Office of Internal Audit

Activity Report

For the quarter ending December 31, 2015

Internal Audit Team

Stefanie Powell, CPA, CISA
Chief Audit Executive

Kelly Mintern, CPA, CIA
Assistant Director

Cynthia Nickerson, CPA, CFE
Auditor

Shelley Morris
Auditor

Alan Pearce
Audit Intern
Executive Summary

This report contains a summary of the Office of Internal Audit’s activity for the quarter ending December 31, 2015. The following highlights provide an overview of the office’s work.

Audits/Assurance Activities

Completed Projects
- Office of Scholarships and Financial Aid Review
- Friends of UNCW Financial Audit

Pending Projects
- Athletics Review

Follow Ups
- Follow up work was conducted for Campus Life, Campus Recreation, Distance Education, the Graduate School, the Office of Scholarships and Financial Aid, and Physical Access
- 26 Findings Closed
- 39 Open Findings (Of the 39 open findings, 28 are considered to be in process.)

Investigations

Completed Projects
- Collegiate Fashion Week
- Watson College of Education
- Facilities

Consulting/Advisory Services

- Routine Consultations included 17 requests
- The office was involved with 8 UNCW committees
- The Chief Audit Executive presented on internal controls to students enrolled in REC 440, Risk Management in Recreation Settings

Other

- The annual departmental retreat was held on December 15, 2015.
- Individuals from the office attended or participated in 3 university events.
- Cynthia Nickerson, CPA attained certification as a Certified Fraud Examiner (CFE).
- Individuals from the Office of Internal Audit participated in 3 UNCW training programs. In addition, they attended 2 conferences and completed 6 webinars/self-study courses. Collectively, they earned 84 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
Office of Scholarships and Financial Aid Review
A review of the Office of Scholarships & Financial Aid (OSFA) was performed to assess and evaluate operational, compliance and administrative aspects of the OSFA including the underlying internal controls. The focus of our audit was awarding practices and compliance for institutional aid and scholarships, as well as administrative responsibilities within the office. Federal aid awarding and related compliance were outside the scope of the review.

In our opinion, the system of internal control with respect to the areas reviewed in the Office of Scholarships & Financial Aid needs significant improvement.

The final report was issued November 18, 2015 and initial audit follow up work was conducted in December 2015. The following findings were associated with the review.

Note: Detailed information regarding the open findings can be found in Appendix A

<table>
<thead>
<tr>
<th>AREA</th>
<th>ASSESSMENT IN AUDIT REPORT</th>
<th>STATUS AS OF 12/31/2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Awarding Practices</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional aid programs</td>
<td>5 findings</td>
<td>4 findings In Process 1 finding Open</td>
</tr>
<tr>
<td>Escheat funds</td>
<td>1 finding</td>
<td>In Process</td>
</tr>
<tr>
<td>Scholarships</td>
<td>3 findings</td>
<td>In Process</td>
</tr>
<tr>
<td>NextGen system</td>
<td>5 findings</td>
<td>3 findings Resolved 2 findings In Process</td>
</tr>
<tr>
<td>Policy Compliance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNC Policy Manual 800.5.1[R], Regulation on Financial Aid Practices</td>
<td>1 finding</td>
<td>Resolved</td>
</tr>
<tr>
<td>Code of Conduct</td>
<td>1 finding</td>
<td>Resolved</td>
</tr>
</tbody>
</table>

(Chart of findings continued on next page)
## Audits / Assurance Activities (continued)

### Office of Scholarships and Financial Aid Review (Continued)

<table>
<thead>
<tr>
<th>ADMINISTRATIVE RESPONSIBILITIES</th>
<th>4 findings</th>
<th>1 finding Resolved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial reporting</td>
<td></td>
<td>3 findings In Process</td>
</tr>
<tr>
<td>Departmental funds receipting</td>
<td>2 findings</td>
<td>In Process</td>
</tr>
<tr>
<td>Purchasing compliance/Contracted services</td>
<td>2 findings</td>
<td>1 finding Resolved</td>
</tr>
<tr>
<td>Payroll and Personnel</td>
<td>6 findings</td>
<td>4 findings Resolved</td>
</tr>
<tr>
<td>Continuity Planning</td>
<td>2 findings</td>
<td>1 finding Resolved</td>
</tr>
<tr>
<td>General controls/System access</td>
<td>2 findings</td>
<td>In Process</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34 Findings</strong></td>
<td><strong>12 findings Resolved</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>20 findings In Process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2 findings Open</td>
</tr>
</tbody>
</table>

**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, Chief Audit Officer 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 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 November 24, 2015.
Audits / Assurance Activities (continued)

Pending Projects

Athletics
A review of Athletics 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:

- Budget Process
- Revenue
- Cash/Funds Handling
- Expenditures
- General Controls/Access Rights
- Facilities Management
- Fixed Assets/Computer Inventories
- Training and Safety
- Payroll and Personnel
- Tax Matters
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

Campus Life
Follow up work was performed to determine whether the department had taken steps to adequately, effectively, and timely address the findings identified from the Campus Life review completed in November 2014. Based on the work completed, all five audit findings associated with the initial review have been resolved.

Campus Recreation
Follow up work was performed to determine whether the department had taken steps to adequately, effectively, and timely address the finding identified from the Campus Recreation review completed in July 2015. Based on the work completed, the one audit finding associated with the initial review has been resolved.

Physical Access
Follow up work was performed to determine whether the department had taken steps to adequately, effectively, and timely address the findings identified from the initial review of physical access completed in December 2013. Based on the work completed, we determined that of the 8 total findings, 5 findings are resolved and the remaining 3 are in process. Additional follow-up procedures will be scheduled for fiscal year 2017. This will allow our office to both discuss the corrective measures put in place and ensure they are achieving the desired results.
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 December 31, 2015
- **Open** – Findings which have not been resolved as of December 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>Distance Education</td>
<td>3</td>
<td>6</td>
<td>No</td>
</tr>
<tr>
<td>Graduate School {a}</td>
<td>2</td>
<td>8</td>
<td>No</td>
</tr>
<tr>
<td>Financial Aid {b}</td>
<td>12</td>
<td>22</td>
<td>No</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical Access {c}</td>
<td>4</td>
<td>3</td>
<td>No</td>
</tr>
<tr>
<td>Other {d}</td>
<td>1</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Student Affairs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Campus Life</td>
<td>3</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td>Campus Recreation</td>
<td>1</td>
<td>0</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
<td><strong>39</strong></td>
<td></td>
</tr>
</tbody>
</table>

{a} Of the eight open findings for the Graduate School, five 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.

{b} Of the 22 open findings for the Office of Scholarships and Financial Aid, 20 are considered by Internal Audit to be in process.

{c} The three open findings for Physical Access are considered by Internal Audit to be in process.

{d} A finding relating to Business Affairs activities was identified while completing another engagement. A separate memo was issued to Business Affairs, and Business Affairs was responsible for 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

Collegiate Fashion Week
During the audit of the Office of Scholarships & Financial Aid (OSFA), information was brought to our office’s attention regarding Collegiate Fashion Week, an annual event sponsored by the OSFA and hosted in conjunction with an event planning vendor. Specific concerns about the event included adherence to contracted services requirements, appropriate use of university funds for the event, and duplication of effort.

Based on the work completed, deficiencies in internal controls relating to this event were identified. Management responded that they will not resume the event and they will work with the relevant offices to move any remaining unspent funds associated with Collegiate Fashion Week into a fund for staff development. A final memo was issued November 18, 2015.

Watson College of Education
In November 2015, the Office of the State Auditor referred a hotline complaint to our office for investigation. The complaint included allegations relating to an employee from the Watson College of Education. The complaint alleged that the employee was not working forty hours per week and was abusing the flex schedule, education leave and leave keeping policies of the university.

We evaluated the allegations and identified no evidence to suggest inappropriate activities. In our opinion, the allegations do not have merit and we consider this investigation closed. A final memo was issued December 10, 2015.

Facilities
In November 2015, our office received a complaint regarding compliance matters in Facilities. The complaint included allegations that an employee was sharing confidential personnel information. In addition, the complaint expressed concerns regarding temporary employment hiring practices. Due to the nature of the allegations involving confidential personnel information and the prior involvement of Human Resources (HR), our office referred further investigation of those matters to HR. In our opinion, the allegations surrounding temporary employment do not have merit. We consider this investigation closed, and a final memo was issued December 22, 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 in 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 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 quarter ending December 31, 2015, Internal Audit staff members spent time responding to 17 different questions and requests.

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

- Dare to Learn Academy Brinstormers
- HR Liaison Committee
- Institutional Risk Management (IRM) Committee
- IRM Steering Committee
- IT Advisory Council
- Leadership Council
- Strategic Priorities Fund Workgroup
- 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 internal controls.
Other

Overview
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 December 15, 2015. 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 discussed during the retreat will be implemented throughout the remainder of the fiscal year.

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

- Campus Holiday Social
- Chancellor Campus Forum
- Fall 2015 Commencement

Professional Development

Staff Achievement
Cynthia Nickerson, CPA, attained certification as a Certified Fraud Examiner (CFE).

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

- Banner Finance Certificate Courses
- Dare to Learn Academy Training
- Harassment Awareness Training
Other (continued)

**Professional Development**

**External Training**
Individuals from the Office of Internal Audit participated in two conferences and completed 6 webinars/self-study courses. Collectively, they earned 84 hours of Continuing Professional Education (CPE) credits.

**Conference and Workshop**
- **UNC Auditors Association Annual Conference, Winston-Salem, NC, October 12-13, 2015**
  Topics: All Hazard Preparedness, Understanding and Overcoming Hidden Bias, Environmental Health & Safety Requirements, Office of the State Auditor (OSA) Risk Assessments, Data Analytics, North Carolina State Bureau of Investigation (SBI), External Quality Assessments
- **Association of Certified Fraud Examiner Training, Dallas, TX, October 14-16, 2015**
  Topics: Fraud Related Compliance and Using Data Analytics to Detect Fraud

**Webinars and Self-Study**
- “Reigning in Third Party Risk” October 14, 2015
- “Conducting Compliance Investigations” November 5, 2015
- “Information Technology Auditing” November 6, 2015
- “Excel Pivot Table Training” November 9, 2015
- “A Global Look at IT Audit Best Practices” December 9, 2015
- CFE Exam Prep Course 2015
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, Interim 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 December 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>Distance Education</td>
<td>6</td>
</tr>
<tr>
<td>Graduate School (a)</td>
<td>8</td>
</tr>
<tr>
<td>Financial Aid (b)</td>
<td>22</td>
</tr>
<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
</tr>
<tr>
<td>Physical Access (c)</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>39</td>
</tr>
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</table>

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(b) Of the 22 open findings for the Office of Scholarships and Financial Aid, 20 are considered by Internal Audit to be in process.

(c) The three open findings for Physical Access are considered by Internal Audit to be in process.
Appendix A

Academic Affairs

Distance Education

1. Students’ physical locations 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.
2. Online courses should meet the requirements of the Americans with Disabilities Act (ADA).
3. 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.
4. Best practices indicate all online courses at UNCW should be consistent in format and navigation.
5. There should be a systematic process for monitoring Academic Partnerships’ contract compliance.
6. 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.

Graduate School

1. Best practices require written policies and procedures to ensure consistency in awarding scholarships and fellowships. Graduate students should be able to easily access a list of all available scholarships and the application process.
2. The degree audit process should provide adequate assurance that each graduating student has met all degree requirements per the approved curriculum.
3. Communication with graduate advisors, coordinators, and academic partners should be improved and proper education should be given to the involved parties to ensure students take the most appropriate courses for their program objectives.
4. The Graduate Council bylaws should be consistent with current operations.
5. Compensatory time should be tracked and paid in accordance with NC OSHR Manual, Section 5-Compensatory Time, and UNCW Policy 08.211.
6. Management should review system access on a periodic basis and restrict information to individuals with a business need.
7. A continuity of operations plan should be created to ensure critical functions continue despite unplanned interruptions.
8. An Associate Dean position and additional support staff member(s) should be considered to ensure the Graduate School can continue to grow in accordance with the strategic plan while ensuring compliance with all applicable guidelines and regulations.
Appendix A

Academic Affairs (Continued)

Office of Scholarships and Financial Aid

1. OSFA management and staff should understand the institutional funding sources and award amounts.
2. The awarding of scholarships should always be strategic and complement UNCW’s enrollment plans for the recruitment and retention of students.
3. The awarding process for institutional funds should be updated to incorporate appropriate segregation of duties to ensure oversight of the award process.
4. Financial Aid funding should be distributed equitably among eligible students.
5. A procedure should be established related to the recalculation of awarded institutional aid for any change in a student’s enrollment status (i.e. complete withdrawal, course withdrawal, etc).
6. Escheat funds should be awarded in accordance with the requirements in the related North Carolina General Statute and the UNC General Administration policy.
7. Donor-funded scholarships should be awarded and applied to students’ accounts in accordance with donor intent.
8. Outside scholarships, such as those provided by philanthropists and foundations, should be posted to students’ accounts in accordance with the terms indicated by the scholarship check and applicable supporting documentation.
9. Budgeted amounts for each donor scholarship should be determined based on the terms of the donor gift agreement and available fund balance, and scholarships should be awarded in full.
10. The NextGen system should be consistently used for awarding institutional scholarships.
11. Information in the NextGen system should be reconciled to Banner (ERP system).
12. OSFA should have the available information and knowledge to explain fluctuations in financial transactional activity.
13. Financial transactions should be recorded and classified in the most appropriate accounts based on the nature of the transactions. Miscellaneous accounts should only be used for one-time transactions/activities that are nonrecurring in nature.
14. Accurate, thorough reconciliations should occur on a regular basis and there should be a process for communicating and correcting any issues/variances.
15. Monies received should be processed in accordance with UNCW Policy 05.141, Departmental Funds Receipting.
16. Wire deposit transmittals should be completed in a timely matter.
17. All contracted services should comply with all North Carolina procurement requirements.
18. The organizational structure should be evaluated to ensure proper segregation of duties and the most efficient and effective manner to operate.
19. Job descriptions should agree to employees’ current responsibilities.
Appendix A

Academic Affairs (Continued)

Office of Scholarships and Financial Aid

20. For continuity of operations, more than one person should be trained to complete important administrative functions and tasks, with tasks documented in desktop procedures that can be accessed by others in the department.

21. Access to the Financial Aid module in Banner should ensure appropriate segregation of duties and minimize access to confidential information.

22. There should be a process for regularly reviewing and documenting the appropriateness of system access.

Business Affairs

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.