ANNUAL REPORT

Fiscal Year 2019
UNC Wilmington
Office of Internal Audit
Annual Report

UNC WILMINGTON
OFFICE OF INTERNAL AUDIT

MESSAGE FROM THE
CHIEF AUDIT EXECUTIVE

Although staffing changed throughout fiscal year 2019 (FY19), the Office of Internal Audit always maintained a professional team that worked together to ensure the office provided the best possible services to UNCW. Through the work of the team, the Office of Internal Audit was able to complete six audits, two follow up audits, five investigations, and numerous other projects during FY19.

One of the office goals for FY19 was expansion of campus education and outreach efforts. To reach that goal, Internal Audit staff continued to teach a course on internal controls to UNCW staff members. In addition, FY19 marked the second year of Internal Audit’s participation in Staff Senate Strides, an event which allows various support functions across campus to showcase their services. During FY19, Internal Audit also developed and led fraud forums and gave a presentation on the office’s services at Staff Senate.

Throughout FY19, Corby Johnson, CPA, CFE, served as the Interim Chief Audit Executive. Corby previously spent 33 years with the NC Office of the State Auditor, and the office was fortunate to have him as the interim leader. During the year Cynthia Nickerson left for a position in Student Affairs, and Elizabeth Davis, a UNCW graduate and Certified Fraud Examiner with prior audit experience, was hired into the vacated auditor position. During the year, the office also received assistance from accounting majors from the Cameron School of Business who filled the audit intern position.

I returned to Internal Audit in July 2019 after spending 17 months serving as UNCW’s Interim Associate Vice Chancellor for Finance and Controller, and I am looking forward to a great FY20 with this audit team.

Stefanie Powell, CPA, CISA
Chief Audit Executive
INTERNAL AUDIT OVERVIEW

The Office of Internal Audit at UNCW was established July 1, 1983 to provide assurance regarding the adequacy of financial controls, compliance with university policies and external regulations, and the accuracy and appropriateness of financial statements. Since 1983, the university and the profession of internal auditing have matured and evolved.

Today, the mission of the Office of Internal Audit is:

To enhance and protect the university’s value by providing stakeholders with risk-based, objective and reliable assurance, advice, and insight.

Our work is conducted and managed in accordance with The Institute of Internal Auditors’ (IIA’s) International Professional Practices Framework, which includes the core principles for the professional practice of internal auditing, the definition of internal auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). In order to fully comply with the Standards, our office must have a quality assurance and improvement program that includes both internal and external assessments. Our most recent external assessment was conducted in May 2016, and our office obtained the highest possible score overall and in each separately assessed category. Our next external assessment will occur in 2021.

For more information about the Office of Internal Audit, please see our website at: http://www.uncw.edu/ia/
WORK ALLOCATION

Audits/Assurance Services

Audits and assurance engagements include planned reviews of compliance, operations, information technology, finance, 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 for the area under review and any findings and recommendations that were identified.

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. Formal memos are also issued approximately two years after the initial audit to update all parties involved of progress if findings are unresolved.

Investigations

Investigations result from tips reported to our office via the Office of the State Auditor’s hotline, our internal hotline, and other sources. In addition to the formal investigations listed in the box to the right, the Office of Internal Audit assisted with 4 minor investigations during FY19 for which there was no formal reporting requirement and the complaint could be resolved by obtaining clarifying information or referring the complaint to another department.

FY19 Audits
 AUXILIARY SERVICES (PARKING)
 CENTER FOR INNOVATION AND ENTREPRENEURSHIP (CIE)
 ENVIRONMENTAL HEALTH & SAFETY
 FACILITIES, PHASE 1 (PROJECT MANAGEMENT)
 FRIENDS OF UNCW
 PURCHASING CARD

FY19 Follow Ups
 ARAMARK CONTRACT (FORMAL MEMO ISSUED)
 CAMERON SCHOOL OF BUSINESS
 CENTER FOR INNOVATION AND ENTREPRENEURSHIP (CIE)
 COLLEGE OF ARTS & SCIENCES (CAS)
 ENVIRONMENTAL HEALTH & SAFETY
 HOUSING AND RESIDENCE LIFE (FORMAL MEMO ISSUED)
 PROJECT MANAGEMENT
 PURCHASING CARD

FY19 Investigations
 ADHERENCE TO POLICIES/PROCEDURES REGARDING
 REPORT OF ALLEGED SEXUAL ASSAULT
 UNC SYSTEM OFFICE REFERRAL - MARCH 2019
 FACILITIES
 WHISTLEBLOWER COMPLAINT
 EMPLOYEE TERMINATION PRACTICES
 REFERRAL FROM OFFICE OF GENERAL COUNSEL AND TITLE IX OFFICE
 HIRING PRACTICES
 OSA HOTLINE REFERRAL
 PROPER USE OF STATE FUNDS
 UNC SYSTEM OFFICE REFERRAL - JANUARY 2019
WORK ALLOCATION (CONTINUED)

Advisory/Consulting Services

Internal Audit provides advisory services which are intended to provide advice and information on internal controls, risk management, and sound business practices. Advisory services allow the Office of Internal Audit to reach more individuals and departments than can be done through the traditional audit process.

Campus Education and Outreach

In order to proactively educate campus departments about the role of Internal Audit, how to report suspected fraud, and best practices for internal controls, Internal Audit participated in the following activities during FY19.

- **How to Pass an Audit (An Introduction to Internal Controls)** – Internal Audit developed and teaches this course which is part of the Finance Certificate Program and is offered at least twice per quarter.
- **Fraud Risk Assessment Forums** – In these sessions, participants learned about fraud schemes and responded to polling questions to assess the likelihood and impact of the fraud scheme occurring at UNCW.
- **Staff Senate Presentation** - Internal Audit provided an overview of Internal Audit, the audit process, training resources, and how to report suspected fraud, waste, and abuse.
- **Staff Senate Strides** – The Office of Internal Audit staffed a booth for this event, providing event participants with information on Internal Audit services and how to report suspected fraud, waste, and abuse.
WORK ALLOCATION (CONTINUED)

Advisory/Consulting Services (continued)

Routine Consultations
The Office of Internal Audit provided informal advisory services through 41 minor projects and requests for information during FY19.

Other Advisory Work
The following are examples of other advisory work completed in FY19:

Committee Work
- Athletic Eligibility
- Cameron School of Business (CSB) Alumni Steering
- Enterprise Risk Management (ERM)
- ERM Steering
- HR Liaison
- Information Security Steering Committee (ISSC) Working Group
- Internal Controls Assessment
- IT Advisory Council
- Leadership Council
- Systems Coordination

Educating Others
- CSB Business Week Presentation - Careers in Internal Auditing
- Careers in Accounting Day Panel Discussion

Community Service
- Volunteer at local schools, including D.C. Virgo Preparatory Academy
- Food Bank of NC
- Vintage Values
WORK ALLOCATION (CONTINUED)

Other

University of North Carolina Auditor’s Association (UNCAA) Annual Conference Host
The Office of Internal Audit hosted the UNCAA Annual Conference for all internal auditors in the UNC System on December 3-4, 2018. While UNCW served as the host institution, the host committee also included East Carolina University, Elizabeth City State University, Fayetteville State University, and UNC Pembroke. Speakers included representatives from two UNC institutions, the UNC System Office, the Office of the State Auditor, and Experis Finance. Participants received 11.5 hours of continuing professional education (CPE) credits for attending all sessions.

Participation in University Functions
In FY19, the CAE and Internal Audit staff participated in numerous campus events including:

- Alderman Hall Pie Social
- Budget Manager’s Meetings
- Chancellor’s Distinguished Lecture Series
- Commencement
- Faculty Senate Meetings
- Finance Year End Forum
- Information session on WCE partnerships
- Leavekeeper Meetings
- Seahawk Respect Compact Reauthorization Ceremony
- Staff Senate Meetings
- Tech Nest Open House
- UNC Employee Engagement Survey Forums
- UNCW Move-In

Training
Professional development is required for our certifications, and training allows our staff to stay abreast of emerging topics and best practices, helping us to provide the best possible services to the university. The following are examples of training completed in FY19.

<table>
<thead>
<tr>
<th>UNCW Training</th>
<th>Conferences/Workshops</th>
<th>Webinars</th>
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</thead>
<tbody>
<tr>
<td>• Assessment Cycle Reporting</td>
<td>• 3rd Annual Fraud Busters Conference</td>
<td>• Cyber Security Risk Is Internal Audit Ready?</td>
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<tr>
<td>• Designated Key Controller Training</td>
<td>• 15th Annual RSM Carolinas Clients, Alumni, and Friends CPE Event</td>
<td>• Difference Between Being in a Profession and Being a Professional</td>
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<tr>
<td>• Electronic Personnel Action Form (EPAF)</td>
<td>• Association of College and University Auditors (ACUA) Annual Conference</td>
<td>• Embrace Risk in Your Digital Transformation Journey</td>
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<tr>
<td>• Green Zone Training</td>
<td>• UNC Auditor’s Association Annual Conference</td>
<td>• Enhancing and Protecting Organizational Value</td>
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<td>• Harassment Prevention Mini Conference</td>
<td>• UNC System Office Business Process Certificate Program</td>
<td>• Fraud Prevention Skills: A Six-Step Program</td>
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<tr>
<td>• PeopleAdmin - Search Committee Training</td>
<td>• 3rd Annual Fraud Busters Conference</td>
<td>• High Impact Auditing - Practices that Pay Everyday</td>
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<tr>
<td>• PeopleAdmin - Writing an Effective Position Description</td>
<td>• 15th Annual RSM Carolinas Clients, Alumni, and Friends CPE Event</td>
<td>• How to Audit...Better!</td>
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<tr>
<td>• PUR 1.40 (Independent Contractors)</td>
<td>• Association of College and University Auditors (ACUA) Annual Conference</td>
<td>• Managing Fraud Risks in Procurement &amp; Contracting</td>
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<tr>
<td>• StrengthFinders Assessment</td>
<td>• UNC Auditor’s Association Annual Conference</td>
<td>• Managing Third Party Risk</td>
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<tr>
<td>• Rising Leader Certificate Program</td>
<td>• UNC System Office Business Process Certificate Program</td>
<td>• Responding to External Agencies</td>
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<tr>
<td>• Taskstream: Analyzing Your Data &amp; Entering Your Findings</td>
<td>• 3rd Annual Fraud Busters Conference</td>
<td>• Risk and Controls Innovation: A Smarter Way Forward</td>
</tr>
<tr>
<td>• Vivid Safety Learning Courses</td>
<td>• 15th Annual RSM Carolinas Clients, Alumni, and Friends CPE Event</td>
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METRICS

As part of our office’s quality assurance and improvement plan, we track several metrics to measure our performance.

**Time Allocation**

Like other professionals in accounting, internal auditors track the amount of time spent on each project to assist in planning and for benchmarking purposes. Our goal in any year is to spend at least 70% of our time on direct hours, which is time spent working on audits, advisory/consulting work, and investigations. In FY19, 67% of our time was spent on direct hours due to transitional changes in leadership and staff recruitment.

**Work Allocation**

We also track time spent on each type of engagement, with an emphasis on audit/assurance work. We typically spend about 70% of our direct time on audit/assurance work. In FY19, we only spent 65% of our direct time on audit/assurance work due to a higher than normal amount of time spent on investigations and work in the “other” category. The “Other” category includes quality assurance work, the annual risk assessment, reporting, and collaborating with campus departments and other internal audit offices in the UNC system.
METRICS (CONTINUED)

Audit Plan Completion

The audit plan completion rate is an indicator of efficiency and alignment with the annual audit plan approved by the Audit, Risk and Compliance Committee of the Board of Trustees. For FY19, we completed 61% of the audit plan, had 29% of the planned engagements in process at the end of the fiscal year, and cancelled/deferred 10% of the planned engagements. The amount of work in process at the end of the year was unusually high due to the Interim Chief Audit Executive’s reduced work schedule, staff turnover during the year, and a high volume of investigations in the second half of the fiscal year.

Financial

In addition to monitoring metrics, the Office of Internal Audit monitors financial activity. Internal Audit is funded by a combination of general funds allocated by the state and institutional trust funds. Total expenditures for FY19 were $345,748 with expenditures primarily related to salaries and benefits. Other expenses of the office include professional expenses such as licenses, memberships, and training. The office also pays for telephone service, supplies, and other administrative expenses.
CLIENT SATISFACTION

At the end of each engagement, clients are asked to submit a survey evaluating our office’s work to help promote continuous improvement. For each question, responses are provided on a scale of 1 to 5 with 5 being the highest score.

Survey Results

For FY19, 16 client surveys were received. (Note: For some engagements, surveys were submitted by multiple individuals within the area reviewed.)

Survey Results

The following comments were shared by individuals completing the surveys:

- The Internal Audit (IA) staff were very professional and courteous. The report will be a useful tool to improve our processes and carry us into a new term of campus growth.
- The IA process is quite thorough and comprehensive. The recommendations are clear and achievable.
- Most of the findings align with process changes that have been in a holding pattern for a long time.
- The overall communication was great. [The auditor] was very helpful and easy to work with.
DISCLOSURES

The Office of Internal Audit adheres to the Standards of the Institute of Internal Auditors (IIA). The following items are being disclosed in conformance with the Standards.

Organizational Independence

The Office of Internal Audit must confirm to the board, at least annually, the organizational independence of the internal audit activity. The Office of Internal Audit reports functionally to the Audit, Risk and Compliance Committee (ARC Committee) of UNCW’s Board of Trustees and administratively to the Chancellor. In keeping with the Standards, we maintain a strong working relationship with the ARC Committee. Consequently, the Chief Audit Executive (CAE) provides the ARC Committee with copies of the final report or memo from each engagement and presents results of audits and other office activities to the ARC Committee at their quarterly meetings. In addition, the CAE assists the ARC Committee in understanding their role and responsibilities and keeps committee members apprised on emerging trends and best practices. The Office of Internal Audit also has a “dotted line” functional reporting relationship to the UNC System Office through the UNC Vice President for Compliance and Audit Services, which also assists in ensuring independence from campus management and leadership.

Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed. There were no impairments to independence or objectivity for any engagements during FY19.

Disclosure of Nonconformance

Occasionally circumstances require the completion of a project or engagement in a manner which is inconsistent with applicable Standards. When this occurs, we must disclose the nonconformance and the impact to senior management and the Board of Trustees. During FY19, there were no instances in which projects were completed in a manner that did not comply with the Standards.

Resolution of Management’s Acceptance of Risks

Each engagement can potentially produce items that may pose risks to university operations. Some items will require management’s attention while others may be situations in which management decides to accept the risk associated with continuing the practice. This is normal in limited circumstances and is often due to cost/benefit constraints. We are required to disclose to senior management and the Board of Trustees any situation in which it is believed personnel have accepted a level of residual risk that may be unacceptable to the university. There were no such instances during FY19.

Quality Assurance Review

In order to fully comply with the Standards, our office is required to undergo a quality assurance review (peer review) at least once every five years. In May 2016 an independent CPA completed a peer review of our office. We received the highest possible score overall and in each individually assessed category. Our next external assessment will occur in 2021.