



PROGRAM EVALUATION DIVISION

NORTH CAROLINA GENERAL ASSEMBLY

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Department of Transportation and Council of Internal Auditing Did Not Ensure DOT Compliance with Internal Audit Act

Highlights

IN BRIEF: Despite its internal audit unit being the second largest among state agencies, the Department of Transportation (DOT) has not maintained a robust and viable internal audit effort. DOT's Office of Inspector General (DOT OIG) has not produced a performance audit since 2016. Performance audits could have detected and preempted severe DOT budget and cash control problems recently confirmed by the State Auditor. Further, the Council of Internal Auditing is not conducting compliance examinations of agency internal audit work products. Such an examination of DOT OIG by the Council could have identified problems and recognized omissions and deficiencies by comparing OIG work products to standards established by the Internal Audit Act of 2007.

BACKGROUND: Following a highly critical 2006 State Auditor report that found internal auditing deficiencies in nearly every state agency, the General Assembly enacted the 2007 Internal Audit Act, which requires large agencies including DOT to maintain internal audit units. DOT OIG conducts the department's internal auditing with 23 positions and a \$2.7 million budget. Units must follow professional standards under the guidance and oversight of the Council of Internal Auditing created by the Act. The Council has subpoena power and may conduct hearings to determine the effectiveness of any internal audit unit.

The internal audit function performed by DOT's Office of Inspector General (DOT OIG) is ineffective, delivering work products that do not conform to standards required by state law.

Since 2016, DOT OIG has not produced a single performance audit, which is a type of audit that could have identified DOT overspending and cash flow problems that began to surface in 2018 and that the State Auditor confirmed in a 2020 report. Instead, over 71% of DOT OIG's work products in Fiscal Year 2018–19 were contractor overhead/cost review approvals of the type ordinarily performed by a controller's office. DOT OIG did not conduct any financial, follow-up, information systems, or integrated audits in Fiscal Year 2018–19. Deficiencies stem from a failure by DOT management, the State Board of Transportation, and the Council of Internal Auditing to recognize and correct DOT internal audit deficiencies as identified by external peer reviews and made evident by DOT internal audit filings and reports.

Recommendation 1. The General Assembly should direct the State Board of Transportation Audit Committee to revisit DOT OIG's annual audit plan and determine why DOT OIG is not publishing reports.

Recommendation 2. The General Assembly should direct the Council of Internal Auditing to conduct a hearing on DOT internal audit functions and assist DOT in improving the effectiveness of OIG.

Recommendation 3. The General Assembly should direct the Council of Internal Auditing to establish and monitor compliance with standards for all state agency internal audit units.

To that end, the Council of Internal Auditing should

- establish a minimum level of performance audit effort in compliance with standards for agency internal audit units;
- periodically examine a stratified sample of internal auditing reports and annual plans for conformity and report deficiencies; and
- review every external quality assurance review for each agency internal audit function, hold hearings on any reported deficiencies, and monitor corrective action.

If the Council approves a resolution defining requirements, the General Assembly should consider providing funding for the Council to contract with experts to perform more complex reviews of audit units and provide expertise on internal auditing operations, standards, and technology.