

AGENDA ITEM

A-3. UNC General Administration Internal Audit Update..... Joyce Boni

Situation: The chief audit officer is to provide periodic updates on UNC General Administration's internal audit activities.

Background: In accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* issued by The Institute of Internal Auditors and the Internal Audit Charter, the committee is to receive periodic updates on the UNC General Administration's internal audit activities. In addition, the committee is to review internal audit reports and letters issued by the chief audit officer.

Assessment: The attached documents are provided to assist with this update:

- Attachment 1 identifies the current status of the 2017 internal audit projects that were initially approved by the committee in July 2016, as well as projects that have been added to the internal audit plan.
- Attachment 2 is the reported results from internal audit's investigation of an employee's inappropriate use of a corporate credit card. This project was added to the audit plan when the concern was raised by management at UNC-TV. The examination revealed that a corporate credit card had been inappropriately used and that the improvements should be made to the organization's internal policies and procedures. The auditor's observations and recommendations, along with management's response, are included the report.

Action: This item is for information only.

Status of UNC-GA Internal Audit Plan

Fiscal Year 2016-2017

	Status
Prior Year Carryover	
Investigation: UNC-GA Travel and Purchase Card; UNC-TV State Vehicle Misuse	Completed
Other: Risk Assessment / 2017 Audit Plan	Completed
Operational/Internal Control Audit: Payroll Hosted Services Review	Completed
Audits/Reviews	
Compliance Audit: Contract & Grant Monitoring	In Process
Information Technology Audit: End User Data Storage & Security Awareness	Not Started
Special Audit/Review: Unplanned/Hold for UNC-TV Request	Not Started
Investigations:	
Unplanned investigations of internal or external hotline reports and other similar types of investigations.	Not Started
UNC-TV Bid and Rental Allegations (added Oct 2016)	Completed Nov 2016
Corporate Credit Card Misuse (added Dec 2016)	Completed Feb 2017
Follow-up Reviews	
2016 OSA IT General Controls Audit Follow-up	Not Started
2016 ECSU Financial Aid & Admissions Follow-up	In Process
2016 UNC-GA Travel & Purchase Card Follow-up	Not Started
Consultations/Advisory Services; Other Special Assignments	
Internship Program for HBCU Policy Consult	Completed
UNC Gift Giving LLC Policy & Procedures Consult	Completed
Email Phishing Scheme Consult	Completed
UNC Optional Retirement Plan's External Audit RFP Consult	In Process
Institutional Advancement's New System Set-up Consult	In Process
IT Governance Policy Development Consult	In Process
UNC-TV Cost Methodology Consult	Not Started
Other: Internal Audit/Audit Committee Charter Updates	In Process
Other: Risk Assessment/Audit Plan for FY2018	Not Started
Other: Board Meetings/Unit Oversight	In Process
Various Consults, Committees, Other: Routine Consults with UNC-TV and UNC-GA; Annual Self-Assessment of Controls; UNC internal audit committees; Unplanned	In Process

The red font denotes changes since the last status update.

Note: The above does not include the other internal audit services to NC School of Science and Mathematics and the NC State Education Assistance Authority.



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Brooks Skinner, Associate General Manager and General Counsel
Thomas Shanahan, Senior Vice President and General Counsel
Meredith Didier, Chief of Staff
Lynne Sanders, Vice President of Compliance and Audit Services
Council of Internal Auditing

From: Joyce Boni, Chief Audit Officer 

Date: February 8, 2017

Re: Investigation of Possible Inappropriate Corporate Credit Card Use (I17007)

Internal audit has completed an investigation related to a past due corporate card account and concerns that a UNC Television (UNC-TV) employee may have used the card for personal activity. The results of this investigation are provided below.

Background

Human Resources staff contacted internal audit about an employee's corporate credit card account that had been cancelled because it was significantly past due. Based on the size of the delinquent balance, UNC-TV management was concerned that the card had been used for purposes other than business travel.

As allowed by the State Budget Manual, UNC General Administration (UNC-GA) offers a corporate credit card program for employees to obtain an American Express corporate card for official business travel. Cards are issued at the discretion of management to an individual based on their employment with the University. The terms of the American Express corporate card membership state the card is solely for business expenses in accordance with the organization's policy. Per the State Budget Manual and card guidelines established by UNC-GA, the card should be used only for travel costs while on official state business.

Under the American Express corporate card program, cards are issued in the individual employee's name but identify UNC-GA as the employer. Outstanding balances are due in full each month and the employee is liable for all charges, including any fees. The University has no financial liability, but as a University sponsored card, management has the right to revoke the card and the card must be relinquished when the employee's employment ends.

Objective and Scope

The objective of this engagement was to review the corporate card activity for a UNC-TV employee and 1) assess if the employee's card activity violated any State or UNC-GA policy, and 2) if applicable, evaluate why the violation occurred and recommend possible improvements to the current process to prevent similar issues in the future.

The scope was limited to the one employee's card activity from January 2016 – November 2016 and the related policies that were in place during that time. The audit procedures included, but were not limited to:

- Reviewing the State and UNC-GA policies and related guidance, as well as the American Express corporate card terms and conditions,
- Identifying the UNC-GA procedures for requesting and obtaining a corporate card,
- Interviewing relevant staff about correspondence and events related to the scope, and
- Reviewing relevant documentation such as email correspondence and the employee's corporate credit card statements and recorded travel reimbursements.

The *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors, were used as the authoritative guidance for this engagement. Fieldwork was completed on January 18, 2017, and included relevant events that took place from November 2015 to the last day of fieldwork.

Summary of Results

Based on the investigation, the corporate card activity for the period examined was not for official business travel. In addition, the outstanding balance was not paid in full from May to August and the card was cancelled in September. Using the card for personal costs violates State policy and not paying the balance in full each month violates the UNC-GA corporate card instructions.

The employee admitted to using the card for personal expenses, stating he was not aware the card was limited to business use but thought it could be used at his discretion since it was issued in his name and he was liable for all charges. However, internal audit reviewed a November 30, 2015 email to the employee that included an attachment of UNC-GA's guidance for using the corporate card. The UNC-GA guidance states the card is for business related expenses and lists travel costs as an example business expense. In addition, the American Express terms that are referenced by link in the online application process states the card is solely for business expenses in accordance with company policy.

In response to the results of this investigative review, UNC-TV management decided to place a reprimand in the employee's personal file. This decision was made after consultation with legal and human resources and a review of state, university, and UNC-GA policies governing disciplinary actions. The employee's corporate card is already cancelled, and management stated the employee will not be allowed to obtain a similar card in the future. UNC-TV financial staff also indicated they will assess the changes that UNC-GA finance implements then consider if additional procedures are needed at UNC-TV.

Internal audit identified other areas for improvement that might reduce the risk of similar issues in the future. At a minimum, management should consider making the UNC-GA internal corporate credit card guidance part of the formal UNC-GA financial policies manual. As such, it will be clearly identified as an entity policy and made readily available to all employees. In addition, the internal policy should be updated to clarify the roles and responsibility of employees, supervisors, and the corporate card program administrator. The specific observations and recommendations, along with management's corrective action plans, are provided in the *Observations and Recommendations* section below.

The cooperation and professionalism of the staff that assisted with this review is greatly appreciated. Should you have any questions or concerns, please do not hesitate to contact me.

Observations and Recommendations

OBSERVATION: COMMUNICATION OF CORPORATE CARD POLICIES NEEDS IMPROVEMENT

UNC General Administration (UNC-GA) does not have a published corporate credit card policy in the formally adopted financial policy manual that resides on the organization's intranet. The internal document that is referred to as the corporate credit card policy is an informal list of general instructions and does not define all relevant roles and responsibilities for the UNC-GA corporate credit card program. The absence of a formal policy with defined expectations increases the risk of inappropriate card use and noncompliance with State policies.

The State Budget Manual authorizes the use of credit cards, such as American Express corporate cards, for employees during travel on official state business. As a sound business practice, individual organizations that engage in the program should develop and adopt clear policies and procedures for how the program will be internally handled. It would be helpful for such policies to outline the roles and responsibilities of the employees, supervisors, and program administrator. Formal policies should be documented, updated when needed, and readily accessible to employees and supervisors.

The organization's corporate card program is managed by staff in the finance department of UNC-GA. All employees, including those at UNC Television (UNC-TV), are expected to follow the program policies and procedures issued by UNC-GA finance staff. While UNC-GA finance has created guidance in an informal document and developed internal procedures for requesting, obtaining, using and managing the corporate card program, these are not part of the formal policies that reside in the organization's internal policy manual. The guidance is provided to individual employees requesting a corporate card application. For others to obtain UNC-GA corporate card guidance, they have to request the information from UNC-GA finance staff.

The corporate credit card instructions and policy needs enhancements to improve employees and supervisors understanding of the program and related expectations. For example, the UNC-GA instructions do not specifically state the card is only for travel (although it is implied). In addition, it does not indicate a potential violation could result in disciplinary action, identify conditions that could result in revoking the card privileges, or define what role others have when an account has a delinquent balance.

Recommendation: Management should update the formal UNC-GA financial policies manual to include a corporate credit card policy. Having it as part of the financial policy manual not only clearly identifies the document as a policy employees are expected to follow, but also makes it accessible to all employees.

In addition, UNC-GA finance should enhance the current guidance to address the roles and responsibilities of those approving employees to receive a card, employee use of the card, and employees overseeing the program. As the internal policy and procedures are re-evaluated, consider what would improve employees' clarity and understanding, especially new employees. For example, internal audit suggests management consider some combination of the following, along with other staff ideas:

- Assess if the policy should provide guidance regarding who should have a corporate credit card, such as those expected to travel frequently for business and guidance for judging "frequently."
- Assess if the corporate card policy should reference relevant State, University, and UNC-GA travel policies. Be clear that the corporate card users are to comply with the relevant travel policies. Remind cardholders that those with a corporate travel card should not typically request or receive a travel advance.

- Assess the cost/benefit of requiring employees to sign a form that documents he/she has read and agrees to the UNC-GA card policy.
- Assess the cost/benefit of requiring a supervisor and/or department head to approve an employee's request for a card and affirm that the employee is expected to travel frequently for work and, as such, a corporate card is appropriate.
- Assess if the policy should list specific examples of allowed or un-allowed card use. Based on other UNC-GA procedures for conference registration fees, airlines, and rental cars, consider if there are any limits or priorities for using the card.
- Assess if the policy should identify conditions under which the card can be revoked (such as failure to pay timely or repeated misuse).
- Assess if the policy should indicate that misuse can result in disciplinary action and identify the type of action that might be taken (such as a written warning or possible termination for repeated incidents).
- In the event of a past due account, consider if after multiple notices have been sent to the employee and his/her supervisor, should another level of management be notified.
- Consider the cost/benefit of reviewing card transactions for possible inappropriate use. Possible options are identifying specific events to initiate a review or developing a procedure for conducting a periodic review of a sample of accounts. As UNC-GA finance staff may not have the knowledge of each employee's duties to fully evaluate the activity, consider if certain information should be shared with the direct supervisor to review and confirm proper business use.
- In the event of a past due account or potential misuse, consider clarifying what duties and responsibilities reside with the program card administrator and a notified supervisor and/or other authoritative figure.
- Consider the cost/benefit of monitoring the card use and if it is not being used for frequent travel should the employee and/or supervisor be contacted to inquire if the card should it be cancelled.

Management Response: Management agrees to clarify and publish the American Express credit card policy in the formally adopted financial policy manual that resides on the intranet. The corporate card program is managed by UNC-GA's Purchasing staff. The Purchasing staff will review and establish best practices to help formalize UNC-GA's business American Express corporate card policies and procedures. Upon the Controller's review, the proposed implementation date is March 1, 2017.