



Photo by Roger Winstead

Annual Report

NC STATE UNIVERSITY INTERNAL AUDIT DIVISION

FISCAL YEAR 2010 – 2011
(Data as of June 10, 2011)

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Mission

The mission of the NCSU Internal Audit Division (IAD) is to support the University's successful achievement of its strategic goals. We accomplish this by serving as a partner to executive management, faculty, and staff in identifying and balancing their units' risks through objective, flexible, and proactive audit and consultation services.

General Overview

This year has been one of rapid change at our University as our leadership has set new directions for the University as a whole. Those positive changes, unfortunately, have been accompanied by external pressures related to the state budget and the general economy. This changing and sometimes uncertain environment resulted in IAD experiencing an increased volume of unscheduled investigations and special requests for audits and consulting. Adding to the challenges, IAD experienced turnover of several staff who left the University for lucrative opportunities in the Federal and private sectors. This left us with only 4.75 permanent audit staff, including the Director, and 1.5 temporary employees (1 temporary FTE newly hired into the Administrative Assistant position and a .5 temporary FTE working against a vacant auditor position). Unfortunately, budget constraints have prevented our 3 vacant positions from being fully and permanently filled as of the writing of this report.

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These challenges, along with new risks emerging throughout the year requiring our immediate attention, resulted in 6 audits from the 2011 Audit Plan (Plan) being incorporated back into our continuous risk assessment process. Those audits were reassessed and reprioritized against other potential audits and risks and considered for inclusion in future Plans with the same scope, a new scope, or, if the risk was deemed to have been mitigated, they were removed from the risk data.

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Nonetheless, despite constrained resources and a challenging environment, IAD has accomplished much this year.

Significant Accomplishments of 2010-2011

- Successfully passed our first internal, formal Quality Assessment Review (QAR). This review was performed by an independent audit consultant and was conducted in accordance with The Institute of Internal Auditors' International Professional Practices Framework and the State of North Carolina's Internal Audit Act. The review serves as the final preparatory step for the external portion of the QAR which will be conducted in fiscal year 2012 by the State of North Carolina Office of Internal Audit
- Advised the Executive Vice Chancellor and Provost regarding Federal A-21 requirements and audit trends in relation to Office of Inspector General audits of summer salary payments from Federal research contracts and grants; made best practice and compliance recommendations for University processes and provided input for campus communications
- Internally developed a new website that focuses on providing useful tools to campus units: self-assessments for their financial and HR processes and procedures, a variety of educational presentations on best practices for several high-risk processes on campus, and flow charts of our audit processes to enhance transparency and campus understanding of what we do
- An ethics Hotline was a well-received addition to our new website allowing for anonymous reporting of misuse, mismanagement, or other ethical concerns directly to the Director of Internal Audit
- Security Assessment Consulting Projects conducted in University Planning and Analysis and the Office of General Counsel resulted in significantly improved security relating to information technology (IT), data, and physical security. Leadership in both organizations expressed appreciation for our efforts and implemented our recommended improvements immediately
- IAD Management and staff increased their knowledge, skills, and experience by cross-training to enable more in-depth integration of operational and IT audit engagements. Cross-training was achieved through on-the-job training and formal classroom training. This enabled staff to audit outside their traditional areas of expertise and increased IAD's ability to respond rapidly to University needs
- The management team acted as independent chair-persons on several successful task forces or committees including: the University IT Governance Initiative's Security and Compliance Taskforce and the Search Committee for the Deputy General Counsel
- IA Director presented at the Institute for Internal Auditors (IIA) Student Night at NCSU enhancing student's awareness of the internal audit profession. This presentation resulted in a student requesting and subsequently shadowing the IAD staff
- Significantly revised our interview process by switching to the Behavioral Based Method for hiring new employees into the auditor and administrative assistant positions

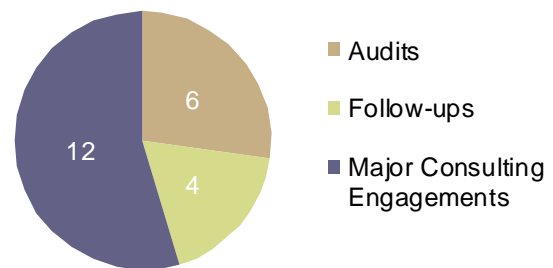
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Audit & Consulting Engagements

Audit engagements arise directly from our continuous risk assessment and analysis process. Each year in April, the Board of Trustees reviews and approves a new Plan for the coming fiscal year. That Plan is a “snapshot in time” of the current risks as of February 1 (the end of our planning year). It is subject to change as our on-going risk analysis weighs emerging areas of risk, management requests, and potential investigations received throughout the year against the audits on the approved Plan. The impact of this is that some audits on the Plan will be replaced or postponed by new audits that carry higher or more immediate risk. The result is a more responsive, comprehensive process.

In addition to audits, we perform numerous consulting engagements each year, partnering with units to create an awareness of internal controls, reinforce the importance of compliance to Federal, State, and University requirements, and increase efficiency and effectiveness. It is our philosophy that consulting “up front” or immediately upon identifying a risk is more valuable, timely, and cost beneficial than conducting an “after the fact” audit. Consulting engagements are typically separated into two general categories: major consulting projects have a duration of several weeks to several months or more and minor consulting projects last less than one week. Consulting projects arise on an almost daily basis through a variety of sources and are added to our work load based on the resources available. Overall, the goal for our consulting engagements is to help the units, colleges, faculty, and staff effectively achieve their goals while still remaining compliant to the requirements that relate to their work.

Engagements completed as of June 10, 2011



Audits:

- College of Engineering: The Future Renewable Electric Energy Delivery and Management Systems Center
- College of Agriculture and Life Sciences: Distance Education and Learning Technology Applications Funded Distance Education Program
- The Friends of N.C. State Baseball, L.L. C. ('Rally Club')
- Cooperative Extension Service: Granville County
- Cooperative Extension Service: Harnett County
- Facilities Operations: Paint Shop Investigation

Follow-ups on previously reported issues:

- Office of Information Technology: Administrative Data Back-up
- College of Engineering: Engineering Foundation (Office of the State Auditor)
- College of Veterinary Medicine: Veterinary Teaching Hospital - Pharmacy
- Facilities Division: Power Systems Investigation

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Audit & Consulting Engagements (Cont'd)

Examples of Major Consulting Engagements:

- Consulted on a theft of controlled substances. Advised on additional controls, training, and enhanced procedures to manage any future occurrences
- Presented on the use of operational self-assessment tools at the College of Engineering Finance and Human Resources Personnel Retreat and the Research Support Council
- Addressed concerns related to misuse of grant funding for personal benefit of a family member
- Provided guidance related to volunteer fund handler fiscal responsibilities and liabilities
- Advised several college and central units on use of personal computers and other devices for University business
- Raised awareness and recommended guidelines on outsourcing of University data storage
- Consulted on preventative measures to limit risk of recurrence of credit card related fraud
- Provided guidance on procedures for purchasing iTunes/AppStore applications



Minor Consulting Engagements:

IAD receives requests every week from colleges, business units, centers, institutes, and remotely located sites seeking consultative audit input on their projects, new initiatives, or for proper handling of problems encountered. We classify these as minor consulting engagements. This year we handled over 55 minor consulting engagements lasting 1 week or less. These minor activities dealt with security, financial, research, and personnel matters and resulted in recommendations related to compliance, efficiency, security and privacy, or provided general audit related information to campus.



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Additional Audit Activities

Everyone in IAD attends a variety of regularly scheduled state, UNC system, and University meetings or focus groups as an attendee, participant, presenter or, when not a conflict of interest, a committee member. It is common for topics addressed at these forums to relate to current, future, or potential audit or consulting work and, thus, these play a critical role in our continuous risk assessment process. IAD's participation in these gatherings often present us with the opportunity to point out, early in the process, the unexpected impact of decisions being made. In addition, these meetings allow us to educate the campus on the value we can provide, the tools and information available on our website, current trends in the issues noted across campus, and address special topics of interest to each group in an informal training environment.

University Level Meetings:

- University IT Committee
- Administrative Systems Steering and Management Teams
- NCSU Research Support Council
- Enterprise Resource Planning Systems
- Business Connections
- Personnel Connections
- Vice Chancellor for Finance and Business Staff Meetings
- Research Administrators Q&A
- Internal Control Assessment Committee
- Annual Research Retreat
- Quickstart Training

Committee Membership:

- University Council
- Office of Information Technology's Identity and Access Management Teams
- NC State Records Retention Schedule Revision Committee
- PRR Taskforce: Ad hoc meetings regarding streamlining the PRR process and PRR website improvements

UNC – System Level Meetings:

- UNC Finance Improvement and Transformation (FIT) Team
- UNC FIT Audit Advisory Team
- UNC Auditor's Association

State Level Meetings:

- NC Council of Internal Audits
- NC Internal Audit Alliance

Professional Organization Meetings:

- Information Systems Audit and Control Association - included a leadership role as Director for the local chapter of this IT audit professional's associations
- Institute of Internal Auditors - included presenting at Student Night and serving on the panel for the Raleigh-Durham Chapter



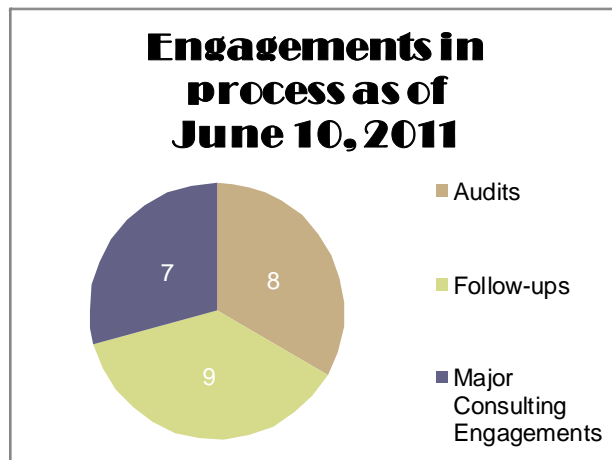
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Vision for the Future

We continue to work diligently on these in-process engagements and plan to complete them in an acceptable time frame given our current restrictions in human resources and the impending budget reductions. At the beginning of the new fiscal year, in keeping with our continuous risk assessment process, we will re-analyze the fiscal year 2012 Plan approved in April 2011 and adjust it as necessary to ensure appropriate coverage of those high risk items in relation to our resources.



With an eye to the future, IAD will continue to focus on quality improvement in our Division:

- Peer Review: the State's Internal Audit Act requires a formal external review in accordance with the Institute of Internal Auditors' requirements to obtain a quality assessment review by your peers (trained by the IIA); our external review is currently scheduled with the State Office of Internal Audit for Fall 2011
- IA management system implementation: TeamMate will increase productivity of the IAD audit, consulting, risk identification, and reporting processes by ensuring a more organized, streamlined, and web-based method for all our activity. It facilitates reporting and trending of key performance indicators and leverages the internationally accepted professional audit framework
- Continuous improvement to audit processes: we have significantly revised our existing standardized audit processes, created new ones, and regularly enhance all our processes and templates to ensure maximum consistency, efficiency, and effectiveness in our work and work products
- University self-assessment tools: we will complete development of remaining customer self-assessment tools; these will facilitate units in developing or assessing their own IT governance processes, controls, and compliance levels in their systems
- IAD staff are committed to continual professional development and the majority are currently pursuing additional audit related professional certifications
- Community Service: we will continue with, and research opportunities to increase, our team's volunteer activities in the local community. Each year IAD identifies and performs volunteer activities in the community in an effort to give back to those who have sacrificed for others or to provide help to others in need. This year we volunteered at the Boxes for Soldiers Organization, packing "care packages" for our soldiers in the Middle East