



MEETING OF THE BOARD OF GOVERNORS
Committee on Audit, Risk Management, and Compliance

September 7, 2017 at 4:00 p.m.
University of North Carolina General Administration
Center for School Leadership Development, Room 119
Chapel Hill, North Carolina

AGENDA

OPEN SESSION

- A-1. [Approval of the Minutes of July 11, 2017](#)..... Harry Smith
- A-2. [UNC-GA Internal Audit Update](#)..... Joyce Boni
- A-3. [Approval of the UNC-GA Internal Audit Plan for 2017-18](#)..... Joyce Boni
- A-4. [Summary Report of Major Associated Entities](#)..... Lynne Sanders
- A-5. [Annual Report of the CARMC for 2016-17](#)Lynne Sanders
- A-6. Discussion of Work of the Committee for 2017-18..... Harry Smith

CLOSED SESSION

- A-7. Approval of the Closed Session Minutes of May 18 and 19, 2017 Harry Smith
 - a. May 18, 2017
 - b. May 19, 2017
- A-8. Presentation of Audit Report Issued by
the Office of the State Auditor Beth Wood, State Auditor

OPEN SESSION

- A-9. Adjourn

DRAFT MINUTES

July 11, 2017

University of North Carolina General Administration

Spangler Center, Conference Room A

Chapel Hill, North Carolina

This meeting of the Committee on Audit, Risk Management, and Compliance was presided over by Chair Harry Smith. The following committee members, constituting a quorum, were also present in person or by phone: Kellie Hunt Blue, Carolyn Coward, Walter Davenport, and William Webb.

Chancellors participating were Mary Grant and Jose Sartarelli.

Staff members present included Lynne Sanders, Tom Shanahan, Joyce Boni, and others from General Administration.

1. Call to Order and Approval of OPEN Session Minutes (Item A-1)

The Chair called the meeting to order at 10:01 a.m. on Tuesday, July 11, 2017, and called for a motion to approve the open session minutes of May 18 and 19, 2017.

MOTION: Resolved, that the Committee on Audit, Risk Management, and Compliance approve the open session minutes of May 18 and 19, 2017, as distributed.

Motion: Walter Davenport

Motion carried

2. Internal Audit Update (Item A-2)

Ms. Boni presented to the committee a status update of the UNC General Administration 2016-2017 Internal Audit Plan and provided a summary of the Compliance Review of Subrecipient and Contractor Monitoring Procedures for the GEAR UP NC Program.

There being no further business, the meeting adjourned at 10:22 a.m.

William Webb, Secretary

AGENDA ITEM

A-2. UNC General Administration Internal Audit Update..... Joyce Boni

Situation: The Chief Audit Officer is to provide periodic updates on UNC General Administration's internal audit activities.

Background: In accordance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* issued by The Institute of Internal Auditors, the committee is to receive updates on UNC General Administration's internal audit activities. This includes reviewing internal audit reports issued by the internal audit function and discussing the results, including any reportable issues.

Assessment: The committee will discuss the results in the attached internal audit report. This project is part of the fiscal 2018 audit plan and presents the results, recommendations, and management response for an investigation related to petty cash.

Action: This item is for information only.

Constituent Universities

Appalachian
State University

East Carolina
University

Elizabeth City
State University

Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

University of
North Carolina
School of the Arts

Western Carolina
University

Winston-Salem
State University

Constituent High School


North Carolina
School of Science
and Mathematics

An Equal Opportunity/
Affirmative Action Employer

Joyce D. Boni, CPA
Chief Audit Officer,
UNC General Administration
Office: (919) 843-3623
Email: jdboni@northcarolina.edu

To: Meredith Didier, Chief of Staff
Jonathan Pruitt, Senior Vice President for Finance and Budget

CC: Harry Smith, Board of Governors Committee on Audit, Risk Management and Compliance Chair
Margaret Spellings, President
Thomas Shanahan, Senior Vice President and General Counsel
Lynne Sanders, Vice President of Compliance and Audit Services
Nathan Knuffman, Vice President for Financial Planning & Analysis
Andrea Poole, Senior Associate Vice President
Council of Internal Auditing

From: Joyce Boni, Chief Audit Officer 

Date: August 15, 2017

Re: Investigation of Petty Cash (I18001)

Internal audit has completed an investigation related to missing petty cash funds. The results of this investigation are provided below.

Background

On July 21, 2017, internal audit was notified that \$500 of petty cash was missing. The initial notification provided that on June 20, 2017, an employee from Finance and Budget counted and verified that \$500 in cash was in the custody of an employee in the Chief of Staff's office (hereafter referred to as employee A). The cash was held in employee A's office. Employee A's last day of employment with UNC General Administration (UNC-GA) was on June 30, 2017. On July 18, 2017, employee A's supervisor searched for the petty cash and found an empty unlocked metal box in an unlocked office drawer. The Human Resources unit was immediately notified and legal and internal audit was notified on July 21.

Objective and Scope

Internal audit conducted a review to assess what events took place between June 20 and July 18, whether policies and procedures were properly followed, and whether current petty cash policies and procedures needed to be strengthened to prevent similar issues in the future. The audit procedures included, but were not limited to:

- Interviews with relevant employees,
- Review of relevant UNC-GA policies and procedures, and
- Review of petty cash activity and select supporting documentation during fiscal year 2016 and 2017.

The *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors, were used as the authoritative guidance for this engagement. Fieldwork was completed on July 31, 2017.

Summary of Results

Based on the investigation, the cash was not located and we were unable to identify a likely suspect. The cash was stored in an unlocked metal box, inside an unlocked desk drawer of an office that was unlocked and had been unoccupied for over two weeks. The office is located in a large area, shared with other employees, and accessible to others in the building. While the exterior building doors are locked and require badge access, there is no type of recordable access control for the area where the cash box was located. This matter has been reported to the North Carolina State Bureau of Investigation.

Internal audit did verify that the cash was counted and in custody of employee A on June 20, 2017. According to statements from employee A, the funds were not used or touched between June 20 and June 30. When employee A left employment on June 30, the cash should have been in the box in the office drawer, but the supervisor nor the employee checked or verified that on June 30. According to policy, the cash was to be locked at all times. However, employee A stated neither the box nor the office was kept locked. From inspection of the desk, the drawer where the empty box was found also had no lock. Employee A's supervisor stated nothing was locked when the office was searched on July 18. Internal audit and finance staff also searched the office. Other employees were interviewed but no one had knowledge of the cash or its whereabouts.

Internal audit also verified that only two departments have custody of petty cash funds. Based on our inquiry of the process in place within the other department, the custodian keeps the cash in a locked safe and a second employee (someone other than the custodian) reconciles the activity during the year.

Internal audit observed improvements that are needed to strengthen the internal control procedures over petty cash. At a minimum, management should: evaluate the need and size of the petty cash accounts; update the written policies and procedures for petty cash; ensure all relevant employees are aware of their roles and responsibilities over petty cash activity; segregate the custody and use of the funds; and incorporate an additional level of supervision and/or monthly reconciliation over the petty cash activity. The specific observations and recommendations, along with management's corrective action plans, are provided in the *Observations and Recommendations* section below.

The cooperation of those who assisted with this investigation is greatly appreciated. Should you have any questions or concerns, please do not hesitate to contact me.

Observations and Recommendations

OBSERVATION: INTERNAL CONTROL PROCEDURES OVER PETTY CASH NEED IMPROVEMENT

UNC General Administration's (UNC-GA) policies and procedures for safe guarding petty cash was not followed, is outdated, and needs to be improved in order to reduce the risk of misuse or theft. Internal audit observed the following:

1. The written policies and procedures for petty cash are outdated (dated 2011) and specifically identifies one department as having custody of such cash. However, UNC-GA has two different departments with custody of petty cash. The department that is not mentioned in the policy stated they were not aware of a UNC-GA petty cash policy. The written policy is not part of financial policy manual that resides on the organization's intranet, thus it is not readily available to employees.
2. The outdated policy does not address what should happen if job duties of those responsible for petty cash change or when employees leave employment. Specifically, no procedures are in place to ensure the petty cash is collected from an employee with custody of the asset prior to the employee leaving employment.
3. For the department with the missing funds, we noted:
 - The funds were not securely maintained in a locked location as required by policy. Neither the employee's supervisor nor those that conducted the year-end cash count monitored to see that the funds were being held in a secure location.
 - The employee with custody of the cash was also the authorized user. No other employee was required to authorize individual transactions before the funds were removed from petty cash. A documented supervisory review only occurred after the funds were spent and the receipts processed for reimbursement.
 - Petty cash was used for a July 2016 transaction, but the receipt was not processed for reimbursement until February 2017. Policy states the receipts should be processed for reimbursement as least monthly. Being both the custodian and the authorized user, no one other than the custodian knew when the funds were used and no one followed-up to see if receipts were being processed monthly as required by policy.
 - Verification of the account balance by a second party only occurred once during the year. The custodian was aware finance staff typically counted and verified the cash in June, thus it was not truly conducted as a surprise count.

Recommendation: Management should evaluate the volume and type of the petty cash usage to determine the need and optimum balance for each account. If petty cash accounts continue to be maintained, control procedures should be strengthened and the written policies and procedures for petty cash should be updated. For such updates, management should consider adding some combination of the following:

- a. The individual in custody of the cash should not also be the main authorized user of the funds.
- b. Prior to using the cash, some level of supervisory review and authorization should be obtained and documented.
- c. Custodians should prepare a monthly reconciliation of the account that notes the authorized balance, cash on hand, receipts on hand, vouchers in process, etc. This reconciliation and the

support for the reconciling items should be subject to supervisory review. This review should not only ensure funds are accounted for but should assess if the reimbursement vouchers and supporting receipts are being submitted timely and in accordance with policy.

- d. Procedures should be put in place to routinely verify cash is actually being held in a secure location.
- e. Periodic cash counts to verify the balance should be unannounced and done at random times.
- f. The written policies and procedures should be updated to identify the specific roles and duties of all responsible parties, including procedures to address the impact on petty cash when there is employee turnover or a significant change in job duties. The policies and procedures should be applicable to all petty cash accounts and should be made readily available as part of the formal UNC-GA financial policies manual. Having it as part of the financial policy manual not only clearly identifies the document as a policy employees are expected to follow, but also makes it easily accessible.

Management Response: We would like to express our gratitude to internal audit for their assistance with the investigation of petty cash. We have carefully reviewed the organization's need for petty cash and have determined that it is no longer necessary. The Controller of UNC General Administration will ensure all petty cash accounts are reconciled and closed out by August 14, 2017.

AGENDA ITEM

A-3. Approval of the UNC-GA Internal Audit Plan for 2017-18 Joyce Boni

Situation: The Chief Audit Officer must develop an annual risk-based audit plan and present it to the committee and president for review and approval.

Background: Committee on Audit, Risk Management, and Compliance serves as the primary audit committee for the internal audit function at UNC General Administration (UNC-GA). In this capacity and as directed by the committee charter and the *International Standards for the Professional Practice of Internal Auditing (Standards)* issued by The Institute of Internal Auditors, the committee is the approving and oversight authority for UNC-GA's annual internal audit plan.

Assessment: After reviewing the status of the prior year audit plan and performing a comprehensive risk assessment, which included receiving input from members of UNC-GA's senior management, the attached plan was created and represents the areas the chief audit officer has selected for the fiscal 2018 audit plan.

Action: This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.



Fiscal 2017-2018 Internal Audit Plan

September 2017

Compliance and Audit Services | UNC General Administration

Joyce D. Boni, Chief Audit Officer

UNC General Administration Audit Plan

Fiscal Year 2017-2018

Description	Allocated Hours
Prior Year Carry Over	
Compliance Audit: End User Data Storage & Security Awareness; Report/WP Wrap-up: Risk Assessment/2018 Audit Plan Development	124
Internal Control/Operational Procedures Review	
Go Global Expenditure Process & Procedures	160
Design of the Vendor Payment Process at UNC-TV	120
Design of Independent Contract Evaluation Process	75
Design of the Employee On-boarding/Off-boarding Process	50
Compliance Reviews	
NC New Teacher Support Program	120
Follow-up Reviews	
UNC-GA Internal 2016 Travel & Purchase Card Follow-up, plus Travel Review	100
OSA 2017 IT General Controls Audit Follow-up	64
UNC-GA Internal 2017 GEAR-UP	46
Investigations	
Unplanned/Various as occurs: Investigations of internal/external hotline reports and similar types of investigations	120
Petty Cash Investigation (issued August 2017)	40
Special Projects/Consultations/Other	
Annual Risk Assessment/FY2019 Audit Plan Development	96
Finance & Budget Consults: Data Modernization, Cybersecurity, Enrollment Growth, Electronic Forms	80
Academic Affairs Consult: Licensure Procedures Consult	24
Strategy & Policy Consults: Program Development & Process Consult	24
Academic & Student Affairs Consult: NC Pathways Agreements & Procedure Updates	18
UNC-TV Consults: New CRM System, FCC Tower Project, Cost Methodology, other	90
Quality Assurance Review Preparation	16
Board Meetings/Unit Oversight & Marketing	300
Other Consults/Committees: Routine consults for UNC-TV and UNC-GA such as: Cheatham White Scholars, Annual Self-Assessment of Controls, and other unplanned consults; Charter updates; Annual Certifications; CAO/OIA committee meetings; and other unknown projects	275
Total Direct Hours to UNC-GA audit function	1,942
Other Hours	
Leave/Holiday	472
Professional Development	222
Other Administration	136
Internal Audit Services to NCSSM & NCSEA	1520
Total Hours	4,292

Margaret Spellings, President

Harry Smith, Committee Chair

Summary of the Planned Services

The planned hours and projects for this annual plan cover work from July 2017 to June 2018. The estimated hours include the Chief Audit Officer, one audit staff member, and minimal assistance from other UNC-GA Compliance and Audit Services staff. The listed projects are for UNC-GA only. As established in written agreements with the North Carolina School of Science and Mathematics (NCSSM) and the North Carolina State Education Assistance Authority (NCSEAA), the detailed audit plans for those entities will be presented to their respective boards and senior leadership for approval.

Prior Year Carry Over - This includes the following internal audit projects from the 2016-2017 audit plan that have final reports to be issued and necessary steps required to finalize the working papers in order to close the audit files:

- The **End User Data Storage and Security Awareness** is a FY2017 project to assess the types of data that are handled, stored, or transmitted by UNC-GA employees; where it is stored or transmitted; and the employees' awareness of how they should store and transmit the data in order to secure and protect the data.
- The **Risk Assessment/2018 Audit Plan Development** is the annual project to assess entity risk in order to develop the audit plan for the upcoming fiscal year. Final procedures to complete this project were conducted in the first quarter of fiscal 2018.

Go Global Expenditure Process and Procedures - Within External Affairs is Go Global NC, a unit of the University that works with various international education and engagement programs. Internal audit will select certain program expenses and evaluate the current process and procedures to identify potential operational efficiencies.

Design of the Vendor Payment Process at UNC-TV - Internal audit will review the UNC-TV processes and procedures for paying vendor invoices to identify potential operational efficiencies.

Design of the Independent Contractor Evaluation Process - Internal audit will review the process for hiring independent contractors to verify that appropriate internal control procedures have been designed to comply with applicable laws and policies.

Design of the Employee On-boarding/Off-boarding Process - Internal audit will review the process for integrating and training new employees and the process that is followed when employees leave the organization to verify that appropriate internal control procedures have been designed.

NC New Teacher Support Program - The North Carolina New Teacher Support Program is a state-funded program that is administered by UNC-GA to assist beginning teachers in their first three years of teaching. Internal audit will select certain program activities and evaluate if proper internal control procedures are in place to ensure compliance with applicable requirements.

Follow-up of the UNC-GA Internal 2016 Travel and Purchase Card Review - In July 2016, internal audit issued a report on certain travel and purchase card activity that noted noncompliance with established policies. During fiscal 2018, internal audit will conduct a follow-up review to evaluate and report on the status of management's planned corrective actions. In addition, this review will include examining current year transactions for compliance with the updated travel and purchase card policies.

Follow-up of the UNC-GA Internal 2017 GEAR-UP - In June 2017, internal audit issued a report on UNC-GA's procedures for monitoring subrecipients and contractors of the GEAR-UP grant. That report included observations and recommendations for improvement. During fiscal 2018, internal audit will conduct a follow-up review to evaluate and report on the status of management's planned corrective actions.

Follow-up of the OSA 2017 IT General Controls Audit - In fiscal 2017, the Office of the State Auditor (OSA) issued an IT general controls audit of the UNC-GA Banner Hosted Services. For the findings reported by OSA, internal audit will conduct a follow-up review to evaluate and report on the status of management's planned corrective actions.

Petty Cash Investigation - Management reported a petty cash incident to legal and internal audit and internal audit led the necessary investigation to assess the matter and offer recommendations to improve internal procedures to minimize risks.

Annual Risk Assessment - Internal audit will conduct a risk assessment as part of the process to develop the audit plan for the 2019 fiscal year. This involves identifying and ranking risks based on management input, current trends, prior audit results, and other factors. The result will be a risk-based audit plan as required by the Internal Audit Charter and the *International Standards for the Professional Practice of Internal Auditing* (IIA Standards) issued by the Institute of Internal Auditors.

Other Projects/Consults - As requested, internal audit will provide consultative services to management and staff on new or existing processes and procedures. The objective will be to provide proactive feedback, as needed, to help ensure effective controls and operating procedures are designed and, where applicable, promote compliance with state, federal and UNC system rules. Some of the specific consultative projects include the following:

- Finance & Budget: Data Modernization, Enrollment Growth, Electronic Forms Consults - The Finance & Budget staff will be engaged in projects to comply with new legislation and UNC initiatives. Internal audit will provide advice, as needed, as they evaluate, design and implement these initiatives.
- Academic Affairs: Licensure Procedures Consult - Internal audit will provide advice, as needed, to the Academic Planning & State Authorization unit as they evaluate and update the policies and procedures for the unit.
- Strategy & Policy: Program Development & Process Consult - Internal audit will provide advice, as needed, to the Strategy and Policy unit as it grows and develops new programs, processes and procedures.
- Academic & Student Affairs: NC Pathways Consult - Internal audit will provide advice, as needed, to the Pathways CFNC Resources Center as they evaluate and update external agreements and update the policies and procedures for the unit.
- UNC-TV: New CRM System, FCC Tower Project, Cost Methodology, other - Various units at UNC-TV have new projects and initiatives for the upcoming year. Internal audit will provide advice, as needed, as management evaluates, designs and implements these initiatives.
- Quality Assurance Review Preparation - The IIA Standards require the internal audit function to undergo an external quality assurance review. This assessment must be conducted at least once every five years by a qualified, independent assessor from outside the organization. The internal audit function is scheduled to have this review by February 2019. To prepare for the external review team, internal audit must gather a prescribed list of reports and other information for the review and then be available while the team is on-site. Time will be set aside at the end of fiscal 2018 and the start of fiscal 2019 for this task.

Other/Unplanned - Internal audit has reserved time for other audit related tasks such as possible investigations, special projects, or consultations; review and update, if necessary, the audit committee and internal audit charters; attend audit related meetings with senior leadership or the board; administrative oversight of the internal audit unit and marketing the audit services; and/or other needs that may arise during the year.

For all projects, internal audit will seek to incorporate an evaluation of how the organization communicates, directs, reinforces, and monitors adherence to the organization's standards and policies. This will be used to assess the culture and governance structure and, where necessary, make appropriate recommendations for improving the governance process.

This document represents the initial internal audit plan; however, the audit plan is a dynamic document that may change during the year as circumstances warrant. Requests from management or the Board, unexpected hotline or other investigations, and changes within the organization or its operations can alter the needs and priorities of the organization. Thus, the audit plan may be adjusted to meet these evolving needs.

AGENDA ITEM

A-4. Review of Associated Entities Lynne Sanders

Situation: Annually, the Committee on Audit, Risk Management, and Compliance reviews a summary of the University’s Associated Entities.

Background: Under the UNC Policy Manual Chapter 600.2.5.2[R], Associated Entities of UNC General Administration and constituent institutions must provide copies of the audit report, management letters, and responses to management letters to the chancellor of the Approving Institution, through the chancellor to the governing board of the Approving Institution and the president, and through the president to the Board of Governors. One of the responsibilities of the Committee on Audit, Risk Management, and Compliance is to review a summary of the annual financial audit reports of the University’s major Associated Entities.

Assessment: As of June 30, 2016, there were 94 major Associated Entities subject to the reporting requirements in UNC Policy Manual Chapter 600.2.5.2[R]. All audited Associated Entities received unqualified audit opinions from audit firms that were in good standing with the NC State Board of CPA Examiners. Six of the Associated Entities had one or more findings.

Action: This item is for information only.

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/ Report Issues
Appalachian State University				
Appalachian State University Foundation, Inc.	6/30/16	Yes	Elliott Davis Decosimo, PLLC	No
Appalachian Student Housing Corporation	6/30/16	Yes	Apple, Koceja, & Associates, PA	No
East Carolina University				
East Carolina University Alumni Association, Inc.	6/30/16	Yes	Dixon Hughes Goodman LLP	No
East Carolina University Educational Foundation, Inc.	6/30/16	Yes	Dixon Hughes Goodman LLP	No
East Carolina University Foundation, Inc. and Consolidated Affiliates	6/30/16	Yes	Dixon Hughes Goodman LLP	No
East Carolina University Medical & Health Sciences Foundation, Inc.	6/30/16	Yes	Dixon Hughes Goodman LLP	No
Elizabeth City State University				
The Elizabeth City State University Foundation	6/30/16	Yes	Cherry Bekaert LLP	No
Elizabeth City State University Housing Foundation, LLC	6/30/16	N/A ¹	Cherry Bekaert LLP	No
Elizabeth City State University National Alumni Association, Inc.	12/31/16	Yes	Murphy and Company PC	Yes ²
Fayetteville State University				
Fayetteville State University Foundation, Inc., and Subsidiary	6/30/16	Yes	Buie, Norman, & Company, P.A.	No
Fayetteville State University Housing Foundation, LLC	6/30/16	Yes	Buie, Norman, & Company, P.A.	No
Fayetteville State University Student Housing Corporation and Subsidiary	6/30/16	Yes	Buie, Norman, & Company, P.A.	No
North Carolina A&T State University				
North Carolina A&T State University Alumni Association, Inc.	6/30/16	Yes	Thomas & Gibbs CPAs, PLLC	Yes ²
North Carolina A&T Real Estate Foundation, Inc.	6/30/16	Yes	Thomas & Gibbs CPAs, PLLC	No
The Aggie Athletic Foundation of North Carolina A&T State University, Inc.	6/30/16	Yes	Thomas & Gibbs CPAs, PLLC	No
North Carolina Central University				
North Carolina Central University Alumni Association, Inc.	6/30/16	Yes	Claude M. Bagues, CPA, PLLC	No
The North Carolina Central University Educational Advancement Foundation, Inc.	6/30/16	Yes	Thomas & Gibbs CPAs, PLLC	No
The North Carolina Central University Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
NCCU Real Estate Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
North Carolina School of Science and Mathematics				
North Carolina School of Science and Mathematics Foundation and Subsidiary	6/30/16	Yes	Williams, Overman, Pierce, LLP	No
North Carolina State University				
The North Carolina Agricultural Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
NC State Alumni Club, Inc.	6/30/16	Yes	Batchelor, Tillery, & Roberts, LLP	No
NC State Engineering Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
NC State Investment Fund, Inc.	6/30/16	Yes	BDO USA, LLP	No
NC State Natural Resources Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
North Carolina State University Alumni Association, Inc.	6/30/16	Yes	BDO USA, LLP	No
North Carolina State University College of Sciences Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
North Carolina State University Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
NC State University Partnership Corporation and Affiliates	6/30/16	Yes	BDO USA, LLP	No

¹ Special Purpose Entities must be audited every two years. This Associated Entity Received an Agreed-Upon Procedures Review for FY16.

² Findings begin on page 4

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/ Report Issues
North Carolina State University (Continued)				
North Carolina Textile Foundation, Inc.	6/30/16	Yes	Koonce, Wooten, & Haywood, LLP	No
North Carolina Tobacco Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
North Carolina Veterinary Medical Foundation, Inc.	6/30/16	Yes	BDO USA, LLP	No
NC State Student Aid Association, Inc.	6/30/16	Yes	Koonce, Wooten, & Haywood, LLP	No
North Carolina State University Club	12/31/16	Yes	Batchelor, Tillery, & Roberts, LLP	No
The University of North Carolina at Asheville				
University of North Carolina Asheville Foundation, Inc.	6/30/16	Yes	Burleson & Earley, P.A.	No
The University of North Carolina at Chapel Hill				
The Botanical Garden Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs, PA	Yes ²
Carolina for Kibera, Inc.	6/30/16	Yes	Garrett, Dodd, & Associates, LTD.	No
Chapel Hill Foundation Real Estate Holdings, Inc.	6/30/16	Yes	KPMG LLP	No
Dental Foundation of North Carolina, Inc.	6/30/16	Yes	Koonce, Wooten & Haywood, LLP	No
The Educational Foundation, Inc.	6/30/16	Yes	Batchelor, Tillery & Roberts, LLP	No
The Kenan-Flagler Business School Foundation	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
The Medical Foundation of North Carolina, Inc. and Subsidiary	6/30/16	Yes	KPMG LLP	No
Morehead-Cain Scholarship Fund	6/30/16	Yes	Batchelor, Tillery & Roberts, LLP	No
UNC Eshelman School of Pharmacy Foundation	6/30/16	Yes	Koonce, Wooten & Haywood, LLP	No
Spirovention	12/31/16	N/A ³		
The University of North Carolina at Chapel Hill School of Education Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	Yes ²
The School of Government Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
The School of Media and Journalism Foundation of North Carolina, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
The School of Social Work Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs, PA	No
University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
UNC Investment Fund, LLC	6/30/16	Yes	KPMG LLP	No
UNC Intermediate Pool, LLC	6/30/16	Yes	KPMG LLP	No
The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	6/30/16	Yes	KPMG LLP	No
The University of North Carolina at Chapel Hill Foundation, Inc.	6/30/16	Yes	KPMG LLP	No
The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
UNC Law Foundation, Inc.	6/30/16	Yes	RSM US LLP	No
UNC Management Company, Inc.	6/30/16	Yes	KPMG LLP	No
The University of North Carolina at Chapel Hill Public Health Foundation, Inc.	6/30/16	Yes	Blackman & Sloop, CPAs	No
WUNC Public Radio, LLC	6/30/16	Yes	Blackman & Sloop, CPAs	No
The University of North Carolina at Charlotte				
The Athletic Foundation of the University of North Carolina at Charlotte	6/30/16	Yes	RSM US LLP	No
Ventureprise, Inc.	6/30/16	Yes	RSM US LLP	No
The Foundation of The University of North Carolina at Charlotte, Inc.	6/30/16	Yes	RSM US LLP	No
The University of North Carolina at Charlotte Facilities Development Corporation, Inc.	6/30/16	Yes	RSM US LLP	No
The University of North Carolina at Charlotte Investment Fund, Inc.	6/30/16	Yes	RSM US LLP	No

² Findings begin on page 4

³ Spirovention's audit is expected to be completed by October 31, 2017

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/ Report Issues
University of North Carolina at Greensboro				
Capital Facilities Foundation, Inc.	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
Serve, Inc.	11/30/16	Yes	Bernard, Robinson, & Company, LLP	No
The Alumni Association of the University of North Carolina at Greensboro, Inc.	6/30/16	Yes	Duncan Ashe, P.A.	No
The UNCG Excellence Foundation	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
Weatherspoon Art Museum Association	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
The University of North Carolina at Greensboro Investment Fund, Inc.	6/30/16	Yes	Bernard, Robinson, & Company, LLP	No
The University of North Carolina at Pembroke				
The UNCP University Foundation, LLC	6/30/16	Yes	Thomas, Judy & Tucker, P.A.	No
The University of North Carolina at Pembroke Foundation, Inc.	6/30/16	Yes	Thomas, Judy & Tucker, P.A.	No
The UNCP Student Housing Foundation, LLC	6/30/16	Yes	Thomas, Judy & Tucker, P.A.	No
The University of North Carolina School of the Arts				
University of North Carolina School of the Arts Foundation, Inc.	6/30/16	Yes	Smith Leonard PLLC	No
University of North Carolina School of the Arts Housing Corporation	6/30/16	Yes	Rives & Associates, LLP	No
RiverRun International Film Festival	6/30/16	Yes	Butler & Burke, L.L.P.	No
The Semans Art Fund, Inc.	6/30/16	Yes	Smith Leonard PLLC	No
The University of North Carolina at Wilmington				
Donald R. Watson Foundation, Inc.	6/30/16	Yes	Bernard Robinson & Company, LLP	No
Alumni Association of The University of North Carolina at Wilmington	6/30/16	Yes	Bernard Robinson & Company, LLP	No
The Foundation of the University of North Carolina at Wilmington, Inc.	6/30/16	Yes	Bernard Robinson & Company, LLP	No
UNCW Student Aid Association, Inc.	6/30/16	Yes	Bernard Robinson & Company, LLP	No
UNCW Corporation	6/30/16	Yes	Bernard Robinson & Company, LLP	No
UNCW Corporation II	6/30/16	Yes	Bernard Robinson & Company, LLP	No
UNCW Research Foundation	6/30/16	Yes	Bernard Robinson & Company, LLP	No
Western Carolina University				
The North Carolina Arboretum Society	6/30/16	Yes	Carter, P.C.	Yes ²
Western Carolina University Foundation	6/30/16	Yes	Burleson & Earley, PA	No
Western Carolina University Research and Development Corporation	6/30/16	Yes	Burleson & Earley, PA	No
The Highlands Biological Foundation, Inc.	5/31/16	Yes	Corliss & Solomon, PLLC	No
Winston-Salem State University				
Simon Green Atkins Community Development Corporation	6/30/16	Yes	Cannon & Company, LLP	No
Winston-Salem State University Foundation, Inc. and Subsidiary	6/30/16	Yes	Butler & Burke, L.L.P.	No
Winston-Salem State University National Alumni Association, Inc.	6/30/16	Yes	Butler & Burke, L.L.P.	Yes ²
The University of North Carolina-General Administration				
The North Carolina Public Television Foundation, Inc.	6/30/16	Yes	Thomas & Gibbs CPAs, PLLC	No
The University of North Carolina Foundation, Inc.	6/30/16	Yes	Koonce, Wooten, & Haywood, LLP	No

Summary Report of Major Associated Entities

Campus/Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
<p>Elizabeth City State University: Elizabeth City State University National Alumni Association, Inc.</p>	<p>Recommendations: (1) Budget planning and operating deficit (2) Financial statement trends</p>	<p>(1) In 2016, the Association began the year with an unbalanced budget (expenses exceeded revenues). Management should ensure that all future budgets are prepared in a manner where the revenues equal or exceed expenses and that periodic monitoring occurs to adjust for changes. (2) An analysis of the statements of activities revealed that program services averaged 39.5% for the previous two years. The recommended range for not-for-profit organizations is 75% or higher for program services. Management should re-examine its spending patterns and consider spending less on administration and fundraising or consider whether expenses are properly charged/allocated in the accounting records.</p>	<p>(1) Management will reevaluate the 2017 budget and make adjustments where possible. All future budgets will be prepared to ensure all revenues equal or exceed expenses. (2) Management will meet in July 2017 with appropriate NAA officers/board members and university officials to determine if our expenses are properly charged or allocated. Management will make adjustments where necessary.</p>
<p>North Carolina A&T State University: North Carolina A&T State University Alumni Association</p>	<p>Material Weaknesses: (1) Preparation of financial statements (2) Audit adjustments (3) Contracts and agreements (4) Segregation of duties</p>	<p>(1) In accordance with management's request, we drafted the Association's June 30, 2016 financial statements. The Association should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). We recommend the Association implement a plan to prepare GAAP basis financial statements. (2) We proposed five (5) audit adjustments to correct misstatements discovered during our audit of the Association's financial statements for the year ended June 30, 2016. Some of the adjustments were individually material to the Association's financial statements. To enhance the Association's financial reporting process, we recommend management complete a month-end and/or year-end close process to record accrual entries, reconcile all general ledger accounts, and analyze the accounts to ensure the completeness, existence, and accuracy of its financial data prior to commencement of the audit. (3) The engagement letter for the Association's 2015 audit was not retained. In addition, the Association has not obtained a written lease agreement for its office space. Agreements entered into by the Association should be in writing and retained on a consistent basis. (4) During our review of two travel reimbursement checks for a board member, we noted both checks were signed by the board member only. Proper segregation of duties requires someone other than the check recipient to sign checks. In this case, it would have been more appropriate for the Executive Director or Treasurer to sign checks payable to a board member.</p>	<p>(1) We acknowledge that in connection with your audit, you assisted in the preparation of the draft financial statements and notes. We confirm that we have reviewed and approved the financial statements referred to above. We confirm that we are responsible for their fair presentation in conformity with accounting principles generally accepted in the United States of America, and we acknowledge your role as auditors in connection with the financial statements. We have overseen the process of performing such services and have made all related management decisions. (2) The five (5) audit adjustments for the year ended June 30, 2016, which have been proposed by you (i.e. Thomas & Gibbs) are approved by us (i.e. the N.C. A&T Alumni Association Board of Directors) and will be recorded on the books of the Association. (3) All Association agreements/contracts are signed and filed; and will be retained as required by the Association's record retention policy. (4) The association is currently following the process established in the Business Process Manual, which includes identification of three authorized signatures for checks to ensure proper segregation of duties. It is understood that the authorized signer cannot be the payee.</p>

Summary Report of Major Associated Entities

Campus/Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
<p>The University of North Carolina at Chapel Hill: The Botanical Garden Foundation, Inc.</p>	<p>Material Weaknesses: (1) Accounting software system (2) Reporting to the Board Significant Deficiencies: (3) Preparation of financial statements (4) Preparation of bank reconciliations (5) Communication with donors Opportunity for Strengthening Internal Controls: (6) Rental agreements</p>	<p>(1) Management should utilize a nonprofit accounting software program (instead of excel worksheets) to summarize the Foundation's financial activity, and begin preparing complete financial statements on a monthly basis. (2) A monthly reporting package should be developed and implemented to provide the Board with complete and timely financial information. The reporting should include a budget-to-actual analysis, as well as other standard reports. (3) Management should continue to evaluate whether it is cost effective to appoint a person internally with qualifications to prepare the financial statements and note disclosures. (4) Bank reconciliations should be performed promptly every month. All reconciling items should be investigated and adjusted at the time the reconciliations are prepared. (5) In an effort to substantiate the donors' designation, when verbal communication is made, a memo should be created for the file, which documents the conversation with the donor. The memo should include which staff member spoke to the donor, the day and time the conversation took place, and fund designation requested by the donor. (6) The Foundation should obtain signed lease agreements for all current and future tenants.</p>	<p>(1) The fund accounting software will give us the ability to record transactions for our operating UNC trust fund, Botanical Garden Foundation accounts and the Wells Fargo commercial checking accounts in the same place rather than relying on Excel spreadsheets generated from the Infoporte downloads provided by campus. This software, once fully implemented next month, will have the capability to produce complete financial statements and give an accurate financial picture of the Foundation. We purchased a single seat license which will provide security and restrict access to only Business Office users at the Garden. These features would improve the quality, timeliness, accuracy of the information in addition to providing controls over the financial reporting process. (2) As we begin to utilize the new financial software, we will be in a position to provide more timely and accurate reporting to the board. We would like to recommend providing extensive financial reporting on a quarterly basis to the BGF Executive Committee and biannually to the BGF Board. Our recommendation will come before the Board at their spring meeting in May. We feel this recommendation will be more conducive than providing monthly reports considering the current activity of the Foundation and the University's monthly closeout cycle. We currently provide the BGF Executive Committee an accounting of organizational activity of the Garden as a whole but going forward we will introduce more reports solely for the Foundation activity. (3) It is management's decision to rely on Blackman & Sloop's accounting expertise in preparing the financial statements and note disclosures rather than incurring this internal resource cost. (4) Monthly bank reconciliations will be recorded in the fund accounting software and any adjustments needed will be recorded at the time of reconciliation. In the meantime, bank reconciliations are done manually on a monthly basis in Excel. (5) To address the issue of documenting our donors' wishes, we are currently exploring options with both the Development office at the Botanical Garden, and also the University Development Office on campus, as gifts to the Foundation are processed in both locations. Our objective is to construct a new system that ensures all pertinent donor communications are uploaded to the UDO giving database, Davie, so that donor intentions for all gifts are clearly recorded. We will request that the Garden's Development Office document the conversation and communication with the donor and file for future reference. (6) We have current rental agreements held in house for two of our leased properties. We are working with the management company of our third property to obtain a current lease agreements even though it is set on auto-renewal. Our plan is to consolidate all of our rental properties under one management group.</p>

Summary Report of Major Associated Entities

Campus/Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
<p>The University of North Carolina at Chapel Hill School of Education Foundation, Inc.</p>	<p>Significant Deficiencies: (1) Preparation of financial statements (2) Financial reporting</p>	<p>(1) Management has requested that our firm prepare the draft financial statements and footnote disclosures for the Foundation. This does not violate independence standards as management takes responsibility for the statements, and it is the most cost effective option for the Foundation. However, this increases the risk that a misstatement to the financial statements may not be detected by management. We recommend that management continue to evaluate whether it is cost effective to appoint a person with qualifications to prepare the financial statements and required disclosures, or to continue to have our firm complete that task.</p> <p>(2) We noted the Foundation's audit committee is not receiving periodic financial reports that show operating results of the Foundation. To provide an improved basis for monitoring the Foundation's operating activity, we recommend the audit committee receive a report that shows the approved operating budget with a comparison of actual results and prior year information. This reporting should occur on a quarterly basis at a minimum.</p>	<p>The School of Education Foundation did not prepare a formal response as they chose to merge the School of Education Foundation into the UNC CH Foundation. The merger was completed and FY17 will be their final year.</p>

Summary Report of Major Associated Entities

Campus/Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
<p>Western Carolina University: The North Carolina Arboretum Society</p>	<p>Significant Deficiencies:</p> <ul style="list-style-type: none"> (1) Approval of journal entries (2) Segregate receipts duties (3) Segregate check disbursement duties 	<p>(1) Our review of general journal entries revealed that many entries lack proper approval. We recommend the adoption of a policy whereby all journal entries are approved by the Chief Business Officer or other designated member of management. All entries should be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.</p> <p>(2) Our review of the Society's procedures indicated that there is a lack of segregation of duties regarding the receiving, depositing, and recording of cash and check receipts. To provide effective control, it would be necessary to separate each of these duties, as well as reconciling the bank accounts. Currently, the Financial Services Manager performs each of these functions. Due to the size of your office, it may not be practicable to separate each of these tasks. We recommend that the person who opens the mail list the receipts, preferably on a prescribed form, before turning them over, in order that such list may be subsequent compared to bank deposits. The comparison should not be made by the Financial Services Manager.</p> <p>(3) Under current procedures, signed disbursement checks are returned to the person who prepared the checks. Controls over disbursements would be improved if all disbursement checks were transmitted directly to another person to mail, after they were signed. In addition, currently, the Financial Services Manager has access to blank checks, prepares all checks, mails checks after signature, and reconciles the bank statement. We recommend that a check log be created and maintained by another individual to account for the sequential numbering of checks.</p>	<p>In the management letter which we requested accompanying the audit, the auditors recommended changing three internal control procedures. First, it was recommended that journal entries receive proper approval. In our small department all journal entries are discussed and created with multiple personnel involved, but were not logged and signed. We have updated our internal control procedures and created a log to document this approval process. Secondly, our auditors recommended to modify our internal procedures for receiving checks and cash. We have segregated this duty away from our finance department. All check and cash received, particular by mail, are received through our administrative staff, logged and then delivered to the finance department adding an additional level of accountability. Lastly, it was recommended that we modify the storage and disbursement of checks. The Chief Business Officer, myself, now holds the blank checks in a secure safe and logs the checks issued as part of the weekly check run. Additionally, checks once signed by two authorized signers, are mailed by our administrative staff.</p> <p>We believe that the above actions will not only address the recommendation of the auditors to improve our internal control systems, but also enable the finance department to continue facilitate the growth of the Society's revenue positive programs, which in turn support The North Carolina Arboretum.</p>
<p>Winston-Salem State University: Winston-Salem State University Alumni Association</p>	<p>Significant Deficiency:</p> <ul style="list-style-type: none"> (1) Voucher disbursement 	<p>(1) It is the Organization's policy that a disbursement voucher be completed and approved by both the President and Treasurer prior to payment. However, we noted during our disbursement testing that many of the approved disbursement vouchers were not properly authorized. Auditor also noted one instance of payment through the Organization's PayPal account without proper authorization. Consequently, the possibility exists that an unauthorized expense could be paid without proper approval. We recommend that the contract bookkeeper ensure all disbursement vouchers are signed by both the President and Treasurer prior to payment and maintain a copy of the signed voucher to be filed with the invoice and check copy.</p> <p>Furthermore, during the year, the Organization made several changes to address this deficiency including the development of an Internal Audit committee and institution of a new Treasurer.</p>	<p>(1) Leadership changes were made which included the past president and the treasurer. Implemented a finance committee for oversight and monitoring purposes. Implemented annual training for staff.</p>

AGENDA ITEM

A-5. Annual Report of the Committee on Audit, Risk Management, and ComplianceLynne Sanders

Situation: Each standing committee submits an annual report of its activities to the Board of Governors.

Background: Under the UNC Policy Manual, Section 302 E of *The Code*, "Each standing committee shall make a written report to the Board of Governors at least annually, reviewing the work of the committee during the preceding year."

Assessment: The Annual Report on the activities of the Committee on Audit, Risk Management, and Compliance for fiscal year 2016-17 is ready for review and submission.

Action: This item requires a vote by the Committee to accept the report for submission to the Board of Governors.

DUTIES AND MEMBERSHIP

The Committee on Audit, Risk Management, and Compliance is responsible for recommending a committee charter for review and approval by the Board, addressing the University’s internal audit, enterprise risk management, and compliance functions; recommending for approval University-wide policies regarding internal audit, enterprise risk management, and compliance; reviewing annual and other reports of the constituent institutions, UNC General Administration, and affiliated entities; reviewing a summary of the internal audit plans and work of the audit committees of the constituent institutions; reviewing a summary of the annual financial audit reports and management letters on University major associated entities; meeting with the State Auditor annually; and taking such other actions as are necessary or appropriate to ensure that risks are identified and properly managed and to assure the integrity of the finances, operations, and controls of the University. This report summarizes the work of the Committee on Audit, Risk Management, and Compliance from July 2016 through June 2017.

The Committee was composed of the following Board members: Mr. Walter C. Davenport, Mrs. Hannah D. Gage, Mr. Thom C. Goolsby, Mr. Robert S. Rippy, Mr. William A. Webb, and Mr. Michael Williford. Mr. Davenport served as Chair, Mr. Webb served as Vice-Chair, and Mr. Williford served as Secretary.

Chancellor Cecil Staton (ECU) and Chancellor Lindsay Bierman (UNCSA) also served on the Committee.

ACTIONS

The Committee on Audit, Risk Management, and Compliance met in six regular meetings and four joint meetings with Public Affairs between July 1, 2016 and June 30, 2017. The major actions of the Committee are summarized as follows:

Summary of Approval Actions	Month Approved
Approval of UNC-GA’s Internal Audit Plan for fiscal year 2017	July 2016
Approval of the Summary of University-Wide Internal Audit Plans for fiscal year 2017	December 2016
Approval of the definition of “Economic Impact” by the CARMC and Public Affairs	September 2016
Approval of the expansion of the strategic theme from “Economic Impact” to “Economic Impact and Community Engagement” by the CARMC and Public Affairs	October 2016
Approval of Updates to the Committee and Internal Audit Charters	February 2017
Approval of the Amendments to the UNC Policy Manual, Section 100.2	May 2017