Office of Internal Audit
Activity Report for the Period from October 1, 2019 to January 10, 2020

University of North Carolina Wilmington
Office of Internal Audit
Executive Summary
This report contains a summary of the Office of Internal Audit’s operations for the period from October 1, 2019 to January 10, 2020. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Projects
- Friends of UNCW Financial Audit
- UNCW Center for Marine Science (CMS) Review

Pending Project
- Quality Assurance Review – Self-Assessment

Follow Up Audits
- Follow up work was conducted for:
  - Cameron School of Business
  - Center for Innovation and Entrepreneurship (CIE)
  - College of Arts & Sciences
  - Purchasing Card (Pcard)
- 50 findings closed
- 6 ‘in process’ findings
- 53 open findings

Investigations

Completed Project
- 1 minor investigation

Consultations/Advisory Services

Advisory Services
- Routine consultations included 8 minor projects and requests for information serving 7 UNCW departments, and 1 State agency
- 20 individuals from 16 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 10 UNCW committees
- The CAE presented at a session of Dare to Lead: Awakening Gathering
- The CAE delivered a guest lecture to students in REC 440, Risk Management and Liability in Recreation Services

Other
- The office was provided funding for a time-limited auditor position and recruitment for this position is underway
- Individuals from the office attended or participated in 7 University events/functions
- Individuals from the office participated in 9 UNCW training programs. In addition, they attended 3 conferences/workshops and 9 webinars earning 82 hours of CPE.
Audits/Assurance Services

Audits and assurance engagements include planned reviews of compliance, operations, information technology, financial activity, internal controls, and other topics. They also include integrated audits, which incorporate more than one of those categories in a single engagement. Audits are typically included on our office’s annual audit plan (work plan), and they result in a formal audit report which includes an overall opinion of the area under review and any findings and recommendations that were identified.

Completed Projects

Friends of UNCW Financial Audit

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

The audit was conducted in accordance with auditing standards generally accepted in the United States, and our work included a review of Friends’ compliance with the requirements of a Minor Associated Entity under the policy of the University of North Carolina System. Friends received an unqualified opinion, and the final report was issued November 6, 2019.

UNCW Center for Marine Science (CMS) Review

At management’s request, we completed a review of the UNCW Center for Marine Science, inclusive of the Center for Marine Science (CMS) unit, the Shellfish Research Hatchery, the Finfish Aquaculture Program, and Marine Biotechnology in North Carolina (MARBIONC). Additionally, due to the current organizational structure, MARBIONC Development Group, LLC (MDG) was also included in the scope of the review. This review was requested given the strategic initiative to advance research at UNCW and the significant role the UNCW Center for Marine Science plays in UNCW’s research portfolio.

The scope of the review was determined by conducting a thorough risk assessment. We reviewed and assessed the following areas:

- Fund structure and financial activity, including PCI compliance
- Program income compliance
- Grant compliance
- Asset and facility management
- Tenant management (MARBIONC building)
- Lab and equipment safety, including training requirements
- Physical security
- General controls and data security
- Long-term planning
- Personnel matters
- Compliance with established policies, procedures, and external regulations
- Overall internal controls
- Effectiveness and efficiency of operations
Audits/Assurance Services (Continued)

CMS Review (Continued)
Based on the work performed, findings and recommendations to enhance internal controls and improve operations were shared with management via various reports based on applicable reporting structure and oversight. We received positive responses from management for all findings. In addition, other items relating to overall organizational structure, leadership, and staffing were identified. These items were shared separately with university leadership.

The summary of each report is below.

- **Center for Marine Science operational report**: This report includes findings that are operational in nature with corrective measures overseen by UNCW Center for Marine Science leadership. The final report was issued December 18, 2019.

- **MARBIONC Development Group, LLC (MDG) operational report**: This report includes findings that relate to MDG. It should be noted that our review of MDG operations was limited in scope to operations and processes related to the UNCW Center for Marine Science. The final report was issued December 18, 2019.

- **Program income compliance report**: This report includes the results of our review of program income generated by the UNCW Center for Marine Science. The final report was issued December 18, 2019.

- **MARBIONC tenant management report**: This report includes the results of our review of MARBIONC tenant management. The final report was issued January 9, 2020.

In addition, during the Center for Marine Science (CMS) review, an additional finding regarding improvements needed in lab safety training was identified. As Environmental Health and Safety (EH&S) has oversight of lab safety and related training, the finding was reported to EH&S via a separate memo issued on December 10, 2019.

Pending Project

**Quality Assurance Review – Self-Assessment**
Under the North Carolina Internal Audit Act (NCGS 143, Article 79), UNCW’s Office of Internal Audit must comply with the *Standards* of the International Professional Practices Framework of the Institute of Internal Auditors. The *Standards* require a quality assurance review (peer review) of the Office of Internal Audit every five years. Between external reviews, the *Standards* require internal audit departments to complete thorough self-assessments which examine all aspects of operations for compliance with the *Standards* and to provide opportunities for benchmarking with best practices. A self-assessment is in process in preparation for the next peer review, scheduled for 2021.
Follow Up Audits

Follow up work is completed for any audit findings resulting from audit/assurance engagements and may be completed for other engagements as deemed necessary. We typically follow up on open audit findings on a quarterly basis. A formal memo is issued when all findings relating to an engagement are closed. If findings are not yet resolved, formal memos are also issued approximately two years after the initial audit to update all parties involved of progress.

Completed Follow Ups

Cameron School of Business

During fiscal year 2018, our office completed an audit of the Cameron School of Business (CSB), and 4 findings were identified. Follow up work was completed in August 2018, May 2019, and November 2019 to determine whether CSB had taken steps to adequately and effectively address the findings. Based on the work completed, we determined that 3 of the 4 findings associated with the initial review have been closed; one finding regarding scholarship awarding remains in process. As progress has been made toward resolving the findings and management has plans in place to continue corrective measures, we are not planning any additional follow up work regarding the in process finding.

A final memo was issued December 12, 2019.

Center for Innovation and Entrepreneurship (CIE)

During fiscal year 2019, our office completed an audit of the Center for Innovation and Entrepreneurship (CIE), and 7 findings were identified. Follow up work was completed in June 2019 and December 2019 to determine whether CIE had taken steps to adequately and effectively address the findings. Based on the work completed, the 7 audit findings associated with the initial review have been closed.

A final memo was issued December 12, 2019.

College of Arts & Sciences

During fiscal year 2017, our office completed an audit of the College of Arts and Sciences (CAS), and 15 findings were identified. Follow up work was completed in April 2018, December 2018, and November 2019 to determine whether CAS had taken steps to adequately and effectively address the findings. Based on the work completed, we determined that 12 of the 15 findings associated with the initial review have been closed; 3 findings regarding computer equipment tracking, equipment tracking, and continuity of operations plans remain in process. As progress has been toward resolving the findings and management has plans in place to continue corrective measures, we are not planning any additional follow up work regarding the in process findings.

A final memo was issued December 19, 2019.

Purchasing Card (Pcard)

During fiscal year 2018, our office completed an audit of Purchasing Cards (Pcards), and 10 findings were identified. Follow up work was completed in June 2019 and December 2019 to determine whether Purchasing Services had taken steps to adequately and effectively address the findings. Based on the work completed, the 10 audit findings associated with the initial review have been closed.

A final memo was issued December 20, 2019.
Follow Up Audits (Continued)
Completed Follow Ups (Continued)

Project Management (Facilities)
During fiscal year 2018, our office completed an audit of UNCW Facilities, Project Management, and 19 findings were identified. Follow up work was completed in June 2019 and December 2019 to determine whether Project Management had taken steps to adequately and effectively address the findings. Based on the work completed, the 19 audit findings associated with the initial review have been closed.

A final memo was issued January 8, 2020.

In addition to the follow up work noted above, during the period ended January 10, 2020, follow up work was also completed related to open findings from the following engagements:
- Environmental Health & Safety (EH&S)
- Parking Services

Audit Finding Status
The table on the next page displays the status of audit findings for the period ended January 10, 2020. A summary of in process and open audit findings is included at Appendix A.

- **Closed** – Findings which were confirmed to be resolved during previous quarters and the period ended January 10, 2020. This includes findings where sufficient progress has been made and additional follow up work is not planned.
- **In Process** – Findings where progress toward remediation has begun but is not yet complete or there is not a sufficient population to test the effectiveness of corrective measures. Movement of findings from ‘Open’ to ‘In Process’ requires work to be performed by Internal Audit for verification.
- **Open** – Findings which have not been resolved as of the period ended January 10, 2020 or where Internal Audit has not yet performed follow up work.
### Follow Up Audits (Continued)

#### Audit Finding Status (Continued)

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Original Report Date</th>
<th>Findings from Initial Review</th>
<th>Findings Closed (Previous Quarters)</th>
<th>Findings Closed (Current Quarter)</th>
<th>In Process Findings</th>
<th>Open Findings</th>
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<td>Purchasing Card (Pcard)</td>
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<td>Parking Services</td>
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<td>51%</td>
<td>5%</td>
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</table>

[a] During the UNCW Center for Marine Science Review, a finding regarding improvements needed in lab safety training was identified. As Environmental Health and Safety (EH&S) has oversight of lab safety and related training, remediation of the finding is the responsibility of EH&S.
Investigations

*Investigations result from tips reported to our office via the Office of State Budget and Management’s hotline, our internal hotline, the UNC System Office, and other sources.*

Completed Project

*Minor Investigation*

Minor investigations occur when a complaint is received with no formal reporting requirement, and the complaint can be resolved by obtaining clarifying information or referral to another department. The Office of Internal Audit completed one minor investigation for the period ended January 10, 2020.
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, the Office of Internal Audit provided advisory services through 8 minor projects and requests for information during the period ended January 10, 2020.

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 developed and teach the course INT 101: How to Pass an Audit (An Introduction to Internal Controls) offered through the Finance Certificate Program. Attendance for the period ended January 10, 2010 is included to the right.

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

Committee Work
- Banner to Oracle Cloud Migration
- Enterprise Risk Management (ERM)
- HR Liaison
- IT Advisory Council (ITAC)
- IT Governance
- Leadership Council
- Search Committees (3) - Associate Controller, Director of Budgets and Financial Analytics, IT Security Analyst
- Systems Coordination

Educating Others
- Dare to Lead: Awakening Gathering
- REC 440, Risk Management and Liability in Recreation Services, guest lecture
Other
This section contains a summary of the other projects and activities of the Office of Internal Audit.

Staffing
The office was provided funding for a time-limited auditor position to assist with the backlog of work resulting from staffing shortages in the office from March 2018 – June 2019. Recruitment for this position is underway.

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 period ended January 10, 2020, staff participated in the functions noted to the right.

Professional Development / 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 period ended January 10, 2020, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining 82 hours of continuing professional education (CPE) credits.

<table>
<thead>
<tr>
<th>UNCW Training</th>
<th>Conferences/Workshops</th>
<th>Webinars</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Active Attacker</td>
<td>• ADAPT: Assurance Re-Imagined Conference</td>
<td>• Agile Leadership: Embracing the Change You Want</td>
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<tr>
<td>• Cascade Website</td>
<td>• Tableau Software Training</td>
<td>• Cyber Recovery: Surviving a Digital Extinction-</td>
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<tr>
<td>• Emergency and Fire</td>
<td>• University of North Carolina</td>
<td>• Establishing a Data-Driven Culture at NC State</td>
</tr>
<tr>
<td>Preparedness Overview</td>
<td>Auditor’s Association (UNCAA) Conference</td>
<td>for Finance and Audit</td>
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<tr>
<td>• Harassment Prevention</td>
<td></td>
<td>• Hot Technology Trends for 2020 and Beyond</td>
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<tr>
<td>• Hazard Communication</td>
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<td>• Minimizing Disputes in Construction Projects</td>
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<tr>
<td>Overview</td>
<td></td>
<td>Through Effective Construction Auditing</td>
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<tr>
<td>• Leadership Enhancement</td>
<td></td>
<td>• Mitigating the Risk of Fraud in the Public</td>
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<tr>
<td>and Administrative Development (LEAD) modules</td>
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<td>Sector through Data Visualization</td>
</tr>
<tr>
<td>• Microsoft Teams/SharePoint</td>
<td></td>
<td>• Occupational Fraud - What, Why, How and Who?</td>
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<tr>
<td>• State Health Plan 101: Open Enrollment</td>
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<td>• Operationalizing Data Privacy</td>
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<tr>
<td>• Vivid Learning system</td>
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<td>• The Rise of Women in Financial Services</td>
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</table>
Distribution List
Audit, Risk and Compliance Committee, UNCW Board of Trustees

Dr. Jose V. Sartarelli, Chancellor

Mr. Bradley Ballou, Chief of Staff

Ms. Kristy Burnette, Risk Manager

Ms. Dana Harris, Associate Vice Chancellor for Finance

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

**In Process and Open Internal Audit Findings**

**For the Period Ended January 10, 2020**

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Original Report Date</th>
<th>Number of In Process Findings</th>
<th>Number of Open Findings</th>
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<td>3</td>
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<td><strong>6</strong></td>
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{a) During the UNCW Center for Marine Science Review, a finding regarding improvements needed in lab safety training was identified. As Environmental Health and Safety (EH&S) has oversight of lab safety and related training, remediation of this finding is the responsibility of EH&S.
Appendix A (Continued)

Academic Affairs

UNCW Center for Marine Science (CMS) – Operational Report

Open Findings

1. Improvements needed in lab safety to ensure compliance with the Chemical Hygiene Plan (CHP)
2. Lack of documentation for lab safety training
3. Facility management for the CMS campus
4. Oversight of shared spaces within MARBIONC
5. Noncompliance with UNCW Policy 05.400, Cart (Golf, Utility, Street Legal) Safety Policy
6. Noncompliance with the UNCW Industrial Truck (Forklift) Safety Program policy
7. Lack of complete tracking of computer equipment
8. Lack of complete tracking of other equipment (not meeting the fixed asset definition)
9. Lack of equipment checkout procedures
10. Lack of adequate records for the ownership of equipment funded by grants
11. Noncompliance with UNCW Policy 05.120, Key Control
12. Improvements needed in physical controls to the CMS campus facilities
13. Lack of adequate backup and cross training for critical functions
14. Lack of continuity of operations plan
15. Lack of documented departmental disaster response/recovery plan
16. Non-compliance with PCI guidance for credit card information received
17. Absence of oversight of financial transactions related to program income revenue
18. Lack of applicable documentation regarding sale activity, creating the potential for a perceived conflict of interest

CMS – MDG Operational Report

Open Findings

1. The MARBIONC Development Group, LLC (MDG) Operating Agreement allows for potential conflicts of interest and lacks oversight of the MDG Manager
2. A Tenant Lab Reseller Agreement was not provided to the Office of General Counsel for review
3. Lack of adequate backup and cross training for critical functions
4. Noncompliance with UNCW Policy 05.141, Departmental Funds Receipting
5. Non-compliance with PCI guidance for credit card acceptance
6. Need for increased financial training for the MARBIONC Business Development Manager
Appendix A (Continued)

Academic Affairs (Continued)

CMS – Program Income Compliance Report

Open Findings

1. Lack of a formal process for approval of program income generated via grant funding
2. Products were sold in violation of the Code of Federal Regulation and UNCW Policy 01.200, Intellectual Property Policy
3. Lack of a formal process for product pricing determination
4. Lack of a formal contract with a by-product reseller
5. Existing liability disclaimers are insufficient and not consistently used
6. Lack of a formal process to ensure sales tax is collected
7. Required hazardous materials training is not being completed
8. Lack of liability insurance
9. Current income distribution does not follow Federal grant funding requirements or UNCW Policy 1.200, Intellectual Property Policy
10. Significant risks exist with current practices for program income

Business Affairs

Environmental Health & Safety (EH&S)

In Process Findings

1. Untimely and inconsistent reporting of inspection results
2. Insufficient process for following-up on lab safety findings
3. Need to strengthen oversight and authority over continuity of operations plans

Open Finding

4. Improvements needed in lab safety training (from UNCW Center for Marine Science review)

Parking Services

In Process Findings

1. Incomplete collection of faculty and staff parking permit sales
2. Inconsistencies in reconciling parking meter and pay station revenue deposits
3. Lack of comprehensive review of T2 Flex access

Open Findings

4. Noncompliance with North Carolina General Statute and the North Carolina Office of State Budget and Management guidance regarding unpaid citation fines
5. Noncompliance with North Carolina General Statute regarding late payment penalty fees for unpaid parking citations
6. Inaccurate parking permit data in T2 Flex
Appendix A (Continued)

Multi-Divisional
CMS – MARBIONC Tenant Management Report

Open Findings

1. Lack of records of compliance with NIST award requirements regarding the MARBIONC building usage
2. Lack of documented approval for MARBIONC lab space usage by the Department of Chemistry and Biochemistry (Chemistry)
3. Enhancements needed to ensure current and prospective tenants have an active business status
4. Evaluation of prospective tenants should incorporate persons of various science disciplines
5. MARBIONC tenant leasing documentation is not consistently completed and/or approved
6. Criteria for determination of rental rates are not consistently documented
7. Historically standard templates were not used for tenant lease agreements
8. Improvements needed for the MARBIONC tenant billing process to ensure timely payment and adequate oversight
9. Improvements needed for the MARBIONC tenant renewal process
10. Lab safety requirements are not being met
11. Insurance coverage requirements are not being met
12. MARBIONC Leasing Process procedure is not accessible to applicable staff
13. MARBIONC tenant leasing process steps do not align with current procedures or promote efficiency and effectiveness
14. Lack of adequate backup and cross training for tenant management responsibilities
15. Undefined tenant management responsibilities and ownership