Executive Summary

This report contains a summary of the Office of Internal Audit’s activity for the quarter ending June 30, 2017. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Projects
- Randall Library Review
- Sponsored Programs and Research Compliance Review, Phase II
- Cash Handling Review

Pending Project
- College of Arts & Sciences Review

Follow Up Audits
No follow up work was completed for the quarter ending June 30, 2017 due to schedule limitations for both campus departments with open audit findings and Internal Audit. Audit follow ups will resume in the first quarter of fiscal year 2018.

Investigations

Completed Projects
- Personnel Complaint within Student Affairs
- Scuba Class (PED 104) Complaint

Consultations/Advisory Services

Completed Project
- MSA Practicum Project

Advisory Services
- Routine Consultations included 18 minor projects and requests for information.
- Individuals from 11 departments representing 4 out of 5 of UNCW’s divisions attended the Introduction to Internal Controls course taught by Internal Audit.
- The office was involved with 6 UNCW committees.
- The office was actively involved with 1 professional organization.

Other
- The office’s annual risk assessment process was completed.
- Monica Crump was hired as the office’s new intern.
- Individuals from the office attended or participated in 5 university events/functions.
- Individuals from the office participated in 5 UNCW training programs. In addition, they attended 3 conferences/workshops and 2 webinars earning over 14 hours of CPE.
Audits/Assurance Services
Audits and assurance engagements include planned reviews of compliance, operations, information technology, financial activity, internal controls, and other topics. They also include integrated audits which incorporate more than one of those categories in a single engagement. Audits are typically included on our office’s annual audit plan (work plan), and they result in a formal audit report which includes an overall opinion of the area under review and any findings and recommendations that were identified.

Completed Projects
Randall Library Review
A review of Randall Library was completed to assess and evaluate select administrative operations within Randall Library including the underlying internal controls. The review focused on select administrative operations, with a focus on the library’s business functions and asset management. Academic matters, including library research, instructional services, and assessment, were outside the scope of the review. We reviewed and assessed the following areas:

- Financial activity
- Procurement processes
- Cash handling of library receipts
- Management of capital assets and equipment
- Asset surplus disposals

In our opinion, the system of internal control with respect to the administrative operations reviewed needs improvement. There were 12 findings associated with this review, and we received positive responses from management to the findings. The final report was issued May 16, 2017.

Sponsored Programs and Research Compliance Review, Phase II
The second phase of a multi-phase review of the Office of Sponsored Programs and Research Compliance (SPARC) was completed. It included reviewing the following areas of Research Compliance:

- Animal Welfare
- Human Subjects Research

In our opinion, based on the work performed, the system of internal control with respect to human subjects research and animal welfare is effective. There were no findings associated with this review. The final audit memo was issued June 2, 2017.
Cash Handling Review
Cash handling processes and compliance with UNCW Policy 05.141, Departmental Funds Receipting, were reviewed for campus departments which routinely receive funds including, but not limited to, cash or checks, credit card payments, and wires. Our work included:

- Confirming funds received were appropriately tracked and recorded
- Reviewing the deposit process
- Assessing the safeguarding of all un-deposited receipts
- Evaluating reconciliation processes
- Ensuring appropriate segregation of duties
- Ensuring the existence and accessibility of adequate written procedures documenting the cash handling process for each department

In our opinion, internal controls over cash handling and compliance with UNCW Policy 05.141, Departmental Funds Receipting, for the university are effective. Of the ten departments reviewed, there were two departments with findings. The final memo was issued June 29, 2017.

Pending Project
College of Arts & Sciences Review
A review of the College of Arts & Sciences is in process. The scope of the audit was determined by conducting a thorough risk assessment at the beginning of the review. Audit objectives include reviewing:

- Financial activity
- Cash handling of all departmental receipts
- Management of capital assets and equipment
- Planning and management of facilities and construction projects
- Continuity of operations planning
- General controls matters including system maintenance and access, physical security, and business continuity planning
- Payroll and personnel matters
- Assessment responsibilities
**Follow Up Audits**

*Follow up work is completed for any audit findings resulting from audit/assurance engagements and may be completed for other engagements as deemed necessary. We typically follow up on open audit findings on a quarterly basis. A formal memo is issued when all findings relating to an engagement are closed. If findings are not yet resolved, formal memos are also issued approximately two years after the initial audit to update all parties involved of progress.*

**Audit Finding Status**

No follow up work was completed for the quarter ending June 30, 2017 due to schedule limitations for both campus departments with open audit findings and Internal Audit. Audit follow ups will resume in the first quarter of fiscal year 2018. The table below displays open audit findings (findings which have not been resolved) as of June 30, 2017.

*Note: A summary of open audit findings is included at Appendix A.*

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Original Report Date</th>
<th>Number of Open Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance, Phase I</td>
<td>10/11/2016</td>
<td>13</td>
</tr>
<tr>
<td>Randall Library</td>
<td>5/16/2017</td>
<td>12</td>
</tr>
<tr>
<td>Business Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources {a}</td>
<td>6/10/2016</td>
<td>2*</td>
</tr>
<tr>
<td>Aramark Contract</td>
<td>2/24/2017</td>
<td>5</td>
</tr>
<tr>
<td>Purchasing {b}</td>
<td>2/24/2017</td>
<td>1</td>
</tr>
<tr>
<td>Chancellor's Division</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>4/8/2016</td>
<td>2*</td>
</tr>
<tr>
<td>Multi-Divisional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Handling {c}</td>
<td>6/29/2017</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>37</strong></td>
</tr>
</tbody>
</table>

*Findings are considered to be “in process” indicating progress toward remediation has begun but is not yet complete.

(a) Human Resources findings were identified during a review of the Student Accounts and Cashier Office (SACO).

(b) The open finding for Purchasing was identified during a review of the Aramark Contract.

(c) For this engagement, due to duplicative findings, findings are listed by number of campus departments with findings rather than by number of findings identified.
Investigations

Investigations result from tips reported to our office via the Office of the State Auditor’s hotline, our internal hotline, and other sources.

Completed Projects

Personnel Complaint within Student Affairs

In October 2016, Human Resources referred an allegation involving an employee within Student Affairs to our office for further review. The initial allegation was that an employee was sending departmental assets to UNCW Surplus, purchasing the assets prior to the public surplus sale, and reselling the assets.

Our office conducted initial interviews with campus departments in order to determine the likelihood of this occurring and what regulations and policies, if any, these actions could potentially violate. Based on initial discussions, other allegations were identified including potential noncompliant business practices involving assets, potential improper purchasing procedures, and other potential violations of North Carolina regulations and UNCW policies.

Based on our review of available documentation and discussions with university staff, we were unable to conclude on the initial allegation. Our review of the additional allegations revealed two instances of business practices inconsistent with state guidelines, four purchasing violations, one violation of North Carolina regulations, and one violation of UNCW Policies. Details of these violations were provided to Human Resources to share with the respective department, and we consider this investigation closed.

A final memo was issued April 13, 2017.

Scuba Class (PED 104) Complaint

In May 2017, a complaint received by the Office of General Counsel was referred to our office for further review. The complaint alleged potential conflict of interest concerns related to the scuba class (PED 104) offered by the School of Health and Applied Human Sciences. We evaluated the allegations through a review of university records and interviews with applicable faculty members and unit administrators. We identified no evidence to suggest inappropriate activities. In our opinion, the allegations do not have merit and we consider the investigation closed. A final memo was issued June 1, 2017.
Consultations/Advisory Services

*Internal Audit provides consultative and advisory services which are intended to provide advice and information on internal controls, risk management, and sound business practices. This includes reviewing current practices, interpreting policies and procedures, participating on standing committees, completing limited-life projects, attending ad-hoc meetings, and responding to routine questions. In addition, our advisory work includes work with UNC General Administration and professional organizations and serving as liaisons between the university and various external auditors.*

Completed Project

**MSA Practicum Project**

The Office of Internal Audit recently partnered with Information Technology Services’ (ITS) Assurance and Compliance function to facilitate a practicum project for students from the Cameron School of Business participating in the Master of Science in Accountancy (MSA) program. The scope of the project was to research best practices and make a recommendation for the consolidation of the ITS Disaster Recovery Plan, ITS Continuity of Operations Plan, and ITS Emergency Operations Plan. Over time, these three separate plans with similar goals had each grown, leading to redundancies and challenges in maintaining them.

For the project, ITS Assurance and Compliance worked with the students on content and organization for the proposed document. Internal Audit worked with the students on best practices for consulting work including client communication, documentation, and ensuring all content from the existing documents was considered for inclusion in the proposed consolidated document. At the end of the project, the students provided ITS and Internal Audit with relevant documentation, and a final memo was issued June 29, 2017.

Advisory Services

**Routine Consultations**

In addition to formal advisory work such as serving on committees and leading training, the Office of Internal Audit provided advisory services through 18 minor projects and requests for information during the quarter ending June 30, 2017.

*INT 101: How to Pass an Audit (An Introduction to Internal Controls)*

During the quarter ending June 30, 2017, 14 individuals took the course, representing 11 departments and 4 out of 5 divisions at UNCW.

Other Advisory Services

Other advisory services were also provided as noted below.

**Committee Work**

- Athletic Eligibility
- HR Liaison
- Internal Controls
- IT Advisory Council
- Leadership Council
- Systems Coordination

**Service to the Profession**

- Association of College and University Auditors (ACUA) Best Practices Committee
Other
This section contains a summary of the other projects and activities of the Office of Internal Audit.

Annual Risk Assessment
Each year our office completes a risk assessment of UNCW operations as part of the audit planning process. Throughout fiscal year 2017, the Chief Audit Executive and other staff members engaged in ongoing risk discussions with management. Other components of the risk assessment process included financial analysis, a review of the audit findings database, and reviews of other items with audit impacts. Based on this risk assessment, an audit plan for fiscal year 2018 was developed. The audit plan will be presented to the Audit, Risk and Compliance Committee of the Board of Trustees for approval at the July 2017 meeting.

Staffing Changes
Monica Crump joined the Office of Internal Audit as an audit intern in May 2017. Monica is a full‐time undergraduate accounting student currently enrolled in the Cameron School of Business at UNCW. Upon graduation, Monica plans to pursue her Master’s in Accountancy and obtain her CPA license.

Participation in University Functions
Participating in university functions keeps our office informed of activity and events at UNCW, provides team building opportunities, and creates an opportunity to interact with the university community outside of an audit setting.

Training
Professional development is required for our certifications, and training allows our staff to stay informed of emerging topics and best practices, helping us to provide the best possible services to the university. During the quarter ending June 30, 2017, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining over 14 hours of CPE.
FY17 Audit Plan Update

One of the Key Performance Indicators (KPIs) tracked by Internal Audit is completion of the annual audit plan. The following table summarizes the status of the items on the FY17 Audit Plan, which was approved at the July 2016 Audit, Risk and Compliance Committee meeting, as of June 30, 2017.

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Audits/Assurance Services</strong></td>
<td></td>
</tr>
<tr>
<td>Randall Library</td>
<td>Complete</td>
</tr>
<tr>
<td>Abrons Student Health Center</td>
<td>Complete</td>
</tr>
<tr>
<td>College of Arts and Sciences (excluding CMS)</td>
<td>In Process</td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance (SPARC), Phase II</td>
<td>Complete</td>
</tr>
<tr>
<td>Environmental Health &amp; Safety</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Purchasing Card</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Friends of UNCW Financial Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Disaster Recovery Planning</td>
<td>Complete</td>
</tr>
<tr>
<td>ImageNow</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Campus Wide Surprise Cash Counts</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Mini-Audits</strong></td>
<td></td>
</tr>
<tr>
<td>Campus Dining/Contract with Aramark</td>
<td>Complete</td>
</tr>
<tr>
<td>Student Affairs – Engagement TBD</td>
<td>Cancelled (b)</td>
</tr>
<tr>
<td><strong>Audit Follow Ups</strong></td>
<td></td>
</tr>
<tr>
<td>Various</td>
<td>In Process / Complete</td>
</tr>
<tr>
<td><strong>Consultations/Advisory Services</strong></td>
<td></td>
</tr>
<tr>
<td>Center for Marine Science (CMS)</td>
<td>Cancelled (b)</td>
</tr>
<tr>
<td>ITS Controls Manual Review</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Complete Prior Year Work</strong></td>
<td></td>
</tr>
<tr>
<td>Office of the Registrar Review</td>
<td>Complete</td>
</tr>
<tr>
<td>SPARC, Phase I</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Special Projects/Investigations</strong></td>
<td></td>
</tr>
<tr>
<td>Quality Assurance Activities</td>
<td>Complete</td>
</tr>
<tr>
<td>Risk Assessment/Audit Plan</td>
<td>Complete</td>
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<tr>
<td>Campus Training</td>
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<td><strong>Engagements Added</strong></td>
<td></td>
</tr>
<tr>
<td>Housekeeping Complaint Investigation</td>
<td>Complete</td>
</tr>
<tr>
<td>Academic Misconduct Complaint Investigation</td>
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(a) Deferred – Engagement will be carried forward to the FY18 Audit Plan.

(b) Cancelled – Risk was reassessed, and this engagement was cancelled to allow time for higher priority engagements. The engagement will be considered for inclusion on future audit plans.
**Distribution List**
Audit, Risk and Compliance Committee, UNCW Board of Trustees

Dr. Jose V. Sartarelli, Chancellor

Mr. Bradley Ballou, Chief of Staff

Ms. Sharon Boyd, Associate Vice Chancellor for Business Services

Mr. Jim Koebel, Assistant General Counsel

Mr. Mark Lanier, Assistant to the Chancellor and Assistant Secretary, Board of Trustees

Ms. Pat Leonard, Vice Chancellor for Student Affairs

Mr. John Scherer, General Counsel

Dr. Marilyn Sheerer, Provost and Vice Chancellor for Academic Affairs

Mr. Eddie Stuart, Vice Chancellor for University Advancement

Ms. Sara Thorndike, Associate Vice Chancellor for Finance & Controller

Dr. Rick Whitfield, Vice Chancellor for Business Affairs
# Appendix A

## UNCW Office of Internal Audit

### Open Internal Audit Findings

**As of June 30, 2017**

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{c} For this engagement, due to duplicative findings, findings are listed by number of campus departments with findings rather than by number of findings identified.
Appendix A (continued)

Academic Affairs

Sponsored Programs and Research Compliance (SPARC), Phase I

1. For each individual international travel trip, including travel for research or on behalf of the university, an export control analysis should be conducted and documented by Research Compliance. This same analysis must also be conducted for foreign nationals visiting UNCW.

2. Per UNCW Policy 03.370, Export Control Compliance, SPARC should prepare, maintain and update detailed guidelines for complying with the federal statutes and regulations which require export control compliance.

3. UNCW Policy 03.370, Export Control Compliance, should be updated regularly and accurately describe current practices.

4. There should be sufficient staffing and/or other resources to ensure an adequate export controls analysis is conducted in all required situations.

5. UNCW Policy 03.230, Conflict of Interest or Commitment, should be updated regularly and accurately reflect current practices.

6. In accordance with UNCW Policy 03.230, Conflict of Interest or Commitment, conflict of interest disclosure information should be obtained from all covered employees throughout the year.

7. Per UNCW Policy 03.230, Conflict of Interest or Commitment, disclosed potential conflicts of interest should be reviewed to determine if conflict of interest (COI) management plans or other safeguards are required.

8. Per UNCW Policy 03.230, Conflict of Interest or Commitment, COI disclosures should be completed timely by covered employees. In addition, escalation procedures should be in place to help ensure timely disclosures.

9. For research funded by the National Science Foundation (NSF) and the National Institutes of Health (NIH), responsible conduct of research training must be provided to certain individuals to ensure compliance and funding.

10. Research Services and Sponsored Programs Policy 10.001: Responsible Conduct of Research, should be updated regularly and accurately reflect current practices.

11. Per Research Services and Sponsored Programs Policy 10.001: Responsible Conduct of Research, All UNCW investigators submitting a research proposal to NSF must certify that they agree to comply with the plan detailed in the policy to provide required responsible conduct of research training for all undergraduate, graduate and postdoctoral research associates involved in the project prior to submission.

12. Websites should contain current, informative content and websites should function as intended.

13. For continuity of operations, more than one person should be trained to complete critical functions and tasks.
Appendix A (continued)

Academic Affairs (continued)

Randall Library

1. Budget authorities should have the appropriate training and Banner access to complete their responsibilities.
2. The list of budget authorities for funds should be reviewed at least annually and when changes in positions occur to ensure proper oversight.
3. Expenditures should have appropriate oversight and approval, and there should be segregation of duties over the input and processing of payments.
4. Library inventory (including Randall Library's art collection) should be tracked and reported appropriately in accordance with the Office of State Controller (OSC) Policy 102.1, Capitalization/Classification Policy.
5. Departments are responsible for the appropriate use, safeguarding, and tracking of all university equipment assigned to the department, whether or not the equipment meets the fixed asset definition (UNCW Policy 05.164, University Equipment).
6. Randall Library should ensure all requirements are adhered to for the replacement or trade-in of equipment in accordance with UNCW Policy 05.164, University Equipment.
7. Surplus disposal requests should have proper oversight; employees responsible for entering disposal requests into the system should be separate from those approving the requests.
8. Gifts of tangible personal property (such as paintings, sculptures, furniture, or other works of art, or collection of such) should be reviewed and approved by University Advancement prior to gift acceptance.
9. Processing of all gifts-in-kind by Advancement Services ensures accurate reporting for the university and donors.
10. In accordance with ISO 27002, Information Technology Security Techniques, management should review users' access rights at regular intervals using a formal process.
11. Continuity of operations plans (COOPs) ensure departments have planned and coordinated procedures to ensure business operations continue despite interruptions.
12. For continuity of operations, more than one person should be trained to complete important administrative functions and tasks, with tasks documented in desktop procedures that can be accessed by others in the department.
Appendix A (continued)

Business Affairs

*Human Resources (from Student Accounts and Cashier Office review)*

1. UNCW Policy 08.410, *Training and Staff Development Educational Options*, should be consistent with the current versions of NCGS 116-143(d) and UNC Policy 1000.2.2.1[R] regarding available tuition waivers. The UNCW policy should also address co-requisite labs.

2. UNCW Policy 08.410, *Training and Staff Development Educational Options*, should be consistent with the current versions of NCGS 116-143(d) and UNC Policy 1000.2.2.1[R] regarding the application of tuition waivers.

*Aramark Contract*

1. Payments to Aramark for food services should include all services rendered unless otherwise formally documented and agreed upon by both parties.

2. Segregation of duties ensures proper oversight and decreases the potential for errors or fraudulent activity.

3. A reconciliation process should be created to ensure that all meal plan categories have been accounted for correctly.

4. For continuity of operations, more than one person should be trained to complete critical functions and tasks.

5. Best practices require written procedures to ensure consistency and to ensure processes continue as intended despite staffing absences or changes.

*Purchasing (from Aramark Contract review)*

1. To comply with the requirements of the North Carolina Procurement Manual, Section 3.4.3, *Solicitations for Goods and Services over $10,000 ($25,000 for Universities)*, dining services purchases over $25,000 should solicit competition and advertise through the State of North Carolina’s IPS (Interactive Purchasing System).

*Chancellor’s Division*

*Athletics*

1. The correct insurance documents should be maintained to ensure the university is protected while the facilities are being used by a non-university group.

2. Adequate segregation of duties for cash receipts, preparation of deposits, and transaction reconciliation should exist within the Ticket Office.
Appendix A (continued)

Multi-Divisional

Cash Handling

Note: For this engagement, due to duplicative findings, findings are listed in the table above by number of campus departments with findings rather than by number of findings identified. Below are the findings identified across two departments.

1. Per UNCW Policy 05.141, *Departmental Funds Receipting*, departments should have written cash handling procedures.
2. In accordance with UNCW Policy 05.141, *Departmental Funds Receipting*, departments should adequately secure undeposited funds.
3. Per UNCW Policy 05.141, *Departmental Funds Receipting*, monthly reconciliations must be performed by someone other than the person receiving funds and the person preparing the deposit.