

Approval of UNC General Administration's 2013-14 Internal Audit Plan

The Board of Governors' Audit Committee serves as the oversight body for the University of North Carolina General Administration (UNC-GA) Internal Auditor. Thus, it is the approving authority for the annual UNC-GA Internal Audit Plan. After performing a risk assessment and receiving input from members of UNC-GA's senior management, the attached plan represents the areas the Internal Auditor believes are the high risk areas for General Administration.

It is recommended that the attached 2013-14 Internal Audit Plan for UNC General Administration be approved.

# UNC General Administration

## 2013-2014 Internal Audit Plan

(This is a draft document pending Audit Committee and Board of Governors approval.)

## UNC General Administration Internal Audit Plan Development



# **Risk Assessment Summary**

**Fiscal Year 2013-2014**

## **Introduction**

Like corporations, universities and governing institutions such as UNC General Administration and its many sub-agencies, are transforming the way in which business is conducted, managed and monitored. To effectively operate and manage our complex set of resources, management must be aware of risks and create a risk-conscious climate within the entity as a whole and across individual divisions.

North Carolina General Statute 143-746 requires us to follow the International Standards for the Professional Practice of Internal Auditing (Standards) issued by the Institute of Internal Auditors. As required by these Standards, internal audit plans shall be developed using a risk based approach. UNC General Administration Internal Audit developed a risk analysis that incorporates areas identified by management. They include activities that are repeated annually or on an every year or so basis because of risk, areas identified by the State Auditor, and finally, those where risks and materiality of exposure are the greatest.

The development of a risk-based audit plan includes defining auditable sub-agencies and divisions within UNC General Administration, defining auditable units and cycles within the sub-agencies and divisions, establishing the risk criteria, and ranking those areas defined. In addition, the North Carolina General Assembly has established many small sub-agencies as affiliates of UNC General Administration based on the agency's mission. We based the establishment of UNC General Administration's audit population and risk framework on the following auditable units.

## **Auditable Units:**

**President's Office**

**Academic Affairs**

**Academic and Student Affairs**

**Academic and University Programs**

**Academic Policy and Funding Analysis**

**Institutional Research**

**International, Community and Economic Development**

**Research and Graduate Education**

**Chief Operating Officer**

**Advancement**

**Finance**

**Business Office**

**Human Resources**

**Information Technology**

**UNC Finance Improvement and Transformation**

**Chief of Staff**

**Communications**

**Federal Government Relations**

**State Government Relations**

**Secretary of the University**

**Safety & Emergency Operations**

**UNC Center for Public Television**

**Legal Affairs**

**Risk Framework:**

**Criticality of Unit/Division**

**Regulatory Compliance**

**Audit History**

**Impact of Negative Publicity**

**Organizational Goals/Change and Economic Impact**

**Control Environment**

### **Defining and Establishing Auditable Units**

The first step in the risk assessment process is to define auditable units. While auditable units can be defined as individual divisions or business units within UNC General Administration, this approach would result in limiting the scope of audit projects or broaden it beyond what can be reasonably managed, given the resources available and the scale of the project. UNC General Administration has business units and an audit universe different than those of the affiliated UNC 16 campuses. Therefore, in trying to define the auditable units, we have used a combination of defining groups of business processes universal to UNC General Administration and the affiliated sub-agencies who operate under the umbrella of UNC General Administration, but whose organization's vision, mission, and business practices establish them as a separate auditable unit. We have also included those units where management has identified a certain level of risk. In addition to the aforementioned approach, we reviewed the following as it relates to UNC General Administration and its sub-agencies:

1. Vision, mission, and strategic plan
2. Analysis of core business practices, including areas identifying potential for cost reductions
3. Annual internal control self-assessment questionnaires

4. Audit history; identifying areas that have not been audited in several years or who have had reports of fraud and abuse
5. Areas of potential risk, particularly areas involving revenue, expenditures, purchases, and fixed asset management
6. External Auditor reports (e.g., follow up of audits conducted by State Auditor's Office)
7. Emerging trends in educational environment

### **Determining the risk assessment criteria**

The next step in the process is to identify the risk assessment criteria and apply these criteria to the auditable units in order to build an engagement plan. Although these can be considered subjective, we created a weighted risk average score to provide some objectivity to the process. The areas identified below and their corresponding percentages have been determined through research of publications for establishing risk criteria, by evaluating UNC General Administration and its affiliated sub-agency's missions and goals, reviewing historical factors, analyzing the internal control environment, and analyzing the personnel population and stability within that population. The areas of risk identified and their weight are based on the following criteria:

1. Criticality of Unit - 20%
2. Regulatory Compliance - 20%
3. Audit History – 5%
4. Impact of Negative Publicity - 20%
5. Organizational Goals/Change and Economic Impact – 15%
6. Control Environment - 20%

Based on the weighted average, we then scored the auditable unit either low, medium, or high risk. Taking into consideration the weighted average, the determining factors for auditable units listed above and resources available, we developed our annual internal audit plan.

### **RISK ASSESSMENT MEASUREMENT CRITERIA**

#### **1. Criticality of Unit – 20%**

In determining the percentage associated with “criticality of unit,” rating factors must be determined based on proper functioning of the unit, what happens if the unit is not adequately providing service or the unit is not performing services within the required time, or if the unit is unable to provide services at all.

#### **2. Regulatory Compliance - 20%**

Regulatory compliance looks at what outside entities, policies, etc. is a unit or sub-agency governed by or required to comply with (e.g. Federal, State, EPA, CPB (Public Broadcasting regulatory body for UNC Public Television), and OSHA). Also considered is exposure to potential litigation.

#### **3. Audit History – 5%**

Audit history of a unit or sub-agency can be useful in evaluating potential risk, identify areas that have not been audited or are due to be audited.

#### **4. Impact of Negative Publicity – 20%**

It is critical to understand the sensitivity of a unit/sub-agency to public exposure of any internal issues, the level of public embarrassment that could be caused to UNC General Administration as a whole, but also to sub-agencies (e.g. UNC Public Television) and how the negative publicity would impact future operations. In some cases like UNC Public Television, integrity and public confidence is critical because of the financial impact public donations have on their operation. Also to consider is the level of dependency the unit/sub-agency has on external constituents (e.g., Legislature, Federal Agencies, Corporations (e.g., Bill/Melinda Gates Foundation)).

#### **5. Organizational Goals/Change and Economic Impact – 15%**

Changes within organizations through change in organizational structure,, change in management, reorganization of key personnel, turnover rates, growth of the organization both financially and number of staff, and change in mission must all be evaluated for determining the level of risk. Have there been any changes, has there been turnover or management change, and what impact these changes have?

#### **6. Control Environment – 20%**

For internal control percentage, rating factors must be determined based on previous audit history or previously identified weaknesses in any area of the internal controls, the Office of State Controller's Internal Control Questionnaire certified annually, quality of internal controls, general observations, reported misuse of property due to weaknesses in internal controls, and other interactions (e.g. department heads).

# Audit Plan

Fiscal Year 2013-2014

<b>Financial Audits/Reviews</b>	<b>Budget</b>
Include audits/reviews having a direct relation to financial information at the institution.	
Petty Cash Review	85
<b>Information System Controls</b>	
Include audits/reviews of information systems, including general controls, application controls, and disaster recovery.	
None	
<b>Audits/Reviews of Internal Controls</b>	
Include audits/reviews of internal control systems and processes, including the EAGLE and UNC FIT assessments and testing.	
Self Assessment of Internal Control	25
<b>Performance/Operational Audits and/or Reviews</b>	
Include audits/reviews of departmental operations and activities.	
Shared Services Center	100
Contract and Grant Sub-Recipient Monitoring	255
<b>Compliance Audits</b>	
Include audits/reviews of compliance with federal and state requirements. Also include audits/reviews of compliance with university policies and procedures.	
Carry-forward, Management Budget Flexibility	120
<b>Audit Findings Follow-up</b>	
Follow-up activity related to audit findings resulting from	



external audits and those from internal audit activity.	
Financial Record System Access / Controls Follow-up	70
Review of Expenses - President, Chief of Staff, Vice Presidents	55
UNC-TV Purchasing Card/PCard Follow-Up	55
<b>Special Investigations</b>	
Include investigations of internal and external hotline reports as well as any similar types of investigations, regardless of the source.	
Various As Occurs	40
<b>Special Assignments/Consultations/Advisory Services</b>	
Include special activities assigned to the internal auditor, including committee assignments and other activities not involving audit/review activities.	
Various as Occurs	70
<b>Other</b>	
Include other internal audit activities not included elsewhere. The entries here should be very limited.	
Risk Assessment 2013-2014	80
Total Budget	955

# **Summary of Audits to be Performed**

## **Fiscal Year 2013-2014**

**Petty Cash Review**– UNC GA established a petty cash fund in FY 2012. Cash ranks as an area of high risk because it is easily susceptible to misuse and fraud. Since the function is fairly new, Internal Audit will test and evaluate the controls and transactions surrounding petty cash handling.

**Review Self-Assessment of Internal Control** – Internal audit will review and test as considered necessary the responses to the Assessment of Internal Controls over Financial Reporting document to ensure its accuracy prior to certifying it for submission to the Office of State Controller.

**Shared Services Center** – The Shared Services Center at UNC General Administration is a new and vital part of the process for migrating payroll services from the State’s Central Payroll System. Payroll services are critical to the campus operations for each of the campuses now using that services and controls must be in place to ensure the security of the data processed by the Center. Internal audit will audit the controls and look for operational efficiencies as they relate to the operations of the Shared Services Center.

**Contract and Grant Sub-Recipient Monitoring Review** – More than half of UNC GA’s contract and grant award dollars are sub-awarded out to other entities. Internal Audit will evaluate the sufficiency of the sub-recipient monitoring process to ensure that it is in line with award compliance requirements.

**Expenditures Authorized under Budget Flexibility** – UNC Policy Section 600.3.1 A.1.h requires the chancellor of each Special Responsibility Constituent Institution to review an annual internal audit report on expenditures authorized under budget flexibility, if determined as a high risk area. Since this has not been performed at UNC GA, internal auditor will perform an audit of the expenditures authorized under budget flexibility.