Message from the Chief Audit Executive

Fiscal year 2016 (FY16) was a very successful and productive year in the Office of Internal Audit. During FY16 we:

- Completed eight audits, three follow up audits, and six investigations
- Provided informal consulting/advisory services in 80 instances
- Successfully went through an external quality assurance review

We began our year by hiring Shelley Morris as a staff auditor, bringing nearly a decade of accounting and finance experience to our team. Hiring Shelley also marked the end of a staffing shortage in our office that began in December 2012. We were also able to supplement our staffing in FY16 by working in collaboration with UNCW’s Cameron School of Business (CSB). CSB students continued to intern in our office, and we had two outstanding interns during FY16. In addition, a group of Master of Science in Accountancy students from CSB worked with our staff to complete a small consulting project. This was an exciting partnership that benefitted the students, our office, and UNCW’s department of Information Technology Systems.

Expanding our office’s use of data analytics also helped increase our productivity. Beginning with an audit in the fall of 2015, we began incorporating data analytics into all major engagements. Analytics provide better audit coverage by allowing our office to review much larger data sets than we can with traditional audit techniques. In addition, audit work incorporating data analytics can often be completed more quickly than other audit testing.

Our year concluded with an external quality assurance review, or peer review. Our office received the highest possible ratings both overall and in each of the separately assessed categories. Our peer reviewer also made recommendations to continue to enhance the value and productivity of the office, and we look forward to implementing the recommendations as we move forward.

With a fully staffed audit team, experience with new audit techniques, and a roadmap to continue to enhance our operations, we are looking forward to another great year in fiscal year 2017!

Stefanie Powell, CPA, CISA
Chief Audit Executive
Internal Audit Overview
The Office of Internal Audit at UNCW was established in 1983. The mission of the Office of Internal Audit is:

To provide independent, objective assurance and consulting services designed to add value and improve the university's operations. Internal Audit helps the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and the governance process.

Staffing
The Office of Internal Audit is comprised of a Chief Audit Executive, an assistant director who serves as the audit manager, two staff auditors, and an intern who works full-time in the summer and 15-20 hours per week during the academic year. The intern completes the work of a first-year staff auditor.

Certifications
All professional staff members are required to maintain professional certifications. During FY16, three staff members were Certified Public Accountants (CPAs) and the remaining staff member was working toward becoming a Certified Internal Auditor (CIA). Of the three CPAs, one is also certified as a CIA, one is a Certified Information Systems Auditor (CISA), and the other is a Certified Fraud Examiner (CFE).

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 FY16, staff members attended several major conferences and training events sponsored by organizations relevant to internal auditing and higher education.

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

The work of the Office of Internal Audit is conducted and managed in accordance with the Institute of Internal Auditors’ International Professional Practices Framework, which includes the definition of internal auditing, Code of Ethics, and the Standards. In order to fully comply with the Standards, Internal Audit must have a quality assurance and improvement program that includes both internal and external assessments. An external quality assurance review was conducted in the spring of 2016, and the office received the highest possible rating both overall and in each separately assessed area.

The reviewer also noted opportunities for improvement that will enhance conformance to the IIA Standards and improve the efficiency and effectiveness of the Internal Audit Program. Throughout fiscal year 2017, Internal Audit plans to implement the recommendations to further develop our operations.

PATRICK V. REED
21023 W. 60th Terrace, Shawnee, KS 66218
(913) 620-2172

June 2, 2016

Ms. Stefanie Powell
Chief Audit Executive
University of North Carolina Wilmington

Dear Ms. Powell:

I am pleased to provide the attached final report of the External Quality Assessment of the UNCW Internal Audit Program. I congratulate you on earning the assessment of Generally Conforms (highest assessment) to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (Standards).

I hope that the attached report will help to instill even greater confidence in the UNCW Internal Audit Program, which is already highly regarded by management and the Committee on Audit, Risk and Compliance. At the same time, I hope that the report’s recommendations provide you with useful insights that will help to further strengthen the Program allowing you to better serve your institution.

I appreciate the efforts of everyone who contributed to this successful outcome—you and your staff, and the many customers, stakeholders and other UNCW officials with whom I interacted. I will be happy to participate in any communication of the report’s conclusions and recommendations should you or the ARCC desire. Further, if you would like to discuss implementation strategies for any of the report’s recommendations I will be happy to make myself available to you.

Best wishes for continued success.

Sincerely,

Patrick V. Reed
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.

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.

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

Engagements Completed in Fiscal Year 2016:

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<th>Audits</th>
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<td>Athletics</td>
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<td>Campus Recreation</td>
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<td>Campus Wide Surprise Cash Counts</td>
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<td>Friends of UNCW</td>
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<td>Office of Admissions</td>
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<td>Office of Scholarships and Financial Aid</td>
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<td>Student Accounts and Cashier Office</td>
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<td>Tuition Waivers</td>
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<th>Follow Ups</th>
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<td>Campus Life</td>
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<td>Campus Recreation</td>
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<td>Physical Access</td>
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<th>Investigations</th>
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<tr>
<td>Athletic Facilities</td>
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<td>Collegiate Fashion Week</td>
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<td>Facilities</td>
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<td>ITS Contracted Services</td>
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<td>ITS Teleworking</td>
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<td>Watson College of Education</td>
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Work Allocation (continued)
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 several professional organizations and serving as liaisons between the university and various external auditors.

In addition to formal advisory work such as serving on committees and leading training, the Office of Internal Audit provided advisory services through 80 minor projects and requests for information during fiscal year 2016.

Committee Work
- Athletic Eligibility
- Chief Information Officer (CIO) Search
- Dare to Learn Academy Brainstormers
- Data Governance
- HR Liaison
- Institutional Risk Management (IRM)
- Internal Control Assessment Team
- IRM Steering
- IT Advisory Council
- Leadership Council
- Strategic Priorities Fund Workgroup
- Systems Coordination

Educating Others
- Careers in Accounting Day
- Presentation to undergraduate students in REC 440 - Risk Management in Recreation Settings
- Development of course INT 101 - How to Pass an Audit (An Introduction to Internal Controls) for the UNCW Finance Certificate Program

Service to the Profession
- Association of College and University Auditors (ACUA) Best Practices Committee
- ACUA Mentoring Program
- North Carolina Association of CPAs (NCACPA) Day of Service
- UNC Auditors Association (UNCAA) Past President
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 their time spent on each project to assist in planning and for benchmarking purposes. The graph shows the time allocation for UNCW’s Office of Internal Audit for FY16. Our goal in any year is to spend at least 70% of our time on direct hours, which is time spent directly working on audits/assurance services, consultations/advisory services, and investigations. However, with the hiring of a new staff member in FY16, additional time was spent on training and administrative tasks and we finished the year with 68% of our time in direct hours.

Work Allocation
In addition to looking at the allocation of all hours, we review the allocation of direct time. As the graph shows, the majority of our time was spent on audits/assurance services, and this is consistent with prior years. Total hours spent on investigations fluctuate annually but are typically about 10% of Internal Audit’s work. In FY16, investigation hours are low due to a relatively low volume of investigations and one investigation’s time being recorded to the audit with which it was associated. Work recorded in the “Other” category includes time spent on 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

Another metric we monitor is the audit plan completion rate which is an indicator of efficiency and alignment with the annual audit plan approved by the Audit, Risk and Compliance Committee (ARC Committee) of the Board of Trustees.

Our initial fiscal year 2016 audit plan was approved at the July 2015 ARC Committee meeting. In order to better align the Office of Internal Audit’s work with UNCW’s proposed strategic plan, a revised audit plan was presented and approved at the October 2015 ARC Committee meeting. Based on the revised audit plan, all engagements were completed or in process at the end 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 by institutional trust funds. Total expenditures for fiscal year 2016 were $428,494. Expenditures primarily related to salaries and benefits. Annually the office incurs professional expenses which include licenses, memberships, and training. During fiscal year 2016 the office also paid for an external quality assurance review (QAR). The remainder of the expenses relate to 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 ensure our continuous improvement. Questions on the survey address the helpfulness of the audit, professionalism of our staff, degree of disruption to operations, and timeliness of audit completion. For each question, responses are provided on a scale from 1 to 5 with 5 being the highest possible score.

Survey Results

For fiscal year 2016, 17 client surveys were received. (Note: For some engagements, surveys were submitted by multiple individuals within the department reviewed.)

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
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<tbody>
<tr>
<td>Opening conference was held and all questions/comments were adequately addressed.</td>
<td>4.6</td>
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<tr>
<td>Engagement objectives and scope were clearly communicated.</td>
<td>4.5</td>
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<tr>
<td>Management requests were incorporated into the engagement.</td>
<td>4.2</td>
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<tr>
<td>Engagement covered critical functions and risks.</td>
<td>4.3</td>
</tr>
<tr>
<td>Internal Audit was knowledgeable about operations.</td>
<td>4.2</td>
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<tr>
<td>Engagement was completed in the timeframe communicated.</td>
<td>4.5</td>
</tr>
<tr>
<td>Engagement was conducted efficiently and effectively.</td>
<td>4.2</td>
</tr>
<tr>
<td>Engagement was conducted in a professional and courteous manner.</td>
<td>4.6</td>
</tr>
<tr>
<td>Internal Audit was objective.</td>
<td>4.6</td>
</tr>
<tr>
<td>Internal Audit kept you informed of key issues throughout the engagement.</td>
<td>4.8</td>
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<tr>
<td>All key business risks were addressed.</td>
<td>4.4</td>
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<tr>
<td>Exit conference allowed both sides to adequately discuss and address comments.</td>
<td>4.4</td>
</tr>
<tr>
<td>Final report was accurate and clearly communicated.</td>
<td>4.5</td>
</tr>
<tr>
<td>Final report fairly reflective your department’s comments and corrective actions.</td>
<td>4.4</td>
</tr>
<tr>
<td>Overall, the engagement provided value to your areas.</td>
<td>4.4</td>
</tr>
<tr>
<td>Average</td>
<td>4.4</td>
</tr>
</tbody>
</table>

Additional Comments

The following comments were shared by individuals completing the surveys:

- It was a positive experience. The auditors were extremely knowledgeable and kept us informed throughout the process.
- Thank you for your attention to detail and the way you conduct this audit.
- The audit process was professional and not the least bit intimidating.
- The audit took place in our busiest season and the audit team were flexible in working around our schedules- much appreciated! They were great to work with and explained questions in a clear and concise manner. Thanks for your work!
- The Internal Audit Team was great 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.

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 fiscal year 2016.

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 fiscal year 2016, 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 university personnel have accepted a level of residual risk that may not adequately reduce or mitigate the risk of loss. There were no such instances during fiscal year 2016.

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, Patrick Reed, CPA, completed a peer review of our office. We received the highest possible score overall and in each individually assessed category. We are planning a self-assessment for 2019, and our next external review will occur in 2021.