

3. Approval of UNC General Administration’s Internal Audit Plan..... Joyce Boni

Situation: The 2015-2016 Internal Audit Plan for UNC General Administration is being presented for review and approval. In addition an update is being provided on the prior year audit plan.

Background: The Audit Committee of the Board of Governors serves as the primary audit committee for the Internal Audit function at UNC General Administration (UNC-GA). In this capacity and as directed by the Audit Committee Charter, the Committee is the approving and oversight authority for UNC-GA’s annual Internal Audit Plan.

Assessment: After reviewing the status of the prior year audit plan and performing a comprehensive annual risk assessment, which included receiving input from members of UNC-GA’s senior management, the attached plan represents the areas Internal Audit has selected for this year’s annual audit plan. It is recommended that the attached 2015-16 Internal Audit Plan for UNC-GA be approved. In addition, the status of the 2014-2015 plan is provided for informational purposes.

Action: This item requires a vote.



Fiscal 2015-2016 Internal Audit Plan

August 2015

Compliance and Audit Services | UNC General Administration

Joyce D. Boni, Chief Audit Officer

UNC General Administration Audit Plan

Fiscal Year 2015-2016

Description	Budget
Compliance Audits	
Contract & Grant Sub-recipient Monitoring	100
Information Technology Audits	
End User Data Storage & Security Awareness	100
Operational/Internal Control Audits	
Payroll Hosted Services	100
Follow-up Reviews	
2013 OSA IT Audit of Banner Hosted Services	40
Special Audits/Reviews	
Unplanned/Hold for new President's Request	100
Investigations	
Unplanned / Various as occurs: Investigations of internal/external hotline reports and other similar types of investigations.	40
Special Projects/Consultations/Other	
Annual Risk Assessment / Audit Plan for FY2017	80
Quality Assurance Review	50
Internal Audit Strategic Plan	40
Other Consults/Committees:	310
UNC-TV; UNC-GA Operations Team; Annual Self-Assessment of Controls; Unplanned / Various as Occurs	
Total Direct Hours	960
Other Hours	
Administration/Other Non-CAO duties	192
Leave/Holiday	220
Professional Development	58
Internal Audit Services to NCSSM	650
Total Hours	2080

Thomas W. Ross, President

Roger Aiken, Audit Committee Chair

Summary of the Planned Services

Contract/Grant Sub-recipient Monitoring – UNC-GA receives federal and state funds that are then awarded to other entities in accordance with a contract or grant agreement. Internal Audit will review UNC-GA’s process and procedures for monitoring the recipients of these funds for compliance with the contract/award agreement and applicable federal and state requirements. This was brought forward from the previous year’s audit plan.

End User Data Storage & Security Awareness – UNC-GA collects and stores various private/sensitive student and employee data. Internal Audit will assess the types of data that are handled, stored, or transmitted by staff; where it is stored or transmitted; and how it is secured. This will include assessing related IT general controls, such as user access and physical security, as well as the end users awareness of what they should do to help secure and protect the data. This was brought forward from the previous year’s audit plan.

Payroll Hosted Services – Staff at UNC-GA provides payroll processing services to nine campuses. Internal Audit will review the procedures at UNC-GA to assess if proper controls are in place. In addition, the service agreements and other communications with the campuses will be reviewed to assess if the roles and responsibilities of UNC-GA versus those of the campus have been clearly defined.

OSA IT Banner Hosted Services Follow-up – In December 2013 OSA issued an IT general controls audit that contained reportable findings. The initial Internal Audit follow-up issued in June 2014 noted improvements had been made but further corrections were still in process. Internal Audit will conduct a follow-up review to evaluate if the corrective action that has been taken on the remaining items.

Hold for President’s Request – Time is allotted to address any special requests the new UNC System President may have. If this time is not needed, it will be shifted to other tasks.

Annual Risk Assessment – Internal Audit will conduct a risk assessment as part of the process to develop the audit plan for the 2016-2017 fiscal year. This involves identifying and ranking risks based on management input, current trends, prior audit results, and other factors. The result will be a risk-based audit plan as required by the Internal Audit Charter and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

Quality Assurance Review – As required by IIA *Standards*, UNC-GA’s internal audit function will undergo an external quality assurance review in the fall of 2015. An external assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organization. To prepare for the external review team, Internal Audit must gather a prescribed list of reports and other information for the review and then be available once the team arrives on-site. Time has been set aside in the prior and current year plan for this task.

Internal Audit Strategic Plan – Assistance will be provided to the President and Vice President of Compliance and Audit Services to develop a strategic plan for the future of the UNC System’s internal audit function. The goal is to develop strategies that address resource needs and direction of internal audit.

UNC-TV Consult - As designated in the University of North Carolina Strategic Plan, an extensive review was done of UNC-TV in 2014. This resulted in various findings and recommendations that have UNC-TV making a number of operational changes. Internal Audit will provide consultative

services to the UNC-TV staff as they develop new processes and procedures. The objective will be to provide proactive feedback, as needed, to help ensure effective controls and operating procedures are designed and, where applicable, comply with state, federal and UNC System rules.

UNC-GA Operations Team Consult – Management has developed a team to review and streamline common operations and procedures within UNC-GA and its affiliates. Internal Audit will provide consultative services to the staff as they develop new processes and procedures. The objective will be to provide proactive feedback, as needed, to help ensure effective controls and operating procedures are designed and, where applicable, comply with state, federal and UNC System rules.

Review Assessment of Internal Controls over Financial Reporting – Internal Audit will advise management as they conduct their annual self-assessment of internal controls over financial reporting. As part of the internal controls assessment team, the Internal Auditor’s role is to communicate and discuss with the team matters known to them and, as deemed necessary by the Chief Audit Officer, communicate internal control matters to the President and Board of Governors’ Audit Committee.

Other/Unplanned – Internal Audit has reserved time for possible investigations, special projects, consultations, and/or other needs that will likely arise during the year.

Overview of the Risk Assessment Process

Background

North Carolina General Statute § 143-746 requires internal auditors follow the *International Standards for the Professional Practice of Internal Auditing (Standards)* issued by The Institute of Internal Auditors. As required by these *Standards*, the internal audit plan is developed using a risk based approach. Internal Audit's risk analysis incorporates areas identified by management and includes activities that are repeated annually or rotated every year or so due to risk, areas identified by an external audit, and areas where risks of exposure and materiality are the greatest.

The development of a risk-based audit plan includes identifying auditable departments within UNC-GA and its associated entities, defining auditable units and cycles within those units, establishing risk criteria, and ranking the identified areas in relation to the identified risks.

Internal Audit Plan Development



Defining and Establishing Auditable Units

The first step in the risk assessment process is to define auditable units or, as it is commonly called, the audit universe. The audit universe is an aggregate of the organization's departments, operations, processes, individuals, or areas that can be subjected to audit. Our objective is to divide the components of the audit universe in way to effectively assess risk and develop efficient audits. As a result of our risk assessment and consideration of resources, we may further identify sub-units (or processes) to audit individually.

To identify the audit universe, we reviewed the following:

1. Vision, mission, and strategic plan
2. The overall structure and organization of the entity
3. Core business practices and processes
4. Annual internal control self-assessment questionnaires
5. Audit history, identifying areas that have not been audited in several years or have had reported findings
6. Areas of potential risk, particularly areas involving revenue, expenditures, purchases, fixed asset management, data security, and compliance
7. External auditor reports (e.g. conducted by the Office of State Auditor or external CPAs)
8. Emerging trends impacting the UNC System and UNC-GA

Determining the risk assessment criteria

The next step in the process is to identify the risk assessment criteria and apply the criteria to the audit universe in order to build an engagement plan. We considered the following risk criteria:

1. **Criticality of Unit:** Evaluating criticality of a unit involves understanding the function of the unit and how it impacts the organization. Consideration is given to what happens if the unit is not adequately providing service or is not performing services within the required time. The unit's effect on overall operations, information systems, and strategic direction influences risk factor.
2. **Internal Control:** This involves evaluating the quality of the internal controls and the environment in which they operate. It includes whether the environment and tone set by management is sufficient to ensure controls are in place and working effectively. Audit history can be useful in evaluating potential risk and identifying areas that have not been audited or are due for audit. Previously identified weaknesses, general observations, reported misuse due to weaknesses in internal controls, and concerns expressed by management and staff is also considered.
3. **Impact of Negative Publicity:** This is reputational risk and includes the sensitivity of a unit to public exposure of potential internal issues, the level of public embarrassment that could be caused, and how the negative publicity would impact future operations. Because state, federal, and private funds are used by the organization, integrity and public confidence is critical.
4. **Legal and Governance:** This considers the exposure to potential litigation and/or compliance with required laws, policies, etc. Regulatory compliance considers what outside entities and/or policies a unit is governed by or is required to comply with (e.g. federal, state, EPA, and OSHA). It also includes the potential impact and exposure to current or possible litigation.

5. **Change Management / Organizational Structure:** Changes within the entity such as modifications to the organization's structure, changes in management or key personnel, reorganization of key personnel or departments, turnover rates, growth of the organization both financially or in number of staff, and changes to the mission are all evaluated when assessing this risk factor.
6. **Financial Impact:** The overall budget for the unit, whether from State or other sources, is considered when assessing risk. Other considerations include the potential impact of a misuse of funds, reliance placed on subjective estimates, the size, volume and nature of the transactions, and the potential impact of inaccurate or incomplete reporting. The larger the financial impact the greater the risk.

Because this overall process can be considered subjective, a weighted average of the scores is used to provide some objectivity to the process. For this, each risk criteria is given a corresponding percentage such that all six criteria total 100%. The criteria and corresponding percentages were determined from researching publications related to establishing risk criteria.

Based on the weighted average, each auditable unit is ranked as low, medium or high risk. Taking into consideration the weighted average, the determining factors for the audit unit and resources available, we develop our annual internal audit plan.

The audit plan is a dynamic document that may change during the year as circumstances warrant. Requests from management or the board, unexpected hotline or other investigations, and changes in the organization or its operations may change the needs and priorities of the organization. Thus, the audit plan is adjusted to meet the need.



Status of 2014-2015 Internal Audit Plan

August 2015

Compliance and Audit Services | UNC General Administration

Joyce D. Boni, Chief Audit Officer

**UNC-GA
Audit Plan
Fiscal Year 2014-2015**

as of June 30, 2015

Audits/Reviews/Projects	Budget	Status
Operational Audits: None		
Total Operational Audit Hours	0	
Compliance Audits: Contract and Grant Sub-recipient Monitoring	100	Deferred
Total Compliance Audit Hours	100	
Information Technology Audits: End User Data Storage and Security Awareness (UNC GA)	100	Deferred
Total Information Technology Audit Hours	100	
Special Reviews: Non-planned Reviews Requested During 2014-2015	50	Cancelled
Total Special Review Audit Hours	50	
Follow-Up Reviews: Follow-up on OSA IT Audit of Banner IS Services	50	Added; Deferred
Total Follow-Up Review Audit Hours	50	
Other/Special Projects: Risk Assessment/Audit Planning 2015-2016	50	In Process
Consultations/Committees:	376	
Other/Routine Consultations		On-going
Internal Audit Strategic Planning		In Process; Deferred
Quality Assurance Review		In Process; Deferred
PeopleSoft Implementation		Deferred
NCSEAA Vulnerability Assessment of Systems Report		Cancelled
Total Other/Special Project Hours	426	
Total Direct Audit Hours	726	

Status

- Deferred - Audit/Review moved to a future year.
- Cancelled - Audit/Review will not be performed in the current or future year.
- Added - Added to Current Year Plan (was not in the initial plan)
- In Process - Fieldwork in process and/or report not released.
- On-Going - Activities of an on-going nature