

UNIVERSITY OF NORTH CAROLINA WILMINGTON

Internal Audit Annual Report
Office of Internal Audit



2011 Audit Year

Letter from the Director

University of North Carolina Wilmington 2011 Internal Audit Team



UNCW/Jamie Moncrief

Dana Harris, CPA, CIA, Director

Laura LaBree, CIA, Auditor

Kelly Mintern, CPA, Auditor

Stefanie Powell, CPA, Auditor

Brittney Lunsford, MSA Candidate,
Audit Intern

The Office of Internal Audit at UNCW started and ended the 2011 audit year with major events. On October 4 – 5, 2010, our office hosted the annual conference of the North Carolina University Auditor's Association (NCUAA). While the conference has always been a valuable way for UNC auditors to network and learn, we were proud to offer Continuing Professional Education (CPE) for the first time, and attendees received 12 CPE credits. Numerous other individuals and departments at UNCW helped make this conference a huge success.

For the past several years, we have continually updated our operations to improve efficiency and effectiveness in accordance with best practices and the *Standards* of the Institute of Internal Auditors. In order to fully comply with the *Standards*, our office is required to undergo a quality assurance review (peer review) at least once every five years. In May 2011, the external CPA and professional services firm of Honkamp Krueger & Co. completed the first-ever peer review of our office. As a result of our efforts, we achieved the highest possible rating for each category assessed.

Throughout the year, the staff spent nearly 4,500 hours working on a variety of audits, consultations, and special projects. Staff also attended over 100 hours of on-campus training offered by other UNCW departments and spent nearly 300 hours attending external training.

Following the departure of Carol Harris, Kelly Mintern joined our staff in September 2010. Kelly has a background in public accounting with an emphasis in auditing.

I am looking forward to another busy and exciting year in 2012!

Dana Harris, CPA, CIA
Director, Office of Internal Audit

Internal Audit Overview

The Office of Internal Audit at UNCW was established July 1, 1983, to provide assurance regarding the adequacy of financial controls, compliance with university policies and external regulations, and the accuracy and appropriateness of financial statements. Since 1983, the university and the profession of internal auditing have matured and evolved. Today, the mission of the Office of Internal Audit is:

To provide independent, objective assurance and consulting services designed to add value and improve the organization's operations. We help the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and the governance process.

The Office of Internal Audit is comprised of a director, three professional staff members, and a student intern who assists with audits and consultations. The director and all three staff members hold professional certifications including Certified Public Accountant (CPA) and Certified Internal Auditor (CIA). Staff members are also working toward becoming Certified Information Systems Auditors (CISA) and Certified Fraud Examiners (CFE). Our intern for the 2011 audit year recently completed her Master of Science in Accountancy (MSA) at UNCW and is currently employed by Deloitte LLP.

Our work is conducted and managed in accordance with The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditors*, which include the definition of internal auditing, Code of Ethics, and the *Standards*. In order to fully comply with the *Standards*, our office must have a quality assurance and improvement program that includes both internal and external assessments. For the past several years we have internally assessed and improved our methods to ensure compliance with professional standards. These efforts culminated in our office obtaining the highest possible rating from the external assessment conducted in May 2012.

The Office of Internal Audit reports functionally to the Audit Committee of UNCW's Board of Trustees and administratively to the Chancellor. In keeping with the IIA's standards, we maintain a strong working relationship with the Audit Committee. Consequently, the director presents results of audits and other office activities to the Audit Committee at their quarterly meetings. In addition, the director assists the Audit Committee in understanding their role and responsibilities and educates committee members on emerging trends and best practices.

The audit year begins each year on August 1 and ends July 31 of the following year. This allows our office to have the annual audit plan approved by the Audit Committee during the first month of the audit year at their August meeting.

For more information about the Office of Internal Audit, please see our website at <http://www.uncw.edu/ia/index.html>.

Audits and Consultations

We completed the following types of engagements during the 2011 audit year.

Audits and Consultations

Each year our office completes a risk assessment of the entire university environment. An annual audit plan which focuses on audits and consultations is developed based on the risk assessment. Additional items are added to the audit plan based on length of time since the last review and management requests. Our work includes both broad, departmental reviews as well as assessments of specific processes or controls.

Follow Ups

While we are evaluating our practices for the 2012 audit year, our methodology through the 2011 audit year included following up on all audits and consultations with reportable audit findings. Follow ups typically occurred 12 – 18 months after issuance of the original audit report. This time frame gave sufficient time for management to implement corrective measures and a population to develop which could be tested.

Investigations

Investigations result from tips reported to our office via the Office of the State Auditor's hotline, our internal hotline, and other sources.

Audits in Process at 7/31/2011

- Watson School of Education
- Continuous Auditing

Reports Issued During the 2011 Audit Year

Audits and Consultations

- Athletic Academic Eligibility
- Athletics
- Banner Disaster Recovery Test and Plan
- Campus Crime Report Compliance
- Credit Card Compliance
- Friends of UNCW
- Pharmacy Consultation
- SRCI Annual Review
- SRCI Budget Revision Procedure
- University Compliance Reporting

Follow Ups

- Cameron School of Business
- Center for Marine Science
- Incomplete Grades
- Named Scholarships
- Fourth Follow-Up to the Office of the State Auditor's FY07 Financial Audit
- Supplemental Pay
- Second Follow-Up to the Office of the State Auditor's FY10 Fiscal Controls Review
- Withdrawal Analysis
- University Vehicles
- UNCW Presents

Investigations

- Campus Minister
- Motor Fleet Complaints
- UNCW Police Department

Other Projects and Services

As internal auditors in higher education, we have the unique ability to assist our university in ways that extend far beyond traditional audits of processes and financial transactions. Our office also completes projects, typically at the request of management, that do not result in formal audit reports. In addition, we serve on committees; participate in key groups; and work to educate students, other professionals, and campus employees. Our efforts extend beyond our campus as we work with UNC General Administration and professional organizations such as the Association for College and University Auditors (ACUA). In addition to the activities listed below, over the past year our office monitored and maintained UNCW's fraud and abuse reporting hotline and served as liaisons attending entrance and exit meetings with various external auditors.

Committee Work

- Assetworks AiM Implementation Committee
- Assistant Controller Search Committee Member
- Executive Director of Associated Entities and Real Estate Search Committee Chair
- Human Resources Liaison Committee
- Institutional Risk Management Committee
- Institutional Risk Management Steering Committee
- IT Security Analyst Search Committee Member
- Police Investigations Commander interviews
- SACS Compliance Committee
- Supplemental Compensation Workgroup
- Systems Coordination Committee
- UNCW Information Security Council

Special Projects

- Assisted Accounting with year end inventory
- Participated in testing of supplemental compensation software application
- Stepping Strong research study with the School of Nursing

Participation in Campus and UNC System Groups

- Administrative Cabinet
- Budget Manager's Meetings
- Chancellor's Retreat
- Faculty Senate Meetings
- University Planning and Quality Council
- UNC Internal Audit Teleconferences

Presentations

- Cameron School of Business Accounting Day panelist
- Guest speaker for Accounting 445 – Advanced Accounting Information Systems and Accounting 518 – Risk Based Auditing
- Human Resources Annual Leave Audit Workshop
- North Carolina University Auditor's Association Conference

Service to the Profession

- ACUA Accounting Principles Committee



UNCW/Jamie Moncrief

Quality Assurance Review

For the past several years, our office has worked on updating our operations in accordance with best practices and the *Standards* of the Institute of Internal Auditors. During this process, our office has continually evolved as we developed a consistent method for documenting our work and issuing reports, implemented a model of continuous improvement, formalized and documented our procedures, and developed a system of managing our workpapers electronically.

In May, the firm of Honkamp Krueger & Co. (Honkamp) completed a quality assurance review (peer review) of our office. Our office is required to have at least one peer review every five years, and this review assessed our operations in accordance with the *Standards*. We were evaluated and received ratings in several individual categories as well as an overall rating. We were rated as “Generally Conforms” in each category and overall, which is the best possible rating. In addition, we received recommendations which we plan to evaluate and incorporate into our operations as appropriate.

The following excerpt from Honkamp’s report notes some of the best practices of our office as identified by the peer review team.

We found numerous positive aspects about the UNCW [Office of Internal Audit] group and the work it performs. As evidenced by interviews, surveys, document reviews, and observations, the OIA currently uses “Innovative Practices” in its audit operations and administration. Some of the more notable positive aspects and practices include:

- *Participation on various organizational leadership teams*
 - *Closely coordinating its work with State auditors and other UNCW assurance functions*
 - *Becoming recognized as key advisor by UNCW management*
 - *Developed innovative approach to work paper automation using existing Share Point software technology*
 - *Successfully reversed the OIA client adversarial perceptions creating collaborative working partnership for the future*
 - *Maintains a robust, professional OIA website*
 - *Established a University complaint hotline that is monitored by the OIA*
 - *Client survey results demonstrate an above average overall satisfaction level with the OIA*
-

Professional Development

All full-time staff members in the office are professionally certified and are consequently required to obtain an average of 40 hours of CPE each year. During 2011, we were able to send staff members to several major conferences. In order to further our learning and broaden our professional knowledge, staff members also attended numerous other workshops and courses, many of which were offered as free webinars. UNCW has a robust training program and staff members attended numerous courses on financial processing, information technology, and human resources in order to improve the operations of our office and become more knowledgeable regarding the resources available to other departments. Finally, we took on a new role in 2011 by hosting a conference and offering CPE.

University of North Carolina Auditor's Association Annual Conference

On October 4 – 5, 2010, our office hosted the annual conference for the North Carolina University Auditor's Association (NCUAA). The conference program offered 12 CPE credits through eight courses covering a variety of topics including collaboration with the Office of the State Auditor; fraud prevention, detection, and response; managing institutional risk and integrating SharePoint into our work. Our office received support from various departments across campus in order to make this conference a quality event. Numerous members of UNCW's faculty and staff also generously donated their time to present at the conference, and speakers came from Health and Applied Human Sciences, the Office for Institutional Diversity and Inclusion, Information Technology Security, Business Affairs, and our own office.

Other Conferences Attended

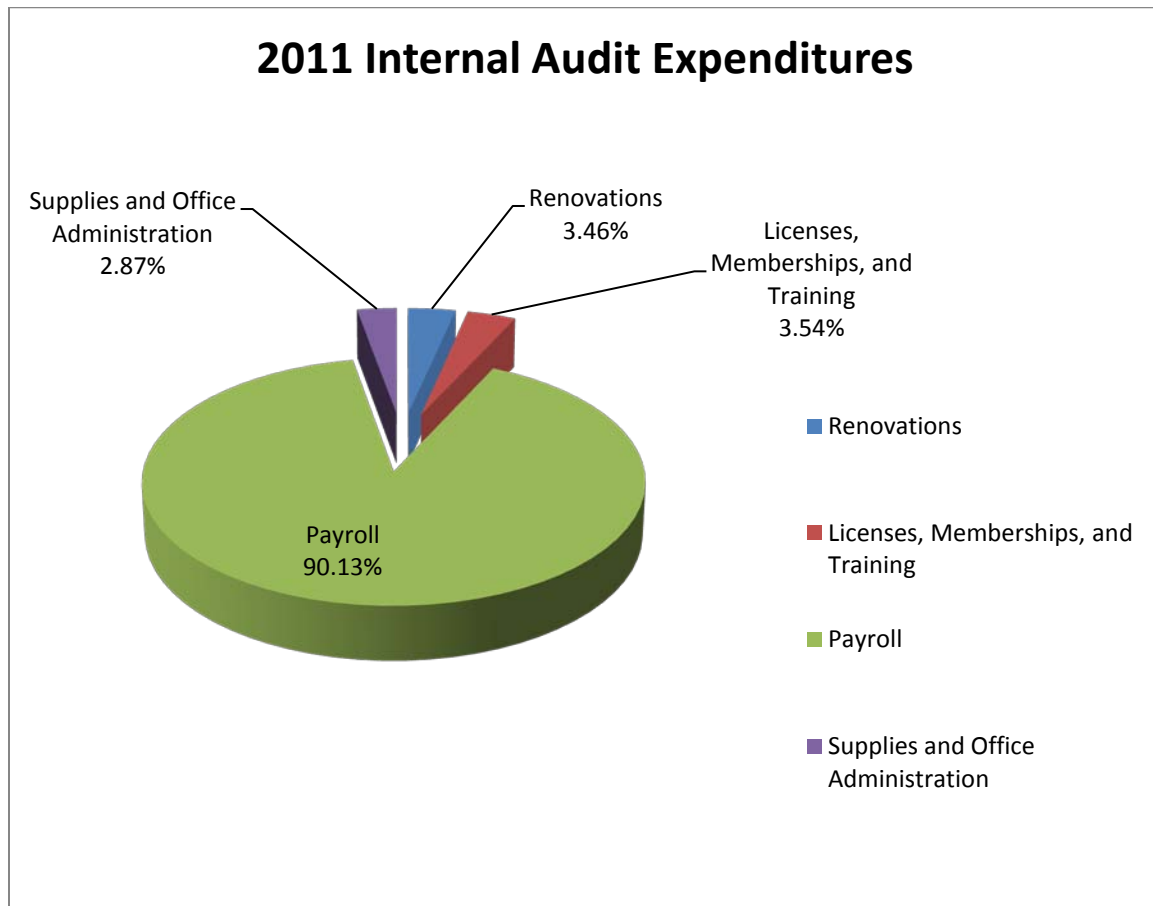
- ACUA Annual Conference, Baltimore, MD, September 19 – 23, 2010
- UNC Campus Controller's Workshop, Chapel Hill, NC, November 15, 2010
- ACUA Midyear Conference, Orlando, FL, March 13 – 16, 2011
- ACFE Fraud Risk Management Course, Austin, TX, March 24 – 25, 2011

Other Training

- | | |
|--|---|
| • Analytical Tools (including ACL) | • General IT Controls |
| • Audit Sampling | • Global Internal Audit Survey Results |
| • Board Governance | • GRC Projects |
| • Cash Controls and Fraud | • Identity Theft |
| • Cloud Computing | • Internal Controls over Payroll Process |
| • Computer Assisted Audit Tools | • Internal Investigations |
| • Continuous Auditing | • IT Auditing |
| • Court Cases Every Internal Auditor Should Know | • Mapping Your Internal Audit Career |
| • Cyber Crime | • Measuring Internal Audit Effectiveness and Efficiencies |
| • Cyber Security | • Reporting to the Board |
| • Data Mining | • Risk Dictionaries |
| • Ethics | • Operational Auditing |

Financial Resources

Each year, most funding for the Office of Internal Audit is spent on salaries and wages for the director, staff members, and audit intern. There are also annual professional expenses which include licenses, memberships, and training. During 2011, we were allocated one-time funding for renovations to create offices which give all staff members appropriate spaces for working on sensitive matters and conducting confidential interviews and phone calls. The remainder of our office's expenditures relate to telephone service, supplies, and other office expenses.

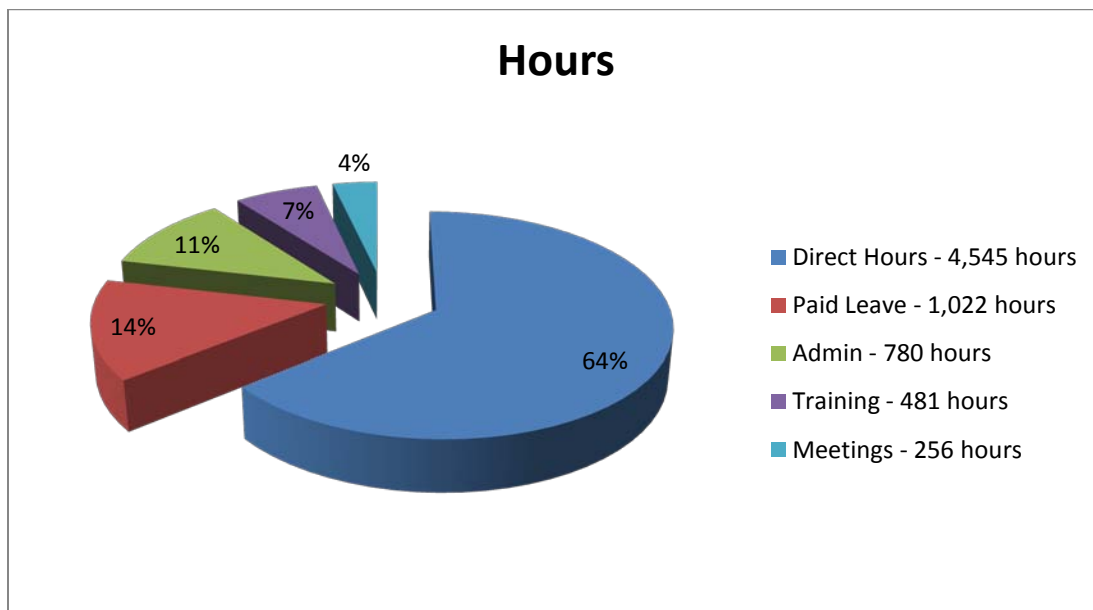


Productivity

Time Allocation

Our staff members divide their time between direct hours which are spent working on audits, consultations, special projects and investigations; paid leave; meetings; and training. In addition, our staff has administrative time which is spent on routine tasks such as scheduling travel, making copies, filing, and reading general emails. In addition, due to the office not having an administrative assistant, staff members are also responsible for items such as recording meeting minutes, ordering supplies, reporting payroll, planning the budget, and conducting monthly reconciliations of the departmental fund.

The chart below reflects the time allocation of the three staff auditors and the audit intern. In addition to the hours shown on the chart, the Director of Internal Audit had over 700 direct hours, spent nearly 200 hours attending meetings and working on committees, and attended over 80 hours of training.



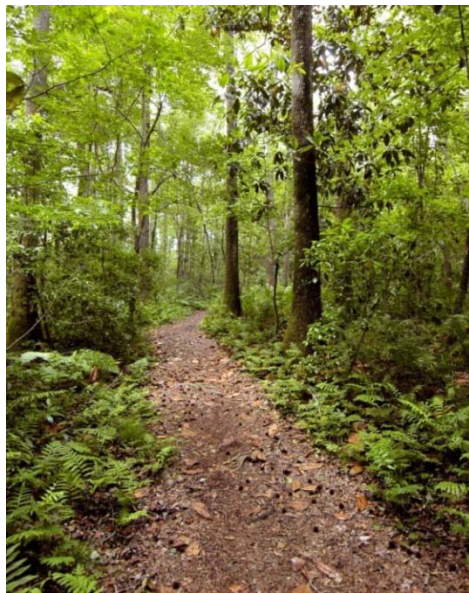
Audit Plan Completion

There were 22 scheduled audits and consultations on the 2011 audit plan. As of July 31, 2011, 17 were complete and 2 were in process. Of the remaining 3 engagements, 1 was cancelled during the 2011 year, and 2 will be carried to the 2012 audit plan.

In addition to the scheduled audits, our staff spent 1,215 hours (27% of direct time) working on special projects and investigations. Unscheduled project hours are included in the annual audit plan approved by the Chancellor and the Audit Committee of the Board of Trustees, and they allow our office the flexibility to meet the changing needs of UNCW. However, due to several matters that came to our attention during the audit year and a large investigation, the actual hours spent on special projects were nearly three times larger than the 424 hours included in the annual audit plan.

All staff members are required to obtain at least 40 hours of continuing education each year to meet professional licensure requirements, and we were fortunate to receive funding during the 2011 audit year for training sessions which allowed our staff to increase their professional knowledge and enhance the services of our office. Knowing that it is very unlikely we will be able to attend nearly this much training during the 2012 audit year, our staff took advantage of available opportunities during 2011 and attended an average of 75 hours of external training and 32 hours of training offered by other UNCW departments.

We are grateful to have the flexibility to adapt our audit plan to take advantage of unique opportunities such as increased professional education and to fully investigate complaints and other pressing matters that come to our attention during the year. Our experiences during 2011 will help us develop and implement an even better plan for the 2012 audit year.



UNCW/Laura Johnston

Client Feedback

At the end of each engagement, clients submit a survey evaluating our office's work to ensure our continuous improvement. Questions on the survey address the helpfulness of the audit, professionalism of our staff, degree of disruption to operations, and timeliness of completion. For each question, respondents are able to respond on a scale from 1 to 5 with a 1 being the highest possible score. We obtained perfect scores for auditor professionalism and relationships between auditors and the department's management and staff. We were also rated as above average in all other categories. Survey results and comments from 2011 are included below.

Helpfulness of the Audit

"The audit was actually far more beneficial than I expected."

"The audit experience was a positive one."

(The auditor) "Did a nice job of analyzing the...process and making recommendations for efficiency changes."

"Professional staff made the audit process very productive."

Auditor Professionalism

Average score: 1.0

"The auditors were focused on the task at hand – very professional."

"Meetings were properly scheduled, material available for review prior, and agendas followed. Meetings were productive and concluded with next steps and follow up."

Compliance Improvements

Average score: 1.6

"The improved compliance will come about as we follow through on our responses, but the audit clearly identified what needs to be done."

"Auditor identified areas for improvement and [offered] recommendations regarding how to best implement."

Efficiency Improvements

Average score: 2.0

"Because of this review, some of our internal processes have been changed to increase efficiency."

Relationship between auditors and the department's staff and management

Average score: 1.0

"The auditors were great to work with. They maintained a positive and collegial approach throughout."

"All staff were professional, relaxed, and responsive to questions and feedback."

Effectiveness Improvements

Average score: 1.4

Timeliness of Completion

Average score: 1.4

Disruption Level Caused by Audit

Average score: 1.2