Office of Internal Audit
Report for the Quarter Ending June 30, 2018

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 June 30, 2018. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Pending Projects
- Project Management (UNCW Facilities) Review
- Environmental Health & Safety (EH&S) Review
- Purchasing Card Review

Follow Up Audits
No follow up work was completed for the quarter ending June 30, 2018 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 2019.

Investigations

Pending Project
- OSA Hotline Referral

Consultations/Advisory Services

Advisory Services
- Routine Consultations included 11 minor projects and requests for information.
- Individuals from 7 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 8 UNCW committees.
- The Assistant Director is a member of the UNC System Office Committee on Data Analytics.

Other
- The office’s annual risk assessment process was completed.
- Nick Sanders was hired as the office’s new intern.
- Shelley Morris was elected to serve on Staff Senate for the July 2018 – July 2020 term.
- Cynthia Nickerson was accepted into the UNCW Masters of Data Analytics Program.
- Individuals from the office attended or participated in 9 University events/functions.
- The office participated in the annual Staff Senate Strides event.
- Individuals from the office participated in 4 UNCW training programs. In addition, they attended 6 conferences/workshops and 4 webinars earning over 52 hours of CPE.

FY18 Audit Plan Update

One of the Key Performance Indicators (KPIs) tracked by Internal Audit is completion of the annual audit plan. This report includes a summary of the status of the FY18 Audit Plan.
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.

Pending Projects

Project Management (UNCW Facilities) Review
A review of Project Management is in the reporting phase. The scope of the audit was determined by conducting a thorough risk assessment at the beginning of the review. Specific objectives were to review:

- Contract compliance
- Construction compliance requirements
- Historically Underutilized Business (HUB) reporting
- Processes completed in the project life cycle phases (Pre-Project, Project, Close-Out)
- Project files for adherence to compliance considerations and department processes
- Insurance requirements
- Continuity of operations planning
- Personnel matters, including education/training, conflicts of interest, and staffing
- General controls and access rights, including IT practices and procedures, security of information maintained by the GIS/CAD Analysts, and document storage

An exit meeting was held in June 2018, and we anticipate issuing a final report in early July 2018.

Environmental Health & Safety (EH&S) Review
A review of Environmental Health and Safety is in process. The scope of the audit was determined by conducting a thorough risk assessment at the beginning of the review. Specific objectives are to review:

- Cash handling of departmental receipts
- Oversight of safety training for the University
- Lab safety
- Incident and injury reporting
- Continuity of operations planning
- Staffing
Audits/Assurance Services (Continued)

Pending Projects

Purchasing Card Review

A review of Purchasing Cards (Pcards) is in process. The scope of the audit was determined by conducting a thorough risk assessment at the beginning of the review. Specific objectives are to review:

- Pcard program monitoring activities, including policy enforcement
- Adherence of purchases to applicable guidelines, including, but not limited to the following:
  - Allowable charges and vendors
  - Adequate documentation
  - Appropriate approvals
  - Reasonableness of charges to Merchant Category Codes (MCC)
  - Transaction amounts
- Process surrounding collection and de-activation of cards
- Weekly Bank of America feed to Banner for processing and payments
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, 2018 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 2019. The table below displays open audit findings (findings which have not been resolved) as of June 30, 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 Open Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Arts &amp; Sciences (a)</td>
<td>9/18/2017</td>
<td>13</td>
</tr>
<tr>
<td>Cameron School of Business</td>
<td>12/19/2017</td>
<td>4</td>
</tr>
<tr>
<td>Business Affairs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aramark Contract (b)</td>
<td>2/24/2017</td>
<td>4</td>
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<td>Student Affairs</td>
<td></td>
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<tr>
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<td>3/27/2018</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>27</strong></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.

Pending Project

OSA Hotline Referral

In June 2018, the UNC System Office provided information on a hotline referral from the Office of the State Auditor (OSA). Our office is reviewing this matter.

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 11 minor projects and requests for information during the quarter ending June 30, 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 June 30, 2018, 10 individuals took the course, representing 7 departments and 4 out of 5 divisions at UNCW.

Other Advisory Services

Other advisory services were also provided through committee work and service to the profession.

Committee Work

- Athletic Eligibility
- Data Governance
- HR Liaison
- Institutional Risk Management (IRM)
- IRM Steering
- IT Advisory Council
- Leadership Council
- Systems Coordination

Service to the Profession

- UNC System Office Data Analytics Subcommittee
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 2018, the (Interim) 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 2019 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 2018 meeting.

Staff Changes
Nick Sanders joined the Office of Internal Audit as an audit intern in May 2018. Nick is concluding his undergraduate degree in Accounting and Economics during the summer of 2018. He will then begin pursuing his Master’s in Accounting at UNCW and work towards obtaining his CPA license.

Staff Accomplishments
- Shelley Morris, CIA, was elected to serve on Staff Senate for the July 2018 – July 2020 term.
- Cynthia Nickerson, CPA, CFE, was accepted into the UNCW Masters of Data Analytics Program.

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 June 30, 2018, staff participated in the following functions.

- Budget Managers Meetings
- Commencement
- Faculty and Staff Recognition Reception
- Faculty Senate Meetings
- Health and Human Services Week lecture (sponsored by CHHS)
- Leavekeeper Meeting
- Staff Senate Meetings
- Staff Senate Strides
- Taking Flight Celebration
Other (Continued)

Staff Senate Strides

On May 10, 2018, the office hosted a table at the annual Staff Senate Strides event. This event involves departments across campus hosting tables to provide information on the programs and services that their department offers to campus. During the event, we spoke with over 75 staff from 26 departments across all divisions. We had the opportunity to communicate how our office can support other departments by conducting audit work, consultations, or investigatory work if needed. We also provided an Internal Controls Checklist as a resource for departments to ensure they have adequate internal controls as well as promoted the INT 101 course: How to Pass an Audit.

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, 2018, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining over 52 hours of CPE.

<table>
<thead>
<tr>
<th>UNCW Training</th>
<th>Conferences/Workshops</th>
<th>Webinars</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Cascade 8 Website</td>
<td>• 2018 OSC Accounting Update</td>
<td>• Identity and Access Management in an Academic Environment</td>
</tr>
<tr>
<td>• Finance Certificate Training program courses</td>
<td>• 2018 Professional Ethics and Conduct</td>
<td>• Leading Audit Committee Practices &amp; Internal Audit Reporting</td>
</tr>
<tr>
<td>• Full Cycle Performance Introduction</td>
<td>• 29th Annual ACFE Global Fraud Conference</td>
<td>• Writing Audit Workpapers</td>
</tr>
<tr>
<td>• Goal Setting Workshop</td>
<td>• Beta Alpha Psi CPE Program - Cameron School of Business</td>
<td>• Training Your Employees on Cybersecurity Skills</td>
</tr>
<tr>
<td></td>
<td>• IIA District Conference</td>
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</tr>
<tr>
<td></td>
<td>• UNC Chief Audit Officer Annual Retreat</td>
<td></td>
</tr>
</tbody>
</table>
## FY18 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 FY18 Audit Plan, which was approved at the July 2017 Audit, Risk and Compliance Committee meeting, as of June 30, 2018.

<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>Auxiliary Services</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Cameron School of Business</td>
<td>Complete</td>
</tr>
<tr>
<td>Center for Innovation and Entrepreneurship</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Facilities, Phase I</td>
<td>In Process</td>
</tr>
<tr>
<td>Housing and Residence Life</td>
<td>Complete</td>
</tr>
<tr>
<td>Summer School</td>
<td>Deferred (a)</td>
</tr>
<tr>
<td>Environmental Health &amp; Safety</td>
<td>In Process</td>
</tr>
<tr>
<td>Purchasing Card</td>
<td>In Process</td>
</tr>
<tr>
<td>Friends of UNCW Financial Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Disaster Recovery Planning</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>ITS Compliance</td>
<td>Cancelled (b)</td>
</tr>
<tr>
<td>Committee Assignments</td>
<td>Complete</td>
</tr>
<tr>
<td>Routine Consultations</td>
<td>Complete</td>
</tr>
<tr>
<td>Audit Client Ongoing Assistance</td>
<td>Complete</td>
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<tr>
<td><strong>Complete Prior Year Work</strong></td>
<td></td>
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<tr>
<td>College of Arts and Sciences</td>
<td>Complete</td>
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<tr>
<td><strong>Special Projects/Investigations</strong></td>
<td></td>
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<tr>
<td>Quality Assurance Activities</td>
<td>Complete</td>
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<tr>
<td>Risk Assessment/Audit Plan</td>
<td>Complete</td>
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<td>-Expanded Campus Risk Discussions</td>
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<td>-Campus Fraud Risk Assessment</td>
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<tr>
<td>Campus Training</td>
<td>Complete</td>
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<tr>
<td><strong>Engagements Added</strong></td>
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<tr>
<td>Painting Vendor Complaint</td>
<td>Complete</td>
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<tr>
<td>OSA Hotline Referral</td>
<td>In Process</td>
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(a) Deferred: Engagement will be carried forward to the FY19 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. Miles Lackey, Vice Chancellor for Business Affairs

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 June 30, 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 (concluded)

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.