

# Fiscal Year 2021 Annual Report of Activities of the Office of Internal Audit



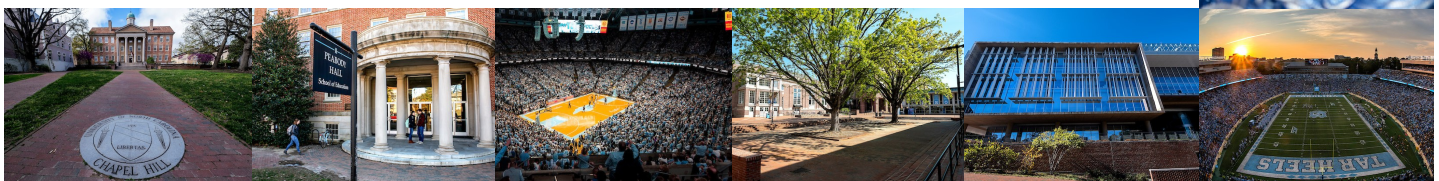
THE UNIVERSITY  
of NORTH CAROLINA  
at CHAPEL HILL

# TABLE OF CONTENTS

MESSAGE FROM THE CHIEF AUDIT OFFICER .....	3
SERVICE TO THE UNIVERSITY .....	4
WORK PLAN DEVELOPMENT .....	4
OVERVIEW OF FISCAL YEAR 2021 PROJECTS .....	5
INTERNAL AUDIT METRICS.....	6
FISCAL YEAR 2021 WORK PLAN - PROJECT DETAIL .....	7
WORK PLAN PROJECT OBJECTIVES.....	8
FISCAL YEAR 2021 ADVISORY PROJECT WORK .....	10
FISCAL YEAR 2021 SPECIAL PROJECT WORK.....	10
MANAGEMENT CORRECTIVE ACTIONS.....	11
BOT FINANCE, INFRASTRUCTURE, AND AUDIT COMMITTEE .....	12
OFFICE OF INTERNAL AUDIT STAFFING .....	13



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## MESSAGE FROM THE CHIEF AUDIT OFFICER

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On behalf of the Office of Internal Audit (OIA), I am pleased to present the *Fiscal Year 2021 Annual Report of Activities of the Office of Internal Audit*. The purpose of this report is to demonstrate accountability to the Board of Trustees, Finance Infrastructure, and Audit Committee and to Chancellor Guskiewicz that Carolina's internal audit function is operating as intended. The OIA conducts internal audits in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

The OIA concluded a productive year. I want to thank departmental staff for their hard work and dedication to supporting the mission of this office and to the University of North Carolina at Chapel Hill. Likewise, I acknowledge the steadfast support of the Board of Trustees, the Chancellor, and university personnel affording for our effective completion of planned engagement activities. As a result of the COVID-19 Pandemic, the OIA operated in a fully remote work environment during fiscal year 2021 with the ability to successfully maintain continuity of operations and completion of defined tasks.

Throughout the year, the department worked on a variety of internal audits, special projects, consultations, and other project initiatives. *The Fiscal Year 2021 Internal Audit Work Plan* defined 21 internal audits slated for completion. Two engagements ongoing on June 30, 2020, carried forward providing 23 audits identified for completion in the current fiscal year.

Efforts resulted in completion of 15 work plan engagements. As of June 30, 2021, work remained underway on three work plan engagements anticipated to conclude early in the first quarter of fiscal year 2022. Five work plan engagements were not fulfilled due to inadequate staff hours and/or the adverse impact of COVID-19 on designated audit areas.

In addition to identified annual work plan engagements, the OIA focused on 20 special project requests from university management and/or as required to support external entities. As of June 30, 2021, work on 18 special project engagements concluded; two remain underway with project completion anticipated during the first quarter of fiscal year 2022.

During the fiscal year, the OIA contributed to advisory efforts supporting four projects to include participation on search committees, procedural development supporting the university EthicsPoint hotline platform, activities supporting definition and reporting of the university's Top Five ERM Risks, and efforts regarding North Carolina Office of State Auditor activities.

OIA fiscal year 2021 reporting produced 33 communications to senior leadership reflective of completed work plan engagements, special project requests and activities of the department affording 33 recommendations to strengthen operations and enhance internal controls.

The OIA hosted the *University of North Carolina System Auditors' Association 2021 Conference* open to internal audit staff and guests of all member institutions. Training was conducted virtually affording for 14 hours of professional continuing education training provided by a cast of external and internal business professionals. Additionally, the Chief Audit Officer presented at the Association of College and University Auditors' International Conference and a Senior Auditor presented at the Association's mid-year conference.

Looking ahead, the OIA will continue supporting efficiencies in Carolina's operations through the completion of the university's Risk Assessment and Fiscal Year 2022 Internal Audit Work Plan adopted by the Board of Trustees and Chancellor Guskiewicz in May 2021, providing a roadmap for OIA activities during the course of the fiscal year.

Respectfully,  
**Dean A. Weber, CIA, CRMA**  
Chief Audit Officer

## 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.

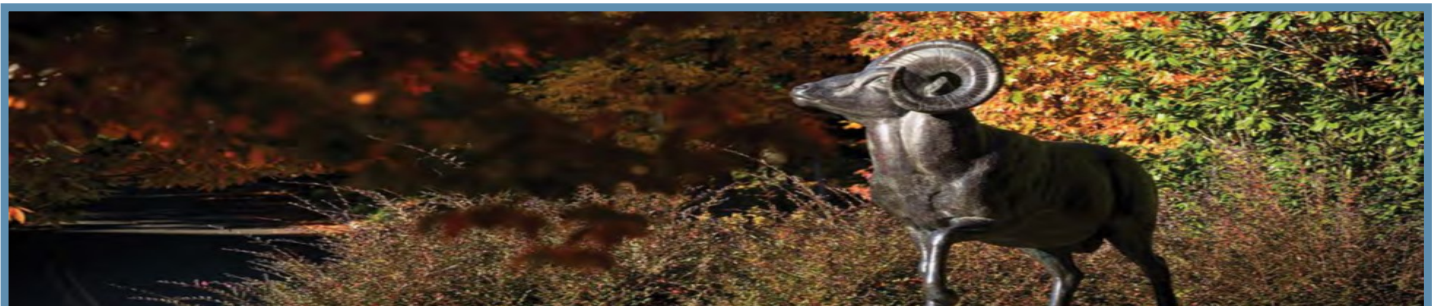
### MISSION STATEMENT

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. 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 Federal, State and System requirements and the University's mission, goals, and objectives.

## WORK PLAN DEVELOPMENT

The Work Plan was established based on OIA information gathered through analysis of existing and emerging risks. This included an assessment within higher education of regulatory emphasis from external sources, a financial magnitude assessment, consideration of the University's ERM Register of Top Five Institutional Risks and potential risk impediments of the eight strategic initiatives framed within CAROLINA NEXT – INNOVATIONS FOR PUBLIC GOOD. Institutional risks discussions were held with the Chancellor, Executive Vice Chancellor and Provost, Vice Chancellor for Finance and Operations, and the Board of Trustees Finance, Infrastructure and Audit Committee Chairman.

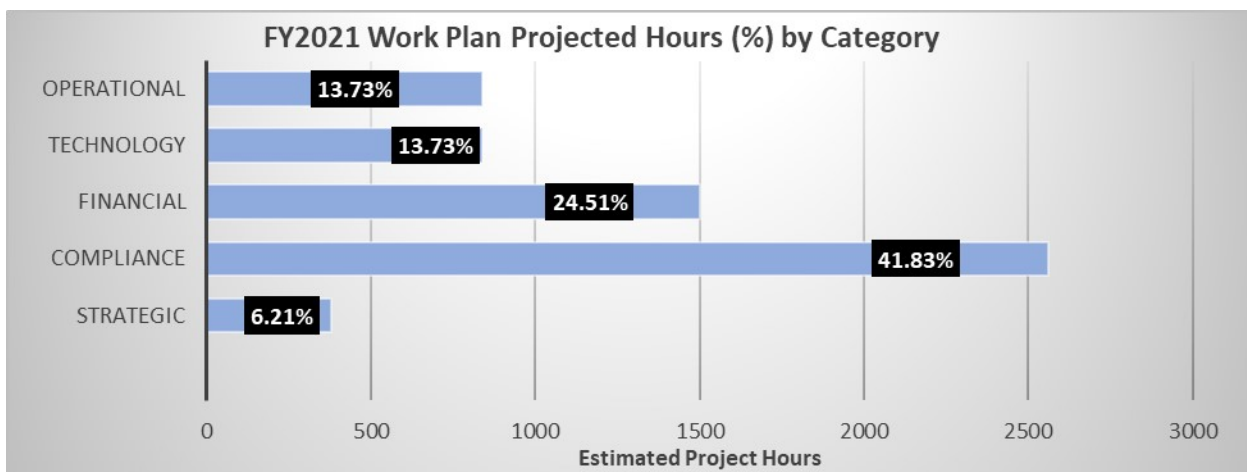


# OVERVIEW OF FISCAL YEAR 2021 PROJECTS

Carolina's internal audit work plan encompasses projects defined within the following five strategic risk-based categories:

- **Operational**—systematic assessment of processes evaluating effectiveness and efficiencies
- **Technology**—examination of the electronic management system over particular information/assets
- **Finance**—verification of monetary reporting and accounting of transactions and related controls
- **Compliance**—assessment for adherence to internal and external regulatory guidance
- **Strategic**—evaluation of the business environment threatening the organization's plan execution

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



## Results

The department achieved initiation of 76% of proposed fiscal year 2021 engagements as well as 100% completion of prior-year carry-over projects, for an overall work plan attainment of projects concluded or underway on June 30, 2021 of 78%

Additionally, 100% of special project and advisory requests have concluded or are underway increasing the total percentage of fiscal year 2021 project engagements initiated to 89%.

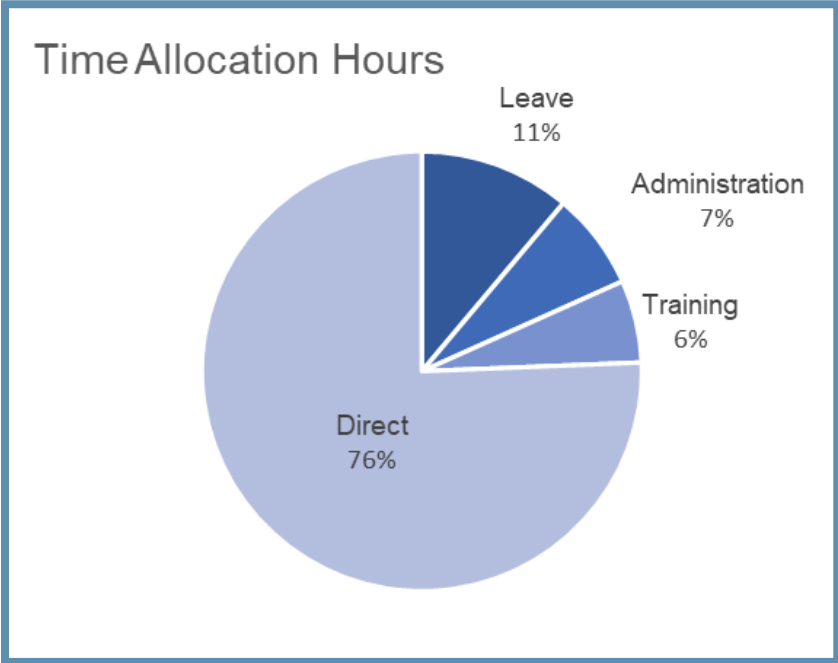
Project Source	Total Engagements	Number Concluded	Number Underway	Number Not Initiated	June 30 - Percent Concluded/Underway
Planned Audits	21	13	3	5	76%
Carry-over Audits	2	2	0	--	100%
Work Plan Total:	23	15	3	5	78%
Special Projects	20	18	2	--	100%
Advisory Work	4	4	0	--	100%
Cumulative Total:	47	37	5	5	89%

# INTERNAL AUDIT METRICS

**A**s part of the OIA’s quality assurance and improvement plan, we track several metrics to measure our performance. Additionally, customer satisfaction surveys are provided to audit clients at the conclusion of each work plan engagement to solicit feedback and improve audit experiences.

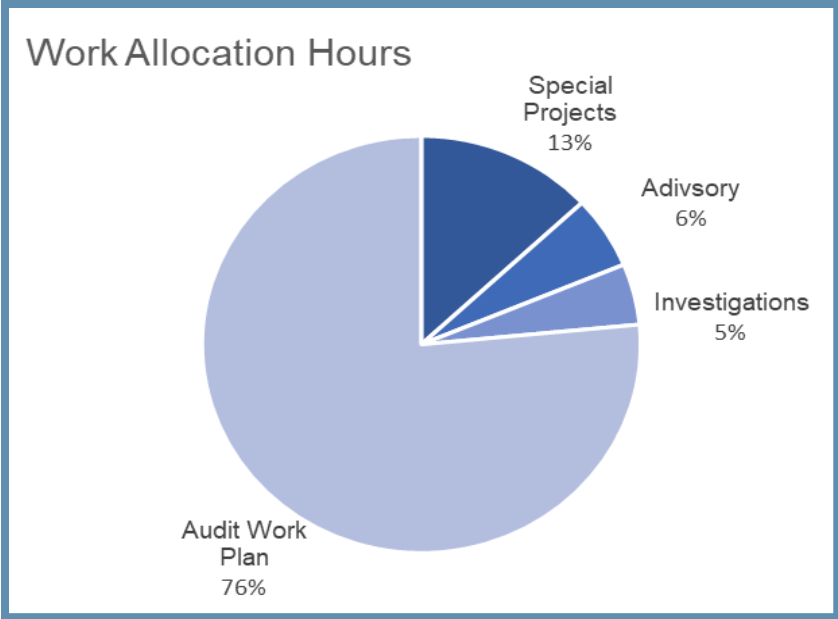
**Time Allocation Hours**

Accounting professionals and internal auditors track daily hours within defined categories to assist in planning and benchmarking purposes. A goal of the OIA is to attain at least 70% of time spent on direct project hours. Direct hours represent audits defined in the Work Plan, advisory, special projects, and investigations.



**Engagement Work Allocation Hours**

Audit staff track direct project hours attributed to engagement category. The primary intent is to focus direct audit hours in support of audit and assurance engagement work geared toward project engagements defined in the university’s fiscal year internal audit work plan.



**Satisfaction Survey Outcomes**

- ✓ 94% Strongly Agree or Agree audit results were fairly and accurately reported.
- ✓ 100% 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.

# FISCAL YEAR 2021 WORK PLAN - PROJECT DETAIL

Collectively, the Office of Internal Audit's risk assessment encompassed evaluation of University operations, the *Top Five ERM Institutional Risks*, potential risk impeding strategic objectives of *CAROLINA NEXT*, an external assessment of industry risks, and a financial magnitude assessment in determining the 21 audit engagements populating Carolina's *Fiscal Year 2021 Internal Audit Work Plan*. Additionally, two engagements underway, but not finalized at June 30, 2020 carried forward for completion in fiscal year 2021.

The chart below identifies (as of June 30, 2021) work plan initiatives, the status of field work, issuance of final reports, and those projects not initiated due to insufficient internal audit staff hours available to complete the engagement or impact of COVID-19 resulting in altered University operations.

Audit Engagement		Risk Category	Project Not Initiated	Field Work in Process or Concluded	Final Report Issued	Carry-Over to FY2022 Work Plan
Construction Contracting		Financial			03/29/21	
Carolina Accounts Payable		Financial			11/24/20	
University Imprest Accounts		Financial		✓	TBD	✓
Budgeting & Revenue Recognition - Dentistry		Financial		✓	TBD	✓
Athletics NCAA Rules <sup>1</sup>	Athletic Recruiting On/Off Campus	Compliance	✓			
	Extra Benefits Representatives and Tickets	Compliance	✓			
	Rules Education	Compliance			01/25/21	
	Camps & Clinics	Compliance	✓			
	Investigations & Self Reporting	Compliance			03/15/21	
Procurement Sponsored Programs		Compliance		✓	TBD	✓
COVID-19 Pandemic Funding		Compliance			Various <sup>2</sup>	
Jeanne Clery Act		Compliance			12/04/20	
Chemical Storage and Disposal		Operational			06/24/21	
Foreign Influence Section 117 Reporting		Operational			05/20/21	
Dean of Students		Operational	✓			
Institutional Data Governance Management		Strategic			12/30/20	
Continuous Auditing Process <sup>3</sup>	IT 3rd Party Software	Technology	✓			
	IT System Administration Initiative	Technology			06/23/21	
	Technology Access Control	Technology			04/30/21	
	University Travel	Compliance			06/29/21	
	Grant Closeout Reconciliations	Compliance			05/28/21	
Donor Intent <sup>4</sup>		Reputational			10/13/20	
Undergraduate Admissions Financial Review <sup>4</sup>		Strategic			09/08/20	

<sup>1</sup> National Collegiate Athletic Association Compliance Review for Division I Institutions based on the Association of College and University Auditors

<sup>2</sup> Two reports issued comprising HEERF I Student 12/23/20 and FEMA 3/10/21

<sup>3</sup> Quarterly audits completed during the fiscal year with final comprehensive report issued at year-end.

<sup>4</sup> Project initiated but not concluded in FY 2020, carried forward for completion in fiscal year 2021.

# WORK PLAN PROJECT OBJECTIVES

## Construction Contracting

Obtain key provisions of state and university formal construction contracting laws and policies and performing a review for institutional compliance. Evaluate completeness, accuracy, and timeliness of university formal construction contracts.

## Carolina Accounts Payable

Provide reasonable assurance to leadership that accounts payable and vendor services are functioning efficiently and effectively with appropriate controls in place.

## University Imprest Accounts

Evaluate the adequacy of procedures and cash controls governing operations and accounting for instructionally designated imprest fund accounts.

## Budgeting & Revenue Recognition Adams School of Dentistry

Assess policies and procedures supporting patient billing, collection, and write-off processes. Assess activities for alignment with necessary internal controls for patient billing and accounts receivable in an automated system.

## NCAA Rules Education

Evaluate components of an effective Rules Education program to ensure strong institutional control over the NCAAA Compliance Program.

## NCAA Investigations & Self Reporting

Evaluate to determine existence of written administrative procedures both within and outside of the athletics department that are in effect and operational regarding self-reporting of possible violations of NCAA legislation involving the institution. Assess existence of educational and training programs exist for individuals who have responsibilities in the NCAA investigation and self reporting of violations compliance area.

## Procurement Sponsored Programs

Evaluate compliance with written policies and procedures for procurement covering methods available under Uniform Guidance regulations. Determine Uniform Guidance procurement standards are met and fixed asset tracking is employed.

## Covid-19 Pandemic Funding

Provide reasonable assurance to leadership that Pandemic relief funds (HEERF I, FEMA) to access compliance for expenditures inline with governing compliance.

## Jeanne Clery Act

Determine compliance with key provisions of the Jeanne Clery Act to access institutional compliance. Evaluate the completeness, accuracy, and timeliness of reporting information for the 2019 Annual Security and Fire Safety Act.

## Chemical Storage & Disposal

Afford assurance to leadership that operations functioning efficiently and effectively with appropriate controls in place to ensure compliance with university, state, and federal statutes.

## Foreign Influence—Section 117 Reporting

Evaluate compliance with Section 117 reporting by disclosing foreign gifts in aggregate of \$250,000 over the calendar year, reporting by the January 2021 deadline, and process to identify qualifying reportable foreign gifts or contracts.

## Institutional Data Governance Management

Determine the sufficiency and accuracy of data supplied to the UNC System stakeholder supporting the *2019 UNC System Strategic Plan Metrics Assessment for Carolina*. This encompasses review of IRPA's relationship with institutional stakeholders related to data governance and analysis the integrity and reliability of data used in reporting.



# WORK PLAN PROJECT OBJECTIVES - CONTINUED

## IT System Administrative Initiative

Development of a data driven audit program for effective selection and review of systems critical to the university and those containing sensitive information, affording for an ongoing audit assessment and review process.

## Technology Access Control

Review and assess the university’s Information Technology Access and Control Policy 9003353, Standard 9003362, Information Security Controls Standard 9002276, Policy on Enterprise Data Governance 7717248, and Standard on Enterprise Data Governance 7717315.

## University Travel—Continuous Auditing

Assess, on a quarterly basis, controls for processing employee travel reimbursements and payments to ensure compliance with university policy.

## Grant Closeout - Continuous Auditing

Assessment on a quarterly basis to verify grants are being closed out in a timely and complete manner in accordance with federal closeout regulations and sponsor requirements.

## Donor Intent –Carry Over Engagement

Determine compliance with university policies and divisional practices supporting donor provisions to include review of gift account activity, financial accounting over gift recording, maintenance, spending, and distribution processes.

## Undergraduate Admissions Financial Review —Carry Over Engagement

Review revenue and expense transactions to for compliance with appropriate financial accounting policies and procedures. Assess the operating environment over the system of financial controls. Survey personnel to scale risks related to key operations of the admissions function.



***Purpose of the Work Plan:***

The document defines key areas of university operations where institutional risk mitigation is being focused through the completion of internal audit activities. In addition to defined project engagements, OIA hours are provided within the Work Plan year to perform advisory services and for the completion of special projects and investigations.

## FISCAL YEAR 2021 ADVISORY PROJECT WORK

The OIA offers talent in support of University activities through advisory participatory roles such as servings on search committees, consulting on draft policy and procedure development, internal control matters, and enterprise risk management activities.

### Advisory Project Work

Participation on Search Committees

EthicsPoint Administrative Procedures Development

University *TOP FIVE ERM RISKS* - Leadership Team Survey Development and Administration

Office of State Auditor Engagement - Project Liaison

## FISCAL YEAR 2021 SPECIAL PROJECT WORK

In addition to specifically identified annual work plan engagements, the Office of Internal Audit (OIA) completes special project engagements requested by University management or required by external entities.

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 2021, the OIA assumed responsibility for the completion of twenty special project engagements. Work on seventeen special projects concluded, with the remaining carrying forward for completion in fiscal year 2022.

### Fiscal Year 2021 Special Project Engagements Comprised the Following:

- Host UNC Auditors' Association Conference<sup>3</sup>
- External Agency QAR
- Associated Entities 90 Day Follow-up (I)<sup>1</sup>
- Associated Entities 90 Day Follow-up (II)
- ASoD Contracts
- ASoD Callan Cooper LLC
- OIA Technology Access Controls
- EthicsPoint 295
- EthicsPoint 321
- EthicsPoint 323
- EthicsPoint 324
- EthicsPoint 325
- EthicsPoint 327
- EthicsPoint 328
- EthicsPoint 350
- EthicsPoint 368<sup>2</sup>
- FPG Child Development Center
- OIA Self-Assessment QAR<sup>2</sup>
- State Auditor A133 Follow-up<sup>1</sup>
- ASoD Pathology<sup>1</sup>

<sup>1</sup> Carryover from FY2020

<sup>2</sup> Project work on-going at June 30, 2021

<sup>3</sup> No project report issued

# 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 2021, completed internal audit reports provided 33 recommendations through OIA engagements to enhance internal controls, provide compliance with governing policies/procedures and strengthen operations.

## Results:

Cumulatively, through the end of fiscal year 2021, 42 (86%) of the 49 total audit recommendations requiring follow-up at July 1, 2020, have been documented as resolved.

The impact of COVID-19 on campus operations adversely impacted the ability for the Office of Internal Audit to fully evaluate the status implementation of all outstanding audit recommendations noted as unverified at July 1, 2020.

## Summary of Corrective Action Activity Fiscal Year 2021

Total Recommendations Unverified as of July 1, 2020 (Ready for evaluation)	49
New Recommendations Added Fiscal Year 2021 (Not ready for review until FY22)	33
Prior Recommendations Verified as Resolved during Fiscal Year 2021	42
Total Recommendations Unverified as of June 30, 2021 (Available for review in FY22)	40

## 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](http://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.

As related to the University’s Internal Audit Operation, the **Finance, Infrastructure and Audit Committee** provides strategic leadership and oversight to ensure University operations are conducted in accordance with internally established and externally mandated standards. The Committee promotes 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 functional accountability. The Committee serves as the principal point of contact overseeing the functional reporting relationship of the University’s Chief Audit Officer.



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

**Haywood D. Cochrane, Jr.,** *Chair*  
**John P. Preyer,** *Vice Chair*  
**David L. Boliek, Jr.**  
**Jefferson W. Brown**

**G. Munroe Cobey**  
**R. Gene Davis, Jr.**  
**Charles G. Duckett**  
**Allie Ray McCullen**

# OIA STAFFING

**Dean Weber, CIA, CRMA  
Chief Audit Officer**

Dean has been with Carolina for two years and possesses 28 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 four 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 20 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 eight years. She has a Masters of Public Administration degree, is a Certified Internal Controls Auditor and a Certified Fraud Examiner.

**Earl Jackson, MSE  
Auditor**

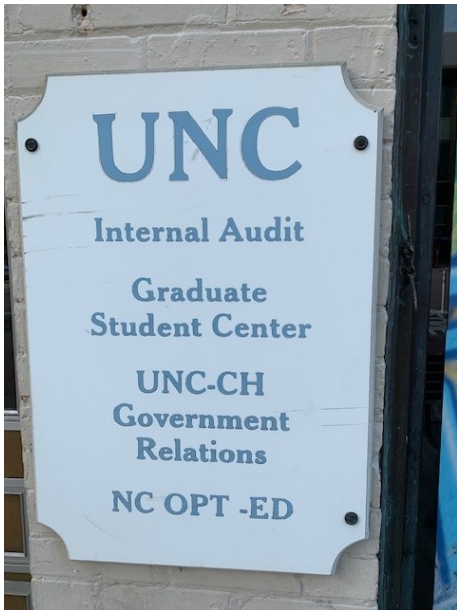
Earl has been with the OIA since December 2019. He possesses 12 years of internal audit experience through employment at two other UNC System institutions.

**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 two years. She possesses extensive information technology audit experience from her prior long-term career with the federal government.

**Charlene Ryan (Part Time)  
Office Manager/Audit Assistant**

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



**Staff**

**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 (CISSP)

Summary OIARA Professional Staff Qualifications	
Total Years Internal Audit Experience	92
Total Years UNC Audit Experience	52
Audit Staff with Bachelor’s Degree	7
Audit Staff with Advanced Degree	5
OIA Staff Holding Professional Certifications	5



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THE UNIVERSITY  
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