



**ANNUAL REPORT  
OF  
INTERNAL AUDIT ACTIVITIES  
FOR THE  
FISCAL YEAR  
ENDED JUNE 30, 2018**

**Internal Audit Office**

**November 2, 2018**

## Table of Contents

---

Message From the Chief Audit Officer.....	3
Mission and Overview of Internal Audit Function.....	5
Resource Utilization Analysis .....	6
Completion of Audit Plan .....	7
Management Corrective Actions.....	10
Financial Expenditures .....	12

## *Message from the Chief Audit Officer...*

For the third consecutive year, the Internal Audit Office (IAO) has prepared a comprehensive review of the activities the office has undertaken during the year ended June 30, 2018. Continuing with the tradition, the IAO has again, prepared a summary of the office's activities for the Audit Committee of the Board of Trustees, the Chancellor and the entire North Carolina Central University (NCCU) community including our students. There are several milestones to celebrate.

The IAO completed FY18 fully staffed with professionals that possess a diversity of talents, experiences and strengths. The current staffing will enable the IAO to undertake more projects that require specific competencies and skillsets. This staffing allowed the IAO to complete 25 projects.

The Institute of Internal Auditors requires that a quality assessment and improvement program be maintained by each member organization that subscribes to conform to the internal audit standards. This quality assurance and improvement program is evidenced by: 1) internal assessments, AND, 2) external assessments.

Furthermore, each member organization is **REQUIRED** to have the external assessment performed, at a minimal, of every 5 years. Although the internal assessment is not mandatory, it is highly recommended.

In preparation for the required external assessment that has to be completed in early FY19, the IAO performed an **internal** quality assessment on the internal audit activity for the previous fiscal year ended June 30, 2017. This special project accomplished two important goals for the IAO.

First of all, the internal assessment demonstrated compliance with the Standard 1311 that recommended the internal assessment evaluation of the internal audit activity. Secondly, it allowed the office to identify any potential areas that might require additional review in preparation for the mandatory external assessment and review required in early FY19. No documented internal assessment of NCCU's internal audit function had previously been recorded.

In addition to the internal assessment, the IAO had the following FY18 accomplishments:

- Completed **25 projects** during the year
- Made **70 recommendations** to management

During FY18, the IAO had a variety of engagements and projects. They included management requests, planned and unplanned audits, consultations, and investigations and external referrals. The office also completed a significant

number of follow up engagements with updates as requested by the Audit Committee.

The IAO initiated a customer satisfaction survey during FY18. The responses to those surveys requesting feedback from audit/engagement clients, has been less than satisfactory. A goal for FY19 is to continue with the surveys and to investigate other methodologies to engage audit clients. Having meaningful, unrestricted client participation is essential in developing and maintaining a responsive, continuous improvement program.

Another highlight of the IAO's year has been the redesign of the reporting format. After careful consideration of input from the Audit Committee, a comprehensive nationwide search was performed to identify programs that might have a format that facilitated the end user's comprehension of the information being conveyed. This revised reporting format has been endorsed by the Audit Committee and presented to the University of North Carolina Association of Internal Auditors.

The IAO 's relationship with the School of Business and its students continued during FY18. As corporations and graduate schools pursue employees and students with additional accomplishments such as successful internships, the IAO has a firm commitment to assist our students and academic community in providing learning opportunities in a real, live, "work" environment.

As we close FY 18, the Internal Audit Office is embracing the next horizon, the next opportunity to support NCCU's mission with pride, confidence and excellence.

Sincerely,

***Robert G. Gaines, MBA, CPA***

Robert G. Gaines, MBA, CPA  
Chief Audit Officer/ Internal Audit Director

## Mission and Overview of Internal Audit Function

---

The mission of the Internal Audit Office (IAO) is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. The IAO provides support and assistance in the attainment of the University's objectives. This is achieved by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, operating controls, and governance processes.

The IAO reports functionally to the Audit, Finance and Facilities Committee (Audit Committee) of the North Carolina Central University Board of Trustees (BOT) and administratively to the Chancellor through the Chief of Staff. Currently, there are three professional staff members and one Chief Audit Officer (CAO). Two of our employees are Certified Public Accountants (CPAs). There are also two staff members with master's degrees and a licensed attorney.

Our work is conducted and managed in accordance with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Our most recent Quality Assurance Review was completed in August 2013. As a result of that review, it was confirmed that the IAO at NCCU was in compliance with the standards. A new external Quality Assurance Review is scheduled for early FY19.

In keeping with the IIA *Standards*, the CAO must have a strong working relationship with the Audit Committee. Therefore, the CAO provides results of audits and other internal audit activities to the Audit Committee on a regular basis. Further, the CAO assists the Audit Committee to: ensure its charter, activities, and processes are appropriate in order to fulfill its responsibilities; ensures that the charter, role, and activities of internal audit are clearly understood; maintains open and effective communications with the Audit Committee and the chairperson; and keeps the Audit Committee informed of emerging trends and best practices.

In order to meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for the IAO to perform reviews and audits of varying types and scopes, depending on the circumstances and requests from management, approved audit plans and special investigative requests. Each fiscal year, an annual audit plan, based on risk assessment, is developed and submitted to the Chancellor and the Audit Committee for review and approval. Once approved by the Audit Committee, the annual plan is presented to the NCCU BOT for review and approval.

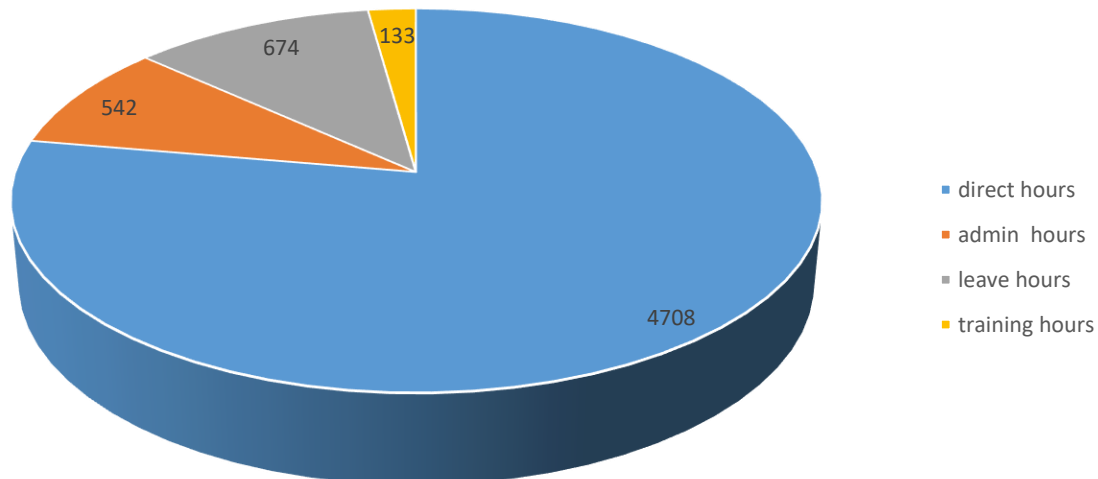
## Management Corrective Actions

The IAO has a finite amount of resources and must be prudent in their deployment. The IAO recognizes its fiduciary responsibility to the University, including students, staff, faculty, the Chancellor, the NCCU BOT and the citizens of the State of North Carolina. Therefore, it is imperative that the majority of our limited resources be utilized in high risks areas within the University, while adding value and consulting on various engagements in collaboration with management.

The outcome of this goal is measured by Productivity. Productivity is categorized by direct and indirect hours. Direct hours provide service to University management and consist of assurance services such as operational, compliance, and information technology reviews. Other direct services include investigatory reviews and management requests. The IAO is also responsive to requests from other governmental and third parties, as appropriate. Indirect hours primarily represent multiple categories of paid leave, professional development/training, and administrative time.

The productivity goal for direct service is that at least 70% of our resources must be expended in those direct services enumerated above. For the third consecutive year that has been documented, the IAO has achieved its direct service goal. The actual direct hour productivity for the year ended June 30, 2018 was 4,708 hours or 78% of total available hours. Indirect hours, as defined above in the previous paragraph, represented a total of 1,299 hours of 6,007 or 22% of total available hours.

**Allocation of Internal Audit Hours**



## Management Corrective Actions

---

The audit plan is a dynamic document that determines the priorities of the IAO and must be adaptable to changes within the University as they occur.

For this fiscal year, IAO completed **78%** of its amended audit plan. The range of completed audits to planned audits for the UNC system varies from 50% to 80%, based upon the resources available in each office, the number of unplanned events that are added to the audit plan during the year, as well as the complexity of the audits undertaken.

In planning for FY18, the IAO strategically selected the reviews to be included in the initial Audit Plan, based upon the greatest risk to NCCU. This strategic analysis of demands and available resources was initiated in FY17 and continued into FY18. In previous years, the completion rate was lower due to the extremely aggressive inclusion of reviews in the **initial** audit plan without a predictor of future requests from the State and/or management. These “unknown” variables would have precedence over “planned activities”. The previous plans also overestimated staff capacity. During FY17, the IAO sought a strategic solution to better address productivity and review completion percentages. This strategy proved to be effective and was continued into FY18.

During the previous fiscal year ended June 30, 2017, the IAO began the year with 13 planned projects. Based upon previous experience, the IAO consciously decided to begin FY18 with 11 planned projects in order to adequately allow for unplanned events.

The table below depicts the number of audits that were continued, planned, added, canceled and /or deferred.

<i>Audit Plan</i>	<i>FYE 2018</i>
<hr/>	
Total Number of Audits Continued	
Total Number of Audits Planned	11
Total Number of Audits Added *	21
<b>Total Audits in Plan as Amended</b>	<b>32</b>
<hr/>	
Total Number of Audits Ongoing	-1
Total Number of Audits Deferred	-6
<b>Total Audits Completed</b>	<b>25</b>
<b>Percentage of Audit Plan Completed</b>	<b>78%</b>
<hr/>	

\*This number includes state requests for assistance as well as management requests that were added during the year.

# Management Corrective Actions

The chart below depicts the number of audits by type completed for the fiscal year ended June 30, 2018:

NAME OF PROJECT	IN ORIGINAL PLAN	ORIGINAL FINDINGS	FINDINGS OUTSTANDING
<b>AUDITS</b>			
AUD 17005 Clery Act	YES	6	6
AUD 17008 Financial Reporting Assistance	YES	1	0
AUD18002 University Police Operations	NO	1	0
AUD18004 Strategic Initiatives & School Partnerships	NO	5	5
AUD 18005 School of Education- Time & Attendance	NO	5	5
<b>FOLLOW-UP REVIEWS</b>			
FOL18001 Athletics Petty Cash Fund	NO	2	0
FOL18002 Student Affairs Temp Employee	NO	2	0
FOL18003 University Band Review	NO	7	2
FOL18004 Executive MPA Program	NO	3	3
FOL18005 Knapolis Research Center	NO	5	0
FOL18006 Chancellor's Office Review	NO	1	1
FOL18008 Mr. & Miss Residential Life	NO	1	0
FOL 18010 Martha Street Apartments	NO	5	1
FOL18011 Academic Service Learning	NO	2	0
FOL18012 Federal Compliance – 90-day Review	NO	2	0
FOL18013 Grant Change Fund	NO	1	1
<b>MANAGEMENT REQUESTS</b>			
MGT18003 Delegation of Contractual Authority	YES	2	0
MGT18002 University Police Towing Operations	NO	5	4
CON17007 Eagle Card Office- Internal Controls	YES	3	3
Annual Risk Assessment	YES	0	0
<b>INVESTIGATIONS</b>			
IAH18001 Development Officer in School of Education	NO	5	1
OSA18001 Institutional Advancement Management	NO	1	0
OSA18002 Institutional Advancement Homecoming Concert	NO	2	0
OSA18003 Transfer and Undergraduate Services	NO	1	1
UGA17002 18001 Accounts Payable	YES	2	2

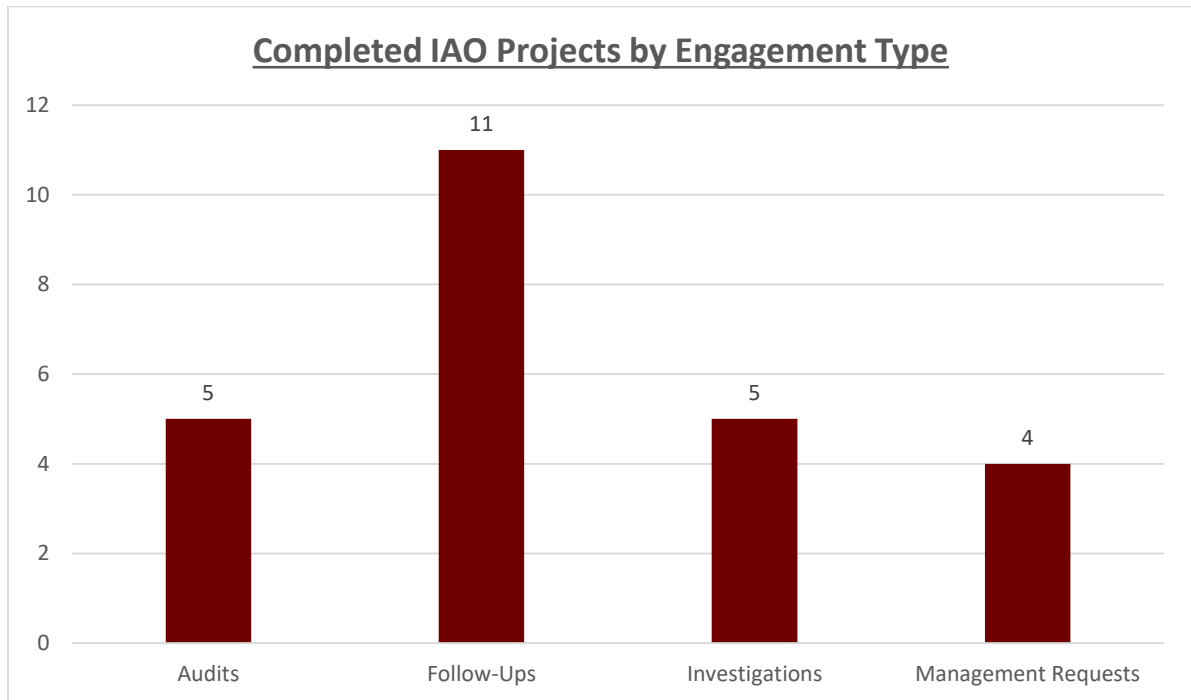
## LEGEND OF PROJECTS

AUD	Planned Audit
FOL	Follow Up Procedures
UGA	UNC General Administration
IAH	Internal Audit Hotline
MGT	Management Request
OSA	Office of the State Auditor
CON	Management Request



## Management Corrective Actions

---



## Management Corrective Actions

---

The IAO monitors management's progress towards completing the agreed upon management corrective actions in our internal audit reports. Corrective actions typically address internal control weaknesses, operational efficiencies, and/or best practices. Timely correction of control weaknesses and the implementation of best practices demonstrate management's commitment to operating in accordance with sound business practices.

The IAO discusses each audit recommendation fully with management and secures their feedback to ensure the recommendation is in the best interest of NCCU. Management provides a response on the plan of action they are going to implement and the date by which the action will be implemented. Management also has the option of accepting the risk and not implementing a recommendation. However, the IAO is compelled to ensure that management understands the financial, strategic, operational and/or reputational risk associated with the risk of not implementing a recommendation. For this fiscal year, the IAO made **70 recommendations** which were accepted by management. Of these 70 recommendations, **50%** have been implemented by management. The remaining recommendations are in progress of completion. The IAO will vigorously follow up on the implementation status on the remaining outstanding recommendations.

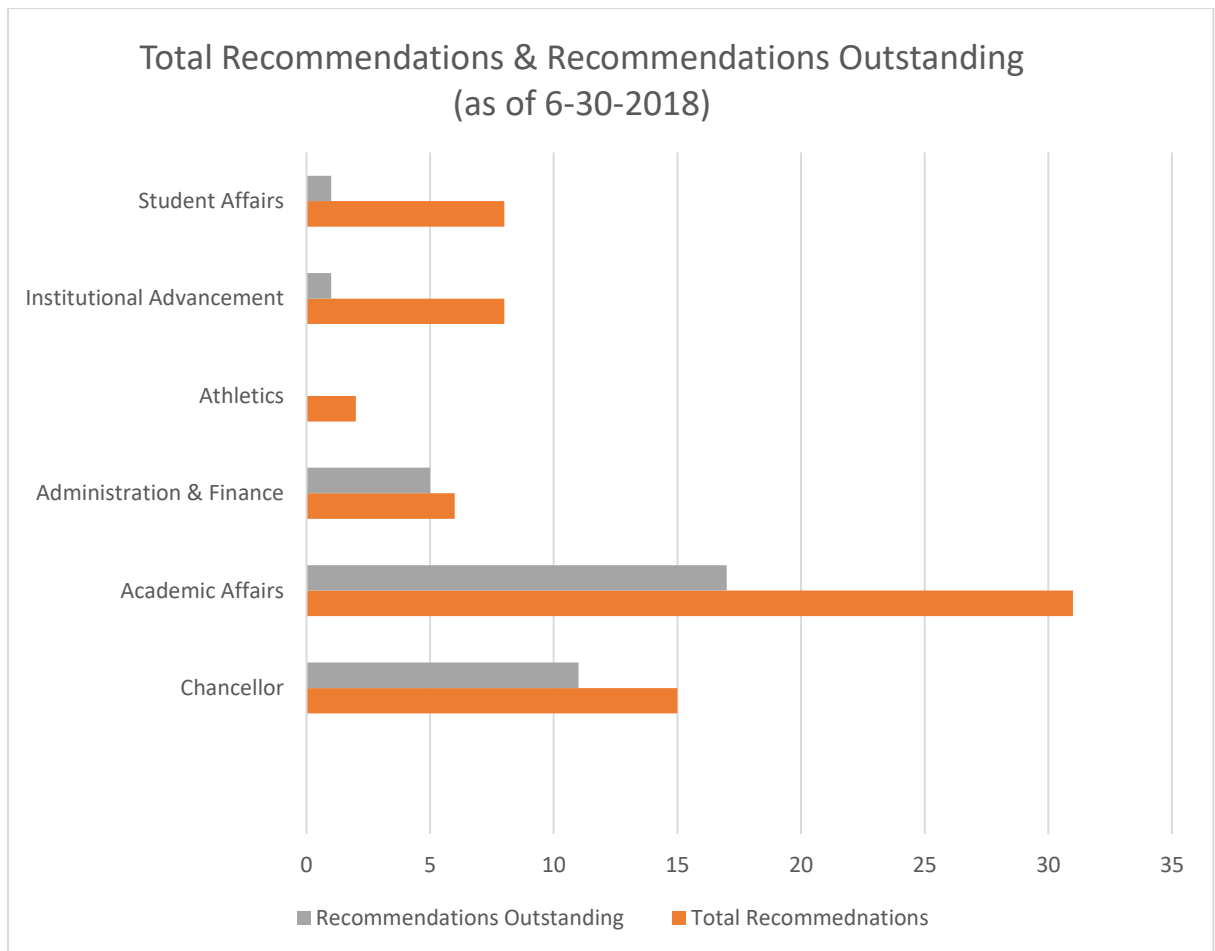
The table below depicts the number of recommendations IAO has reviewed for corrective actions and management has implemented for the fiscal year.

<i><b>Corrective Actions</b></i>	<i><b>Number of Recommendations</b></i>	<i><b>Recommendations Outstanding</b></i>
<b>Academic Affairs</b>	31	17
<b>Administration and Finance</b>	6	5
<b>Athletics</b>	2	0
<b>Chancellor</b>	15	11
<b>Institutional Advancement</b>	8	1
<b>Student Affairs</b>	8	1
<b>Total Recommendations</b>	70	35
<b>Recommendations Completed</b>		35
<b>Percent Completed</b>	50%	

In addition to the formal recommendations, the IAO discusses with management "observations". These observations differ from the recommendations. They do not represent a major deviation from best practices or a noncompliance with a University, State, Federal or grantor funding requirement. Therefore, these items are not included in the final report issue by the IAO. These observations, however, are discussed with management.

## Management Corrective Actions

---



## Management Corrective Actions

---

The following table depicts the IAO's financial expenditures for the fiscal year.

	<i>FYE 2018</i>
Salaries	\$ 197,519
Benefits	64,220
<i>Total Labor Expenses</i>	<i>261,739</i>
Temporary Services	63,015
Office Supplies	424
Training	4,468
Membership Dues	530
Telephone, Copies, Postage	
Office Equipment	
Other	
<i>Total Operating Expenses</i>	<i>68,437</i>
<i>Total Labor &amp; Operating Expenses</i>	<i>\$ 330,176</i>

As is typical in the service or educational sector, the majority of expenditures incurred by the IAO were for salaries and related benefits. Due to vacancies during the year, the IAO utilized temporary employment agencies. This enabled the IAO to continue achieve productivity goals and conform to internal audit standards.

Professional development allows our staff to stay informed of developing topics and best practices which in turn, provides the IAO with the opportunity to provide more enhanced services to the university.

The Institute of Internal Auditors, in which we are required to be members and conform to their promulgated standards, has adopted Standard 1230. This standard mandates that any Internal auditor increase their knowledge, skills, and other competencies through continuing professional development.

In the past, the IAO has relied upon the annual meeting of the University of North Carolina Auditors Associations to provide the majority of the required continuing education. In addition, there are a number of training opportunities that are offered at no cost through webinars and the Council of Internal Auditing. We strive to take advantage of these opportunities as much as possible.

There are, however, other professional opportunities provided by associations in which the IAO holds memberships. These other opportunities include conferences by the Institute of Internal Auditors and the Association of Colleges and Universities Auditors. Participation in other forums will strengthen the IAO's ability to incorporate the latest internal audit practices in higher education into the department's processes which will complement the University's status as a premier institution of higher education.

## Conclusion

---

This concludes the IAO annual report for fiscal year 2016-2017. If you should have any questions, please call 919-530-6189.