

Audit Services Division
Annual Report for Fiscal Year 2021



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

Message from the Chief Audit Officer

Fiscal Year 2021 (FY21) was another successful and productive year for the Audit Services Division.

Within our primary services, we:

- ❖ Completed four internal audits, one consultation, four follow-up reviews, two special projects, one special investigation and sixty-two external audits, and
- ❖ Recouped \$152,080.27 for unpaid agriculture commodity¹ tonnage sales.



Despite the challenges of Covid-19, the Audit Services Division achieved all four of its annual performance targets for FY21.

During FY21, we made significant progress against our objectives for Project Efficiency and Delivery, Emerging Risks Awareness and Service Diversity and Impact. Key strategic achievements included the use of Microsoft Teams to conduct virtual meetings and revamping our annual risk assessment process to assess individual programs and sections within the Department and audit topics pertinent to those with higher risk levels.

We look forward to making more progress against our Division's strategic objectives and adding more value for the Department and its stakeholders in Fiscal Year 2022!

Derek Allred, CIA, CISA, CFE
Chief Audit Officer

¹ commercial feed, fertilizer, lime and seed sales in North Carolina

Audit Services Division Overview

The Audit Services 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.

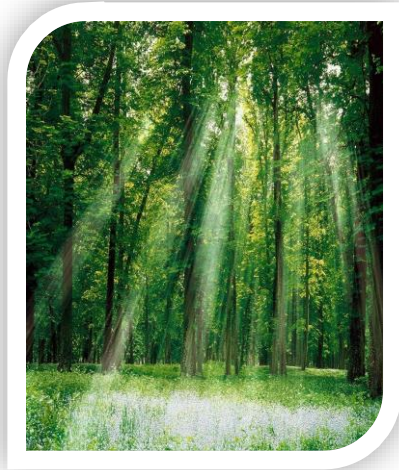
Staffing

The Audit Services Division is comprised of the Chief Audit Officer, two internal auditors and an external auditor.

Certifications

Our staff hold professional audit certifications including:

- ❖ Two Certified Internal Auditors (CIA),
- ❖ One Certified Information Systems Auditor (CISA),
- ❖ One Certified Fraud Examiner (CFE),
- ❖ One Certified Public Accountant (CPA),
- ❖ Two Certified Government Auditing Professionals (CGAP), and
- ❖ One Certification in Risk Management Assurance (CRMA).



Training

Professional development helps our staff to stay current with emerging topics and best practices within our profession, which improves our ability to provide high 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 FY21, audit staff received 220.5 hours in continuing professional education.

Work Allocation				
Assurance Services	Consulting Services	External Audits	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.

External Audits

Audits of manufacturers and distributors that are responsible for timely and correct payment of inspection fees and Agricultural Foundation Assessments associated with state agriculture tax laws.

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 FY21, the Audit Services Division received and processed eight 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:	62% of Original Audit Plan Completed and 82% of the Revised Audit Plan Completed

Our audit plan, approved on July 13th, 2020, included 13 projects. Of the 13 projects on our original plan, we completed 8 or 62%. We later revised the audit plan by cancelling four projects and adding six projects. We completed 82% of the projects on our revised audit plan, exceeding our target.

Percent of Projects Completed within Budget (Efficiency)

Target:	80% of Projects Completed within + or – 10% of Budgeted Hours
Actual:	82% of Projects Completed within + or – 10% of Budgeted Hours

Budgeted hours are the number of hours we allocate to complete each project based on our estimates. With additional training and experience, we were able to improve upon our performance from the prior year and achieve the target.

Customer Satisfaction (Effectiveness)

Target:	Average Rating of 40 out of 50
Actual:	Average Rating of 46

At the end of each audit 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 audit 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 the Audit Services Division can achieve.

Disclosures

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

Audit Charter

The Audit Services Division audit charter has been reviewed, updated and approved by senior management as of July 29th, 2021.

Purpose

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

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

Professionalism

The Audit Services Division will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Officer will report periodically to senior management regarding the Audit Services Division's conformance to the Code of Ethics and the Standards.

The Audit Services 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.

The Audit Services Division will adhere to the North Carolina Department of Agriculture and Consumer Services' relevant policies and procedures and the Audit Services Division's internal policies and procedures manual.

Lastly, dependent upon engagement type, the Audit Services Division will adhere to the Code of Ethics and Information System Audit and Assurance Standards issued by the Information Systems Audit and Control Association, the CFE Code of Professional Standards issued by the Association of Certified Fraud Examiners or standards of another professional organization.

Disclosures (Continued)

Authority

The Audit Services 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 Audit Services Division in fulfilling its roles and responsibilities.

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 Audit Services 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 Audit Services 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 Chief Audit Officer must communicate the matter to senior management. There were no instances to report for FY21.

Disclosures (Continued)

Resources

The Audit Services Division is currently understaffed by two positions based on a previous external assessment by an independent third party completed in 2017 and our annual risk assessment identification of high-risk audit topics. Sixteen high risk audit topics were declined for Fiscal Year 2022. A vacant internal audit position was transferred to the Purchasing Section in August of 2019. Understaffing decreases the Division's ability to cover the majority of the Department's high-risk areas resulting in the Department being exposed to a higher level of risk. Additional staffing needed would include an Internal Audit Supervisor to perform work quality reviews as well as advanced audit work and an Internal Auditor III with information systems audit expertise to provide a greater level of assurance over information technology. Prior year funding coupled with adjustments for inflation and proposed salary increases in the Governor's recommended budget will be sufficient to cover the current year's work plans and expenses. Building in funding for the two additional positions plus operational unit cost increases for said positions would help Audit Services to cover most of the high-risk engagement topics declined for Fiscal Year 2022. Please see Exhibit A below for more details.

Exhibit A

Accounts	FY21 Budgeted Amounts	FY22 Budget Needed to Accomplish Work	Minimum FY22 Budget Needed for Enhanced Coverage of High-Risk Engagement Topics
5312 SPA SALARIES & WAGES	\$ 306,485.00	\$ 314,147.13	\$ 491,921.08
5314 SUPPLEMENTS TO REGULAR WAGES	\$ 2,813.00	\$ 2,883.33	\$ 6,883.23
5315 EMPLOYEE BENEFIT COSTS	\$ 116,337.00	\$ 119,245.43	\$ 212,548.00
531 PERSONAL SERVICES	\$ 425,635.00	\$ 436,275.88	\$ 711,352.31
5321 PURCHASED CONTRACTUAL SERVICES	\$ 24.00	\$ 25.20	\$ 37.80
5324 MAINTENANCE AGREEMENTS	\$ 4,865.00	\$ 5,108.25	\$ 6,385.31
5327 TRAVEL & OTHER EMPLOYEE EXPENSES	\$ 1,893.00	\$ 1,987.65	\$ 2,981.48
5328 COMMUNICATIONS AND DATA PROCESSING	\$ 207.00	\$ 217.35	\$ 326.03
5329 OTHER SERVICES	\$ 208.00	\$ 218.40	\$ 327.60
532 PURCHASED SERVICES	\$ 7,197.00	\$ 7,556.85	\$ 10,058.21
5331 GENERAL ADMIN SUPPLIES	\$ 645.00	\$ 677.25	\$ 1,015.88
5339 OTHER MATERIALS & SUPPLIES	\$ 1,615.00	\$ 1,695.75	\$ 2,543.63
533 SUPPLIES	\$ 2,260.00	\$ 2,373.00	\$ 3,559.50
5345 EQUIPMENT	\$ 2,340.00	\$ 2,457.00	\$ 3,685.50
534 PROPERTY, PLANT AND EQUIPMENT	\$ 2,340.00	\$ 2,457.00	\$ 3,685.50
5358 OTHER ADMINISTRATIVE EXPENSES	\$ 875.00	\$ 918.75	\$ 1,378.13
535 OTHER EXPENSES & ADJUSTMENTS	\$ 875.00	\$ 918.75	\$ 1,378.13
TOTAL NON-SALARY ITEMS	\$ 12,672.00	\$ 13,305.60	\$ 18,681.34
EXPENDITURES	\$ 438,307.00	\$ 449,581.48	\$ 730,033.64

Closing Comments

We appreciate the support provided by senior management during FY21 and look forward to adding more value in FY22.