



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

July 22, 2020 at 11:00 a.m.
Via Videoconference and UNC-TV Live Stream
University of North Carolina System Office
Center for School Leadership Development, Board Room
Chapel Hill, North Carolina

AGENDA

- A-1. Conflict of Interest Statement Mark Holton
- A-2. Approval of the Minutes of May 19, 2020..... Mark Holton
- A-3. CARMC Oversight Responsibilities and Operating Procedures Lynne Sanders
 - a. Appendix A - Statutory and Policy Authority
 - b. Appendix B - UNC System Office Internal Audit Charter
- A-4. UNC System Office Internal Audit 2019-2020 Year-end Report..... Joyce Boni
- A-5. Approval of the UNC System Office 2020-21 Internal Audit Plan..... Joyce Boni
- A-6. Update on UNC System Public Safety Training Center Brent Herron
- A-7. Adjourn



DRAFT MINUTES

May 19, 2020

Via Videoconference and UNC-TV Live Stream

This meeting of the Committee on Audit, Risk Management, and Compliance was presided over by Chair James L. Holmes, Jr. The following committee members, constituting a quorum, were also present: Carolyn Coward, Thomas H. Fetzer, Mark Holton, and Robert A. Rucho.

Chancellors participating were Sheri Everts and Interim Chancellor Brian Cole.

Staff members present included Lynne Sanders, Thomas Shanahan, and others from the UNC System Office.

1. Call to Order and Reading of Conflict of Interest Statement (Item A-1)

The chair called the meeting to order at 4:00 p.m., on Tuesday, May 19, 2020, and read the Conflict of Interest Statement. The chair then called upon Lynne Sanders to read the roll.

2. Approval of the Minutes of April 16, 2020 (Item A-2)

The chair called for a motion to approve the open session minutes of April 16, 2020.

MOTION: Resolved, that the Committee on Audit, Risk Management, and Compliance approve the open session minutes of April 16, 2020, as distributed.

Motion: Thomas H. Fetzer

Motion carried

Roll Call Vote	
Holmes	Yes
Coward	Yes
Fetzer	Yes
Holton	Yes
Rucho	Yes

3. Approval of Policy on Insurance Coverage (Item A-3)

The chair called on Mark Holton to present item A-3. Mr. Holton thanked Chair Holmes and called on Thomas Shanahan to present the Policy on Insurance Coverage. Mr. Shanahan summarized the policy, which will require institutions to have property coverage that shall consist of “all risk special form” or its equivalent. In addition, the policy will require minimum standards for other special coverages to be established by the president based on the needs of the UNC System and the constituent institutions. Finally, the policy provides the president discretion to grant limited exceptions to the minimum standards according to the established guidelines. The policy will have a January 2021 effective date.

MOTION: Resolved, that the Committee on Audit, Risk Management, and Compliance approve the Policy on Insurance Coverage and recommend it to the full Board of Governors for a vote through the consent agenda at the next meeting.

Motion: Thomas H. Fetzer

Motion carried

Roll Call Vote	
Holmes	Yes
Coward	Yes
Fetzer	Yes
Holton	Yes
Rucho	Yes

4. Update on UNC System Public Safety Training Center (Item A-4)

The chair called on Brent Herron to present item A-4. Mr. Herron presented an update on the UNC System Public Safety Training Center located at the Samarcand Training Academy in Jackson Springs, NC. Mr. Herron explained that the UNC System Office had hired a temporary training coordinator in April 2020 to work with the staff at the Samarcand Training Academy; however operations at the facility have been halted due to COVID-19 until May 27, 2020. Once the facility begins operations, the training coordinator will be able to work with the staff to schedule training in the six areas of instruction discussed earlier this year.

This item was for information only.

5. Presentation of Audit Reports from the Office of the State Auditor (Item A-5)

Chair Holmes welcomed State Auditor Beth Wood, who then provided the committee with an overview of the work her office executed at the System’s 16 universities, the UNC System Office, and the North Carolina School of Science and Mathematics during the 2019 fiscal year. The overview included comments on the twenty-two audit reports on the institutions’ financial statements and federal compliance audits her staff performed during the past year. After answering questions from the committee, the members thanked Auditor Wood for the work her office does and for the update she provided.

This item was for information only.

6. Adjourn

There being no further business, the meeting adjourned at 4:28 p.m.

Terry Hutchens, Secretary



AGENDA ITEM

A-3. CARMC Oversight Responsibilities and Operating Procedures Lynne Sanders

Situation: Oversight responsibilities and operating procedures for the Committee on Audit, Risk Management, and Compliance (CARMC) are being presented for review and approval.

Background: As required by North Carolina General Statutes, the North Carolina Council of Internal Auditing, and the standards prescribed by The Institute of Internal Auditors, both the committee and the internal audit function should have a charter to outline its respective roles and responsibilities. The CARMC Oversight Responsibilities and Operating Procedures outline roles and responsibilities for the committee and the internal audit function for the UNC System Office.

Assessment: Oversight responsibilities and operating procedures for CARMC are included with the materials for review and approval.

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

Committee Oversight Responsibilities and Operating Procedures

I. Background and Authority

The Committee on Audit, Risk Management, and Compliance (CARMC) is a standing committee of the Board of Governors. The committee acts on behalf of the Board of Governors to provide independent oversight of the University's audit, risk management, and compliance functions as well as the University's internal control practices. The committee shall be supported and staffed by the University's legal affairs, internal audit, and risk management/compliance staff, whose roles and responsibilities shall be defined and described by the president.

The committee also has access to other members of management and employees, and relevant information across the UNC System that the committee considers necessary to discharge its oversight responsibilities.

The legislation and policies relevant to the committee's jurisdiction and oversight responsibilities are set forth in Appendix A.

The committee's oversight responsibility with respect to the UNC System Office internal audit function is set forth in the charter attached as Appendix B.

II. Purpose

The purpose of CARMC is to act on behalf of the Board to provide structured, systematic oversight of the University of North Carolina System's audit, risk management, and compliance activities, as well as the University's internal control practices. The committee does not exercise decision-making authority on behalf of the University. It is the responsibility of management at the System Office and at each constituent institution to maintain programs and systems of internal audit, risk management, compliance, ethics, legal affairs, and internal controls. The committee exercises oversight responsibilities on behalf of the Board as defined herein and makes reports and recommendations to the Board related to:

- A. The integrity of the University's annual financial statements.
- B. The University's systems of internal control and management practices.
- C. The internal audit function, external auditors, firms, and other providers of assurance.
- D. The University's compliance with legal, regulatory, ethics, conflict of interest, and policy requirements.
- E. The University's information governance and security program.
- F. Designation of special responsibility constituent institutions.
- G. The required elements of University associated entities.
- H. System-wide enterprise risk management and compliance processes.
- I. Campus safety and emergency operations.

III. Organization

The chair of the Board of Governors selects the committee members and designates the committee officers after evaluating the members' collective competencies and balance of skills. As provided in *The Code* of the University of North Carolina, the committee shall consist of voting members and be appointed from the membership of the other standing committees. A quorum for the committee will be a majority of the voting members. The CARMC members:

- A. Must be independent of the UNC System or associated entity management and free of any relationship that would impair the members' independence.
- B. May not receive, directly or indirectly, consulting, advisory, or other fees from any of the constituent institutions, affiliated entities, associated entities, the UNC System Office, or outside contractors hired to perform special engagements.
- C. Should collectively possess sufficient knowledge of audit, finance, higher education, information technology, law, governance, risk, compliance, and principles of internal control in order to respond to regulatory, economic, reporting, and other emerging developments and needs.
- D. Should adhere to the UNC System's code of conduct and values and ethics established by the UNC System. It is the responsibility of the committee members to disclose any conflict of interest or appearance of conflict of interest to the CARMC chair.
- E. Are obligated to prepare for and participate in committee meetings, as provided in Section 200.7 of the UNC Policy Manual.

IV. Meetings

The committee shall meet no fewer than four times a year. The committee will invite, when needed, the president of the University, the chancellors of the constituent institutions, external and internal auditors, representatives of the Office of the State Auditor, and others to attend the meetings and provide pertinent information as required and requested. The committee will communicate its information requirements, including the nature, extent, and timing of information. The committee expects all communication with UNC System leadership and staff, as well as external assurance providers, to be direct, open, and complete.

The committee chair will collaborate with the president, the general counsel, the vice president for Compliance and Audit Services, and the UNC System chief audit officer to establish a work plan that ensures the responsibilities of CARMC are properly scheduled and carried out. Meeting agendas and related materials will be prepared and provided in advance to members. Minutes will be prepared in accordance with applicable requirements.

V. Education

The president and the designated committee staff are responsible for providing the committee with educational resources related to auditing, compliance, risk management, accounting principles and practices, legal and regulatory requirements, ethics, conflicts of interest, and other information that the committee may require. The University's vice president for Compliance and Audit Services and the general counsel will assist the committee in maintaining literacy in the appropriate areas related to the committee's function.

VI. Duties and Responsibilities

The following shall be the principal duties and responsibilities of this committee:

- A. General
 - 1. Adopt and annually update a formal written document describing the committee's responsibilities and operating procedures for approval by the Board of Governors. The operating procedures shall describe the scope of the duties and responsibilities of the committee, the structure of the University's functions within the committee's oversight responsibilities, and the basic responsibilities of management with respect to each function.

2. As needed, recommend for approval by the Board of Governors and issuance by the president annual guidance, initiatives, and areas of focus for the relevant committees of the boards of trustees of the constituent institutions in the areas of internal audit, risk management, ethics, and legal and regulatory compliance.
 3. Hold meetings in accordance with the requirements of the Open Meetings Act.
 4. Report committee oversight activities to the Board of Governors, along with advice and recommendations as the committee may deem appropriate.
 5. Oversee, authorize, and/or hear reports concerning investigations into any matters within the committee's scope of oversight responsibility. The committee will ordinarily expect management to conduct investigations within its oversight responsibility. When deemed necessary by the Board of Governors on the committee's recommendation, the committee may authorize independent auditors and others to conduct investigations and deliver reports.
 6. Review and monitor implementation of management's response to recommendations by internal and external audit or other assurance providers.
 7. Review and/or recommend policies to the Board that support the internal audit, risk management, governance, compliance, ethics, and legal functions.
 8. Consider and advise regarding the effectiveness of the University's internal control system in responding to risks, including information technology governance and security.
 9. Perform other oversight responsibilities assigned by the Board of Governors.
- B. Financial Statements. Management is responsible for the preparation, presentation, and integrity of the University's financial statements and for the appropriateness of the accounting, internal control, and reporting policies used by the University. The Office of the State Auditor currently conducts the annual audits of the University's financial statements, which includes financial statement audits of each of the constituent institutions and the UNC System Office. The following shall be the principal duties and responsibilities of the committee regarding the financial statements of the University, including its constituent institutions:
1. Receive an annual overview from the State Auditor or a designated representative regarding the annual audits (financial and compliance) of the constituent institutions. Review the results of the UNC System Office's independent financial statement audit by the State Auditor, including any difficulties encountered and reportable issues.
 2. Resolve any differences between management and the State Auditor regarding financial reporting and other matters.
 3. Review with management and the University general counsel any legal matters (including pending litigation) that may have a material impact on the University's financial statements and any material reports or inquiries from regulatory or governmental agencies.
- C. External Audit/Outside Auditors. In addition to the annual financial statement audits (noted above), the Office of the State Auditor conducts federal compliance audits of select institutions on an annual basis, and may, on occasion, conduct other audits or investigations of the University. Other external auditors may also be engaged by the UNC System Office or by the constituent institutions for particular projects and matters. With respect to any such external audits, the committee's responsibilities are as follows:
1. Review significant audit-related communications from the Office of the State Auditor or, as necessary, other external audit groups or firms with respect to the University and the constituent institutions. Meet separately with the external auditors or firms, if necessary, to discuss sensitive and any other matters that the committee or auditor believes should be discussed privately.

2. Review reports on the progress of implementing approved management action plans and audit recommendations resulting from completed audit engagements.
3. Be available to meet during the year with external auditors (the State Auditor, engaged CPA firm, or audit staff) for consultation purposes or to discuss the auditor's judgment about the quality, not just the acceptability, of any accounting principles and underlying estimates in the preparation of a financial statement and other matters required to be communicated to the committee under generally accepted auditing standards.
4. Receive audit reports in those matters where the Board of Governors or the president authorize or request an external audit or other independent review.
5. Where needed and appropriate, as determined by the president or the vice president for Compliance and Audit Services or the general counsel, receive audit reports in those matters where a board of trustees or the chancellor/executive director of a constituent institution or affiliated entity authorizes or requests an external audit or other independent review.

D. Internal Audit

1. Receive, review and approve an annual summary of the internal audit plans submitted by each constituent institution and the UNC System Office.
2. Receive and review an annual summary of the internal audit activities overseen by the audit committee of each constituent institution's boards of trustees. This report will incorporate a summary of audits, reviews, investigations, or special assignments completed by the internal audit department of each constituent institution and the UNC System Office, and will note material reportable conditions and the status of their resolution. In addition, the annual summary will affirm that the structure of each internal audit function across the UNC System aligns with legislative requirements.
3. Serve as the audit committee for the UNC System Office's internal audit function. The committee's oversight is defined in the charter for the UNC System Office internal audit function as set forth in Appendix B.
4. The UNC System Office chief audit officer's appointment or termination of appointment shall be by the president, after consultation and concurrence of the Board of Governors.

E. Legal Affairs, Risk Management and Compliance. It is the responsibility of management, rather than the committee and its members, to ensure adherence to laws, regulations and policies. The responsibilities of the committee regarding the University's legal, risk management, and compliance activities are as follows:

1. Support the efforts, establishment of, and collaboration among the risk management, ethics, and compliance programs within the University, including recommending to the Board University-wide policies regarding internal audit, enterprise risk management, and compliance.
2. Receive regular reports concerning enterprise risk management and compliance activities from the general counsel, the vice president for Compliance and Audit Services, and senior officers.
3. Provide general oversight of the University's adherence to laws, regulations, and policies that pertain to University operations. Review the programs and policies of the University designed by management to assure compliance with applicable laws and regulations.
4. When necessary, meet privately with the general counsel to discuss any matter that the committee or the general counsel believes should be discussed privately.
5. Coordinate with other Board committees as appropriate on legal, risk management, and compliance matters.

F. Other Responsibilities

1. As necessary, monitor the audit finding resolution requirements for special responsibility constituent institutions.
2. Review a summary of the annual financial audit reports of the University's major associated entities.
3. Review the required elements of a University-associated entity relationship.
4. Provide oversight of the UNC System information governance and security program.
5. Oversee management's procedures for the prevention and detection of fraud to ensure appropriate antifraud programs and controls are in place to identify potential fraud and to take appropriate action if fraud is detected.
6. Consult with the general counsel to review legal matters that may have a significant impact on a financial statement, overall financial performance, enterprise risk management, or compliance with applicable state, local, or federal laws and regulations. Review and provide advice on systems, practices, policies and standards of ethical conduct. Identify and manage any legal or ethical violations.
7. Take other actions, as necessary, to ensure that risk exposures are identified and properly managed to assure the integrity of the finances, operations, and controls of the University. These actions include reviewing the established governance processes and advising on related policies and procedures that should be in place.

The committee may modify or supplement these duties and responsibilities as needed.

The committee shall have the authority, subject to the restrictions and requirements of state law, to engage independent counsel or other advisors as necessary to carry out its duties in accordance with state rules and regulations. The committee may also request a supplemental review or other audit procedures by internal audit, the State Auditor, or other advisors when the circumstances dictate that further review is required. The UNC System Office shall provide appropriate funding, as determined by the committee, for payment to advisors employed by the committee.

The committee shall annually review and assess the adequacy of the committee charter, with the assistance of staff at the UNC System Office. The committee chair will confirm annually that the relevant responsibilities in this charter have been carried out.

Mark Holton, Chair

Date

History: Approved July __, 2020.

Statutory and Policy Authority

The legislation and policies relevant to the Committee on Audit, Risk Management, and Compliance's jurisdiction and oversight responsibilities include:

- A. All constituent institutions, affiliated entities, and the University of North Carolina System Office (UNC System Office), are subject to audit by the North Carolina State Auditor under [Article 5A of Chapter 147](#) of the North Carolina General Statutes (G.S.).
- B. Under the authority of [G.S. 116-30.1](#), the Board of Governors may designate a special responsibility constituent institution, by expressly finding that each institution to be so designated has the management staff and internal financial controls that will enable it to administer competently and responsibly all additional management authority and discretion to be delegated to it. The Board, on recommendation of the president, shall adopt rules prescribing management staffing standards and internal financial controls and safeguards.
- C. A special responsibility constituent institution of the University of North Carolina is required by [G.S. 116-30.8](#) to have an annual audit conducted by the North Carolina State Auditor.
- D. The University of North Carolina is required to establish a program of internal auditing pursuant to [G.S. 143-746](#).
- E. [Chapter 600](#) of the UNC Policy Manual establishes financial, reporting, and audit policies, regulations, and guidelines for the University of North Carolina, University-related private foundations, and associated entities.
- F. [Section 1400.2](#) of the UNC Policy Manual assigns the responsibility for oversight of the UNC system Office's information security program to the standing committee with audit responsibility.

UNIVERSITY OF NORTH CAROLINA SYSTEM OFFICE

Internal Audit Charter

A. Purpose, Mission and Scope of Work

The University of North Carolina System Office (UNC System Office) is required to establish a program of internal auditing pursuant to N.C.G.S. § 143-746. The UNC System Office's internal audit function shall be accountable to the Board of Governors through the Committee on Audit, Risk Management, and Compliance (CARMC) and the president.

The purpose of internal audit is to provide independent and objective assurance and consulting services to add value and improve operations of the UNC System Office. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. Internal audit helps the UNC System Office accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, compliance, and governance processes. It provides a central point for coordinating oversight of activities that promote accountability, integrity, efficiency, and compliance.

B. Standards of Internal Auditing

The internal audit function strives to govern itself by adhering to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Definition of Internal Auditing. The chief audit officer reports periodically to senior management and CARMC regarding internal audit's conformance to the Code of Ethics and the *Standards*.

As applicable, the following will also be used to guide internal audit operations: The Institute of Internal Auditors' implementation and supplemental guidance; *Government Auditing Standards* issued by the Comptroller General of the United States; relevant state and University policies and procedures; and the internal audit function's standard operating procedures manual.

C. Authority

The chief audit office will report functionally to CARMC and administratively (i.e., day-to-day operations) to the president or the president's designee. To establish, maintain, and assure that the UNC System Office's internal audit function has sufficient authority to fulfill its duties, CARMC will:

1. Review and approve the internal audit charter, ensuring it accurately reflects the internal audit function's purpose, authority, and responsibility.
2. Review and approve the risk-based internal audit plan.
3. Review internal audit reports and communications with management, as well as management's corrective actions. If necessary, review and resolve any significant difficulties or disagreements on audit related matters.
4. Review periodic summaries regarding the status and/or results of audit activities in relation to the plan, approve any significant deviations to the audit plan, and assure the internal audit function has appropriate budget and resources.

5. Confirm and assure the independence of the internal audit function. The CARMC will make appropriate inquiries of management and the chief audit officer to assure there is no inappropriate scope or resource limitations or restrictions placed on the auditor's work.
6. Monitor the effectiveness of the internal audit function, including the efforts made to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*, the code of ethics, and compliance with the internal audit charter. The CARMC will ensure the audit function has a quality assurance and improvement program, review assessment results, and monitor implementation of recommended improvements.

The chief audit officer will have unrestricted access to, and communicate and interact directly with, CARMC on significant matters, including in private meetings without management present.

The Committee on Audit, Risk Management, and Compliance (CARMC) authorizes internal audit to:

1. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to compliance with the North Carolina General Statutes and accountability for confidentiality and safeguarding records and information.
2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply the techniques required to accomplish audit objectives, and issue reports.
3. Obtain the necessary assistance of personnel in units of the UNC System Office where audits are performed, as well as other specialized services from within or outside the UNC System Office, in order to complete an engagement.

D. Independence and Objectivity

The chief audit officer will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the chief audit officer determines that independence or objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal audit will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. In addition, a balanced assessment will be made of all the relevant facts and circumstances, and the internal audit function will take precautions to avoid being unduly influenced by personal interests or others in forming professional judgments.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment. Internal auditors will not:

1. Assess specific operations for which they had direct responsibility within the previous year.
2. Perform any operational duties for the UNC System Office or its affiliates.
3. Initiate or approve transactions external to the internal audit function.
4. Direct the activities of any of the UNC System Office's employees not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the chief audit officer has or is expected to have roles and/or responsibilities that fall outside of internal auditing, necessary disclosures and/or safeguards will be established to limit impairments to independence and objectivity. Internal auditors will:

1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.

2. Disclose any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

The chief audit officer will confirm to CARMC, at least annually, the organizational independence of the internal audit function.

E. Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to CARMC, management, and outside parties on the adequacy and effectiveness of governance, risk management, compliance and control processes for the UNC System Office. Internal audit assessments include evaluating whether:

1. Risks relating to the achievement of the UNC System Office's strategic objectives are appropriately identified and managed.
2. The actions of officers, directors, employees and contractors are in compliance with policies, procedures, and applicable laws, regulations and governance standards.
3. The results of operations or programs are consistent with established goals and objectives.
4. Operations or programs are being carried out effectively and efficiently, and the results are consistent with established goals and objectives.
5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the UNC System Office.
6. Information (i.e., financial, managerial, and operational) and the means used to identify, measure, analyze, classify and report such information, are reliable and have integrity.
7. Resources are acquired economically, used efficiently, and adequately protected.
8. Significant legislative or regulatory issues impacting the UNC System Office are recognized and addressed appropriately.

The chief audit officer will report periodically to senior management and CARMC regarding:

1. The internal audit function's purpose, authority, and responsibility.
2. The internal audit function's plan and performance relative to its plan.
3. The internal audit function's conformance with the Institute of Internal Auditors' Code of Ethics and *Standards*, and action plans to address any significant conformance issues.
4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, CARMC.
5. Results of audit engagements or other activities.
6. Resource requirements.
7. Any response to risk by management that may be unacceptable to the UNC System Office.

The chief audit officer will strive to coordinate activities, where possible, and consider relying upon the work of other internal and external assurance and consulting service providers to avoid duplication and provide optimal audit services.

The internal audit function may perform advisory and related services to management, the nature and scope of which will be agreed upon, provided the internal audit function does not assume management responsibility. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified and will be communicated to the appropriate level of management.

F. Responsibility

The chief audit officer has the responsibility to:

1. Develop a flexible annual audit plan using appropriate risk-based methodology and consider information security and any risks or control concerns identified by management. The chief audit officer will submit the plan to the president and CARMC for review and approval.
2. Communicate to senior management and CARMC the impact of resource limitations on the internal audit plan.
3. Review and adjust the plan, as necessary, in response to changes in the UNC System Office's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved audit plan will be communicated to the president and CARMC.
4. Ensure the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties. When applicable, internal audit will prepare a written report that communicates the engagement's objective, scope, significant results, recommendations and management's responses.
5. When necessary, assist or conduct the investigation of alleged significant noncompliance, control deficiencies, as well as suspected misuse, fraud or abuse within the UNC System Office and share the results with the president, CARMC, and the appropriate levels of management.
6. When necessary, for any internal or external audit recommendations, solicit corrective actions from management that describes planned actions, including an anticipated timetable for completion or an explanation for any recommendations that will not be implemented. After an appropriate period of time, internal audit will follow-up on engagement findings and corrective actions, and report periodically to senior management and CARMC the status of management's corrective actions, including any corrective actions not effectively implemented.
7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
8. Ensure the internal audit function collectively possesses, obtains, and maintains sufficient knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
9. Ensure trends and emerging issues that could impact the UNC System Office are considered and communicated to senior management and CARMC as appropriate.
10. Ensure emerging trends and successful practices in internal auditing are considered.
11. Establish and ensure adherence to policies and procedures designed to guide the internal audit function and compliance with requirements set forth by the North Carolina Council of Internal Auditing.
12. Ensure adherence to the UNC System Office's relevant policies and procedures, unless such policies and procedures conflict with the internal audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and CARMC.
13. Ensure conformance of the internal audit function with the *Standards*, with the following qualifications:
 - If the internal audit function is prohibited by law or regulation from conformance with certain parts of the *Standards*, the chief audit officer will ensure appropriate disclosures and will ensure conformance with all other parts of the *Standards*.
 - If the *Standards* are used in conjunction with requirements issued by other authoritative bodies, the chief audit officer will ensure that the internal audit function conforms with the *Standards*, even if the internal audit function also conforms with the more restricted requirements of the other authoritative bodies.

G. Quality Assurance and Improvement Program

The internal audit function will maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include an evaluation of the internal audit function’s conformance with the *Standards* and an evaluation of whether internal auditors apply The IIA’s Code of Ethics. The program will also assess the efficiency and effectiveness of the internal audit function and identify opportunities for improvement.

The chief audit officer will communicate to CARMC and senior management on the internal audit function’s quality assurance and improvement program, including significant results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside the UNC System Office.

Joyce D. Boni, Chief Audit Officer

Date

Mark Holton, Chair of CARMC

Date

William L. Roper, Interim President

Date

History of revisions and approvals:

August 2013 (first date tracked in the history), February 2015, May 2015, April 2016, March 2017, May 2018, July 2020



AGENDA ITEM

A-4. UNC System Office Internal Audit 2019-2020 Year-end ReportJoyce Boni

Situation: The chief audit officer is to provide an update on the UNC System Office’s internal audit activities.

Background: The Committee on Audit, Risk Management, and Compliance serves as the audit committee, and thus the oversight authority, for the UNC System Office’s internal audit unit. In this capacity, and as directed by both the committee charter and the internal audit charter, the chief audit officer is to provide the committee with a year-end update on the planned versus actual internal audit activities.

Assessment: **Attachment A** lists the projects on the fiscal 2020 audit plan that were approved by the committee and identifies the status of those projects at the end of the 2019-2020 fiscal year.

Attachment B is a summary of measurements and performance indicators for the UNC System Office’s internal audit function for fiscal 2020. Unless otherwise noted, this summary represents all of the hours the internal audit team provided to the following three entities that the unit serves: the UNC System Office (including UNC-TV), the North Carolina School of Science and Mathematics, and the North Carolina State Education Assistance Authority.

Action: This item is for information only.

UNC System Office Internal Audit Plan

Fiscal Year 2019-2020

Description	Status at 6/30/20
Prior Year Carry Over	
Follow-up of Information Technology Audits: 2017 OSA IT Audit of Banner Hosted Services 2018 Internal Audit of End User Storage and Security Awareness	Issued August 8, 2019 Issued August 29, 2019
IT Data Security Audit of the UNC Datamart (with external audit firm assistance)	Issued September 23, 2019
Investigation of Noncompliance and Misuse of Federal Funds	Issued December 10, 2019
Annual Risk Assessment/FY2020 Audit Plan Development	Completed September 2019
Assurance Engagements	
Review of PCI Compliance at UNC-TV Public Media North Carolina	Issued April 1, 2020
Review of the UNC System Office Contracting Process	Issued June 12, 2020
Monitoring and Reporting on Status of Management Corrective Actions	
Develop a New Tracking, Monitoring, and Reporting Process Conduct Various Follow-up Monitoring <i>(added)</i>	Completed January 2020 Issued April 1, 2020
Investigations	
Investigations of Internal/External Hotline Reports and Similar Complaints	Cancelled Nothing Reported
Special Projects/Consultations/Advisory Service/Other	
Quality Assurance Review Team Participation (assisting NC Office of Internal Audit)	Completed
Consult: Design of UNC-TV Procurement/Purchasing Process	Deferred* Per Management Request
Information Technology Advisory Services	Completed
Human Resources Advisory Services	Completed
Strategy and Policy Advisory Services	Completed
UNC-TV Advisory Services	Completed
Finance Advisory Services <i>(added)</i>	Completed
Academic Affairs Advisory Services <i>(added)</i>	Completed
External Relations Advisory Services <i>(added)</i>	Completed
COVID-19 Related Cost Recovery (CARES Act, FEMA funding) and Reopening/Return to Work Advisory Services <i>(added)</i>	In Process*
Annual Risk Assessment/FY2021 Audit Plan Development	In Process*
Board Meetings/Unit Oversight and Marketing	Completed
Other Advisory Services/Committees: Annual certifications; charter review; CAO/OIA committee meetings; QAIP work; University Hotline development and implementation <i>(added)</i> ; Unit website update <i>(added)</i> ; and Various other routine advisory services to the System Office.	Completed
Professional Development	Completed
Audit Services through MOU with the NC School of Science and Mathematics and the NC State Education Assistance Authority	Completed

* Carried to the FY2021 audit plan

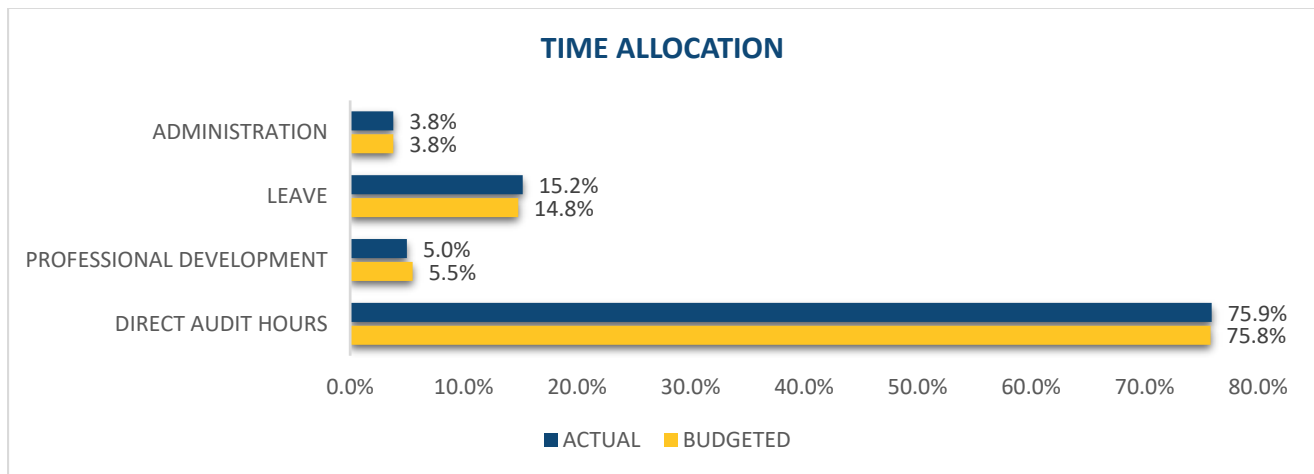
The 2019-2020 Internal Audit Annual Report

In September 2019, the UNC System Office FY20 internal audit plan was approved by the Committee on Audit Risk Management, and Compliance (CARMC) and the Board of Governors (BOG). The planned hours included two full-time audit staff members. The planned projects covered the UNC System Office as well as internal audit services to the North Carolina School of Science and Mathematics (NCSSM) and the North Carolina State Education Assistance Authority (NCSEAA). In accordance with the memorandum of understanding and the internal audit standards, the detailed audit plans for NCSSM and NCSEAA were reviewed and approved by their respective board. Across all three entities, the planned services included assurance and advisory projects that ranged from compliance and operational audits to assessments of internal controls.

As part of our office’s quality assurance and improvement plan, the following metrics are tracked to assess our performance.

Time Allocation

The audit team tracks the time spent on each project for planning and benchmarking purposes. For the year, our goal is to spend at least 75% of our time on direct audit services, which consists of time spent on audits, advisory/consulting services, investigations, and other audit function activities. In the time allocation chart below, the direct audit hours include internal audit shared services to NCSSM and NCSEAA.

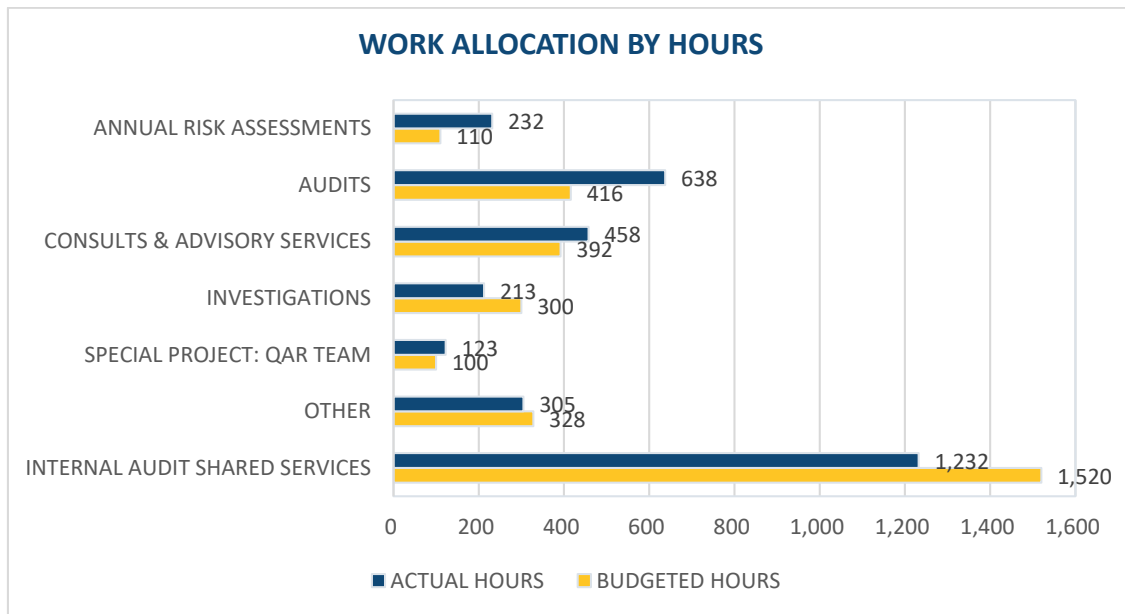


Work Allocation

The audit team tracks the time spent on each type of engagement. The chart below represents the types of engagements conducted for the UNC System Office only, allocated by hours worked. Highlights for each category include:

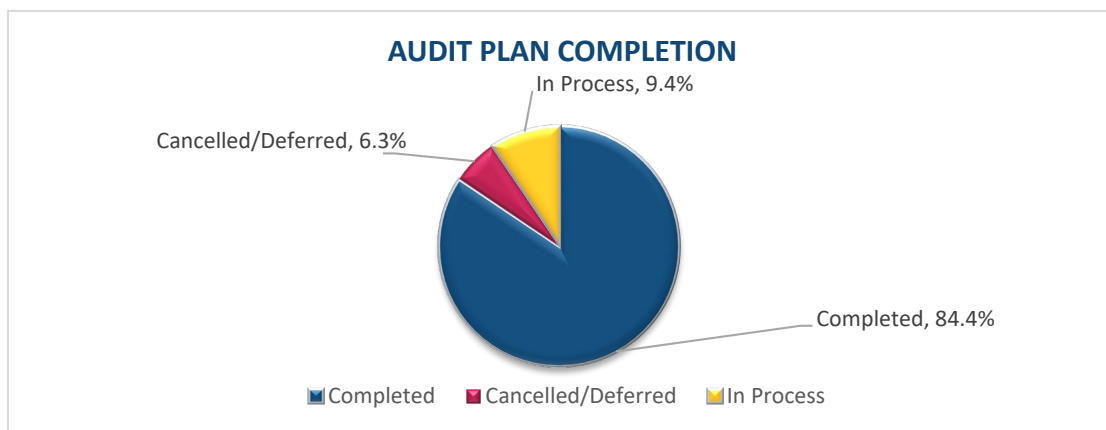
- *Annual Risk Assessments* includes the hours to complete both the FY20 and the FY21 audit plans. Hours are higher than budgeted due to efforts to complete the FY21 audit plan for presentation and approval in July versus September.
- *Audits* includes the planned audit engagements as well as the tracking, monitoring and reporting on the status of management actions taken to correct matters noted in prior audit reports.
- *Consults/Advisory Services* shows an increase in advisory services provided to various departments in order to provide proactive assistance on current events, such as operating changes due to the pandemic. This category also includes board and leadership meetings, as well as charter updates.
- *Investigations* included one investigative audit started in FY19 that was completed during FY20. No new System Office complaints or allegations were filed in FY20, thus the actual hours were less than budgeted.
- *Special Project/QAR Team* represents a special, non-routine participation on a quality assurance review (QAR) team to assist the OSBM Office of Internal Audit’s review of another state agency’s internal audit unit.

- *Other* includes various efforts such as assistance with external auditors, unit management and oversight, self-review/quality assurance work, staff hiring efforts, internal audit marketing, MOU updates, and other routine projects.
- *Internal Audit Shared Services* represents the audit services to NCSSM and NCSEAA. Additional time spent on UNC System Office projects resulted in less time toward the planned services to NCSSM and SEAA.



Audit Plan Completion

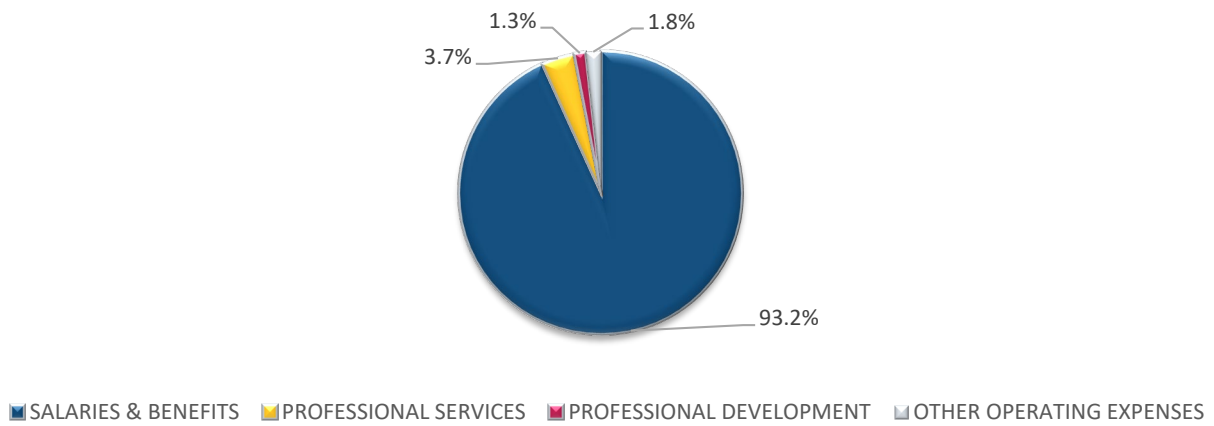
The audit plan completion rate is an indicator of efficiency and alignment with the approved annual audit plan. In FY20, for the UNC System Office, which includes UNC-TV Public Media, the team completed 27 audit projects, cancelled or deferred two projects (one due to no new investigations and one per management’s request) and have three projects in process (charter updates, FY21 audit plan, and COVID-19 cost recovery advisory services) at June 30. The chart below provides a summary of the audit plan’s status of completion by percentage:



Financial Resources

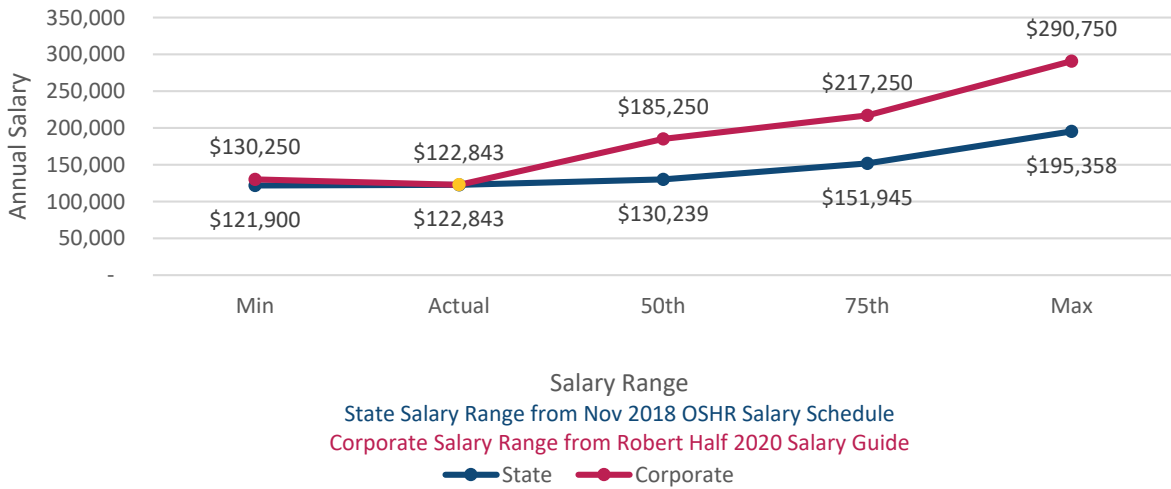
In addition to monitoring metrics, the Internal Audit unit monitors financial activity. Internal Audit is funded by a combination of state funds and the fees charged for the audit services to NCSSM and SEAA. The unit’s total expenditures for fiscal 2020 were approximately \$270,000, with salaries and benefits (approximately \$251,700) being the primary cost. For fiscal 2020, receipts for Internal Audit Shared Services was budgeted at \$97,500, which offsets 38% of the unit’s salaries and benefits. Other operating expenses of approximately \$18,000 included professional IT audit services from an external vendor (which began in FY19 and concluded in FY20), travel and registration fees for staff professional development, association memberships, and other miscellaneous expenditures. The chart below provides a breakdown of the unit’s operating costs for the year:

FY20 INTERNAL AUDIT EXPENDITURES

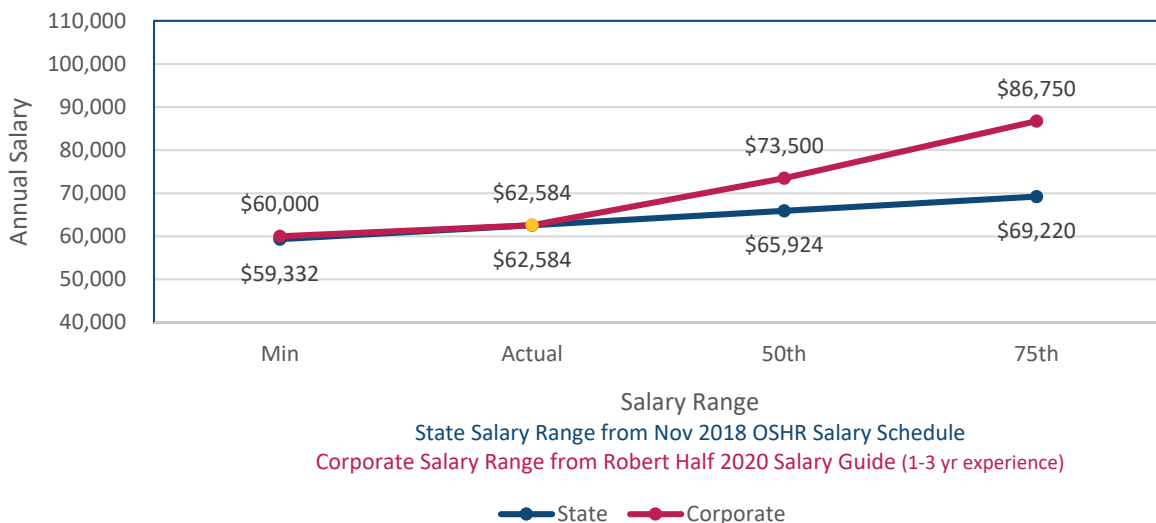


Because salaries can impact employee turnover as well as the ability to hire qualified candidates, the remaining charts compare the chief audit officer (CAO) and internal auditor (journey position) current salaries to the internal audit market salaries per state government and corporate salary sources.

CAO SALARY vs MARKET RATE



AUDITOR SALARY vs MARKET RATE





AGENDA ITEM

A-5. Approval of the UNC System Office 2020-21 Internal Audit PlanJoyce Boni

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

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

Assessment: After reviewing the status of the prior year audit plan and performing a comprehensive risk assessment, which included receiving input from management, the attached plan was created and presents the projects the chief audit officer has identified for the fiscal 2021 audit plan.

New for this year, due to the pending leadership transition and current economic environment, the plan includes time reserved for future needs or special projects that may arise. Once a specific project is determined, the audit plan will be updated and shared with management and the committee.

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



**THE UNIVERSITY OF
NORTH CAROLINA SYSTEM**

Fiscal 2020-2021 Internal Audit Plan

July 2020

Internal Audit Department | UNC System Office

Joyce D. Boni, Chief Audit Officer

Carol Harris, Internal Auditor

UNC System Office Internal Audit Plan
Fiscal Year 2020-2021

Description	Planned Hours
Prior Year Carry Over	
Annual Risk Assessment/FY2021 Audit Plan Development Advisory Services Related to COVID-19 Pandemic	48
Assurance Engagements	
UNC-TV: Purchase Card Review	200
UNC System Office: North Carolina Gift Planning, LLC	200
To Be Determined	150
Monitoring and Reporting on Status of Management Corrective Actions	
Investigations	
Unplanned/Various as occurs: Investigations of internal/external hotline reports and similar types of investigations.	120
Special Projects/Consultations	
Consult: Finance Detective Controls Project	80
Annual Risk Assessment/FY2022 Audit Plan Development	80
Technical Assistance/Other Audit Services	
Advisory Services to Finance: Finance DataMart; COVID-19 Relief Funding; Policy and Procedures Updates	42
Advisory Services to Information Technology: Remote Management Services; Business Continuity/Disaster Recovery Plan; IT Risk Register; Policy and Procedures Updates	20
Advisory Services to Human Resources: Updates to Onboarding Procedures and Learning Management Implementation; FFCA Leave Review; I-9 Documentation; Policy and Procedures Updates	16
Advisory Services to Academic Affairs: Digital Learning Enhancements; Policy and Procedures Updates	12
Advisory Services to Strategy and Policy: NCPFP/TP3; Policy and Procedures Updates	12
Advisory Services to System Office Departments: Continuation of Operations Plan Updates	24
Advisory Services to UNC-TV: R&R Planning; Purchasing Processes; Business Continuity; Policy and Procedures Updates	16
Board Meetings, Unit Oversight, Staff Hiring, MOUs, and Marketing	362
Other Services/Committees: Other routine advisory services to UNC-TV and the System Office; assist external auditors; charter updates; annual certifications; CAO/OIA committee meetings; QAIP work; and other projects to be determined.	186
Total Direct Hours to UNC System Office audit function	1,688
Other Hours	
Professional Development	170
Internal Audit Services to NCSSM and NCSEAA	1,520
Total Hours	3,378

 Bill Roper, Interim President

 Mark Holton, Committee Chair

Summary of the Planned Services

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

The planned hours and projects for this annual plan cover work from July 2020 to June 2021. The estimated hours include an allocation of time for a chief audit officer and one staff auditor. The hiring of another staff audit is contingent on the state budget impact. If during the year we are able to fill the position, the audit plan will be adjusted accordingly. A brief description of the projects are as follows:

Prior Year Carry Over includes the following internal audit projects from the prior year audit plan that have final reports to be issued and/or steps that are required to finalize projects during the beginning of fiscal 2020:

- **Risk Assessment/2021 Audit Plan Development:** This is the annual project to assess risk in order to develop the audit plan for the upcoming fiscal year. Procedures to complete this project will be conducted in the first quarter of fiscal 2021.
- **Advisory Services Related to COVID-19 Pandemic:** Audit staff has participated with a UNC System Office team and an external consultant to assist constituent institutions and affiliates with identifying relief funding for various expenses incurred during this unprecedented time. Also, staff has assisted an internal working group tasked to assess requirements and best practices for resuming onsite operations. Aspects of this work is expected to continue into fiscal 2021.

North Carolina Gift Planning LLC: The North Carolina Gift Planning, LLC was created to assist constituent institutions with the enhancement of their gift planning programs. The internal audit team will review the existing controls over financial transactions to ensure proper reporting to the constituent institutions and controls over contract compliance.

Monitoring and Reporting of Management's Corrective Actions: The internal audit team will obtain regular updates from management regarding the status of corrective actions taken to mitigate risks identified in prior audits (from both internal and external audits). The internal audit team will review and assess what audit tests are necessary to verify the status of actions taken. A summary report will be shared with senior management and the Committee on Audit, Risk Management and Compliance to keep them apprised of the progress of management's corrective actions.

UNC-TV Purchase Card Review: Purchasing cards are necessary for the nature of the business at UNC-TV. The internal audit team will review controls over the purchase card program to ensure compliance with policies and guidelines regarding allowable use.

To Be Determined: Audit hours have been reserved in order to respond to any emerging risks related to the COVID-19 pandemic or returning to onsite operations.

Consult: Detective Controls Project: The internal audit team will provide consultative services to the business office on a special project to identify detective controls the business office wants implemented to improve financial processes.

Annual Risk Assessment: Internal audit will conduct a risk assessment as part of the annual process to develop an audit plan for the 2022 fiscal year. This involves identifying and ranking risks based on management input, current trends, prior audit results, and other factors. The result will be a risk-based audit plan as required by the Internal Audit Charter and the *International Standards for the Professional Practice of Internal Auditing (Standards)* issued by The Institute of Internal Auditors.

Technical Assistance / Other Projects: As needed, internal audit is available to provide technical advice and other services to management and staff as they consider operational changes, re-evaluate current practices and/or develop new processes and procedures. The objective is to provide proactive feedback, as needed, to help ensure effective controls and operating procedures are designed and, where applicable, promote compliance with state, federal, and UNC system rules. Some specific technical assistance that was requested by management include:

- Finance: Internal audit will provide advisory services to the business and finance staff as needed. Topics could include the development of the Finance DataMart, COVID-19 relief funding compliance, and policy and procedures updates.
- Information Technology: Internal audit will provide advisory services to Information Technology staff as needed. Topics could include remote management services, business continuity/disaster recovery plan, IT Risk Register project or policy and procedures updates.
- Human Resources: Internal audit will provide advisory services to Human Resources staff as needed. Topics could include the implementation of a Learning Management System to improve employee training and new employee on-boarding process, implementation and use of special leave categories related to the pandemic in accordance with the Families First Coronavirus Act, and I-9 compliance during remote working condition.
- Strategy & Policy: The NC Principal Fellows Program and the Transforming Principal Preparation Program are combining per legislation effective July 1, 2021. Internal audit will provide advice, as needed, as management prepares for this new combined program. Other advisory services, like policy and procedures updates, will be provided to staff in the Strategy & Policy division as needed.
- Academic Affairs: Internal audit will provide advisory services to Academic Affairs staff as needed. Topics could include the digital learning enhancements provided under the North Carolina COVID-19 Recovery Act or policy and procedures updates.
- System Office Divisions: Internal audit will provide advisory services, as needed, to various System Office departments and units as Continuation of Operations Plans (COOPs) are updated from “lessons learned” from the pandemic and adjustments made to facilitate remote working conditions.
- UNC-TV: Internal audit will provide advisory services to UNC-TV staff as needed. Management requested assistance with contract process flows and purchasing guidance. Other topics could include the development of an annual repair and renovation budget, fundraising strategies for a post-pandemic economy, business continuity, or policy and procedures updates.

Other/Unplanned - Internal audit has reserved time for possible investigations, consults, special projects, technical advisory services, and/or other needs that will likely arise during the year. Specifically, under the assurance engagements, some unplanned time has been reserved for needs that may arise due to unexpected conditions or possible special requests by the new president.

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



AGENDA ITEM

A-6. Update on UNC System Public Safety Training Center..... Brent Herron

Situation: The UNC System, in partnership with the Department of Public Safety (DPS) Samarcand Training Academy, will offer a series of training courses and activities for public safety personnel from UNC System institutions.

Background: Each institution in the UNC System maintains a public safety department staffed by sworn officers and headed by a police chief. In addition to performing traditional law enforcement functions, University law enforcement officers require specialized training and skills to work in and meet the unique public safety needs of the academic communities in which our students, faculty, and staff collaborate and interact. A UNC System study conducted during 2019 identified joint training programs as one area of potential collaboration between and among UNC System public safety departments. The DPS Samarcand Training Academy provides excellent facilities in a central location that would appear to be conducive to conducting joint training programs.

Assessment: The UNC System Public Safety Training Center is fully engaged with staff from the Samarcand Training Academy to conduct in-service training for the 17 UNC System campus police departments. An on-site UNC System training coordinator, under the supervision of the associate vice president for Campus Safety & Emergency Operations at the UNC System Office, has been hired to fill the role on a temporary basis for one year. In-service training courses began effective July 13, 2020. At this time, the following courses have been scheduled or are in planning state: Response to Sexual Assault for Law Enforcement, Orientation for UNC Campus Training Coordinators, Civil Disturbance Train the Trainer Course, and Impartial and Non-Biased Policing.

Action: This item is for information only.