Office of Internal Audit

Activity Report

For the quarter ending March 31, 2015

Internal Audit Team

Stefanie Powell, CPA, CISA
Chief Audit Executive

Kelly Mintern, CPA, CIA
Assistant Director

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 quarter ending March 31, 2015. The following highlights provide an overview of the office’s work.

Audits/Assurance Activities

Completed Projects
- Distance Education Review

Pending Projects
- Graduate School Review

Follow Ups
- Follow ups were completed for the College of Health and Human Services and Athletics
- 3 Findings Closed
- 28 Open Findings

Investigations

Completed Projects
- Chiller Disposal Investigation

Pending Projects
- ITS Investigation

Consulting/Advisory Services

Completed Projects
- Facilities Store Consultation
- Assistant General Counsel for Compliance – Search Committee Chair

Other Advisory Services
- Routine Consultations consisted of 25 different questions and requests
- The office was involved with 6 UNCW committees
- Individuals in the office continued their involvement with 2 professional organizations

Other
- Kelly Mintern, CPA, CIA, was promoted to the Assistant Director of Internal Audit position.
- Individuals from the office attended or participated in 4 university functions
- Individuals from the Office of Internal Audit attended 5 UNCW training courses. In addition, they participated in a conference and a workshop and attended 9 webinars. Collectively, they earned 37 hours of Continuing Professional Education (CPE) credits.
Audits / Assurance Activities

Overview
Audits and assurance engagements include planned reviews of 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
Distance Education Review
A review of distance education was performed to assess and evaluate related operational, compliance, and academic matters. Audit objectives included reviewing the following:

- Governance including organizational structure and program goals
- Compliance with federal and state regulations including the Americans with Disabilities Act and the requirements for state authorizations to offer distance education programs
- Contracts with outside parties including Academic Partnerships, Coastal Carolina Community College, Camp Lejeune, and others
- Online course layouts and presentations in accordance with industry best practices
- Select academic topics including the advising and scheduling processes

In our opinion, the system of internal control relating to online course compliance and to governance structure for online courses needs improvement. The internal controls relating to all other areas reviewed, including Onslow Extension Site, appear adequate.

There were nine findings associated with this review, and we received a positive response from management to all findings. The final report was issued January 16, 2015.
Pending Projects

Graduate School Review
A review of the Graduate School 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:

- Academic matters
- Personnel/staffing
- Financial matters
- Graduate School planning
- General controls/access rights
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. 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 involved parties of progress.

Completed Follow Ups

**College of Health and Human Services**
Based on the work completed, all four audit findings associated with the initial review have been resolved.

**Athletics – Computer Tracking**
At the request of the Audit Committee, our office is continuing to monitor open audit findings in Athletics, and we completed an additional follow up regarding computer tracking. Athletics recently conducted a computer inventory count and compiled an updated list of all computer assets. Athletics plans to review the accuracy of the list each summer, and an individual has been assigned to oversee this process. During fiscal year 2016, our office will test the effectiveness of the new tracking system as part of an administrative audit of Athletics.
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 quarter ending March 31, 2015
- **Open** – Findings which have not been resolved as of March 31, 2015

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>3</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td>Distance Education</td>
<td>0</td>
<td>9</td>
<td>No</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Access</td>
<td>0</td>
<td>7</td>
<td>No</td>
</tr>
<tr>
<td>Other {a}</td>
<td>0</td>
<td>1</td>
<td>No</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>0</td>
<td>5</td>
<td>No</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3</td>
<td>28</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
Chiller Disposal Investigation
In February, our office received a complaint involving the recent disposal of a chiller owned by Physical Plant using an external vendor. Based on the complaint, we reviewed the following allegations:

- Potential conflict of interest with an individual involved with the chiller disposal and the vendor selected
- Compliance with purchasing rules and regulations for contracting and securing the vendor
- Adherence to relevant state and federal regulations for proper disposal of the chiller

During our investigation, we identified no evidence to suggest inappropriate activities. **In our opinion the allegations have no merit, and we consider this investigation closed.** A final memo was issued March 18, 2015.

Pending Projects
ITS Investigation
We received a complaint involving ITS. We are investigating the allegations and anticipate issuing a final memo in April 2015.
Consulting / Advisory Services

Overview
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.

Completed Projects
Facilities Store Consultation
At the request of management, a review of the Facilities Store was completed. Engagement objectives included:

- Determining all procedures completed by the Facilities Store
- Reviewing procedures for effectiveness and considering opportunities for improvement including after-hours store access
- Determining if adding an inventory threshold would add value to operations

Based on staff interviews and observations, the Facilities Store appears to demonstrate proper internal controls. Additional recommendations to increase effectiveness and efficiencies in operations were shared with management.

Assistant General Counsel for Compliance – Search Committee Chair
The Chief Audit Executive served as the search committee chair for the Assistant General Counsel for Compliance position. Given the importance of compliance in higher education, this position will be critical in keeping Internal Audit and university leaders informed of the university’s compliance efforts.

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 quarter ending March 31, 2015, Internal Audit staff members spent time responding to 25 different questions and requests.
Committee Work
Staff members and the Chief Audit Executive were involved in the following committees at UNCW:

- Athletic Certification Committee
- Dare to Learn Academy – Brainstormers
- HR Liaison Committee
- Institutional Risk Management (IRM) Committee
- IRM Steering Committee
- Systems Coordination Committee

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 served on ACUA’s Internal Audit Task Force. This committee developed 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.

Staffing Changes
Kelly Mintern, CPA, CIA, was promoted to the Assistant Director of Internal Audit position in March 2015. Kelly has been with the office since September 2010, and this promotion recognizes the additional responsibilities she has completed since December 2012 relating to leading engagements and managing staff members.

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

- Cameron School of Business Alumni Speaker Breakfast
- Campus Open Forum on Regional Engagement
- Leadership Council Meetings
- Purchasing/Accounts Payable Forum

Professional Development

UNCW Training
Staff members and the Chief Audit Executive attended the following courses offered by UNCW:

- Banner Finance Certificate Courses
- Payroll Web Time Entry
- People Admin 7.0
- Dare to Learn Academy
  - Process Improvement Using Lean Six Sigma
- Leave Audit Workshop
Other (continued)

External Training
Individuals from the Office of Internal Audit participated in a conference and a workshop, and attended 9 webinars. Collectively, they earned over 37 hours of Continuing Professional Education (CPE) credits.

Conference and Workshop
- **Internal Auditors Association Mid-Atlantic Conference, Chapel Hill, NC, March 9-10, 2015**
  Topics: Various IT audit topics including continuous monitoring, big data and information security/cyber crime; Ethics; Internal Audit and Enterprise Risk Management; Hot Topics in Auditing; and How to Audit Better
- **North Carolina Procurement Training, Wilmington, NC, March 17, 2015**
  Topics: Procurement laws and rules, procurement process cycle, procurement methods

Webinars
- “An Outlook on the Internal Audit Landscape for the Year” January 20, 2015
- “80/20 Formulating an Effective Internal Audit Function” January 27, 2015
- “Audit Data Analytics” February 6, 2015
- “Audit Committee Reporting – Trends and Best Practices” February 17, 2015
- “Procurement Fraud: Improve Fiscal Responsibilities with Procurement Fraud Detection” February 17, 2015
- “Introduction to the ACUA Community” February 25, 2015
- “Show me the Money, Using Data Analytics to Audit Payroll” March 11, 2015
- “Green Book and COSO” March 19, 2015
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

Ms. Sharon Boyd, Associate Vice Chancellor for Business Services

Ms. Pat Leonard, Vice Chancellor for Student Affairs

Mr. John Scherer, Interim General Counsel

Mr. Eddie Stuart, Vice Chancellor for University Advancement

Ms. Sara Thorndike, Assistant Vice Chancellor for Finance and Controller

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

UNCW Office of Internal Audit
Open Internal Audit Findings
As of March 31, 2015

<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>College of Arts and Sciences</td>
<td>1</td>
</tr>
<tr>
<td>Distance Education</td>
<td>9</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
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<td>7</td>
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<td>1</td>
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<td><strong>Student Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Campus Life</td>
<td>5</td>
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<td>University Advancement {b}</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.
Appendix A

Academic Affairs (continued)

Distance Education
1. State authorizations should be obtained for all states in which one or more residents of the state are enrolled in exclusively online courses at UNCW. Consideration should be given to programs and courses that require applied learning experiences which require additional authorizations in some states.
2. Students’ physical location should be considered when enrolling them in exclusively online courses and programs to ensure all necessary state authorizations have been obtained by UNCW prior to the students’ enrollment.
3. A permanent staff member should be responsible for managing the state authorization process. In addition, there should be cross training of other staff members and documented procedures for the state authorization process.
4. Online courses should meet the requirements of the Americans with Disabilities Act (ADA).
5. 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.
6. Best practices indicate all online courses at UNCW should be consistent in format and navigation.
7. There should be a systematic process for monitoring Academic Partnerships’ contract compliance.
8. The most appropriate organizational structure for Distance Education, either within the Office of External Programs or elsewhere within Academic Affairs, should be determined.
9. 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

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.
Appendix A

Business Affairs

Physical Access (continued)

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 department discretion.

University Advancement

University Advancement

Note: Findings 1-4 are considered “In Process” by Internal Audit. Progress towards remediation has begun but is not yet complete or there is not a sufficient population to test for 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 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.
Appendix A

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- \textit{Compensatory Time}, and UNCW Policy 08.211, \textit{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, \textit{University Equipment}, and UNCW Policy 07.22.05, \textit{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, \textit{Key Control}.

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