Office of Internal Audit

Report for the Quarter Ending December 31, 2016

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 December 31, 2016. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Projects
- Friends of UNCW Financial Audit
- Sponsored Programs and Research Compliance Review, Phase I
- Abrons Student Health Center Review

Pending Projects
- Aramark Contract Review
- Randall Library Review

Follow Up Audits
- Follow up work was conducted for Physical Access, and all related findings are now closed.
- 30 open findings as of December 31, 2016 (2 findings are considered to be “in process”).

Investigations

Pending Project
- Personnel Complaint

Consultations/Advisory Services

Completed Project
- ITS Controls Manual Review

Pending Project
- Banner Disaster Recovery Testing

Other Advisory Services
- Routine Consultations included 21 minor projects and requests for information.
- Individuals from 9 departments representing 3 out of 5 of UNCW’s divisions attended the Introduction to Internal Controls course taught by Internal Audit.
- The office was involved with 7 UNCW committees.
- The Chief Audit Executive presented on internal controls to students enrolled in REC 440, Risk Management in Recreation Settings.
- The office was actively involved with 1 professional organization.

Other
- Individuals from the office attended or participated in 9 university events/functions.
- Individuals from the office participated in UNCW Safe Zone training. In addition, they attended numerous conferences, workshops and webinars earning 64.5 hours of CPE.
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 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 Kelley Horton, Chief Audit Officer at UNC Pembroke, 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 UNC General Administration. **Friends received an unqualified opinion**, and the final report was issued October 11, 2016.

Sponsored Programs and Research Compliance Review, Phase I

We completed the first phase of a multi-phase review of the Office of Sponsored Programs and Research Compliance (SPARC). The first phase included reviewing the following areas of Research Compliance:

- Conflict of interest reporting and management
- Export controls
- Responsible conduct in research
- Related administrative responsibilities

**In our opinion, the system of internal control with respect to the areas reviewed in Research Compliance needs significant improvement.** There were 13 audit findings associated with this review, and we received positive responses from management to the findings. The final report was issued October 11, 2016.
Audits/Assurance Services (continued)

Abrons Student Health Center Review
A review of the Abrons Student Health Center was performed to assess and evaluate operational and compliance aspects of the Student Health Center including the underlying internal controls. The focus of the audit was on the operations and activities of the selected scope areas for Medical Services and Pharmacy. Health Promotion and Crossroads were outside the scope of this review. Areas reviewed included:

- Financial activity
- Cash handling
- Eligibility for medical/pharmacy services
- Billing and collection processes
- Inventory controls over pharmacy stock
- Compliance with NC state immunization laws and student health insurance requirements
- Risk management
- General controls and access rights

In our opinion, the system of internal control with respect to the operations of the Abrons Student Health Center was found to be effective. Controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks are being managed and objectives should be met. There were no findings associated with this review. The final memo was issued December 6, 2016.

Pending Projects

Aramark Contract Review
A review of the contract with Aramark Educational Services, LLC (Aramark) to provide food services for UNCW is in process. The focus of the audit is compliance with contract terms, with an emphasis on the financial obligations of both Aramark and UNCW. Audit objectives include reviewing the following areas as they relate to the contract:

- Accounts payable
- Accounts receivable
- Meal plan processing
- Fixed asset tracking and management
- Insurance requirements
- Business continuity/continuity of operations planning
- Tax compliance

An exit meeting is planned for January 2017, and the final report will be issued following that meeting.

Randall Library Review
A review of Randall Library is in the planning phase. The scope of the audit will be determined by conducting a thorough risk assessment. Potential areas of review include:

- Financial activity
- Procurement processes
- Cash handling of library receipts
- Management of capital assets and equipment
- Continuity of operations planning
- General controls matters including system maintenance and access, physical security, and business continuity planning
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 Up

Physical Access

Throughout fiscal years 2016 and 2017, our office met with management several times and completed follow up work to determine whether the department had taken steps to resolve the three “in process” key management findings. Based on our discussions and the results of the follow up work, we determined the three findings considered “in process” as of November 2015 have been closed/resolved. Significant progress has been made and future plans are in place to ensure continued compliance. No additional follow up procedures will be performed. A final memo was issued December 13, 2016.

Audit Finding Status

Audit findings are reported below in the following categories:

- Closed – Findings which were confirmed to be resolved during the quarter ending December 31, 2016
- Open – Findings which have not been resolved as of December 31, 2016

Note: A summary of open audit findings is included at Appendix A.

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Number of Closed Findings</th>
<th>Number of Open Findings</th>
<th>All Findings for Engagement Closed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distance Education</td>
<td>0</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance</td>
<td>0</td>
<td>13</td>
<td>No</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources (from SACO review)</td>
<td>0</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Physical Access</td>
<td>3</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td>Student Accounts and Cashier Office (SACO)</td>
<td>0</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td><strong>Chancellor’s Division</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>0</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td><strong>Multi-Divisional</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campus Wide Surprise Cash Counts</td>
<td>0</td>
<td>2*</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

*Findings are considered to be “in process” indicating progress toward remediation has begun but is not yet complete.*
Investigations

Investigations result from tips reported to our office via the Office of the State Auditor’s hotline, our internal hotline, and other sources.

Pending Project

Personnel Complaint

We received a complaint on October 31, 2016 containing allegations relating to an employee’s potential misappropriation of assets and inappropriate business practices. The related investigation is ongoing.
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 UNC General Administration and professional organizations and serving as liaisons between the university and various external auditors.

Completed Project

ITS Controls Manual Review

At the request of ITS, we completed a review of documented policies and procedures related to compliance with selected sections of the North Carolina Statewide Information Security Manual (manual). The scope of the consultation included reviewing supporting documentation, relevant university policies, and ITS procedures as well as interviewing employees to ensure there were policies and procedures to support compliance with the standards in the manual.

Results of this review, including recommendations to strengthen documentation of policies and procedures to support UNCW’s compliance with the standards in the manual, were shared with management. A final memo was issued December 14, 2016.

Pending Project

Banner Disaster Recovery Testing

At the request of ITS, our office is completing a review of UNCW’s disaster recovery plan for the Banner system. Our review includes gaining an understanding of the current configuration of the Banner servers and confirming the availability of data.

Other 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 21 minor projects and requests for information during the quarter ending December 31, 2016.

INT 101: How to Pass an Audit (An Introduction to Internal Controls)

During the quarter ending December 31, 2016, 10 individuals took the course, representing 9 departments and 3 out of 5 divisions at UNCW.

Advisory services were also provided through committee work, time spent educating others, and service to the profession as noted below.

Committee Work
- HR Liaison
- Institutional Risk Management (IRM)
- IRM Steering Committee
- IT Advisory Council
- Leadership Council
- Search Committee: OIRA
- Systems Coordination

Educating Others
- REC 440, Risk Management in Recreation Settings, guest lecture

Service to the Profession
- Association of College and University Auditors (ACUA) Best Practices Committee
Other

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

Participation in University Functions

Participating in university functions keeps our office informed of activity and events at UNCW, provides team building opportunities, and creates an opportunity to interact with the university community outside of an audit setting. Staff members and the Chief Audit Executive attended or participated in university events and functions as noted in the table below.

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. Individual training plans are developed for each staff member, and information learned at training sessions is shared with the entire department during staff meetings. During the quarter ending December 31, 2016, staff members attended the UNCW-sponsored and external training listed in the table below, obtaining a total of 64.5 hours of CPE.
## FY17 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 FY17 Audit Plan, which was approved at the July 2016 Audit, Risk and Compliance Committee meeting, as of December 31, 2016.

<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>Randall Library</td>
<td>In Process</td>
</tr>
<tr>
<td>Abrons Student Health Center</td>
<td>Complete</td>
</tr>
<tr>
<td>College of Arts and Sciences (excluding CMS)</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance (SPARC), Phase II</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>Environmental Health &amp; Safety</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>Purchasing Card</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>Friends of UNCW Financial Audit</td>
<td>Complete</td>
</tr>
<tr>
<td>Disaster Recovery Planning</td>
<td>In Process</td>
</tr>
<tr>
<td>ImageNow</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>Campus Wide Surprise Cash Counts</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td><strong>Mini-Audits</strong></td>
<td></td>
</tr>
<tr>
<td>Campus Dining/Contract with Aramark</td>
<td>In Process</td>
</tr>
<tr>
<td>Student Affairs – Engagement TBD</td>
<td>Not Yet Started</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>Center for Marine Science (CMS)</td>
<td>Not Yet Started</td>
</tr>
<tr>
<td>ITS Controls Manual Review</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Complete Prior Year Work</strong></td>
<td></td>
</tr>
<tr>
<td>Office of the Registrar Review</td>
<td>Complete</td>
</tr>
<tr>
<td>SPARC, Phase I</td>
<td>Complete</td>
</tr>
<tr>
<td><strong>Special Projects/Investigations</strong></td>
<td></td>
</tr>
<tr>
<td>Quality Assurance Activities</td>
<td>In Process</td>
</tr>
<tr>
<td>Risk Assessment/Audit Plan</td>
<td>In Process</td>
</tr>
<tr>
<td>Campus Training</td>
<td>In Process</td>
</tr>
<tr>
<td><strong>Engagements Added</strong></td>
<td></td>
</tr>
<tr>
<td>Housekeeping Complaint Investigation</td>
<td>Complete</td>
</tr>
<tr>
<td>Academic Misconduct Complaint Investigation</td>
<td>Complete</td>
</tr>
<tr>
<td>Personnel Complaint Investigation – Received October 2016</td>
<td>In Process</td>
</tr>
</tbody>
</table>
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. Mark Lanier, Assistant to the Chancellor and Assistant Secretary, Board of Trustees

Ms. Pat Leonard, Vice Chancellor for Student Affairs

Mr. John Scherer, General Counsel

Dr. Marilyn Sheerer, Provost and Vice Chancellor for Academic Affairs

Mr. Eddie Stuart, Vice Chancellor for University Advancement

Ms. Sara Thorndike, Associate Vice Chancellor for Finance & Controller

Dr. Rick Whitfield, Vice Chancellor for Business Affairs
Appendix A

UNCW Office of Internal Audit
Open Internal Audit Findings
As of December 31, 2016

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Number of Open Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Distance Education</td>
<td>5</td>
</tr>
<tr>
<td>Sponsored Programs and Research Compliance (SPARC)</td>
<td>13</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Human Resources {a}</td>
<td>3</td>
</tr>
<tr>
<td>Student Accounts and Cashier Office (SACO)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Chancellor’s Division</strong></td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>5</td>
</tr>
<tr>
<td><strong>Multi-Divisional</strong></td>
<td></td>
</tr>
<tr>
<td>Campus Wide Surprise Cash Counts {b}</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30</td>
</tr>
</tbody>
</table>

{a} Human Resources findings were identified during a review of SACO.

{b} The 2 open findings from the Campus Wide Surprise Cash Counts 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.

**Academic Affairs**

**Distance Education**

1. Online courses should meet the requirements of the Americans with Disabilities Act (ADA).
2. Best practices indicate there should be a consistent use of technology and consistency in the ways of accessing the technology throughout all online courses at UNCW.
3. Best practices indicate all online courses at UNCW should be consistent in format and navigation.
4. There should be a systematic process for monitoring Academic Partnerships’ contract compliance.
5. The most appropriate reporting structure for the Online Accelerated Program, either to the Office of External Programs or elsewhere within Academic Affairs, should be determined. Given the growth of the program to date and the forecasted future growth, dedicated staff should be hired to support the program.
Appendix A (continued)

Sponsored Programs and Research Compliance (SPARC)

1. For each individual international travel trip, including travel for research or on behalf of the university, an export control analysis should be conducted and documented by Research Compliance. This same analysis must also be conducted for foreign nationals visiting UNCW.

2. Per UNCW Policy 03.370, Export Control Compliance, SPARC should prepare, maintain and update detailed guidelines for complying with the federal statutes and regulations which require export control compliance.

3. UNCW Policy 03.370, Export Control Compliance, should be updated regularly and accurately describe current practices.

4. There should be sufficient staffing and/or other resources to ensure an adequate export controls analysis is conducted in all required situations.

5. UNCW Policy 03.230, Conflict of Interest or Commitment, should be updated regularly and accurately reflect current practices.

6. In accordance with UNCW Policy 03.230, Conflict of Interest or Commitment, conflict of interest disclosure information should be obtained from all covered employees throughout the year.

7. Per UNCW Policy 03.230, Conflict of Interest or Commitment, disclosed potential conflicts of interest should be reviewed to determine if conflict of interest (COI) management plans or other safeguards are required.

8. Per UNCW Policy 03.230, Conflict of Interest or Commitment, COI disclosures should be completed timely by covered employees. In addition, escalation procedures should be in place to help ensure timely disclosures.

9. For research funded by the National Science Foundation (NSF) and the National Institutes of Health (NIH), responsible conduct of research training must be provided to certain individuals to ensure compliance and funding.

10. Research Services and Sponsored Programs Policy 10.001: Responsible Conduct of Research, should be updated regularly and accurately reflect current practices.

11. Per Research Services and Sponsored Programs Policy 10.001: Responsible Conduct of Research, all UNCW investigators submitting a research proposal to NSF must certify that they agree to comply with the plan detailed in the policy to provide required responsible conduct of research training for all undergraduate, graduate and postdoctoral research associates involved in the project prior to submission.

12. Websites should contain current, informative content and websites should function as intended.

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

Business Affairs

Human Resources (from Student Accounts and Cashier Office (SACO) review)

1. UNCW Policy 08.410, *Training and Staff Development Educational Options*, requires updates to the section on available tuition waivers to be consistent with NCGS 116-143(d) and UNC Policy 1000.2.2.1[R]. Additionally the policy should be updated to address co-requisite labs.

2. UNCW Policy 08.410, *Training and Staff Development Educational Options*, requires updates relating to the application of tuition waivers to be consistent with NCGS 116-143(d) and UNC Policy 1000.2.2.1[R].

3. Separated employees utilizing tuition waivers need to be identified and communicated to Student Accounts and Cashier Office (SACO) at the time of separation to allow SACO to initiate appropriate procedures for tuition and fee payments by separated employees.

Student Accounts and Cashier Office (SACO)

1. Compliance with both UNCW Policy 05.141, *Departmental Funds Receipting*, and the Cashier Daily Procedures are necessary to confirm that all receipts have been accounted for and to detect any errors or irregularities in a timely manner. In addition, the petty cash fund, change fund, and emergency loan fund should be counted daily or after each use (if less than daily) to ensure the appropriate balances.

2. IRS Form 8300, *Report of Cash Payments Over $10,000Received in a Trade or Business*, must be filed with the IRS by the 15th day after the cash was received when cash over $10,000 is received in a 12 month period.

Chancellor’s Division

Athletics

1. The correct insurance documents should be maintained to ensure the university is protected while the facilities are being used by a non-university group.

2. All training and safety certificates should be renewed in a timely manner.

3. Monies received by departments should be deposited timely and deposits should fully comply with NCGS 147-77 and UNCW Policy 05.141, *Departmental Funds Receipting*.

4. Adequate segregation of duties for cash receipts, preparation of deposits, and transaction reconciliation should exist within the Ticket Office.

5. Management should review user access to SharePoint at regular intervals using a formal process.
Appendix A (continued)

Multi-Divisional

Campus Wide Surprise Cash Counts

Of the six departments with findings associated with this review, four have fully resolved their findings. The findings in the other two departments remain in process. Detailed findings and recommendations were shared with management in each department, and findings relate to compliance with UNCW Policy 05.141, *Departmental Funds Receipting*. 