

Fiscal Year 2022 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

I am pleased to present the *Fiscal Year 2022 Annual Report of Activities of the Office of Internal Audit*. This communication is provided to demonstrate accountability to the Board of Trustees, Audit, Compliance, and Risk Management Committee and to Chancellor Guskiewicz that Carolina's internal audit function is operating as intended. The Office of Internal Audit (OIA) conducts internal audits in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing*.

Concluding the second year of the COVID-19 Pandemic, the OIA maintained consistent operations with efforts in meeting expectations outlined in the fiscal year 2022 internal audit work plan. The OIA experienced a productive year and the department was fortunate to retain its skilled array of professional staff who worked diligently supporting the mission of this office and of 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.

The OIA completed a variety of internal audits, special projects, consultations, and other project initiatives during the year. *The Fiscal Year 2022 Internal Audit Work Plan* defined 23 internal audits slated for completion. Three additional work plan projects were added supporting Pandemic Relief funding and 3 engagements ongoing on June 30, 2021, carried forward providing 29 audits identified for completion in fiscal year 2022.

Efforts resulted in the completion of 23 of the 29 work plan engagements. As of June 30, 2022, work remained underway on two work plan engagements that have since concluded in the first quarter of fiscal year 2023. One engagement was announced; however, postponed for anticipated completion in fiscal year 2023. Lastly, 3 work plan engagements were not fulfilled due to inadequate staff hours.

The work plan included budgeted hours available to complete special project requests from university leadership as needs arise during the course of the year. In fiscal year 2022, the OIA supported 14 special project engagements comprising consulting, investigative, and advisory services. On June 30, 2022, work on 11 special project engagements concluded; three remain underway with project completion anticipated during the first quarter of fiscal year 2023.

During the fiscal year, the OIA contributed to supporting the Office of Institutional Integrity and Risk Management through joint efforts in the management of the University's ethics reporting platform, *Carolina Ethics Line*. Likewise, the OIA facilitated support of the university's Enterprise Risk Management (ERM) efforts for reporting of Carolina's Top Five ERM Risks to the UNC System Office.

OIA fiscal year 2022 reporting produced 35 communications to senior leadership reflective of completed work plan engagements, special project requests, and activities of the department affording 57 recommendations to strengthen operations and enhance internal controls.

The OIA is positioned to continue supporting efficiencies in Carolina's operations through the completion of the university's Risk Assessment and Fiscal Year 2023 Internal Audit Work Plan adopted by the Board of Trustees and Chancellor Guskiewicz in May 2022. This provides the roadmap for OIA activities during the course of fiscal year 2023. Please know, I am appreciative of the opportunity to be a part of this world-class university and look forward to partnering with many of my colleagues on project work in fiscal year 2023.

Respectfully,

Dean A. Weber, CIA, CRMA
Chief Audit Officer

SERVICE TO THE UNIVERSITY

The Office of Internal Audit is charged by the Audit, Compliance, and Risk Management 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.

FY2022 WORK PLAN DEVELOPMENT

The Fiscal Year 2022 Work Plan was established based on OIA information gathered through analysis of existing and emerging risks. This included:

- A global assessment of identified risks within higher education including 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.

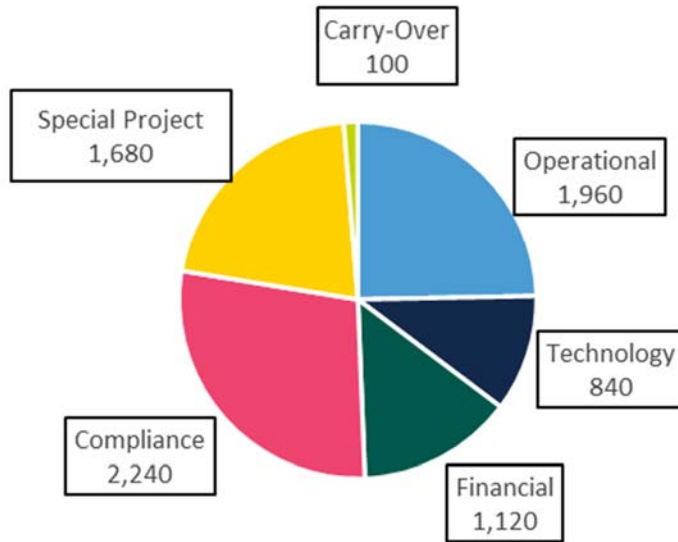


OVERVIEW OF FISCAL YEAR 2022 PROJECTS

Carolina’s internal audit work plan encompassed projects defined within the following categories:

- **Operational**—systematic assessment of processes evaluating effectiveness and efficiencies
- **Technology**—examination of the electronic management system over particular information/assets
- **Financial**—verification of monetary reporting and accounting of transactions and related controls
- **Compliance**—assessment for adherence to internal and external regulatory guidance
- **Special Project**—investigations, consultations, advisory, and other engagements arising during the fiscal year.
- **Carry-Over**—engagements underway at June 30, 2021 but not yet concluded..

Fiscal Year 2022
Budgeted Hours by Engagement Category



Results

The department achieved initiation of 25 of planned fiscal year 2022 engagements including 100% completion of prior-year carry-over projects and added work plan engagements, for an overall work plan attainment of projects concluded or underway on June 30, 2022 of 86%.

Additionally, 100% of special project and advisory requests have concluded or are underway increasing the total percentage of fiscal year 2022 project engagements initiated to 91%.

Project Source	Planned Engagements	Number Concluded	Number Underway	Number Not Initiated	June 30 - Percent Concluded/Underway
Planned Audits (new)	23	17	2	4	83%
Planned Audits (carryover)	3	3	0	--	100%
Added Engagements	3	3	0	--	100%
Work Plan Total:	29	23	2	4	86%
Special Projects (new)	12	9	3	--	100%
Special Project (carryover)	2	2	0	--	100%
Cumulative Total:	43	34	5	4	91%

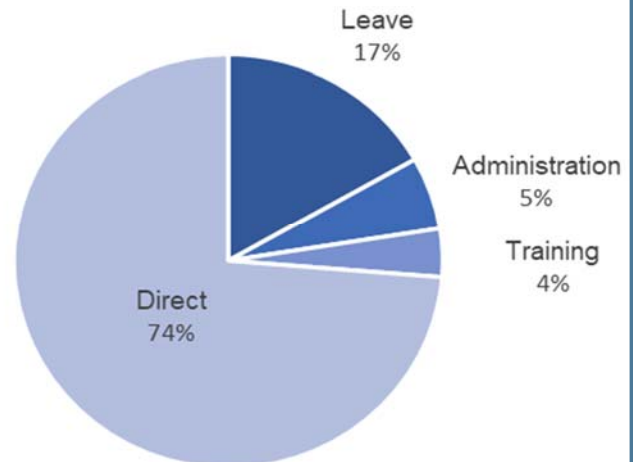
INTERNAL AUDIT METRICS

As 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.

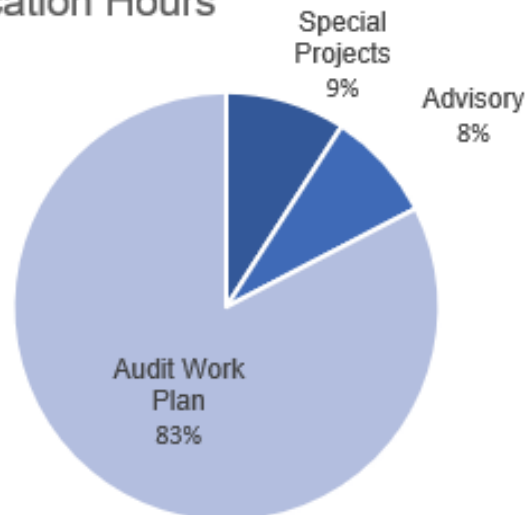
Time Allocation Hours



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.

Work Allocation Hours



Client Satisfaction Survey Outcomes

- ✓ 89% Strongly Agreed or Agreed the audit purpose, objective and scope were sufficiently explained.
- ✓ 86 Strongly Agreed or Agreed appropriate flexibility existed in the draft report phase of the audit cycle.
- ✓ 100% Strongly Agreed or Agreed the auditor exhibited objectivity, courtesy, and professionalism.

FISCAL YEAR 2022 WORK PLAN - PROJECT DETAIL

Collectively, the 23 audit engagements populated Carolina's *Fiscal Year 2022 Internal Audit Work Plan*. Additionally, three prior year work plan engagements underway, but not finalized at June 30, 2021 carried forward for completion in fiscal year 2022.

The chart below identifies (as of June 30, 2022) FY22 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 engagements. One work plan engagement (Admissions Equity) was postponed for completion in FY2023.

Fiscal Year 2022 Audit Engagement		Risk Category	Project Not Initiated	Field Work in Process or Concluded	Final Report Issued	Carry-Over to FY2023 Work Plan
Payroll Fraud Assessment		Financial		✓	06/27/22	
University Parking Registration and Fees		Financial		✓	06/13/22	
Conflict of Interest and Commitment		Compliance		✓	12/16/21	
Custodial Housekeeping Operations		Operational		✓	06/24/22	
Athletics NCAA Rules	Recruiting Off-Campus	Compliance		✓	10/29/21	
	Recruiting On-Campus	Compliance	✓			
	Extra Benefits Apparel & Equipment	Compliance		✓	03/15/22	
Non Faculty Annual Performance Plan and Rating Review		Compliance		✓	03/02/22	
Program Initiatives– Intellectual Property Budgeting and Expenditures		Operational		✓	05/16/22	
Policy Audit School of Medicine		Compliance		✓		✓
University Diversity and Inclusion		Operational		✓	05/17/22	
Faculty Development—Promotion and Tenure		Operational		✓		✓
Connecting Carolina Classrooms to the World		Operational	✓			
Covid 19 Pandemic Funding (4 reports)	Federal Coronavirus Relief Funds	Compliance		✓	09/23/21	
	Governor's Emergency Education Relief Fund	Compliance		✓	09/21/21	
	Higher Education Emergency Relief Funds (1)	Compliance		✓	11/12/21	
	Higher Education Emergency Relief Funds (II & III)	Compliance		✓	12/22/21	
Purchasing Card Kenan Flagler Business School		Financial		✓	02/08/22	
UNC Campus Health – Pharmacy		Operational		✓	10/22/21	
Cashiering Controls		Financial		✓	06/09/22	
Sponsored Project Post Award Management		Compliance	✓			
IT Self Assessment PCI and SSN Identifiers		Technology		✓	06/16/22	
IT System Administration Initiative (SAI)		Technology		✓	12/20/21	
IT Access Control Management		Technology		✓	06/30/22	
University Travel		Compliance		✓	06/23/22	
Admissions Equity (postponed)		Operational	✓			✓

WORK PLAN PROJECT OBJECTIVES

Payroll Fraud Assessment

Assess and identify potential payroll fraud and verify controls are effective to reduce the risk of payroll fraud. Using data analytic software to identify ghost employees, evaluate unusual payments, off-cycle and manual checks, changes to payroll records, and verification of payroll account reconciliations.

University Parking Registration and Fees

Provide reasonable assurance to leadership that the parking registration and fees collection processes are functioning efficiently and effectively with appropriate controls in place.

Conflict of Interest and Commitment

Determine compliance with university policy affording reasonable assurance that Conflict of Interest and Conflict of Commitment matters are appropriately recognized, evaluated, and managed per defined guidance.

Custodial Housekeeping Operations

Assess budgeting controls and transaction history, verify appropriate controls over supplies, equipment, and inventory, and ensure housekeeping requests are addressed timely.

NCAA Recruiting Off-Campus

Evaluate the Athletic Department's institutional control over its NCAA compliance program supportive of off-campus recruitment regarding monitoring, documentation maintenance, safeguards, and operational processes.

NCAA Extra Benefits Apparel and Equipment

Determine whether there are controls to monitor and account for athletic equipment and apparel for student-athletes as it pertains to NCAA legislation, and to ensure prospective students and outside organizations are not receiving athletic equipment and apparel unless otherwise permitted.

Nonfaculty Annual Performance Plan and Rating Review

Provide reasonable assurance that the controls related to human resources performance management are in place and working as intended. The review encompasses analysis of performance review completion.

Program Initiatives - Intellectual Property Budgeting and Expenditures

Review financial data and verify IEED is using financial resources responsibly to meet departmental goals while adhering to university procurement controls

Policy Audit - School of Medicine

Evaluate operational processes supporting policy management by the SOM's 20 clinical departments to ensure accurate inventory of policies, policy lifecycle management, and policy availability and awareness by clinical personnel.

University Diversity and Inclusion

Provide reasonable assurance to management that UNC System Office diversity initiatives are being carried out, measured, and reported in accordance with System Policy 300.8.5.

Faculty Development Promotion and Tenure

Evaluate that institutional practices regarding faculty promotion and tenure align with the University of North Carolina System, UNC Policy Manual, 400.3.1.1, *Guideline on Tenure and Teaching in the University of North Carolina*, and the *UNC-Chapel Hill Faculty Handbook, Appointment, Promotion & Tenure Guidelines*.

Admissions Equity

Provide reasonable assurance to leadership that the undergraduate applicant admission processes are equitable and function efficiently and effectively with established internal controls.

WORK PLAN PROJECT OBJECTIVES - CONTINUED

Covid-19 Pandemic Funding

Provide reasonable assurance to leadership that Pandemic relief funds (**Federal Coronavirus Relief, Governor's Emergency Education Relief, HEERF I Institutional Funds and HEERF II and III Student Funds**) align with compliance for expenditures governance. Activity resulted in the issuance for four reports.

Purchasing Card Kenan Flagler Business School

Evaluate the adequacy of operational and internal controls employed by the unit affording for effective management and use of the P-card by authorized individuals.

UNC Campus Health Pharmacy Operations

Review that operational controls over pharmacy operations are efficient and effective. Specifically, (1) controls over inventory, safeguarding and dispensing of drugs; (2) compliance with applicable governance; and (3) financial and security controls.

Cashiering Controls

Evaluate the adequacy of operational and internal controls employed by the unit affording for effective management of cashiering processes to encompass student tuition and fee billing, cash collection, and receipting.

IT Self-Assessment PCI and SSN Identifiers

Assess the configuration of systems registered in the System Administration Initiative (SAI). The scope includes SAI systems identified as affecting Payment Card Industry (PCI) and/or Social Security Number (SSN) sensitive information and identified with the NetApp operating system.

IT System Administration Initiative

Develop a data-driven audit program for effective selection and review of systems critical to the mission of the University and those containing sensitive information.

IT Access Control Management

Compile audit evidence of access controls for effective management and ensure the OIA has documented an annual key controls attestation. Administratively continuously monitor and document reviews of access, and to demonstrate effective management of available controls.

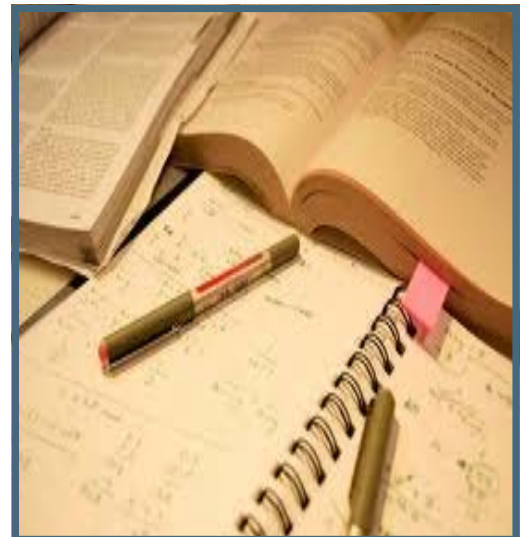
University Travel

Assess quarterly financial and operational practices for travel arrangements and expense reimbursements incurred by the university adhere to applicable travel policies and procedures to reduce the financial risk of the university.

Fiscal Year 2021 Carryover Engagements to Fiscal Year 2022 Work Plan

Three work plan engagements were underway, but not completed at June 30, 2021 and carried forward for completion into fiscal year 2022:

- Budget Revenue & Collection Dentistry
- University Imprest Accounts
- Procurements Sponsored Programs



FISCAL YEAR 2022 SPECIAL PROJECT ACTIVITY

The Office of Internal Audit (OIA) builds time into the Fiscal Year Work Plan for the completion of Special Project engagements. These engagements arise during the course of the fiscal year and are requested by University management or required by external entities.

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, as well as investigations or reviews.

Additionally, the OIA provides talent in support of University activities through advisory and consulting participatory roles such as projects meeting North Carolina State audit requirements, consulting on draft policy and procedure development, internal control matters, and enterprise risk management activities.

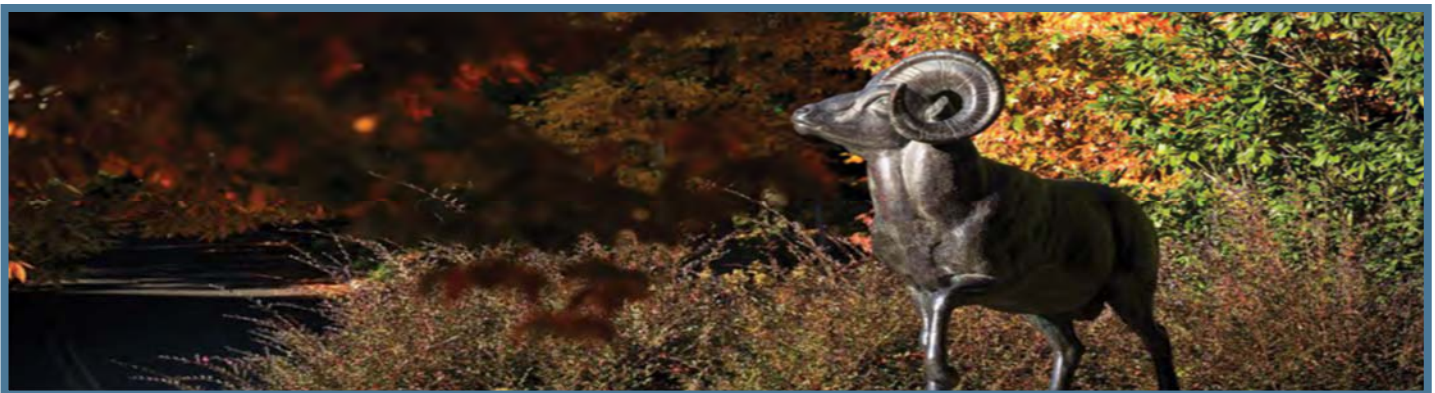
During fiscal year 2022, the OIA assumed responsibility for the completion of 14 special project engagements. Work on 11 special projects concluded, with the remaining 3 carrying forward for completion in fiscal year 2023.

FY 2022 Special Projects

Vice Chancellor for Research (former)
Vice Chancellor for Research (former) Follow-up ¹
NESSUS System Office Technology Venture ¹
Associated Entity Follow-up Dental Foundation and Angel Network
Associated Entity Follow-up Dental School
Information Technology Audit Presentations
EthicsPoint Case 390
EthicsPoint Case 450
Information Technology Services Consultation (Stages I & II)
Orthodontics Patient Billing
Police Department Equipment Inventory
Student Body Leadership ¹
EthicsPoint Case 368 ²
OIA QAR Self Assessment ²

* ¹ Project work on-going at June 30, 2022 carrying forward to FY2023

* ² Carryover from FY2021 completed in FY2022



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 2022, completed internal audit reports provided 57 recommendations through OIA engagements to enhance internal controls, provide compliance with governing policies/procedures and strengthen operations.

Summary of Corrective Action Activity Fiscal Year 2022

New Recommendations Developed Fiscal Year 2022 (typically reviewed 6 to 12 months after issuance)	57
Prior Period Recommendations Verified as Resolved during Fiscal Year 2022	39
Recommendations Unverified as of June 30, 2022 (Available for review in FY23)	66



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).



Carolina Ethics Line
866-294-8688

NEW BOARD OF TRUSTEE COMMITTEE ESTABLISHED

The university's Board of Trustees created the Audit, Compliance, and Risk Management Committee as a newly formed Committee in January 2022. Previously, the Finance, Infrastructure, and Audit Committee provided functional oversight of the Office of Internal Audit. The Chief Audit Officer functionally reports to this newly formed Committee and administratively reports to the University's Chancellor. The Chief Audit Officer along with the Vice Chancellor for Institutional Integrity and Risk Management serve as leadership liaisons to the Audit, Compliance, and Risk Management Committee.

Per the charter, the purpose of the Committee is to provide structured, systematic review and advice to the Chancellor on behalf of the Board concerning the University's audit, compliance, and risk management activities, as well as the University's internal control practices. It is the responsibility of University management under the direction of the Chancellor, as the institution's executive and administrative head, to maintain programs and systems of internal audit, compliance, risk management, and ethics.

**Carolina Board of Trustees
Audit, Compliance, and Risk Management Committee
Composition at June 30, 2022**

W. M (Marty) Kotis III, *Chair*

John P. Preyer

Malcolm K. Turner, *Vice Chair*

Allie Ray McCullen

NORTH CAROLINA INTERNAL AUDIT AWARD RECIPIENT

Annually, the **North Carolina State Council of Internal Auditing**, in connection with the Office of State Budget Management, identifies one audit professional from within the state who exemplifies commitment and dedication to furthering the profession of internal audit within the North Carolina State Government. That individual is awarded the **North Carolina Internal Audit Award of Excellence**.

In December, the award was bestowed to **Kara Hefner, CPA, CIA, CFE**. Kara has been a member of the university's internal audit team since 2019. **Congratulations!**



OFFICE OF INTERNAL AUDIT STAFFING

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

Dean has been with Carolina for three years and possesses 29 years higher education experience. Prior to joining UNC, he lead the Pennsylvania State System of Higher Education’s internal audit function.

**Drew Baker, MA, CFE
Audit Supervisor**

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

**Caroline Haga, MA, CPA
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 21 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 nine years and has 19 years of UNC System experience. 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 13 years of internal audit experience through employment at two other UNC System institutions.

**Arlene Gordon-King, MBA, MSIS, CHFI, ECSA, CND, CEH, LSS, CPI, CISM, CISA, CISSP, MCP
Information Technology Auditor**

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



Staff

Major Professional Certifications Held

- 3 –Certified Fraud Examiner (CFE)
- 2 - Certified Internal Auditor (CIA)
- 2 - 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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