Fiscal Year 2023
Annual Report of Activities of the Office of Internal Audit

THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

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REPORTING POTENTIAL FRAUD, WASTE, AND ABUSE

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

MESSAGE FROM THE CHIEF AUDIT OFFICER

The Office of Internal Audit (OIA) is committed to demonstrating 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 OIA conducts internal audits in following the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

The OIA experienced a productive year with efforts encompassing the completion of a variety of internal audits, special projects, and support initiatives during the fiscal year. *The Fiscal Year 2023 Internal Audit Work Plan* defined 22 new internal audits slated for completion plus the completion of three carry-over engagements underway but not finalized on June 30, 2022. Efforts resulted in the completion of 15 new work plan engagements and the three carry-over projects. As of June 30, 2023, work remained underway on four engagements with anticipated completion to occur in the first quarter of FY24. Lastly, three work plan engagements were not fulfilled due to inadequate staff hours resulting from the assumption of a significant number of special project requests.

Additionally, the work plan included budgeted hours available to complete an estimated six special project requests received from university leadership as needs arose during the year. In fiscal year 2023, the need for special project work was great with the OIA completing 22 new special project engagements comprising consulting, investigative, and advisory services.

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 Carolina's Top Five ERM Risks to the UNC System Office.

The department was fortunate to retain and continue to professionally grow its team members' experiences during the fiscal year. One auditor left university employment in September 2023, and a replacement for this vacant position was hired in January 2024.

I appreciate the steadfast support of the Board of Trustees, the Chancellor, and university personnel affording for our effective completion of planned engagement activities. Additionally, I appreciate the University's additional financial investment in the OIA, providing for increased professional staffing for the department in Fiscal Year 2024.

The OIA is positioned to continue supporting efficiencies in Carolina's operations through the completion of the university's Risk Assessment and Fiscal Year 2024 Internal Audit Work Plan adopted by the Board of Trustees and Chancellor Guskiewicz in May 2023, providing the roadmap for OIA audit activity.

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

AUDIT PLAN TO ACTUALS

The Fiscal Year 2023 work plan was based on the OIA's risk assessment that considered:

- Top Five ERM Institutional Risks
- *CAROLINA NEXT—Innovations for Public Good*
- Executive leadership survey on risks
- Financial magnitude assessment
- External assessment of industry risks

The plan encompassed 22 newly scheduled engagements, each carefully determined by specific objectives. Furthermore, the plan allocated predefined budgeted staff hours to address six special project requests potentially emerging during the year and three carryover projects. These projects are categorized in the following chart. The actual hours expended encompass both staff time dedicated to projects finalized and those initiated (and remaining ongoing) up until June 30, 2023.

| Engagement Type	Definition	Planned		Actual	
		Count	Hours	Count	Hours
Compliance	Assessment for adherence to internal and external regulatory guidance	6	1,680	5	1,238
Financial	Verification of monetary reporting and accounting of transactions and related controls	7	1,960	6	1,439
Operational	Systematic assessment of processes evaluating effectiveness and efficiencies	6	1,680	5	1,833
Technology	Examination of the electronic management system, including assets and information	3	840	3	408
Special Projects	Investigations, consultations, advisory, and other engagement arising during the fiscal year	6	1,680	22	2,164
FY22 Carry Over	Planned engagements underway at June 30, 2022 but not yet concluded	3	100	3	74
Totals		**31**	**7,940**	**44**	**7,156**

Engagements

Staff Hours
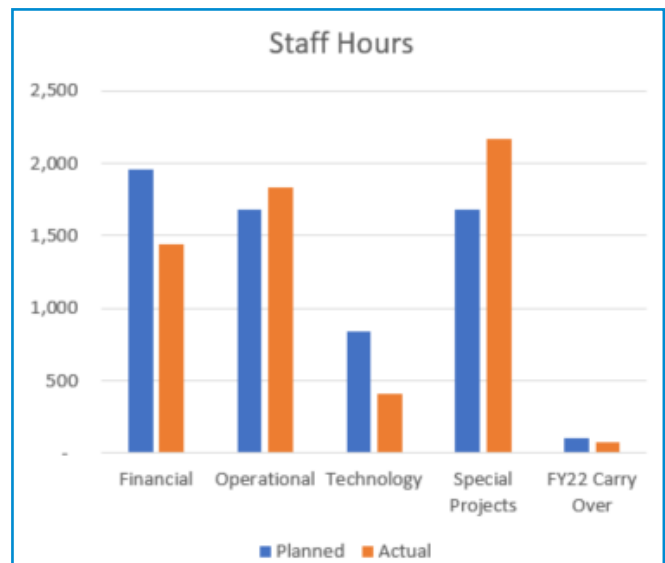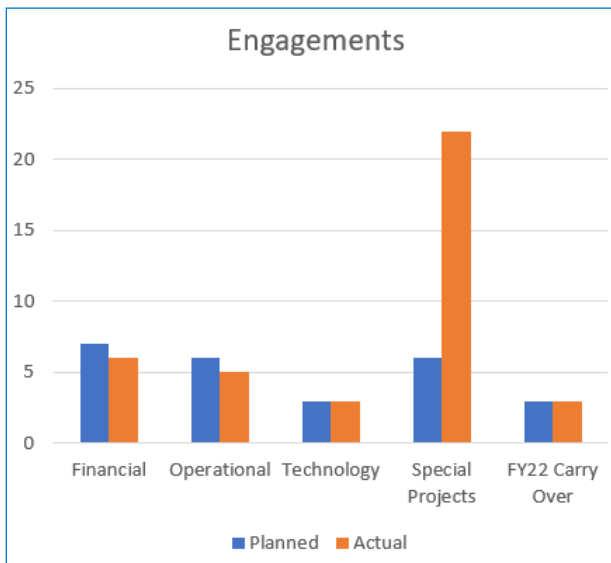
WORK PLAN COMPLETION

The OIA achieved an overall 88% of work plan audits completed or substantially underway with fieldwork. The two prior year's carryover planned engagements were completed along with 15 of the newly planned audits, with four newly planned audits nearly complete on June 30, 2023. Just three of the planned engagements were not initiated due to staff time limitations and the significant number of special project requests arising during the work plan year.

During FY23, there was a significant upsurge in the number of special projects undertaken by the OIA. Despite initially planning for six, the office effectively concluded a total of 23 special projects. These comprised 22 new projects and one carried forward from FY22. Importantly, all special projects were successfully wrapped up by June 30, 2023.

Audit Completions 88%
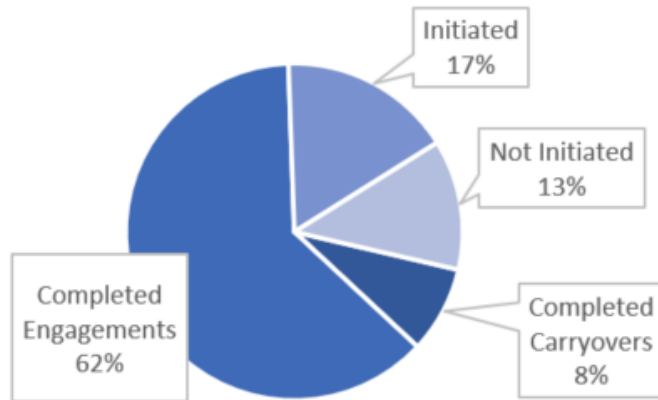
Special Project Completions 100%
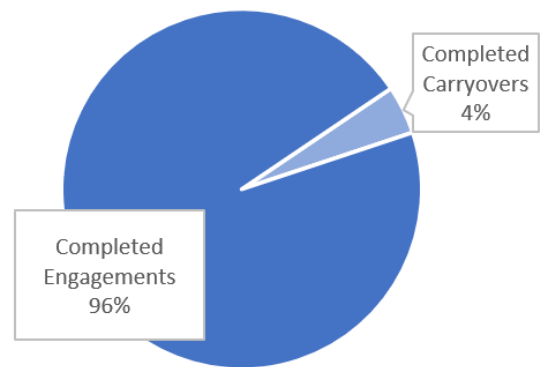
		Audits		Special Projects		Total Engagements	
		Number	Percent	Number	Percent	Number	Percent
Popula-tion	FY23 Planned Engagements	22	92%	6	26%	28	60%
	Carryover from FY22	2	8%	1	4%	3	6%
	Added Engagements	0	0%	16	70%	16	34%
	Total Engagements	**24**	**100%**	**23**	**100%**	**47**	**100%**

Results	Completed FY22 Carryovers	2	100%	1	100%	3	6%
	Completed FY23 Engage-ments	15	68%	22	100%	37	79%
	Initiated FY23 Engagements	4	18%	0	0%	4	9%
	Completed and Initiated	**21**	**88%**	**23**	**100%**	**44**	**94%**
	Not Initiated	3	14%	0	0%	3	6%

FY23 WORK PLAN - PROJECT DETAIL

The chart below shows the status of the 22 Fiscal Year 2023 work plan engagements as of June 30, 2023.

- 15 engagements were completed, plus 2 carryforward projects underway from FY22
- 4 engagements were underway and carried forward for completion in FY24
- 3 engagements were not initiated and based on the current risk landscape have not carried forward to the FY24 Work Plan

Type	Engagement Name	Project Underway or Completed	Report Date	Carryover to FY24	Not Initiated
Compliance	Research Effort Reporting	✓	09/27/22		
Compliance	University Travel	✓	03/14/23		
Compliance	NCAA Academic Performance	✓	04/04/23		
Compliance	HEERF II and III Funds Audit	✓	04/27/23		
Compliance	CARES Funds Audit/NC Collaboratory	✓	05/08/23		
Compliance	NCAA Camps and Clinics				✓
Compliance	SOM Policy Audit (FY22 Carryover)	✓	07/13/22		
Financial	Carolina Union	✓	03/13/23		
Financial	University Recharge Centers	✓	03/24/23		
Financial	Expenditure Review - School of Medicine	✓	04/10/23		
Financial	Student Fees	✓	05/02/23		
Financial	Institute for Convergent Science	✓	05/23/23		
Financial	READDI, Inc.	✓		✓	
Financial	Budget Modeling Assessment				✓
Operational	Academic Program Course Evaluation	✓	02/27/23		
Operational	Classroom Space Utilization	✓	04/05/23		
Operational	UNC Centers and Institutes	✓	06/26/23		
Operational	Student Well Being/Mental Health	✓		✓	
Operational	Equitable Employment				✓
Operational	Fixed Asset Inventory	✓		✓	
Operational	Faculty Development (FY22 Carryover)	✓	08/02/22		
Technology	Tarheel Mission Ready Disaster Recovery	✓	04/26/23		
Technology	University Switches Security and Compliance	✓	06/06/23		
Technology	University Routes Setting and Security	✓		✓	

FY23 SPECIAL PROJECT ACTIVITY

The OIA builds time into the Fiscal Year Work Plan for the completion of special project engagements. These projects arise during the year due to University management requests or external sources such as the State Auditor's Office or the Carolina Ethics Line, resulting in 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 2023, the OIA assumed responsibility for the completion of 22 special project engagements and one fiscal year 2022 carryforward project. Work on all of the special projects concluded this year, with no special projects carried forward into the FY24 Work Plan year.

FY 2023 Special Projects	Project Type	Completed
School of Medicine - UNC Health Development Funds	Investigative	9/27/22
Employee Travel Card	Investigative	11/2/22
Student Affairs Confidential Report	Investigative	11/14/22
EthicsPoint 467	Investigative	1/5/23
EthicsPoint 476	Investigative	1/5/23
EthicsPoint 506	Investigative	3/16/23
OIA Key Control Attestation Evidence and ACMP	Special Project	9/7/22
Self-Assessment Maturity Model Report	Special Project	9/16/22
Faculty Retirement	Special Project	10/18/22
Undergraduate Admission Tour	Special Project	11/7/22
ITS Consultation for Internal Audit Stage 3	Special Project	2/8/23
School of Medicine Lineberger Personnel	Special Project	2/10/23
ITS Consultation for Internal Audit	Special Project	6/28/23
Research Conduct (Carryforward FY22)	Technical Assistance	7/1/22
EHRA Non Faculty Grievance	Technical Assistance	9/28/22
Office of Technological Commercialization Ask BIO	Technical Assistance	9/29/22
IT Collaboration (NESSUS Virtual Machine)	Technical Assistance	10/13/22
Entity Website Review	Technical Assistance	11/11/22
Utilization of Residual Funds School of Pharmacy	Technical Assistance	2/17/23
EDCC Software Inventory	Technical Assistance	3/28/23
Information Technology Support FY2023 (AID Reports)	Technical Assistance	5/18/23
Major Associated Entities Management Comments #1	Follow-up Project	4/20/23
Major Associated Entities Management Comments #2	Follow-up Project	6/23/23

MANAGEMENT CORRECTIVE ACTIONS

The OIA staff conducts follow-up reviews on all management action plans when they come due to determine whether the action plan has been successfully implemented. The OIA tracks this work in a log that includes the date completed and whether the item was closed via implementation of the action plan, implementation of an effective alternative process, or if management accepts the risk of not implementing further action. The status of prior audit findings is communicated and presented as an agenda item at an Audit, Compliance, and Risk Management Committee meeting at least once during the fiscal year.

During FY23, 28 recommendations were added and 56 items were closed, leaving 38 open items to be addressed during FY24.

Total Findings	Count
FY22 Carryover Findings	66
Added in FY23	28
Closed in FY 23	56
Total Open 6/30/23	**38**

FY23 Activity	Count
Closed	56
Open - In Progress	13
Open - Not Due Yet	25
Total Evaluated	**94**

Closed Findings

- Closed - Implemented 87%
- Closed - Alternative Process 4%
- Closed - Accept Risk 9%

CUSTOMER FEEDBACK

Customer satisfaction surveys are electronically sent to key stakeholders for each completed engagement. Feedback was received from ten audit engagements, and clients rated 95% of our questions with an excellent or good rating as shown below:

"Excellent" or "Good" Rating	Questionnaire Topic
100%	✓ Areas of concern were addressed ✓ Positive communication and timely completion ✓ Audit results were accurately reported and discussed with the client ✓ Recommendations were logical and reasonable ✓ Auditors exhibited objectivity, courtesy and professionalism
90%	✓ Purpose, objective and scope were sufficiently explained at the beginning of the engagement
80%	✓ The audit provided value and useful outcomes improving business process, internal controls, and/or compliance

Self-Assessment Maturity Model (SAMM) Tool

The North Carolina Council of Internal Auditing (Council) instituted a requirement for all state government internal audit functions to report to the Council annually on a self-assessment of operations for alignment to six prescribed operational themes. Carolina must comply with this reporting requirement.

The SAMM consists of separate self-assessment questionnaires addressing the following themes:
- Services and Role of Internal Auditing
- Professional Practices
- Performance Management and Accountability
- People Management
- Organizational Relationships
- Governance Structures

The self-assessment exercise requires the selection of a rating supporting the internal audit office's attainment of practices in meeting expectations for each operational topic. The five rating levels comprise (1) Initial, (2) Infrastructure, (3) Integrated, (4) Managed, and (5) Optimized.

Based on individual scores assigned to the six themes via the self-assessment exercise, an overall rating level is calculated. Any rating level less than 3 (Integrated) must be supported with a corrective action plan for improvement.

The SAMM report must be attested to by the head of the agency (Chancellor) annually and the Board is to be informed of outcomes from the completed SAMM. The Chief Audit Officer completed and submitted the SAMM reporting tool for fiscal year 2023. For each of the six themes and topics, operational practices of the OIA were conservatively scored and considered to be at a level 3 (Integrated) or higher, exceeding the minimum compliant rating of three.

THEME	Minimum Compliant Rating	OIA Self-Assessment Compliant Level Achieved
Service and role of Internal Auding	3	3.4
Professional Practices	3	3.2
Performance Management and Accountability	3	3.3
People Management	3	3.3
Organizational Relationships	3	3.3
Governance Structures	3	3.5

OIA STAFFING

The OIA staffing remained at seven professionals with diverse talents and complimentary certifications and educational backgrounds. In aggregate, there are 34 years in OIA and 148 years of collective audit experience among our team. All staff members met their 40 hours of continuing professional education requirement and maintained their active certifications.

Only one staffing change occurred during the year. Staff Auditor Carolina Haga left the department in September 2022 and was replaced in January 2023 with Jihe Koo, a Kenan-Flagler Masters of Accountancy graduate who previously worked in the School of Medicine.

Employee	Position	Primary Certifications	Years in OIA	Years of Audit Experience
Dean Weber	Chief Audit Officer	CIA, CRMA	5	36
Drew Baker	Audit Supervisor	CFE	6	13
Kara Hefner	Audit Supervisor	CPA, CIA, CFE	4	25
Loretta Hester	Audit Supervisor	CFE, CICA	10	25
Arlene Gordon-King	IT Auditor	CISA, CISSP	4	31
Earl Jackson	Auditor	MSE	4	14
Jihe Koo	Auditor	MA	1	4

	Certification Description		Certification Description
CFE	Certified Fraud Examiner	CICA	Certified Internal Controls Auditor
CISSP	Certified Information System Security Professional	CPA	Certified Public Accountant
CISA	Certified Information Systems Auditor	CRMA	Certified Risk Management Assurance
CIA	Certified Internal Auditor		

SERVING OUR PROFESSION

All auditors are members of the Association of College and University Auditors (ACUA) and participate in educational training. Four auditors attended the annual AuditCon conference last September in Las Vegas. Auditor Earl Jackson participates on the ACUA membership committee.

Audit Supervisor Kara Hefner (at right) used her experience in quality assessments and presented "Internal Self-Assessments: Create a Winning Hand" to 300 attendees at AuditCon. She turned her presentation into a "Kick Starter" resource, available in the ACUA resource library, and then presented the kick starter as a live webinar to the general membership in April, drawing 700 viewers. Kara is also the Editor of the ACUA College and University Auditor Journal and participates on the Auditing and Accounting Principles subcommittee.

TIME ALLOCATION HOURS

Audit staff members track daily hours spent within defined categories for planning and benchmarking purposes, with a goal to spend at least 70% of time on direct project hours and audit related duties. Hours are categorized as follows:

- Direct hours represent audits defined in the work plan, advisory work, special projects, workpaper review, and following up on prior engagement action plans.
- Audit related duties include committee work, research, and Director requests.
- Leave includes holidays, vacation, and sick leave.
- Training includes a minimum of 40 hours of continuing professional development plus additional UNC training hours.
- Administrative is time not spent on direct work, such as emails and timekeeping.

Hours devoted to the work plan and audit activities totaled 71%, exceeding our goal. Differences in total hours, direct time, and administration were due to employee turnover and onboarding, and employee leave taken was greater than budgeted.

Time Category	Planned (6 FTE)		Actual (6 FTE)	
	Hours	Percent	Hours	Percent
Direct	8,890	71%	7,579	63%
Audit Related Duties	890	7%	910	8%
Leave	1,440	12%	2,049	17%
Administration	780	6%	957	8%
Training	480	4%	469	4%
Total	**12,480**	**100%**	**11,964**	**100%**

Actual Staff Hours

Budget to Actual Staff Time
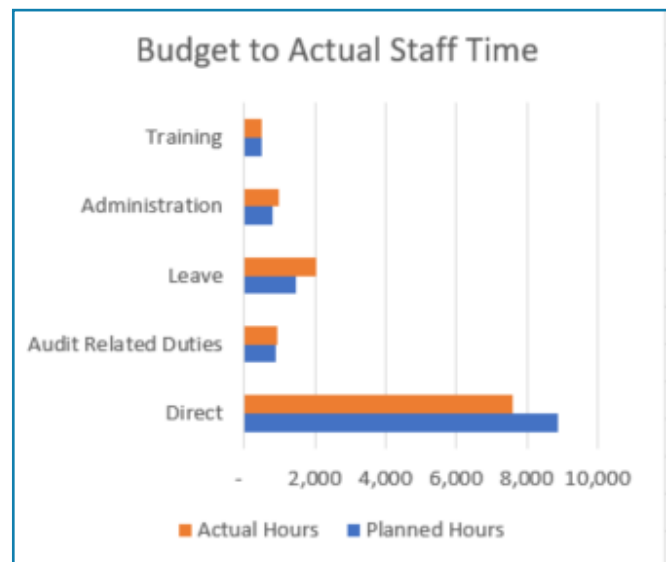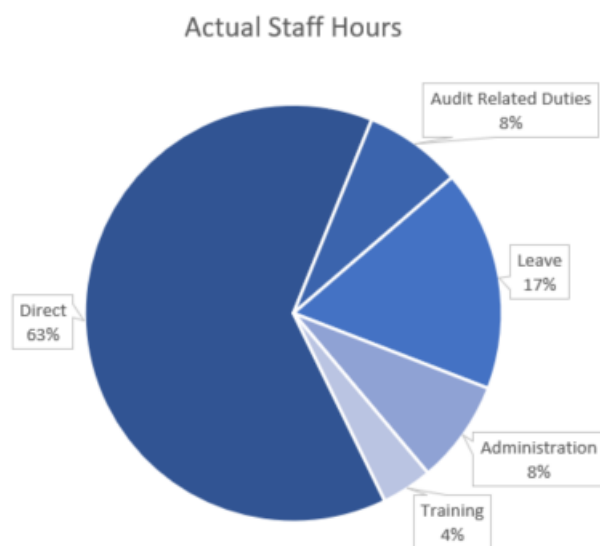
OIA STRATEGIC PLAN

In FY23 the OIA created a new Strategic Plan as follows:

Vision Statement: To be recognized as a trusted and proactive partner in promoting a culture of accountability, transparency, and continuous improvement across the University of North Carolina at Chapel Hill.

Core Values: a. Integrity: Upholding the highest ethical standards, maintaining independence, and being objective in all our activities. b. Excellence: Commit to quality, continuous learning, and professional development to deliver services that exceed expectations. c. Collaboration: Working together with university stakeholders to foster open communication, build relationships, and achieve common goals. d. Innovation: Embracing technology, data analytics, and industry best practices to enhance the effectiveness and efficiency of audit processes.

Strategic Goals and Objectives:

Goal 1: Enhance the Effectiveness of Audit Processes

Objectives: a. Develop a risk-based audit plan that aligns with the university's strategic goals and objectives. b. Emphasize the use of data analytics and technology to improve the efficiency and effectiveness of audit procedures. c. Foster a culture of innovation by exploring emerging trends and methodologies in the field of internal auditing. d. Enhance audit reporting to provide actionable recommendations and value-added insights to management.

Goal 2: Strengthen Collaboration and Communication

Objectives: a. Proactively engage with university stakeholders to understand their needs and priorities. b. Establish and maintain effective working relationships with management, faculty, and staff. c. Develop and deliver training programs and workshops to promote awareness of internal controls, risk management, and compliance. d. Remain active and IIA and ACUA memberships to leverage resources, share information, and address organizational risks.

Goal 3: Foster a Culture of Accountability and Compliance

Objectives: a. Assess and monitor the effectiveness of internal controls and compliance with applicable laws, regulations, and university policies. b. Provide guidance and support to management in implementing and monitoring remediation plans for identified control deficiencies. c. Promote ethical behavior and integrity. d. Conduct proactive audits and reviews to identify potential fraud, waste, or abuse and recommend appropriate preventive measures. e. Stay updated with evolving regulatory requirements and incorporate them into audit planning and execution.

Goal 4: Professional Development and Talent Management

Objectives: a. Provide ongoing training and development opportunities to enhance the skills and knowledge of internal audit staff. b. Encourage staff participation in professional certification programs, conferences, and industry forums. c. Foster a diverse and inclusive work environment that attracts and retains top talent. d. Establish succession planning initiatives to ensure continuity and sustainability of the internal audit function.

GOVERNANCE

Definition of Internal Auditing

The Institute of Internal Auditors defines internal auditing as:
"…an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Mission Statement

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps the University of North Carolina at Chapel Hill accomplish its mission, goal, 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 State requirements and the University's mission, goals, and objectives.

AUDIT, COMPLIANCE AND RISK MANAGEMENT COMMITTEE

The University Board of Trustees, *Audit, Compliance, and Risk Management Committee* provides governing oversight to the Office of Internal Audit. The Chief Audit Officer functionally reports to the 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 their 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, 2023

W. M (Marty) Kotis III, *Chair*	**John P. Preyer**
Malcolm K. Turner, *Vice Chair*	**Allie Ray McCullen**

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THE UNIVERSITY
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