

Minutes of the June 14, 2012 Meeting
of the Board of Governors Audit Committee

The Audit Committee met in the Executive Conference Room at the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, June 14, 2012 at 9:30 a.m.

Members in attendance were Mr. W. Louis Bissette, Jr., Mr. John M. Blackburn, Mr. Walter C. Davenport, Dr. Fred N. Eshelman, Mr. Thomas J. Harrelson, Dr. Franklin E. McCain, Mr. Hari H. Nath, Mr. Richard F. Taylor, and Mr. Phillip D. Walker. Also in attendance was board member Cameron Carswell. Others in attendance were Chancellor Kenneth Peacock and Chief of Staff John Earwood (ASU), Chancellor James Anderson (FSU) and Vice Chancellor for Administration and Finance Robert Edwards (WCU) as well as UNC General Administration staff.

Chairman Davenport called the meeting to order and welcomed everyone.

On a motion from Mr. Blackburn, seconded by Dr. McCain, the minutes of the April 12, 2012 meeting were approved.

Representatives of the Office of the North Carolina State Auditor, Ted Price and Katie Thigpen reviewed the UNC General Administration's 2011 financial audit, which was the only audit report released since the last meeting. The report had no findings.

Ms. Gwen Canady, Project Manager of the UNC FIT Project, gave an update on UNC Shared Services Payroll, UNC Human Resources (HR) Data Mart, Business Process Improvements and Financial Monitoring, and UNC E-Procurement Initiative. (See Attachment)

Assistant Vice President Jeff Henderson presented the UNC-GA's 2012-13 Internal Audit Plan. (See Attachment) He explained that Internal Auditor Jan-Rae Castillo determined the plan represented the high risk areas after a risk assessment was performed. Input had been received from members of UNC-GA's senior management.

On the motion from Dr. McCain, seconded by Mr. Walker, the UNC General Administration's 2012-13 Internal Audit Plan was approved.

Next, Mr. Henderson reviewed the status of the 112 Associated Entities within the University System. Most entities were in compliance, and UNC-GA's staff had been working with the remaining entities to meet standards.

The Committee continued the discussion of the Audit Committee Charter. A recent law change required re-wording of the Charter. There were questions throughout the discussion. It was decided to continue discussion at the August meeting; the updated Charter would be presented to the full board for its approval.

Chair Davenport presented a letter from UNC Charlotte regarding an Information Technology Systems (ITS) Security incident.(See Attachment) The university discovered that a significant amount of sensitive data had been exposed to the Internet. The institution had taken all the necessary steps and appropriate actions to respond to the incident. To date, it appeared no one had been harmed.

There being no further business, the meeting was adjourned.

Mr. Walter C. Davenport
Chair of the Audit Committee

Mr. Hari H. Nath
Secretary of the Audit Committee

UNC Finance Improvement and Transformation (FIT) Update

UNC Shared Services Payroll

The nine campuses within the UNC Shared Services Payroll continue to produce accurate, quality payrolls. UNC FIT is currently engaged with the campuses in the annual review of the SSC/Campus Service Level Agreements, and campus costs for FY 2013 have been calculated. Campuses recently completed the initial Operational Readiness Checklist for implementation of an enhanced web time entry solution which will be incrementally rolled out during FY 2013. A monthly call of campus timekeepers has been established in preparation for this implementation to share best practices, identify areas of inconsistency and note additional areas where guidance and standardization may be needed. A position budget management solution is being piloted with UNCA and will also be rolled out to other campuses during FY 2013. UNC FIT continues the standard model monitoring on each of the campuses.

UNC Human Resources Data Mart

The official cut-off date for duplicate data entry into the State's Personnel Management Information System was established at December 31, 2011. Campuses have until June 20, 2012 to certify their SPA data as of that date. Beginning January 1, 2012, the campus HR systems are the official system of record, and the UNC HR Data Mart is the collective source of information. UNC FIT, HR and IT continue the enhancement of the HR Data Mart with development of a cross-campus view and public information view. Identification of additional data elements that should be incorporated in the HR Data Mart, as well as identification of various reports that can be more efficiently pulled from the HR Data Mart, continues. In conjunction with the Institutional Research Division at UNC GA, a comparison of Data Mart and the Personnel Data File (PDF) reporting is also underway with the goal of replacing PDF reporting with reporting from the UNC HR Data Mart in the future.

Business Process Improvements and Financial Monitoring

UNC FIT monitoring visits were conducted on each campus during the months of February and March. New process reviews (Capital Assets and Student Accounts) were led by the UNC FIT system process owner and existing process reviews (Financial Aid, General Accounting and Contracts & Grants) were led by a combined GA Finance team with some participation from the UNC FIT system process owner. Overall our campus visits were very successful. Campuses were well prepared and the UNC FIT team was able to see documentation where campuses were meeting the standards as well as provide clarification for certain standards and assistance on those not being met. Following the visits (and after sharing a draft report with the campus project managers) chancellors received a summary report of the visit with observations and recommendations outlined. The FIT team will continue to work with the campuses on noncompliant areas.

The UNC FIT Financial Dashboard for the period ending December 31, 2011 was published in March and KPIs for Payroll are under development with an expected release in June for trial reporting. The FIT team has also worked on the development of a composite UNC FIT Scorecard in preparation for inclusion as a core component in the UNC Performance Funding Model.

UNC E-Procurement Initiative

UNC's E-Procurement Initiative was launched in FY 2012 to expand UNC's electronic commerce capacity and maximize our SciQuest system's return on investment. We successfully recruited a UNC-GA Purchasing Officer / UNC System Procurement Officer in March to lead UNC's E-Procurement initiative, enable strategic sourcing strategies, and maximize the use of our E-Procurement application. After conducting a spend analysis survey in January, UNC FIT recommended and the advisory committee approved the adoption of four additional vendor catalogs in the office supply, maintenance repair and operation (MRO), and audio visual technology industries. These catalogs steer spend to our highest volume vendors in order to maximize University savings. In July of 2012, UNC FIT will begin to collaborate with the NC Department of Administration to develop new strategic sourced state term contracts in the office supply, scientific and laboratory supply, and audio visual technology spend categories. Using SciQuest's electronic workflow functionality, UNC FIT plans to implement electronic workflows for both direct payment and travel authorization actions. Additionally the project team plans to develop a return on investment annual report for E-Procurement savings, KPIs, and performance measures with a targeted implementation date of September 30, 2012.

University of North Carolina General Administration

Audit Plan

Year Ending June 30, 2013

Budget

Specific Audits	Number of Audits	Included in the Audit Plan	Status	Significant Audit Findings *	Auditor Comments
Financial Audits/Reviews Include audits/reviews having a direct relation to financial information at the institution. Capital Assets Review					
Information System Controls Include audits/reviews of information systems, including general controls, application controls, and disaster recovery. None					
Audits/Reviews of Internal Controls Include audits/reviews of internal control systems and processes, including the EAGLE and UNC FIT assessments and testing. Self Assessment of Internal Control UNC TV Purchasing/P-Card					
Performance/Operational Audits and/or Reviews Include audits/reviews of departmental operations and activities. Shared Services Center					
Compliance Audits Include audits/reviews of compliance with federal and state requirements. Also include audits/reviews of compliance with university policies and procedures. Carry-forward, Management Budget Flexibility					
Audit Findings Follow-up Follow-up activity related to audit findings resulting from external audits and those from internal audit activity. Financial Record System Access / Controls Follow-up Review of Expenses - President, Chief of Staff, Vice Presidents Follow-up					
Special Investigations (i.e. Misuse or Misappropriation of Assets) Include investigations of internal and external hotline reports as well as any similar types of investigations, regardless of the source. Various As Occurs					
Special Assignments Include special activities assigned to the internal auditor, including committee assignments and other activities not involving audit/review activities. None					

University of North Carolina General Administration
Audit Plan
Year Ending June 30, 2013

Budget

Specific Audits	Number of Audits	Included in the Audit Plan	Status	Significant Audit Findings *	Auditor Comments
Other					
Include other internal audit activities not included elsewhere. The entries here should be very limited.					
Risk Assessment 2012-2013					

* Findings, recommendations, and corrective actions attached

Status

Complete - Fieldwork complete and report issued
 In Process - Fieldwork in process and/or report not released.
 On-Going - activities of an on-going nature, i.e. committees
 Pending - Fieldwork stopped and /or report held up due to specific delay.
 Deferred - Audit/Review moved to a future year.
 Cancelled - Audit/Review will not be performed in the current or future year.

University of North Carolina General Administration
Audit Plan
Year Ending June 30, 2013

Budget

Total Available Hours	<u>2,080</u>
 Audit Hours - GA	
Capital Assets Review	40
Self Assessment of Internal Control	80
UNC TV Purchasing/P-Card	280
Shared Services Center	240
Carry-forward, Management Budget Flexibility	120
 Financial Record System Access / Controls Follow-up	72
Review of Expenses - President, Chief of Staff, Vice Pre	40
 Investigations (as they occur)	40
 Risk Assessment 2012-2013	80
	<u>992</u>
 Audit Hours - NCSSM	
Information Systems Access	200
Self Assessment of Internal Control	80
Investigations (as they occur)	120
Risk Assessment 2012-2013	200
Capital Asset Audit Follow-up	40
State Auditor Findings - Follow-up (if applicable)	40
	<u>680</u>
 Administration Hours	
Holidays	88
Leave	120
Training	40
Other	160
	<u>408</u>
 Total	<u><u>2,080</u></u>

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
Appalachian State University								
ASU Foundation, Inc.	6/30/11	Yes	McGladrey & Pullen, LLP	No	GAAP ¹	\$96,962,624	Discretely Presented	Yes
Appalachian Real Estate Holdings, Inc.	6/30/11	Yes	Internal Audit	No	GAAP ¹	\$958		Yes
ASU Student Housing Corporation	6/30/11	Yes	Apple, Koceja, & Associates, PA	No	GAAP ¹	\$12,086,916	Discretely Presented	Yes
East Carolina University								
ECU Alumni Association, Inc.	6/30/11	Yes	Clifton Gunderson, LLP	No	GAAP ¹	\$1,753,072		Yes
ECU Educational Foundation, Inc.	6/30/11	Yes	Clifton Gunderson, LLP	No	GAAP ¹	\$30,061,854		Yes
ECU Foundation, Inc. and Consolidated Affiliate	6/30/11	Yes	Clifton Gunderson, LLP	No	GAAP ¹	\$88,807,372	Discretely Presented	Yes
East Carolina University Medical Foundation & Health Sciences Foundation, Inc.	6/30/11	Yes	Clifton Gunderson, LLP	No	GAAP ¹	\$34,634,971		Yes
Elizabeth City State University								
ECSU Foundation, Inc. and Subsidiary	6/30/11	Yes	Thomas & Gibbs CPAs, PLLC	No	GAAP ¹	\$7,137,750	Blended	Yes
ECSU National Alumni Association, Inc.	12/31/10	Yes	Murphy & Company, PC	No	GAAP ¹	\$135,998		Yes
Fayetteville State University								
FSU Athletic Club	6/30/11	Yes	Alexander G. Vuchnich, CPA	No	GAAP ¹	\$9,321		Yes
FSU Development Corporation	6/30/11	Yes	Buie, Norman, & Company, PA	No	GAAP ¹	\$1,060,154		Yes
FSU Foundation, Inc. and Subsidiary	6/30/11	Yes	Buie, Norman, & Company, PA	No	GAAP ¹	\$2,426,390	Discretely Presented	Yes
FSU National Alumni Association, Inc.	6/30/11	Yes	Buie, Norman, & Company, PA	No	GAAP ¹	\$30,846		Yes
The Fayetteville State University Housing Foundation, LLC	6/30/11	Yes	Buie, Norman, & Company, PA	No	GAAP ¹	(\$2,507,104)		Yes
Fayetteville State University Student Housing Corporation and Subsidiary	6/30/11	Yes	Buie, Norman, & Company, PA	No	GAAP ¹	(\$200)		

¹ GAAP - Accounting Principles Generally Accepted in the United States of America

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
North Carolina A & T State University								
Friends of the School of Education ³								Yes
NCA&T National Aggie Club, Inc.	6/30/11	Yes	John S. Fitzgerald, CPA	No	Modified Cash ²	\$176,287		Yes
NCA&T University Alumni Association, Inc.	6/30/11	Yes	James E. Avent, Jr., CPA	No	GAAP ¹	\$2,389,734		Yes
NCA&T University Foundation, Inc.	6/30/11	Yes	Oliver W. Bowie, CPA, PA	No	GAAP ¹	\$10,158,812	Discretely Presented	Yes
Sports Hall of Famers ³								Yes
The Victory Club Foundation, Inc.	6/30/11	Yes	Oliver W. Bowie, CPA, PA	No	GAAP ¹	\$1,094,848		Yes
North Carolina Central University								
NCCU Alumni Association, Inc.	6/30/11	Yes	Claude M. Bogue, CPA, PLLC	No	GAAP ¹	\$575,344		Yes
NCCU Educational Advancement Foundation, Inc.	6/30/08	Yes	Ty Cox & Co., CPAs, PLLC	No	GAAP ¹	\$173,710		Yes
NCCU Foundation, Inc.	6/30/11	Yes	McGladrey & Pullen, LLP	No	GAAP ¹	\$11,738,718	Discretely Presented	Yes
NCCU Real Estate Foundation	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	(\$1,103,998)	Blended	Yes
North Carolina School of Science and Mathematics								
NCSSM Foundation	6/30/11	Yes	McGladrey & Pullen, LLP	No	GAAP ¹	\$7,629,134		Yes
NCSSM Student and Constituent Support Services, Inc.	6/30/11	Yes	Thomas E. Spivey, CPA, PA	No	GAAP ¹	\$100,414		Yes

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²Modified Cash - This basis of accounting can take many forms. However, the typical differences of this basis of accounting versus General Accepted Accounting Principles is that certain revenues would be recognized when received instead of when earned and certain expenses would be recognized when paid instead of when incurred.

³No Activity, will be removed after this cycle.

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
North Carolina State University								
N.C. Agricultural Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	GAAP ¹	\$106,745,263		Yes
N.C. State Alumni Club, Inc.	12/31/10	Yes	Batchelor, Tillery, & Roberts, LLP	No	GAAP ¹	\$364,358		Yes
N.C. State Engineering Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	Modified Cash ²	\$59,062,036		Yes
N.C. State Investment Fund, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	GAAP ¹	\$378,259,552	Blended	Yes
N.C. State Natural Resources Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	Modified Cash ²	\$25,644,445		Yes
N.C. State University Alumni Association	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	GAAP ¹	\$22,357,442		Yes
N.C. State University Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	GAAP ¹	\$120,359,764	Discretely Presented	Yes
N.C. State University Partnership Corporation ³	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	GAAP ¹	\$10,876,425	Blended	Yes
N.C. State University Physical & Mathematical Sciences Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	Modified Cash ²	\$14,569,655		Yes
N.C. Textile Foundation, Inc.	6/30/11	Yes	Koonce, Wooten, & Haywood, LLP	No	Modified Cash ²	\$32,600,671		Yes

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³N.C. State Centennial Development, LLC and N.C. State Residences, LLC were combined with the N.C. State University Partnership Corporation.

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
North Carolina State University (cont'd)								
N.C. Tobacco Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	Modified Cash ²	\$4,588,997		Yes
N.C. Veterinary Medical Foundation, Inc.	6/30/11	Yes	Williams, Overman, Pierce, LLP	No	Modified Cash ²	\$36,873,715		Yes
NCSU Student Aid Association, Inc.	6/30/11	Yes	Koonce, Wooten, & Haywood, LLP	No	GAAP ¹	\$84,276,552	Discretely Presented	Yes
North Carolina State University Club	12/31/10	Yes	Batchelor, Tillery, & Roberts, LLP	No	GAAP ¹	\$2,956,973		Yes
The Friends of NC State Baseball, LLC ⁴	3/1/10	Yes	Internal Audit	Yes ³	GAAP ¹	-\$1,160		Yes
The University of North Carolina at Asheville								
The Center for Creativity, Craft, & Design, Inc.	6/30/11	Yes	Gabler Molis & Company, PA	No	GAAP ¹	\$483,249		Yes
The North Carolina Arboretum Society	6/30/11	Yes	Gabler Molis & Company, PA	No	GAAP ¹	\$1,161,510		Yes
The University Botanical Gardens at Asheville, Inc.	12/31/11	Yes	Gould Killian CPA Group, P.A.	No	GAAP ¹	\$927,057		Yes
UNC Asheville Foundation, Inc.	6/30/11	Yes	Burleson & Earley, PA	No	GAAP ¹	\$23,150,872	Discretely Presented	Yes
The University of North Carolina at Chapel Hill								
Botanical Garden Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$4,471,075		Yes
Carolina for Kibera, Inc. ²	6/30/11	Yes	William F. Robertson, CPA PLLC	Yes ³	GAAP ¹	\$2,581,852		Yes

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³Findings and actions taken found on page 10.

⁴Friends of NC State Baseball, LLC has changed year end from March 31 to December 31.

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
The University of North Carolina at Chapel Hill (cont'd)								
Chapel Hill Foundation Real Estate Holdings, Inc.	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$3,896,499		Yes
KFBFSF Private Equity Fund I, L.P. ²	12/31/10	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$1,714,115		Pending
KFBFSF Private Equity Fund II, L.P. ²	12/31/10	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$434,053		Pending
KFBFSF Real Estate Fund I, L.P. ²	12/31/10	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$1,630,732		Pending
Morehead-Cain Scholarship Fund	6/30/11	Yes	Batchelor, Tillery & Roberts, LLP	No	GAAP ¹	\$13,124,830		Yes
The Dental Foundation of N.C., Inc.	6/30/11	Yes	Koonce, Wooten, & Haywood, LLP	Yes ³	GAAP ¹	\$34,678,711		Yes
The Educational Foundation, Inc.	6/30/11	Yes	Batchelor, Tillery & Roberts, LLP	No	GAAP ¹	\$48,023,621		Yes
The Educational Foundation Scholarship Endowment Trust	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$190,972,754	Discretely Presented	Yes
The Kenan Flagler Business School Foundation	6/30/11	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$89,266,364	Blended	Yes
The James B. Hunt, Jr. Institute for Educational Leadership and Policy	6/30/11	Yes	Dixon Hughes Goodman, PLLC	No	GAAP ¹	\$4,218,704		Yes
The Medical Foundation of N.C., Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	Yes ³	GAAP ¹	\$215,397,046	Discretely Presented	Yes
The Pharmacy Foundation of N.C., Inc.	6/30/11	Yes	Koonce, Wooten, & Haywood, LLP	No	GAAP ¹	\$36,282,617		Yes
The School of Education Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	Yes ³	GAAP ¹	\$2,938,917	Blended	Yes
The School of Government Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	Yes ³	GAAP ¹	\$15,913,768		Yes
The School of Journalism & Mass Communications Foundation of North	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$19,193,389		Yes

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²These are subsidiaries of The Kenan Flagler Business School Foundation. Statutes of the MOUs are in process of being determined based on whether or not these are stand alone entities.

³Findings and actions taken found on page 10.

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
The University of North Carolina at Chapel Hill (cont'd)								
The School of Social Work Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$9,183,642		Yes
The University of North Carolina at Chapel Hill Arts & Sciences Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$174,353,823	Discretely Presented	Yes
UNC Investment Fund, LLC	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$2,903,626,696	Blended	Yes
The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$2,218,718,973	Blended	Yes
The University of North Carolina at Chapel Hill Foundation, Inc.	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$258,842,433	Blended	Yes
The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$7,704,936		Yes
UNC Law Foundation of North Carolina, Inc.	6/30/11	Yes	McGladrey & Pullen, LLP	No	Modified Cash ²	\$34,466,935	Blended	Yes
UNC Management Company, Inc.	6/30/11	Yes	KPMG, LLP	No	GAAP ¹	\$10,713,965	Blended	Yes
The University of North Carolina at Chapel Hill Public Health Foundation, Inc.	6/30/11	Yes	Blackman & Sloop, CPAs, PA	No	GAAP ¹	\$52,030,603		Yes
The University of North Carolina at Charlotte								
The Athletic Foundation of The University of North Carolina at Charlotte	6/30/11	Yes	Greer & Walker, LLP	No	GAAP ¹	\$20,283,802		Yes
The Ben Craig Center	6/30/11	Yes	Greer & Walker, LLP	No	GAAP ¹	\$245,299		Yes
The University of North Carolina at Charlotte Foundation, Inc.	6/30/11	Yes	Greer & Walker, LLP	No	GAAP ¹	\$107,360,395	Discretely Presented	Yes
The University of North Carolina at Charlotte Facilities Development Corporation, Inc.	6/30/11	Yes	Greer & Walker, LLP	No	GAAP ¹	\$2,405,834	Blended	Yes
The University of North Carolina at Charlotte Investment Fund.	6/30/11	Yes	Greer & Walker, LLP	No	GAAP ¹	\$0	Blended	Yes

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Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
University of North Carolina at Greensboro								
Capital Facilities Foundation, Inc.	6/30/11	Yes	McGladrey & Pullen	No	GAAP ¹	\$1,593,138	Blended	Yes
Gateway University Research Park	6/30/11	Yes	Dixon Hughes, PLLC	No	GAAP ¹	\$57,349,690		Yes
Serve, Inc.	11/30/10	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$407,218		Yes
The Alumni Association of the University of North Carolina at Greensboro, Inc.	6/30/11	Yes	Dixon Hughes, PLLC	No	Modified Cash ²	\$3,084,945		Yes
The UNCG Excellence Foundation	6/30/11	Yes	McGladrey & Pullen	No	GAAP ¹	\$90,677,438	Blended	Yes
The UNCG Human Environmental Sciences Foundation, Inc.	6/30/11	Yes	McGladrey & Pullen	No	GAAP ¹	\$7,992,640	Blended	Yes
The Weatherspoon Art Foundation	6/30/10	Yes	Internal Audit ³	No	N/A	\$21,509,383	Blended	Yes
The Weatherspoon Art Museum Association	6/30/11	Yes	McGladrey & Pullen	Yes ⁴	GAAP ¹	\$306,602		Yes
UNCG Investment Fund, Inc.	6/30/11	Yes	McGladrey & Pullen	No	GAAP ¹	\$204,556,778	Blended	Yes
The University of North Carolina at Pembroke								
The UNCP University Foundation, LLC	6/30/11	Yes	Reznick Group	No	GAAP ¹	\$8,619,636	Discretely Presented	Yes
UNCP Foundation, Inc.	6/30/11	Yes	Thomas, Judy, & Tucker, PA	No	GAAP ¹	\$7,653,382	Discretely Presented	Yes
UNCP Student Housing, LLC	6/30/11	Yes	Thomas, Judy, & Tucker, PA	No	GAAP	\$2,304,898	Discretely Presented	Yes

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³Internal audit reviewed the value and internal controls over the art work owned by the foundation. This foundation's only assets are the works of art. The art values are based on cost if purchased or fair value at the time of donation, if donated.

⁴Findings and actions taken found on page 10

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Basis for Statement Preparation	Total Net Assets	Reporting Status	Memorandum of Understanding
The University of North Carolina School of the Arts								
UNC School of the Arts Foundation, Inc.	6/30/11	Yes	Smith Leonard Accountants & Consultants	No	GAAP ¹	\$22,003,809	Discretely Presented	Yes
NCSA Housing Corporation	6/30/11	Yes	Butler & Burke, LLP	No	GAAP ¹	(\$7,839)	Blended	Yes
NCSA Program Support Corporation	6/30/11	Yes	Butler & Burke, LLP	No	GAAP ¹	\$12,196		Yes
River Run Film Festival	6/30/11	Yes	Butler & Burke, LLP	No	GAAP ¹	\$147,382		Yes
The Foreign Art Study Foundation of North Carolina, Inc. ²	6/30/10	Yes	Smith Leonard Accountants & Consultants	No	GAAP ¹	\$680,598		Yes
The Semans Art Fund, Inc.	6/30/11	Yes	Smith Leonard Accountants & Consultants	No	GAAP ¹	\$2,078,134		Yes
The Student Creative Arts Foundation of North Carolina, Inc. ²	6/30/10	Yes	Smith Leonard Accountants & Consultants	No	GAAP ¹	\$661,412		Yes
The University of North Carolina at Wilmington								
Cameron Foundation	Waived ³	Waived ³	Waived ³	Waived ³	Waived ³	Waived ³		Yes
Donald R. Watson Foundation, Inc.	6/30/11	Yes	Thomas & Gibbs CPAs, PLLC	No	GAAP ¹	1,503,755	Blended	Yes
Friends of UNCW	6/30/11	Yes	Internal Audit	No	GAAP ¹	\$2,667		Yes
The Alumni Association of The University of North Carolina at Wilmington	6/30/11	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$594,990		Yes
The Foundation of UNCW, Inc.	6/30/11	Yes	Thomas & Gibbs CPAs, PLLC	No	GAAP ¹	\$5,188,309		Yes
The UNCW Student Aid Association	6/30/11	Yes	Fisher & Company, CPAs	No	GAAP ¹	\$1,826,218		Yes
UNCW Corporation	6/30/11	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$0	Discretely Presented	Yes
UNCW Corporation II	6/30/11	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$491,976		Yes
UNCW Research Foundation	6/30/11	Yes	Bernard, Robinson, & Company, LLP	No	GAAP ¹	\$22,513		Yes

¹GAAP - Accounting Principles Generally Accepted in the United States of America

²Merged into the Semans Art Fund in 2011. This merger is outlined in Note 1 of the audit report.

³Waived based on foundation characteristics per letter from President Bowles dated July 30, 2007.

Summary Report of Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Letter/Report Issues	Statement Preparation	Total Net Assets	Reporting Status	of Understanding
Western Carolina University								
Western Carolina University Foundation	6/30/11	Yes	Burleson, Earley, PA	No	GAAP ¹	\$23,483,873	Blended	Yes
Western Carolina University Research and Development Corporation	6/30/11	Yes	Burleson, Earley, PA	No	GAAP ¹	\$2,106,508	Discretely Presented	Yes
Forest Stewards, Inc	6/30/11	Yes	Burleson Earley, PA	No	GAAP ¹	\$9,647		Yes
The Highlands Biological Foundation, Inc.	5/31/11	Yes	Corliss & Solomn, PLLC	No	GAAP ¹	1,240,690		Yes
Winston-Salem State University								
Simon Green Atkins Community Development Corporation	6/30/11	Yes	Preston, Sims, & Darden, PA	No	GAAP ¹	\$1,939,107		Yes
Winston-Salem State University Foundation, Inc. and Subsidiary	6/30/11	Yes	Butler & Burke, LLP	No	GAAP ¹	\$13,126,701	Discretely Presented	Yes
Winston-Salem State University National Alumni Association, Inc.	6/30/11	Yes	Butler & Burke, LLP	No	GAAP ¹	\$223,989		Yes
The University of North Carolina-General Administration								
The North Carolina Public Television Foundation, Inc.	6/30/11	Yes	McGladrey & Pullen, LLP	No	GAAP ¹	\$916,035		Yes
The University of North Carolina Foundation, Inc.	6/30/11	Yes	Koonce, Wooten, & Haywood, LLP	No	GAAP ¹	\$1,533,204		Yes

¹GAAP - Accounting Principles Generally Accepted in the United States of America

Summary Report of Associated Entities

Campus	Findings	Corrective Actions
North Carolina State University: The Friends of N.C. State Baseball, LLC	(1) Minor errors with written checks	(1) Recommendation: Rally Club check signers should be diligent in reviewing checks before they sign them to ensure that no inaccuracies are present. Response: Rally Club has been reminded of the checking signing authority of the proper procedures and check signing requirements, and are putting additional effort in diligence in the accounting and bookkeeping for deposits and other financial matters.
The University of North Carolina at Chapel Hill: Carolina for Kibera, Inc.	(1) Lack of Knowledge of GAAP (2) Limited number of personnel	(1) Response: The bookkeeper met with Roberson CPA Firm, PLLC to review key GAAP issues that assists in making correct transaction entries. The bookkeeper will review an internal mid-year draft statement which the firm will also review on an informal basis to help identify potential problem areas. If these steps do not remedy the situation, the Foundation will consider hiring accounting support. (2) Response: The Auditing firm preparing CFK Inc's financial statements and footnote disclosures continues to be the most cost effective and practical option for the organization. However, if in order to resolve Audit finding/Issue 1 CFK Inc. hires accounting support we would consider having that person with the appropriate qualifications also be responsible for preparing CFK Inc's financial statements and footnote disclosures.
Dental Foundation of North Carolina, Inc.	(1) Financial Statement Preparation (2) Reconciliations (3) Utilization of Accounting System (4) Endowment Funds with Deficiencies	(1) Outsourcing of services is not unusual in entities of this size and is a result of management's cost benefit decision to rely on external accounting expertise rather than incurring this internal resource cost. This is the same finding as last year. (2) Recommendation: Monthly cash reconciliations prepared by the Foundation's accountant be reviewed and approved by management. As of date Nov. 5 2010, cash reconciliations have been completed and approved by management through Aug. 2010. (3) Recommendation: a.) Accounts should be reviewed each month and corrections made accordingly. b.) The Foundation should periodically review the completeness of the Foundation's fund activity with the University's fund activity. c.) Through the year, the Foundation should review the process of retrieving pledges from the UNC Development Office system for accuracy and completeness. (4) Recommendation: Foundation should monitor all funds with deficiencies on a continual basis and develop a plan for each fund that replenishes the donor-restricted corpus.
The Medical Foundation of North Carolina, Inc.	(1) Supervisory Review of Checking Account	(1) Response: The Foundation has revised its policy regarding the check log review. The president is now being provided the binder which contains all previous check logs and all voided checks so he can review for sequential check numbering.
The University of North Carolina at Chapel Hill Arts & Sciences Foundation, Inc.	(1) Transfers (Grants) to the College	(1) Recommendation: A process be developed and implemented that documents the approval process for the annual transfers out of the Foundation over to the College. Such process will provide an audit trail to allow third party verification that payments from the Foundation were properly approved and transferred to the appropriate College Fund. Management's Response: The Foundation began, in August 2010, providing annual reports to the department managers to inform them of the pending distributions from expendable funds.
The University of North Carolina at Chapel Hill School of Education, Inc.	(1) Preparation of Financial Statements	(1) Recommendation: The Foundation should continue to perform internal control review procedures over the financial statement preparation process to ensure the completeness and accuracy of the Foundation's financial statements.
The School of Government Foundation, Inc.	(1) Preparation of Financial Statements	(1) Recommendation: Management and the Board needs to continue to evaluate whether it is cost effective to appoint a person with qualifications to prepare the financial statements.
The University of North Carolina at Greensboro: Weather Spoon Art Museum Association	(1) Recording of Costs Associated with the Museum Guide Project	(1) Recommendation: In the future, management consider projects like the one created for the publication of a museum guide for capitalization.



Memorandum

To: Jeffrey A. Henderson

From: Krista L. Newkirk, Interim Chief of Staff

Date: June 11, 2012

Re: ITS Security Incident

On January 31st, 2012, the university discovered that a disk storage system containing sensitive university information had been exposed to the Internet for approximately 13 weeks. This exposure was the result of human error during the university's transition to a new system for storing university files and was corrected immediately. During the investigation resulting from that exposure, the university discovered that a second disk storage system belonging to the Lee College of Engineering had been similarly exposed, but for a longer duration.

The university's information technology division coordinated with the office of legal affairs, risk management, internal audit, as well as a number of other university divisions to respond to this incident. The first priority was to analyze and address the vulnerabilities that were uncovered and close all external access to non-public information and data. The second priority was to determine the extent of exposure and whether there was any unauthorized access to the data. Once the university was confident that the exposure was fully contained, the university notified faculty/staff and students of the exposure on the 15th of February.

The university contracted with several reputable information technology companies to help the university determine the extent and nature of the exposure and to perform a complete vulnerability assessment. The university also engaged outside legal counsel who specializes in these issues. Although neither the university nor its information technology contractors could determine if any data was accessed by an unauthorized individual, upon the advice of counsel, the university made a formal public notification as required under North Carolina law on May 9th. At that time, the university notified approximately 65,000 staff, faculty and alumni via email, contacted the Attorneys General of North Carolina and 44 other states and notified local media.

Beginning with the initial announcement on February 15th, the University has provided a hotline for individuals who may have been affected by the exposure. With this hotline, the university also has offered credit investigation and credit restoration services. Between the announcement date of May 9, 2012, and June 1, 2012, there were 76 calls to the hotline only one of which was referred for further investigation. In that period, there have been 100 emails to the securityincident.uncc.edu email address, none of which have been referred for further investigation.

Finally, the university is using this experience as an opportunity to reassess its information technology portfolio, the organizational structure of information technology duties, and its security structure campus-wide. To that end the university has issued an RFP to assess its current status and to make additional suggestions regarding the functions of IT across the whole university.