Office of Internal Audit
Report for the Quarter Ending September 30, 2017

University of North Carolina Wilmington
Office of Internal Audit
Executive Summary

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

Audits/Assurance Services

Completed Projects
- Friends of UNCW Financial Audit
- College of Arts & Sciences Review

Pending Project
- Cameron School of Business Review

Follow Up Audits
- Follow up work was conducted for:
  - Sponsored Programs and Research Compliance, Phase I
  - Athletics
  - Human Resources
  - Purchasing
- 18 findings closed during the quarter
- 34 open findings as of September 30, 2017 (1 finding is considered to be “in process”)

Investigations
- There were no investigations completed or pending for the quarter ending September 30, 2017.

Consultations/Advisory Services

Advisory Services
- Routine Consultations included 19 minor projects and requests for information.
- Individuals from 21 departments representing all 5 of UNCW’s divisions attended the Introduction to Internal Controls course taught by Internal Audit.
- The office was involved with 5 UNCW committees.
- The CAE presented at Careers in Accounting Day.
- The office was actively involved with 1 professional organization.
- The CAE was involved in the Seahawk LEADS Mentoring Program.
- The CAE was a member of the UNC-GA Committee on Data Analytics.

Other
- Shelley Morris, Auditor, earned the designation of Certified Internal Auditor (CIA).
- Individuals from the office attended or participated in 4 university events/functions.
- Individuals from the office participated in 3 UNCW training programs. In addition, they attended 1 conference/workshop and 3 webinars earning 38 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

Friends of UNCW Financial Audit

Our office completed the annual audit of the financial statements of the Friends of the University of North Carolina at Wilmington, Inc. (Friends), a minor associated entity with limited activity. This project was completed with the assistance of Sarah von Stein, Internal Auditor at East Carolina University, to ensure work was completed by someone who was independent in both fact and appearance as required for North Carolina Certified Public Accountants (CPAs).

The audit was conducted in accordance with auditing standards generally accepted in the United States, and our work included a review of Friends’ compliance with the requirements of a Minor Associated Entity under the policy of UNC General Administration. Friends received an unqualified opinion, and the final report was issued September 12, 2017.

College of Arts & Sciences Review

A review of the College of Arts & Sciences (CAS) was completed to assess and evaluate select operational, compliance and administrative aspects of CAS including the underlying internal controls. The audit also included a review of select administrative functions performed by the individual academic departments within CAS. Although included in the reporting structure for CAS, the Center for Marine Science was excluded from the scope of this review. We reviewed and assessed the following areas:

- 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

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In our opinion, some improvement is needed for the system of internal control with respect to the areas reviewed. There were 15 findings associated with this review, and we received positive responses from management to the findings. The final report was issued September 18, 2017.

Pending Project

*Cameron School of Business Review*

A review of the Cameron School of Business 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
- General controls matters including system maintenance and access, physical security, and business continuity planning
- Continuity of operations planning
- Faculty academic matters
- Student academic matters
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.

Completed Follow Ups

Sponsored Programs and Research Compliance, Phase I

During fiscal year 2016, our office completed the Phase I review of Sponsored Programs and Research Compliance (SPARC), and 13 findings were identified. Follow up work was performed to determine whether SPARC had taken steps to adequately and effectively address the findings. Based on the work completed, the 13 audit findings associated with the initial review have been resolved. A final memo was issued August 30, 2017.

Athletics

During fiscal year 2016, our office completed a review of the Department of Athletics, and 5 findings were identified. Follow up work was completed in March and September 2017 to determine whether Athletics had taken steps to adequately and effectively address the findings. Based on the work completed, the 5 audit findings associated with the initial review have been resolved. A final memo was issued September 1, 2017.

Human Resources (Student Accounts and Cashier Office Review)

During a review of the Student Accounts and Cashier Office (SACO) in fiscal year 2016, our office reviewed policies and guidance relating to tuition waiver processing. As a result of our work, 3 findings related to tuition waivers were identified, for which Human Resources was responsible for corrective measures. Follow up work was completed in February and September 2017 to determine whether Human Resources had taken steps to adequately and effectively address the findings. Based on the work completed, the 3 audit findings associated with the initial review have been resolved. A final memo was issued September 11, 2017.

Purchasing (Aramark Contract Review)

During our review of UNCW’s contract with Aramark Educational Services, LLC (Aramark) in fiscal year 2017, our office reviewed payments made for maintenance and repair charges related to dining services equipment. As a result of our work, 1 finding related to these payments was identified, and UNCW Purchasing was responsible for corrective measures. Follow up work was performed to determine whether Purchasing had taken steps to adequately and effectively address the finding. Based on the work completed, the audit finding associated with the initial review has been resolved. A final memo was issued September 14, 2017.
Audit Finding Status

Audit findings are reported below in the following categories:

- **Closed** – Findings which were confirmed to be resolved during the quarter ending September 30, 2017
- **Open** – Findings which have not been resolved as of September 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 Closed Findings</th>
<th>Number of Open Findings</th>
<th>All Findings for Engagement Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance, Phase I</td>
<td>10/11/2016</td>
<td>13</td>
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<tr>
<td>Randall Library</td>
<td>5/16/2017</td>
<td>0</td>
<td>12</td>
<td>No</td>
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<td>College of Arts &amp; Sciences</td>
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<td>15</td>
<td>No</td>
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<tr>
<td>Business Affairs</td>
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<td></td>
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<tr>
<td>Human Resources (a)</td>
<td>6/10/2016</td>
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<tr>
<td>Aramark Contract (b)</td>
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<td>No</td>
</tr>
<tr>
<td>Purchasing (c)</td>
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</tr>
<tr>
<td>Chancellor’s Division</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>4/8/2016</td>
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<td>0</td>
<td>Yes</td>
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<tr>
<td>Multi-Divisional</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Handling (d)</td>
<td>6/29/2017</td>
<td>0</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>18</td>
<td>34</td>
<td></td>
</tr>
</tbody>
</table>

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

(b) Of the five open findings for the Aramark contract, one is considered by Internal Audit to be in process. A status of “In Process” indicates progress toward remediation has begun but is not yet complete or there is not a sufficient population to test the effectiveness of corrective measures.

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

(d) 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.

There were no investigations completed or pending for the quarter ending September 30, 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.

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 19 minor projects and requests for information during the quarter ending September 30, 2017.

INT 101: How to Pass an Audit (An Introduction to Internal Controls)
During the quarter ending September 30, 2017, 28 individuals took the course, representing 21 departments and all 5 divisions at UNCW.

Other Advisory Services
Other advisory services were also provided through committee work, time spent educating others, and service to the profession as noted below.

Committee Work
• Athletic Eligibility
• HR Liaison
• Institutional Risk Management (IRM) Steering
• IT Advisory Council
• Systems Coordination

Educating Others
• Careers in Accounting Day

Service to the Profession
• Association of College and University Auditors (ACUA) Best Practices Committee
• Seahawk LEADS Mentoring Program
• UNC General Administration (GA) Data Analytics Subcommittee
Other
This section contains a summary of the other projects and activities of the Office of Internal Audit.

Staff Certifications
Shelley Morris in our office earned the designation of Certified Internal Auditor (CIA). We congratulate Shelley on all her hard work to obtain the certification!

Participation in University Functions
Participating in university functions keeps our office informed of activities 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 September 30, 2017, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining 38 hours of CPE.
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 September 30, 2017

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Original Report Date</th>
<th>Number of Open Findings</th>
</tr>
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<tbody>
<tr>
<td><strong>Academic Affairs</strong></td>
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<tr>
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<td>15</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aramark Contract (a)</td>
<td>2/24/2017</td>
<td>5</td>
</tr>
<tr>
<td><strong>Multi-Divisional</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Handling (b)</td>
<td>6/29/2017</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>34</strong></td>
</tr>
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{a} Of the five open findings for the Aramark contract, one is considered by Internal Audit to be in process. A status of “In Process” indicates progress toward remediation has begun but is not yet complete or there is not a sufficient population to test the effectiveness of corrective measures.

{b} 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

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’ system 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)

Academic Affairs (continued)

*College of Arts & Sciences*

1. Per UNCW Policy 05.164, *University Equipment*, departments are responsible for the appropriate use, safeguarding, and tracking of all university equipment assigned to their respective department. In addition, departments are responsible for notifying the UNCW Fixed Asset department whenever fixed asset items are transferred to another department or relocated.

2. Per UNCW Policy 07.200.05, *Purchase, Inventory, Replacement and Disposal/Surplus of IT Resources*, “Each department/division is responsible for maintaining an accurate listing including serial number and location of their computer equipment.” Computer equipment includes computers, laptops, iPads, and tablets.

3. Per UNCW Policy 05.164, *University Equipment*, departments are responsible for the appropriate use, safeguarding, and tracking of all university equipment assigned to their respective departments, whether or not the equipment meets the fixed asset definition. Equipment not meeting the fixed asset definition includes non-consumable equipment costing less than $5,000 (furniture, lab equipment, etc.).

4. Property and equipment no longer in use by a university department is transferred to Surplus Property via a surplus disposal request. Appropriate oversight of these asset disposal requests ensures there is adequate tracking and accountability for university assets.

5. Tracking all current facilities-related projects and the related spending is a vital part of project management. Project tracking provides information on the status of a project as well as a comparison of estimated costs versus actual project spending.

6. Identifying maintenance needs, prioritizing deferred maintenance, and strategizing for long-term building and equipment requirements is at the core of facility management. Future repair and maintenance needs should be tracked to assist in planning.

7. Continuity of operations plans (COOPs) ensure departments have planned and coordinated procedures to ensure business operations continue despite interruptions.

8. For continuity of operations, more than one person should be trained to complete important functions and tasks, with tasks documented in desktop procedures that can be accessed by others in the department.

9. North Carolina General Statute (NCGS) 147-77, *Daily deposit of funds to credit of Treasurer*, and UNCW Policy 05.141, *Departmental Funds Receipting*, require any employee or department collecting funds to deposit the funds at least weekly. In addition, funds are required to be deposited daily when they equal or exceed $250. All credit card deposits are required to be deposited daily, regardless of amount.
Appendix A (continued)

College of Arts & Sciences (continued)

10. UNCW Policy 05.141, *Departmental Funds Receipting*, outlines various requirements for collecting funds, including implementing and maintaining internal controls by establishing departmental procedures, performing monthly departmental reconciliations, and ensuring the safekeeping of all un-deposited receipts held by the department.

11. Cash handling responsibilities should be segregated to facilitate appropriate backup.

12. UNCW Policy 09.100, *Organization and Administration of Fund Raising*, outlines the guidelines for ensuring accurate reporting of gifts for the university and donors. In particular, it notes that gifts of tangible personal property (gifts-in-kind) need to be reviewed and approved by University Advancement (UA).

13. Financial transactions should be recorded and classified in the most appropriate accounts in Banner based on the nature of the transaction. Miscellaneous accounts should only be used for one-time transactions and activities that are nonrecurring in nature.

14. In accordance with the North Carolina Department of Revenue guidelines and North Carolina General Statute 105-164.4, *Tax imposed on retailers and certain facilities*, the university must collect and remit sales tax (currently at 7%) on sales of tangible personal property (goods and services).

15. UNCW Policy 08.135, *Supplemental Payments for UNCW Employees*, states “All requests for supplemental pay must be approved in writing before the actual activity is scheduled to begin.”

Business Affairs

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.
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.