



East Carolina University

**INTERNAL AUDIT ACTIVITY  
ANNUAL REPORT  
FISCAL YEAR 2010-2011**

**Office of Internal Audit and  
Management Advisory Services  
October 13, 2011**

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## *Message from the Director...*

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, 2011. 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.

In summary, OIAMAS completed 44 projects during the year and made 73 recommendations to management. We also engaged in 158 consultations with the University community and outside agencies. Outside agencies sometimes call upon our department for examples of best practices and to make presentations. For example, we were invited to speak to the accounting students at Wake Technical Community College this past spring.

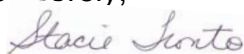
I am pleased to announce that OIAMAS continues to improve upon our benchmarks that we have implemented. For example, our productivity ratio has increased from 71% in 2008-2009 to 75% in 2010-2011. Our audit plan completion rate has increased from 65% in 2008-2009 to 83% in 2010-2011. Management has also improved their benchmark for implementing corrective actions. In 2008-2009, management implemented 75% of corrective actions and in 2010-2011, management implemented 100% of corrective actions.

OIAMAS also successfully completed a quality assurance review for this fiscal year with an overall rating of “generally conforms”, which is the best possible rating. In addition, a number of positive comments were made by the firm conducting the quality assurance review.

Because of the continuing support of the Chancellor and the Vice Chancellor for Administration and Finance, OIAMAS was able to recruit a HealthCare Auditor this fiscal year. This is just one example of senior leadership’s dedication to compliance, internal control, and risk management at ECU.

I would like to thank the Chancellor and the ECU Board of Trustees Audit Committee for their continued support. I would also like to thank the Internal Audit staff for all their hard work and continued dedication to the practice of internal auditing. Additionally, I would like to thank the University community for their cooperation and responsiveness.

Sincerely,



Stacie Tronto, MBA, CISA, CIA, CFE  
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 organization's operations. We help the organization 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 six professional staff members and one audit director. Four personnel have professional certifications such as Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA), and Certified Fraud Examiner (CFE). Three personnel have a Master of Business Administration (MBA) degree and one staff member has a Master of Science in Accounting (MSA).

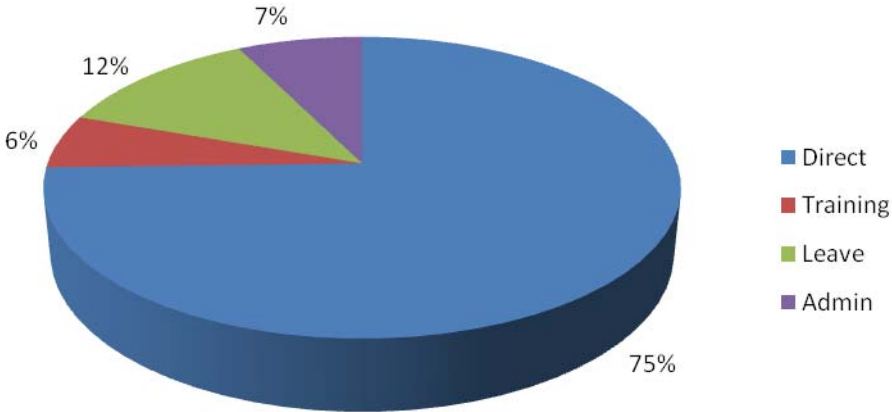
Our work is conducted and managed in accordance with the Institute of Internal Auditor's (IIA) *International Standards for the Professional Practice of Internal Auditing*. OIAMAS also follows the Information Systems Audit and Control Association's (ISACA) *COBIT* standards when conducting information technology audits.

In keeping with the IIA *Standards*, the Director must have a strong working relationship with the audit committee. Therefore, the Director provides results of audits and other internal audit activities to the audit committee on a regular basis. Further, the Director 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

Our productivity goal is 70%, which means we strive to spend at least 70% of our time on direct audit hours. Direct audit hours are comprised of audits, follow-ups, special reviews, special projects, consultations, external auditor assistance, and other tasks. Actual productivity for this fiscal year was 75% as compared to 72% last year and 71% the previous year for direct audit hours and 25% for indirect audit hours. The 75% represents a total of 10,297 hours. The actual hours by percentage for 2010-2011 are depicted in the chart below.



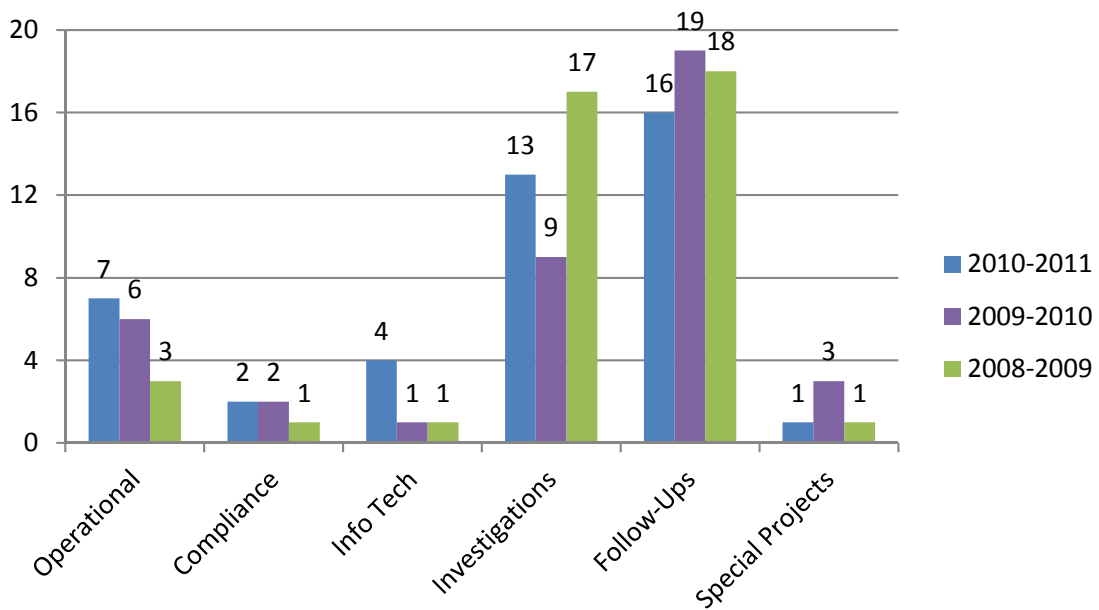
OIAMAS does not have an office assistant; therefore, the audit staff must share administrative duties such as arranging travel, ordering supplies, maintaining leave records, etc. This results in a higher administration percentage as compared to other audit functions that have an office assistant.

# Completion of Audit Plan

For this fiscal year, OIAMAS completed 83% of its amended audit plan as compared to 80% last fiscal year and 65% the previous year. 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>FY 2010-2011</i>	<i>FY 2009-2010</i>	<i>FY 2008-2009</i>
Total Number of Audits Planned	38	43	47
Total Number of Audits Added	18	14	20
Total Number of Audits Ongoing	0	-3	0
Total Number of Audits Cancelled	-3	-3	-4
<i>Total Audits in Plan Amended</i>	53	51	63
<i>Total Audits Completed</i>	44	41	41
<i>Percentage of Audit Plan Completed</i>	83%	80%	65%

The chart below depicts the number of audits by type completed for the last three fiscal years:



The table below depicts the audits that have been completed for this fiscal year.

<i>Audits Completed FY 2010-2011</i>	<i>Budgeted Hours</i>	<i>Actual Hours</i>	<i>Variance</i>	<i>Risk Ranking</i>	<i># of Obs</i>
<b><i>Operational Audits:</i></b>					
Dining	500	589	-89	High	9
Housing	600	797	-197	High	4
Continuing Studies	400	657	-257	High	9
Student Pay Process	400	772	-372	High	9
REAP Review	200	151	49	Medium	0
Year End Testing	200	220	-20	Low	0
Travel Process	400	388	12	High	6
<b><i>Compliance Audits:</i></b>					
Computer Loan Program	90	95	-5	Medium	1
Reporting Misuse Per State Statute	140	40	100	High	0
<b><i>Information Technology Audits:</i></b>					
Disaster Recovery 2009-2010	80	76	4	High	2
Decentralized IT System Controls	300	297	3	High	9
Follow-Up OSA 2010-2011 IT Controls	100	49	51	High	0
Follow-Up OSA 2008 IT Audit	12	13	-1	High	0
<b><i>Special Reviews:</i></b>					
13 Investigations	1302	2226	-924	----	24
<b><i>Follow-Up Reviews:</i></b>					
Readmission of Student	77	211	-134	High	1
Radiation Oncology	25	15	10	High	0
Accounts Payable	10	1	9	High	0
University Policy Manual and Training	10	34	-24	High	0
Graduate School	86	132	-46	High	0
Dental Clinic	50	43	-7	High	0
UNC FIT Grants and Contracts	40	20	20	High	0
Employee Entry/Exit Process	40	30	10	Medium	2
Recreation and Leisure Studies	40	107	-67	Medium	1
2 <sup>nd</sup> Follow-Up Recreation and Leisure Studies	10	3	7	Low	0
International Affairs	40	63	-23	Low	2
2 <sup>nd</sup> Follow-Up International Affairs	40	56	-16	Low	0
College of Nursing	40	38	2	Medium	0
Athletics Pro-card and Cell Phone	75	63	12	Medium	0
Math Grant	16	8	8	Medium	0
Telecommunications	20	17	3	Medium	0
<b><i>Special Projects/Consultations:</i></b>					
158 Consultations	1300	1195	105	NA	0
Quality Assurance Review	200	182	18	High	0

## 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>Division:</i>	<i>FY 2010-2011</i> <i># of Consults</i>	<i>FY 2009-2010</i> <i># of Consults</i>	<i>FY 2008-2009</i> <i># of Consults</i>
Academic Affairs	9	23	16
Administration & Finance	96	75	55
Athletics	1	0	2
Chancellor	8	11	3
Health Sciences	25	14	15
Research & Graduate Studies	3	9	7
Student Life	4	11	21
University Advancement	0	1	0
External to Institution	12	15	10
<b><i>Total Consultations</i></b>	158	159	129

## Quality Assurance Review

Lots of times the question gets asked, “Who audits the auditors?” Every five years, OIAMAS is required to undergo a quality assurance review by an external provider. This review evaluates the quality and practices of the internal audit function. External reviews require an outside team of independent reviewers to evaluate compliance with the IIA *Standards*, use of successful practices, and the efficiency and effectiveness of the internal audit function’s activity.

This year, OIAMAS engaged the firm of Honkamp Krueger & Co. to perform our quality assurance review. We received a rating of “generally conforms”, which is the best possible rating. In addition, we also received recommendations on innovative practices that we plan to evaluate and incorporate into our operations as appropriate.

The following is an excerpt from Honkamp’s report regarding OIAMAS:

*“We found numerous positive aspects about the ECU OIAMAS group and the work it performs. As evidenced by interviews, surveys, document reviews, and observations, OIAMAS currently uses “Innovative Practices” in its audit operations and administration. Some of the more notable positive aspects and practices include:*

- *Being recognized as key advisor by senior management through the CAE participation on high level corporate leadership teams*
- *A closely coordinated working relationship with State auditors and other ECU assurance functions*
- *Establishing and maintaining a University Hotline*
- *Developing a report format in conjunction with their clients that has been widely accepted and appreciated*
- *A highly experienced staff seen as valued added by the organization*
- *Client survey results that demonstrate an above average overall satisfaction level with OIAMAS”*

## Financial Expenditures

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

	<i>FY 2010- 2011</i>	<i>FY 2009- 2010</i>	<i>FY 2008- 2009</i>
Salaries	458,997	436,787	417,809
Benefits	113,058	96,633	88,110
<i>Total Labor Expenses</i>	<i>572,055</i>	<i>533,420</i>	<i>505,919</i>
Office Supplies	2,189	2,169	1,071
Reference Materials	4,179	1,680	2,546
Training	7,706	18,391	15,049
Membership Dues	4,026	2,847	2,456
Telephone, Copies, Postage	3,863	2,600	1,322
Office Equipment	4,073	3,799	1,079
Other	17,988	0	0
<i>Total Operating Expenses</i>	<i>44,024</i>	<i>31,486</i>	<i>23,523</i>
<i>Total Labor and Operating Expenses</i>	<i>616,079</i>	<i>564,906</i>	<i>529,442</i>

Our annual operating budget, which does not include labor expenses, is approximately \$27,000. For this fiscal year, the University provided one-time money of approximately \$25,000 for a quality assurance review and office equipment and training for our new HealthCare auditor position. The increase in reference materials and memberships dues can be attributed to the new Healthcare Auditor position as we needed healthcare auditing reference materials and joined professional organizations specific to healthcare.

Normally our largest operating expense is training; however, due to economic conditions, OIAMAS had to revert approximately \$8,000 of our budget, which affected are training dollars. Currently, staff members are trying to obtain their necessary continuing education through local training and free webinars. Training 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.

## 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 2010-2011, OIAMAS made 73 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 2010-2011</i>		<i>FY 2009-2010</i>	
	<i>Completed</i>	<i>Outstanding</i>	<i>Completed</i>	<i>Outstanding</i>
<i>Observations by Division:</i>				
Academic Affairs	11	0	17	0
Administration & Finance	2	0	18	2
Athletics	5	0	0	0
Chancellor	5	0	2	0
Health Sciences	16	0	8	4
Research & Graduate Studies	6	0	3	0
Student Life	0	0	4	0
University Advancement	0	0	2	0
<b><i>Total Observations</i></b>	<b>45</b>	<b>0</b>	<b>54</b>	<b>6</b>
<b><i>Percent Completed</i></b>	<b>100%</b>		<b>90%</b>	

This concludes the OIAMAS annual report for fiscal year 2010-2011. If you should have any questions, please call 252-328-9025.