

The University of North Carolina at Chapel Hill
Office of Internal Audit

***RISK ASSESSMENT AND
FISCAL YEAR 2024
INTERNAL AUDIT
WORK PLAN***

Board of Trustees
Audit, Compliance, and Risk Assessment Committee

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Preface

The Office of Internal Audit (OIA) developed the University of North Carolina at Chapel Hill's *Risk Assessment and Fiscal Year 2024 Internal Audit Work Plan*. The document is presented to the Chancellor and the University Board of Trustees Audit, Compliance, and Risk Management Committee for review and recommended approval by the Board of Trustees, whereby directing the professional talent and resources of the OIA through the completion of identified internal audit engagement activities.

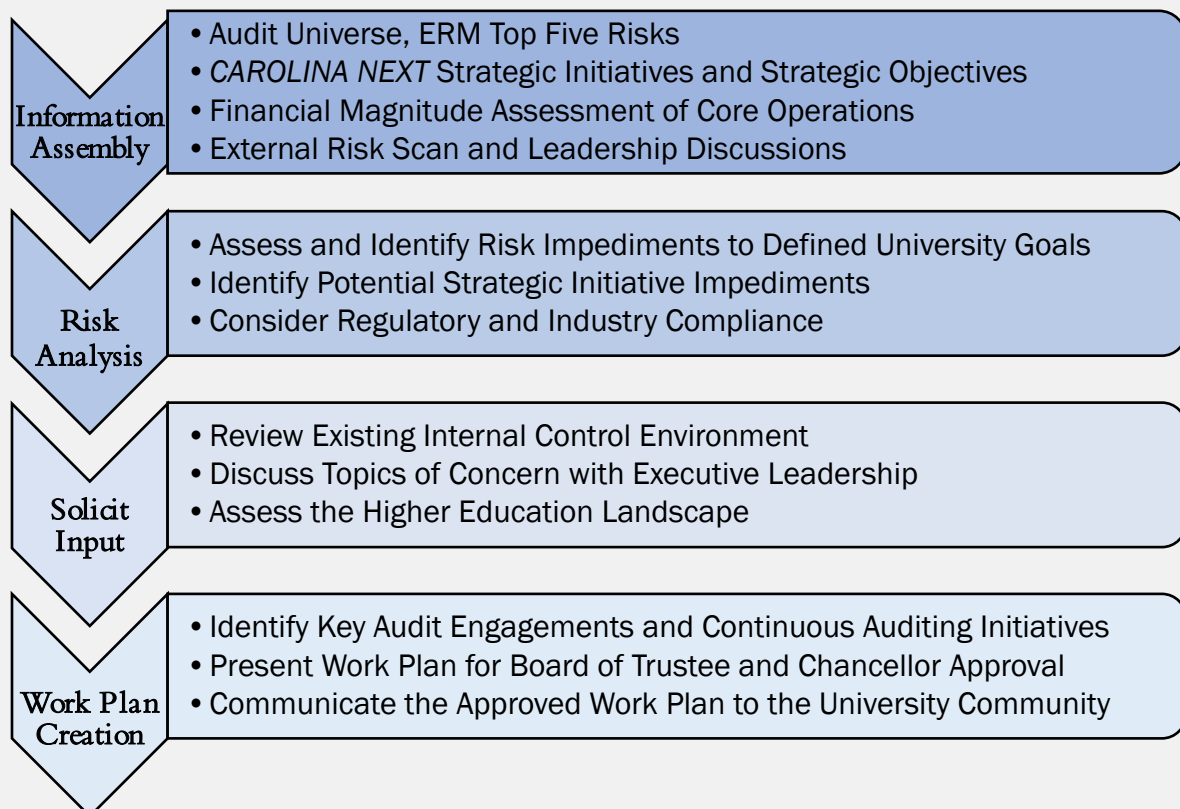
Purpose of the Risk Assessment and Internal Audit Work Plan

The OIA completes a high-level risk assessment as the foundation for the development of the University's internal audit work plan as required by the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The risk assessment affords the prioritization of internal audit engagement activities addressing the timely review of operations potentially possessing the greatest level of adverse risk exposure to university operations.

The internal audit work plan defines project engagements of key university operations where institutional risk mitigation is supported through the completion of internal audit activities.

Work Plan Development Process

The Work Plan is built upon an OIA analysis of existing and emerging risks. This comprised exercises identifying the University's *ERM Register of Top Five Institutional Risks* (including a senior leadership risk survey), potential risk impediments of the University's strategic plan *CAROLINA NEXT – Innovations For Public Good*, a financial magnitude risk assessment, and current issues impacting higher education. Additionally, the Board of Trustees, Chancellor, Provost, and members of executive leadership were consulted to provide input.



North Carolina System Policy - University Enterprise Risk Management & Compliance Survey

UNC System Board of Governors' Policy 1300.7, *University Enterprise Risk Management and Compliance* directing the establishment of an institution-based enterprise risk management and compliance process was considered in the development of the *Fiscal Year 2024 Internal Audit Work Plan*.

The OIA was instrumental in supporting the Office of Institutional Integrity and Risk Management in the development and distribution of a survey to the Chancellor's and Provost's cabinets and other senior leaders. The process obtained feedback and opinion on 34 potential Enterprise Risk Management (ERM) topics. The 34 risks were scored by survey respondents considering (1) the likelihood of occurring, (2) the risk impact if the event occurred, and (3) the vulnerability/preparedness of the University to address the risk. Results provided an executive-level assessment of potential ERM institutional risks at Carolina for the formation of Carolina's Top Five ERM Topics. The University's *Top Five ERM Institutional Risks* identified for submission to the UNC System Office are detailed in the following chart.

Risk Rank	Chapel Hill Risk Title	System Office Risk Category
One	Employee Retention – Salaries & Benefits	Talent Management
Two	Facilities Maintenance – Campus Infrastructure Backlog	Property
Three	Information Technology Security	Cyber Security
Four	Student Mental Health and Emotional Health Resources	Mental Health
Five	Decentralized Campus Operations and Unit Decision-Making Structures	Business Practice

The OIA next identified areas and departments of campus operations underpinning the five identified ERM institutional risk topics for the University. The following chart details the OIA's opinion of the primary campus area/department with activities pertaining to each risk topic.

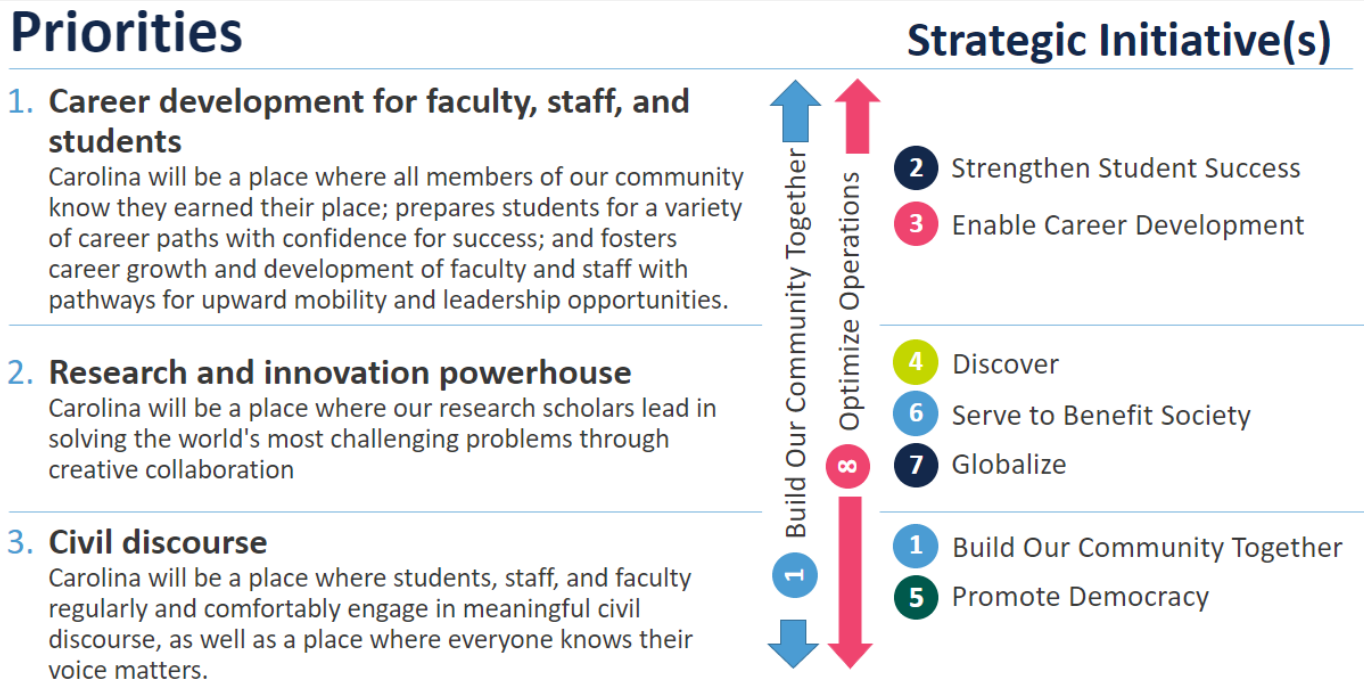
The chart highlights university operating areas/departments underpinning the *Top Five ERM Institutional Risks* as determined by the OIA and considered in internal audit engagement planning.

Risk Category	Area/Department
Talent Management	Human Resources
Business Practice	Senior Leadership/Finance & Operations
Property	Facilities/Finance & Operations
Cyber Security	Information Technology
Mental Health	Senior Leadership/Support Services/Student Affairs

CAROLINA NEXT – INNOVATIONS FOR PUBLIC GOOD

The University’s strategic plan, *CAROLINA NEXT: Innovations for Public Good*, provides the roadmap for guiding investment and decision-making. “The strategic plan aims to turn the University’s vision and aspirational goals into readily understood, significant, implementable, measurable strategic initiatives and opportunities.” The University Board of Trustees endorsed Carolina Next: Innovations for Public Good in January 2020. An annual report of Carolina Next activity was published in 2021, and 2022 marks the third year of the strategic plan.

The strategic plan is built around eight major *strategic initiatives*. In 2022, the plan envisioned a new focus supporting *Three Priorities*, encompassing the *strategic initiatives*. The enhanced vision is portrayed in the graphic (below) detailing the linkage of initiatives to priorities.



The Fiscal Year 2024 Internal Audit Work Plan contains engagements with linkage to the *Three Priorities*. Audit engagement topics were identified and determined through the OIA risk assessment exercise designed to ensure alignment of OIA work in support of *CAROLINA NEXT*.



Photo Credit: 2021 Carolina Next Annual Report

OIA Survey - Leadership's Identification of Audit Risk Topics

An important component in the development of Carolina's Internal Audit Work Plan included the Office of Internal Audit obtaining input from senior leadership regarding perspectives on key risk topics and areas where internal audit services can be effective in evaluating procedures, internal controls, and processes to strengthen operations.

An automated survey was distributed to 171 senior leaders (Board of Trustees, Chancellor's & Provost's Cabinet, and Department Leaders) of the university to solicit leadership's perspective of risks. The survey focused on nine distinct operational areas comprising (1) Athletics, (2) Research, (3) Information Technology & Systems, (4) Instruction, Academics & Outreach, (5) Human Resources Management, (6) Development, (7) Student Affairs, (8) Fiscal & Asset Management, and (9) Other University Operations.

The OIA calculated response percentages for each audit risk topic based on respondents' selections. The 107 audit risk topics were then grouped within risk categories of HIGH, MEDIUM, and LOW based on scored results. Outcomes identified 21 HIGH, 34 MEDIUM, 42 LOW audit risk topics, and 10 uncertain responses. Respondents could also self-identify specific risk concerns they believed may benefit from an objective evaluation by the OIA. The following chart details the highest-scoring risk topics. The top-ranked risks are identified in the following chart.

Audit Risk Topic	Operational Area	Response Percent	Risk Ranking
Great Resignation and The UNC Employment Market	Human Resource	75.41%	High >30%
Campus-Wide Space and Office Planning	Fiscal	65.57%	
Anxiety, Depression, and Mental Health Concerns	Safety/Security	65.00%	
Deferred Maintenance of Campus Infrastructure	Fiscal	62.30%	
Threat Assessment and Response (shooter/violence/bomb)	Safety/Security	56.67%	
Strategic Enrollment, Housing, and Accessibility Planning	Academics	55.56%	
UNC Employment Desirability (Benefits, Wages, Parking, etc.)	Human Resource	50.82%	
Remote Work Facilities Restructuring/Decommissioning	Human Resource	45.90%	
Information Technology Security (Cybersecurity)	Info Technology	45.00%	
Security Risks Over Data	Info Technology	40.00%	
Student Conduct/Crimes Operational Processes	Student Affairs	39.34%	
Accommodating Students Seeking Support Resources	Student Affairs	39.34%	
Compliance and Institutional Governance Structure	Governance	36.67%	
Diversity and Inclusion Issues of Students, Faculty, and Staff	Other Operations	36.67%	
Career Development for Faculty, Staff, and Students	Human Resource	36.07%	
Campus Security Cameras	Safety/Security	35.00%	
Campus Unit Funding and Budgeting Model	Fiscal	34.43%	
Alignment of Personnel and Budget to Support Initiatives	Fiscal	34.43%	
Post-Pandemic Student Expectations of Instructional Modes	Academics	31.75%	
Athletics Name Image Likeness	Athletics	31.25%	
Campus-wide Civil Discourse	Governance	30.00%	

Financial Magnitude of Core University Areas

The OIA assessed financial data from the 2022 UNC-Chapel Hill Annual Financial Report highlighting 10 core components of university operations (revenues/expenses). These include significant funding sources and/or consumption of institutional resources.

Category Area	Financial Impact FY2022	Operational Considerations
Grants & Contracts (Operating) Revenue	\$1,019,720,178	Award Compliance and Monitoring
State Appropriations Revenue	\$587,593,407	Public Dollar Stewardship Institutional Reputation/Compliance
Patient Services Net Revenue	\$571,348,255	Operational – Accounting for billing/receipts/bad debt
Student Tuition & Fee Revenue	\$464,123,452	Core Business Function Recruitment/Diversity/Retention
Net Investment Income Revenue	(\$63,588,367)	Financial Stewardship
Sales & Services Auxiliary Enterprise Revenue	\$423,720,683	Ancillary Funding Streams Supporting Operations
Salaries and Benefits Expense	\$1,806,973,414	Largest Resource Expenditure
Procurement Expense (Services/Supplies/Materials)	\$1,107,497,548	State and University Regulatory Compliance
Scholarship/Fellowship (Financial Aid) Expense	\$132,926,511	Federal and State Compliance
Utility Expense	\$82,906,044	Operational Expense – Consumable Product, Energy Consumption

A financial analysis of the university’s Colleges, Schools, and Libraries was completed. The chart to the right details the total fiscal year 2022 expenditures (including transfers) for each of the academic units listed.

Financial amounts reflect ConnectCarolina recorded expenditures on June 30, 2022, with amounts provided to the OIA by Accounting Services.

These academic units comprise a significant portion of total fiscal year institutional expenditures.

Academic Unit	FY 2022 Expenses
College of Arts and Sciences	\$437,575,059
Kenan-Flagler Business School	195,909,764
School of Education	22,443,813
School of Journalism	24,174,136
School of Law	35,413,851
School of Information & Library Science	14,161,912
School of Government	27,489,054
School of Social Work	25,602,802
Graduate School	26,360,636
Summer School Admin	4,467,110
School of Medicine	1,702,648,642
School of Dentistry	74,401,938
School of Nursing	28,859,679
School of Pharmacy	81,253,926
School of Public Health	155,552,631
University Libraries	54,527,140
Total Expenditures FY 2022	\$2,910,842,093

External Risk Evaluation – Industry-wide Higher Education Environment

The National Association of College and University Business Officers reported on Higher Education’s Top Five Business Issues of 2022. These include and listed in no particular order, (1) Supporting and Maintaining the Workforce, (2) Meeting Students’ Evolving Needs, (3) Providing a Secure and Modern Technology Infrastructure, (4) Managing an Uncertain Economic Climate, and (5) Navigating Resource Constraints.

Additionally, the Institute of Internal Auditors released the *2023 North American Pulse of Internal Audit* report of information and perceptions from internal audit leaders on a national scale. For the Public Sector and Nonprofit sector, the top five trends for risk are centered on cybersecurity, information technology, third-party relationships, compliance/regulatory, and operational processes.

The United Educators published *The Large Loss Report 2023*, highlighting a summary of major damage awards and settlements of at least \$1 million affecting K-12 schools, colleges, and universities in 2022. Key areas of risk resulting in settlements include:

- Accidents or Crimes Resulting in Death
- Bullying
- COVID-19
- Defamation
- Discrimination
- Due Process
- False Advertising/Unfair Competition
- Inappropriate Fees
- Injuries Not Resulting in Death
- Late Fees
- Whistle-Blowers
- Other Major Losses
- Retaliation
- Overtime and Bonuses
- Ransomware
- Retirement Plans
- Sexual Discrimination
- Sexual Harassment
- Sexual Misconduct
- Toxic Exposure
- Wrongful Termination
- Unpaid Work

PwC published *Perspectives in Higher Education (spring 2022)* The publication shared insights into the key challenges and related opportunities facing colleges and universities. The topics addressed (1) Environmental Social and Governance, (2) Enterprise and Integrated Risk Management, (3) Cybersecurity Considerations, (4) The Digital University, (5) A Washington Update, (6) the Risk of Fraud in Higher Education, (7) Preparing Tomorrow’s Leaders Today, and (8) Building a Culture of Trust.

Summary

Collectively, the OIA’s risk assessment encompassed evaluation and consideration of university operations, the *Top Five ERM Institutional Risks*, potential risks impeding strategic objectives of *CAROLINA NEXT- Innovations for Public Good*, a survey of executive leadership on risk and audit perspectives, a financial magnitude assessment, and an external assessment of industry risks. Outcomes determined the 27 audit engagements addressing high and moderate risks in populating Carolina’s *Fiscal Year 2024 Internal Audit Work Plan*. Additionally, the Work Plan maintains budgeted staff hours for the completion of six special project requests arising during the year.

University of North Carolina at Chapel Hill

Fiscal Year 2024 Internal Audit Work Plan Engagements

Audit Engagement	Risk Category	Risk Scale	Audit Functional Area	Supportive Rationale
CampDoc Software Implementation	Consulting	Moderate	Office of Protection of Minors	Leadership Request
Student Financial Aid Award Letters	Consulting	Moderate	Office of Scholarships and Student Aid	Leadership Request
Administrative Space Inventory (Hybrid Work)	Operational	High	Facilities Services	Leadership Survey Risk
UNC Campus Recreation	Operational	Moderate	Student Affairs	ERM Survey/Leadership Survey Risk/External Landscape
Carolina Housing	Operational	High	Student Affairs	ERM Survey & External Risk Landscape
Undergraduate Student Advising/Career Counseling Center	Operational	High	University Career Services	Carolina Next – Priority 1/Leadership Survey Risk/External Risk Landscape
Campus Infrastructure Deferred Maintenance	Operational	High	Facilities Infrastructure	Top Five ERM & Leadership Survey Risk
Carolina Blue Employee Benefit Elections	Operational	Moderate	Human Resources and Equal Opportunity and Compliance	Leadership Survey Risk
Strategic Enrollment Planning	Operational	High	Undergraduate Admissions	Leadership Survey Risk
Automated External Defibrillator Inventory	Operational	Moderate	Campus Safety	ERM Survey
Fraternity & Sorority Life	Operational	Moderate	Student Affairs	ERM Survey
2U Contract	Financial	Moderate	Office of the Provost/Kenan Flagler Business School	Leadership Survey Risk
Aging Accounts Receivables	Financial	Moderate	Financial Accounting	Financial Magnitude & UNC KPI Compliance
Associated Entities MOU	Financial	Moderate	Finance and Operations	Leadership Survey Risk
Business Unit Funding Model	Financial	High	Finance and Operations	Top Five ERM

Audit Engagement	Risk Category	Risk Scale	Audit Functional Area	Supportive Rationale
The Ackland Art Museum	Financial	Moderate	Office of the Provost	Carolina Next - Build our Community Together
Game Day Stadium Activities	Financial	Moderate	Athletics	Leadership Survey Risk
PlayMakers Repertory Company	Financial	Moderate	College of Arts & Science	Financial Magnitude (College)
IT Audit Services for Cybersecurity using Nessus Professional	Technology	High	Information Technology Services	Top Five ERM/Leadership Survey Risk/External Risk Landscape
Technical Controls for PCard Purchases Related to IT Products and Services	Technology	Moderate	Information Technology Academic School(s)	Leadership Survey Risk & Carolina Next Optimize Operations
IT Access Controls for Affiliates	Technology	Moderate	Information Technology UNC Associated Entity	Leadership Survey Risk/External Risk Landscape/ Carolina Next Optimize Operations
IT Key Controls Review	Technology	Moderate	Information Technology Academic School(s)	Leadership Survey Risk & Carolina Next Optimize Operations
Foreign Gift and Contract Reporting	Compliance	High	Institutional Integrity & Risk Management	Carolina Next – Priority 2 & External Risk Landscape
Subrecipient Monitoring	Compliance	Moderate	Office of Sponsored Programs	External Risk Landscape & Financial Magnitude
Clinical Trials	Compliance	High	Office of Clinical Trials	Carolina Next - Priority 2
Athletic Name Image Likeness	Compliance	High	Carolina Athletics	Leadership Survey Risk/ERM Survey/External Risk Landscape
Grant Award Terms and Conditions	Compliance	Moderate	Office of Sponsored Programs (Gillings School of Public Health Grants)	Financial Magnitude/Carolina Next – Priority 2/Leadership Survey Risk
Special Project Engagements¹	Various	--	Various	Needs of University leadership to be determined.

* The Risk Scale rating is subjective and is determined by the Office of Internal Audit Risk Assessment.

¹ The Fiscal Year 2024 Internal Audit Work Plan maintains budgeted hours (280/project) available to complete six (6) Special Project Engagements (audit requests, investigations, consultations, etc.) as the need may arise, and engagements are approved, during the course of the fiscal year.

Fiscal Year 2024 Risk Assessment and Audit Plan

Available Budget and Project Hour Summary

While the initial work plan is developed based on a structured risk assessment process, risks may evolve throughout the year. Therefore, the OIA monitors changes at the university level and within the higher education sector. Fluctuations of a significant nature in risk and/or audit staffing levels may necessitate revisiting the Fiscal Year 2024 Work Plan with the *Audit, Compliance, and Risk Assessment Committee*, as appropriate.

At present, the OIA is professionally staffed by the Chief Audit Officer, three Audit Supervisors, one Information Technology Auditor, and two Staff Auditors.

The Vice-Chancellor for Finance and Operations has designated fiscal year 2024 budgeted funds necessary to support the work plan providing for OIA staffing of up to 8 full-time-equivalent professional audit staff, an increase from the prior fiscal year. Recruitment is anticipated to occur during the fiscal year.

Work Plan Hourly Detail

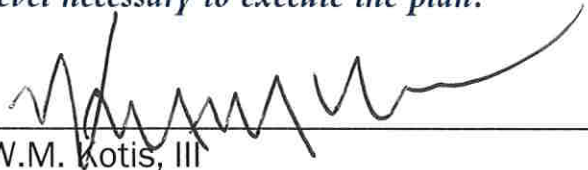
Total Available Audit Hours (7 auditors @ 2,080 hours)	14,560
Less Employee Leave (Annual/Sick/Holiday)	-1,680
Less Work Plan Hours	-9,340
Less Non-Work Plan Hours *	-2,542
Less Audit-Related Duties (QAR/Committees/Etc.)	-898
Project Hours Available/Short	<u>100</u>

*** Auditor Non-Work Plan Hours**

Prior Finding Follow-up	280
Work Paper Peer Review	792
Professional Development	280
UNC Training	280
Routine Consultations/Admin	<u>910</u>
Total Hours	<u>2,542</u>

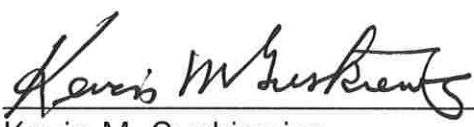
<u>Engagement Project</u>	<u>Budgeted Hours</u>
Consulting /Advisory (2)	
CampDoc Software Implementation	280
Student Financial Aid Award Letters	280
Operational (9)	
Administrative Space Inventory	280
UNC Campus Recreation	280
Carolina Housing	280
Undergraduate Career Counseling Center	280
Campus Deferred Maintenance	280
Employee Carolina Blue Benefit Elections	280
Strategic Enrollment Planning	280
Automated External Defibrillator Inventory	280
Fraternity & Sorority Life	280
Financial (7)	
2U Contract	280
Aging Accounts Receivable	280
Associated Entity MOU	280
Business Unit Funding Model	280
The Ackland Art Museum	280
Game Day Stadium Activities	280
Playmakers Repertory Company	280
Technology (4)	
IT Audit Services for Cyber Security	280
Technical Controls for Pcard IT Purchases	280
IT Access Controls for Affiliated Entities	280
IT Key Controls Review (Academic)	280
Compliance (5)	
Foreign Gift and Contract Reporting	280
Subrecipient Monitoring	280
Clinical Trials	280
Athletic Name Image Likeness	280
Grant Award Terms and Conditions	280
Special Projects (6 Projects @ 280 Hours)	1,680
FY23 Carry-Over Engagement Work	<u>100</u>
Total Work Plan Budgeted Hours	<u>9,340</u>

Approval providing for the completion of engagements populating the Office of Internal Audit Fiscal Year 2024 Internal Work Plan for Carolina and for the budget and staffing level necessary to execute the plan.



W.M. Kotis, III
Audit, Compliance, and Risk Management Committee Chairman

5/18/23
Date



Kevin M. Guskiewicz
Chancellor

5-18-23
Date