

compliance
Internal Audit
independent risk add value effective improve objective
efficient assurance

Annual Report — FY2016

AND THE BEAT GOES ON...

This past year saw the continued evolution of our Internal Audit Department as succession and transition preparations were made for the upcoming retirement of the chief audit officer.

The Quality Assurance and Improvement Program took another step forward with the creation of the timeline of activities planned for the next external Quality Assurance Review in 2018. Our outreach program continued its strong presence on campus with the usual training classes augmented with special-request presentations to several focus groups.

An annual audit plan of 14 in-house topics and two out-sourced projects was approved by the Audit, Compliance, and Enterprise Risk Management Committee of the Board of Trustees in April 2015. We successfully completed our first-ever reviews of the Office of Technology Transfer, Human Resources, Education Abroad, Student Union, and Undergraduate Admissions.

Our operating budget was generously augmented in both recurring and one-time funds, allowing for a robust professional development agenda for each staff member, permanent funding for a UPIP intern and the acquisition of additional copies of our primary data analytics tool.

Training highlights for audit staff included attendance at the Association of College and University Auditors Annual Conference, the University of North Carolina Auditors Association Annual Conference, the IIA Mid-Atlantic District Conference, and several local training seminars hosted by the Charlotte IIA Chapter.

We would like to hear from you on your perceptions and observations of our work. Please write to us at Internal_Audit@uncc.edu.

UPPING OUR UPIP STAFF

The department continued its participation in the University Professional Internship Program (UPIP) during FY2016, hiring Judy Davis, a Charlotte resident and Class of 2016 dual major in accounting and business administration. She worked both fall and spring semesters, assisting in multiple projects and adding valuable insight and unique perspective. Judy graduated *Magna cum laude* in May and we envy the firm that can hire her full-time.

For FY2017, we have hired two interns who will start in late August: Rose Brown, a rising senior from Kings Mountain, NC, and double major in business administration and psychology; and Raehanna Evans, a rising senior finance major from Goldsboro, NC. They will provide dedicated support to our internal teams and be assigned individual projects over the next semester.



The Internal Audit Department was established at UNC Charlotte in September 1973.

MISSION

To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

VISION

The Internal Audit Department will be a respected campus partner whose advice is sought and whose integrity is beyond reproach, with a highly skilled and professionally credentialed staff that provides unbiased evaluations with actionable recommendations, that continuously seeks to improve its internal operations and service delivery through quantitative and qualitative evaluations and measurements.



FY2016 AUDIT PLAN RESULTS

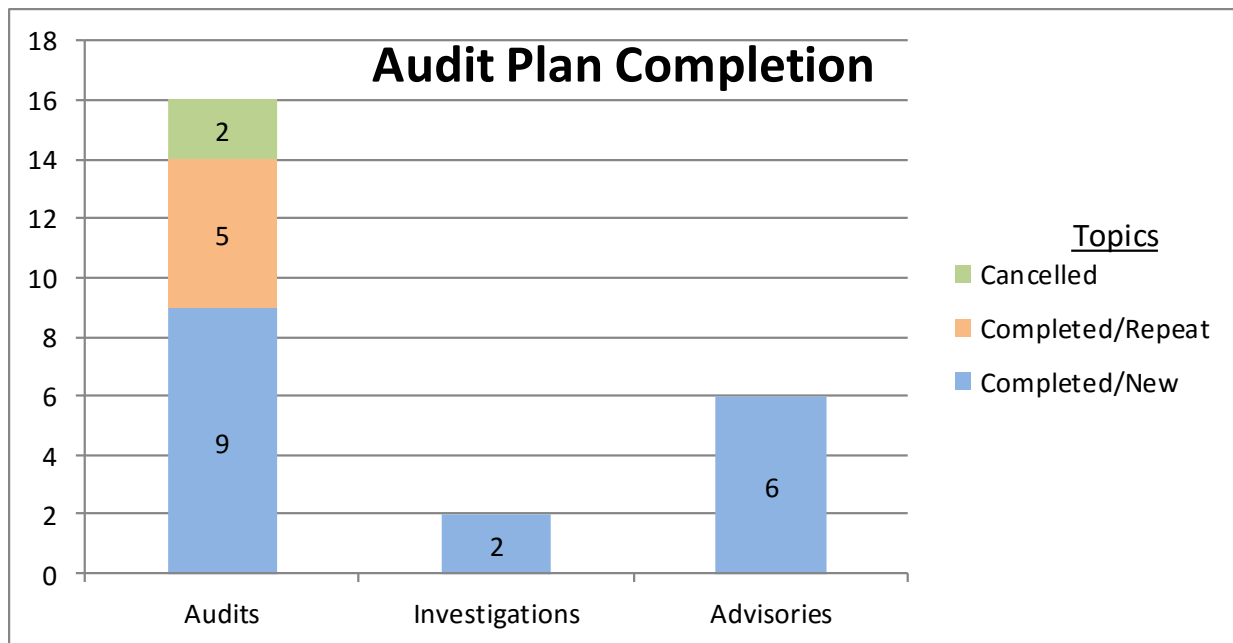
Our FY2016 audit plan included some first-time audit topics as well as some visits with old friends.

Human Resources and Student Union, Activities, and Recreation (SUAR) proved to be rewarding first-time audits of major campus units. Other first-time audits included Office of Technology Transfer, Undergraduate Admissions, Office of Education Abroad, NCAA compliance with the transition to FBS football, Capital Campaign gift management and two construction contract compliance engagements.

Return visits were paid to the Belk College of Business, Design Services, Student Accounts, and Financial Aid. We also conducted the annual verification of football attendance.

The review of the University's internal controls self-assessment and a planned audit of IT change management practices were cancelled.

In addition to the planned engagements, we completed two investigations and six management advisories.



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The investigations looked into alleged abuse of the FMLA status of an employee and into alleged misallocation of funds.

The six management advisory engagements dealt with a variety of topics:

- independent contractor determination practices
- two job position reviews
- Department internal controls self-assessment
- Department spending practices
- PCard purchases review

Our end-of-engagement survey results continue to be over 90% positive. Some of the comments were:

“Best attitude of any auditors I've ever dealt with! Wish my IRS auditor was this accommodating...!”

“Very professional, consultative and collaborative. Expressed and exhibited genuine interest in the department, functions and service to the University and employees.”

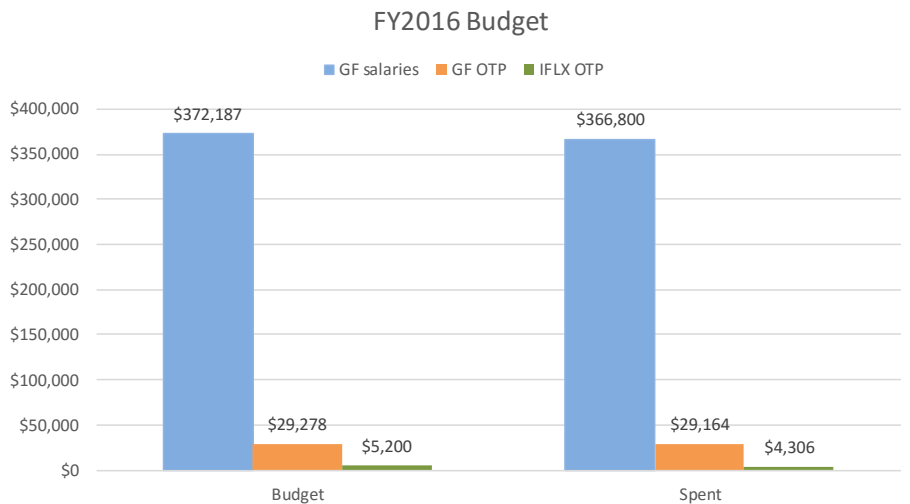
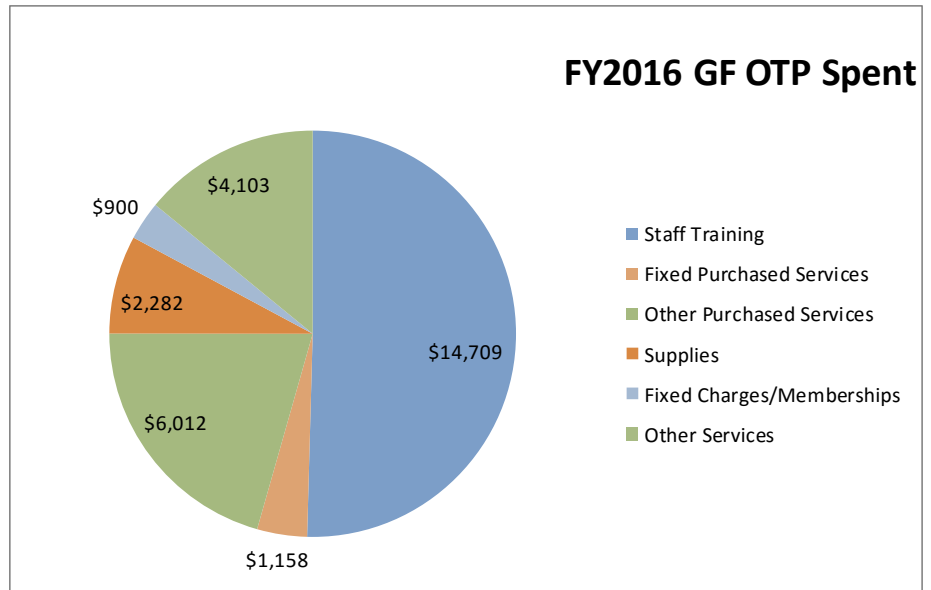
“UNCC has the best audit team I have worked with in my career.”

FY2016 BUDGET PERFORMANCE

Our annual budget continued to reflect our senior leaders' interest and commitment in professional development. Our FY2016 General Fund (GF) Other than Personnel (OTP) budget went heavily (50 percent) towards staff training, with staff attending the annual conference for our national professional association, the Association of College and University Auditors, training sponsored locally by the Charlotte chapter of the Institute of Internal Auditors, and additional training on our data analytics application IDEA.

Computer application support, telephone service, and office supplies were the next largest expenses. With the help of the vice chancellor for business affairs (VCBA), we were able to obtain additional licenses for our data analytics application that complete the fielding of the software tool within the department.

The VCBA also provided a recurring budget increase that will pay for one of our interns, and we moved some of our training budget to support the second intern. In salaries, supplies, and training, we remain one of the better-resourced internal audit departments in the UNC system.



IFLX = Institutional Flex Spending Fund (VCBA)

EXPANDING HOW WE LOOK AT IT (Not it, IT)

Thanks to our friends in ITS, we now have some excellent tools with which to evaluate information technology operations across our very-distributed campus environment. The [Information Security Checklist for Service Owners and Systems Administrators](#) was created by the IS Compliance team in ITS using the standards in ISO 27002:2013, the information security framework adopted by all 17 campuses in the UNC system. The two-page checklist contains 36 critical questions to which the expected answer is “Yes.”

Internal Audit uses this checklist as a starting point for our interviews and discussions with IT directors in the colleges, divisions, and departments that we visit. We have also identified those questions to which merely answering “Yes” will not be entirely sufficient and for which we will ask for evidence that such compliance is actually taking place.

As an example, here is one section of the checklist that we have annotated where we will expect and request additional evidence of compliance:

Access Control

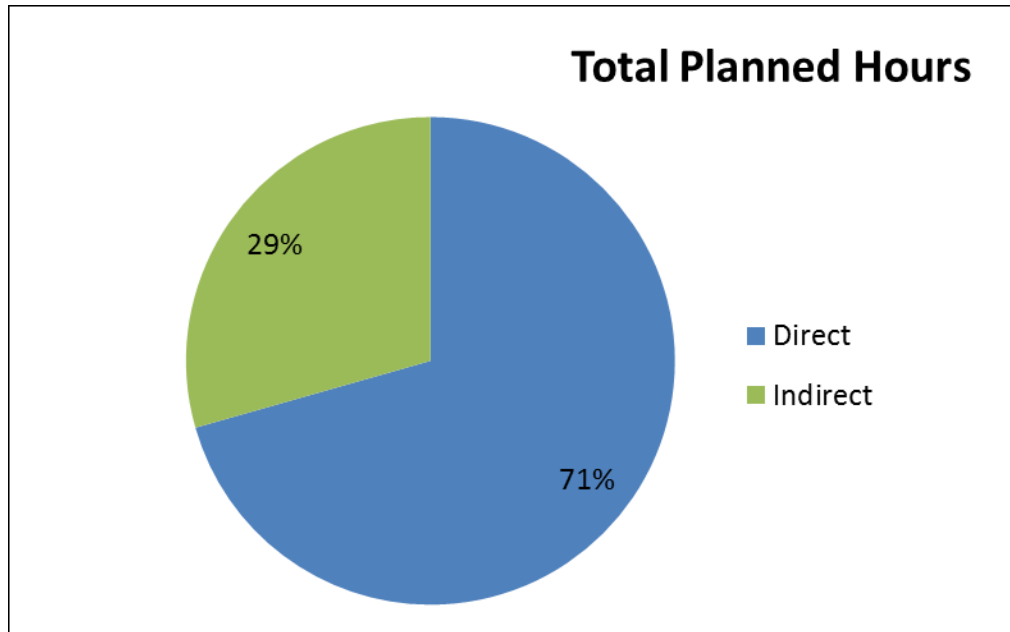
	If not using the centrally managed authentication system, are you following a formal user password management protocol and adhering to the standards for password management? Section 9.4.3
	Are you ensuring that special accounts with elevated privileges (e.g., root, super user, system admin) adhere to the same rigorous password standards plus the additional security measure of regular and frequent audits? Section 9.4.4/9.4.5
	Do you have a formal process for the authorization of user access? Section 9.2.2 (Evidence)
	Is access granted to sensitive systems or data based on a need-to-know basis? Section 9.1.1
	Is access to systems terminated when an employee leaves or moves to another department? Section 9.2.1/9.2.6 (Evidence)
	Are the access rights of all student workers and/or third party users removed upon termination of employment, contract or agreement? Section 9.2.1/9.2.6 (Evidence)
	Do you have a formal process for reviewing user access rights at regular intervals? Section 9.2.5 (Evidence)
	Are you requiring unique user IDs? Section 9.2.1
	If the business need requires the use of shared user IDs, is there a process in place and followed to change the password frequently and at a minimum whenever a member of the group leaves or changes jobs? Section 9.1.1
	Have you removed or disabled unnecessary vendor-supplied default accounts? Section 9.2.4/9.4.4
	For required vendor accounts, have you changed the default password following the installation of systems or software? Section 9.2.4

Another aspect of information security that we are looking at more closely is security awareness training. ITS has made available a set of [training modules](#) that provides essential information “designed to raise awareness about information security, good information security practices, and related university IT policies.” As part of our audits, we obtain current training statistics from ITS for the audited unit and share that with unit leaders so they can take steps necessary to raise participation, which in turn raises our security posture.

We also are working with ITS and Materials Management to obtain the services of an IT security vendor to perform a series of IT security audits over the next several years. These outsourced technical audits, combined with our internal assessments of critical areas, will give University leadership a more informed view of our IT risks and the mitigation actions required to address them.

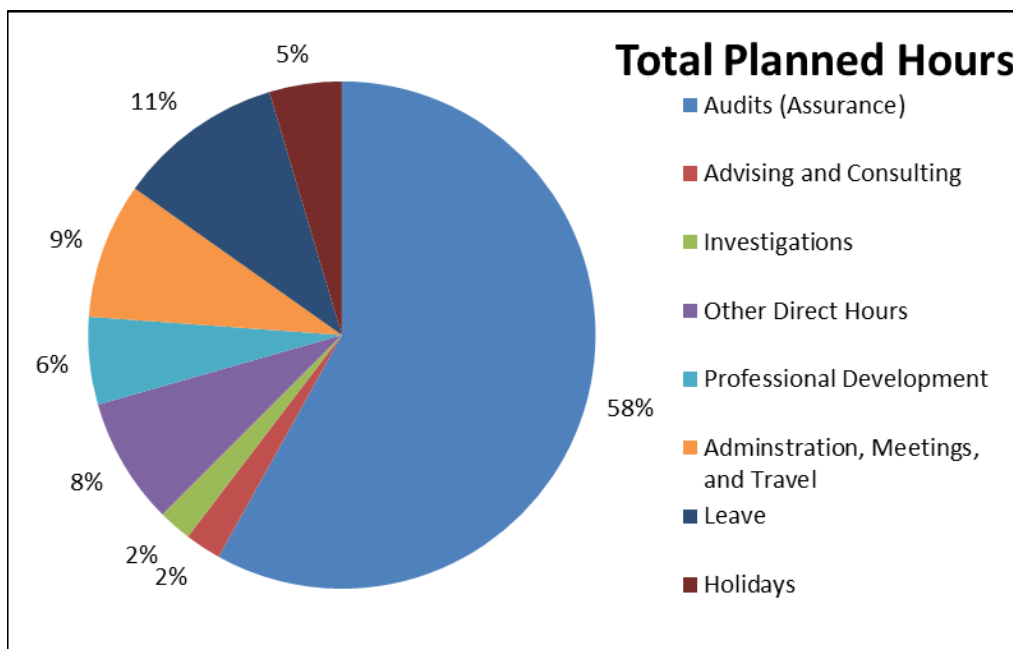
TIME TRACKING — A KEY PERFORMANCE INDICATOR

One of the key metrics established by UNC General Administration for all internal audit offices requires tracking where auditors are spending their time, both direct audit-related work (audits, investigations, advisories, and consultations) and indirect work (professional development, administration, leave, and holidays).

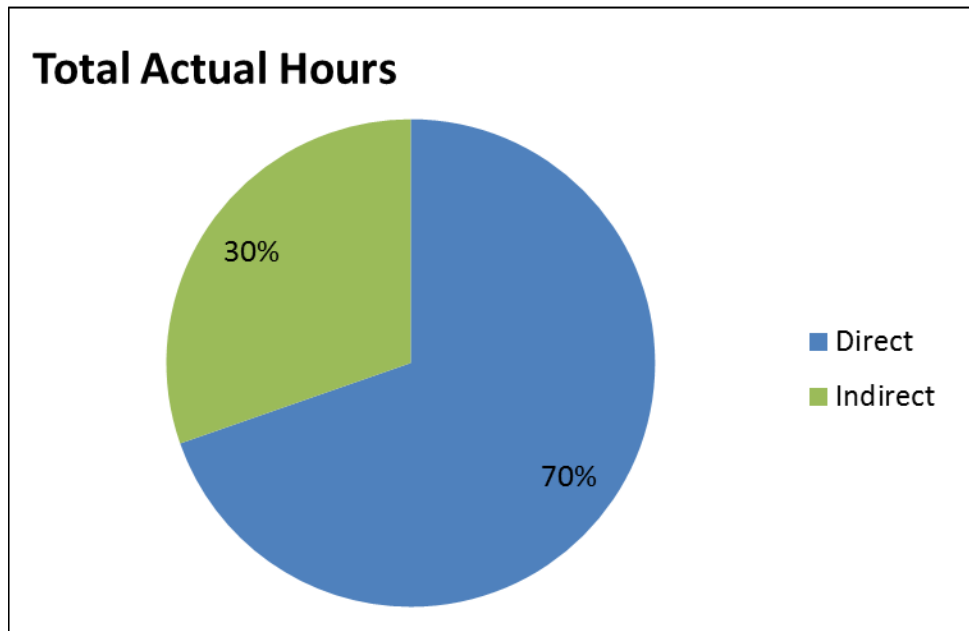


Our initial time budget in FY2015 projected a division of direct and indirect time at 74 percent-26 percent. We ended the fiscal year with an actual split of 68 percent-32 percent.

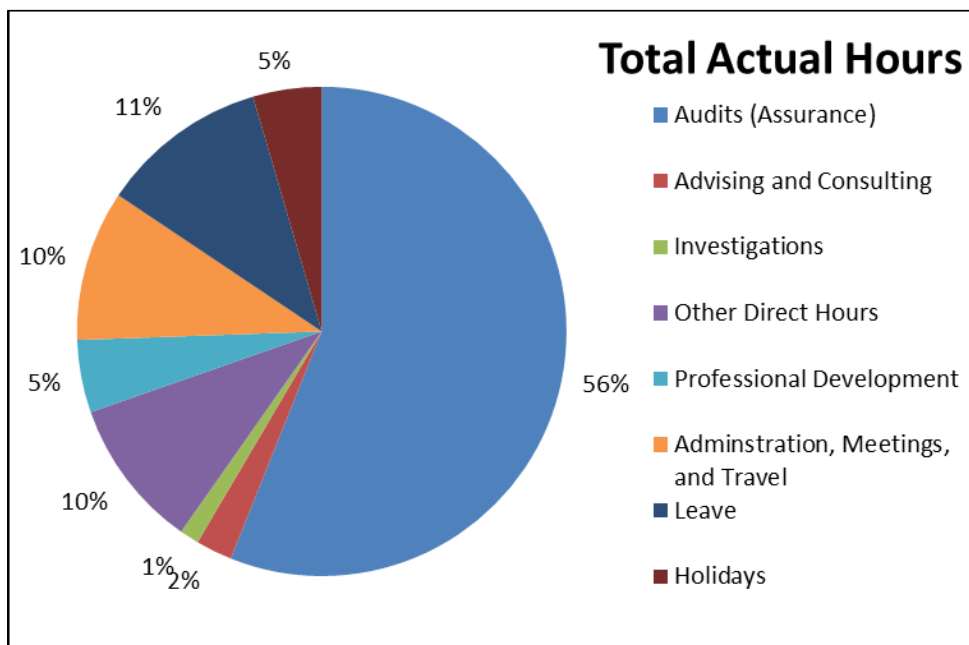
For FY2016, we made some adjustments and lowered the overall budget to 71 percent-29 percent. We also included our intern's workload into the metric to capture all possible hours spent working on audit engagements.



This year turned out to be a lighter year for investigations and the chief audit officer intentionally did not plan any audits for himself, reducing the amount of direct audit hours. Even with these anomalies, we ended the year with a direct-to-indirect hours ratio of 70 percent to 30 percent.



We still have room for improvement in delineating other direct hours into more discrete categories. Investigations are a guessing game each year and not making budget is usually not a bad thing. At the end of the year, the numbers show that we are spending the bulk of our time on our primary mission while still taking care of business on all other fronts.



YOUR INTERNAL AUDIT TEAM



L to R: chief audit officer Tom York, staff auditors Tara Pritchett, Diana Hill, Julie Earls and Raheel Qureshi

MORE ON OUTREACH

One of our enduring department goals is get the word out. Each year, we look to use as many different platforms as possible to broadcast news and information about internal audit to the campus community. Some of the tactics that we employed over the last year have been quarterly presentations to the Audit, Compliance, and ERM Committee of the Board of Trustees; regular articles submitted to Inside UNC Charlotte on audit trends and compliance tips; and fraud awareness overviews

presented to each iteration of New Employee Orientation.

Each semester, we presented training classes through HR Learning and Development on fraud awareness, audit trends, and internal controls self-assessment. We augmented these regular activities with presentations to various campus groups such as the Business Managers Forum and the Research “Brain Burst” crew. If you would like us to come by your department, give us a call or send us an [email](#).

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**“You can do it —
we can help!”**

FAREWELL

After 11 1/2 years at UNC Charlotte, the last 10 1/2 as the chief audit officer (CAO), I will be retiring on Oct. 1, 2016.

During my tenure as the CAO, we have grown from three to five full-time staff and added two part-time interns. We have increased our visibility across all the divisions of the University. We have proven that we are your partner not your opponent, looking for ways to help you do what you do and do it better. We believe in the concept of a team of teams, each of us doing our part and contributing to our overall mission. We have stretched ourselves to look into areas where we have never been so we can better understand our University and how it operates.

I leave behind a team of committed and competent audit professionals who enjoy what they do and who they work with. Working at a university was the farthest thing from my mind when I retired from the Army, and the same goes for being your chief audit officer. Both unexpected opportunities have turned out to be extremely rewarding and have provided a rucksack full of memories.

Thanks for your patience, understanding and support.

Tom York