepted by management.

Recommendations Made: Any suggestion for improvement made by Internal Audit that were included on any assurance or advisory engagement report. There can be multiple recommendations in one report or none.