

Fiscal Year 2019/2020 Annual Report of Activities of the Office of Internal Audit



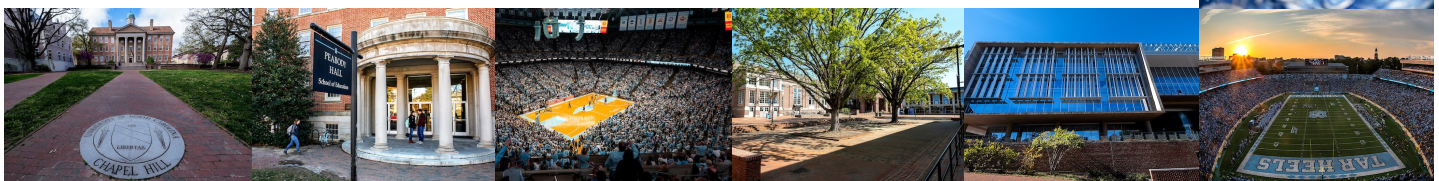
THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

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MESSAGE FROM THE CHIEF AUDIT OFFICER

On behalf of the Office of Internal Audit (OIA), I am pleased to present the *Fiscal Year 2019/20 Annual Report of Activities of the Office of Internal Audit*. The purpose of this report is to demonstrate accountability to the Board of Trustees, and the university community at large, that the internal audit function is operating as intended.

The report highlights accomplishments of the university's internal audit function and use of resources consistent with our approved fiscal year 2019/2020 operating budget and the *Fiscal Year 2019/2020 Internal Audit Work Plan* for Carolina. The OIA is governed by charters of both the Board of Trustees Finance, Infrastructure and Audit Committee and the OIA.

Joining Carolina in May 2019, I assumed responsibility for leadership of the university's internal audit operation. The year marked a pivotal change in rebranding and enhancing the level of internal audit services afforded to the university. Building upon existing traditions, the past year afforded opportunities to better conceptualize internal audit departmental staffing, organizational structure, refine office workspaces, strengthen departmental administrative process, and address office procedures. Additionally, improvement opportunities identified from a previously completed external quality assurance review of the university's internal audit operation were acted upon and successfully addressed.

With support from the Board of Trustees, Chancellor Guskiewicz, and university leadership, the OIA concluded a productive year. The *Fiscal Year 2019/2020 Internal Audit Work Plan* defined 16 internal audits slated for completion. Two engagements ongoing as of June 30, 2019, carried forward providing a total of 18 audits identified for completion in the current fiscal year. Efforts resulted in the issuance of 13 reports reflective of work plan engagements. As of June 30, 2020, work remains underway on two work plan engagements anticipated to conclude early in the first quarter of fiscal year 2020/2021. Three work plan engagements were not fulfilled due to inadequate available staff hours and/or the impact of reduced campus operations resulting from the impact of COVID-19.

In addition to defined Internal Audit Work Plan responsibilities, the OIA assumed 17 special project assignments arising from requests to address current needs, evaluate and assess specific matters, and perform investigations of credible accusations. At June 30, 2020, final correspondence was issued for 15 special projects and two projects carried forward with final reporting anticipated to occur early in the first quarter of fiscal year 2020/2021. Separately, the OIA provided consultative/advisory services supporting six topics where formal reporting was not required.

At the conclusion of OIA engagements and special projects, outcomes are formally communicated to the Board of Trustees, Chancellor, appropriate university leadership and external parties, as required. From completed Internal Audit Work Plan and special project requests, 40 recommendations that required a management response were provided to leadership addressing operations and enhanced internal controls. Audit follow-up of prior recommendations are periodically assessed for implementation of corrective actions.

Supporting campus operations, the Chief Audit Officer and OIA staff participated on several cross-functional teams supporting areas of risk mitigation, financial internal controls, technology initiatives, data security, and information privacy responsibilities.

In the coming year, the OIA will work toward accomplishing initiatives defined within the *Fiscal Year 2020/2021 Internal Audit Work Plan* approved by the Board of Trustees' Finance, Infrastructure and Audit Committee and Chancellor Guskiewicz on June 21, 2020; whereby, advancing recommendations for implementation of appropriate internal controls, operational process improvements and compliance, as necessary, to support the success of Carolina in meeting its defined mission.

Respectfully,
Dean A. Weber, CIA, CRMA
Chief Audit Officer, Office of Internal Audit

SERVICE TO THE UNIVERSITY

The Office of Internal Audit is charged by the Finance, Infrastructure, and Audit Committee to add value to improve University operations by providing independent, risk-based, objective and reliable assurance, advice, and insight. The OIA accomplishes this by:

- Internal audit services in which planned compliance, operational, financial, and information technology engagements are completed.
- Follow-up assessments where prior audit findings are reviewed to determine if effective corrective measures were implemented supportive of management responses to identified improvement opportunities.
- Special project engagements where university or department leadership request consultative services to aid in evaluating risk and the adequacy of internal controls.
- Investigations addressing allegations of fraud, waste, conflict of interest, ethics violations, abuse of University resources, and other matters potentially in violation of governing policy, regulations, and requirements.

Carolina's Risk Based Internal Audit Work Plan

The Fiscal Year 2019/2020 Internal Audit Work Plan was developed through the completion of a high-level risk assessment to prioritize internal audit coverage and to ensure timely review of operations possessing significant potential risk exposure.

The assessment comprised an analysis of risks supporting the strategic mission and plan of the university, a financial magnitude assessment of core university operational areas, consideration of enterprise risk management exposure, and through communication with senior leadership of the university and the Board of Trustees' Finance, Infrastructure and Audit Committee Chairman.

MISSION STATEMENT

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It supports the University of North Carolina at Chapel Hill to accomplish its mission, goals, and objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The underlying premise of our work is that the University, as a leader in the dynamic environment of higher education, must function at the highest level possible. The Office of Internal Audit supports this objective by providing independent, proactive analyses of governance, operations, financial activities, and systems of internal control. The purpose of these analyses is to evaluate whether resources are used in a way that appropriately manages risk and is in keeping with State requirements and the University's mission, goals, and objectives.

OVERVIEW OF FISCAL YEAR 2019/2020 PROJECTS

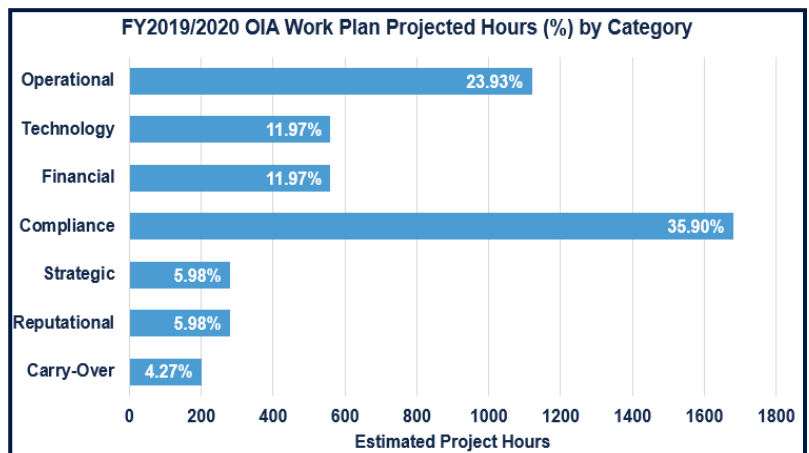
The Office of Internal Audit works to reduce the University’s exposure to adverse risk, ensure the adequacy of internal controls, assess compliance, and evaluate economies and efficiencies of operations. The annual work plan is developed each fiscal year through collaborative consultation with University leadership, evaluation of risk assessment outcomes, and an awareness of the University’s current operating environment.

The work plan includes both broad departmental reviews and assessments of specific processes or controls. The Board of Trustees Finance, Infrastructure, and Audit Committee in addition to the Chancellor evaluate proposed engagements and approve the final version of the plan.

The Office of Internal Audit’s work plan encompasses projects defined within the following strategic risk-based categories:

- Operational
- Information Technology
- Finance
- Compliance
- Strategic
- Reputational
- Carry-Over

The OIA work plan projected hour distribution by engagement category is identified in the chart below:



Results

The department achieved initiation of 81% of proposed fiscal year 2019/2020 engagements as well as 100% completion of prior-year carry-over projects, for an overall work plan attainment of projects concluded or underway at June 30, 2020 of 83%

Additionally, 100% of special project and advisory requests have concluded or are underway increasing the total percentage of fiscal year 2019/2020 project engagements initiated to 93%.

Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	June 30 - Percent Concluded & Underway
Planned Audits	16	11	2	3	81%
Carry-over Audits	2	2	0	--	100%
Work Plan Total:	18	13	2	3	83%
Special Projects	17	15	2	--	100%
Advisory Projects	6	6	0	--	100%
Cumulative Total:	41	34	4	3	93%

FISCAL YEAR 2019/20 WORK PLAN - PROJECT DETAIL

Supporting completion of internal audit engagements identified for completion in the University's Fiscal Year 2019/2020 Internal Audit Work Plan, prioritized risk-based planning identified 16 engagements slated for completion by the Office of Internal Audit. Additionally, two engagements underway, but not finalized at June 30, 2019 carried forward for completion as part of the next work plan cycle.

The chart below identifies work plan project initiatives, the status of field work, issuance of final reports, and those projects not completed due to insufficient internal audit staff hours available to complete the engagement or impact of COVID-19 altered operations.

Audit Engagement		Risk Category	Project Not Completed	Field Work in Process or Concluded	Final Report Issued	Carry-Over to 2020/2021 Work Plan
Grant Closeout Controls—Sponsored Research		Operational		✓	04/06/20	
Campus Safety & Security		Operational		✓	05/11/20	
Clinical Trials—Patient Remuneration		Financial		✓	06/01/20	
Donor Intent—Fundraising Restrictions		Reputational		✓		✓
Athletics NCAA Rules ¹	Student Athlete Financial Aid	Compliance		✓	6/30/20	
	Student Athlete Employment	Compliance	✓			
	Extra Benefits—Team Travel	Compliance	✓			
	Extra Benefits—Athlete Vehicles	Compliance	✓			
	Eligibility Certification	Compliance		✓	03/10/20	
Distance Education—Online Learning		Operational		✓	6/16/20	
New Hire Orientation		Operational		✓	05/19/20	
Revenue Recognition—Pharmacy		Financial		✓	6/29/20	
Connect Carolina Human Resources and Payroll PeopleSoft Access Controls Review		Technology		✓	6/30/20	
IT General Controls—Kenan Flagler		Technology		✓	01/08/20	
Undergraduate Admissions		Strategic		✓		✓
Higher Education Opportunity Act		Compliance		✓	01/13/20	
Athletic Ticket Sales ²		Operational		✓	12/03/19	
Department of Chemistry ²		Financial		✓	03/05/20	

¹ National Collegiate Athletic Association (NCAA) Compliance Review for Division I Institutions based on the Association of College and University Auditors Guide.

² Carry-Over projects initiated in FY 2018/19 Work Plan Year

WORK PLAN PROJECT OBJECTIVES

OSR Grant Closeout Controls

Review and assess the operating procedures and internal control environment surrounding the Office of Sponsored Research's final project reconciliation closeout processes.

Campus Safety & Risk Management

Assess existing practices and internal controls supporting necessary precautions and safeguards to protect students, personnel, and visitors while at the university.

Clinical Trials Patient Remuneration

Provide reasonable assurance that funds for clinical trial participant remuneration are being properly distributed and reconciled in accordance with approved agreements and university policy.

Restricted Purpose Gift—Donor Intent

Analysis to assess compliance with donor provisions and related university policies. Evaluate restricted gift account activity, financial accounting, maintenance, spending and recognition processes for alignment with gift requirements.

Digital and Online Learning

Assessment of undergraduate digital learning course offerings to evaluate processes and the internal control environment related the university mission, compliance, organizational structure and oversight, faculty training on digital delivery technologies, and data analytics of student outcomes for online courses.

New Employee Orientation

Evaluate to determine the new employee orientation process is effective and efficient and the university is compliant with state and federal employment laws and regulations related to new-hire processing. Assess that orientation information is appropriate and required forms, benefit elections and privileges are accurately communicated and processed.

Revenue Recognition—School of Pharmacy

Provide reasonable assurance to leadership that funds for fellowship services are appropriately contracted, invoiced, received, and posted in ConnectCarolina.

Undergraduate Admissions

Determine compliance with university policies and divisional practices supporting the financial activity of the Admissions Office. Separately, perform a risk assessment of activities and process supporting operational functions to report on the adequacy of internal controls supporting high and moderate risk activities of the department.

PeopleSoft User Access Management

Evaluate the internal control environment and to assess and mitigate potential risks associated with the management of PeopleSoft access controls.

IT General Controls—KFBS

Conduct an independent review of the Kenan-Flagler Business School's information technology internal control environment, to identify best practices, and to assess and mitigate potential risks associated with the School's information technology (IT) operations.

Higher Education Opportunity Act

Assess for university compliance with Higher Education Opportunity Act guidance. Verify existence of HEA disclosure and ensure proper and timely dissemination of disclosure information through appropriate distribution channels or available processes.

Athletics NCAA Compliance

Comprising five engagements—Assess implementation of university policies and procedures regarding specific areas of National Collegiate Athletic Association compliance to include eligibility, financial aid, athlete employment, team travel, athlete vehicles, and eligibility certification.

FISCAL YEAR 2018/2019 CARRY-OVER PROJECTS

As of June 30, 2019, two engagements were ongoing that carried forward into fiscal year 2019/2020 for completion. The projects comprised two prior-year work plan initiatives. The following chart identifies the two carry-over projects concluded during the period.

Carry-over Engagement Title	Final Report Issued
Athletic Ticket Sales	12/03/2019
Chemistry Department	03/05/2020

FISCAL YEAR 2019/2020 SPECIAL PROJECTS

In addition to specifically identified annual work plan engagements, the Office of Internal Audit completes special project engagements requested by University management or external groups such as UNC General Administration.

Furthermore, special projects may result from information received through the State Auditor's Office or the Carolina Ethics Line where issues are deemed to be most appropriately addressed by the OIA. Special project requests supplement workload apart from projects identified within the formally approved internal audit work plan.

During fiscal year 2019/2020, the OIA assumed responsibility for the completion of seventeen special project engagements. Work on fifteen special projects concluded, with the remaining carrying forward for completion in fiscal year 2020/2021.

Fiscal Year 2019/2020 Special Project Engagements Comprised the Following:

- Chemistry Department Fraudulent Expenses
- Dentistry Contracting
- Ethics Line (5 projects)
- Housekeeping
- Historically Underutilized Business
- Lineberger Cancer Center
- Retiree Technology Access
- Sonja Hayes Stone Center
- School of Social Work
- Student Work Study
- College of Arts and Sciences
- Office State Auditor Follow-up *
- Dentistry Pathology *

* Project work on-going at June 30, 2020.

OFFICE INITIATIVES

OFFICE OF INTERNAL AUDIT REDEVELOPMENT

What has occurred...

The past fiscal year has afforded a period of refocusing and enhancing Carolina's internal audit presence. Efforts encompassed development of a comprehensive internal audit work plan, providing the blueprint for directing internal audit resources. The function was renamed "The Office of Internal Audit" with rebranding consistently applied in official reporting and correspondence.

Affording for effective tiered leadership and succession planning, the department's staffing model was refined. This encompassed organizational structure realignment providing for layered supervisory responsibility and employee areas of specialization. Office workspace was significantly refined with a complete review of facilities space and assessment of records in-line with the university's record retention schedule.

Departmental administrative processes were reviewed, streamlined, and documented in refined operating procedures. The *Office of Internal Audit Charter* and the *Finance, Infrastructure and Audit Committee Charter* were updated reflective of restructured operations to more fully align with UNC System code and policy, and the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*. Additionally, the department's website presence was reimagined to afford more information reflective of services and operations provided by Carolina's internal audit operation.

CLIENT SATISFACTION SURVEYS

What are they...

Supporting an ongoing monitoring and quality assurance measurement of services provided by the OIA, for engagements completed as part of the fiscal year 2019/2020 work plan, satisfaction surveys were sent to engagement clients. Completed surveys provide a method of continuous quality monitoring of the internal audit process. Surveys evaluate and rate:

- Scope of the Internal Audit Work
- Internal Audit Process
- Engagement Satisfaction
- Option for Comment

QUALITY ASSESSMENT REVIEW

Conformity with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* (Standards) and *Code of Ethics* require audit shops to complete an external Quality Assessment Review (QAR) at least once every five-year period.

The recently completed QAR with reporting issued in December 2018 identified certain areas necessitating corrective actions to more fully align with the Standards.

The Office of Internal Audit successfully resolved the identified deficiencies in fiscal year 2019/2020.

Satisfaction Survey Outcomes

- ✓ 91% Strongly Agree or Agree audit results were fairly and accurately reported.
- ✓ 91% Strongly Agree or Agree the audit purpose, objective and scope was sufficiently explained.
- ✓ 88% Strongly Agree or Agree the engagement provided useful outcomes to improve business processes.

MANAGEMENT CORRECTIVE ACTIONS

The Office of Internal Audit maintains a formalized process to follow-up on prior internal audit report recommendations and actions addressing the implementation of management responses.

Under this process, OIA staff work collaboratively with university personnel through discussion and review concerning actions taken to improve internal controls, enhance operations and provide for effective utilization of resources.

During fiscal year 2019/2020, completed internal audit reports provided 40 recommendations through OIA engagements to enhance internal controls, provide compliance with governing policies/procedures and strengthen operations.

Results:

The impact of COVID-19 adversely impacted the ability for the Office of Internal Audit to fully evaluate the status implementation of all outstanding audit recommendations at July 1, 2019.

Cumulatively, through the end of fiscal year 219/2020, 31 (78%) of the 40 total audit recommendations requiring follow-up at July 1, 2019, have been documented as resolved.

With a formalized process in place, future efforts will continue focusing on the evaluation of preceding report recommendations to determine if corrective actions have been successfully implemented to achieve issue resolution.

Summary of Corrective Action Activity Fiscal Year 2019/2020

Total Recommendations Unverified as of July 1, 2019 (Ready for evaluation)	40
New Recommendations Added Fiscal Year 2019/2020 (Not ready for review until FY21)	40
Prior Recommendations Verified as Resolved during Fiscal Year 2019/2020	31
Total Recommendations Unverified as of June 30, 2020 (Available for review in FY21)	49

Reporting Concerns and Alleged Matters of Fraud/Waste/Abuse

Carolina's Commitment...

The University of North Carolina at Chapel Hill is committed to high ethical standards and the enforcement of policies, procedures, and legal requirements. The concerns of employees, students, and others within the university communities regarding matters of wrongdoing are important; therefore, a platform for self-identified or anonymous reporting of matters of concern is available to confidentially identify situations believed to be inappropriate. The University has contracted for services with NAVEX Global/EthicsPoint providing a third-party automated reporting solution.

The electronic platform may be accessed through from the **Ethics and Integrity** link on Carolina's homepage (www.unc.edu) or via a telephone representative by calling the Carolina Ethics Line at 866-294-8688 (toll free).

BOT FINANCE, INFRASTRUCTURE AND AUDIT COMMITTEE

The primary mission of the Finance, Infrastructure, and Audit Committee is assisting the Board of Trustees in maintaining oversight on the integrity of the University's financial statements, upholding adequacy and effectiveness of internal controls and maintaining independence and performance of the external and internal audit functions. An important objective of the Finance, Infrastructure, and Audit Committee is to promote a continuously improving environment to achieve the University's goals and objectives by providing expectations for statutory and regulatory compliance, audit and risk assessment practices, operational integrity, and financial accountability. The Chief Audit Officer reports functionally to this Committee and administratively to the university's chancellor.

Carolina Board of Trustees Finance, Infrastructure, and Audit Committee Composition at June 30, 2020

Haywood D. Cochrane, Jr., <i>Chair</i>	G. Munroe Cobey
John P. Preyer, <i>Vice Chair</i>	R. Gene Davis, Jr.
David L. Boliek, Jr.	Charles G. Duckett
Jefferson W. Brown	Allie Ray McCullen

OIA STAFFING

Dean Weber, CIA, CRMA Chief Audit Officer

Dean has been with Carolina for one year and possesses 27 years higher education experience. Prior to joining UNC, he provided executive leadership to the Pennsylvania State System of Higher Education's internal audit operation.

Drew Baker, MA, CFE Audit Supervisor

Drew has been with the OIA for three years. He holds a Master of Accounting degree, is a skilled investigator and a Certified Fraud Examiner.

Caroline Haga, MA Auditor

Caroline joined the OIA in April 2020. She earned her undergraduate degree at UNC and recently attained her Master of Accounting from Kenan-Flagler Business School.

Kara Hefner, CPA, CIA, CFE Audit Senior

Kara joined the OIA in October 2019, and possesses 19 years experience. She is a Certified Public Accountant, Certified Internal Auditor and Certified Fraud Examiner.

Loretta H. Hester, MPA, CICA, CFE Audit Supervisor

Loretta has been with the OIA for seven years. She has a Masters of Public Administration degree, is a Certified Internal Controls Auditor and a Certified Fraud Examiner.

Major Professional Certifications Held

- 3 – Certified Fraud Examiner (CFE)
- 2 - Certified Internal Auditor (CIA)
- 1 - Certified Public Accountant (CPA)
- 1 - Certified Risk Management Assurance (CRMA)
- 1 - Certified Internal Controls Auditor (CICA)
- 1 - Certified Information Systems Auditor (CISA)
- 1 - Certified Information System Security Professional

Earl Jackson, MSE Auditor

Earl has been with the OIA since December 2019. He possesses 12 years of internal audit experience through employment at two other UNC System institutions.

Arlene Gordon-King, MBA, MSIS, CHFI, ECSA, CNDA, CEH, CNDA, LSS_CPI, CISM, CISA, CISSP, MCP Information Technology Auditor

Arlene has been with OIA for one year. She possesses extensive information technology audit experience from her prior long-term career with the federal government.

Charlene Ryan Office Manager/Audit Assistant

Charlene has been with the OIA for seven years. She is a skilled professional assisting departmental staff in administrative and audit duties.



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