Office of Internal Audit

Activity Report
For the quarter ending June 30, 2016

Internal Audit Team

Stefanie Powell, CPA, CISA
Chief Audit Executive

Kelly Mintern, CPA, CIA
Assistant Director

Shelley Morris
Auditor

Cynthia Nickerson, CPA, CFE
Auditor

Chris Gramlich
Audit Intern
Executive Summary

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

Audits/Assurance Activities

Completed Projects
- Athletics Review
- Internal Audit Quality Assurance Review
- Student Accounts and Cashier Office Review
- Tuition Waivers Review
- Campus Wide Surprise Cash Counts

Pending Projects
- Office of the Registrar Review
- Sponsored Programs and Research Compliance Review

Follow Ups
No follow up work was completed for the quarter ending June 30, 2016 due to schedule limitations for both campus departments with open audit findings and Internal Audit. Audit follow ups will resume in the first quarter of fiscal year 2017.

Investigations

Completed Projects
- Athletics Facilities Complaint

Consulting/Advisory Services

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

Other Advisory Services
- Routine Consultations included 27 different questions and requests.
- The office was involved with 6 UNCW committees.
- The CAE presented on internal controls to recreation management students.
- The office was actively involved with one professional organization.

Other
- The office’s annual risk assessment was completed.
- Chris Gramlich was hired as the office’s new intern.
- Individuals from the office attended or participated in 8 university events/meetings.
- Individuals from the office participated in 8 UNCW training programs. In addition, they attended 2 conferences and completed 7 webinars. Collectively, they earned 31.5 hours of Continuing Professional Education (CPE) credits.
Audits / Assurance Activities

Overview
Audits and assurance engagements include planned reviews of compliance, operations, information technology systems, financial activity, 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

Athletics Review
A review of Athletics was performed to assess and evaluate the financial, operational, and administrative compliance aspects of the department including the underlying internal controls. The focus of our audit was administrative practices including financial management and oversight, system access, facility and asset management, and training and safety. Compliance with NCAA regulations was outside the scope of the review.

In our opinion, the system of internal control with respect to the operations of Athletics was found to be satisfactory. There were five findings associated with this review, and we received positive responses from management to all findings. The final report was issued April 8, 2016.

Internal Audit Quality Assurance Review
A quality assurance review (peer review) of the Office of Internal Audit is required every five years by the Standards of the Institute of Internal Auditors. In May 2016, an external quality assessment was conducted by Patrick V. Reed, CPA. We were evaluated and received ratings in several categories as well as an overall rating. We were rated as “Generally Conforms” in each category and overall, and this is the best possible rating. We received three recommendations relating to increasing conformance to the Standards, and we plan to make related updates to our practices during fiscal year 2017. The final report was received June 2, 2016.

Student Accounts and Cashier Office Review
A review of Student Accounts and Cashier Office (SACO) was performed to assess and evaluate operational and compliance aspects of SACO including the underlying internal controls. Our review focused on the operations and activities of SACO including general controls and access rights, compliance, billing, collections, holds/cancellations/reinstatements, refunds, student fees, cash handling, and tax matters. Areas owned or managed by other administrative support functions on campus which impact students’ accounts were outside the scope of this review.

In our opinion, the system of internal control with respect to the operations of Student Accounts and Cashier Office was found to be satisfactory. There were two findings associated with this review, and we received a positive response from management to the findings. The final report was issued June 1, 2016.
Audits / Assurance Activities (continued)

Completed Projects (continued)

**Tuition Waivers Review**
During our review of SACO, our office reviewed policies and guidance (North Carolina General Statute 116-143, *General Provisions as to Tuition and Fees in Certain State Institutions*, UNC Policy 1000.2.2.1[R], *Regulations on the Waiver of Tuition and Fees for Faculty and Staff*, and UNC Policy 08.410, *Training and Staff Development Educational Options*) relating to tuition waiver processing. **As a result of our work, three findings related to tuition waivers were identified for which Human Resources is responsible for corrective measures.** A final memo was issued to the Associate Vice Chancellor for Human Resources on June 10, 2016, and positive responses were received to all findings.

**Campus Wide Surprise Cash Counts**
As required under UNC General Administration’s best practices for internal controls over financial reporting, surprise cash counts are periodically conducted of all UNCW departments that routinely receive funds in any form including, but not limited to, cash or checks, credit card payments, and payments via the UNCW One Card. The cash counts help ensure all funds received are appropriately tracked, secured, and deposited and that proper segregation of duties are in place for receiving, depositing, and reconciling the funds.

Throughout fiscal year 2016, Internal Audit conducted surprise cash counts of change funds used by campus departments who regularly receive cash as part of their operations.

**In our opinion, the system of internal control with respect to cash handling for the University was found to be satisfactory.** Although findings were identified in the areas reviewed (of the eight areas reviewed, six areas had findings), we found no evidence of fraud or mishandling of funds and departments could account for all receipts. The findings related to administrative processes and were intended to further assist management in improving administrative controls and procedures. The final report was issued June 3, 2016.
Audits / Assurance Activities (continued)

Pending Projects

Office of the Registrar Review
A review of the Office of the Registrar 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:

- 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

Sponsored Programs and Research Compliance (SPARC) Review
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 include reviewing the following areas related to research compliance:

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

Audit Finding Status
No follow up work was completed for the quarter ending June 30, 2016 due to schedule limitations for both campus departments with open audit findings and Internal Audit. Audit follow ups will resume in the first quarter of fiscal year 2017. The table below displays open audit findings (findings which have not been resolved) as of June 30, 2016.

<table>
<thead>
<tr>
<th>Engagement</th>
<th>Number of Open Findings</th>
</tr>
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<tbody>
<tr>
<td><strong>Academic Affairs</strong></td>
<td></td>
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<tr>
<td>Distance Education</td>
<td>6</td>
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<td>Graduate School {a}</td>
<td>8</td>
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<td>Financial Aid (b)</td>
<td>22</td>
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<tr>
<td><strong>Business Affairs</strong></td>
<td></td>
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<tr>
<td>Human Resources {c}</td>
<td>3</td>
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<tr>
<td>Physical Access {d}</td>
<td>3</td>
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*Note: A summary of open audit findings is included at Appendix A.*

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

{d} The three open findings for Physical Access are considered by Internal Audit to be in process.
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
Athletics Facilities Complaint
Internal Audit received a complaint related to adequate maintenance of Athletics facilities. Based on our review, Athletics has been actively working with other campus departments for the past year to identify and address facility maintenance needs. At the time of our investigation, a regular schedule for multiple campus departments to meet with Athletics to discuss facilities’ needs had been established. Appropriate efforts appear to be occurring, and this complaint is considered closed.
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.

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 that data from the production servers was replicated in the preproduction, or test, server. We anticipate issuing a final memo in July 2017.

ITS Controls Manual Review
Internal Audit served as one of the host sites for the Master of Science in Accountancy (MSA) capstone projects. A team of four MSA students worked with Internal Audit to review a sub-section of the ITS Controls Manual as it relates to user access. The objective was to ensure ITS was maintaining sufficient documentation and evidence of compliance with external requirements. Results of the review have been shared with Internal Audit by the MSA team and will subsequently be shared with the university’s Chief Information Officer. A final memo will be issued in July 2017.

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 June 30, 2016, Internal Audit staff members spent time responding to 27 different questions and requests.

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

- HR Liaison Committee
- Institutional Risk Management (IRM) Committee
- IRM Steering Committee
- IT Advisory Council
- Leadership Council
- Systems Coordination Committee
Consulting / Advisory Services (continued)

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.

Service to the Profession

Professional Organizations

Association of College and University Auditors (ACUA)
- The Chief Audit Executive is currently serving on ACUA’s Best Practices Committee. The committee developed a survey tool and wrote an article on best practices for managing conflicts of interest which will be published in the Summer 2016 issue of College and University Auditor.
- The Chief Audit Executive is also serving as a mentor in ACUA’s mentoring program.
Other

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

Projects

Annual Risk Assessment
Each year our office completes a risk assessment of UNCW operations as part of the audit planning process. Throughout fiscal year 2016, the Chief Audit Executive and other staff members were engaged in ongoing risk discussions with management. Other components of the risk assessment process included financial analysis, a review of the audit findings database, and reviews of other items with audit impacts. Based on this risk assessment, an audit plan for fiscal year 2017 was developed. The audit plan will be presented to the Audit, Risk and Compliance Committee of the Board of Trustees for approval at the July 2016 meeting.

Staffing Changes
Chris Gramlich began his internship in Internal Audit in May 2016. Chris is currently enrolled as an undergraduate student in the Cameron School of Business at UNCW with an accounting concentration. Upon graduation, Chris plans to pursue an internship in public accounting before returning to UNCW in August 2017 for the Master of Science in Accountancy (MSA) program.

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

- Budget Managers meetings
- Commencement
- Distinguished Lecture Series: Jeffrey M. Lacker, president and chief executive officer of the Federal Reserve Bank of Richmond
- Faculty Senate meetings
- Health & Human Services Week
- Leavekeeper/Division Master meetings
- Staff Senate meetings
- Staff Senate Strides Event
Other (continued)

Professional Development

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

- Applied Learning Online
- Banner Finance Certificate Courses
- Cascade Web Content Manager Training
- Intermediate Microsoft Excel 2013
- Lunch and Learn: Saving for Retirement
- Security Briefing by ITS
- Web Content Workshop
- WORKS Implementation Training for Card Coordinators/Reconcilers

External Training
Individuals from the Office of Internal Audit participated in two conferences and completed 8 webinars. Collectively, they earned 31.5 hours of Continuing Professional Education (CPE) credits.

Conferences and Retreats
- **Association of College and University Auditors Midyear Conference, Portland, OR, April 10-13, 2016**
  Topics: Essential Skills for Internal Auditors: Internal Audit Standards and Guidance Review, Interview Skills, Risk Assessment Techniques, Audit Overview, Quality Assurance and Improvement Program, Communication Skills, Professional Development
- **UNC Chief Audit Officer Retreat, Chapel Hill, NC, May 4-5, 2016**
  CPE Topics: Clery Compliance; HR, Legal and Internal Audit: Greatest Hits; Using Visual Reporting to Analyze Student-Athlete Course Clustering; IT Auditing 101
  Update Sessions: UNC Finance, North Carolina legislature, UNC Federal relations

Webinars
- “Internal Controls over Procurement, Payables and Disbursements” April 5, 2016
- “Transforming Internal Audit” April 5, 2016
- “The Future of Big Data Risk Analytics and the Obsolescence of the Traditional Internal Auditor” April 20, 2016
- “Digital Decisioning in Today’s Fraud Environment” April 21, 2016
- “The Impacts of the Underground Economy and How Analytics Can Fight it” May 18, 2016
- “Are Auditors Walking The Talk When it Comes to Implementing Change?” May 25, 2016
- “The Unchartered Territory of an Organization’s Culture” June 21, 2016
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 June 30, 2016

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

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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

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

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 eight areas reviewed, six areas did not fully comply with UNCW Policy 05.141. Detailed findings and recommendations were shared with management in each department, and findings included:

- Lack of documented internal procedures for cash handling (multiple departments)
- Outdated receipting privilege forms due to employees leaving the department (multiple departments)
- Failure to consistently record cash in a receipt log (one department)
- Failure to make timely deposits (one department)
- Failure to update the safe’s combination on a regular basis (multiple departments)
- Failure to reconcile the change fund (one department)
- Failure to properly secure funds overnight (one department)
- Lack of segregation of duties due to staff vacancies (multiple departments)