3. UNC General Administration Internal Audit Update............................ Joyce Boni, Lynne Sanders

Situation: The Chief Audit Officer is providing an update 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 Audit Committee Charter and the Internal Audit Charter, the Committee is to receive periodic updates on the UNC General Administration's internal audit activities. In addition, the Committee is to review internal audit reports and letters issued by the internal audit staff.

Assessment: The attached documents include:
- A summary with the current status of the various projects on the 2016 Audit Plan initially approved by the Committee in August 2015.
- The internal audit results from the operational and administrative review of financial aid and admissions at Elizabeth City State University. This review was directed by the UNC President.
- The internal audit results from a follow-up review conducted to evaluate the current status of the recommendations made by the State Auditor in a 2013 information technology general controls audit of UNC-GA's Hosted Banner Services. This review was part of the approved audit plan.

Action: This is for information only.

Status of UNC-GA Internal Audit Plan
Fiscal Year 2015-2016

	Status
Audits/Reviews	
Compliance Audit: Contract & Grant Sub-recipient Monitoring	Not Started
Information Technology Audit: End User Data Storage & Security Awareness	Deferred
Operational/Internal Control Audit: Payroll Hosted Services	Fieldwork
Special Audit/Review: Unplanned/Hold for new President's Request	Not Started
ECSU Review (a joint audit project)	Completed
Investigations: Unplanned investigations of internal or external hotline reports and other similar types of investigations	Not Started (none at this time)
Follow-up Reviews	
2013 OSA IT Audit of Banner Hosted Services	Completed
Consultations/Advisory Services/Special Assignments	
Risk Assessment / Audit Plan for FY2017	Not Started
Quality Assurance Review	In Process
Internal Audit Strategic Plan	In Process
Consults/Committees & Other: UNC-TV; UNC-GA Operations Team; Annual Self-Assessment of Controls; UNC internal audit committees; Unplanned / Various as Occurs	In Process
PY Carryover: Risk Assessment / Audit Plan for FY2016	Completed

The red font denotes changes since the last status update.

Note – The above does not include the other internal audit services to NC School of Science and Mathematics, the NC State Education Assistance Authority and, as needed, support services to the UNC institutions.

Review of Financial Aid Administration and Office of Admissions at Elizabeth City State University

Operational and Administrative Review

February 2016
Compliance and Audit Services | UNC General Administration

Overview

February 16, 2016

Dr. Junius Gonzales, UNC Interim President
Dr. Thomas Conway, Chancellor, Elizabeth City State University

During the summer and fall of 2015, ECSU's Office of Internal Audit and the Office of the State Auditor received allegations related to improper financial aid administration as well as concerns about admissions. Allegations reported include financial aid being awarded to ineligible students, verification procedures for financial aid not being performed accurately, required reporting not being made to the Department of Education and students being admitted to ECSU that do not meet minimum admission requirements or minimum course requirements so as to boost enrollment numbers for the campus. Interconnected in these issues were allegations that [Employee A] was directing staff to make awards of financial aid to ineligible students and do whatever it took to "get the numbers." The current organizational structure has both units, Financial Aid and Admissions, reporting to [Employee A].

In October 2015, UNC President Tom Ross directed a team be assembled to investigate the allegations. Our review team consisted of subject matter experts in the areas under review. The fieldwork was completed on December 4, 2015.

Objectives, Scope and Methodology

To investigate the allegations reported, our review focused on the operations of the Financial Aid Office and the Office of Admissions. Specifically, our review included:

- Extensive data analysis of student information received from UNC-GA, NCSEAA and ECSU;
- Interviews with staff across multiple departments at ECSU;
- Review of applicable student admissions files and financial aid records for fall 2015 term;
- Review of employee evaluations obtained from ECSU's Department of Human Resources;
- Review of UNC Policy;
- Review of applicable federal regulations; and
- Review of policy and guidelines from NCSEAA.

The *International Standards for the Professional Practice of Internal Auditing* were utilized as the guiding principle for this review.

Overview

Overall Summary and Recommendations:

As evidenced by the findings presented in this report, most of the allegations reported to ECSU's Office of Internal Audit and the Office of the State Auditor were confirmed. While this report outlines significant deficiencies in the operational areas of Admissions and Financial Aid Administration at ECSU, it was not clear that motivation supporting these deficiencies was to "boost the numbers" or that direction was provided by [Employee A] to make awards of financial aid to ineligible students in order to "get the numbers," as was alleged. Based on our review, as reported in finding number 16 in the Financial Aid section, one instance was noted where [Employee A] authorized the approval of a Satisfactory Academic Performance (SAP) appeal that had been denied by the review committee; however, other evidence was not available to support this was to boost enrollment.

This report identifies significant deficiencies that pose risks to the University and to ECSU. These deficiencies result from a lack of management and oversight of these operational areas. To provide campus leadership with clear focus on needed improvements, specific recommendations have been noted for each issue. Overall, management at ECSU, together with management at UNC-GA, needs to evaluate the findings and develop a strategy for remediation of items reported.

Specifically, to summarize for both operational units:

- The organizational structure over and within each unit needs to be evaluated and reporting relationships need to be clearly defined and communicated to all employees. Access rights to the Banner ERP system and any subsidiary systems needs to be reviewed and assigned in accordance with the approved organizational structure, reporting relationships and updated job descriptions.

- Management needs to develop a comprehensive training program for staff in both operational units. Training should include externally provided training as well as on-the-job training.

- Policies and procedures need to be developed that govern the operations of each unit. All policies and procedures should be supportive of solid business and industry practices, as well as UNC Policy and federal and state regulations.

- Job descriptions for each employee need to be updated and expectations need to be communicated to each employee. As a result, work plans need to be developed, discussed with each employee and accountability measures need to be established to ensure optimal employee performance.

The findings and recommendations included in this report are intended to assist management in improving operations.

We appreciate your written responses to the findings and have included them in this report. We will request ECSU's Office of Internal Audit follow-up on these matters within the next six months to ensure corrective measures are implemented.

We would like to express our appreciation to the staff at ECSU for their cooperation during our review.

Sincerely,

S. Lynne Sanders, CPA
Vice President for Compliance and Audit Services, UNC General Administration

CC: Walter Davenport, Board of Governors Audit Committee Chair
       Dr. Paul Norman, ECSU BOT Chair
       Mr. Harold Barnes, ECSU BOT Audit Committee Chair
       Kevin FitzGerald, Senior Vice President and Chief of Staff
       Charlie Perusse, Senior Vice President and Chief Operating Officer
       Thomas Shanahan, Chief Legal Counsel
       Beth Wood, State Auditor
       Council of Internal Auditing

Management Note: Management will request ECSU's Office of Internal Audit to assess the risk of the operations within the Office of Admissions and the Office of Financial Aid on at least an annual basis. Management will support any further review of processes and procedures as deemed necessary until management is satisfied that there is sufficient consistency in these areas.

Office of Admissions

FINDING 1: STUDENTS WERE ADMITTED TO ECSU FOR FALL 2015 THAT DID NOT MEET MINIMUM ADMISSION REQUIREMENTS (MAR)

ECSU admitted 93 new freshmen for the fall 2015 term who did not meet regular minimum admission requirements (MAR). These students were also not part of the UNC system's MAR Pilot Program. Thirteen of the 93 students were admitted as "Chancellor's Exceptions." The remaining 80 students, who were not admissible because they did not meet MAR, were admitted as regular "institutional acceptances." This represents a significant violation of UNC Policy 700.1.1 section II - Minimum Admission Requirements (MAR).

Below is the breakdown of the 93 students:

- Forty-one new freshmen were admitted that did not meet the MAR GPA cutoff. All forty-one students had a GPA below 2.5 and did not have the 2.6 minimum GPA to qualify for the MAR Pilot. The lowest GPA admitted was 1.8 weighted high school GPA. The minimum high school GPA for first time undergraduates is 2.5 (weighted).

- Twenty-three new freshmen were admitted that did not meet the MAR SAT minimum and were not part of the MAR Pilot Program. The lowest SAT score admitted was a combined critical reading and math score of 530. The minimum required SAT (mathematics and critical reading) for admissions is 800.

- Twenty-nine new freshman were admitted that did not meet the MAR ACT minimum and were not part of the MAR Pilot Program. The lowest combined ACT score admitted was 14. The minimum composite ACT score required for admission is 17.

All UNC constituent institutions are allowed a maximum number of "Chancellor's Exceptions" for admission that are equal to one percent (1%) of the total number of applicants accepted as first-time undergraduates each year (per UNC Policy 700.1.1 section III). ECSU's allowable one percent maximum for the fall 2015 semester equaled eleven (11) students based on their acceptance of 1,186 new freshmen. As noted above, thirteen were admitted who did not meet the appropriate criteria.

To ensure students are admitted to the institution in accordance with UNC Policy, the management team within the Office of Admissions needs to implement quality control reporting to identify students who do not meet MAR or other admission requirements prior to a decision letter being mailed to the student. These safeguards are essential in identifying mistakes related to inaccurate admission decisions or coding errors.

Recommendation: Management in the Office of Admissions should immediately implement proper quality control reporting procedures to ensure that a regular and continual review of admitted student data is performed to ensure compliance with GPA, SAT, and ACT thresholds. The Office of Admissions needs to develop a training program for staff that includes how to apply MAR criteria when reviewing files. Additionally, staff needs to be held accountable for continual errors in the admissions decision process. Formal policies and procedures need to be established that address all compliance and operational aspects of the admissions process. All staff should be required to attend office-based training on at least an annual basis and any other external training that is necessary to build the proper skill set for working in the admissions office.

Management response: Management concurs with the recommendation. A continuous admitted student data and document review process will be developed and implemented to ensure compliance with MAR thresholds. With the recent hire of the Interim Assistant Vice Chancellor for Enrollment Management on January 19, 2016, staff training and an Office of Admissions Policy and Procedure Manual will be developed and integrated to ensure compliance with all applicable admissions policies and procedures. Staff will be held accountable for continual errors in the admissions decision process.

This recommendation will be implemented no later than June 30, 2016.

FINDING 2: FIFTEEN PERCENT (15%) OF ENROLLED NEW FRESHMAN WERE NOT ADMISSIBLE BY MINIMUM ADMISSION REQUIREMENTS

ECSU enrolled 232 new freshmen for the fall 2015 term. Thirty-five (35) of those enrolled freshmen, which are part of the 93 admitted freshmen in Finding 1, did not meet MAR. This number represents 15% of the fall 2015 freshman class. Of the thirteen Chancellors Exceptions that were granted, nine of those students enrolled for fall 2015. The remaining twenty-six (26) were ineligible for regular admission.

Financial aid in the amount of $488,329 was awarded from various sources to the 35 enrolled freshmen that did not meet MAR. Of the 35, three received athletic scholarships.

It should be noted that some forms of financial aid have eligibility criteria for which some of the 35 may be ineligible to receive even if they were allowed to enroll under the Chancellor's Exception. The Financial Aid Office at ECSU needs to determine the amount of financial aid disbursed to each student deemed ineligible and seek the appropriate course of action.

Recommendation: To avoid enrolling students who do not meet eligibility criteria for admission, management in the Office of Admissions should immediately implement proper quality control reporting procedures to ensure that a regular and continual review of admitted student data is performed to ensure compliance with GPA, SAT and ACT thresholds. Formal policies and procedures, as well as a formal training program required to be completed on an on-going basis by each employee, need to be established and shared with all members of the Office of Admissions staff. All compliance and operational aspects of the admissions process needs to be thoroughly understood as does UNC Policy related to admissions to include MAR, MCR, MAR

pilot qualifications, Chancellor's Exceptions, etc. Additionally, management and staff need to be held accountable for continual errors in the decision process.

In addition, ECSU's Financial Aid Office needs to evaluate the distribution of financial aid funds to the students who were admitted that did not meet MAR and determine whether refunds are due back to the awarding entity due to ineligibility.

Management response: Management concurs with the recommendation. As noted in the management response to Finding 1, staff training, the implementation of a continuous admitted student data and document review process, and the implementation of an Office of Admissions Policy and Procedure Manual will ensure compliance with all applicable admissions policies and procedures. The Office of Financial Aid will review the distribution of financial aid funds and determine whether refunds are appropriate no later than March 15, 2016.

All other recommendations will be implemented no later than June 30, 2016.

FINDING 3: COMPLETION OF MINIMUM COURSE REQUIREMENTS (MCR) NOT DOCUMENTED AS VERIFIED IN 25% OF ENROLLED STUDENTS

All UNC constituent institutions are required to ensure a students' completion of the UNC system minimum course requirements (MCR) prior to enrolling them in a constituent university. Based on our review, it was determined that approximately 25% of the sampled files for the fall 2015 term did not contain final high school transcripts. Without a final high school transcript, the Office of Admissions could not confirm high school graduation or the completion of any MCR courses that were in progress during the student's senior year.

Additionally, information was provided that final high school transcripts were still missing from some of the fall 2014 enrolled freshmen files. This is concerning as high school graduation and MCR completion were never confirmed for students who enrolled as freshman over a year ago. As a best practice, universities should either prevent initial registration for students that have not provided a final high school transcript or place a registration hold on a freshman that would prevent future registrations, unless the transcript was provided.

The issues noted do not support compliance with the UNC Board of Governors MCR criteria as outlined in UNC Policy 700.1.1.

Recommendation: Management within the Office of Admissions should ensure that final high school transcripts are collected and reviewed for all enrolled freshman. Proper quality control procedures should be implemented to flag students without final high school transcripts on file by the beginning of each fall term. Procedures should then be implemented to place a registration hold on freshmen that would prevent future registrations, unless the transcript is provided.

Management response: Management concurs with the recommendation. As a part of the implementation of a continuous admitted student data and document review process, management will ensure high school transcripts and other pertinent documentation is collected and reviewed for all enrolled freshman. An administrative hold will be placed on freshman

accounts by the Office of the Registrar to prevent future registrations for students who do not submit the requisite official documentation.

This recommendation will be implemented no later than June 30, 2016.

FINDING 4: LACK OF ADEQUATE DOCUMENTATION TO SUPPORT STUDENT BACKGROUND CHECKS AS REQUIRED BY UNC POLICY

All UNC constituent institutions are required to perform criminal background checks on applicants being considered for admission who answer one or more of the six criminal background/discipline questions affirmatively. During the review of admissions files, three files were discovered that indicated a background check should be conducted on the applicant. Although "Background Check" was written on the front of the applicant's admissions folder, there was no information written on the front of the folders or contained within the folders that indicated the background check was ever conducted and reviewed and if the student had been cleared for admission. This was a consistent finding with all three files.

During interviews with admissions staff, including the employee responsible for processing background checks, it was confirmed that each of the files should have contained the following information:

- A copy of a letter to the student requesting a background check
- A letter from the university's committee that reviews background checks indicating the student was cleared for admission

None of the files we reviewed contained this required information. When questioned, admissions staff could not confirm that the background checks had been performed if the letters were not in the files.

The exceptions noted are a violation of requirements outlined in UNC Policy 700.5[R], *Regulation on Student Applicant Background Checks*

Recommendation: Management within the Office of Admissions should implement a process with proper quality controls for the processing of student applicant background checks. All staff should be properly trained on the policy and process. All applicable student files should contain the required information and students should not be admitted without properly documented verification of clearance from the background review process.

Management response: Management concurs with the recommendation. As a part of the implementation of a continuous admitted student data and document review process, management will ensure background checks are obtained and retained by the Office of Admissions. Students who do not have the required verification of clearance will not be admitted into the university. Staff training on background check policies and procedures will be coordinated by the new Interim Assistant Vice Chancellor of Enrollment Management.

This recommendation will be implemented no later than June 30, 2016.

FINDING 5: LACK OF ADEQUATE DOCUMENTATION AND SECURITY OF STUDENT FILES AS REQUIRED BY FERPA

ECSU does not have proper procedures in place to ensure student files contain all relevant data to support a student's admission and enrollment. In addition, the institution lacks proper security over the student files.

The Family Educational Rights and Privacy Act (FERPA) was enacted to ensure the confidentiality of personally identifiable information in education records and sets limits on the disclosure of such information. Any school district or institution receiving funds under any federal program is subject to FERPA and, according to the Federal Student Handbook, must maintain "Data used to establish student's admission, enrollment status, and period of enrollment."

The review team requested a list of students' files for review. During our review, we noted the following issues:

- Multiple files were discovered from fall 2015 that did not contain a letter of acceptance or official SAT or ACT test scores. Since ECSU does not upload test score data directly into Banner, a paper copy of the official SAT or ACT test scores should be maintained in each freshman applicant file.

- The Office of Admissions could not locate one of the files requested from the review sample.

- In addition to missing information in the fall 2015 files, we were also provided with information that letters of acceptance were still missing from some of the fall 2014 enrolled freshmen files. Additionally, some files were also missing college transcripts.

Universities are required to maintain and secure information used to establish a student's admission and proof of their acceptance. During multiple interviews with ECSU's admission personnel, staff members indicated that admission files were currently located in four different areas; the Office of Admissions, the Transfer Center, the ESTOP, and McClendon Hall (new processing center). Staff also indicated that admission files were transferred between all four locations often and files were collected on a daily basis and walked to other locations for different staff members to process. When student admission files are located and transferred between four offices on a regular basis, the university is at a high risk for inconsistent record maintenance and loss of FERPA-protected student information. The Interim Director of Admissions indicated that all files would soon be moving to the new processing area. However, it is still the review team's understanding that files will continually be shifted between the Transfer Center and the processing area.

Recommendation: The Office of Admissions needs to develop a staff training program that includes thorough communication of UNC Policy and federal regulations related to the maintenance and security of student educational records. In addition, formal policies and procedures need to be established that address all compliance and operational aspects of the admissions process. Proper quality control procedures should be implemented to ensure that all student files are properly accounted for and contain the required information.

*__Management response__***:** Management concurs with the recommendation. The Interim Assistant Vice Chancellor of Enrollment Management will coordinate staff training related to the maintenance and security of student educational records. The Office of Admissions Policy and Procedure Manual will include procedures to ensure student files are properly maintained in accordance with applicable law, policies and regulations.

This recommendation will be implemented no later than June 30, 2016.

FINDING 6: SIGNIFICANT LACK OF QUALITY CONTROL

As noted previously, UNC constituent institutions are required to ensure that new freshmen meet MAR, MCR, high school graduation, and any additional campus-based requirements. Most universities implement quality control measures to ensure compliance with these requirements. Universities use quality control reports generated on a regular and continual basis to review admitted student data to determine compliance with such items as listed below:

- GPA threshold: reports are generated to ensure that students are not admitted to the university if they have weighted GPA's below specific thresholds.

- SAT/ACT thresholds: reports are generated to ensure that students are not admitted to the university who have SAT or ACT scores below specific thresholds.

- High school graduation confirmation: reports are generated that show receipt dates for final high school transcripts to check graduation from high school.

After analyzing submitted data and reviewing a sample of files, multiple errors were noted which indicated concerns with quality control in the Office of Admissions. Admissions staff indicated that quality control reports were not generated on a continual basis, or even once per year, to ensure that students were not admitted below minimum admission thresholds. It was reported that no one was aware of any reports that were generated to ensure compliance with these measures. When asked about the type of reporting that occurred in the Office of Admissions, it was stated that reports are generated that focus on the flow of the admissions processing; such as reports showing the number of applications processed, number of incomplete applications, number of admitted/denied students, and other similar reports.

A lack of quality control measures in the Office of Admissions puts ECSU at significant risk of admitting students who do not meet the minimum admission requirements for the UNC System. Simple monthly control reports would have prevented the admission of the students discovered in our review that did not meet UNC MAR.

NOTE: In our review of financial aid administration and through interviews with financial aid staff, we also identified issues with quality control measures in the Financial Aid Office. Thorough supervisory review and oversight, as well as quality control reports from Banner, could greatly enhance the integrity of the financial aid administration process as well.

__Recommendation:__ Quality control measures should be implemented immediately to ensure the integrity of the operations within the Office of Admissions and the Financial Aid Office at ECSU. Both operational units need to develop a training program for its staff that includes thorough communication and application of UNC Policy and federal and state regulations.

Formal policies and procedures need to be established that address all compliance and operational aspects of the admissions and financial aid process. All staff should be required to attend office-based training on at least an annual basis and any other external training that is necessary to build the proper skill set for working in these operational units. Responsibility for running quality control reports should be assigned to staff members with expectation that routine evaluation will take place in accordance with good business practice and office policy that is supportive of compliance with UNC Policy and state and federal regulations.

__Management response__: Management concurs with the recommendation. With the addition of new technology in the Office of Admissions, quality control measures have been implemented and are currently being used to ensure that all new freshmen meet the minimum admission requirements. Other quality control plans are being developed and will be implemented to strengthen operational integrity in the Office of Admissions and the Office of Financial Aid. Staff training programs and departmental policy and procedure manuals for the Office of Admissions and the Office of Financial Aid will be developed and implemented by the Interim Assistant Vice Chancellor for Enrollment Management. External training opportunities will also be identified and implemented by each department head, as appropriate.

This recommendation will be implemented no later than June 30, 2016.

FINDING 7: LACK OF ADEQUATE DOCUMENTATION OF POLICIES, PROCEDURES AND PROCESSES; LACK OF TRAINING PROGRAM AND TRAINING MATERIALS

During staff interviews and inquiry about the training received when hired in the Office of Admissions, staff indicated that they were not provided with any formal training program or training schedule nor were they provided any written training materials. The Interim Director of Admissions confirmed that she had not seen any training materials since joining the office (less than one month before our review). All staff indicated that they learned how to make an admissions decision by learning on their own or by sitting with a peer and watching them make admissions decisions. The recruiters indicated they learned how to recruit at college fairs by shadowing another staff member at admissions fairs. The lack of a formal training program and written training materials puts the university at significant risk in making inaccurate admission decisions or communicating inaccurate information to students and families.

It should be noted that when staff was asked to verbally list the requirements for MAR and MCR during the interviews, most were able to quickly recite the accurate requirements; however, as indicated previously, numerous errors were made in admitting students who did not meet those requirements. The Interim Director of Admissions was not as familiar with the requirements because she joined the Office of Admissions less than one month before our review and does not have a background in the admissions area. Another staff member was not well-versed in the requirements but was familiar with the terms.

When staff was asked about a policy and procedures manual, none of them knew of the existence of such a manual. One staff member indicated that she was developing her own policy and procedures manual because she had asked for one and was told the Office of Admissions did not have one. She said she was able to locate an old, outdated manual with sample admission letters that were no longer used and it also included some old policies.

__Recommendation:__ The Office of Admissions needs to establish formal policies and procedures that address all compliance and operational aspects of the admissions process and is supportive of internal controls and compliance with UNC Policy and applicable federal regulations. In addition, ECSU's Office of Admissions needs to develop a training program for staff that includes thorough communication of UNC Policy and federal regulations related to admissions criteria and required documentation standards over maintenance of student information. All staff should be required to attend office-based training on at least an annual basis and any other external training that is necessary to build the proper skill set for working in the admissions office. In addition, a training manual should be developed for staff that reflects overall operations and supports internal controls and compliance.

__Management response__: Management concurs with the recommendation. As noted in the previous management responses, staff training programs and the Office of Admissions Policy and Procedure Manual will be developed and executed by the Interim Assistant Vice Chancellor for Enrollment Management to ensure proper communication and training of applicable UNC policies and federal regulations. External training opportunities will also be identified and implemented by each department head, as appropriate.

This recommendation will be implemented no later than June 30, 2016.

FINDING 8: INADEQUATE ADMISSIONS DECISION-MAKING PRACTICES

The Office of Admissions has inadequate decision-making practices that put the university at high risk of making inaccurate admission decisions.

A freshman admissions decision should only be rendered after a review of *official* high school transcripts and *official* test scores from an authorized testing agency (such as the College Board for SAT or ACT scores). ECSU does not require official test scores from the testing agency in order to render an admissions decision. Multiple files were reviewed that did not contain an official test score. Since ECSU does not upload test score data directly into Banner, a paper copy of the official SAT or ACT test scores should be maintained in each freshman applicant file.

When one staff member was asked about the lack of official test scores in a file, she said that her practice was to take the test score directly from the high school transcript. This is not a good business practice as these may not be the final or official scores. She said that no one had ever told her that she should not use the high school transcript and from her understanding, this was not uncommon practice in the Office of Admissions. The employee indicated she was also not aware that the College Board is the source for official SAT scores.

Inquiry with another staff member indicated that she would sometimes make an admissions decision from the information on the tracking sheet that was located on the front of the admissions folder and would not review each official document. Different staff members complete the tracking sheet as different documents are matched with each folder. For example, the SAT scores are handwritten on the tracking sheet when they are located, either from an official test score or from the high school transcript. The GPA is handwritten from the high school transcript also, along with other criteria. Two or three different staff members may have recorded the information at different times until the tracking sheet is complete. The staff member

indicated that she would often make her admissions decision from the information recorded on the tracking sheet and would not verify the accuracy from the official documents in the folder. This practice has a high rate of human error.

Recommendation: The Office of Admissions needs to develop a training program for its staff that includes thorough communication and application of UNC Policy related to admissions criteria. In addition, formal policies and procedures need to be established that address all compliance and operational aspects of the admissions process. All staff should be required to attend office-based training on at least an annual basis and any other external training that is necessary to build the proper skill set for working in the admissions office. Proper quality control procedures should be implemented to ensure that a continual review is performed over admitted student data for compliance with MAR and MCR and *official* documents are received and evaluated to ensure the admissibility of students.

*Management response***:** Management concurs with the recommendation. As noted in the previous management responses, staff training programs, an Office of Admissions Policy and Procedure Manual, and quality control procedures for admitted student data and official documents will be implemented by the Interim Assistant Vice Chancellor for Enrollment Management. External training opportunities will also be identified by each department head, as appropriate.

This recommendation will be implemented no later than June 30, 2016.

FINDING 9: SIGNIFICANT LACK OF TECHNOLOGICAL EFFICIENCY

The Office of Admissions at ECSU lacks the technology needed to perform admission business processes at optimal levels. At the most basic level, the SAT and ACT test score upload for Banner should be implemented. Currently, the admissions staff has to manually enter all test scores for both ACT and SAT scores. The technology to upload test scores to Banner is standard at almost all universities and has been an available tool for schools for many years. Uploading test scores directly from the testing centers into Banner eliminates human error in entering the test scores manually and reduces processing time and labor resources.

Additionally, the use of paper files, which are stored in multiple locations, attributes greatly to Finding 5: Lack of Adequate Documentation and Security of Student Files as Required by FERPA and Finding 8: Inadequate Admissions Decision-Making Practices described in this report. The implementation of an imaging system that is compatible with Banner would facilitate a paperless admissions process, where all documents could be scanned and stored digitally. This would reduce the risk of lost transcripts and other admission documents, reduce human errors in transcribing data in handwriting on a tracking sheet, and increase processing time.

Recommendation: ECSU needs to evaluate current technology used in the Office of Admissions and develop a strategy for enhancing operations which will minimize risk associated with a manual-based operation.

*Management response***:** On November 25, 2015, ECSU entered into a contract to purchase a new technology application that will move the Office of Admissions from a manual–based operation

to a paperless process. Other technology needs that will enhance department operations and minimize risk will be evaluated and implemented by the new Interim Assistant Vice Chancellor for Enrollment Management, as appropriate.

This recommendation will be completed no later than June 30, 2016.

FINDING 10: LACK OF RECRUITMENT AND COMMUNICATION PLAN AFFECTS YIELD

The lack of strategy for continual recruitment and communication with students may be one of the primary reasons for ECSU's low yield rate.

ECSU admitted 1,186 new freshmen (data provided by Interim Director of Admissions) for the fall 2015 term, but only 232 of those admitted students actually enrolled. This correlates to a yield rate of 19.5%. When asked what the freshman enrollment target was for fall 2016 (current recruitment year), the staff were not aware of the target goal.

Inquiry of admissions staff about the strategy for recruiting the freshman class revealed that the office did not have a recruitment plan or a communication plan for new students. One employee stated that one of the reasons for the low enrollment may be because "students never hear back from us." The employee stated students apply and do not hear if their application is complete. In addition, once the institution does admit students, no further communication is sent to the students from the Office of Admissions. The employee felt students need to hear more from the Office of Admissions.

A common recruitment strategy in the admissions industry is to annually purchase a database of names of college bound students from the College Board or another known purchasing agency. This is a common and expected practice among most universities; especially those universities who are trying to increase their enrollment. According to the Associate Director of Admissions, ECSU has not purchased any database of names since 2010 or 2011.

Many staff indicated that every new director who joins the office (multiple directors in last few years) has a new idea, but the plan changes once they leave. Staff members all indicated the lack of a continual strategy as a reason for low enrollment.

Recommendation: ECSU's Office of Admissions needs strong leadership to develop a strategic plan for increasing enrollment. This includes, but is not limited to, implementing solid recruiting strategies and developing a consistently applied and documented follow-up plan with applicants. The Office of Admissions needs to develop a training program for its staff that includes thorough communication of not only UNC Policy and federal regulations related to admissions criteria and documentation standards, but incorporates processes needed to achieve strategic goals. Targets and goals of senior leadership need to also be communicated to ensure that everyone has awareness of and is working towards the same goal. In addition, achieving these goals will require formal policies and procedures be established that address all compliance and operational aspects of the admissions process. All staff should be required to attend office-based training on at least an annual basis and any other external training that is necessary to build the proper skill set for working in the admissions office.

*__Management response__*__:__ On January 19, 2016, ECSU hired an Interim Assistant Vice Chancellor for Enrollment Management with over 30 years of successful experience in enrollment management. The Interim Assistant Vice Chancellor for Enrollment Management is currently developing a strategic plan that will include metrics, targets and strategic goals that will be communicated to admissions staff and senior administration. The implementation of staff training and the development of the Office of Admissions Policy and Procedure Manual will support the execution of the strategic plan.

This recommendation will be implemented no later than March 30, 2016.

FINDING 11: LACK OF ANNUAL PERFORMANCE EVALUATIONS; LACK OF CLARITY OF SUPERVISION

Admissions staff expressed concern and uncertainly as to whom they reported directly. They said their duties and supervisors changed often. They also indicated that they either had never seen a job description for their job or had only seen an outdated job description from many years ago. The Interim Director of Admissions confirmed that staff had outdated job descriptions.

All staff indicated that the last annual performance evaluation they were given occurred in 2012 or prior to 2012. Some staff indicated they had never been given an annual performance evaluation. The review team requested and received evaluations from ECSU's Human Resources Department. The latest evaluations in the personnel files were from 2010, confirming the information the staff provided during the interviews.

One staff member in the Office of Admissions indicated that her timesheet was actually approved by a supervisor in Financial Aid. She said she did not report to that person, and she was not aware of that person confirming her time with anyone in admissions.

Staff indicated a high rate of turnover in the Enrollment Manager and Director of Admissions positions. Staff named five to six different directors over the last three years. They all expressed frustration at the lack of consistent and knowledgeable leadership, indicating it provided a stressful work environment and fear of job loss.

__Recommendation:__ The Office of Admissions needs to evaluate its organizational structure and develop a structure that is supportive of delineation of proper roles and responsibilities and provides a framework around which the office should operate. A clearly established organizational structure helps employees resolve disputes and work together to achieve strategic goals. Once the organizational structure is established, assignment of duties and responsibilities should align with employees' job duties as outlined in their respective job description. Job descriptions need to be evaluated for each employee and updated, as necessary, so as to adequately communicate expectations that will set the basis for performance management. Evaluations of all employees should be conducted in accordance with ECSU Human Resources Policy, UNC Policy and the Office of State Human Resources (OSHR) Performance Management Policy. The university is expected to have performance management practices that are consistent with OSHR policy. Supervisors and managers are responsible for managing the performance of their employees.

**Management response**: The Interim Assistant Vice Chancellor for Enrollment Management is implementing a new organizational structure with clear roles, expectations and responsibilities for each staff member. Written expectations that align with job duties will be provided to each staff member. Employee evaluations will be conducted in accordance with ECSU Human Resources, OSHR and UNC Policies.

This recommendation will be implemented no later than June 30, 2016.

Financial Aid Office

FINDING 12: LACK OF CLEAR UNDERSTANDING OF GUIDELINES FOR ADMINISTERING VARIOUS FINANCIAL AID PROGRAMS

Federal regulations, as well as administrative guidance from the State Education Assistance Authority, require that UNC constituent institutions administer financial aid in accordance with established rules and guidelines. Under 34 CFR 668.16 – Standards of Administrative Capability, to participate in any Title IV, Higher Education Program, an institution must demonstrate it is capable of adequately administering aid in accordance with all statutes, regulations and agreements.

Several instances of non-compliance with federal regulations as identified by external regulatory agencies have yielded audit or review findings that have resulted in administrative actions and/or financial obligations to ECSU. Those specifically include the following:

- October 9, 2015: Letter to the Chancellor by the Department of Education notifying her that "failure of your institution to comply with the **Gainful Employment** reporting regulatory requirement is an indication of a serious lack of administrative capability by your institution." Accordingly, actions were cited against the institution and the Department of Education noted that "failure to fully comply in all GE data reporting requirements will result in the referral of your institution to the Department's Administrative Actions and Appeals Service Group (AAASG) for consideration of an administrative action against your institution. Administrative actions may include a fine, or the limitation, suspension, or termination of your institution's eligibility to participate in the Title IV, HEA programs."

- October 13, 2015: Letter to the Chancellor from the Department of Education notifying ECSU of its **"Notice of Ineligibility to Participate in the Federal Perkins Loan Program Due to Cohort Default Rate."** The most recent submission of ECSU's Fiscal Operations Report and Application to Participate (FISAP) in the Campus-Based Programs indicates that ECSU's Federal Perkins Loan (Perkins) Program cohort default rate is at or above 50 percent for the third consecutive award year. As specifically noted in the letter, ECSU is no longer eligible to participate in the Perkins Program from the date of the letter, October 5, 2015 through June 30, 2018.

- **Program Participation Agreement (PPA) is in Provisional Status** - Under the PPA, the school agrees to comply with the laws, regulations, and policies governing the Federal Student Aid (FSA) programs. After being certified for FSA program

participation, the school must administer FSA program funds in a prudent and responsible manner. A PPA contains critical information such as the effective date of a school's approval, the date by which the school must reapply for participation, and the date on which the approval expires. In addition, the PPA lists the FSA programs in which the school is eligible to participate. Expiration or termination of the agreement by either the school or the Department may terminate the Program Participation Agreement. As per the PPA, "During the period of provisional certification, the participation of the Institution will be subject to revocation for cause. Cause for revocation includes, without limitation, a failure to comply with any provision set forth in the agreement, a violation of Department regulations deemed material by the Department, or a material misrepresentation in the material submitted to the Departments as part of the Institution's application process for the certification…"

- **NC State Approving Agency** - ECSU received financial aid findings from the NC State Approving Agency related to the Veterans Affairs audit that eventually resulted in a suspension of ECSU from being able to administer the program. While that suspension was eventually lifted, the findings resulted in a financial liability to ECSU in the amount of $342,668. Of the total balance, the campus still owes $192,975 due by September 2016.

- Related to the 2014FY Statewide Federal Compliance audit, audit findings by the **Office of the State Auditor (OSA)** reported 1) Errors in Calculation for Return of Title IV Funds and 2) Lack of Controls Over Required Direct Loan Reconciliations. Two follow-up reviews have been performed by ECSU's Office of Internal Audit, one in June and one in October, to assess ECSU's progress in remediating the issues reported. As of the most recent follow-up on October 30, 2015, neither of these findings has been completely resolved. A review of the errors in the calculation of Return of Title IV funds from the 2013-2014FY resulted in a liability due to the Department of Education in the amount of $194,684.

  When ECSU's Office of Internal Audit completed its first review in June 2015 to follow-up on the findings, it was recommended, with support by UNC-GA, the OSA and the Department of Education, that given the deficiencies noted for the 2014FY, a 100% File Review of 2014-2015 Return to Title IV Calculations be performed and any discrepancies be self-reported to the Department of Education.

  The program specialist for the Department of Education instructed that she be contacted prior to submitting the results so she could instruct the university on how to self-report. Financial Aid has completed a 100% file review of the 2014-2015 return to Title IV funds and summarized that they would owe an additional $124,284 to the Department of Education. To date, this review has not been self-reported to the Department of Education, as the Director of Financial Aid has not been able to establish contact with the Department of Education program specialist to obtain instructions on how to self-report the recalculations. Efforts continue to complete this self-reporting.

  North Carolina General Statute 116-30.1 requires special responsibility constituent institutions to make satisfactory progress in resolving audit findings within ninety days of the receipt of the published report. When the first follow-up report was issued in June

2015, it was noted that while satisfactory progress was made, full remediation of the issue required further commitment by the campus and a follow-up review by ECSU's Office of Internal Audit. Given the lack of remediation of the issues reported, there is concern that campus is not devoting the required attention to proper financial aid administration.

In addition to the issues noted above, during our recent review of financial aid administration over several types of financial aid, we determined that aid is being awarded to ineligible students and guidelines and eligibility criteria are not well understood by financial aid staff. Detail exceptions have been outlined in this report. The most prevailing reasons for the issues identified appear to be turnover of the financial aid director position and lack of training being provided to the financial aid staff. The lack of training and inconsistent leadership has created an environment where the staff does not understand how the Banner ERP system works for financial aid and there is general lack of understanding of eligibility requirements for awarding certain types of aid. These conditions create financial and compliance risk to ECSU.

In all cases noted, lack of administrative capacity could compromise the ability of ECSU to offer major sources of financial aid to students. In addition, noncompliance with federal and state regulations or restrictions on the use of private funds for scholarships could have major compliance and financial consequences.

Recommendation: The Office of Financial Aid needs to develop formal policies and procedures, along with a staff training program, that incorporates a solid understanding and communication of internal controls that support compliance requirements outlined in federal regulations and UNC Policies related to administration of financial aid. Proper review and supervision procedures should be implemented to ensure staff properly perform and document their work.

*Management response***:** Management concurs with the recommendation. Leadership in the Financial Aid office was in transition as the audit was in progress and deficiencies were recognized. The department is in the process of addressing those deficiencies. In conjunction with staff from the U.S. Department of Education, the Director of Financial Aid is developing a policy and procedure manual for the Office of Financial Aid that will ensure compliance with all applicable financial aid administration regulations.

This recommendation will be implemented no later than December 15, 2016.

FINDING 13: INELIGIBLE STUDENTS IDENTIFIED AS RECEIVING SCHOLARSHIPS FROM THE NC STATE EDUCATION ASSISTANCE AUTHORITY

UNC Campus Based Scholarships – Scholarships were disbursed for fall 2015 in the amount of $558,000.

Upon the consolidation of UNC Scholarship Programs provided by the NC State Education Assistance Authority (NCSEAA), direction was provided that "The Board of Trustees of each constituent institution shall define its particular campus goals and guidelines for the use of the UNC Campus Scholarships for undergraduates. The chancellor of each constituent institution shall submit its proposed guidelines to the President of the University of North Carolina for approval before implementing them...." (General Assembly of NC Session 2001 – Session Law

2002-126 -Senate Bill 1115 – UNC Scholarship Programs Consolidated, Section 9.4.(e)) ECSU developed these program guidelines, which were approved by ECSU Board of Trustees in December 2008 and approved by the UNC system President in February 2009.

Based on our review of this scholarship program, we determined that due to the way the guidelines were worded, all students receiving the scholarships were technically ineligible to receive the awards. Previous program reviews conducted by NCSEAA at ECSU in 2009 and 2012 identified and reported to ECSU that these guidelines were not written in a manner that would allow students to be eligible to receive the aid. According to financial aid staff on campus, the intent that has been applied is to assess hours that students are *attempting* rather than *earned,* since hours earned cannot be evaluated until the conclusion of the semester. Recommendations were made by NCSEAA in both reports for ECSU to update the language of the guidelines. Given ECSU's failure to update the language, students who do not meet the criteria have been awarded aid, and as a result, all recipients that received these grants were technically ineligible

Discussion with campus financial aid staff revealed that they were unaware of the existing approved guidelines that were included in the institutions manual located on its website. Accordingly, they were relying on business rules set up in Banner that package financial aid to properly make the awards. The Banner business rules have not been reviewed on a periodic basis and accordingly are not only outdated, but are incorrect in relation to the approved guidelines. As a result, aid was not properly packaged. This also resulted in instances where financial aid staff had to override packaging decisions in Banner.

In further review of the population of scholarship recipients based on campus' intent in disbursing the aid, we still noted ineligible students based on deficient GPA and SAT scores. Our test results revealed:

- Thirty-eight freshmen were identified as not meeting SAT and GPA requirements for receiving this scholarship. In addition, we could not validate the eligibility of one student due to missing student records. The scholarships in question totaled $71,274.

- For continuing students that were not incoming freshmen, twenty-one were ineligible for the scholarships due to not meeting GPA and earned credit hour criteria. The scholarships in question totaled $37,298.

The above funds are due back to the program account based on the review results of the NCSEAA.

UNC Need Based Grant – Grants were disbursed to students totaling $688,000 for fall 2015.

This grant is available for undergraduate students who demonstrate need. This grant is primarily administered by College Foundation, Inc. (CFI) on behalf of the NCSEAA. CFI identifies *potentially* eligible students based on information reported through the Free Application for Federal Student Aid (FAFSA). The campus is responsible for confirming eligibility and certifying each student's eligibility. The campus is required to review exception reports and perform a verification process similar to those required for the federal Pell program.

Based on our review of the disbursements made to students for fall 2015, two students were identified as ineligible. One was ineligible due to not meeting North Carolina residency

requirements and the other was due to a lack of demonstrated need. Banner business rules identified the non-North Carolina resident as such; however, the campus did not perform due diligence to obtain documentation to support residency. For the other student, need is being questioned because the campus did not substantiate reporting from the student to support the need based determination. Total disbursements to both students totaled $1,916.

Elizabeth City State University has designated itself through policy as an attendance taking institution. GradesFirst is the official attendance recordkeeping system used by the faculty. Accordingly, it is imperative that attendance be properly taken and GradesFirst accurately reflect attendance for each student. Our investigation revealed faculty was not consistently maintaining accurate attendance records. In one case, we identified a student who received $863 in financial aid and subsequently officially withdrew from classes. Institutional records indicate that the student officially withdrew from the University on October 12, 2015; however, GradesFirst showed the student was in class after his official withdrawal. Official withdrawals by students are supported by paperwork maintained by the campus; however, when a student unofficially withdraws and quits coming to class, taking attendance is the only way to properly calculate any return of financial aid funds that have been disbursed. The inability to validate the accuracy of attendance in the GradesFirst system makes it hard to accurately calculate the potential return of financial aid funds for students who unofficially withdraw.

Note: Further review and discussion with financial aid staff indicated that unofficial and official withdrawals have resulted in $4,346 for five students being returned to the NCSEAA prior to the start of this review, but as a result of other internal work.

Recommendation: ECSU guidelines for the UNC Campus Based Scholarships need to be updated to reflect the campus' intended awarding criteria. In addition, the approved guidelines should be made readily accessible to all financial aid staff and the staff should be trained so they consistently apply the award criteria. Banner business rules should be updated to reflect current eligibility criteria and a process established for consistent review and update to reflect any changes to eligibility criteria.

To ensure compliance with applicable program requirements, the Financial Aid Office needs to develop formal written operational policies and procedures that incorporate appropriate review and supervision procedures and a staff training program. In addition, management needs to ensure its class attendance policy is being followed by all faculty. Since GradesFirst is the official attendance recordkeeping system used by ECSU, faculty need to receive proper training on its use and importance in ensuring proper accountability of students in relation to return of financial aid funds.

Management response: ECSU's UNC Campus Based Scholarship Policy is being revised to reflect the campus' intended awarding criteria. Upon the requisite approvals, staff training and Banner business rules will be implemented and documented in the Office of Financial Aid policy and procedure manual by the Director of Financial Aid in conjunction with the Interim Assistant Vice Chancellor for Enrollment Management.

A new class attendance policy was approved by the ECSU Board of Trustees on December 15, 2015. The new policy does not require faculty members to take classroom attendance.

This recommendation will be implemented no later than December 15, 2016.

FINDING 14: ADMINISTRATION OF VIKING GRANT NEEDS IMPROVEMENT

ECSU receives state funds through campus-initiated tuition increases that are utilized to fund the ECSU Viking Grant. Under UNC policy, the campus-initiated tuition funds may be used to support specific campus purposes and programs. Institutions develop the criteria for these funds that will be used and it is common for institutions to use a portion to fund need-based financial aid. For the 2015-16 year, ECSU has offered $1.27 million in Viking Grants and paid $615,523 in the fall semester.

Per discussions with financial aid staff and review of data in Banner, the Viking Grant is automatically awarded by the system when the financial aid packaging process is executed. Because this aid is typically awarded by the system, the financial aid staff members were not familiar with the underlying Banner rules that are used by the system or the awarding criteria. Based on the data in Banner and other documents provided by various financial aid staff, different criteria and rules were found. If the staff were to manually evaluate and award the grant to a student, it is unclear what criteria they should follow. In addition, because the staff located different criteria, it is unlikely that the staff would consistently use and apply the same criteria.

For ECSU to award any aid, students must have a minimum GPA. We analyzed the population of students awarded the Viking Grant to identify a potential population of ineligible students based on GPA. From our review of the Viking Grant disbursements made in fall 2015, we identified three students that did not qualify for the grant. However, this was due to an error in the Banner rules that allowed three students who did not meet satisfactory academic progress to receive aid. As a result, the three students received a total $2,000 in Viking Grant funds and $21,212 in other federal and state aid (meaning total ineligible aid of $23, 212).

Recommendation: The institution's approved purpose for using these state funds and the criteria for awarding to students should be formally documented and shared with the financial aid staff. The financial aid staff should be trained to ensure they understand the criteria and are able to consistently evaluate if individual awards, whether awarded automatically or manually, are properly executed. In addition, the Financial Aid Office should review the rule codes in Banner to ensure this, and all aid, is being properly processed and packaged by the system.

Management response: Management concurs with the recommendation. The Interim Assistant Vice Chancellor for Enrollment Management and/or the Director of Financial Aid will formally document and ensure financial aid staff is trained on the proper administration of these funds. Staff training will include a review of rule codes for Banner to ensure proper processing and packaging of aid.

This recommendation will be implemented no later than December 15, 2016.

FINDING 15: LACK OF ADEQUATE DOCUMENTATION, NO TRAINING PROGRAM, AND NO POLICY AND PROCEDURES MANUAL FOR ATHLETIC SCHOLARSHIPS

ECSU provides athletic awards to student-athletes and from our analysis of those awards, the accepted athletic grants for fiscal year 2015-2016 were $469,846, of which $245,940 was disbursed for fall 2015. ECSU athletic awards are primarily funded from student fees.

Financial aid to student-athletes is subject to NCAA Division II, conference, and university rules and regulations. Responsibility to comply with these rules can fall on various departments, but ECSU has a Compliance Officer that is expected to play a leading role to monitor compliance. However, since May of 2015, the university has experienced turnover in the Compliance Officer position and in the main financial aid position that processes athletic aid. Turnover in these positions has adversely impacted the university's oversight and administration of athletic aid.

Based on interviews with staff and a limited review of various athletic aid documents, we noted the following issues:

- There are no written policies and procedures that clearly define the expectations and responsibilities of staff and/or departments that administer athletic awards and ensure compliance with NCAA financial aid rules. The university has recognized the need for more formal guidance and has formed a committee to create a compliance manual.

- The Compliance Officer does not have signed copies of all athletic award letters. The university's Athletic Department provides student-athletes with athletic grant award letters that lists the maximum award amount and stipulates the conditions of the grant (including requiring compliance with NCAA, conference, and university requirements). From our review of the award data in Banner and our scan of the Compliance Officer's files, we noted letters that were not signed by all designated parties and students that received awards per Banner but no signed award letter was in the Compliance Officer's file.

- Athletic aid was being changed after the start of the 2015-2016 academic year. Based on our review of transaction data in Banner, we noted athletic awards were being changed in September 2015 and October 2015 for the 2015-2016 academic year, and some adjustments were for awards disbursed for fall 2015. Based on inquiry with staff and the documentation provided, many requests were to increase athletic awards in order to clear students' accounts. Per the NCAA manual, increases are allowed once the award period begins as long as the institution demonstrates the increase is unrelated to an athletic reason. However, as a best practice for administering aid and clearing balances due on student accounts, these processes should typically be settled by the end of September, which was 6 weeks into the fall semester.

- Changes to the athletic aid are often submitted directly by coaches to the Financial Aid Office via email. There are no standard criteria for what documentation should be provided and maintained by Financial Aid to support athletic award amounts and subsequent change requests. When asked for the change requests, the Financial Aid Office could not locate all the original email requests and stated that sometimes the requests are made by phone or in person. As a best practice, all award requests (both the initial requests and subsequent changes) should be directed to the Compliance Officer to

be reviewed for compliance with applicable NCAA, conference, and university requirements. The Compliance Officer should be the only one providing athletic award data to the Financial Aid Office for processing to the students account.

- Financial aid staff was asked to assist with reporting student-athlete information in the NCAA Compliance Assistant system (an application provided by the NCAA to help ensure compliance with NCAA rules) but they have not received formal training on the system or relevant NCAA compliance rules.

- The cost of attendance data in Banner did not always match the cost of attendance amount reported in the NCAA Compliance Assistant system. Data from both systems for two student-athletes was provided as examples. For one, the cost in Banner was $1,200 higher than the amount in the NCAA system, but for the other the cost in Banner was $297 lower. With the turnover that took place prior to fall 2015, the staff was unsure who entered the amount in the NCAA system or how it was determined. Guidance in the NCAA Division II Manual states the "cost of attendance" should be the amount calculated by an institution's financial aid office, using federal regulations, that includes the total cost of tuition and fees, room and board, books and supplies, transportation and other expenses related to attendance at the institution. The manual further states, the institution must calculate the cost of attendance for student-athletes in accordance with the cost of attendance policies and procedures that are used for students in general.

Recommendation: As a best business practice and to help staff charged with monitoring compliance with NCAA, conference and university rules, management should develop written policies and procedures that govern the process for administering athletic awards and ensuring compliance with applicable NCAA, conference and university rules. Management should consider including the following in the established policies and procedures:

- ECSU should establish policies and procedures that ensure the appropriate information flows to the Compliance Officer so he/she can review and verify compliance before the award information is sent to financial aid staff and added to a student's account. Appropriate supporting documentation should be provided and maintained by the Compliance Officer and the Financial Aid Office. The established policies and procedures should define the content and form of award documentation (for initial awards and changes), and management should develop a logical method for storing supporting documentation so it can be located and available as an audit trail. Requests for award increases need to demonstrate that the increase in aid is unrelated to athletic ability.

- ECSU should ensure proper process and procedures are in place to have the award information (initial award and any changes) flow to the compliance officer to first review and ensure compliance applicable requirements. Coaches should not contact Financial Aid directly to have aid adjusted as this can increase the risk of noncompliance occurring and not being prevented or detected.

- ECSU should ensure its process and procedures includes all the appropriate documentation that is necessary to support the aid given and the details needed to demonstrate compliance with any applicable NCAA and/or conference rules. This should include procedures to ensure all athletic aid award letters are signed by the appropriate parties and then provided to and maintained by the institution's Compliance Officer.

In addition, key university staff involved with monitoring NCAA compliance needs training on the requirements and the NCAA Compliance Assistant system.

Management response: Management concurs with the recommendation. Procedures relating to NCAA financial aid administration will be included in the Office of Financial Aid department's policy and procedure manual. Joint Athletic Compliance Officer and Financial Aid staff training will be coordinated by the Director of Financial Aid and/or Interim Assistant Vice Chancellor for Enrollment Management to ensure information and documentation is shared and maintained by the Athletic Compliance Officer

The Athletic Director has informed all coaches that they are not to contact financial aid staff directly to have aid adjusted. The Athletic Compliance Officer will retain the appropriate signed documentation to ensure compliance with applicable NCAA and/or conference rules. The Athletic Compliance Officer and a designated financial aid liaison will receive ongoing NCAA compliance and system training.

This recommendation will be implemented no later than December 15, 2016.

FINDING 16: INSTANCE NOTED WHERE A SAP APPEAL DECISION WAS CHANGED

Per the Federal Student Aid Handbook, to be eligible for federal aid funds, a student must make satisfactory academic progress (SAP), and the institution must have a reasonable policy for monitoring that progress. Under ECSU policy, when students are not making satisfactory academic progress, they are not allowed to receive various types of financial aid. Students have the right and opportunity to appeal ineligibility due to SAP determination by presenting evidence to support how they are continuing to work to be academically successful and/or explain extenuating circumstances that have contributed to them not making the grades to continue receiving aid. In preparing for the 2015 fall semester, 136 SAP appeals were submitted by affected students.

Once the SAP appeals committee reviewed information submitted by each student, they approved 86 (63%) of the appeals and denied 21 (15%) of the appeals. The remainder of the appeals did not receive further consideration by the committee because various requested documents were not submitted by students that would support further consideration. We reviewed the SAP appeals process and a sample of approved and denied appeals. The results are as follows:

- Denied appeals were compliant with policy and procedure. However, the written policy and procedure did not detail the triage process conducted by the Director of Financial Aid or the circumstances when the Director does not submit the appeal to the judges for review. For example, if the student has reached the financial aid limit or the appropriate appeal documentation was not submitted, then there is no need for the judges' review.

- One of the approved appeals did not follow the policy and procedure. There is evidence from the Banner system to support that [Employee A] (who oversees the Financial Aid Office) approved a SAP appeal that was originally denied by the appeals committee. Per the policy and procedure, [Employee A] does not appear to have the authority to override the judges' decision, as that authority resides with the Chancellor.

Recommendation: The policies and procedures for the SAP appeal process should be reviewed and updated to match current practice and include sufficient details. The policies and procedures should be shared with the financial aid staff so they can be aware of the expected process and can hold each other accountable to comply. Both staff and senior management should be instructed and expected to abide by all established policies and procedures. In no instance should a member of management override existing internal controls.

Management response: The ECSU SAP policy will be reviewed by the Interim Assistant Vice Chancellor for Enrollment Management and the Director of Financial Aid to determine if updating the policy or if staff training on the existing appeal process is necessary. As a part of that review, the practice of overriding SAP appeal decisions will be examined. The Interim Assistant Vice Chancellor for Enrollment Management and financial aid staff will abide by all established policies and procedures.

This recommendation will be implemented no later than December 15, 2016.

FINDING 17: LACK OF DUE DILIGENCE IN PERFORMING VERIFICATION PROCEDURES

Students who wish to be considered eligible for federal financial aid are required to complete the Free Application for Federal Student Aid (FAFSA) on an annual basis. The federal government randomly selects students for a process called verification, requiring colleges and universities to verify or confirm the data reported by students and their parent(s) on the FAFSA. If selected, the verification process must be completed before financial aid can be awarded or disbursed.

During our review, we identified that 281 in-house verifications were performed for the 2015-2016 aid year. We randomly sampled twelve files to review the process used by ECSU to perform these verifications.

Of the twelve files reviewed, eleven had errors. Errors were noted in accepting and maintaining required supporting documentation and following up on discrepancies noted in the files. In addition, minor language updates were needed to the Identity and Statement of Educational Purpose document and consistent maintenance of information for the files was not evident.

During interviews with financial aid staff, two employees noted that their job duties recently changed to include performing in-house verifications. While they both have worked in the ECSU financial aid office for some time and may have once worked on verifications, they did not receive current training on the verification process prior to receiving these duties.

Recommendation: All financial aid staff should receive training related to proper financial aid administration. For those individuals assigned to perform verification procedures, special attention and training should be devoted to understanding the documentation requirements and developing a documented protocol for ensuring all documentation is consistently reviewed and maintained. Work performed by staff should be reviewed, at least on a sample basis, to ensure verifications are properly executed and documented.

__Management response__: Management concurs with the recommendation. Increased utilization of the verification service provided by the School Servicing Center, an entity of the College Foundation of North Carolina, will be implemented to reduce the number of verification processing errors. The Interim Assistant Vice Chancellor for Enrollment Management and/or the Director of Financial Aid will coordinate training to ensure staff members understand financial aid administration requirements. Quality control reviews will be coordinated by the Director of Financial Aid to ensure verifications are properly executed and documented on an annual basis.

This recommendation will be implemented no later than December 15, 2016.

FINDING 18: ERP SYSTEM OVERRIDES IN FINANCIAL AID PACKAGING

Most financial aid awards are made through a packaging process that is guided by business rules loaded into the Banner ERP system. To ensure proper packaging and awarding of aid, it is imperative that the business rules are accurately detailed in Banner, which requires consistent evaluation and updating by financial aid staff who understands the Banner ERP system and eligibility criteria for the various types of financial aid being packaged.

Occasionally, it may be necessary for financial aid staff to override a packaging decision due to a technical error or upon independent validation of a student's credentials related to eligibility. Given that the business rules are in place to provide internal controls over consistent and accurate packaging decisions, overrides to the packaging decisions should be exceptions.

In reviewing the financial aid awards that were processed in the Banner ERP system, we noted that there were 361 overrides processed for the fall 2015 term. Given ERP system access rights granted to the financial aid staff, these overrides were processed by all members of the financial aid staff. When asked about the reason for the overrides being made, it was reported that the Banner business rules have not been updated in several years and, accordingly, are incorrect. Based on discussion with the financial aid staff, they indicated that they do not sufficiently know and understand Banner in order to make or suggest the updates that need to be made. Another concern is the financial aid staff is not receiving training and have admitted to not understanding the eligibility criteria for various grants and scholarships.

__Recommendation:__ Access rights to the Banner ERP system need to be reviewed for all members of the financial aid staff. Each employee should have access rights granted that are in line with his/her job duties and responsibilities. Management should hire or assign knowledgeable staff to review the business rules in the Banner system to ensure the processes are working properly. Appropriate ECSU staff should be trained on how to create and update the business rules. All overrides should have documented secondary review and approval.

__Management response__: Access rights will be reviewed and reassigned by the Director of Financial Aid and/or the Interim Assistant Vice Chancellor for Enrollment Management, as appropriate in collaboration with responsible IT security. An evaluation of current staff skill sets will be assessed to determine if hiring additional staff to review Banner business rules is necessary. Staff will receive Banner training and ensure that all overrides have a documented secondary review and approval.

This recommendation will be implemented no later than December 15, 2016.

FINDING 19: GAINFUL EMPLOYMENT REPORT NOT SUBMITTED TIMELY

Institutions must report to the Department of Education (DoED) certain information about all students who enrolled in academic programs identified as Gainful Employment Programs (GE Programs). ECSU's Financial Aid Office did not timely submit all the required reporting data to the DoED. As a result, ECSU was not in compliance with the regulatory requirements. Failure to comply with the Gainful Employment reporting requirements can result in the DoED taking administrative action against the institution. Such administrative actions could include a fine, or the limitation, suspension, or termination of the institution's eligibility to participate in the Title IV, HEA programs.

In order to be eligible for federal funding as a Title IV program, an educational program must lead to a degree (associate, bachelor's, graduate, or professional) or prepare students for "gainful employment in a recognized occupation" (GE Programs). Regulations published in the Federal Register on October 31, 2014, established GE Program reporting requirements that were effective in 2015. These regulations require institutions that participate in the Federal student financial assistance programs to report certain information about an institution's GE Programs and the students who enrolled in those programs. State institutions must report by award year (from July 1 to June 30), and the initial report was due July 1, 2015, for the six award years from 2008-2009 to 2013-2014. A subsequent report for the 2014-2015 award year was due October 1, 2015.

Prior to the reporting due date, the DoED provided notice and guidance on their website about Gainful Employment regulations. In addition, UNC General Administration staff provided financial aid guidance and reminders to UNC campuses about the reporting requirements. However, on September 22, 2015, the DoED sent a letter to ECSU notifying the Chancellor that the university was not in full compliance with the requirements.

In the months leading up to the reporting due date, ECSU experienced turnover in the Financial Aid Office's leadership. Based on interviews and documents provided, the Financial Aid Director hired in August 2015 was assigned the task of obtaining the required data and submitting the reports. According to supporting documents, all student data for all award years was submitted on September 25, 2015. However, it was not until after the DoED sent another letter on October 9, 2015, stating the university was still not in full compliance, that Financial Aid Office learned they also had to submit data to certify the institution's GE programs. According to supporting documents, the program data was submitted on October 16, 2015.

While we found no evidence that the DoED fined ECSU or suspended or terminated the institution's eligibility to participate in the Title IV programs, the DoED did put temporary limits on the institution's program until the reporting requirements were met. However, the lack of administrative ability to complete the report timely did put the university at risk of receiving a more severe penalty.

**Recommendation:** Proper procedures and adequate planning should be put in place to ensure required federal reports are completed accurately and timely. Consideration should be given to

training staff so that multiple staff members are aware of the requirements and are capable of gathering the information needed to complete and submit the report. Formal written policies and procedures for the reporting process would be useful guidance for current and future staff.

*Management response***:** The Director of Financial Aid and the Interim Assistant Vice Chancellor for Enrollment Management will adequately plan for the timely submission of all required federal reports. Staff will receive training and planning procedures will be incorporated in the policy and procedure manual currently being developed for the Office of Financial Aid.

This recommendation will be implemented no later than December 15, 2016.

FINDING 20: NO TRAINING PROGRAM OR CURRENT POLICY AND PROCEDURES MANUAL

Financial aid staff was asked about the training they received related to financial aid requirements and processes. All indicated that a formal training program was not in place, nor was there currently a planned training schedule. They also indicated that they primarily receive on-the-job training that includes assisting each other, conducting independent research, locating online training materials and webinars and following written notes provided by former staff. However, the staff also stated that written notes/guidance does not exist for all procedures.

While a written policies and procedures manual exists, the director noted that much of it is out-of-date or lacks sufficient details. The Financial Aid Director stated she wants to update the manual.

The lack of a formal training program and up-to-date written training materials puts the university at significant risk of making inaccurate decisions when awarding financial aid.

Recommendation: The Financial Aid Office should develop a formal training program for staff and update the policies and procedures manual. Consideration should be given to creating procedures with sufficient details to guide staff in their key duties.

*Management response***:** Management concurs with the recommendation. As noted in previous responses, the Director of Financial Aid is currently developing a policy and procedure manual for the Office Financial Aid to ensure compliance with all applicable financial aid administration regulations. Staff training will be coordinated by the Interim Assistant Vice Chancellor for Enrollment Management.

This recommendation will be implemented no later than December 15, 2016.

FINDING 21: LACK OF PERFORMANCE EVALUATIONS AND CURRENT JOB DESCRIPTIONS

Documents obtained from ECSU's Department of Human Resources indicate that 2012 was the last time financial aid staff received an annual performance evaluation. In addition, many of the staff members said their job duties have changed over the past year and the current position descriptions do not match their current job duties.

The Financial Aid Office has also undergone turnover in leadership. During the recent transition, some staff was directed to report to the Financial Aid Director and others (two staff) to the Assistant Vice Chancellor for Enrollment Management. This created confusion among the director, assistant director, and staff as to their reporting relationship and the review/supervision duties. Although the reporting relationships were changed at the end of October and all financial aid staff now report to the director, the staff indicated in interviews that much of the work to prepare aid for the 2015-2016 year received little to no review and supervision.

Recommendation: Job descriptions need to be evaluated for each employee and updated, as considered necessary, to adequately communicate expectations that will set the basis for the performance management process. Evaluations of all employees should be conducted in accordance with ECSU Human Resources Policy, UNC Policy, and the Office of State Human Resources (OSHR) Performance Management Policy. ESCU is expected to have performance management practices that are consistent with OSHR policy. Supervisors and managers are responsible for managing the performance of their employees.

Management response: The new Interim Assistant Vice Chancellor for Enrollment Management will be reviewing the current organizational structure and will be communicating clear roles and responsibilities for all financial aid staff. Written expectations that align with job duties will be provided to each staff member to facilitate the performance management process. Employee evaluations will be conducted in accordance with ECSU Human Resources, OSHR and UNC Policies.

This recommendation will be implemented no later than December 15, 2016.

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Central University

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North Carolina
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at Pembroke

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University

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and Mathematics

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February 16, 2016

Ms. Lynne Sanders
Vice President for Compliance and Audit Services
UNC General Administration
140 Friday Center Drive
Chapel Hill, NC 27517

Dear Ms. Sanders:

I have reviewed the findings and related campus responses to the Operational and Administrative Review of Financial Aid Administration and Office of Admissions at Elizabeth City State University (ECSU). The findings reported are of great concern and I take them very seriously. I am pleased, however, with responses from management at ECSU and their commitment to implementing timely corrective action. The success of each one of our campuses is important to the University and we are unified in our commitment to correct known deficiencies and ensure proper internal controls are in place to ensure the integrity of University operations.

To ensure that ECSU moves forward in a positive manner, I would like to report UNC-GA's efforts in helping to stabilize the operations of the campus. When Chancellor Conway accepted an interim appointment at ECSU, he requested assistance to meet this goal. In support for Chancellor Conway and Elizabeth City State University, we have coordinated with East Carolina University (ECU) to assist ECSU by supporting collaborative system efforts to build greater capacity throughout ECSU's student support and operational units. Fayetteville State University, NC A&T State University, NC State University, and UNC Charlotte will provide supplemental assistance in collaboration with ECU, as requested by ECSU.

This collaborative endeavor started in earnest in mid-January when Chancellor Conway met with senior leadership at UNC-GA and ECU. He outlined three very specific priorities to stabilize ECSU operations. They included 1.) Refreshing admissions processes and procedures to become more customer-focused; 2.) Completing a comprehensive review of Financial Aid processes, procedures and allocations to ensure compliance with federal and state regulations; and 3.) Analyzing the feasibility of transitioning additional back office information technology services to ECU or UNC-GA. Our timeline for providing this assistance could last up to one year.

We appreciate the opportunity to provide this response. As internal audit follow ups occur at the campus, we will continue to review and monitor implementation of corrective actions.

Sincerely,

Junius J Gonzales
Interim President

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910 Raleigh Rd.
Chapel Hill, NC 27514

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To: Junius Gonzales, Interim President

CC: Walter Davenport, Board of Governors Audit Committee Chair
John Leydon, Vice President for Information Resources and CIO
Charlie Perusse, Senior Vice President and Chief Operating Officer
Lynne Sanders, Vice President of Compliance and Audit Services
Beth Wood, State Auditor
Michael Burch, Office of the State Auditor Information Systems Audit Manager
Council of Internal Auditing

From: Joyce Boni, Chief Audit Officer

Date: February 11, 2016

Re: Second Follow-up of the State Auditor's Banner Hosting Services IT General Controls Audit

Internal audit has completed a second follow-up on the State Auditor's December 2013 IT general controls audit of the UNC-GA's Banner Hosting Services. An initial follow-up on the recommendations and management responses was issued by internal audit in June 2014 and noted improvements had been made but not all planned changes had been implemented. The objective of this follow-up is to assess if the remaining corrective actions have been implemented by management.

The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* was utilized as the guiding principles for this work. In accordance with these *Standard*s, internal audit is to monitor and ensure management actions have been effectively implemented or, if not, senior management is aware of and has accepted the risk of not taking action. This letter is the result of our fieldwork that was completed on November 17, 2015, and limited to the issues reported by the State Auditor.

The Office of the State Auditor (OSA) noted network security deficiencies considered reportable under Government Auditing Standards. Due to their sensitive nature and as provided by General Statute 132-6.1(c), a summary of these issues and the related follow-up status has been provided in a separate letter and should be kept confidential. However, the OSA's findings and recommendation related to deficiencies in UNC-GA's information technology (IT) governance practices, along with management's initial response, the initial internal audit follow-up results, and the results from this second follow-up are summarized below.

When considering the specific follow-up results provided below, it is important to note that since the OSA audit the UNC-GA IT staff has been working with campuses to implement significant upgrades to the hosted environment's hardware, infrastructure, and network. IT management deemed these upgrades as a critical step that needed to be in place prior to implementing some of the specific OSA recommendations that have not yet been fully resolved.

OSA Finding 1: Key Data Security and System Availability Standards are not Defined and Included in Written Agreements

The service level agreements (SLA) between UNC-GA and the universities receiving Banner hosted services did not define and include key areas such as: disaster recovery, security monitoring, incident response and reporting, and dispute resolution. In addition, UNC-GA lacked at signed agreement with the Western Data Center and the signed agreement with ECSU referred to a different university.

OSA Recommendation: UNC-GA should update the existing SLA to address all key areas, complete an agreement for use of the Western Data Center, and correct the SLA with ECSU.

Response to OSA: UNC-GA agreed. An updated SLA template covering the services to each institution was being drafted and expected to be complete January 15, 2014. The draft would be forwarded to each campus and after their review, a new SLA would be sent for their signature. A MOU was created and signed with the Western Data Center and an updated SLA was executed with ECSU.

Status per the initial internal audit follow-up: A Service Level Agreement (SLA) template was updated, but was still in draft form and needed to be approved and signed by each host campus. The MOU with the Western Data Center was executed and the SLA with ESCU was updated.

Status as of the second internal audit follow-up: The issue described by OSA is resolved.

This follow-up focused on whether the SLA template was final, included key areas noted in the OSA finding, and was signed by each hosted campus.

For the areas noted in the OSA finding, the issue of defining and including the key standards in writing is resolved. Based on internal audit's review, the SLAs have been updated and include or refer to other documents that include the key standards noted in the OSA's finding 1 recommendation. For example, the current agreements include:

- Provisions for facilitating disaster recovery testing and related recovery time and recovery point objectives;
- A general definition of security events to be monitored, general timing of security reports, and refers to a document that covers incident response procedures; and
- A section that addresses the dispute resolution process.

Updates made to the fiscal 2015 agreements were signed by all hosted campuses. Internal audit also noted further updates were made to the fiscal 2016 agreement and, at the time of the review, all but one campus has signed the 2016 agreement.

Although the issue described by OSA is resolved, internal audit noted a related matter during this review. Some of the UNC-GA responsibilities that are defined in the hosted services agreement are not being executed as planned. For example, disaster recovery tests for each campus and certain security monitoring are not being regularly performed. UNC-GA staff stated these were put on hold until critical system upgrades were implemented. However, this means UNC-GA is technically not in compliance with its contractual obligations.

The *International Organization for Standardization (ISO) 27002 Information Technology – Security Techniques: Code of Practice for Information Security Management* has been adopted as the foundation for the University's IT security. Section 12.3 of *ISO 27002:2013* discusses backup procedures to protect against loss of data, including regularly testing the back-up media and restoration process to ensure it can be relied upon in an emergency situation.

Section 18.1.1 of *ISO 27002:2013* states all relevant contractual requirements and the organization's approach to meet those requirements should be identified and documented. The specific procedures and individuals responsible for meeting the requirements should be defined and documented.

Specifics about security monitoring are provided in a separate, confidential letter to management.

Further recommendations: Management should develop a plan to implement the responsibilities defined in the signed agreements. In addition, the plan should be monitored to ensure the procedures are being performed for each hosted campus and are sufficiently designed to comply with UNC-GA responsibilities stated in the agreements.

Management response: Management agrees that the issued described by OSA is resolved. Work on this finding per the original audit is therefore complete.

In regards to the "further recommendations" from UNC-GA internal audit, due to the nature of the items, specifics will be addressed outside of this public report. However, a comprehensive plan for implementing necessary procedures has been prepared.

OSA Finding 2: Long-Term Preservation of Financial Data not Made

The current backup configuration is not designed to address long-term archival needs. Active backups are overwritten multiple times within an accounting cycle. The system does not adequately address the requirements for campuses to preserve data for multiple years. UNC-GA has not communicated with campuses to determine their specific archival needs.

OSA Recommendation: UNC-GA should communicate with campuses to determine long-term data retention requirements. The agreement with each campus should document the frequency for creating archives and the storage media to use, security requirements of the archives, and the party responsible for physically maintaining offline data archives.

Response to OSA: UNC-GA agreed. An updated SLA was being drafted to include the responsibility for LT archiving and offsite storage. The draft SLA was expected to be complete January 15, 2014. The draft would be forwarded to campus and after their review, a new SLA would be sent for their signature.

Status per initial internal audit follow-up: A SLA template was updated, but was still in draft form and needed to be approved and signed by each host campus.

Status as of the second internal audit follow-up: The issue described by OSA is resolved.

This follow-up focused on whether the SLA template was final, properly addressed the long-term archival needs, and was signed by each hosted campus.

Based on internal audit's review of the updated SLA documents, the LT data retention requirements have been assigned to the campuses. This responsibility was communicated in the revised, fiscal 2015 SLA that was provided to and signed by each hosted campus.

OSA Finding 3: No Formal Training Process and Confidentiality Agreement

Formal technical and security awareness training and information regarding confidentiality was not provided to employees working with Banner Hosting Services.

OSA Recommendation: UNC-GA should develop a formal security awareness program for staff, and include general security training and risks specific to the hosted environment. Training to communicate updates should occur annually or after major changes. Also, provide annual training to staff on state and federal regulations for hosted data and have staff sign confidentiality agreements covering student and financial data in the hosted environment.

Response to OSA: UNC-GA agreed. Staff was developing an annual security awareness and sensitive data handling training program. A general rollout was expected by March 15, 2014, with an earlier rollout

to technical staff in the host environment. As part of the training program, staff would develop a blanket confidentiality agreement for employees.

Status per the initial internal audit follow-up: A training program using videos was set-up and available to personnel who support and use data from the hosted environment. UNC-GA developed an employee confidentiality/non-disclosure agreement.

Status as of the second internal audit follow-up: The issue is partially resolved.

This follow-up focused on the following:

- What policies and procedures are in place to ensure the video training is taken by appropriate parties;
- Whether the video training was taken by employees working with Banner Hosting Services;
- What policies and procedures are in place to ensure the confidentiality/non-disclosure agreements are signed by appropriate parties; and
- Whether the employees working with Banner Hosting Services have signed the confidentiality/ non-disclosure agreement.

Security awareness training has been developed but formal, written policies, including requirements for annual training are not in place. Confidentially agreements have been developed, but not signed by all IT staff. In addition, formal, written policies for obtaining and maintaining the signed agreements are not in place.

Training
By May 2014, UNC-GA had developed security awareness training. Procedures are in place to monitor if the training has been taken, and internal audit was able to verify that UNC-GA IT personnel who support and use data from the hosted environment have taken the initial training. However, the OSA recommendation also states the training should be annual, and UNC-GA has not yet established procedures for annual security awareness training. Internal audit also noted management does not have formal, written policies and procedures that establish organization-wide expectations for security awareness training.

The *International Organization for Standardization (ISO) 27002 Information Technology – Security Techniques: Code of Practice for Information Security Management* is the foundation for the University's IT security. Section 5.1.1 of *ISO 27002:2013* states information security policies should be developed to define expectations and such policies should be approved by management, published and communicated to relevant users. In addition, section 7.2.2 provides guidance on establishing policies and procedures for security awareness training and indicates, as procedures are developed, consideration should be given to: employee roles when identifying training needs; when the initial training and periodic training should occur; and the need to regularly review and update the training materials.

Confidentiality/Non-disclosure
In May 2014, the IT department developed a confidentiality/non-disclosure agreement to cover all IT operations, including the Banner hosted environment. Per the Associate CIO of IT Administration and Infrastructure, all IT staff and consultants are expected to sign an agreement.

Internal audit noted the following:

- Not all current IT employees and consultants have signed a confidentiality/non-disclosure agreement. The auditor identified four staff that has not signed an agreement. Two were hired between November 2014 and July 2015, and two were on staff prior to November 2014.

- Formal, written policies and procedures are not in place to define who should sign an agreement or the expectations for obtaining and maintaining the signed agreements.

Guidance in section 7.2.1 of *ISO 27002:2013* provides that management is responsible for ensuring all employees and contractors are informed of their responsibilities and the organization's expectations for information security and confidentiality.

Further recommendations: Management should refer to the ISO guidance to develop organization-wide, and if necessary departmental level, policies and procedures for security awareness, education, and training. Policies should clearly define expectations, be approved by management, then published and communicated to relevant users. As such policies and procedures are developed, consider the following: the employees' roles when defining who should take training and what training they need, when training should be scheduled and how often, and regular reviews to keep training materials up-to-date and relevant.

If management expects employees and contractors to sign confidentiality/non-disclosure agreements, formal procedures should be developed to ensure such agreements are signed by all personnel who support and use data from the hosted environment. In addition, consideration should be given to whether this also applies to users outside the IT department; such as, other UNC-GA staff that use student and financial data from the hosted environment.

Management response: The issue of confidentiality statements has been resolved. All UNC-GA IT employees who perform work associated with Banner Hosting had signed the confidentiality agreement prior to the second internal audit follow-up. This was the population of employees who were the subject of the finding.

UNC-GA IT management felt the suggestion in the finding valuable and expanded the scope and asked all of the UNC-GA IT employees to sign the confidentiality statements in order to heighten the general awareness and sensitivity around the proper handling of protected data. Approximately ninety percent (90%) of current IT employees had signed the agreement at the date of the follow-up audit. The only outliers (approximately 5) were new employees from outside the hosting environment, employees who did not work with student or financial data within the hosting environment, or were very shortly leaving the employment of UNC-GA. Those outliers are now completed or are no longer employed at UNC-GA. Confidentiality agreements have also been sent to all UNC-GA IT staff to be re-signed for 2016.

The issue of providing security awareness training has been resolved. All UNC-GA IT employees who perform work associated with Banner Hosting had completed the training prior to the second internal audit follow-up. This was the population of employees who were the subject of the finding.

Like above, UNC-GA IT management felt the finding valuable and expanded the scope. Accordingly, the general population of UNC-GA employees was asked to complete the security awareness training in order to heighten the general awareness and sensitivity around IT security and the proper handling of protected data. Management agrees the process, including annual training, could be improved by better documentation and through more formal inclusion in the annual HR processes required for employees. We hope to have this process documented and completed with UNC-GA HR by 7/1/2016.

OSA Finding 4: Feedback from Campuses Needed to Assess Performance and Minimize Risks

Written feedback was not collected from campuses related to overall performance in order to help improve hosted services. The most recent annual IT risk assessment (dated 2011) did not consider Banner Hosted Services in its analysis.

OSA Recommendation: Agreed upon metrics that drive the hosted services governance should be defined in the SLA. UNC-GA should regularly review the hosted services performance against the defined metrics and implement a formal method to gather feedback from campuses regarding the performance of the hosted services and risks the campus has identified in their own risk assessment. The feedback should be incorporated into a periodic review of the SLA. In addition, perform an annual risk

assessment that includes the hosted services, share information with affected campuses, and work with campuses to implement a plan to address risks.

Response to OSA: UNC-GA agreed. A formal method to receive written feedback was expected to be in place March 1, 2014. A new version of the risk assessment that includes a discussion of the hosted environment was posted to the UNC-GA website.

Status per the initial internal audit follow-up: The SLA template was updated to clarify overall governance, to review established performance metrics, and stated an annual risk assessment would be performed. However, the SLA was still in draft form. The risk assessment (dated May 2013) was updated to include Banner Hosted Services. To obtain feedback from hosted campuses, staff developed a document that was to be sent out in July 2014.

Status as of the second internal audit follow-up: The issue is partially resolved.

This follow-up focused on the following:

- Whether the SLA template was updated to include or reference a document that defines the agreed upon metrics and regular performance review for the hosted services;
- Whether performance of the hosted services is regularly evaluated; and
- Whether risks for the hosted services is evaluated and communicated between UNC-GA and the hosted campus.

The SLA document and UNC-GA's IT risk assessment was updated but performance metrics have not been formally defined and monitored, and no documentation was provided to support that UNC-GA and campuses worked together to assess potential risks.

Internal audit reviewed the current SLA documents and noted the SLA states that a committee of campus representatives will provide overall governance to the hosted services. However, the OSA recommendation also states agreed upon metrics that drive the hosted services should be defined and performance regularly reviewed against the defined metrics. UNC-GA IT staff stated such metrics and regular performance reviews have not been formally established and documented. Instead, expectations and feedback are handled informally in committee meetings or by directly working with a campus on specific issues.

The IT staff also stated performance concerns are addressed as part of an annual survey. Internal audit was able to verify that surveys were sent to campuses to obtain performance feedback. Internal audit reviewed the survey questions, verified the 2014 and 2015 survey documents were sent to campuses, and reviewed a summary of the 2014 survey results. However, the OSA recommendation also mentions getting feedback on risks identified by the campuses. The surveys that were sent did not address campus risks.

UNC-GA's IT risk assessment was updated to include the Banner environment. Internal audit reviewed an October 2014 IT risk assessment and noted the Banner environment is considered in the assessment. The risk assessment is available to campuses via the UNC-GA intranet. Based on a review of the draft document, a 2015 assessment is in process and also considers the Banner environment. However, the OSA recommendation also mentions working in with campuses to devise and implement plans to address risk. No documentation was provided to indicate if UNC-GA has worked with campuses to consider or address possible unmitigated risks of the campus or UNC-GA.

Further recommendations: In relation to formally defining performance metrics and documenting actual performance against those metrics, UNC-GA staff should work with the committee of campus representatives to determine what metrics would be useful to management at the campuses and UNC-GA. The metrics should be designed to evaluate how the overall goals of the hosted services were met, as well as how SLA goals and expectations related to the campuses were met. The performance metrics/goals and

actual results should be documented and shared with UNC-GA and campus management.

In relation to the IT risk assessments, UNC-GA staff should work with the committee of campus representatives to determine if there are unmitigated risks at the campuses or at UNC-GA that need to be addressed and incorporated into a campus' and/or UNC-GA's IT risk assessment. The results of the committee's assessment should be documented and provided to each campus. If any unmitigated risks are identified, communicate the risk(s) and consider providing guidance for addressing the risk(s).

Management response: Agreed upon metrics are in the Banner Hosting SLA. Those metrics state RPO (Recovery Point Objective) and RTO (Recovery Time Objective) parameters for hosted systems and applications. Service metrics were discussed at the Hosting Infrastructure Shared Services Consortium (HISSC) meeting on 1/14/2016. Nine of the eleven campuses represented by the Campus CIOs in the HISSC are Banner hosted schools. The HISSC was satisfied with the metrics as defined in the current SLA. They have provided an email memo to that effect.

Metric requirements will be reviewed periodically with the HISSC and future surveys will address these points more specifically. Management agrees that a more formalized process should be implemented for reviewing annual performance against these metrics. The first release of this process will be drafted by 6/10/2015 and reviewed with the HISSC in the July 2016 meeting.

Another follow-up of the pending matters will be considered once management has had the appropriate time to take corrective action. Internal audit's assessment regarding whether to conduct further work will be based on management's action plans and implementation dates, as well as results from further OSA IT audits of the Banner Hosting Services.

Internal audit thanks the Information Technology staff for their cooperation and assistance in this follow-up. Please feel free to contact me should you have any questions or concerns.