

**UNIVERSITY OF NORTH CAROLINA
CHARLOTTE**

Internal Audit Department
A Division of Institutional Integrity

External Quality Assessment
May, 2018

Reviewer:
Patrick V. Reed

UNC Charlotte External Quality Assessment

*This External Quality Assessment of the UNC Charlotte Internal Audit Program was performed in accordance with The Institute of Internal Auditors (IIA) Quality Assessment Manual. The primary purpose of a Quality Assessment is to determine the internal audit function's conformance to the International Standards for the Professional Practice of Internal Auditing. There are three possible outcomes of the QA: the internal audit program **generally conforms, partially conforms or does not conform** to the Standards.*

Ms. Jennifer Walker
Chief Audit Officer
University of North Carolina, Charlotte

May 18, 2018

Dear Ms. Walker:

I have completed an External Quality Assessment (QA) of the University of North Carolina, Charlotte (UNC Charlotte) Internal Audit Program as required every five years by the International Standards for the Professional Practice of Internal Auditing (the *IIA Standards*). The objectives of the QA were:

1. To assess conformance to the *IIA Standards*;
2. To assess the effectiveness and efficiency of the Internal Audit activity in providing services to the Board of Trustees and management of UNC Charlotte; and
3. To identify opportunities for improving the Internal Audit Program at UNC Charlotte.

Overall, it is my opinion that the UNC Charlotte Internal Audit Program **Generally Conforms** to the *IIA Standards*. The opportunities for improvement noted in this report can be characterized as enhancements to the Internal Audit Program offered for your consideration over time. There is nothing that requires immediate corrective action in order to more fully conform to the *IIA Standards*.



Patrick V. Reed

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Executive Summary

Introductory Comments

This Quality Assessment (QA) was the second for the UNC Charlotte Internal Audit Program and was performed by the same Reviewer as the 2013 QA. It is noteworthy that all of the recommendations from the 2013 QA were addressed in an appropriate manner resulting in satisfactory conclusions in the areas previously commented upon. The IA Program has made considerable progress in the intervening five years and under new leadership, and within its new reporting structure, is well positioned to continue to enhance its service to the Board of Trustees and the UNC Charlotte community.

A comment is in order on the recently established reporting structure that places Internal Audit within the newly created Division of Institutional Integrity (DII) since some may view it as diminishing the Program's independence as a stand-alone function. In the Reviewer's judgment, and based on discussions with all of the relevant parties, this is not a concern. The functional reporting to the Audit Compliance and Enterprise Risk Management Committee (ACERM) of the Board of Trustees has been considerably strengthened under the new Internal Audit Charter and updated Bylaws of the Board of Trustees. The Vice Chancellor of the DII is keenly aware and respectful of Internal Audit's unique reporting authority and access to the Chancellor and ACERM Chair. And further, the obvious synergy among the component units of the DII create significant opportunities as the Division matures.

Overall Conclusion

The overall conclusion that the UNC Charlotte Internal Audit Program **Generally Conforms** to the *IIA Standards* was easily reached. This is the highest level of conclusion provided by the Standards for Quality Assessment. Evidence of awareness of the *IIA Standards* and efforts to conform to them are pervasive. Notably, in addition to the overall conclusion, *each* of the four Attribute Standards and the seven Performance Standards are judged as Generally Conforms, which is rare in the Reviewer's experience.

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Conformance to the IIA Standards

Generally Conforms means that IA has a charter, policies and processes that are judged to meet the spirit and intent of the *IIA Standards* with some potential opportunities for improvement.

Partially Conforms means deficiencies in practice are noted that are judged to deviate from the spirit and intent of the *IIA Standards*, but these deficiencies did not preclude IA from performing its responsibilities in an acceptable manner.

Does Not Conform means deficiencies in practice are judged to be so significant as to seriously impair or preclude IA from performing adequately in all or in significant areas of its responsibilities

Overall, the UNC Charlotte Internal Audit Program was judged to **Generally Conform** to the *IIA Standards*. Notably, all of the following individual standards were judged to **Generally Conform** to the *IIA Standards*.

1000---Purpose, Authority and Responsibility

1100---Independence and Objectivity

1200---Proficiency and Due Professional Care

1300---Quality Assurance Improvement Program

2000---Managing the IA Activity

2100---Nature of Work

2200---Engagement Planning

2300---Performing the Engagement

2400---Communicating Results

2500---Monitoring Progress

2600---Resolution of Senior Management Acceptance of Risk

None of the Standards were judged as **Partially Conforms** or **Does not Conform** to the *IIA Standards*.

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Positive Attributes of the UNC Charlotte Internal Audit Program

- **ACERM Committee, Division of Institutional Integrity and Senior Management Support**--The interviews conveyed a high level of support from the Audit Compliance and Enterprise Risk Management Committee, the Vice Chancellor for the Division of Institutional Integrity, the Chancellor and others in senior management.
- **Position and Governance**--The Internal Audit Program's position within UNC Charlotte is new and somewhat unique, but appropriate as previously discussed. It is governed by appropriate ACERM Committee and Internal Audit Charters.
- **Customer Support**—The Program's customers share a generally very positive view of Internal Audit and it is clear that substantial investments have been made to make the Audit Staff visible and accessible.
- **Transparency and Accountability**—The Program has developed a very good website, and the inclusion of the Audit Plan status report is a particularly good practice that demonstrates transparency and accountability for their efforts.
- **Noteworthy Practice**—The following are considered to be noteworthy practices:
 - The comprehensive approach to the risk assessment process underpinning the Audit Plan is inclusive and takes advantage of the entire staff's institutional knowledge in addition to stakeholders' input,
 - Involvement in new employee orientation creates visibility for the Internal Audit staff and exposes every new employee to the Program's existence and availability to be of service, and
 - The Quality Assurance Improvement Program's semi-annual review of projects demonstrates true commitment to quality performance.

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Customer Perspectives of the UNC Charlotte Internal Audit Program

A total of twenty-four customers were surveyed to solicit their input. The survey topics included structure and relationships with management, capabilities of the audit staff, planning and performance of internal audits, communication of audit results and other matters intended to probe the value added by the Internal Audit Program. Respondents were also encouraged to provide their views on opportunities for Internal Audit to better serve UNC Charlotte. Eighteen of the twenty-four surveys were returned representing 75% which is a slightly lower level of responsiveness than normally experienced, but nevertheless sufficient to be representative. Rating options were Excellent (4), Good (3), Fair(2) or Poor (1), with an option to indicate N/A if the respondent did not have an adequate basis for evaluation of a particular area.

All but one of the composite survey scores were above GOOD which is a positive result. The most critical comments all relate to a single challenging audit that occurred during the transition in leadership phase, and related to process more than accuracy of the audit's results. Those circumstances have been thoroughly addressed. All of the composite average scores ranked between Good and Excellent.

Overall Average Scores

Structure/Management/Communications	3.51
Staff Competencies	3.51
Planning/Resources	3.38
Execution/Reporting	3.24
Value Added	3.28

Comments provided by survey recipients included a number of very positive attributes such as professional, competent, accessible, and having established a solid reputation as a partner to departments. No one characterized the auditors as “gotcha” style auditors. Recommendations for improvement provided by survey recipients evidenced the need for continuous attention to

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Customer Perspectives of the UNC Charlotte Internal Audit Program

timeliness and communications with auditees. An opportunity exists to strengthen expertise in technical aspects of university operations by taking advantage of customers' internal training activities in areas such as research administration. In addition, several comments suggest that IA could provide more non-audit services in areas such as internal control development and associated policies.

Interviewed parties included the Chairman of the ACERM, the Chancellor, selected additional senior administrators, the UNC VP for Audit and Compliance Services, a representative of the Office of the State Auditor and all audit staff.

All of the interviews conveyed a very positive image and visibility for Internal Audit. The auditors are thought of as professional, accessible, responsive and consciously risk-focused, given their limited resources. All were very positive about the recruitment of the new CAO and look forward to her continuing efforts to strengthen the IA Program through the addition of staff with specialized skills (especially IT expertise) and continued development of the staff's technical skills in areas of UNCC operations as well as "soft skills". The view of written reports (i.e. audit reports and ACERM communications) is positive as to quality. The addition of management responses has been very positive.

The interviews with IA staff were similarly positive with high marks for the training opportunities and quality of supervision provided. Identified opportunities for improvement related to addition of IT audit expertise and making more use of data analysis tools.

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Opportunities for Continuous Improvement—Conformance to the Standards

There are no recommendations for improvement in conformity to any of the *IIA Standards*. This is not to suggest that there are not areas that would benefit from continuous improvement, but none that rise to the level of comment in this section of the report.

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Opportunities for Continuous Improvement—Effectiveness and Efficiency

The following observations and recommendations relate less directly to the *IIA Standards*, but relate to best practices and other observations made by the reviewer based on customer surveys, interactions with Internal Audit staff and UNC Charlotte officials, and the reviewer’s own experience as a peer practitioner.

Information Technology (IT) Audit Program

There is always a challenge for small programs to attract and retain competent IT audit skills. Affordability is nearly always an element of this challenge. UNCC has done a good job of augmenting the audit staff resources with contracted, outsourced IT resources on certain occasions. This is a very useful practice especially for high-end technical areas in which even a competent IT auditor can benefit from outside expertise. And while the audit staff is attentive to IT issues in their departmental audits (e.g. desktop support, encryption, access control, password protection etc.) this does not provide robust IT audit coverage of the University’s IT operations. There are substantial audit guidance materials related to IT general controls (ITGC) that define the elements of a robust IT audit program. The most common elements of ITGC include logical access controls over infrastructure, applications, and data; system development life cycle controls; program change management controls; data center physical security controls; system and data backup and recovery controls; and computer operation controls. Other than the occasional outsourced audit attention, the University is principally reliant on the work performed on a rotating basis by the State Auditor’s office in conjunction with their annual financial audit for review of IT general controls.

The IA program is thinly staffed in overall numbers given the recent and projected growth of UNCC. As the staff size is increased, serious consideration should be given to the addition of IT audit skills to the IA Program.

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Opportunities for Continuous Improvement—Effectiveness and Efficiency

Electronic Workpapers

The IA Program has developed a number of workpaper templates that add structure and consistency to the audits performed. Most workpapers are electronically prepared in either Microsoft Word or Excel, and essentially they have created a paperless audit process which has rapidly become the standard of practice in recent years. Homegrown processes offer many of the benefits of commercial electronic workpaper systems (e.g. file sharing, remote access, improved consistency, cost savings on supplies and storage, etc.). However, there are additional benefits to commercial electronic workpaper systems that provide greater quality control features, better review and sign-off capabilities, access to a wealth of content libraries, improved integration of workpapers and they can facilitate report preparation..

As time and resources permit, the IA Program should investigate and consider investing in an electronic workpaper solution that fits well with the existing IA Program's practices and policies.

Audit Manual

The UNCC IA Program has an audit manual that is well structured around the *IIA Standards* and has some very useful content. It also has some content that is perhaps better served elsewhere so as not to dilute the Manual's primary purpose which is to document and provide guidance to the staff on how the *IIA Standards* are applied and implemented at UNCC. There is also some data that is outdated and needs to be refreshed.

In addition, based on my review I would recommend that the Manual would benefit from additional guidance on investigation processes as many internal audit departments struggle to apply the *Standards* when performing investigations. Fortunately, this has not been a major activity for UNCC's IA Program and hopefully that will continue. But that also means that the staff may not frequently engage in investigation work and may benefit from guidance when called upon to do so.

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Audit Manual (continued)

In addition, it is recommended that the Audit Manual provide additional guidance on the distinction between “Findings” and “Observations” in the written audit reports. While these may not lend themselves to precise definition, my discussions led me to an understanding that there are underlying principles that are generally understood among the existing staff that would benefit from inclusion in the Manual so as to help ensure consistency and guide new hires. This distinction takes on increased significance at UNCC because the local practice is that recommendations that flow from Observations are not subject to follow up to determine if the management responses are acted upon.

Workpaper Documentation of Disposition of Issues Identified During Audits

The IA Program employs a standard workpaper that summarizes all of the issues identified during an audit. The workpaper notes the disposition of each matter as either included in the report as a Finding, included in the report as an Observation, or otherwise communicated to management but not included in the report. This determination is made based on discussion between the auditor-in-charge and the CAO exercising their professional judgment, which is a sound practice. As stated above, the local practice of not performing follow up on recommendations that flow from Observations makes this an important distinction. The standard workpaper documents the outcome of the decision made but it does not document the rationale for the decision. In many cases this may be self evident. Nevertheless, a concise statement of the rationale for the judgment exercised would strengthen the support for the reports issued.

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Appendix I Engagement Methodology

Review Procedures Included:

- Review of the audit charter, mission and other background/organizational materials regarding UNCC and the Internal Audit Program
- Review of Audit, Compliance and Enterprise Risk Management Committee Materials
- Review of QA advance preparation materials providing background on the IA Program and practices
- Review of the Annual Audit Plan and risk assessment process
- Review of all audit reports issued during FY 2017 and FY 2018 year to date
- Detailed Review of selected internal audit project workpapers and reports
- Review of qualifications and training histories for audit staff
- Review of UNC Charlotte Internal Audit Manual
- Interviews with 14 UNC Charlotte individuals, including the ACERM Chair, the Chancellor, selected senior administrators, IA staff and the UNC VP for Audit and Compliance
- Interview with a representative of the Office of the State Auditor
- Interview with CAO and all three audit staff members
- Review of audit follow-up practices and reporting on follow-up activities
- Review of Quality Improvement Initiatives
- Survey of 24 audit customers
- Comparison to select “Best Practices”
- Review of the disposition of recommendations from the prior QA

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Appendix II List of Stakeholders Interviewed

Board of Trustees Audit, Compliance and Enterprise Risk Management Committee Chair

Laura Schulte

UNC Charlotte Officials

Dr. Philip Dubois, Chancellor

Dr. Joan Lorden, Provost & VCAA

Elizabeth Hardin, VCBA

Jesh Humphrey, VCII & General Counsel

Michael Carlin VCIT & CIO

Dr. Robert Wilhelm, VC Research & ED

Kevin Bailey, VCSA

Niles Sorenson, VCA

Judy Rose, Director of Athletics (outgoing)

Kim Bradley, Chief of Staff

Susan Burgess, Chief Compliance Officer

UNC

Lynne Sanders, VP Audit & Compliance

UNC Charlotte Internal Audit

Jennifer Walker, Chief Audit Officer

Diana Hill, Staff Auditor

Rachel Kaplan, Staff Auditor

Raheel Qureshi, Staff Auditor

Other

Office of the State Auditor, Zach Rogers

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Appendix III Biography of Reviewer

Patrick Reed is the retired University Auditor for the University of California System. Mr. Reed served UC from 1994 to 2009 after a twenty-two year career in public accounting with KPMG. The UC System Internal Audit Program was comprised of over 110 auditors in 11 audit departments, all of which reported to The Regents of the University through Mr. Reed. He also served on the Audit Committees of the LLCs responsible for managing Los Alamos and Lawrence Livermore National Laboratories for the DOE. Mr. Reed is a Past President of the Association of College and University Auditors and has performed numerous Quality Assessments in the industry at both private and public institutions. He is a graduate of Rockhurst University and a Certified Public Accountant.