Office of Internal Audit
Report for the Quarter Ending September 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 September 30, 2018. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Projects
- Project Management (UNCW Facilities) Review

Pending Projects
- Environmental Health & Safety (EH&S) Review
- Purchasing Card Review
- Friends of UNCW Financial Audit

Follow Up Audits
- Follow up work was initiated for:
  - College of Arts & Sciences
  - Cameron School of Business
  - Aramark Contract
  - Housing & Residence Life
- 46 open findings as of September 30, 2018 (23 findings are considered to be “in process”)

Investigations

Completed Project
- OSA Hotline Referral

Consultations/Advisory Services

Advisory Services
- Routine Consultations included 5 minor projects and requests for information.
- Individuals from 3 departments representing 2 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.
- One staff member presented at the Careers in Accounting Day at the Cameron School of Business.

Other
- The annual departmental retreat was held on August 9, 2018.
- Our office has been involved with conference planning and preparation as UNCW is serving as the host committee for the UNCAA Annual Conference in October 2018.
- Kelly Mintern was accepted into the Fall 2018 cohort for the Rising Leader Certificate program.
- Individuals from the office attended or participated in 6 University events/functions.
- Individuals from the office participated in 6 UNCW training programs. In addition, they attended 2 conferences/workshops and 1 webinar earning 39 hours of CPE.
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

Project Management (UNCW Facilities) Review
A review of Project Management was completed to assess and evaluate select operational, compliance, and administrative aspects of Project Management including the underlying internal controls. Our review focused on operations within Project Management, including the project life cycle and related compliance considerations. The review also included exploring the roles of the GIS/CAD Analyst position responsibilities that report up through Project Management. Additionally, due to the coordinated efforts of other Facilities units and related responsibilities for financial management of projects, operations within Facilities Administration were also reviewed.

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 and compliance
- 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

In our opinion, improvement is needed for the system of internal control with respect to the areas reviewed within Facilities. There were 17 findings associated with this review, and we received positive responses from management to the findings. The final report was issued July 13, 2018. In addition, 2 findings relating to campus building floor plans was shared in a separate memo to management pursuant to North Carolina General Statute 132-1.7(a), as they included details of sensitive public security information.
Audits/Assurance Services (Continued)

Pending Projects

Environmental Health & Safety (EH&S) Review
A review of Environmental Health and Safety 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:

- Cash handling of departmental receipts
- Oversight of safety training for the University
- Lab safety
- Incident and injury reporting
- Continuity of operations planning
- Staffing

An exit meeting was held at the end of August 2018, and we anticipate issuing a final report in October 2018. The delay in report issuance has resulted from the impacts of Hurricane Florence and the involvement of Environmental Health & Safety in assessment and remediation efforts.

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

Friends of UNCW Financial Audit
Our annual audit of the financial statements of the Friends of the University of North Carolina at Wilmington, Inc. (Friends) is in process. This audit is being conducted in accordance with auditing standards generally accepted in the United States, and work also includes a review of Friends’ compliance with the requirements of a Minor Associated Entity under the policy of the University of North Carolina System. Due to technicalities related to our staff being licensed as North Carolina Certified Public Accountants (CPAs), our office is unable to issue the audited financial statements. Consequently, this project is being completed with the assistance of Sarah von Stein, Audit Supervisor, at East Carolina University, to ensure work was completed by someone who was independent in both fact and appearance.

An exit meeting has been scheduled in October 2018.
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.

Pending Follow Ups

During the quarter ending September 30, 2018, follow up work was initiated relating to open findings from the following engagements:

- College of Arts & Sciences
- Cameron School of Business
- Aramark Contract
- Housing & Residence Life

Planning work was completed in August and September 2018. However, due to the impacts of Hurricane Florence and the University closure, fieldwork and testing was not completed. Additional work on these engagements will resume in October 2018.

Audit Finding Status

The table below displays open audit findings (findings which have not yet been resolved) as of September 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><strong>Academic Affairs</strong></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 {b}</td>
<td>12/19/2017</td>
<td>4</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aramark Contract {c}</td>
<td>2/24/2017</td>
<td>4</td>
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<tr>
<td>Project Management (UNCW Facilities)</td>
<td>7/13/2018</td>
<td>19</td>
</tr>
<tr>
<td><strong>Student Affairs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing and Residence Life {c}</td>
<td>3/27/2018</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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{a} Of the 13 open findings for the College of Arts & Sciences, 10 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 Cameron School of Business, 3 are considered by Internal Audit to be in process.

{c} Of the open findings for this engagement, all are considered by Internal Audit to be in process.

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

OSA Hotline Referral

In June 2018, the UNC System Office provided information on a hotline referral from the Office of the State Auditor (OSA). The referral received included an allegation regarding improper hiring practices. Specifically, the allegation noted that a former supervisor ensured that a current employee was promoted to a position that was not posted or advertised.

We evaluated the allegation and identified no evidence to suggest inappropriate activities. In our opinion, this allegation of improper hiring practices was unfounded and we consider this investigation closed. The final memo was issued July 30, 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 5 minor projects and requests for information during the quarter ending September 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 September 30, 2018, 3 individuals took the course, representing 3 departments and 2 out of 5 divisions at UNCW. Due to the impacts of Hurricane Florence and the University closure, all classes offered were not attended.
Consultations/Advisory Services (continued)

Other Advisory Services

Other advisory services were also provided through committee work and time spent educating others.

Committee Work

- Athletic Eligibility
- Cameron School of Business (CSB) Alumni Steering
- Enterprise Risk Management (ERM)
- ERM Steering
- HR Liaison
- IT Advisory Council
- Systems Coordination

Educating Others

- Careers in Accounting Day

Other

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

Annual Departmental Retreat

All office members completed a full-day retreat on August 9, 2018. The retreat enabled the group to discuss the audit plan for fiscal year 2019, to plan for the new fiscal year, and to evaluate the office’s processes for efficiency and effectiveness. Recommendations discussed during the retreat will be implemented throughout the fiscal year.

During the retreat, our office also participated in the Clifton StrengthsFinder assessment, facilitated by a representative from Human Resources. The assessment provided all office members with their individual strengths and strategies were discussed on how best to leverage the strengths for achievement.

University of North Carolina Auditor’s Association (UNCAA) Conference Planning

Our office is hosting the UNCAA Annual Conference for all internal auditors in the UNC system in October 2018. While UNCW is serving as the host committee, conference planning and preparation has been coordinated with other UNC schools in the eastern region, including East Carolina University, Elizabeth City State University, Fayetteville State University, and UNC Pembroke.

Staff Accomplishments

Kelly Mintern, CPA, CIA, was accepted into the Fall 2018 cohort for the Rising Leader Certificate program offered by the UNCW Dare to Learn Academy.
Other (continued)

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

- Budget Managers Meetings
- Convocation Class of 2022
- Information session on Watson College partnerships
- Staff Senate Meetings
- Tech Nest Open House
- UNCW Move-In

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, 2018, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining 39 hours of CPE.

UNCW Training
- Assessment Cycle Reporting
- Designated Key Controller (DKC) training
- Electronic Personnel Action Form (EPAF)
- PUR 1.40 (Independent Contractors)
- StrengthFinders Assessment
- Vivid Learning Safety Courses

Conferences/Workshops
- 3rd Annual Fraud Busters Conference
- Association of College and University Auditors (ACUA) Annual Conference

Webinars
- Cyber Security Risk - Is Internal Audit Ready?
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

Ms. Stefanie Powell, Interim Associate Vice Chancellor for Finance and Controller

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 September 30, 2018

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{b} Of the four open findings for the Cameron School of Business, 3 are considered by Internal Audit to be in process.

{c} Of the open findings for this engagement, all are considered by Internal Audit to be in process.
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. *(In Process)*

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. *(In Process)*

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. *(In Process)*

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. *(In Process)*

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. *(In Process)*

9. Cash handling responsibilities should be segregated to facilitate appropriate backup. *(In Process)*

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. *(In Process)*
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. *(In Process)*

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). *(In Process)*

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.” *(In Process)*

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. *(In Process)*

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

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. *(In Process)*

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. *(In Process)*

2. Segregation of duties ensures proper oversight and decreases the potential for errors or fraudulent activity. *(In Process)*

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

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

Project Management (UNCW Facilities)

1. University contracts should be reviewed by the Office of General Counsel to ensure that contract risk is managed appropriately. In addition, contracts should only be signed by authorized employees; those with an express written delegation from the Chancellor or a written sub-delegation from a Vice Chancellor, as noted on the signature authority chart managed by General Counsel.

2. For projects requiring design professionals, architects and/or engineers must issue a signed and sealed certificate of compliance. Per NCGS 131-1.1, *Certain buildings involving public funds to be designed, etc., by architect or engineer*, section (b)(2), on all projects requiring the services of an engineer, an engineer shall conduct frequent and regular inspections or such inspections as required by contract and shall issue a signed and sealed certificate of compliance.

3. North Carolina General Statute (NCGS) guidelines provide requirements that the University must abide by regarding the recruitment of minority participation for contract selection and the reporting of Historically Underutilized Business (HUB) data. Project Management has required documents (HUB-1 and Minority Business Enterprise (MBE)), included in its Project Manual, that function to capture information necessary for HUB reporting purposes.

4. Appropriate oversight of project management ensures compliance with all external requirements, department procedures, and proper execution of the project. Any delegation of responsibility should be communicated to all relevant parties and documented.

5. Appropriate oversight of financial transactions help ensure the accuracy of the information and decreases the potential for errors or fraud.

6. Fund reconciliations ensure that all activity has been accounted for. Reconciliation of the Special Project budget fund would ensure that the detailed project data within AiM agreed to the Banner finance fund.

7. Appropriate oversight of asset procurement and disposal ensures accountability for University assets. In addition, to ensure proper repair and maintenance for procured assets, assets should be entered into AiM (asset management system). Asset disposals should be coordinated with the UNCW Surplus department.

8. Project Management maintains insurance guidelines within the General Conditions section of their bid package to contractors. The insurance guidelines in the General Conditions are used for all projects managed by Project Management and have remained the same for over 13 years.

9. A certificate of insurance (COI) is a document used to provide information on specific insurance coverage. The certificate provides verification of the insurance and usually contains information on types and limits of coverage, insurance company, policy number, named insured, and the policies' effective periods. Certificates of insurance should be on file for all projects.

10. For continuity of operations, more than one person should be trained to complete important functions and tasks, with tasks documented in procedures that can be accessed by others in the department.
Appendix A (continued)

Project Management (UNCW Facilities) (continued)

11. For continuity of operations, critical processes should be fully executed in a timely manner.
12. Departments should have a process in place for assessing, tracking, and monitoring required training needs, including federally mandated training required by OSHA (Occupational Safety and Health Act) standards.
13. 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.
14. UNC Policy 300.2.2, Conflict of Interest and Commitment, states, “All members of the University community are expected to avoid conflicts of interest and conflicts of commitment that have the potential to directly and significantly affect the University’s interests or compromise their objectivity in carrying out their University Employment Responsibilities, including research, service and teaching activities and administrative duties, or otherwise compromise performance of University responsibilities, unless such conflicts are disclosed, reviewed and appropriately managed in accordance with the provisions of this Policy.”
15. According to North Carolina General Statute 133-32, Gifts and Favors Regulated, subsection (a), It shall be unlawful for any officer or employee of a governmental agency who is charged with the duty of:
   (1) Preparing plans, specifications, or estimates for public contracts; or
   (2) Awarding or administering public contracts; or
   (3) Inspecting or supervising construction willfully to receive or accept any such gift or favor.
A violation of subsection (a) shall be a Class 1 misdemeanor.
16. Per UNCW Policy 08.120, Secondary Employment, “the employment responsibilities to the State are primary for any employee working full-time; any other employment in which that person chooses to engage is secondary. An employee shall have approval from the dean or department director (or designee) before engaging in any secondary employment. The purpose of this approval procedure is to determine that the secondary employment does not have an adverse effect on the primary employment and does not create a conflict of interest.” Employees shall obtain approval via the completion of a Request for Approval of Secondary Employment form.
17. Sufficient staffing is needed to ensure campus/department needs and objectives are met while ensuring compliance with applicable guidelines.

Note: Two additional findings relating to campus building floor plans was shared in a separate memo to management pursuant to North Carolina General Statute 132-1.7(a), as they included details of sensitive public security information.
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.” *(In Process)*

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. *(In Process)*

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. *(In Process)*

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. *(In Process)*

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. *(In Process)*

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. *(In Process)*