Executive Summary

This report contains a summary of the Office of Internal Audit’s activity for the quarter ending September 30, 2016. The following highlights provide an overview of the office’s work.

Audits/Assurance Services

Completed Projects
- Office of the Registrar Review

Pending Projects
- Abrons Student Health Center Review
- Aramark Contract Review
- Friends of UNCW Financial Audit
- Sponsored Programs and Research Compliance Review

Follow Up Audits
- Follow up work was conducted for the Graduate School, the Office of Scholarships and Financial Aid, Distance Education, and the campus wide surprise cash counts.
- 35 findings closed during the quarter.
- 20 open findings as of September 30, 2016. (Of the 20 open findings, 5 are considered to be in process.)

Investigations

Completed Projects
- Housekeeping Complaint
- Academic Misconduct Investigation

Consultations/Advisory Services

Pending Projects
- Banner Disaster Recovery Testing
- ITS Controls Manual Review

Other Advisory Services
- Routine Consultations included 26 different questions and requests.
- Individuals from 18 departments representing 4 out of 5 of UNCW’s divisions attended the Finance Certificate Course program taught by Internal Audit.
- The office was involved with 11 UNCW committees.
- Staff presented at Careers in Accounting Day and taught an ongoing training course 2 times.
- The office was actively involved with 2 professional organizations.
Executive Summary (continued)

Other

- The annual departmental retreat was held on July 14, 2016.
- A strategic plan was developed for the Office of Internal Audit.
- Individuals from the office attended or participated in 7 university events/functions.
- Individuals from the office participated in 7 UNCW training programs. In addition, they completed 4 webinars.

Quality Assurance Review (QAR) Update

- Of the 3 QAR recommendations related to enhancing conformance with the IIA Standards, 2 are in process and 1 will be implemented in Spring 2017.
- Of the 7 QAR recommendations related to improving efficiency and effectiveness, 3 are complete and 4 are in process.
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

Office of the Registrar Review

A review of the Office of the Registrar was performed to assess and evaluate operational, compliance and administrative aspects of the Office of the Registrar including the underlying internal controls. The focus of our audit was areas owned or managed by the Office of the Registrar, compliance with applicable federal regulations and UNC policies, and select administrative responsibilities with the office. Areas reviewed included:

- Cash Handling
- Compliance
- End-of-term processes
- General controls/access rights
- Grade change process
- Graduation/degree audits
- Re-Enrollments
- Registration
- Transcript requests
- Transfer credit
- Tuition surcharge

In our opinion, the system of internal control with respect to the operations of the Office of the Registrar was found to be satisfactory. There were no findings associated with this review. The final memo was issued July 29, 2016.

Pending Projects

Abrons Student Health Center Review

A review of the Abrons Student Health Center is in process. The scope of the audit was determined by conducting a thorough risk assessment at the beginning of the review. Audit objectives include reviewing the following areas:

- 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
Audits/Assurance Services (continued)

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

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 our work also includes a review of Friends’ compliance with the requirements of a Minor Associated Entity under the policy of UNC General Administration. Due to technicalities related to our staff being licensed as CPAs, our office is unable to issue the audited financial statements. Consequently, the Chief Audit Officer at UNC Pembroke has agreed to assist in the same manner as last year by reviewing all worked performed and issuing the audited financial statements.

Sponsored Programs and Research Compliance (SPARC) Review
The first of a multi-phase review of the Office of Sponsored Programs and Research Compliance is in process. A risk assessment was conducted to determine the scope of each phase of the review. The current phase includes reviewing the following areas of the Research Compliance function:

- Conflict of interest reporting and management
- Export controls
- Responsible conduct in research
- General controls/access rights

An exit meeting was held in September 2016, and we anticipate issuing a final report in early October 2016.
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
Graduate School
Follow up work was performed to determine whether the department had taken steps to adequately, effectively, and timely address the findings identified from the review of the Graduate School during fiscal year 2015. Based on the work completed, all 10 audit findings associated with the initial review have been resolved. A final memo was issued July 29, 2016.

Office of Scholarships and Financial Aid
Follow up work was performed to determine whether the department had taken steps to adequately, effectively, and timely address the findings identified from the review of the Office of Scholarships & Financial Aid during fiscal year 2015. Based on the work completed, all 34 audit findings associated with the initial review have been resolved. A final memo was issued August 19, 2016.
Follow Up Audits (continued)

Audit Finding Status

Audit findings are reported below in the following categories:

- **Closed** – Findings which were confirmed to be resolved during the quarter ending September 30, 2016
- **Open** – Findings which have not been resolved as of September 30, 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>1</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td>Graduate School</td>
<td>8</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>22</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Resources (a)</td>
<td>0</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Physical Access (b)</td>
<td>0</td>
<td>3</td>
<td>No</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 (c)</td>
<td>4</td>
<td>2</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>35</td>
<td>20</td>
<td></td>
</tr>
</tbody>
</table>

(a) Human Resources findings were identified during a review of SACO.

(b) The 3 open findings for Physical Access 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.

(c) The 2 open findings from the Campus Wide Surprise Cash Counts are considered by Internal Audit to be in process.
Investigations

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

Completed Projects

Housekeeping Complaint

In July 2016, the Office of State Budget and Management (OSBM) referred a hotline complaint to our office for investigation. The complaint included an allegation that time was being “taken” from an employee working at UNCW. Through further discussion, it was noted that the employee was late to work on more than one occasion and was asked, per the department’s policy, to use vacation or sick leave for the missed work time. Due to the university’s leavekeeping system, time is being managed and reported on the quarter hour. Consequently, when this employee arrived late, the time reported in the leavekeeping system was rounded up or down to the nearest quarter hour. The employee perceived the system’s rounding, and the subsequent need to use sick or vacation leave, as the “taking” of time.

Our office referred further inquiry of this matter from a personnel/leavekeeping perspective to the Human Resources office at UNCW.

No further work regarding this complaint was necessary by our office, and we consider this investigation closed. A final memo was issued July 29, 2016.

Academic Misconduct Investigation

In July 2016, our office received a complaint via our Fraud and Abuse reporting hotline regarding potential academic misconduct. The complaint included an allegation that during the Fall 2015 semester an employee in Student-Athlete Support Services (SASS) provided improper assistance with classroom assignments to student-athletes.

In reviewing this allegation, we learned that the Assistant Athletic Director of Compliance was previously notified of this same incident in June 2016 and an investigation was conducted. Based on the work performed by the compliance office, there was no evidence that anyone in SASS engaged in improper activities to assist a student-athlete academically. Additionally, there have been no reports or evidence of academic misconduct since this was reported in September 2015.

No further work regarding this complaint was necessary by our office, and we consider this investigation closed. A final memo was issued August 8, 2016.
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.

Pending Projects

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.

ITS Controls Manual Review
In the spring of 2016, a team of Master of Science in Accountancy (MSA) students worked with Internal Audit to review a sub-section of the ITS Controls Manual. Based on the success of the pilot project, this review has been expanded to include the other sub-sections of the ITS Controls Manual.

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 26 minor projects and requests for information during the quarter ending September 30, 2016.

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 the course INT 101: How to Pass an Audit (An Introduction to Internal Controls). The course is required to obtain the Level 1 Certificate in the Finance Certificate Program offered by Business Affairs, and it is open to all faculty and staff members. The course was first offered in July 2016, and it will be offered twice per quarter. During the quarter ending September 30, 2016, 20 individuals took the course, representing 18 departments and 4 out of 5 divisions at UNCW.
Consultations/Advisory Services (continued)

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

Committee Work
- Athletic Eligibility
- Cameron School of Business Steering Committee
- Data Governance
- HR Liaison
- Institutional Risk Management (IRM)
- IT Advisory Council
- IT Security Search Committee
- Leadership Council
- Office of Scholarships & Financial Aid Director Search Committee
- Systems Coordination

Educating Others
- Careers in Accounting Day
- 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
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 July 14, 2016. The retreat enabled the group to discuss the recommendations from the recent quality assurance review, 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.

Strategic Plan
A strategic plan was developed for the Office of Internal Audit. The strategic plan is based off of planning work done at the departmental retreat, recommendations from the office’s recent quality assurance review (QAR), and best practices. It covers a three-year period from FY17 – FY19. An internal QAR will occur in FY19 and will assist in developing future plans.

Participation in University Functions
Staff members and the Chief Audit Executive attended or participated in 7 University events and functions as noted in the table to the right.

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 September 30, 2016, staff members attended the UNCW-sponsored and external training listed in the table to the right.
Quality Assurance Review (QAR) Update

*In the spring of 2016, an external quality assurance review (QAR), or peer review, was completed for the Office of Internal Audit. It was determined that overall, the Office of Internal Audit *generally conforms* to the Standards of the Institute of Internal Auditors (IIA). During the QAR, opportunities for improvement were noted, and the table below shows the status of the recommendations.*

### QAR Finding Status

#### Enhance Conformance to the Standards

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Allow the Audit, Risk and Compliance Committee Chair to participate in evaluating and goal setting for the Chief Audit Executive.</td>
<td><em>Not Yet Started</em> - This will be incorporated into the next performance evaluation and goal setting cycle scheduled for spring of 2017.</td>
</tr>
<tr>
<td>2. The Quality Assurance and Improvement Program (QAIP) would benefit from more formal documentation and reporting on its progress on a periodic basis.</td>
<td><em>In Process</em> - The QAIP was documented. Reporting will occur mid-year (in the report for the quarter ending December 31) and at the end of each fiscal year (in the annual report).</td>
</tr>
<tr>
<td>3. Develop a multi-year comprehensive IT audit plan and consider augmenting internal resources with co-sourcing.</td>
<td><em>In Process</em> - We plan to conduct an IT risk assessment in fall 2016 and have begun discussions with IT Security to help facilitate the process. Results of the IT risk assessment will help determine if additional resources are needed.</td>
</tr>
</tbody>
</table>

#### Opportunities to Improve Efficiency and Effectiveness

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consider opportunities for increasing productivity and audit coverage through varied audit scopes, increased use of data analytics, and quasi-cyclical auditing.</td>
<td><em>In Process</em> - The FY17 audit plan incorporated mini-audits to help vary audit scopes and quasi-cyclical audits for key areas. Data analytics continue to be incorporated into audits.</td>
</tr>
<tr>
<td>2. Continue to evolve the risk assessment process, considering risk factors, their weight, and their applicability to items in the audit universe. Also consider a separate IT risk assessment.</td>
<td><em>In Process</em> - Following the QAR, the risk assessment for FY17 was updated based on the recommendation. As noted above, an IT risk assessment is planned for fall 2016.</td>
</tr>
<tr>
<td>3. Strengthen documentation and guidance for which audit findings should be included in formal audit reports.</td>
<td><em>Complete</em> – The audit manual has been updated and new guidance is incorporated into our workpapers.</td>
</tr>
<tr>
<td>4. Ensure responses in audit reports identify what is going to be done, by when, and by whom.</td>
<td><em>Complete</em> – A template was developed to assist management in responding in this format and has already been implemented.</td>
</tr>
<tr>
<td>5. Internal Audit, together with other campus departments, should document and establish protocols for processing allegations of suspected improper activity.</td>
<td><em>In Process</em> – The relevant group has been identified and will meet to discuss and document the related protocols.</td>
</tr>
<tr>
<td>6. The CAE should work to educate UNCW leadership about Internal Audit’s relationship with UNC General Administration.</td>
<td><em>In Process</em> – The CAE has shared related information with UNCW leadership. In addition, related information will be added to the disclosures in the annual report.</td>
</tr>
<tr>
<td>7. Establish a strategic plan for Internal Audit.</td>
<td><em>Complete</em> – The Internal Audit strategic plan has been developed.</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 September 30, 2016

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Number of Open Findings</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
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<td>Distance Education</td>
<td>5</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Human Resources (a)</td>
<td>3</td>
</tr>
<tr>
<td>Physical Access (b)</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 (c)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

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

{b} The 3 open findings for Physical Access 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.

{c} The 2 open findings from the Campus Wide Surprise Cash Counts are considered by Internal Audit to be in process.
Appendix A (continued)

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.

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.

Physical Access

1. The information housed in the KeyStone system used to track keys issued to campus departments should contain current information.
2. Locksmith Services should complete scheduled key audits as required by the related policy. In addition, Locksmith Services should request copies of Key Tracking Logs maintained by campus departments as required by the policy.
3. There should be an emphasis on training or other measures for ensuring departments are aware of and adhering to responsibilities outlined in the key control policy.
Appendix A (continued)

Business Affairs (Continued)

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 $10,000 Received 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.

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.