

## AGENDA ITEM

B-5. 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, the Audit Committee Charter, and the Internal Audit Charter, the Committee is to receive periodic updates on 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 since been added to the internal audit plan.
- Attachment 2 is the reported results from an operations and internal control review of UNC General Administration's Shared Services Payroll. This review was part of the approved fiscal 2016 audit plan and includes recommendations for improvement along with management's responses.
- Attachment 3 is the reported results from internal audit's investigation of alleged illegal activity at UNC-TV. This project was added to the audit plan when the allegation was presented to the Chief Audit Officer. An examination of the specific activities cited in the allegation revealed no illegal activity by UNC-TV.

**Action:** This item is for information only.

## Status of UNC-GA Internal Audit Plan

Fiscal Year 2016-2017

	<b>Status</b>
<b>Prior Year Carryover</b>	
Investigations: UNC-GA Travel and Purchase Card; UNC-TV State Vehicle Misuse	Completed (July & Aug 2016)
Other: Risk Assessment/2017 Audit Plan	Completed
Operational/Internal Control Audit: Payroll-Hosted Services Review	Completed (Oct 2016)
<b>Audits/Reviews</b>	
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
<b>Investigations:</b>	
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)
<b>Follow-up Reviews</b>	
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
<b>Consultations/Advisory Services; Other Special Assignments</b>	
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 Advice	In Process
Institutional Advancement's New System Set-up Advice	In Process
IT Governance Policy Development Advice	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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North Carolina  
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University

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**CC:** Walter Davenport, Board of Governors Committee on Audit, Risk Management, and Compliance  
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Council of Internal Auditing

**From:** Joyce Boni, Chief Audit Officer 

**Date:** October 19, 2016

**Re:** Review of Shared Services Payroll (A16003)

Internal audit has completed a review of the UNC General Administration's (UNC-GA) Shared Services Payroll. This review was part of the fiscal 2016 internal audit plan that was approved by the President and the Board of Governors Committee on Audit, Risk Management, and Compliance. The results of the review are provided below and include recommendations to assess current procedures to strengthen internal controls.

#### Background

The UNC-GA Shared Services Payroll unit has service agreements with nine UNC campuses to provide certain "back-end" payroll processing services. Under this agreement, UNC-GA and the campus shares the duties and responsibilities for executing the payroll process. All campuses served by UNC-GA use Banner as the financial, human resources, and payroll information system. However, each campus maintains its own instance of Banner; meaning the system configuration is controlled by each campus.

Related to the division of duties, each campus is responsible for establishing positions and entering salary and other detailed employee data into Banner, as well as initiating the payroll process. UNC-GA is responsible for completing final payroll processing, including processing payments to third party vendors and taxing authorities. UNC-GA also provides payroll processing support to the campuses; prepares federal and state payroll tax returns for campus review and submission; and assists with establishing a uniform configuration for the payroll module and developing enhancements, reports, and interfaces.

Shared Services Payroll operates as an independent unit and as such, the costs of running the unit are allocated to the nine campuses that UNC-GA serves. Campuses are invoiced annually and the costs are based on a methodology that considers both a fixed baseline operating cost and a variable cost based on the quantity of W2 forms issued.

## Objective and Scope

The objective of this engagement was to review the payroll procedures at UNC-GA to: 1) assess whether sufficient controls have been designed for processing campus payrolls and making appropriate payroll related payments; and 2) identify any improvements that could be made to the shared payroll process. Because the complete payroll process involves duties and responsibilities shared between UNC-GA and the campuses, internal audit also assessed whether the division of responsibility was logical and clearly communicated. However, this review did not examine specific activities performed by a campus.

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 review. The audit procedures included, but were not limited to, reviewing the department's applicable policies and procedures, interviewing personnel, and reviewing the supporting documentation related to procedures performed by UNC-GA. The review covered shared service procedures that were in place during January 2016 through March 2016 and the audit fieldwork was completed on July 13, 2016.

## Summary of Results

The following was noted from this review:

1. Communication of responsibility: The division of responsibility between UNC-GA and the campuses is clearly communicated. UNC-GA shared services staff has developed various documents and tools that provide detailed guidance that governs the roles, responsibilities, and expected processes that should be handled by the campus and by UNC-GA. This guidance not only distinguishes the division of responsibility between the organizations but also provides best practice guidance on specific human resource and payroll functions that the various campus departments should handle.
2. Division of responsibility: Based on a review of the guidance that defines the roles, responsibilities, and expected processes, the division of responsibility between the campus and UNC-GA is logical.

In relation to this, management had asked if this review could assess whether the shared service center could efficiently and effectively perform additional payroll related duties for a campus. To assess and answer this would require a more in-depth evaluation of UNC-GA and each campus. Since UNC-GA staff has recently absorbed more payroll responsibilities for one institution (at that specific institution's request), internal audit suggests management utilize that arrangement to assess what duties are efficiently and effectively executed from a remote site. Management's assessment should consider the total costs of having UNC-GA employees versus campus employees perform such duties and how the costs may vary by campus due to various factors such as size/volume of transactions, staffing capacity and ability, salaries and other operating costs. In addition, consider surveying the staff at both UNC-GA and the campus about the daily activities and whether the service is effectively and efficiently meeting the needs of campus departments that interact with and use the service.

3. Design of control procedures at UNC-GA: Based on the current division of responsibility and the design of procedures at UNC-GA, processes have been developed with internal controls in mind. Efforts have been made to ensure appropriate reconciliations, reviews and supervision are incorporated. The controls over the typical monthly and bi-weekly payroll processing have been designed to detect or prevent material errors. However, items for management to keep in mind:
  - a. Any significant changes, such as staff turnover, tax law/rule changes, or system updates, can increase risk. In times of significant change, management should plan ahead, evaluate the circumstances, and modify standard processes to mitigate risks. Internal audit does not intend to indicate that such assessments and planned responses are never done, but is simply reminding

management that risks are increased with significant change and such situations require proactive mitigation.

- b. Accuracy of the final payroll, including the automated processing and output, is significantly dependent upon the format/design of the Banner system. UNC-GA and campus representatives have established expectations and written guidance for maintaining the Banner payroll module in accordance with a “standard model” (i.e. a defined system configuration). A standard protocol for updating, modifying and maintaining this “standard model” has been developed and shared with each campus. However, each campus controls its own instance of Banner and is responsible for ensuring the campus is running the correct version of the “standard model.” UNC-GA does not have an effective way to verify each campus is using the correct version of the “standard model.”
- c. In addition, accuracy of the final payroll is dependent upon the control procedures executed at each campus and the various campus departments entering the appropriate data into the system. To help achieve this, UNC-GA has provided written guidance on the control procedures each campus should have in place. In addition, UNC-GA offers training and provides payroll processing support to the campus staff as they execute their duties. However, if UNC-GA staff had certain user access rights to the campus’ instance of Banner, they could provide more efficient payroll support. Although the current service agreements include provisions for providing UNC-GA with access to the campus’ system, UNC-GA does not currently have such access with all campuses.

Based on the design of the payroll procedures and processes, internal audit noted two areas related to information system control procedures that could be improved: 1) obtaining UNC-GA staff the access necessary to efficiently provide payroll support to campuses; and 2) developing procedures to proactively monitor the “standard model” used by each campus. 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**

### **1. INFORMATION SYSTEM CONTROLS COULD BE IMPROVED**

UNC-GA does not have an effective way to verify that each campus is using the “standard model” or is making the appropriate system updates. This increases the risk of errors in the payroll process and could result in inaccurate amounts being paid to employees, vendors, or taxing authorities and/or noncompliance with tax regulations or benefit rules.

The payroll process and output is heavily dependent on how the Banner system is configured. In order for the payroll shared services arrangement to work effectively, UNC-GA and campus staff developed written policies that govern the use of a “standard model” for the Banner payroll module. This model defines how certain components of the payroll module should be configured to help ensure standard payroll processing and results. While procedures are in place for implementing patches, updates, or modifications, internal audit noted some matters that could limit UNC-GA’s ability to facilitate the campuses with proper payroll processing, such as:

- a. The procedures for implementing system changes can be time consuming. As part of the agreed upon service, UNC-GA staff plays a key role in development, design and testing of modifications that impact the “standard model” configuration. Technical staff at UNC-GA will design, test and apply the changes to the standard model that is housed and maintained at UNC-GA. However, approved changes are not “pushed” down to a campus. Instead, UNC-GA has to create a package with detailed instructions for each campus to repeat in order to make the updates/changes to the campus’ instance of Banner.
- b. UNC-GA has to rely on the campus to make only approved changes and execute those changes correctly. UNC-GA has not been granted the appropriate access rights by all campuses that would allow UNC-GA to view campus’ test or production environments. As a result, UNC-GA is unable to review the campus’ system (the screen, tables, rule codes, etc.) to verify approved updates were actually made and/or made correctly.
- c. In addition, a campus could make other changes to the system that impacts the payroll module and UNC-GA could be unaware. Due to the limited access, UNC-GA cannot proactively verify the “standard model” is being used. However, simply having access to view campus’ test or production environments may not be enough to identify possible differences. Staff manually comparing each campus’ instance of Banner to the “standard model” controlled at UNC-GA is unlikely to provide an efficient and effective result. UNC-GA staff has identified the possibility of developing a program to automate the comparison and identify differences, but IT programming resources are needed. Another option is to get table extracts and compare the campus tables to the UNC-GA model using Excel, but this would still involve some manual comparisons. In addition, campuses would have to agree to provide extracts of their data.
- d. UNC-GA has a backlog of system enhancement/update projects that they and the campuses have identified as items that could help campuses correct compliance issues and/or provide interfaces that would make the payroll process more efficient. Per the staff, the list is not being completed due to a lack of IT resources. Certain technical/programming expertise from IT staff is needed but not available to execute the projects. The staff in the UNC-GA IT department with the expertise has other work priorities. In addition, many are part-time, rehired retirees; being part-time limits their availability and being a retiree implies their employment may be short-term.

**Recommendation:** Management should evaluate the current process to identify possible procedures that would allow UNC-GA staff to effectively monitor the campuses' implementation of system changes and the "standard model" used by each campus. The following should be considered:

- Work with the appropriate campus officials to get UNC-GA staff the access they need to effectively view and evaluate the status of the system changes and to provide assistance to the campus as they enter and test system changes. The agreement between UNC-GA and each campus states that the UNC-GA staff shall be granted the appropriate access to non-production systems to perform payroll related user acceptance testing or to troubleshoot payroll related incidents. Further discussions should be held with campuses to define and agree upon what this access level should be (also see finding 2 below) and clearly define those rights in the service agreements.
- Explore the options available for developing an automated process to compare the campus system to the "standard model" and identify possible exceptions. While the benefits may be easier to define, the costs of creating a program necessary to execute this should also be considered. This may include, but is not limited to, the availability and costs of the staff and expertise needed for the project; the time to develop, test, and implement an automated program in relation to the timing for when the next extensive Banner update or replacement will occur; and the staffing resources available (whether at UNC-GA or the campus) to execute a comparison and then effectively investigate and resolve the noted exceptions.

In relation to the technical/IT system support staff that help develop system enhancements, UNC-GA should strategically assess the current model and the current and future staffing needs. To help shape decisions about how to handle the backlog of system enhancement/update projects, what modifications might make the implementation of system changes more efficient, or continuing to provide technical/IT support as part of the shared service agreement, some factors to consider include (but are not limited to):

- a. Which enhancement projects are truly cost/beneficial to complete;
- b. What expertise/skills are needed, where can this technical/IT staff be obtained, and should they be hired as employees or as consultants;
- c. When might an updated Banner system or an entirely new computer system (either of which will function differently from the current system) be implemented; and
- d. If UNC-GA continues to offer IT support that includes programming expertise, is the current use of part-time, rehired retirees a sustainable model or does the staffing levels need to change and can those changes be sufficiently funded by payroll share service fees.

A long-term goal that has been mentioned before involves having The University of North Carolina and existing Banner institutions on a single consolidated enterprise business system. Such a change could benefit many business processes and operations, including the payroll process. The payroll "standard model" and related guidelines are necessary because each campus in the payroll shared services arrangement operates its own, separate instance of the Banner software. Having multiple instances contributes to the inefficiencies and makes oversight and monitoring (including implementation and maintenance of a standard configuration) more difficult. Utilizing a single instance of the software that incorporates all campuses (but as distinct entities) could provide various positive results; however, this change would impact much more than payroll. The entire enterprise business system (that includes admissions, student accounts, financial aid, financial accounting, HR/payroll, etc.) for each campus would be impacted and the transition and implementation to a new system would require extensive evaluation



and planning, as well as money to acquire and implement. In the meantime, UNC-GA should evaluate the current shared payroll process and strive to make improvements.

**Management Response:** UNC-GA Human Resources (UNC-GA HR) is in agreement with the proposed recommendation and will work with campus HR and IT Resources to do the following:

1. Update the service level agreements between UNC-GA and each campus by March 31, 2017 to ensure that the appropriate access levels are attained for all system instances (i.e. production, test, etc.)
2. By March 31, 2017, UNC-GA HR will review the effectiveness of “sharing desk tops” with campus Payroll Administrators to better service each campus and trouble shoot issues and concerns. UNC-GA HR will evaluate options currently available via UNC-GA IT.
3. By June 30, 2017, provided dedicated system support is available from UNC-GA IT, UNC-GA HR will develop a tool to evaluate the set-up of the “standard model” at all campuses to ensure efficiency in processing payroll.
4. By March 31, 2017, ensure that full-time support from UNC-GA IT is provided to UNC-GA HR to support regulatory changes and needed system enhancements to ensure compliance with required state and federal rules for processing payroll.
5. By June 30, 2017, request that the UNC Board of Governors support an efficiency study, with the assistance of an outside consultant, to review the cost effectiveness of maintaining a single ERP system instance at UNC-GA for all shared service campuses.

The Director and the Senior Associate Vice President over the Shared Services Payroll unit will work together to ensure these action items are executed.

## **2. APPROPRIATE USER ACCESS COULD IMPROVE PAYROLL SUPPORT**

Not all campuses have granted UNC-GA staff the system access that is needed to efficiently provide payroll support to the campus from a remote location. While this does not prohibit UNC-GA from helping a campus, it does limit their ability to promptly assist the campus as they complete specific tasks and need guidance.

The agreement between UNC-GA and each campus states that the UNC-GA staff shall be granted the appropriate access to production and non-production systems to perform the roles and responsibilities defined in the agreement. Such roles and responsibilities include providing support services during the execution of bi-weekly/monthly payrolls steps and performing payroll related user acceptance testing or to troubleshoot payroll related incidents. However, UNC-GA and the campus’ opinion of what is “appropriate access” to perform the agreed upon duties tends to vary, and thus, UNC-GA does not have the same access rights with all campuses they serve.

Both the process leads that support bi-weekly/monthly payroll and the technical staff that support system updates/enhancements stated they could better serve a campus if they could at least see the campus’ data/screens. They also noted that for updates/enhancements, when a campus needs specific help UNC-GA could often give more efficient assistance if UNC-GA could execute within the campus’ test environment. Such access would allow UNC-GA to help a campus execute and test a change and, if set-up properly, such access would not impact the production environment.

**Recommendation:** Management should work with campus leadership to obtain UNC-GA staff the access necessary to efficiently provide payroll support to campuses as outlined in the service agreement. This could start with the appropriate levels of management at UNC-GA and each campus discussing the pros

and cons of the current access rights, understanding the situation and each other's perspective and concerns, and then evaluating options for improvement. Once a mutually agreed upon plan that best serves both parties is implemented, UNC-GA should consider if the terms of the current service agreement needs updating to clearly define the access rights that need to be in place.

As possible improvements are evaluated, some options to consider:

- Provide UNC-GA staff the appropriate level of access to the campus' production and non-production instance of Banner. UNC-GA technical staff has identified specific access rights that would allow UNC-GA to see campus data and screens but not allow them to change or modify the campus' production environment. The appropriate level of access should be clearly defined and communicated to campus officials. If management determines that obtaining specific access rights to the campus' system are conditions of the service, the defined access should be added to the agreement. In addition, management may also want to consider if the agreement's terms and conditions should specify consequences for noncompliance.
- Another option is software that allows individuals to securely and remotely view the activity on another's screen. If both UNC-GA and each campus have the appropriate software, a campus could share their screen to allow UNC-GA to at least view and thus better assist a campus on a specific matter. Steps may need to be taken to ensure all parties (both at the campus and UNC-GA) are properly trained on how to effectively use such software.

**Management Response:** UNC-GA Human Resources is in agreement with the proposed recommendation and, as referenced in management's response to the first recommendation, will work with campus HR and IT Resources to do the following:

1. Update the service level agreements between UNC-GA and each campus by March 31, 2017 to ensure that the appropriate access levels are attained for all system instances (i.e. production, test, etc.)
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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:** November 8, 2016

**Re:** Investigation of Alleged Illegal Bidding and Facility Rentals (I17005)

Internal audit has completed an investigation related to allegations that UNC Television (UNC-TV) engaged in illegal activity related to bidding and facility rentals. The results of this investigation are provided below.

#### Background

An anonymous complaint submitted to UNC General Administration alleged illegal activity related to the following:

1. In a recent contract that UNC-TV entered into with the Kenan-Flagler School for education videos, the source stated the bids were supposed to be sealed but believed the bids were not sealed and inside bidding took place.
2. UNC-TV is renting the facility for weddings and they have been selling services and renting without permission.

#### Objective and Scope

The objective of this engagement was to assess the validity of the specific allegation stated above and thus the scope was limited to the alleged illegal activity. The audit procedures included, but were not limited to:

- a) Interviews with UNC-TV management and legal staff at UNC-GA;
- b) A search for potential State laws and/or policies, as well as UNC policies, that may apply to the activities mentioned in the allegation;
- c) A review of supporting documents such as the request for proposal (RFP), bid documentation, related emails and other correspondence; and
- d) A review of UNC-TV's strategic study, relevant board of trustee minutes, minutes and meeting materials of the UNC-GA Umstead Review Panel, facility rental agreements, and other related supporting documents.

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 November 3, 2016.

### **Summary of Results**

Based on the investigation, no illegal activity was discovered. Internal audit noted the following related to each area mentioned in the allegation:

1. Allegation: The bids should be sealed. Result: There was no evidence that a sealed bid was required.

UNC-TV recently submitted a proposal in response to a request issued by the Kenan Flagler Business School Executive Education, LLC, seeking a partner to help create certain educational materials. As a non-profit entity, the LLC is not subject to the State's specific procurement and request for proposal (RFP) requirements. The LLC's RFP document did not require bidders to submit sealed bids to be opened at a specified place and time. However, UNC-TV submitted a written proposal, made a formal presentation to the LLC, and answered further questions asked by the LLC's management and assessment team. The LLC selected UNC-TV but prior to finalizing the contract the entities have been negotiating certain terms, services, and costs.

2. Allegation: Facility rentals and other services have occurred without permission. Result: There was no evidence that UNC-TV engaged in new services without permission.

Under the direction of the University's strategic plan that was approved by the Board of Governors on February 8, 2013, UNC-TV went through an extensive organizational study in 2014. Key findings and recommendations from this study were presented to the UNC-TV board of trustees in October 2014 and a report was released in January 2015. This study provided various recommendations, including leasing equipment and facilities to diversify UNC-TV's revenue streams. To engage in such activities with the general public and for-profit entities, UNC-TV had to obtain an exemption from the Umstead Act. In August and September of 2016, senior leaders from UNC-TV went before the University Umstead Review Panel to request an exemption under the Umstead Act. This request was approved by the Panel on September 23, 2016. Renting the facilities and gardens for meetings and weddings is specifically mentioned as an approved activity in the Panel's determination document. The first facility rental to an external party for a wedding event occurred after the Umstead Review Panel's ruling.

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