



**ANNUAL REPORT of  
INTERNAL AUDIT ACTIVITIES  
FISCAL YEAR 2014-2015**

**Office of Internal Audit and  
Management Advisory Services  
October 20, 2015**

# Table of Contents

---

Message From the Chief Audit Officer.....	3
Mission and Overview of Internal Audit Function.....	5
Productivity Percentages.....	6
Completion of Audit Plan.....	7
Consultations.....	9
Shared Services.....	10
Financial Expenditures.....	11
Management Corrective Actions.....	12

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

On behalf of the Office of Internal Audit and Management Advisory Services (OIAMAS), I am pleased to present the *Annual Report of Internal Audit Activities* for the fiscal year ending June 30, 2015. The purpose of this report is to demonstrate our accountability to the Chancellor and the East Carolina University Board of Trustees (BOT) Audit Committee that the internal audit function is operating as intended.

Once again, OIAMAS has had another successful year. We would not be where we are today without the full support of the Chancellor, the ECU BOT Audit Committee, and the University community; therefore, we owe you a big thank you. Also, a big thank you to the OIAMAS staff for their dedication to the mission of OIAMAS and their passion for East Carolina University.

In summary, our notable accomplishments for this year include:

- Completed **56 projects** during the year
- Made **75 recommendations** to management
- Engaged in **141 consultations** with the University community and outside agencies
- Completed **90% of the annual audit plan**
- **Increased benchmark goals** pertaining to productivity and management corrective actions
- Management **satisfactorily resolved 100% of the observations** that were reviewed by Internal Audit
- Data analytics training for entire internal audit team

The following is a small sample of the many insights and services that our team provided to University management this year:

- Provided recommendations to management regarding appropriate documentation of insurance coverage in order to reduce the risks associated with multi-million dollar construction projects.
- Collaborated with management on implementation of the new “private model” for Athletics camps and clinics, and provided feedback during the first year of operations on which controls were operating as intended by management, and which controls can be strengthened in order to reduce the risks related to University liability, participant safety, and NCAA compliance.
- Collaborated with the new Pharmacy Services Director in ECU Physicians on ways to strengthen controls over \$2M in pharmaceutical inventory, as well as ways to strengthen the controls over receivables and payments in an area with over \$14M in annual revenue.
- Worked with the CIO on ways to measure the University’s return on investment (ROI) for major information technology projects, and identified

opportunities to strengthen the University's governance structures for the University's valuable IT and data assets.

- Partnered with Parking and Transportation to identify opportunities to tighten reconciliations and other controls in order to protect the unit's nearly \$3M in annual sales and receivables.
- Provided objective review and conclusions to University senior management for seventeen (17) inquiries or complaints received from University constituents related to the potential misuse of University resources or non-compliance with established policies, rules, regulations, or statutes.

We look forward to partnering with University management to provide similar services and value in the coming year.

Sincerely,



Stacie Tronto, MBA, CISA, CIA, CFE  
Chief Audit Officer/Executive Director

## Mission and Overview of Internal Audit Function

---

The mission of the Office of Internal Audit and Management Advisory Services (OIAMAS) is to provide independent, objective assurance and consulting services designed to add value and improve the University's operations. We help the University accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Office of Internal Audit and Management Advisory Services reports functionally to the Audit Committee of the East Carolina University Board of Trustees and administratively to the Chancellor. We have seven professional staff members and one Chief Audit Officer (CAO). Six employees have professional certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), Certified in Healthcare Compliance (CHC), and Certified Fraud Examiner (CFE). Three employees have a Master of Business Administration (MBA) degree, and one employee has a Master of Science in Accounting (MSA).

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*. Our most recent Quality Assurance Assessment that was completed in 2011 by an independent company external to the University confirmed that we are in compliance with the *Standards*. Our next assessment is due in 2016. OIAMAS also follows the Information Systems Audit and Control Association's (ISACA) *COBIT* standards when conducting information technology audits.

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 to fulfill its responsibilities; ensure that the charter, role, and activities of internal audit are clearly understood; maintain open and effective communications with the audit committee and the chairperson; and keep 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 OIAMAS to perform reviews and audits of varying types and scopes depending on the circumstances and requests from management. Each fiscal year an annual audit plan is developed and submitted to the Chancellor and Audit Committee of the ECU Board of Trustees for review and approval. The audit plan is based on a risk assessment methodology, as well as requests from management.

## Productivity Percentages

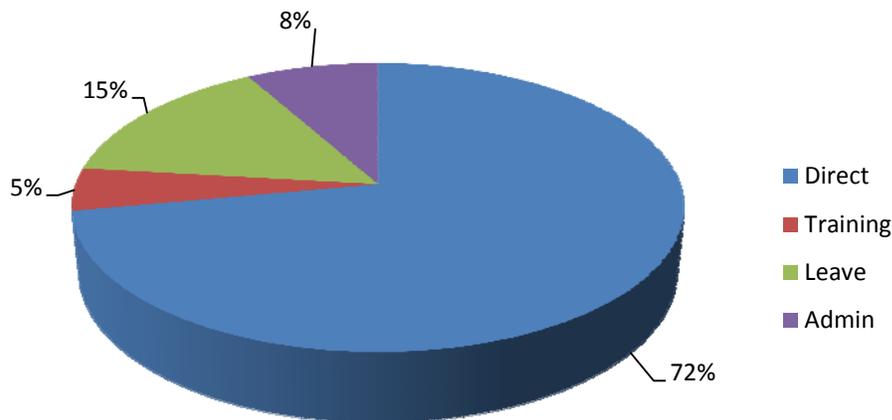
---

Internal Audit has a limited number of resources. Therefore, we must ensure that we spend the majority of our time in high-risk areas within the University while adding value and consulting on various engagements in collaboration with management. Productivity is categorized by direct and indirect hours. Direct hours provide direct value to University management and consist of assurance services such as operational, compliance, and information technology reviews; consulting services such as committee representation; answering ad-hoc questions and providing advice; investigations; and other special projects. Indirect hours are related to the office's internal needs, and consist of professional development/training, leave time, and administrative time.

Our productivity goal is 75%, which means we strive to spend at least 75% of our time on direct audit hours. Please note that we increased our goal from 70% to 75% this fiscal year. Actual **productivity for this fiscal year was 72%**, as compared to 74% last year, and 79% the previous year for direct audit hours. Indirect audit hours for this fiscal year were 28%.

The 72% represents a total of 12,638 direct hours. The percentage of direct audit hours decreased from last fiscal year due to staff members having to take unexpected sick leave this year.

The actual hours by percentage for 2014-2015 are depicted in the chart below.



## Completion of Audit Plan

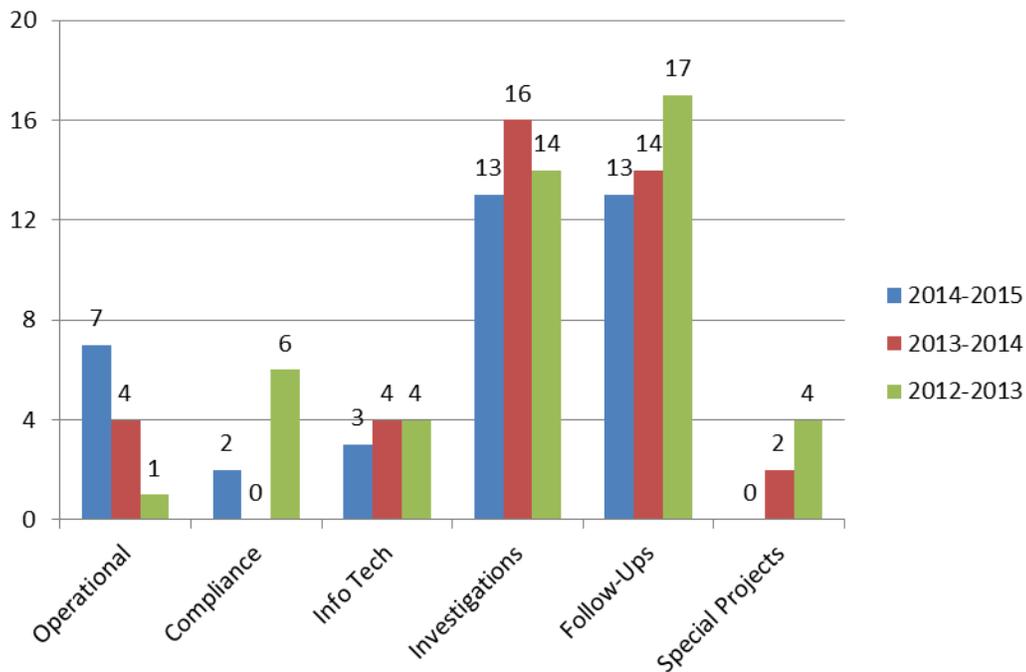
Our goal each year is to complete at least 80% of the risk-based audit plan. The audit plan is a dynamic document that determines the priorities of Internal Audit and must be adaptable to changes within the University as they occur.

For this fiscal year, OIAMAS **completed 90% of its amended audit plan**. The table below depicts the number of planned audits, audits added, multi-year audits, audits canceled and audits completed for the last three fiscal years.

<i>Audit Plan</i>	<i>FYE 2015</i>	<i>FYE 2014</i>	<i>FYE 2013</i>
Total Number of Audits Planned	36	40	42
Total Number of Audits Added *	28	31	19
Total Number of Audits Ongoing	0	0	0
Total Number of Audits Canceled	2	4	7
<i>Total Audits in Plan as Amended</i>	62	67	54
<i>Total Audits Completed</i>	56	57	46
<i>Percentage of Audit Plan Completed</i>	90%	85%	85%

\*This number includes investigations that were added during the year. Approximately 1460 hours is budgeted for items that may be added to the audit plan.

The chart below depicts the number of audits by type completed for the last three fiscal years (Note: Chart does not include consultations):



## Completion of Audit Plan

The table below depicts the audits that have been completed for this fiscal year along with budgeted hours, actual hours, variance, risk ranking and number of observations.

<i>Audits Completed FY 2014-2015</i>	<i>Budgeted Hours</i>	<i>Actual Hours</i>	<i>Variance</i>	<i>Risk Ranking</i>	<i># of Obs</i>
<b><i>Operational Audits<sup>(1)</sup>:</i></b>					
Human Resources	400	1150	-750	High	9
Purchasing PORT	400	1033	-633	High	1
Pharmacy Services	1700	1648	52	High	11
Construction Projects	800	1030	-230	High	4
Athletic Camps (New Model)	400	317	83	High	8
Parking and Transportation Services	400	579	-179	High	9
Physical Therapy	400	438	-38	High	7
<b><i>Compliance Reviews:</i></b>					
NCAA Compliance	400	529	-129	High	1
Cash Counts	200	218	-18	Med	0
<b><i>Information Technology Audits:</i></b>					
IT and Data Governance	400	523	-123	High	5
IT Disaster Recovery/BCP	240	338	-98	High	1
PCI Gap Analysis	140	40	100	High	NA
<b><i>Special Reviews:</i></b>					
13 Investigations <sup>(2)</sup>	910	1187	-277	----	19
<b><i>Follow-Up Reviews:</i></b>					
13 Follow-Up Reviews	670	1530	-860	----	NA
<b><i>Special Projects/Consultations:</i></b>					
141 Routine Consultations/18 Projects	2200	2302	-102	----	NA

<sup>(1)</sup> Operational category includes integrated audits, which includes a compliance and information technology component.

<sup>(2)</sup> For this fiscal year, Internal Audit identified approximately \$30,870 of funds to be recovered due to investigations of misuse and abuse.

## Consultations

As part of our management advisory services, OIAMAS partners with management across all divisions. Consulting services are requested by management and may include, but are not limited to, interpreting policies and procedures, participation on standing committees, limited-life projects, ad-hoc meetings, education and training, and routine information exchange. The table below depicts the number of consulting engagements that OIAMAS has performed for the past three fiscal years by division.

	<i>FYE 2015 Number</i>	<i>FYE 2014 Number</i>	<i>FYE 2013 Number</i>
<i>Consults by Division:</i>			
Academic Affairs	14	15	17
Administration & Finance	57	49	59
Athletics	3	4	2
Chancellor	11	10	5
Health Sciences	29	20	27
Research & Graduate Studies	3	8	3
Student Affairs	1	1	5
University Advancement	1	0	1
External to Institution	22	29	25
<b><i>Total Consultations</i></b>	<b>141</b>	<b>136</b>	<b>144</b>

As you can see from the table above, Internal Audit consults with colleagues external to the University. Some of our most notable consultations involved:

- Serving on search committee for City of Greenville Internal Auditor
- Participating in the Quality Assurance Review for UNC Pembroke
- Presenting to an accounting class at Wake Technical Community College
- Serving on UNC System task force to develop best practice for IT Risk Assessment for audit planning purposes
- Providing guidance to the Department of Cultural Resources on the development of an Internal Audit Policy and Procedure Manual

## Shared Services

---

In February of 2013, the UNC System issued its strategic plan, *Our Time. Our Future: The UNC Compact with North Carolina*. One of the goals in the strategic plan is to “maximize efficiencies.” A specific action step of this goal is to maintain or implement shared services in the area of Internal Audit. In April of 2013, an advisory team was formed that consisted of staff from UNC General Administration and five chief audit officers from universities within the UNC System. East Carolina University is one of the universities represented on the advisory team. The advisory team conducted a shared services study and issued an executive summary report in December of 2013 regarding its recommendations. While working on this project, the UNC System Vice President for Compliance and Audit Services and East Carolina University recognized an opportunity for East Carolina University to share internal audit services with other universities in the UNC System.

East Carolina University has entered into two ongoing shared service agreements. One agreement is with UNC Pembroke in the form of providing forensic analysis in support of misuse of resource investigations when needed. The other agreement is with Elizabeth City State University and provides chief audit officer services. It is estimated that these agreements result in an annual cost avoidance of \$103,000 and \$66,000, respectively for the UNC System. The shared service agreement with UNC Pembroke is provided at no cost. Elizabeth City State University currently reimburses East Carolina University \$34,000 per year plus travel expenses.

For this fiscal year, the number of hours dedicated to the shared service agreements by East Carolina University were as follows:

- UNC Pembroke – 28 hours
- Elizabeth City State University – 540 hours

## Financial Expenditures

The following table depicts the OIAMAS financial expenditures for the last three fiscal years.

	<i>FYE 2015</i>	<i>FYE 2014</i>	<i>FYE 2013</i>
Salaries	649,288	607,422	520,672
Benefits	188,513	164,763	147,439
<i>Total Labor Expenses</i>	<i>837,801</i>	<i>772,185</i>	<i>668,111</i>
Office Supplies	776	856	919
Reference Materials	269	1,090	1,019
Training	23,230	13,217	17,299
Membership Dues	4,395	4,745	5,888
Telephone, Copies, Postage	4,996	4,791	5,318
Office Equipment	3,634	4,445	750
Other	5,902	6,112	9,990
<i>Total Operating Expenses</i>	<i>43,202</i>	<i>35,256</i>	<i>41,183</i>
<i>Total Labor &amp; Operating Expenses</i>	<i>881,003</i>	<i>807,441</i>	<i>709,294</i>

Our annual operating budget, which does not include labor expenses, is approximately \$32,256. For this fiscal year, the University provided one-time funds for professional development, computer equipment, and computer software.

Our largest operating expense is professional development. Professional development is very important as it keeps the staff up-to-date on the latest audit techniques and information. Further, continuing education is required by the Institute of Internal Auditors' *Standards*, which we are required to follow per NCGS §143-746. Each staff member is required to complete eighty hours of continuing education each fiscal year. This involves attending conferences, seminars, webinars, reading textbooks and periodicals, and participating in self-study courses. 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.

The most notable professional development obtained this year included a ten course data analytics training for the entire internal audit team. The training was provided on-line so no travel costs were involved. Every two weeks the internal audit team met in the conference room to participate in the on-line training. This training is already paying dividends, as the team has incorporated the newly learned analytics techniques into three ongoing engagements as of this date. The new techniques lead to more effective and efficient audit work, and more valuable insights to management.

## Management Corrective Actions

The Office of Internal Audit and Management Advisory Services monitors management's progress towards completing the agreed upon management corrective actions in our internal audit reports. As you know, the 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.

OIAMAS discusses each audit recommendation fully with management and gets their feedback to ensure the recommendation is in the best interest of the University. Management provides a response on the plan of action they are going to implement and the date the action will be implemented. Management has the option of accepting the risk with regard to not implementing a recommendation; however, OIAMAS is compelled to make sure management understands the risk of not implementing the recommendation. For this fiscal year, OIAMAS made **75 recommendations and 100% of those recommendations** were accepted by management.

OIAMAS conducts a follow-up of the agreed upon management corrective actions using the implementation date that has been provided by management. The goal for management corrective actions is 95%. This goal was established through collaboration of the Chancellor, the Executive Council, and the ECU BOT Audit Committee. For this fiscal year, **management satisfactorily resolved 100% of the observations** that were reviewed by Internal Audit. The table below depicts the number of recommendations OIAMAS has reviewed for corrective actions and management has implemented for the last two fiscal years.

<i>Corrective Actions</i>	<i>FY 2014-2015</i>		<i>FY 2013-2014</i>	
	<i>Completed</i>	<i>Outstanding</i>	<i>Completed</i>	<i>Outstanding</i>
<i>Observations by Division:</i>				
Academic Affairs	1	0	9	0
Administration & Finance	11	0	7	0
Athletics	4	0	0	0
Chancellor	1	0	9	0
Health Sciences	16	0	17	2
Research & Graduate Studies	0	0	2	1
Student Life	3	0	5	0
University Advancement	0	0	0	0
<b><i>Total Observations</i></b>	<b>36</b>	<b>0</b>	<b>49</b>	<b>3</b>
<b><i>Percent Completed</i></b>	<b>100%</b>		<b>94%</b>	

This concludes the OIAMAS annual report for fiscal year 2014-2015. If you should have any questions, please call 252-328-9025.