Message from the Chief Audit Executive

The 2018 audit year was successful and transformative for the Office of Internal Audit at the University of North Carolina Wilmington (UNCW).

Within our primary services, the Office of Internal Audit completed the following during FY18:

- 4 audits
- 8 follow up audits
- 1 investigation

In addition to the services noted above, Internal Audit made progress toward achieving strategic goals by:

- Continuing to incorporate data analytics into our work
- Collaborating with other campus departments
- Increasing training for all staff

In late 2018 we experienced a change in personnel. At the request of management, Stefanie Powell, who has led the department since 2013, was reassigned to assist in the office of the Vice Chancellor of Business Affairs. At the same time, Corby Johnson, CPA, CFE, who had retired with 33 years of experience in the N.C. Office of State Auditor, was hired as interim Chief Audit Executive to lead the Internal Audit team.

Successful audit shops demonstrate a commitment to professional growth. During the year Shelley Morris achieved her certification as a Certified Internal Auditor (CIA). Currently, each member of the UNCW Internal Audit team holds a professional license of CPA, CIA, and/or CFE. In FY19, staff members’ goals include pursuing a Masters and advanced leadership training.

During 2018 we were able to continue to provide applied learning opportunities for UNCW students outside the classroom. Monica Crump, who graduated from UNCW with a Bachelor of Science in accountancy in May 2018, completed an internship with our office during the 2017-2018 academic year. Nick Sanders, a rising graduate pursuing his Masters in Accountancy, was able to join our office as an intern during the summer of 2018.

We are looking forward to another great year in fiscal year 2019!

Corby Johnson, CPA, CFE
Interim Chief Audit Executive
Internal Audit Overview
The Office of Internal Audit at UNCW was established July 1, 1983 to provide assurance regarding the adequacy of financial controls, compliance with university policies and external regulations, and the accuracy and appropriateness of financial statements. Since 1983, the university and the profession of internal auditing have matured and evolved.

Today, the mission of the Office of Internal Audit is:

*To enhance and protect the university’s value by providing stakeholders with risk-based, objective and reliable assurance, advice, and insight.*

Our work is conducted and managed in accordance with The Institute of Internal Auditors’ (IIA’s) *International Professional Practices Framework*, which includes the core principles for the professional practice of internal auditing, the definition of internal auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing* (Standards). In order to fully comply with the Standards, our office must have a quality assurance and improvement program that includes both internal and external assessments. Our most recent external assessment was conducted in May 2016, and our office obtained the highest possible score overall and in each separately assessed category. Two internal self assessments were conducted during fiscal year 2018; our next external assessment will occur in the spring of 2021.

For more information about the Office of Internal Audit, please see our website at:
http://www.uncw.edu/ia/
Work Allocation

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 for the area under review and any findings and recommendations that were identified.

Follow Up Audits
Follow up work is completed for any audit findings resulting from audit/assurance engagements and may be completed for other engagements as deemed necessary. We typically follow up on open audit findings on a quarterly basis. A formal memo is issued when all findings relating to an engagement are closed. Formal memos are also issued approximately two years after the initial audit to update all parties involved of progress if findings are unresolved.

Investigations
Investigations result from tips reported to our office via the Office of the State Auditor’s hotline, our internal hotline, and other sources. In addition to our formal investigation listed to the right, the Office of Internal Audit assisted with one investigation during FY18.
Work Allocation (continued)

Advisory Services
Internal Audit provides advisory services which are intended to provide advice and information on internal controls, risk management, and sound business practices. Advisory services allow the Office of Internal Audit to reach more individuals and departments than can be done through the traditional audit process.

Routine Consultations
The Office of Internal Audit provided informal advisory services through **70 minor projects and requests for information** during FY18.

INT 101: How to Pass an Audit (An Introduction to Internal Controls)
In order to proactively educate campus departments about best practices for internal controls, we developed the course Internal Controls 101: How to Pass an Audit (An Introduction to Internal Controls). The course was first offered in July 2016 and is offered at least twice per quarter. During FY18, **74 individuals took the course**, with attendees representing all 5 UNCW’s divisions, each of the 4 academic colleges, and many support units.

Other Advisory Work
The following are examples of other advisory work completed in FY18.
Other
In addition to audits, investigations, and advisory engagements, the Office of Internal Audit is involved in other activities that help further the mission of Internal Audit and foster collaboration with other campus departments.

Participation in University Functions
In FY18, the CAE and Internal Audit staff participated in numerous campus events including:

- 2017-18 Convocation Address
- 70th Anniversary Celebration
- Allied Health Ground Breaking
- Budget Managers Meetings
- Campus Holiday Social
- Chancellor’s Distinguished Lecture Series
- CSB Business Week Speaker Series
- Commencement Volunteer
- Faculty and Staff Recognition Reception
- Faculty Senate Meetings
- Finance Forum
- Health and Human Services Week Lecture (Sponsored by CHHS)
- Leavekeeper Meetings
- Staff Senate Meetings
- Staff Senate Strides Event
- State of the University Address with President Margaret Spellings
- Taking Flight Celebration
- VCBA Candidate Forums

Training
Professional development is required for our certifications, and training allows our staff to stay abreast of emerging topics and best practices, helping us to provide the best possible services to the university. The following are examples of training completed in FY18.

**UNCW Training**
- Banner 9 Navigation
- Cascade 8 Website
- Courageous Conversations Workshop for Supervisors
- Diversity and Inclusion: Empathy Rising Across Generations
- Environmental and Social Sustainability Presentation
- Finance Certificate Training Program Courses
- Full Cycle Performance Introduction
- Goal Setting Workshop
- Leave Development
- LTD Training Certificate Program
- SSRS Web 2016 Reporting Portal

**Conferences/Workshops**
- 2018 Professional Ethics and Conduct
- 26th Annual Economic Forecast
- 29th Annual ACFE Global Fraud Conference
- Beta Alpha Psi CPE Program - Cameron School of Business
- Building Effective Internal Audit Teams
- Elevating the IIA Conference - Beyond the Basics: Essential Skills and Practices
- Institute of Internal Auditors (IIA) District Conference
- UNCAA Conference: Adding Value and Sharing Insight Together

**Webinars**
- 2017 Professional Ethics and Conduct
- Auditing Social Media and Reputational Risk
- Cybersecurity Risks: What do They Mean to Internal Audit
- EU General Data Protection Regulations Impacting U.S. Institutions
- Identify and Access Management in an Academic Environment
- Preparing for the Future: 2018 Imperatives for Internal Auditors
- Sponsored Research: Using the Data to Detect, Defend & Prevent Fraud
Metrics
As part of our office’s quality assurance and improvement plan, we track several metrics to measure our performance.

Time Allocation
Like other professionals in accounting, internal auditors track the amount of time spent on each project to assist in planning and for benchmarking purposes. Our goal in any year is to spend at least 70% of our time on direct hours, which is time spent working on audits, advisory/consulting work, and investigations. In FY18, 67% of our time was spent on direct hours due to transitional changes in leadership.

Work Allocation
We also track time spent on each type of engagement, with an emphasis on audit/assurance work. We typically spend about 70% of our direct time on audit/assurance work. In FY18, we fulfilled our standard of spending 70% of our direct time on audit/assurance work. The “Other” category which includes quality assurance work, the annual risk assessment, reporting, and collaborating with campus departments and other internal audit offices in the UNC system.
Metrics (continued)

Audit Plan Completion
The audit plan completion rate is an indicator of efficiency and alignment with the annual audit plan approved by the Audit, Risk and Compliance Committee of the Board of Trustees. For FY18, we completed 69% of the audit plan, had 14% of the planned engagements in process at the end of the fiscal year, and cancelled/deferred 17% of the planned engagements. Cancellations and deferrals were the result of larger scaled audits requiring more hours than initially planned.

Financial
In addition to monitoring metrics, the Office of Internal Audit monitors financial activity. Internal Audit is funded by a combination of general funds allocated by the state and institutional trust funds. Total expenditures for FY18 were $397,158 with expenditures primarily related to salaries and benefits. Other expenses of the office include professional expenses such as licenses, memberships, and training. The office also pays for telephone service, supplies, and other administrative expenses.
Client Satisfaction
At the end of each engagement, clients are asked to submit a survey evaluating our office’s work to help promote continuous improvement. For each question, responses are provided on a scale of 1 to 5 with 5 being the highest score.

Survey Results
For FY18, 8 client surveys were received. *(Note: For some engagements, surveys were submitted by multiple individuals within the area reviewed.)*

**FY18 CLIENT SURVEY RESULTS**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Score</th>
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<tbody>
<tr>
<td>Internal Audit added value by assisting in improving your operations and internal controls.</td>
<td>4.1</td>
</tr>
<tr>
<td>The audit recommendations were reasonable.</td>
<td>4.3</td>
</tr>
<tr>
<td>The final report or memo was accurate and findings were clearly communicated.</td>
<td>4.4</td>
</tr>
<tr>
<td>Key business concerns/risks were considered during the engagement.</td>
<td>4.4</td>
</tr>
<tr>
<td>Communication of audit results and status during the audit was timely and adequate.</td>
<td>4.4</td>
</tr>
<tr>
<td>Audit staff members were professional, positive, and courteous throughout the audit process.</td>
<td>4.7</td>
</tr>
<tr>
<td>The audit took a reasonable amount of time.</td>
<td>4.3</td>
</tr>
<tr>
<td>Auditor’s requests for additional information were reasonable and clearly communicated.</td>
<td>4.3</td>
</tr>
<tr>
<td>Audit staff considered your input throughout the audit process.</td>
<td>4.5</td>
</tr>
<tr>
<td>Audit objectives, purpose, and scope were clearly communicated.</td>
<td>4.4</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>4.38</strong></td>
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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 must confirm to the board, at least annually, the organizational independence of the internal audit activity. The Office of Internal Audit reports functionally to the Audit, Risk and Compliance Committee (ARC 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 ARC Committee. Consequently, the Chief Audit Executive (CAE) provides the ARC Committee with copies of the final report or memo from each engagement and presents results of audits and other office activities to the ARC Committee at their quarterly meetings. In addition, the CAE assists the ARC 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. There were no impairments to independence or objectivity for any engagements during FY18.

Disclosure of Nonconformance
Occasionally circumstances require the completion of a project or engagement in a manner which is inconsistent with applicable Standards. When this occurs, we must disclose the nonconformance and the impact to senior management and the Board of Trustees. During FY18, 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. This is normal in limited circumstances and is often due to cost/benefit constraints. 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 FY18.

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 2016, Patrick Reed, CPA, completed a peer review of our office. We received the highest possible score overall and in each individually assessed category. Two internal self assessments were conducted during fiscal year 2018; our next external assessment will occur in the spring of 2021.