



**INTERNAL AUDIT ACTIVITY  
ANNUAL REPORT  
FISCAL YEAR 2013-2014**

**Office of Internal Audit and  
Management Advisory Services  
December 8, 2014**

# Table of Contents

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Message From the Chief Audit Officer.....	3
Mission and Overview of Internal Audit Function.....	4
Productivity Percentages.....	5
Completion of Audit Plan.....	6
Consultations.....	8
Shared Services.....	9
Financial Expenditures.....	10
Management Corrective Actions.....	11

## *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 ended June 30, 2014. The purpose of this report is to demonstrate our accountability to the Chancellor and the East Carolina University Board of Trustees Audit Committee that the internal audit function is operating as intended.

I cannot believe that another year has gone by. Once again, OIAMAS has had another successful year. A big thank you to the Chancellor, the ECU BOT Audit Committee, and the University community as we would not be successful without your continued support. 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 **57 projects** during the year
- Made **69 recommendations** to management
- Engaged in **136 consultations** with the University community and outside agencies
- Exceeded our benchmarks for the year
- Established two ongoing shared service agreements to support the UNC System Strategic Plan
- One staff member passed the Certified Internal Auditor (CIA) exam

Sincerely,



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

## Mission and Overview of Internal Audit Function

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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 and has 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.

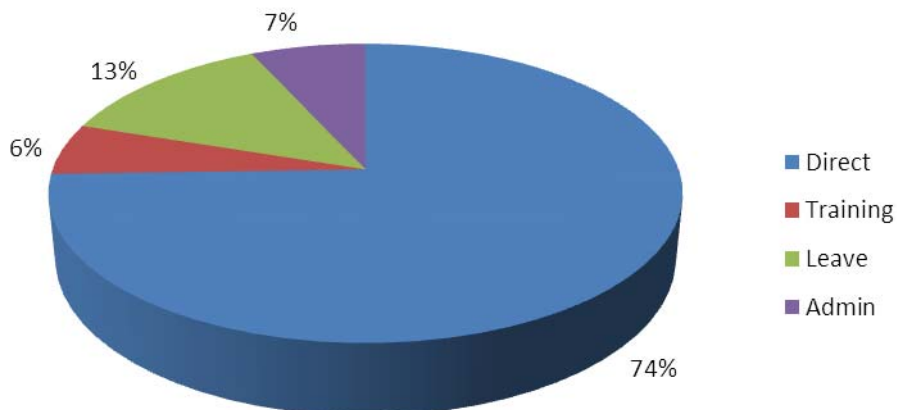
In order to meet the responsibilities and objectives as set forth in the Internal Audit Charter, it is necessary for OIAMAS to perform reviews and audits of varying types and scopes depending on the circumstances and requests from management. Each fiscal year an annual audit plan is developed and submitted 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

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Internal Audit has a limited number of resources; therefore, we must ensure that we spend the majority of our time on 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 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 consist of professional development/training, leave time, and administrative time.

Our productivity goal is 70%, which means we strive to spend at least 70% of our time on direct audit hours. Actual **productivity for this fiscal year was 74%**, as compared to 79% last year, and 76% the previous year for direct audit hours. Indirect audit hours for this fiscal year were 24%. The 74% represents a total of 12,569 direct hours. The actual hours by percentage for 2013-2014 are depicted in the chart below.



## Completion of Audit Plan

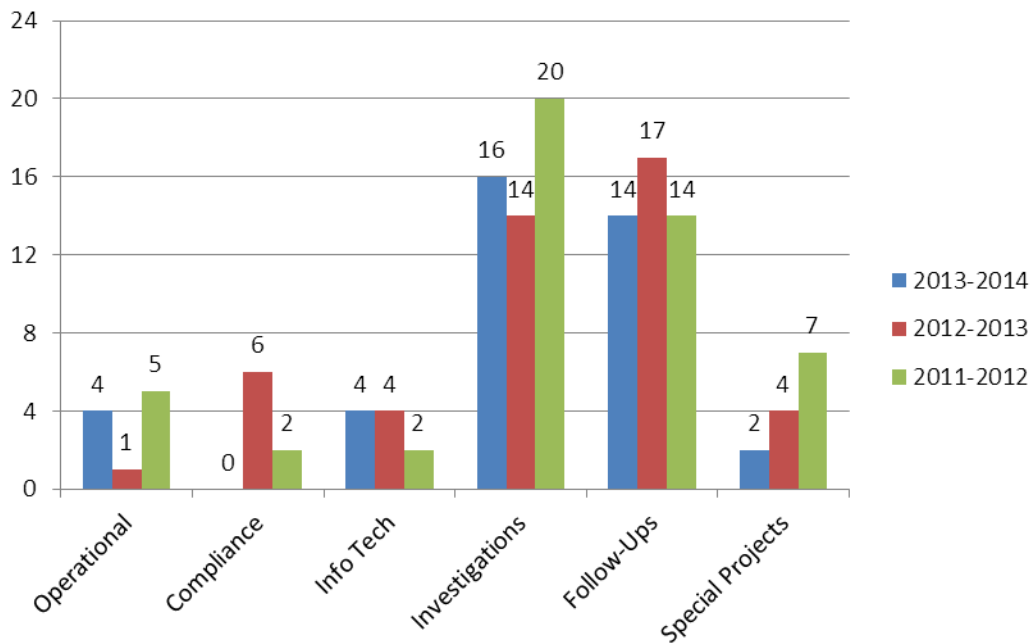
Our goal each year is to complete at least 80% of the risk-based audit plan. The audit plan is a dynamic document that determines the priorities of Internal Audit and must be adaptable to changes within the University as they occur.

For this fiscal year, OIAMAS **completed 85% of its amended audit plan**. The table below depicts the number of planned audits, audits added, multi-year audits, audits cancelled, and audits completed for the last three fiscal years.

<i>Audit Plan</i>	<i>FYE 2014</i>	<i>FYE 2013</i>	<i>FYE 2012</i>
Total Number of Audits Planned	40	42	37
Total Number of Audits Added *	31	19	20
Total Number of Audits Ongoing	0	0	0
Total Number of Audits Cancelled	4	7	0
<b>Total Audits in Plan as Amended</b>	<b>67</b>	<b>54</b>	<b>57</b>
<b>Total Audits Completed</b>	<b>57</b>	<b>46</b>	<b>40</b>
<b>%age of Audit Plan Completed</b>	<b>85%</b>	<b>85%</b>	<b>88%</b>

\*This number includes investigations that were added during the year. Approximately 1200 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 2013-2014</i>	<i>Budgeted Hours</i>	<i>Actual Hours</i>	<i>Variance</i>	<i>Risk Ranking</i>	<i># of Obs</i>
<b><i>Operational Audits(1):</i></b>					
University Youth Camps	400	1078	-678	High	12
Athletics Operational Review	400	2994	-2594	High	9
School of Dental Medicine Clinics	700	805	-105	High	9
ECU Physicians Manual	200	224	-24	High	2
<b><i>Information Technology Audits:</i></b>					
ITCS Firewall	280	398	-118	High	7
IT Disaster Recovery 2013	180	266	-86	High	2
Mobile Devices	200	244	-44	High	1
CISCO ISE Implementation	200	218	-18	High	1
<b><i>Special Reviews:</i></b>					
16 Investigations(2)	859	1528	-669	----	26
<b><i>Follow-Up Reviews:</i></b>					
14 Follow-Up Reviews	891	929	-38	----	NA
<b><i>Special Projects/Consultations:</i></b>					
136 Routine Consultations/17 Projects	2290	3041	-751	----	NA
EnCase Enterprise Implementation	120	53	67	High	NA
Risk Assessment/Audit Planning 2014-2015	100	61	39	High	NA

(1): Operational category includes integrated audits, which includes a compliance component.

(2): For this fiscal year, Internal Audit identified approximately \$136,000 of funds to be recovered due to investigations of misuse and abuse.

## Consultations

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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>Consults by Division:</i>	<i>FYE 2014 Number</i>	<i>FYE 2013 Number</i>	<i>FYE 2012 Number</i>
Academic Affairs	15	17	8
Administration & Finance	49	59	76
Athletics	4	2	0
Chancellor	10	5	3
Health Sciences	20	27	17
Research & Graduate Studies	8	3	0
Student Life	1	5	3
University Advancement	0	1	0
External to Institution	29	25	8
<b><i>Total Consultations</i></b>	<b>136</b>	<b>144</b>	<b>115</b>



## Shared Services

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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.

In the past few months, East Carolina University has entered into two ongoing shared service agreements. One agreement is with UNC Pembroke in the form of providing forensic analysis during misuse 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. East Carolina University also performed a one-time shared service with UNC General Administration in the form of conducting a risk assessment for audit planning purposes. UNC General Administration reimbursed East Carolina University for labor and travel expenses regarding this arrangement. Elizabeth City State University reimburses East Carolina University for its services as well.

These shared service agreements would not have been feasible without the vision and facilitation of the UNC System Vice President for Compliance and Audit Services, as well as the support of the East Carolina University Chancellor, ECU Vice Chancellor for Administration and Finance, and the Chair of the ECU BOT Audit Committee. Further, the Chancellors at UNC Pembroke and Elizabeth City State University should be recognized for their willingness to support these types of arrangements, as well as the Chief Audit Officers. The end results of these arrangements are: (1) a cost savings to the UNC System, (2) East Carolina University can offset some of its expenses, and (3) maximizing efficiencies and effectiveness regarding internal audit services within the UNC System.

## Financial Expenditures

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

	<i>FYE 2014</i>	<i>FYE 2013</i>	<i>FYE 2012</i>
Salaries	607,422	520,672	470,363
Benefits	164,763	147,439	126,962
<i>Total Labor Expenses</i>	<i>772,185</i>	<i>668,111</i>	<i>597,325</i>
Office Supplies	856	919	625
Reference Materials	1,090	1,019	1,663
Training	13,217	17,299	20,356
Membership Dues	4,745	5,888	5,354
Telephone, Copies, Postage	4,791	5,318	4,018
Office Equipment	4,445	750	0
Other	6,112	9,990	10,347
<i>Total Operating Expenses</i>	<i>35,256</i>	<i>41,183</i>	<i>42,363</i>
<i>Total Labor and Operating Expenses</i>	<i>807,441</i>	<i>709,294</i>	<i>639,688</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 of approximately \$3,000 for professional development.

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 Auditor's *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.

## Management Corrective Actions

The Office of Internal Audit and Management Advisory Services monitors the progress in completing agreed upon management corrective actions addressing management control weaknesses and best practices in our internal audit and advisory services reports. Timely correction of control weaknesses and the implementation of best practices demonstrate management's commitment to operating in accordance with sound business practices.

OIAMAS makes recommendations to management with regard to internal control, risk management, and governance processes. We may also make recommendations with regard to best practices. Before a recommendation is made, OIAMAS discusses it 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 the fiscal year 2013-2014, OIAMAS made **69 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 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 2013-2014</i>		<i>FY 2012-2013</i>	
	<i>Completed</i>	<i>Outstanding</i>	<i>Completed</i>	<i>Outstanding</i>
<i>Observations by Division:</i>				
Academic Affairs	9	0	11	4
Administration & Finance	7	0	5	0
Athletics	0	0	12	0
Chancellor	9	0	2	0
Health Sciences	17	2	6	1
Research & Graduate Studies	2	1	4	0
Student Life	5	0	15	0
University Advancement	0	0	1	0
<b><i>Total Observations</i></b>	<b>49</b>	<b>3</b>	<b>56</b>	<b>5</b>
<b><i>Percent Completed</i></b>	<b>94%</b>		<b>92%</b>	

This concludes the OIAMAS annual report for fiscal year 2013-2014. If you should have any questions, please call 252-328-9025.