

The University of North Carolina at Chapel Hill
Office of Internal Audit

***RISK ASSESSMENT AND
FISCAL YEAR 2022
INTERNAL AUDIT
WORK PLAN***

**BOARD of TRUSTEES
FINANCE, INFRASTRUCTURE, & AUDIT COMMITTEE**

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David L. Boliek, Jr.
Jefferson W. Brown
G. Munroe Cobey
R. Gene Davis, Jr.
Allie Ray McCullen*

*Dean A. Weber
Chief Audit Officer*

Preface

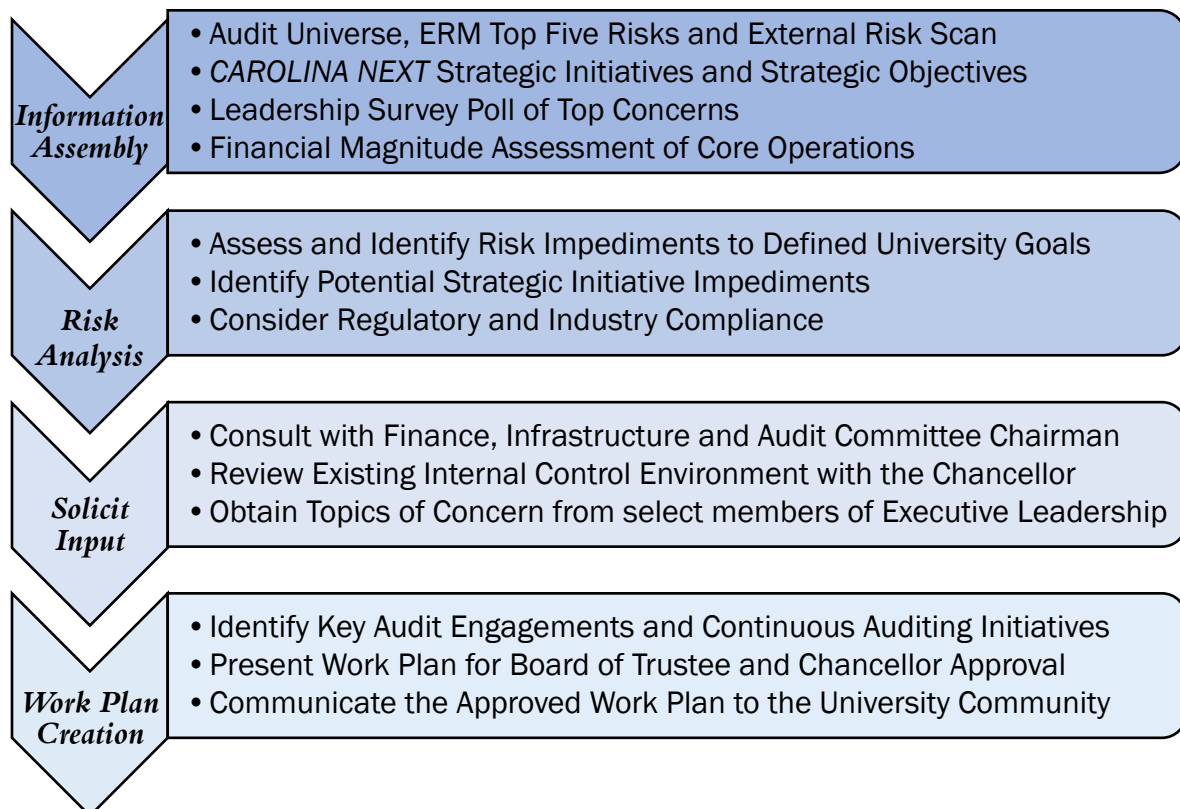
The Office of Internal Audit (OIA) developed the University of North Carolina-Chapel Hill's *Fiscal Year 2022 Internal Audit Work Plan* (Work Plan). Risk Assessment processes employed as part of the Work Plan development phase were adapted due to campus-wide management of COVID-19 response, beginning early March 2020, and continuing. To solicit executive leadership's perspectives on business processes and divisional risk drivers, the OIA provided an opportunity for input through participants' completion of a risk assessment survey.

Purpose of the Work Plan

The document defines key areas of University operations where institutional risk mitigation is being focused through the completion of internal audit activities for the fiscal year. In addition to defined engagements, OIA project hours are provided within the Work Plan to perform advisory services, consulting, and the completion of special projects and investigations.

Work Plan Development Process

The Work Plan was established based on OIA information gathered through analysis of existing and emerging risks. This comprised consideration of the University's *ERM Register of Top Five Institutional Risks*, potential risk impediments of the eight strategic initiatives framed within *CAROLINA NEXT – INNOVATIONS FOR PUBLIC GOOD*, input from executive leadership, a financial magnitude risk assessment, and current issues impacting higher education. The Chancellor, Executive Vice Chancellor and Provost, Vice Chancellor for Finance and Operations, and the Board of Trustees Finance, Infrastructure and Audit Committee Chairman were also consulted for input.



North Carolina System Policy - University Enterprise Risk Management & Compliance

Creation of the University's *Fiscal Year 2022 Internal Audit Work Plan* considered UNC System Board of Governors' Policy 1300.7, *University Enterprise Risk Management and Compliance*, providing for the establishment of institution-based enterprise risk management and compliance processes. Normally occurring in December of each year, the UNC System Office delayed required submission of *Top Five ERM Institutional Risks* to their office until April 2021, due to COVID-19. The April 2021 submission for Carolina is detailed below.

Risk Topic	Description	Risk Category
Physical Infrastructure	With more than \$850 million in deferred maintenance, failure in the ability to adequately address the complex infrastructure of the Carolina Campus.	Financial
COVID-19 Response	Managing pandemic concerns in a manner resulting in consequential human harm based upon institutional guidance and/or practices. Pandemic extends for an excessively prolonged period.	Strategic
Talent Management	Difficulty in retaining and attracting top talent fundamental to the University's ability to operate and actively compete in a higher education marketplace.	Mission
Business Model Risk	Hurdles in generating enough revenue and/or to manage existing revenue streams appropriately. This evolves around matters of tuition dependency, endowment returns, budgeting, educational delivery methods, recruiting, and liquidity/cash monitoring.	Financial
Fiduciary Responsibility	Not operating within the limits of available financial resources necessary to meet Carolina's rapid growth and the legitimate needs of students, faculty, and staff.	Financial

The OIA supported the Office of Vice Chancellor for Institutional Integrity and Risk Management in development and distribution of a survey to the Chancellor's and Provost's cabinet to obtain feedback and opinion on 33 potential ERM topics. Results provided an executive-level assessment of potential ERM institutional risks at Carolina for utilization by the Vice Chancellor in the formation of Carolina's Top Five ERM Topics.

In response, the OIA considered areas and departments of campus operations underpinning the five identified ERM institutional risk topics for Carolina. The following chart details the OIA's opinion of the most significant campus area/department with activities pertaining to each risk topic.

The chart highlights operating areas/departments underpinning the *Top Five ERM Institutional Risks* as determined by the OIA and considered in internal audit engagement planning.

ERM Risk Topic	Area/Department
Physical Infrastructure	Facilities - Building/Grounds/Housekeeping
COVID-19 Response	Leadership- Planning & Financial Management
Talent Management	Human Resources
Business Model Risk	Leadership- Planning & Financial Management
Fiduciary Responsibility	Finance & Operations

CAROLINA NEXT – INNOVATIONS FOR PUBLIC GOOD

Built upon aspirations of *The BLUEPRINT for NEXT*, the strategic plan *CAROLINA NEXT: Innovations for Public Good* aims to turn the University’s vision and aspirational goals into readily understood, significant, implementable, measurable, strategic initiatives and opportunities. As a living document, University leaders recently reexamined the plan based on impacts of the COVID-19 pandemic and a national level of heightened racial tensions. The plan was formally updated in December 2020.

CAROLINA NEXT: Innovations for Public Good is framed around eight strategic initiatives, “...grounded in an environmental scan that provides a macro view of the external environment and emerging trends and articulates the opportunity for change within the University. Strategic objectives capture the goals of each initiative, and each objective identifies opportunities.”

In development of the Fiscal Year 2022 Work Plan, the OIA assessed the University’s strategic plan to consider potential risks inhibiting attainment and realization. The document’s 24 strategic objectives were scored based on OIA’s opinion of potential attainment hurdles.

For those strategic objectives ranked as possessing high and medium levels of risk, the OIA defined potential internal audit project engagements supporting evaluation of controls and processes supporting each objective.

A total of 117 strategic opportunities underpins the collective eight strategic initiatives.

Strategic opportunities were considered in determining potential audit engagement activity for each strategic objective ranked high and medium by the OIA.

The chart on the right highlights the strategic objectives deemed important by the OIA for consideration in audit engagement planning.

CAROLINA NEXT - Strategic Objective	OIA Ranking
8.1 Design, implement, execute, assess, and continuously improve the administrative operations that support the University's mission of teaching, research and public service.	Impediment Risk Level
1.3 Prioritize diversity, equity and inclusion in teaching, research and service, and in hiring, evaluation, retention and promotion of under-represented faculty and staff.	
2.3 Expand digital and remote technologies to increase access and opportunities for Carolina Students as well as all North Carolinians and beyond. (Audited in Fiscal Year 2020)	
3.3 Create opportunities to develop the careers of faculty and address the changing conditions affecting the professoriate.	
4.1 Pursue creative collaborations in research and scholarship.	
1.1 Invest in policies, systems, and infrastructure that promote belonging, community and transparency throughout the University community.	
8.3 Create and maintain world-class physical facilities and infrastructure in support of our institutional mission.	

Leadership's Identification of Audit Risk Topics

A key aspect in the development of Carolina's Internal Audit Work Plan included obtaining input from senior leadership regarding perspectives on key risk topics and areas where internal audit services can be effective in evaluating procedures, internal controls, and processes to strengthen operations.

The Chancellor's and Provost's Cabinet were afforded an opportunity to participate in an automated survey managed by the OIA. Survey results provide a collection of responses on leadership's perspective of risks impacting both the University and their individual areas of management oversight.

The survey focused on nine distinct operational areas comprising 99 overall audit risk topics. The operational areas were categorized as (1) Student Support, (2) Fiscal & Asset Management, (3) Physical Plant, Infrastructure & Facilities, (4) Instruction, Academics & Outreach, (5) Information Technologies & Systems, (6) Human Resources, (7) Governance & Leadership, (8) Research, and (9) Auxiliary Operations & Service Centers.

Respondents were requested to identify high-level risk topics they believed would benefit from an independent assessment of operations by the OIA. Survey responses were received from 21 participants.

The OIA calculated response percentages for each audit risk topic based upon respondent's selections. The 99 audit risk topics were then grouped within risk categories of HIGH, MEDIUM, and LOW based on scored results. Outcomes identified 16 HIGH, 17 MEDIUM, and 66 LOW audit risk topics. The following chart details survey outcomes reflecting the highest-scoring risk topics.

Audit Risk Topic	Operational Area	Response Percent	Risk Ranking
Budget and funds management	Fiscal & Asset Management	30%	HIGH > 16%
Custodial, maintenance, housekeeping	Physical Plant, Infrastructure & Facilities	28%	
Greek Life	Student Support	24%	
Financial or Administrative Functions	Instruction, Academics & Outreach	24%	
Facilities Services: Construction, Improvements	Physical Plant, Infrastructure & Facilities	22%	
Disaster Recovery/Resumption of Business Services	Information Technologies & Systems	22%	
Personnel Management/Evaluation	Human Resource Management	20%	
Security of Data: Firewalls, Network Infrastructure	Information Technologies & Systems	19%	
Telecommuting	Human Resource Management	18%	
University Data Collection and Reporting	Governance & Leadership	18%	
Faculty Responsibilities	Instruction, Academics & Outreach	17%	
Environmental Health and Safety	Physical Plant, Infrastructure & Facilities	17%	
Conflict of Interest	Research	16%	
Graduate School	Student Support	16%	
Respondent Identified IT Topic (Other)	Information Technologies & Systems	16%	
Personnel Hiring Processes	Human Resource Management	16%	

Financial Magnitude of Core University Areas

The OIA collected and assessed financial data for 14 core components of University operations (revenues/expenses) for the fiscal year ended June 30, 2020. These include significant funding sources and/or consumption of institutional resources.

Category Area	Financial Impact FY2020	Operational Considerations
Grants & Contracts (Operating) Revenue	\$887,343,260	Award Compliance and Monitoring
State Appropriations Revenue	\$534,765,894	Public Dollar Stewardship Institutional Reputation/Compliance
Patient Services Net Revenue	\$491,044,506	Operational – Accounting for billing/receipts/bad debt
Student Tuition & Fee Revenue	\$400,348,766	Core Business Function Recruitment/Diversity/Retention
Net Investment Income Revenue	\$95,460,153	Financial Stewardship
Professional Services Revenue	\$144,553,645	Partnering with the Public - Blueprint for Next
Athletics Revenue	\$77,443,004	NCAA Division I Compliance Regulations – Institutional Reputation
Residential Life Net Revenue	\$61,731,553	Campus Safety and Security
Dining Net Revenue	\$31,370,554	Operational and Financial Controls
Parking Net Revenue	\$22,054,954	Operational and Financial Controls
Salaries and Benefits Expense	\$1,802,250,379	Largest Resource Expenditure
Procurement Expense (Services/Supplies/Materials)	\$1,018,614,534	State and University Regulatory Compliance
Scholarship/Fellowship (Financial Aid) Expense	\$106,483,355	Federal and State Compliance
Utilities Expense	\$81,722,034	Operational Expense – Consumable Product, Energy Consumption

Source: June 30, 2020 UNC Chapel Hill Annual Financial Report

External Risk Evaluation – Industry-wide Higher Education Environment

The Association of College and University Auditors launched a nationwide *2020 Covid-19 Impact Analysis* member survey of higher education institutions, of which Carolina participated. Results identified University internal audit functions are considering, or plan to complete, CARES Act funding, Cybersecurity, and Procurement and Vendor Management audits in the coming year.

Additionally, the Institute of Internal Auditors released the *2021 North American Pulse of Internal Audit ...Many Sides of Crisis* report of information and perceptions from internal audit leaders on a national scale. For the educational services sector, the top risks are centered on cybersecurity, compliance/regulatory, information technology, and operational business functions. Steep increases from 2019 to 2020 were noted for information technology, operational, fraud, and financial risks.

The United Educators published *The Large Loss Report 2021*, highlighting a summary of major damage awards and settlements of more than \$500,000 affecting K-12 schools, colleges, and universities in 2020. Key areas of risk resulting in settlements include:

- Accidents or Crimes Resulting in Death
- Accidents Resulting in Injury
- Asbestos
- Termination without Cause
- Sexual Abuse, Molestation, and Misconduct
- Discrimination
- False Claims-Grant-Related Issues
- Free Speech
- Heat and Athletics
- Retirement Plans
- Bullying
- Defamation
- Title IX

The National Association of College and University Business Officers (NACUBO) surveyed business officers of member institutions and reported current adverse issues impacting higher education to encompass enrollment declines and needs to modify reserve fund policies and practices in response to the Pandemic. A heightened attention to financial liquidity was noted. “Declines in auxiliary revenues for FY22 (academic year 2021-2022) are anticipated by nearly all survey respondents. The most frequently anticipated budget and financial changes for next year, in ranked order, are a decline in auxiliary revenue, delays in deferred maintenance, a decline in athletic revenue and across-the-board budget cuts.”

Summary

Collectively, the OIA’s risk assessment encompassed evaluation and consideration of University operations, the *Top Five ERM Institutional Risks*, potential risks impeding strategic objectives of *CAROLINA NEXT- Innovations for Public Good*, a survey of executive leadership on risk and audit perspectives, a financial magnitude assessment, and an external assessment of industry risks. Outcomes determined the 23 audit engagements populating Carolina’s *Fiscal Year 2022 Internal Audit Work Plan*. Additionally, the Work Plan maintains budgeted staff hours for the completion of six special project requests arising during the course of the year.

University of North Carolina at Chapel Hill
Fiscal Year 2022 Internal Audit Work Plan Engagements

Audit Engagement	Risk Category	Audit Functional Area	Supportive Rationale
Payroll Fraud Assessment	Financial	Finance and Operations	Leadership Survey – Budget and Funds Management
University Parking Registration and Fees	Financial	Finance and Operations – Transportation and Parking	Financial Magnitude - Revenue
Conflict of Interest & Commitment	Compliance	Institutional Integrity and Risk Management	Leadership Survey – Budget and Funds Management
Custodial, Housekeeping Operations	Operational	Finance and Operations - Facilities Services	ERM and Leadership Survey – Budget and Funds Management
Non-Faculty Annual Performance Plan and Rating Review	Compliance	Human Resources and Equal Opportunity and Compliance	ERM and Leadership Survey – Budget and Funds Management
Program Initiatives – Intellectual Property - Budgeting and Expenditures	Operational	Innovation and Entrepreneurship	Leadership Survey – Budget and Funds Management
COVID-19 Pandemic Funding	Compliance	Finance and Operations	ERM and Higher Education Industry – Department of Education Compliance
Policy Audit	Compliance	School of Medicine	<i>CAROLINA NEXT</i> Strategic Objective 8.1 – Opportunity 10
University Diversity and Inclusion	Operational	University Office of Diversity, Equity, and Inclusion	<i>CAROLINA NEXT</i> Strategic Objective 1.3 – Opportunity 5 and Higher Education Industry
Faculty Development – Promotion and Tenure	Operational	Office of the Provost	ERM and <i>CAROLINA NEXT</i> Strategic Objective 3.3 – Opportunity 3
Admissions Equity	Operational	Office of Admissions	<i>CAROLINA NEXT</i> Strategic Objective 1.1 – Opportunity 8 and Higher Education Industry
Connecting Carolina Classrooms with the World	Operational	UNC Global	<i>CAROLINA NEXT</i> Strategic Objective 7.1 – Opportunity 2

Audit Engagement	Risk Category	Functional Area	Supportive Rationale
Purchasing Card Expenditures	Financial	Kenan Flagler Business School	ERM and Financial Magnitude - Expenditures
UNC Campus Health – Pharmacy	Operational	Pharmacy & Professional Services	Financial Magnitude – Professional Services Revenue
Cashiering Controls	Financial	Office of the University Cashier	ERM and Leadership Survey – Budget and Funds Management
Sponsored Project Post Award Management	Compliance	Office of Sponsored Research	Financial Magnitude – Grants and Contracts Revenue
Control Self-Assessment of Systems Working with Sensitive Information <ul style="list-style-type: none"> • Payment Card Industry • Social Security Numbers 	Technology	Campus-wide Operations	Leadership Survey – Information Technologies and Systems
Continuous Auditing Processes: ¹ -System Administration Initiative -Access Control Management -University Travel	Technology Technology Compliance	Campus-wide Operations	Leadership Survey – Information Technologies and Systems Financial Magnitude – Expenses
NCAA Compliance ² -Recruiting – Off Campus -Recruiting – On Campus -Extra Benefits – Apparel & Equipment	Compliance Compliance Compliance	Carolina Athletics	Financial Magnitude and Higher Education Industry Compliance – Division I National Collegiate Athletic Association Regulations
Special Project Engagements ³	Various	Various	Immediate needs of BOT and University leadership.

¹ Audit assessments will be completed on a fixed interval basis covering activities spanning differing operating units of the University with individual reporting provided to local management as reviews are completed accompanied by overall summary fiscal year-end reports to the Chancellor and Board of Trustees for each of the three engagement areas.

² National Collegiate Athletic Association (NCAA) compliance Review for Division I Institutions based on the Association of College and University Auditors' *National Collegiate Athletic Association Division One Audit Guide*.

³ The Fiscal Year 2022 Internal Audit Work Plan maintains budgeted hours available to complete six (6) Special Project Engagements (audit requests, investigations, etc.) as the need may arise, and engagements are approved, during the course of the fiscal year.

Risk Assessment and Audit Plan

Available Audit and Project Hour Summary

While the initial work plan is developed based on a structured risk assessment process, risks may evolve throughout the year. Therefore, the OIA monitors changes at the university level and within the higher education sector. Fluctuations of a significant nature in risk and/or audit staffing levels may necessitate revisiting the Fiscal Year 2022 Work Plan with the *Finance, Infrastructure and Audit Committee*, as appropriate.

With all budgeted positions presently filled, the OIA is professionally staffed by the Chief Audit Officer, two Audit Supervisors, one Senior Auditor, one Information Technology Auditor, and two Staff Auditors. Additionally, a part-time Office Manager/Audit Assistant provides administrative and team-member support. The Vice-Chancellor for Finance and Operations has designated appropriate budgeted funds necessary to support the work plan providing for OIA staffing of 7.75 full-time-equivalent employees.

Work Plan Hourly Detail

Total Available Audit Hours (6 auditors @ 2,080 hours)	12,480
Less Employee Leave (Annual/Sick/Holiday)	-1,440
Less Work Plan Hours	-7,940
Less Non-Work Plan Hours *	-2,196
Less Audit Related Duties (Consulting/Committees)	<u>-890</u>
Project Hours Available/Short	<u><u>14</u></u>

* Non-Work Plan Hours

Prior Finding Follow-up	240
Work Paper Review	696
Professional Development	240
UNC Training	240
Administrative Hours	<u>780</u>
Total Hours	<u><u>2,196</u></u>

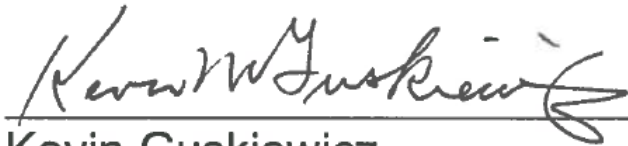
<u>Engagement Project</u>	<u>Budgeted Hours</u>
Operational	
Custodial, Housekeeping Operations	280
Program Initiatives (Innovation)	280
Diversity & Inclusion	280
Faculty Development	280
Admissions Equity	280
Connecting Carolina Classrooms	280
UNC Campus Health - Pharmacy	280
Financial	
Payroll Fraud Assessment	280
University Parking Registration & Fees	280
Purchasing Card (Kenan Flagler)	280
Cashiering Controls	280
Compliance	
Continuous Auditing University Travel	280
Conflict of Interest and Commitment	280
Non-Faculty Annual Performance Reviews	280
Policy Audit (School of Medicine)	280
OSR Project Post Award Management	280
Covid -19 Pandemic Funding	280
NCAA Compliance	
- Recruiting Off-Campus	140
- Recruiting On-Campus	140
- Extra Benefits – Apparel & Equipment	280
Technology	
Control Self-Assessment of Systems	280
Working with Sensitive Information	
- Payment Card Industry	
- Social Security Numbers	
Continuous Auditing – SAI	280
Continuous Auditing – Technology Access	280
Special Projects (6 Projects @ 280 Hours)	1,680
FY21 Carry Over Engagement Work	<u>100</u>
Total Work Plan Hours	<u><u>7,940</u></u>

Approval providing for completion of engagements populating the Office of Internal Audit Fiscal Year 2022 Internal Work Plan for Carolina and for the budget and staffing level necessary to execute the plan.



Haywood D. Cochrane, Jr.
Finance, Infrastructure and Audit Committee Chairman

5/21/2021
Date



Kevin Guskiewicz
Chancellor

5-25-21
Date