

Internal Audit Division
Annual Report for Fiscal Year 2018



**N.C. Department of Agriculture and Consumer Services
Internal Audit Division**

Message from the Internal Audit Director

Fiscal Year 2018 (FY18) was a successful and productive year in the Internal Audit Division despite being short staffed for eight months.

Within our primary services we:

- ❖ Completed five audits, one consulting engagement, sixteen follow-up audits and one special investigation.
- ❖ Provided 113 hours of technical assistance to our clients.



We began our year by finalizing our Division's first strategic plan. The plan consists of four goals focusing on project efficiency and delivery, internal audit and internal controls awareness, emerging risks awareness and service diversity and impact. The Plan covers a five-year (FY18-FY23) period and will guide our decisions as we seek to become a recognized leader in the government internal audit profession that makes a difference for the Department's key stakeholders. During FY18, we made significant progress against our objectives for audit plan completion, enhancing our Division's website, enhancing our risk assessment process and ensuring our projects were focused on our clients' needs and the key risks to their success.

In addition, for the first time, we passed our external quality assurance review with a rating of "Generally Conforms," the highest rating available. The final report highlighted more positives than negatives with respect to our results.

As we continue to mature as an audit team and grow our skill sets, we look forward to another great year in Fiscal Year 2019.

Derek Allred, CIA, CFE, CGAP, CRMA
Internal Audit Director

Internal Audit Division Overview

The Internal Audit Division was established in Fiscal Year 2014. The Division's mission is:

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

Staffing

The Internal Audit Division is comprised of an Internal Audit Director and three¹ internal auditors.

Certifications

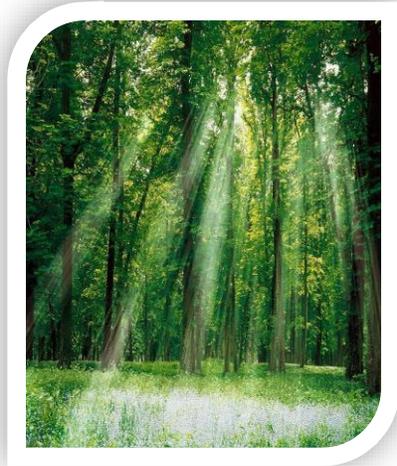
All of our staff hold professional audit certifications:

- ❖ One Certified Internal Auditor (CIA)
- ❖ Two Certified Fraud Examiners (CFE)
- ❖ Two Certified Government Auditing Professionals (CGAP)
- ❖ One Certification in Risk Management Assurance (CRMA)

Two staff members are currently pursuing the CIA designation.

Training

Professional development helps our staff to stay current with emerging topics and best practices within our profession, which improves our ability to provide higher quality services to the Department. Individual training plans are developed and carried out for each staff member annually based on his/her knowledge, skills, abilities and needs. During FY18, internal audit staff received more than 223 hours in continuing professional education.



¹ One of the three internal auditor positions is currently vacant.

Work Allocation			
Assurance Services	Consulting Services	Follow-Up Audits/Monitoring	Special Investigations

Assurance Services

Assurance services include planned audits of strategy, operations, finance, compliance, information technology and other topics. Audits can also be integrated and include more than one of the categories presented. Assurance services are normally planned months in advance and included on our annual audit plan (work plan). This service includes the release of a formal report, which contains a summary of the area under audit and any observations as well as recommendations to mitigate identified risks.

Consulting Services

Consulting services are activities in which the nature and scope are agreed upon with the client and are intended to add value and improve an organization's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include advice, facilitation and training.

Follow-Up Audits/Monitoring

Follow-Up Audits/monitoring engagements are completed for any engagement observations deemed high risk to the Department.

Special Investigations

Investigations result from tips reported to our office via the Office of the State Auditor, our internal fraud, waste and abuse hotline and other sources. During FY18, the Internal Audit Division received and processed 24 investigation tips.

Performance Metrics

We track four measures annually to assess our performance.

Percent of Audit Plan Delivered during the Year (Productivity)

Target:	75% Audit Plan Completion
Actual:	88% of Original Audit Plan Completed and 96% of the Revised Audit Plan Completed

Our audit plan, approved on June 27th, 2017, included 25 projects. Of the 25 projects on our original plan, we completed 22 or 88%, exceeding our target of 75%. We later revised the audit plan by shelving two grants management audits and adding one special investigation. Of the 24 projects on our revised plan, we completed 23 or 96%, exceeding our target.

Percent of Projects Completed within Budget (Efficiency)

Target:	80% of Projects Completed within + or – 15% of Budgeted Hours
Actual:	71% of Projects Completed within + or – 15% of Budgeted Hours

Budgeted hours are the number of hours we allocate to complete each project based on our estimates. With more staff experience, on budget performance improved from the prior fiscal year. With even more experience, we expect to close the gap in FY19.

Customer Satisfaction (Effectiveness)

Target:	Average Rating of 40 out of 50
Actual:	Average Rating of 45

At the end of each engagement, project sponsors are asked to complete a survey evaluating our audit team's work to facilitate continuous improvement. Questions on the survey address audit communication, professionalism of our staff, degree of disruption to operations and whether the project added value. For each question, responses are provided on a scale from 1 to 5 with 5 being the highest possible score. The maximum survey score is 50.

Conformance to IIA Standards (Quality)

Target:	Generally Conforms
Actual:	Generally Conforms

Both our recent external and internal quality assurance reviews demonstrated an IIA Standards and Code of Ethics compliance result of "Generally Conforms," the highest score an internal audit division can achieve. In fact, on our external review, our successful internal audit practices (4) outnumbered both our gaps to Conformance (1) and our opportunities for continuous improvement (2). Since the external review, we have made positive progress in addressing the lone gap and the opportunities for continuous improvement.

Disclosures

The Internal Audit Division adheres to IIA Standards. The following items are being disclosed in conformance with the Standards.

Purpose

The purpose of the Internal Audit Division is to support the North Carolina Department of Agriculture and Consumer Services by providing risk-based and objective assurance, advice, and insight.

The Internal Audit Division is established by General Statute Chapter 143, Article 79. The Internal Audit Division's responsibilities are defined by these laws. The Council of Internal Auditing has authority to set policy related to the Internal Audit Division.

Professionalism

The Internal Audit Division will govern itself by adherence to the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The mandatory elements constitute principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Internal Audit Division will also adhere to the requirements within General Statute Chapter 143, Article 79, the Institute of Internal Auditors' Implementation Guidance and Supplemental Guidance as applicable to guide operations.

Lastly, the internal audit activity will adhere to the North Carolina Department of Agriculture and Consumer Services' relevant policies and procedures and the Internal Audit Division's internal policies and procedures manual.

Authority

The Internal Audit Division, with strict accountability for confidentiality and safeguarding records and information, is authorized ready, full, free and unrestricted access to all the North Carolina Department of Agriculture and Consumer Services' records, physical properties and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Division in fulfilling its roles and responsibilities.

Disclosures (Continued)

Responsibility

The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organization's governance, risk management and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Department's goals and objectives.

Independence and Objectivity

The Internal Audit Division will remain free from interference by any element in the Department, including matters of audit selection, scope, procedures, frequency, timing or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records or engage in any other activity that may impair the internal auditor's judgment.

Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

Current Impairments to Independence or Objectivity

The Internal Audit Division has no current independence or objectivity impairments.

Resolution of Management's Acceptance of Risks

Each engagement can potentially result in observations concerning risks to the Department. In response to high and medium level risk rated observations, audit clients normally develop management action plans to address the risks. When a management action plan is not developed and/or not implemented resulting in an unacceptable level of risk to the Department, the Internal Audit Director must communicate the matter to Senior Management. There were no instances to report for FY18.

Resources

The Internal Audit Division is currently understaffed and not fully capable of completing the FY19 annual audit plan without the addition of a fully qualified Auditor II. IAD is currently working to fill the vacancy.

In addition, IAD currently lacks the ability to conduct IT audits on a large scale. IAD will undergo extensive training in the Fall of 2018 to address the staff deficiency. However, additional funding for IT audit training and certifications is needed to fully address the deficiency without incurring extensive expenses for hiring an external audit firm to

Disclosures (Continued)

conduct IT audits. Engaging an outside firm to perform additional work could cost in excess of \$51,000 per audit as opposed to the non-recurring cost of having at least one auditor from the present staff certified in this area. Certification would cost a little more than \$1,700 up front with a small estimated recurring cost of less than \$200 to maintain the person's required Information Systems Audit and Control Association membership.

Closing Comments

We appreciate the support provided by Senior Management during FY18 and look forward to adding more value for you in FY19.