Executive Summary

This report contains a summary of the Office of Internal Audit’s activity for the quarter ending March 31, 2018. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Project
- Housing and Residence Life Review

Pending Project
- Project Management (UNCW Facilities) Review

Follow Up Audits
- Follow up work was conducted for:
  - College of Arts & Sciences
- 2 findings closed during the quarter
- 27 open findings as of March 31, 2018 (11 findings are considered to be “in process”)

Investigations

Completed Project
- Painting Vendor Complaint

Consultations/Advisory Services

Advisory Services
- Routine Consultations include 25 minor projects and requests for information.
- Individuals from 10 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 7 UNCW committees.
- The Assistant Director is a member of the UNC System Office Committee on Data Analytics.
- Individuals from the office delivered 3 presentations for Business Week for the Cameron School of Business and 1 presentation for Beta Alpha Psi on various auditing topics.

Other
- Corby Johnson was named Interim Chief Audit Officer at UNCW, effective March 26, 2018. He is filling the position previously held by Chief Audit Executive Stefanie Powell, who assumed the role of Interim Associate Vice Chancellor for Finance the same day.
- Individuals from the office attended or participated in 9 university events/functions.
- Individuals from the office participated in 4 UNCW training programs. In addition, they attended 2 conferences/workshops and 9 webinars earning 13 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 Project

Housing and Residence Life Review

A review of Housing and Residence Life (HRL) was completed to assess and evaluate select operational, compliance, and administrative aspects of HRL including the underlying internal controls. Our review focused on select operational and administrative operations. We reviewed and assessed the following areas:

- Billing and collection of all revenue streams
- Expenditure processes and activity
- Asset management
- Student employment/timekeeping
- Education/training for professional and student staff
- Management of facility projects within HRL
- General controls matters including system maintenance and access, physical security, and document storage
- Continuity of operations planning

In our opinion, some improvement is needed for the system of internal control with respect to the areas reviewed. There were 6 findings associated with this review, and we received positive responses from management to the findings. The final report was issued March 27, 2018.
Audits/Assurance Services (continued)

Pending Project

*Project Management (UNCW Facilities) Review*

A review of Project Management 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:

- Project life-cycle phases
- Compliance with applicable guidance
- Personnel matters including training, managing conflicts of interest, and staffing
- General controls matters including system maintenance and access, physical security, and document storage
- Continuity of operations planning
- Others topics including HUB participation reporting, insurance requirements and maintenance program
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

During the quarter ending March 31, 2018, follow up work was completed relating to open findings within the College of Arts & Sciences.

Audit findings are reported below in the following categories:

- **Closed** – Findings which were confirmed to be resolved during the quarter ending March 31, 2018
- **Open** – Findings which have not been resolved as of March 31, 2018

*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><strong>Academic Affairs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Arts &amp; Sciences {a}</td>
<td>9/18/2017</td>
<td>2</td>
<td>13</td>
<td>No</td>
</tr>
<tr>
<td>Cameron School of Business</td>
<td>12/19/2017</td>
<td>0</td>
<td>4</td>
<td>No</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aramark Contract {b}</td>
<td>2/24/2017</td>
<td>0</td>
<td>4</td>
<td>No</td>
</tr>
<tr>
<td><strong>Student Affairs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing and Residence Life</td>
<td>3/27/2018</td>
<td>0</td>
<td>6</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>2</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

{a} Of the 13 open findings for the College of Arts & Sciences, 7 are 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} Of the four open findings for the Aramark contract, all are considered by Internal Audit to be in process.
Investigations
Investigations result from tips reported to our office via the Office of State Budget and Management’s hotline, our internal hotline, and other sources.

Completed Project
Painting Vendor Complaint
In November 2017, a complaint was referred by the Office of General Counsel to our office for further review. The complaint included allegations relating to potential inappropriate practices for painting work completed by contractors in the summer of 2017. Our specific scope included reviewing the:

- Awarding of summer painting contracts
- Awarding of additional work relating to the contracts
- Process for ensuring all work for which invoices were submitted and paid was completed.

We also reviewed all other work awarded by the university to one contractor. Based on our investigation, we determined that the process for awarding summer painting contracts, the process for awarding additional work relating to the contracts, and all other work awarded by the university to the contractor appeared appropriate. We determined there was not sufficient documentation available to determine if all invoices paid accurately reflected work completed. We made recommendations to management relating to enhancing procedures and documentation. The final memo was issued March 23, 2018.

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 the UNC System Office 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 25 minor projects and requests for information during the quarter ending March 31, 2018.

INT 101: How to Pass an Audit (An Introduction to Internal Controls)
In order to proactively educate campus departments about best practices for internal controls, we teach the course INT 101: How to Pass an Audit (An Introduction to Internal Controls), offered through the Finance Certificate Program. During the quarter ending March 31, 2018, 16 individuals took the course, representing 10 departments and 4 out of 5 divisions at UNCW.
Consultations/Advisory Services (Continued)

Other Advisory Services

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

<table>
<thead>
<tr>
<th>Committee Work</th>
<th>Service to the Profession</th>
<th>Educating Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Data Governance</td>
<td>• UNC System Office Data Analytics Subcommittee</td>
<td>• Cameron School of Business - Business Week, presentations on How to Conduct an Investigation, International Opportunities in Accounting, and How Accounting Can Prepare You For a Career in Internal Audit</td>
</tr>
<tr>
<td>• HR Liaison</td>
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<td>• Internal Audit Overview and Basic IT Auditing presentation for Beta Alpha Psi</td>
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<tr>
<td>• Institutional Risk Management (IRM)</td>
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<tr>
<td>• IRM Steering</td>
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<tr>
<td>• IT Advisory Council</td>
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<tr>
<td>• Leadership Council</td>
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<tr>
<td>• Systems Coordination</td>
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</table>

Other

This section contains a summary of the other projects and activities of the Office of Internal Audit.

Staffing Changes

Corby Johnson was named Interim Chief Audit Officer at UNCW, effective March 26, 2018. He is filling the position previously held by Chief Audit Executive Stefanie Powell, who assumed the role of Interim Associate Vice Chancellor for Finance the same day.

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. During the quarter ending March 31, 2018, staff participated in the following functions.

• Allied Health Ground Breaking
• Budget Managers Meetings
• Cameron School of Business - Business Week Speaker Series
• Faculty Senate Meetings
• Finance Forum
• Staff Senate Meetings
• Staff Senate Spring Forum
• State of the University Address with UNC President Margaret Spellings
• VCBA Candidate Forums
Other (Continued)

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 March 31, 2018, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining 13 hours of CPE.

**UNCW Training**
- A Conversation About Digital Literacy
- Banner 9 Navigation
- Courageous Conversations Workshop for Supervisors
- SSRS Web 2016 Reporting Portal

**Conferences/Workshops**
- 26th Annual Economic Forecast
- IIA Meeting: FASB Lease Accounting Standard (ASC 842)

**Webinars**
- Five Strategies for Success
- Brick by Brick-Building Construction Audit Skills in Internal Audit
- Cyber Risk: Maturity and Ubiquity in The Fourth Industrial Era
- How Big Data Can Help Banks Solve Big Fraud Problems
- IT Risk Assessment, Developing a Risk Hierarchy, and An Efficient and Effective Cyber Risk Strategy
- Operation Collaboration: Leading Practices for Leveraging Common Internal Audit and Compliance Structures
- Preparing for the Future: 2018 Imperatives for Internal Auditors
- Realistic Security: Counter Advanced Threats With Basic Controls
- Written Statement Analysis
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 P. Scherer II, General Counsel
Dr. Marilyn Sheerer, Provost and Vice Chancellor for Academic Affairs
Mr. Eddie Stuart, Vice Chancellor for University Advancement
## Appendix A

### UNCW Office of Internal Audit
### Open Internal Audit Findings
### As of March 31, 2018

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{b} Of the four open findings for the Aramark contract, all are considered by Internal Audit to be in process.
Appendix A (continued)

Academic Affairs

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. 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.

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

7. 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.

8. 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.

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

10. 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).
Appendix A (continued)

College of Arts & Sciences (continued)

11. 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.

12. 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).

13. 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.”

Cameron School of Business

1. Financial transactions should be properly recorded and classified in the most appropriate accounts based on the nature of the transaction. In addition, departmental spending should adhere to UNCW’s Basic Spending Guidelines by Fund Source.

2. Appropriate segregation of duties in business operations ensures proper oversight and decreases the potential for errors, fraud, or other inappropriate activity.

3. For donor-funded scholarships, all scholarship award recipients must meet the donor criteria and awarding parameters, as documented in the donor gift agreement, for the scholarship they receive. Any known deviations should be fully documented.

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

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.
Appendix A (continued)

Student Affairs

Housing and Residence Life

1. 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.”

2. UNCW Policy 05.350, *Operation of State-Owned Vehicles*, applies to all UNCW employees who operate state-owned vehicles or motor fleet lease vehicles regardless of employment status or type. It establishes the requirements for each department head to oversee safe operation of state-owned vehicles.

3. UNCW Policy 05.400, *Cart (Golf, Utility, Street Legal) Safety Policy*, applies to all departments and employees, students, contractors, their employees, volunteers and vendors that own, purchase, transfer or operate carts outside enclosed construction areas. All operators must comply with the policy and be trained to safely and responsibly operate carts.

4. Per ISO 27002, *Information Technology Security Techniques*, Section 10.1.3, duties and areas of responsibility, including system access rights, should be segregated to reduce opportunities for unauthorized or unintentional modification or misuse.

5. Per ISO 27002, *Information Technology Security Techniques*, Section 11.2 and 11.2.4,
   - Formal procedures should be in place to control the allocation of access rights to information systems and services.
   - Management should review user’s access rights at regular intervals using a formal process. In addition, access to files containing sensitive information should be restricted to individuals who have business needs to see the information.

6. 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.