Office of Internal Audit

Activity Report

For the period from November 1, 2014 to December 31, 2014

Internal Audit Team

Stefanie Powell, CPA, CISA
Chief Audit Executive

Kelly Mintern, CPA, CIA
Auditor

Cynthia Nickerson, CPA
Auditor

Taylor Rote
Audit Intern
Executive Summary

This report contains a summary of the Office of Internal Audit’s activity for the period from November 1, 2014 to December 31, 2014. The following highlights provide an overview of the office’s work.

Audits/Assurance Activities

Completed Projects
- Campus Life Review
- Friends of UNCW Financial Audit

Pending Projects
- Distance Education Review

Follow Ups
- Follow ups were completed for Athletics and University Police
- 11 Findings Closed
- 22 Open Findings

Investigation
- Motor Fleet Complaint

Consulting/Advisory Services
- Routine Consultations consisted of 11 different questions and requests
- The office was involved with five UNCW committees
- The Chief Audit Executive presented on internal controls to students enrolled in REC 440, Risk Management in Recreation Settings
- Individuals in the office continued their involvement with two professional organizations

Other
- The office completed a half-day mini retreat to plan for the remainder of the fiscal year and to review processes for efficiency and effectiveness
- Individuals from the office attended or participated in three university functions
- Stefanie Powell was named the Chief Audit Executive in November 2014 after being appointed as the Interim Director of Internal Audit in December 2012
- Individuals from the Office of Internal Audit participated in 4 webinars
Audits / Assurance Activities

Overview
Audits and assurance engagements include planned reviews of items such as compliance, operations, information technology, finance, and internal controls. 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 that includes an overall opinion of the area under review and any findings and recommendations that were identified.

Completed Projects
Campus Life Review
The Campus Life audit was performed to assess and evaluate the financial, operational and compliance aspects of the department including the underlying controls. Audit objectives included reviewing the following administrative aspects of Campus Life:

- Accuracy and completeness of revenue and expenditure transactions including appropriate use of student fees and grant funding
- Cash handling for all areas
- Tracking of fixed assets, computers, and equipment
- Hiring documentation, timesheets, and other payroll records
- Physical security and key tracking
- Continuity of operations planning
- Access and use of computer systems and applications including the related data storage
- Tax matters including unrelated business income tax reporting, sales tax reporting, and taxable fringe benefits
- Compliance with established policies, procedures, and external regulations
- Overall internal controls
- Effectiveness and efficiency of operations

In our opinion, the system of internal control with respect to the operations of Campus Life was found to be satisfactory.

There were five findings associated with this review, and we received a positive response from management to all findings. The final report was issued November 13, 2014.
Completed Projects (continued)

**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, Internal Audit Director at UNC Pembroke, to ensure work was completed by someone who was independent in both fact and appearance as required for North Carolina CPAs.

The audit was conducted in accordance with auditing standards generally accepted in the United States, and our work also 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 December 17, 2014.

Pending Projects

**Distance Education Review**
A review of distance education is nearly complete. 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:

- Governance including organizational structure and program goals
- Compliance with federal and state regulations including the Americans with Disabilities Act and requirements for state authorizations to offer distance education programs
- Compliance with contracts with outside parties including Academic Partnerships, Coastal Carolina Community College, Camp Lejeune, and others
- Select academic topics including advising and the scheduling process

Fieldwork has been completed and an exit meeting was held in November 2014. We expect to issue the final report in January 2015.
Follow Ups

Overview
Follow ups are completed for any audit findings resulting from audit/assurance engagements and may be completed for other engagements as deemed necessary. For efficiency, follow up monitoring is often done on an ongoing basis so that individual audit findings from an engagement may be closed at different times. A formal memo is issued when all findings relating to an engagement are closed. If all findings are not yet resolved, formal memos are also issued approximately two years after the initial audit to update all involved parties of progress.

Completed Follow Ups

Athletics
Internal Audit has been actively tracking the Athletic Department’s progress toward resolving audit findings over the past two years. At the time of the current follow up, five audit findings remained open. Based on testing completed, two of those audit findings are resolved, and progress has been made toward resolving the other three audit findings. Additional follow up work by Internal Audit is not planned for fiscal year 2015. The open findings will be revisited during the next administrative review of Athletics which is tentatively scheduled for fiscal year 2016.

University Police
Based on the results of the follow up work completed, all findings from the University Police review have been resolved. No additional follow up procedures will be performed. Minor additional recommendations were shared with the department during the follow up to ensure continued improvement.
Follow Ups (continued)

Audit Finding Status
Audit findings are reported below in the following categories:

- **Closed** – Findings which were confirmed to be resolved during the period from November 1, 2014 to December 31, 2014
- **Open** – Findings which have not been resolved as of December 31, 2014

*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>College of Arts and Sciences</td>
<td>0</td>
<td>1</td>
<td>No</td>
</tr>
<tr>
<td>College of Health and Human Services</td>
<td>0</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Access</td>
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<td>7</td>
<td>No</td>
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<tr>
<td>University Police</td>
<td>6</td>
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</tr>
<tr>
<td>Other {a}</td>
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<td>No</td>
</tr>
<tr>
<td><strong>Chancellor’s Division/Multi-Divisional</strong></td>
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<td></td>
</tr>
<tr>
<td>Athletics</td>
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<td>Yes</td>
</tr>
<tr>
<td><strong>Student Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campus Life</td>
<td>0</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td><strong>University Advancement</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Advancement {b}</td>
<td>3</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>11</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>

{a} A finding relating to Business Affairs’ activities was identified while completing another engagement. A separate memo was issued to Business Affairs, and Business Affairs is responsible for corrective measures.

{b} Of the five open findings for University Advancement, four 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.
Investigations

Overview
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

Motor Fleet Complaint
We conducted an investigation based on a citizen complaint received by State Motor Fleet Management (MFM) regarding a vehicle owned by UNCW and driven by one of our employees. Based on our review of the complaint, we elected to treat this as a personnel matter. A response was prepared and submitted to MFM, and MFM closed the complaint on December 9, 2014.
Consulting / Advisory Services

Overview
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.

Routine Consultations
As part of Internal Audit’s benchmarking process, we track informal questions from campus departments and other internal audit offices within the UNC system. These discussions and small scale research projects offer the opportunity to reach more departments and individuals than we can through traditional audit work. In addition, requests are tracked by topical area and this information is incorporated into our office’s annual risk assessment process. For the period from November 1, 2014 to December 31, 2014, Internal Audit staff members spent time responding to 11 different questions and requests.

Committee Work
Staff members and the Chief Audit Executive were involved in the following committees at UNCW:

- Assistant General Counsel for Compliance Search Committee
- Athletic Certification Committee
- Dare to Learn Academy - Brainstormers
- HR Liaison Committee
- Systems Coordination Committee

Education of Others
The Chief Audit Executive presented 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 controls.
Consulting / Advisory Services (continued)

Service to the Profession

Professional Organizations
The Office of Internal Audit assisted professional organizations in the following ways:

- **Association of College and University Auditors (ACUA)**
  Our office continues to be involved with ACUA, and the Chief Audit Executive is currently serving on ACUA’s Internal Audit Task Force. This committee is developing materials to assist internal audit departments in educating their campuses on the role of internal audit and the services internal audit departments provide.

- **UNCAA**
  The Chief Audit Executive is currently serving on the UNCAA board in the role of past president.
Other

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

Projects

**Departmental Retreat**
The Chief Audit Executive and all audit staff members completed a half-day mini retreat on December 9, 2014. The retreat enabled the group to plan for the remainder of the fiscal year and to evaluate the office’s processes for efficiency and effectiveness. Recommendations made during the retreat will be implemented throughout the remainder of the fiscal year.

Participation in University Functions
Staff members and the Chief Audit Executive of Internal Audit attended or participated in the following University functions:

- Chancellor Forum on Academic Affairs
- Fall 2015 Commencement
- Leadership Council Meetings

Staffing Changes
Stefanie Powell was named the Chief Audit Executive in November 2014 after being appointed as the Interim Director of Internal Audit in December 2012.

Professional Development

**UNCW Training**
Staff members attended Banner Finance Certificate Courses.

**External Training**
Individuals from the Office of Internal Audit participated in the following webinars.

- “Transforming your Audit Department with Technology” November 18, 2014
- “ACL Revolution” November 21, 2014
- “Auditing your Institution’s Cybersecurity Incident/Breach Response Plan” December 10, 2014
- “Creativity and Innovation in Internal Audit” December 16, 2014
Distribution List

Audit Committee, UNCW Board of Trustees

Dr. William A. Sederburg, Chancellor

Mr. Max Allen, Chief of Staff

Dr. Denise Battles, Provost and Vice Chancellor for Academic Affairs

Mr. Robert Hoon, General Counsel

Ms. Pat Leonard, Vice Chancellor for Student Affairs

Mr. Eddie Stuart, Vice Chancellor for University Advancement

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

UNCW Office of Internal Audit
Open Internal Audit Findings
As of December 31, 2014

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Number of Open Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academic Affairs</strong></td>
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</tr>
<tr>
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<td></td>
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<tr>
<td>Physical Access</td>
<td>7</td>
</tr>
<tr>
<td>Other {a}</td>
<td>1</td>
</tr>
<tr>
<td><strong>Student Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Campus Life</td>
<td>5</td>
</tr>
<tr>
<td><strong>University Advancement</strong></td>
<td></td>
</tr>
<tr>
<td>University Advancement {b}</td>
<td>5</td>
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Academic Affairs

*College of Arts and Sciences*

1. A written business continuity plan should be created to ensure continuity of operations despite unplanned interruptions or disasters.
Academic Affairs (continued)

College of Health and Human Services
1. Deposits should be made in accordance with North Carolina General Statute 147-77, Daily deposit of funds to credit of Treasurer, and UNCW Policy 05.141, Departmental Funds Receipting.
2. All travel should be authorized prior to the beginning day of travel in accordance with UNCW Policy 05.177, Travel Authorizations for State Employees.
3. A Continuity of Operations Plan (COOP) should be developed to ensure business operations continue despite significant interruptions.

Business Affairs

Physical Access
1. Key Request forms should be completed by campus departments in accordance with the related policy. In addition, Locksmith Services should maintain consistent documentation for all key issuances.
2. The information housed in the KeyStone system used to track keys issued to campus departments should be updated with current information.
3. 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.
4. 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.
5. There should be a UNCW policy or written guidelines that address responsibilities for managing stand-alone card system access.
6. User departments should be informed of the potential limitations of the stand-alone card systems managed by Locksmith Services.
7. Controls surrounding burglar/panic alarms should be improved.

Other Business Affairs
1. There is not currently a UNCW Policy or any written guidelines that address the level of security needed in different areas on campus such as classrooms, laboratories, server rooms, etc. Security levels are determined by departmental discretion.
Appendix A (continued)

Student Affairs

Campus Life

1. Compensatory time should be tracked and paid in accordance with the North Carolina Office of State Human Resources Manual, Section 5- Compensatory Time, and UNCW Policy 08.211, Compensatory Time (Overtime).

2. Commission payments to student workers made by Student Media should be appropriately tracked and documentation should be maintained to reconcile the payments made.

3. Fixed asset and computer inventories should be maintained in accordance with UNCW Policy 05.164, University Equipment, and UNCW Policy 07.22.05, Purchase, Inventory, Replacement and Disposal/Surplus of IT Resources.

4. The assignment and periodic audit of keys issued within a department should adhere to UNCW Policy 05.120, Key Control.

5. Management should review user access rights on a periodic basis.

University Advancement

Note: Findings 1 – 4 are considered “In Process” by Internal Audit. Progress toward remediation has begun but is not yet complete or there is not a sufficient population to test the effectiveness of corrective measures.

1. Deposits should be made in accordance with North Carolina General Statute 147-77, Daily deposit of funds to credit of Treasurer, and UNCW Policy 05.141, Departmental Funds Receipting.

2. For deposits:
   a. Cash receipts must be recorded when received, and an audit record should be established using a log or receipt book.
   b. Cash gifts must be hand delivered to University Advancement and may not be sent via campus mail or U.S. mail.
   c. There should be adequate staff to ensure a segregation of duties from the individuals receiving, depositing, and reconciling departmental funds.

3. There should be standardized, documented procedures for critical functions.

4. UNCW’s gift revenue account should be reconciled to ensure only appropriate transactions are recorded in the account.

5. A continuity of operations plan should be created to ensure critical functions continue despite unplanned interruptions.