

Mandatory Evaluation Components

Report No. 2020-08, Department of Transportation and Council of Internal Auditing Did Not Ensure DOT Compliance with Internal Audit Act

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, provides a reference to the page number(s) where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	The Department of Transportation's Office of Inspector General (DOT OIG) is not efficient based on measuring reports produced per budgetary resources. Although DOT OIG's budget has been stable, production of reports that meet standards is minimal and in decline. The OIG's self-assessment states that it only "Partially Meets" the standard of having performance measures that assess efficiency/process.	24
(b)(1)(b)	Is effective	Performance measures assess key outcomes. Overall, DOT OIG is not effective because its audits result in few reports and are not focused on areas of department-wide and strategic significance. The OIG is also not measuring accomplishments or improvement attributable to its audits.	24
(b)(1)(c)	Aligns with entity mission	The majority of work DOT OIG actually performs, which the office termed "compliance" auditing, does not align with its charter. DOT OIG's "compliance" work consists of prepayment approval, which violates independence standards for internal auditors and is a management rather than an internal audit function.	13
(b)(1)(d)	Operates in accordance with law	DOT OIG is not violating the law, yet it is not producing audits, particularly performance audits, that are consistent with audit standards mandated by state law. DOT, the Council of Internal Auditing, and the State Board of Transportation are not ensuring compliance with the standards required by the Internal Audit Act.	1,8,15
(b)(1)(e)	Does not duplicate another program or activity	The Program Evaluation Division did not find that the Office of Inspector General function at the Department of Transportation duplicates any other program or activity.	N/A
(b)(1a)	Quantitative indicators used to determine whether the program or activity		
(b)(1a)(a)	Is efficient	DOT OIG should but does not measure efficiency based on cost per audit hour and the number of internal audit reports issued compared to planned internal audits. The OIG tracks staff turnover/retention as one measure of efficiency.	24
(b)(1a)(b)	Is effective	DOT OIG should but does not measure effectiveness based on the number of significant audit findings and recommendations produced and results achieved by the number and percentage of significant recommendations implemented within DOT.	24

(b)(1b)	Cost of the program or activity broken out by activities performed	The Program Evaluation Division estimates that it costs the State about \$2.7 million each year to operate DOT OIG.	6
(b)(2)	Recommendations for making the program or activity more efficient or effective	<p>1. The State Board of Transportation Audit Committee should revisit its annual audit plan and determine why DOT OIG is not publishing reports. Completed reports from the annual audit plan should be a dashboard item at each monthly meeting of the Board of Transportation.</p> <p>2. The Council of Internal Auditing should conduct an investigative hearing on DOT internal audit functions, receive testimony from DOT and independent experts, and recommend corrective actions to DOT and the General Assembly.</p> <p>3. The General Assembly should:</p> <ul style="list-style-type: none"> • direct DOT and the Council of Internal Auditing to work jointly on a general overhaul of DOT OIG to improve its effectiveness and enhance its independence by ensuring OIG engagements do not blur boundaries of management activities; • require the Council of Internal Auditing to establish a minimum level of performance audit effort in compliance with standards for agency internal audit units; • require Council staff to periodically examine a stratified sample of internal auditing reports and annual plans for conformity and report deficiencies to the Council; • require the Council to review every external quality assurance review for each agency internal audit function, hold hearings on any reported deficiencies, and monitor corrective action; and • upon request by a resolution approved by the Council of Internal Auditing defining requirements, 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. <p>The General Assembly should require that all actions be implemented by June 1, 2021.</p>	16
(b)(2a)	Recommendations for eliminating any duplication	The Program Evaluation Division did not find evidence of duplication.	N/A
(b)(4)	Estimated costs or savings from implementing recommendations	Costs will be associated with providing additional funding for the Council of Internal Auditing to establish a minimal level of performance auditing within state agencies and to contract with experts to perform more complex reviews and provide expertise. The costs may be offset by savings and efficiencies achieved through conducting more performance audits in agencies if the audits are done in accordance with standards.	N/A