Overview

The Office of Internal Audit is charged with enhancing and protecting UNCW by providing risk-based, objective and reliable assurance, advice, and insight. Internal Audit accomplishes this by providing:

- **Auditing and Assurance Services** in which planned reviews of departments, processes, and systems are completed
- **Follow Up Audits** where processes and transactions are reviewed to determine if effective corrective measures have been implemented in response to audit findings
- **Consultations and Advisory Services** which provide advice and information on internal controls, risk management, and sound business practices
- **Investigations** in response to allegations of fraud and abuse, conflicts of interest, nepotism, and other matters in violation of state or federal regulations, university policy, or other guidance

Fiscal year 2014 marked the second consecutive year of significant personnel changes for the Office of Internal Audit, and this report highlights what the office was able to accomplish through a variety of efficiency improvements and changes in process, despite the personnel limitations. During fiscal year 2015, we are looking forward to returning to both a full team including a chief audit executive, three experienced auditors, and an intern, as well as a return to our office’s full capacity to provide the services noted above.

Work Allocation

The Office of Internal Audit’s work was allocated as follows during fiscal year 2014:
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 ups are completed for any audit findings resulting from assurance engagements and may be completed for other engagements as deemed necessary. Our office has been actively working on streamlining the follow up process since fiscal year 2012 to decrease the total number of hours and the percentage of time spent on follow ups. Thanks to a system implemented in fiscal year 2013, fiscal year 2014 was the first year in which we saw a significant decrease in the hours and percentage of effort spent on follow ups.

During fiscal year 2014, follow up work was completed for the following engagements:

- Athletics Administration*
- Business Entertainment Policy
- Cameron School of Business
- Campus Crime Reporting (Clery Reporting)
- College of Health and Human Services*
- Credit Card (PCI) Compliance
- Housing and Residence Life
- University-Wide Compliance Reporting
- Watson College of Education

*Some findings associated with these engagements remained open as of June 30, 2014 with additional follow up work planned for fiscal year 2015.
Consultations/Advisory Services

Internal Audit provides consulting 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 the consultations noted in the box above, the following advisory activities took place during fiscal year 2014.

Committee Work

Individuals from the Office of Internal Audit served on the following UNCW committees:

- Associate Vice Chancellor for Human Resources Search Committee
- Athletic Eligibility Committee
- Controller Search Committee
- Dining Request for Proposal (RFP) Committee
- Human Resources Shared Services Committee
- Institutional Risk Management Committee
- Institutional Risk Management Steering Committee
- Systems Coordination Committee

Educating Others

Individuals from the Office of Internal Audit gave the following presentations:

- A member of our staff was asked to present on internal controls to prevent financial loss to students enrolled in REC 440, Risk Management in Recreation Settings. The emphasis of the presentation was assisting non-business majors in understanding the importance of internal controls and providing them with an overview of basic internal controls.
- A member of our staff was asked to present to students enrolled in REC 476, Budgeting and Finance. The goal of the presentation was to familiarize students with the type of audits they may be involved in during their careers and what to expect during each type of audit.
- The Interim Director presented “Collaborating with Management: An Essential Tool for Small Departments” with Michael Somich, Executive Director of Internal Audits, Duke University, at the MIS Training Institute’s SuperStrategies Conference in Chicago in April 2014.
Consultations/Advisory Services (continued)
The Office of Internal Audit also provided the following service to the profession during fiscal year 2014.

Association of College and University Auditors (ACUA)
The Interim Director served as a track coordinator for ACUA’s 2014 annual conference.

Institute of Internal Auditors (IIA) – Wilmington Chapter
Our office is responsible for organizing the semi-annual meetings of the Wilmington chapter of the IIA, and meetings were held in October 2013 and May 2014.

University of North Carolina Auditors’ Association (UNCAA)
Having served as vice president during 2012 – 2013, the Interim Director was elected president of this organization during the annual meeting in October 2013.

University of North Carolina at Chapel Hill, Quality Assurance Review
The Interim Director was asked to assist in conducting the quality assurance review (peer review) of the Internal Audit office at UNC Chapel Hill. The three-person peer review team included the former Chief Audit Executive of the University of California system and the current Internal Audit Director for the University of Virginia. The peer review included a complete review of the department’s activity in accordance with the Standards of the Institute of Internal Auditors, and the on-site portion of the review was completed January 28 – 31, 2014.

University of North Carolina Internal Audit Advisory Team
At the request of the Audit Committee of the UNC Board of Governors, the Internal Audit Advisory Team (IAAT) was formed to further the internal audit function in the UNC system. UNCW’s Interim Director was one of five chief audit officers from UNC schools serving on the IAAT. The IAAT researched and recommended a model for internal audit operations for the UNC system. This model was presented to President Ross and the Audit Committee of the Board of Governors and was well received. The IAAT also compiled a procedures manual and templates which can be utilized by all UNC internal audit functions.

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

Investigations Completed in FY14
- Motor Fleet Complaint (dated June 23, 2013)
- Motor Fleet Complaint (dated October 29, 2013)
- Fraternity and Sorority Investigation
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 reports functionally to the Audit 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 Audit Committee. Consequently, the Interim Director presents results of audits and other office activities to the Audit Committee at their quarterly meetings. In addition, the Interim Director assists the Audit 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. Historically, our office has completed the financial statement audit of Friends of the University of North Carolina at Wilmington, Inc. (Friends). However, during fiscal year 2014 it was determined that while our office is independent from Friends in fact, we may not be independent in appearance. Consequently, to mitigate the potential conflict, the Internal Audit Director from UNC Pembroke assisted with the audit by reviewing workpapers and issuing the audited financial statements. There were no other impairments to independence or objectivity in fact or appearance during fiscal year 2014.

Disclosure of Nonconformance
Occasionally circumstances require the completion of a project or engagement in a manner which is inconsistent with applicable Standards. During fiscal year 2014, 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. 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 2014.

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 2011, the external CPA and professional services firm of Honkamp Krueger & Co. completed a peer review of our office. We were in the process of completing a self-assessment at June 30, 2014, and our next external review will occur in 2016.