



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

September 19, 2019 at 11:30 a.m.
University of North Carolina System Office
Center for School Leadership Development, Board Room
Chapel Hill, North Carolina

AGENDA

OPEN SESSION

- A-1. Approval of the Minutes of May 22, 2019 James L. Holmes, Jr.
- A-2. UNC School of Government Development Finance Initiative.....Mike Smith, Dean
- A-3. Law Enforcement Project – Recommendations Tom Shanahan
- A-4. UNC System Office Internal Audit 2018-19 Year-end Report Joyce Boni
- A-5. Approval of Annual Internal Audit Plan for 2019-20 Joyce Boni
- A-6. Annual Report of CARMC 2018-19 Lynne Sanders
- A-7. Summary Report of Major Associated Entities..... Lynne Sanders

CLOSED SESSION

- A-8. Audit and Legal Update Lynne Sanders/Tom Shanahan

OPEN SESSION

- A-9. Adjourn



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

DRAFT MINUTES

May 22, 2019
University of North Carolina System Office
Center for School Leadership Development, Room 128
Chapel Hill, North Carolina

This meeting of the Committee on Audit, Risk Management, and Compliance was presided over by Chair James L. Holmes, Jr., Vice Chair Randy Ramsey, and the following committee members, constituting a quorum, were also present: Thomas H. Fetzer, Thomas C. Goolsby, and Robert Rucho.

Chancellors participating were Sheri Everts and Lindsay Bierman.

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

1. Call to Order and Approval of the Minutes of March 21, 2019 (Item A-1)

The chair called the meeting to order at 8:00 a.m., on Wednesday, May 22, 2019, and called for a motion to approve the minutes of March 21, 2019.

MOTION: Resolved, that the Committee on Audit, Risk Management, and Compliance approve the open session minutes of March 21, 2019, as distributed.

Motion: Thomas C. Goolsby

Motion carried

2. Presentation of Audit Reports from the Office of the State Auditor (Item A-2)

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 2018 fiscal year. The overview included comments on the twenty-five 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.

3. Enterprise Risk Management Update (Item A-3)

Lynne Sanders, vice president for compliance and audit services, presented to the committee an update on the UNC System risk register, which is a listing of the major enterprise risks and issues, prepared with the goals of the organization's strategic plan in mind.

This item was for information only.

4. UNC System Office Internal Audit Update (Item A-4)

Joyce Boni, chief audit officer, presented to the committee a status update of the 2018-19 internal audit projects, which were approved by the committee in September 2018.

Ms. Boni, also summarized the results of the *External Quality Assessment of the UNC System Office Internal Audit Function*. The internal audit function received an opinion of "generally confirms" to the Institute of Internal Auditors Standards, the highest rating available.

The committee discussed the report's recommendation of additional staffing resources to the internal audit function and voted to recommend that the Board direct the UNC System to increase internal audit and IT audit capacity by efficiently allocating resources for an additional staff auditor position and such consulting assistance as may be needed.

MOTION: Resolved, that the Committee on Audit, Risk Management, and Compliance recommends that the Board direct the UNC System Office to increase internal audit and IT audit capacity by efficiently allocating resources for an additional staff auditor position and such consulting assistance as may be needed.

Motion: Thomas H. Fetzer

Motion carried

There being no further business, the meeting adjourned at 8:35 a.m.

Thomas C. Goolsby, Secretary

AGENDA ITEM

A-2. UNC School of Government Development Finance Initiative Mike Smith, Dean

Situation: The UNC School of Government engages in teaching and research on issues and topics of interest for local and state government in North Carolina. For many years, the School of Government has taught courses to students and served as a resource to local government officials on matters relating to economic development, revitalization of distressed areas, and strategies for catalyzing private and public investment in local areas. In response to requests from North Carolina public officials for specialized finance and development expertise to address these challenges, the school created the Development Finance Initiative (DFI) in 2011. DFI is part of the School of Government. It draws on the expertise of School of Government faculty and staff, and provides opportunities for students, faculty, and staff to offer practical service to local governments in an academic and clinical practice environment. The committee will receive a briefing on DFI's activities and the development of the program.

Background: Following the creation of DFI within the school, demand from state and local government officials quickly outpaced staff capacity. The team initially grew with the addition of additional university employees and graduate student research assistants. Starting in 2015, to accommodate steadily increasing demand, the School of Government contracted for services from an outside business to support the work of DFI rather than hiring additional university employees. Later, following a university audit of the program, the School of Government made improvements to the program, ceased its work with the outside business, and now works through individuals employed by the school. The school also made improvements to its conflict of interest processes.

Assessment: Currently, all DFI employees are university employees in the School of Government, subject to the university's conflict-of-interest policy. DFI employees receive university salaries and their compensation has never been connected in any way to the outcome of DFI projects. DFI relies on having development practitioners on staff. These practitioners are encouraged to engage in work outside of DFI, so long as they disclose those outside projects for conflict-of-interest review and they agree to work for DFI in a part-time rather than full-time status. The outside experience gives those employees current and relevant knowledge about development practices, which can be shared with students and local governments.

Action: This item is for information only.

About the Development Finance Initiative

This document was presented on behalf of the UNC School of Government to the UNC Board of Governors' Committee on Audit, Risk Management, and Compliance on September 19, 2019.

Communities across North Carolina face a similar challenge: it can be difficult to attract private investment into distressed areas, such as downtowns where many of the structures are vacant, underutilized, or blighted; into complex projects that require coordinated investment; and into unproven markets in small towns and rural areas. Most local governments lack the in-house expertise to determine where and how to invest their limited resources in development projects and to evaluate proposals from private developers. The UNC School of Government has taught courses and served as a resource for public officials on these topics for decades, but it was not staffed to provide sustained assistance in the community. In 2011 the School of Government added the Development Finance Initiative (DFI) to its academic and service programs in response to requests from North Carolina public officials for specialized finance and development assistance to address these challenges.

DFI helps governments properly assess risks and create the right environment for private development to occur. Their work addresses:

- Affordable housing;
- Building reuse and downtown revitalization;
- Master planning and execution;
- Community and neighborhood development; and
- Economic development.

DFI's Impact

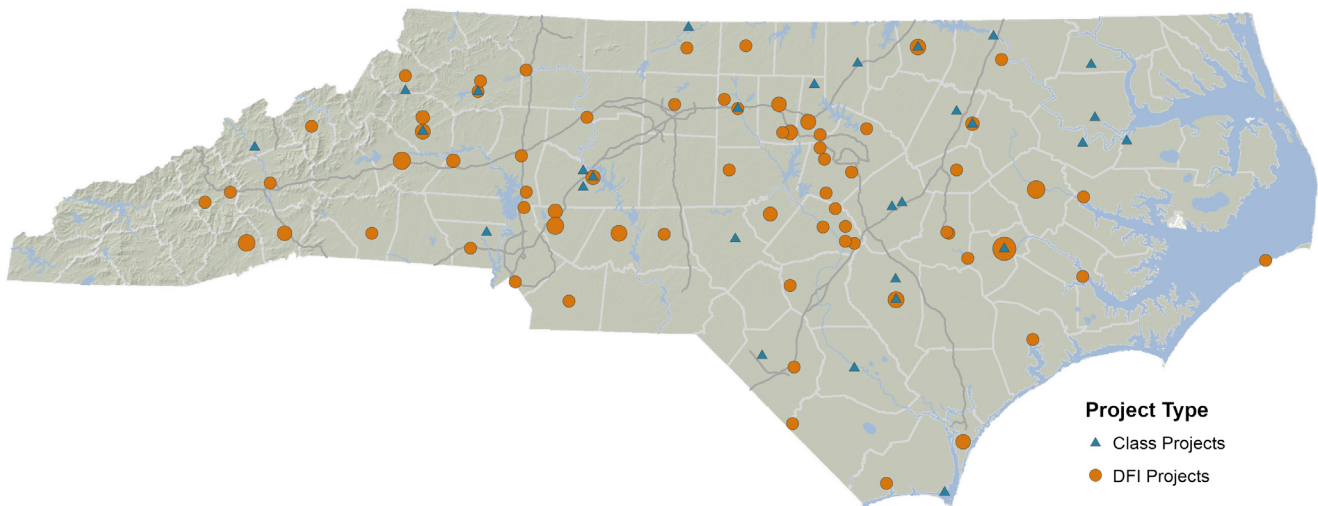
DFI has worked on **139 projects in 85 communities** across North Carolina (see map on p. 2).

- 62% of DFI projects have taken place in rural counties¹
- 77% of DFI projects are located in distressed census tracts²

Occasionally DFI is asked to assist one or more local governments with identifying a private development partner for their project. To date, those efforts have yielded more than \$100 million in private development that has broken ground and more than \$200 million additional investment that is currently under negotiation.

1. The NC Rural Center defines "Rural Counties" as the 80 North Carolinian counties with an average population density of 250 people per square mile or less.

2. Distressed census tracts are defined as tracts eligible for federal New Market Tax Credits, which is a program designed to attract investment into low-income communities. 65% of DFI projects are located in census tracts deemed to be "severely distressed or non-metropolitan."



DFI's work is grounded in, and part of, the University's educational mission through graduate-level courses and courses for public officials at the School of Government. Faculty and staff working with DFI serve as instructors in these courses. The graduate-level courses involve actual redevelopment projects in North Carolina; graduate students in business administration, planning, and public administration provide analysis in real time for revitalization projects at no cost to the local government.

- **107 UNC students** from public administration, business, planning, and other professional degree programs from UNC campuses have learned public and private sector revitalization techniques by assisting communities with actual redevelopment projects.
- **52 DFI graduate student fellows mentor other students**, perform expert-level analysis, and contribute high-level strategic thinking about projects.
- **679 public officials have received formal training** in community development and development finance by DFI staff.

While DFI's client is the government, and their goal is to attract private investment, the most successful projects are supported by the community as a whole. One of DFI's areas of expertise is bringing community partners, the public, and civic leaders together to discuss the community's needs and goals. DFI's work champions the University of North Carolina's commitment to "deepening partnerships that strengthen local communities and the state's economy."

DFI Concept

When DFI was first conceptualized in 2010, School of Government leaders knew it could address a critical need across the state, and it could catalyze economic development. It would be innovative and entrepreneurial, and like any effort to assist local communities with their difficult development projects, it would involve risk.

DFI was designed as a fee-for-service program to help defray School costs. Services are billed on a tiered-cost structure with distressed communities paying less. Some services are offered at no charge.

DFI provides its project results and analysis to local government officials. The analysis is a public record. DFI's work product can be used by the local government in any manner it wishes. Typically, local governments will share DFI's analysis in order to generate private interest in the project.

All DFI employees are university employees in the School of Government subject to the University's conflict-of-interest policy. DFI employees receive university salaries; their compensation has never been connected in any way to the outcome of DFI projects. DFI relies on having development practitioners on staff. These practitioners are encouraged to engage in work outside of DFI so long as they disclose those outside projects for conflict-of-interest review, and they agree to work for DFI in a part-time rather than full-time status. The outside experience gives those employees current and relevant knowledge about development practices that can be shared with students and local governments. Governments value having someone with private development experience on their side of the negotiating table, and DFI strives to support local governments with development expertise that puts them on an equal footing with private developers during negotiations.

DFI Startup

The response to DFI's services was overwhelming from the start. Demand from state and local government officials quickly outpaced staff capacity. The team initially grew through hiring additional university employees and by employing graduate student research assistants. Starting in 2015, to accommodate steadily increasing demand and a sense that university processes for supporting this work was too cumbersome, the School of Government contracted for services from an outside business to support the work of DFI rather than hiring additional university employees. The School paid that business for its work, most of which was pass-through funding to pay and support people working on DFI projects.

In spring 2017, UNC-Chapel Hill conducted an audit of DFI's business practices and potential conflicts of interest. The auditor looked carefully at the outside business arrangement and identified a potential conflict of interest with a former employee that should be further examined. Importantly, the audit found that there was no misuse of university funds and the university received appropriate value for all services it obtained through the outside business. The auditor recommended that the School discontinue its contract with the outside business. The School ended the contract by May 2017 and hired additional university employees, a number of whom had formerly worked with the outside business. The auditor returned in 2018 to review the School's actions and determined that the School's response to the audit was sufficient and no further audit work was required.

Accountability

The School of Government conducts careful reviews of potential conflicts when DFI project managers seek to do development work in their private capacity.

Media attention has been directed at a development project in Fayetteville, the Prince Charles Hotel, which had been the subject of DFI analysis under a contract that ended in October 2014. In 2014, the

City of Fayetteville learned that an investor group intended to acquire that hotel from a private owner and redevelop it. The hotel was a Fayetteville landmark, and the City asked DFI to evaluate the investor group's plan. The investor group's plan relied in part on North Carolina historic tax credits. When the General Assembly eliminated those tax credits starting in 2015, the plan fell apart and the investor group withdrew its interest. The hotel owner decided to put the hotel up for auction, and the City was concerned that the hotel would fall into the hands of an irresponsible owner.

Although DFI's contract had ended, the City of Fayetteville asked DFI to attempt to identify a new investor group. An investor group was identified, but the group requested for DFI Director Michael Lemanski to join the development team for the project. DFI could not assist the development group because DFI does not perform private development. The Fayetteville city manager supported the investor group's request. This prompted the School of Government to conduct a conflict-of-interest review and inform the relevant parties through disclosures and acknowledgements that are a matter of public record. State law prevents university employees from describing the details of conflict of interest reviews due to employee privacy protections. Importantly, the Fayetteville project was within the scope of the university audit in 2017, and no issues were found. The School handled the Fayetteville project appropriately.

The Fayetteville situation involved unique time pressures. For future projects, in order to avoid perception concerns, the School intends to go above and beyond what the university conflict-of-interest policy requires. For example, for projects that have received DFI assistance, employees will not be permitted to undertake those projects in their private capacity until at least a year after DFI's analysis has been made publicly available at a public meeting or on a website. For employees who worked directly on the project, the wait period will be three years. And finally, the School will continue to follow the university conflict-of-interest policy and impose other management controls, such as disclosures to all relevant parties, firewalls, and additional layers of supervision by full-time employees who have no outside interests.

Testimonials

"I've worked with DFI when at the Department of Commerce in the Rural Development Division and they were contracted to do the visioning/planning for the Old Broughton area in Burke County. DFI is an important resource for the State of NC and its communities. Great work by knowledgeable individuals."

—**Patricia Mitchell**, Interim MPA Program Director, Appalachian State University, Former Assistant Secretary for Rural Development at the NC Department of Commerce, UNC School of Government Foundation Board Member

"DFI has truly benefitted Wilson, NC. From assistance in analyzing where we were in regards to distressed properties to developing implementable strategies, DFI has helped us move the needle on downtown revitalization. Most of all, DFI helped us understand the private side of development so we were better prepared when negotiating real world deals."

—**Rodger Lentz**, Chief Planning and Development Officer, City of Wilson

"Working with the DFI team has been easy. They've brought numerous solutions to the table, and they will see the project through to completion."

—**Tony Sears**, Manager, Town of Kinston

"DFI has, and continues, to provide a significant base of expertise to fill a void at a critical time in the history of our State, counties, and communities. As resources become more scarce, stretched by the demand for an ever-growing array of services, it is critical for leaders to analyze and maximize the return on each and every public dollar. This is especially true for public funds contemplated for investment in P3's or other endeavors formerly outside the scope of local government activities. Kudos to DFI – and the School of Government – for bringing together the expertise and resources to appropriately counsel and guide local governments from concept to completion in these activities."

—**Jay Gibson**, Director of Engineering and Environmental Services, Durham County

"DFI's impact is unsurprisingly vast. As a fellow, DFI taught me to understand aspects of real estate development that I frequently use today in my professional role as a policy analyst for Chatham County. By understanding ways in which private investment can be leveraged to see public goals come to fruition, I'm able to communicate not only to our leadership team, but also to our board, exactly how we are able to collaborate with the private sector and why it is important that we do so. Before my time at UNC, a DFI class did a project on the Henry Siler School in Siler City. One of the proposed uses of that project was affordable housing. Fast forward a handful of years, leadership in the County made intentional decisions—the contribution of land, a low-interest loan—to support the Henry Siler School's transformation into 44 affordable housing units. Those 44 units will come online late 2020. Thanks to that analysis, the path to accomplishing something of great public value was identified and will be accomplished. I plan to continue using the invaluable lessons I learned from DFI to bring more affordable housing to Chatham County through intentional public-private partnerships. I'm incredibly glad they exist and are continuing to help communities like mine and all over North Carolina in more ways than one."

—**Stephanie Watkins-Cruz**, Policy Analyst, Chatham County, Former DFI Graduate Student Fellow (UNC-CH MPA '18, MRP '18)

AGENDA ITEM

A-3. Law Enforcement Project – Recommendations.....Tom Shanahan

- Situation:** Each university in the UNC System maintains a police department staffed by sworn officers and headed by a police chief. In addition to performing traditional law enforcement functions, university police require special 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. The committee asked the UNC System Office to identify ways in which police departments can work together across the System to leverage resources, provide mutual aid, and support training and operational capacity. The UNC System Office contracted with Hillard Heintze to examine the University's current law enforcement strategies and resources.
- Background:** Preserving public safety in our universities requires adequate staffing, resources, training, and organization of operations. UNC System institutions continually seek ways to work together and leverage the benefits of the UNC System in these areas. In addition, for effective management over major events on campus, there must be explicit agreement on decision-making authority of law enforcement officials and campus administrators. This includes proper communication protocols and a clear reporting structure.
- Assessment:** Hillard Heintze completed its review of law enforcement operations in the University of North Carolina System. Key observations and recommendations, as well as management's action plan, are being reported to the committee.
- Action:** This item is for information only.



Recommendations.

The following recommendations are offered to the President and UNC System Office staff, who we recommend lead the collaborative efforts regarding these recommendations.

Rec. #	Recommendation
1	Revisit the pay rates for sworn UNC police personnel, thereby allowing all the UNC System police department to come more competitive in their ongoing challenges to recruit, hire and retain personnel.
2	Establish a standardized set of written policies and procedures for police operations to ensure best or emerging practices are implemented and standardized throughout the UNC System, which will assist in the efforts to gain systemwide certification through CALEA and ICALEA.
3	Require each UNC System police department to gain CALEA and ICALEA certification . Those departments that are not yet certified should work with and receive guidance from representatives of those departments that are certified through a collaborative systemwide effort.
4	Establish, in consultation with the president and the general counsel, a standardized set of written policies and procedures that outline how UNC System police chiefs should collaborate with the chancellors of their campuses when planning for and implementing critical police operations.
5	Work with the UNC System Human Resources Office, the General Counsel's Office to conduct a learning needs assessment to guide curriculum development for a training course to be presented to current and new chancellors regarding the policies and procedures that would be established upon completion of Consideration 2.
6	Develop an action plan to address the common recruiting, testing, backgrounding, hiring and retention challenges each department faces that could be addressed collaboratively throughout the UNC System.
7	Determine the feasibility of acquiring a training site that would accommodate a stand-alone police academy that would manage and provide the mandated basic law enforcement training for all UNC police officers to include implementing a cadet program .
8	Establish a system of training to support newly promoted police personnel at the first-line supervisory level, as well as for command officers, with specific emphasis on policing in higher education to ensure consistency in supervision and management of police personnel system wide.
9	Review the formal training management tools used at each UNC System institution's police department to determine how each department tracks the training courses being presented and the attendance records of those assigned to attend. Upon the completion of the review, identify a software management tool that would allow each local campus to enter training data.



10	Review the records management systems and/or data sharing programs currently used at each UNC System institution's police department to determine how each department tracks 911 call data, crime reports, criminal investigations, the gathering and storing of physical evidence and property, and other key data points. Upon the completion of the review, explore options to identify a formal process allowing for system wide sharing of real-time information between UNC System police departments and the Associate Vice President for Campus Safety and Emergency Operations.
11	Explore the feasibility of creating a Civil Disturbance Team (CDT) comprised of police personnel from each UNC System institution's campus. This SRT would be trained in a crowd control management, methodologies for handling protests, aiding for high-profile events, assisting other campuses during natural disasters, and conducting rescue operations, among other tasks.
12	Review the current equipment procurement processes and protocols for each UNC System police department. Upon completion of the review, create a mechanism whereby all UNC police departments collaborate on a statewide basis, when appropriate, to purchase standardized equipment for all UNC police officers.
13	Review the current policies, procedures and protocols for handling criminal and internal affairs investigations, and establish standard policies where appropriate . Because some of the smaller police departments do not handle as many investigations as the larger UNC System institutions, consider determining how best to leverage the investigative expertise of the larger UNC campuses to assist the smaller ones. Consider creating a formal investigative team comprised of personnel from throughout the System who could be called on to respond to assist with a high-profile criminal or internal affairs investigation at any campus needing assistance.
14	Consider hiring full-time staff at the UNC System Office that could: <ol style="list-style-type: none">1 Manage, coordinate and support a UNC System police academy and UNC System in-service police training2 Track training courses and attendance statewide3 Provide background screening expertise for potential police officer candidates4 Aid in conducting criminal and internal affairs investigations5 Track real-time crimes and quality-of-life data in real time, enhancing the ability of each police department to engage in intelligence-led policing6 Coordinate the training and response of a UNC Civil Disturbance Team7 Coordinate and facilitate procurement processes when purchasing items that are required on each UNC campus8 Coordinate any UNC System Police Department's efforts to attain CALEA and/or ICALEA certifications9 Conduct routine assessments of UNC System police departments to ensure compliance with official UNC policies and procedures.





LAW ENFORCEMENT PROJECT

Scope and Purpose of the Law Enforcement Project

- Build on a strong platform across university police departments.
- Look for areas to leverage the strengths of university police departments.
- Improve the ability of university police departments to provide mutual aid.
- Identify areas for management action.

Engagement and Approach

- Hillard Heintze – law enforcement expertise.
- Steering committee of subject matter experts – chiefs, public safety leaders.
- Interviews with chiefs, managers, chancellors, and board members.
- Site visits and comparisons to University of Texas System and Indiana University.

Key Observations

- UNC System police departments have strong leadership and skilled officers.
- Police departments are key components of their campus communities.
- Each department can leverage their membership in the UNC System.
- Distinct departments, with additional capacity developed through system-wide collaboration.

Key Observations and Needs

- Ability to be fully staffed will allow improvements in mutual aid and incident response.
- Policy and training to guide appropriate roles/responsibilities and interactions of chancellors and chiefs of police.
- Common set of key operating policies and procedures – customized as needed to each university.
- Competitive pay and career development system.
- Recruiting, hiring, and retention – University law enforcement as a distinctive and attractive career.
- Police academy and in-service training.
- Supervisory and leadership training.
- Crime information and data.

Key Recommendations

- Develop a compensation system that is competitive with municipal law enforcement departments.
- Establish a recruiting, retention program, and career development program.
- Establish common operating policies and procedures in key areas.
- Establish system-wide guidelines for roles, responsibilities, and interactions between chancellors and police chiefs.
- Establish a UNC System police academy and in-service training program.
- Provide police departments access to shared capacity in areas such as professional standards, investigations, internal affairs, incident response, procurement, purchasing, crime information tracking, and training.

Management Action Plan - Near Term

- Identify and establish key operating policies and procedures common across departments.
- Develop guidelines for roles/responsibilities of chiefs of police and chancellors.
- Establish on-boarding and training for new chiefs of police and chancellors in UNC System law enforcement management.
- Develop a framework for law enforcement officer compensation and career development.

Management Action Plan – Medium Term

- Assist departments in reaching full staffing levels.
- Collaborate across police departments on training in incident response, using common training methods, protocols, and equipment.
- Improve mutual aid among departments.
- Develop a system across departments for procurement.

Key Management and Board of Governors Focus

- Establish a UNC System law enforcement training center to address both basic academy training and in-service training programs.

THANK YOU

CONNECT



www.northcarolina.edu



[uncsystem](https://www.facebook.com/uncsystem)



[@UNC_system](https://twitter.com/UNC_system)



[@UNC_system](https://www.instagram.com/UNC_system)

QUESTIONS?

CONNECT



www.northcarolina.edu



[uncsystem](https://www.facebook.com/uncsystem)



[@UNC_system](https://twitter.com/UNC_system)



[@UNC_system](https://www.instagram.com/UNC_system)

AGENDA ITEM

A-4. UNC System Office Internal Audit 2018-19 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 function. 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 2019 audit plan that were approved by the committee in September 2018 and identifies the status of those projects at the end of the 2018-19 fiscal year.

Attachment B is a summary of the fiscal 2019 planned and actual audit hours by major service category. It is important to note that this summary presents all of the hours the internal audit team provided to the following three entities that the unit serves: the UNC System Office, the North Carolina School of Science and Mathematics, and the North Carolina State Education Assistance Authority.

Action: This item is for information only.

University of North Carolina System Office Internal Audit Plan

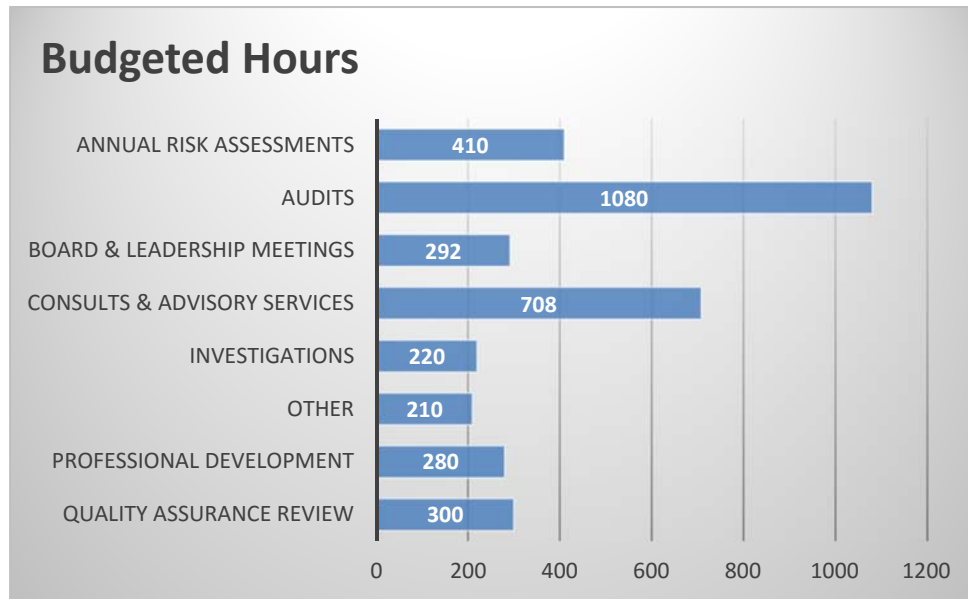
Fiscal Year 2018-2019

Description	Status at 6/30/19
Prior Year Carry Over	
Follow-Up: Travel and Purchase Card Review	Issued September 2018
Risk Assessment/2019 Audit Plan Development	Completed
Internal Control/Operational Procedures Review	
Security Review of the DataMart Database (with Experis Finance)	In Process
Program Review of the Research Opportunities Initiative	Changed to Consult Completed June 2019
Compliance Reviews	
UNC-TV's Compliance with Payment Card Industry Data Security Standards	Deferred
Follow-up Reviews	
1 st Follow-Up of Internal Audit's 2017 GEAR-UP NC Review	Cancelled
2 nd Follow-Up of OSA 2017 IT General Controls Audit	In Process *
1 st Follow-Up of Internal Audit's 2018 End User Data Storage & Awareness Review	In Process *
Investigations	
Alleged Noncompliance with RFP Process	Completed
Alleged Fraudulent Travel Reimbursement	In Process
Special Projects/Consultations/Other	
Quality Assurance Review Preparation	Completed
Annual Risk Assessment/FY2020 Audit Plan Development	In Process
Finance Advisory Services: Travel TAF Process Redesign; Annual Assessment of Controls; Credit Card Services/PCI (<i>added</i>)	Completed
Finance/IT Advisory Services: Policy and Procedure Updates; IT CISO Interview Committee (<i>added</i>)	Completed
Finance/HR Advisory Services: Updates to Onboarding Process	Completed
Academic Affairs Advisory Services: Cheatham White Monitoring; Program Risk Discussion (<i>added</i>)	Completed
Strategy & Policy Advisory Services: Teaching Fellows Policies and Procedures; Student Success Innovation Lab (<i>added</i>)	Completed
UNC-TV Advisory Services: UNC-TV Credit Card	Completed
Board Meetings/Unit Oversight & Marketing	Completed
Other Advisory Services/Committees: Annual certifications; CAO/OIA committee meetings; Legal/IT System Access Record Retention and Info Disclosure (<i>added</i>); NC Arboretum Contract Management (<i>added</i>); and Various other routine advisory services to the System Office.	Completed
Academic Affairs Consult: UNC ROI Program Review	Completed
Professional Development	Completed
Audit Services through MOU with the NC School of Science & Mathematics and the NC State Education Assistance Authority	Completed

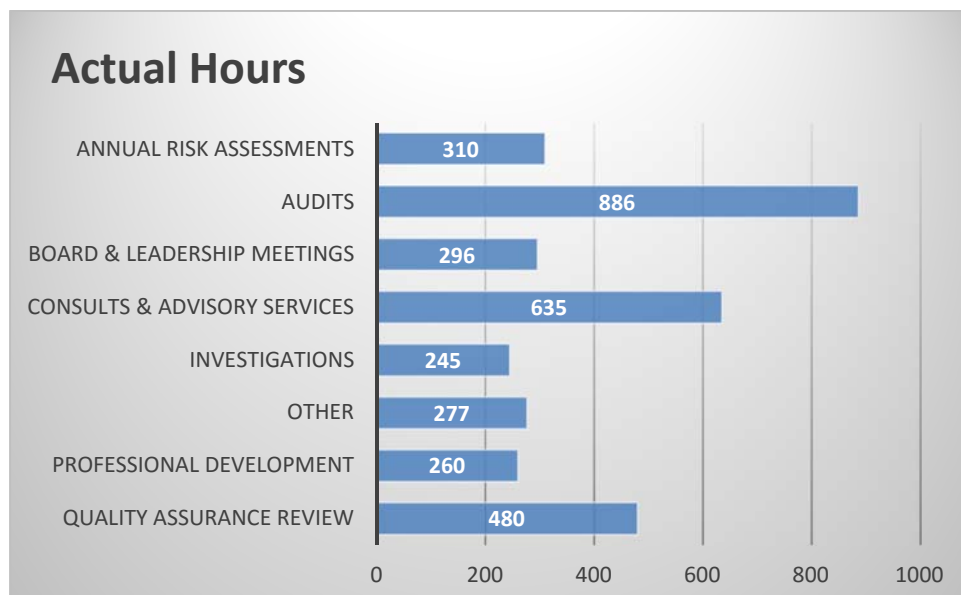
* - Issued 8/8/19 and 8/29/19 respectively

Summary of the 2018-19 Fiscal Year Internal Audit Hours

In September 2018, the UNC System Office internal audit plan was presented to CARMC for approval. The planned hours included two full-time audit staff members. The planned projects covered the UNC System Office, as well as 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 the three entities, the planned services included assurance and consulting projects that ranged from compliance and operational audits to assessments of internal controls. To demonstrate a full picture of the UNC System Office's internal audit services, the chart below presents the 3,500 planned audit hours by category of audit services for all three organizations:



In contrast to the previous chart, which highlights planned audit services for the 2018-19 fiscal year, the chart below presents a breakdown of the 3,389 actual audit hours of work for the 2018-19 fiscal year at all three entities. Rarely will planned and actual be exactly the same, as audit plans should be dynamic and able to change based on current circumstances. Internal auditors must continuously respond to new and/or changing risk factors, and amend original plans when necessary.



AGENDA ITEM

A-5. Approval of the UNC System Office 2019-20 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 <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> 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 year 2020 audit plan.
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 2019-2020 Internal Audit Plan

September 2019

Internal Audit Department | UNC System Office

Joyce D. Boni, Chief Audit Officer

UNC System Office Internal Audit Plan

Fiscal Year 2019-2020

Description	Allocated Hours
Prior Year Carry Over	
Annual Risk Assessment/2020 Audit Plan Development Follow-up on IT audits: OSA 2017 IT Audit of Banner Hosted Services and 2018 Internal Audit of End User Data Storage and Security Awareness Security Review of the Data Mart Database (with external audit firm) Investigation of Questionable Travel (SAA)	256
Assurance Engagements	
UNC-TV: Review of Compliance with Payment Card Industry Data Security Standards (for security of donor card data)	140
UNC System Office: Review of the Contracting Process	180
Follow-up Engagements	
Develop a new Follow-up Tracking, Monitoring, and Reporting Process	70
Investigations	
Unplanned/Various as occurs: Investigations of internal/external hotline reports and similar types of investigations.	120
Special Projects/Consultations	
Consult: Design of UNC-TV Procurement/Purchasing Process	80
Assist a Quality Assurance Review Team (assisting OIA)	100
Annual Risk Assessment/FY2021 Audit Plan Development	60
Technical Assistance/Other Audit Services	
Advisory Services to Information Technology: Policy and Procedure Updates	40
Advisory Services to Human Resources: Updates to Onboarding Procedures and Learning Management Implementation	16
Advisory Services to Strategy and Policy: Innovation Lab Internal Procedures	16
Advisory Services to UNC-TV: Repair and Renovation Budgeting Process	20
Board Meetings, Unit Oversight, Staff Hiring, MOUs, and Marketing	325
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.	177
Total Direct Hours to UNC System Office audit function	1,600
Other Hours	
Professional Development (and related travel)	230
Internal Audit Services to NCSSM and NCSEAA	1,520
Total Hours	3,350

William L. Roper, Interim President

James L. Holmes, Jr., 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 2019 to June 2020. The estimated hours are for two audit positions (the chief audit officer and a staff auditor). The unit is in the process of hiring another auditor and the audit plan will be adjusted once that position is on-board. 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:

- The **Risk Assessment/2020 Audit Plan Development** is the annual project to assess risk in order to develop the audit plan for the upcoming fiscal year. Procedures to complete this project were conducted in the first quarter of fiscal 2020.
- **2nd Follow-up of OSA 2017 IT General Controls Audit:** In fiscal 2017, the Office of the State Auditor (OSA) issued an IT general controls audit of Banner Hosted Services. Internal audit completed an initial follow-up in October 2017 to evaluate the status of management's corrective actions and noted some planned actions were still in progress. In August 2019, the internal audit released a second follow-up review that noted satisfactory progress had been made toward resolution of the prior OSA findings.
- **Follow-up of 2018 Internal Audit of End User Storage & Awareness:** In January 2018, internal audit issued a report that assessed how UNC System Office employees store and share data, as well as their awareness of how data (especially confidential data) should be stored and handled. The report included observations and recommendations for improvement and in fiscal 2019 the internal audit team conducted a follow-up review to evaluate the status of management's planned corrective actions. Procedures to complete the report were conducted in the first quarter of fiscal 2020.
- **Security Review of the Data Mart Database:** The UNC Data Mart is a database of University student and human resources information that was developed by the UNC System Office. In a world of increasing security threats, the audit team partnered with an external auditor with the appropriate technical expertise to conduct a security review the UNC Data Mart. Procedures to complete the audit work and related report were conducted in the first quarter of fiscal 2020.
- **Investigation of Questionable Travel (SAA):** Near the end of the prior fiscal year, internal audit received an allegation of questionable travel activity at the State Approving Authority. Procedures to complete the audit work and related report were conducted in the first quarter of fiscal 2020.

Review of UNC-TV's Compliance with Payment Card Industry (PCI) Data Security Standards: Public Media North Carolina (UNC-TV) receives donations from individuals in a number of ways, including by credit card. As a result, UNC-TV must comply with the payment card industry (PCI) data security standards. The internal audit team will review the existing policies and procedures that are in place and evaluate UNC-TV's compliance with applicable PCI requirements.

Review of the UNC System Office Contracting Process: The UNC System Office has a high volume of contracts with external parties. Internal audit will review the current contracting process and control procedures to assess the following: efficient workflow and compliance with applicable policies and rules, including appropriate content, terms and conditions, appropriate approvals, and contract monitoring.

Follow-up Tracking, Monitoring, and Reporting Process: To gain efficiencies in the audit process and provide better reporting to senior leadership and the Committee on Audit, Risk Management, and Compliance

(CARMC), the audit team will develop a stream-lined process for assessing the status of management's corrective actions to prior audit findings. The objective is to create a simple method for tracking unresolved issues and obtaining regular updates from management regarding the status of actions taken to correct or make improvements. The audit team will review management's updates and assess if further audit tests are necessary. A summary document will be developed and shared with senior management and the CARMC to keep them apprised of management's corrective actions.

UNC-TV Procurement/Purchasing Consult: UNC-TV management has asked internal audit to review their existing procurement/purchasing process. The goal is to assess if there are potential improvements and efficiencies they can make. Internal audit will evaluate the design of UNC-TV's procurement/purchasing process and provide management with advice on any potential improvements.

Assist the Office of Internal Audit on the Quality Assurance Review (QAR) of a state agency (special project): A member of the internal audit team will assist the OSBM Office of Internal Audit's (OIA) quality assurance program on a QAR of another state entity. This service is being provided to the OIA in return for the external review they conducted in 2019 of our audit function.

Annual Risk Assessment: Internal audit will conduct a risk assessment as part of the annual process to develop an audit plan for the 2021 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:

- Information Technology Policy Updates: The Chief Information Security Office (in the Department of IT) is working on various projects to improve internal security policies and procedures. Internal audit will provide advice, as needed, on these projects.
- Human Resources Training and On-boarding: Human Resources is working on initiatives to implement a Learning Management System to improve employee training and new employee on-boarding process. Internal audit will provide advice, as needed, on the project.
- Strategy and Policy Innovation Lab Grant: Internal audit will provide advice, as needed, to the Strategy and Policy unit as it continues to develop policies and procedures for the Innovation Lab grants.
- UNC-TV Repair and Renovation Budgeting Process: UNC-TV management has been assessing their repair and renovation needs and wants to develop a plan to seek funding and create an annual budget to address the need over time. Internal audit will provide advice, as needed, on the project.

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.

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. Annual Report of the Committee on Audit, Risk Management, and Compliance Lynne Sanders

Situation:	Each standing committee submits an annual report of its activities to the Board of Governors.
Background:	Pursuant to Section 302 E of <i>The Code</i> , "Each standing committee shall make a written report to the Board of Governors at least annually, reviewing the work of the committee during the preceding year."
Assessment:	The annual report on the activities of the Committee on Audit, Risk Management, and Compliance for fiscal year 2018-19 is ready for review and submission.
Action:	This item requires a vote by the committee to accept the report for submission to the Board of Governors.

DUTIES AND MEMBERSHIP

The Committee on Audit, Risk Management, and Compliance is responsible for recommending a committee charter for review and approval by the Board, addressing the University's internal audit, enterprise risk management, and compliance functions; recommending for approval University-wide policies regarding internal audit, enterprise risk management, and compliance; reviewing annual and other reports of the constituent institutions, UNC System Office, and affiliated entities; reviewing a summary of the internal audit plans and work of the audit committees of the constituent institutions; reviewing a summary of the annual financial audit reports and management letters on University Major Associated Entities; meeting with the state auditor annually; and taking such other actions as are necessary or appropriate to ensure that risks are identified and properly managed and to assure the integrity of the finances, operations, and controls of the University. This report summarizes the work of the Committee on Audit, Risk Management, and Compliance from July 2018 through June 2019.

The committee was composed of the following Board members: Mr. Thomas H. Fetzer, Mr. Thomas C. Goolsby, Mr. James Holmes, Dr. Robert Rucho, and Mr. William A. Webb (July 2018-January 2019). Mr. Holmes served as chair, Mr. Fetzer served as vice-chair, and Mr. Goolsby served as secretary.

Chancellor Sheri Everts (ASU) and Chancellor Lindsay Bierman (UNCSA) also served on the committee.

ACTIONS

The Committee on Audit, Risk Management, and Compliance met in seven regular meetings between July 1, 2018 and June 30, 2019, one joint meeting of all committees in September 2018, and one joint meeting with the Committee on Budget and Finance in October 2018. The major actions of the committee are summarized as follows:

Summary of Approval Actions	Month Approved
Approval of the UNC System Office Internal Audit Plan for fiscal year 2017-18	September 2018
Approval of the Annual Report of the Committee on Audit, Risk Management, and Compliance	October 2018
Approval of the Update to the Committee on Audit, Risk Management, and Compliance Charter	October 2018
Approval of the Summary of System-wide Internal Audit Plans for fiscal year 2018-19	November 2018
Approval of the recommendation to the Board to increase the UNC System Office internal audit staff capacity by efficiently allocating resources for an additional staff auditor position and such IT consulting assistance, as may be needed.	May 2019

AGENDA ITEM

A-7. Summary Report of Major Associated Entities Lynne Sanders

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

Background: Under the UNC Policy Manual Chapter 600.2.5.2[R], Associated Entities of the UNC System and its constituent institutions must provide copies of the audit report, management letters, and responses to management letters to the chancellor of the Approving Institution. The chancellor then distributes these materials to the governing board of the Approving Institution and the president of the UNC System, who in turn distributes the materials to the Board of Governors. One of the responsibilities of the Committee on Audit, Risk Management, and Compliance is to review a summary of the annual financial audit reports of the University's major Associated Entities.

Assessment: As of June 30, 2018, there were 95 major Associated Entities subject to the reporting requirements in UNC Policy Manual Chapter 600.2.5.2[R]. All Associated Entities received unqualified audit opinions from audit firms that were in good standing with the NC State Board of CPA Examiners. Six of the Associated Entities had one or more findings.

Action: This item is for information only.

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
Appalachian State University						
Appalachian State University Foundation, Inc.	6/30/18	Yes	Elliott Davis, PLLC	No	\$147,852,770	Discretely Presented
Appalachian Student Housing Corporation	6/30/18	Yes	Apple, Koceja & Associates, PA	No	\$24,402,890	Discretely Presented
East Carolina University						
East Carolina University Alumni Association, Inc.	6/30/18	Yes	Dixon Hughes Goodman LLP	No	\$3,459,094	
East Carolina University Educational Foundation, Inc.	6/30/18	Yes	Dixon Hughes Goodman LLP	No	\$28,215,739	
East Carolina University Foundation, Inc. and Consolidated Affiliates	6/30/18	Yes	Dixon Hughes Goodman LLP	No	\$139,553,515	Discretely Presented
East Carolina University Medical & Health Sciences Foundation, Inc.	6/30/18	Yes	Dixon Hughes Goodman LLP	No	\$48,049,181	
Elizabeth City State University						
The Elizabeth City State University Foundation	6/30/18	Yes	Cherry Bekaert, LLP	No	\$8,276,756	Blended
Elizabeth City State University National Alumni Association, Inc.	12/31/18	Yes	Murphy and Company PC	No	\$156,590	
Fayetteville State University						
Fayetteville State University Foundation, Inc., and Subsidiary	6/30/18	Yes	Buie, Norman & Co., P.A.	No	\$10,790,226	Blended
Fayetteville State University Housing Foundation, LLC	6/30/18	Yes	Buie, Norman & Co., P.A.	No	\$2,388,789	Blended
Fayetteville State University Student Housing Corporation and Subsidiary	6/30/18	Yes	Buie, Norman & Co., P.A.	No	\$898,598	Blended
North Carolina A&T State University						
North Carolina A&T State University Alumni Association, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	Yes ₁	\$2,823,729	
North Carolina A&T Real Estate Foundation, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	No	\$26,816,525	Discretely Presented
The Aggie Athletic Foundation of North Carolina A&T State University, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	No	\$1,187,001	
North Carolina Central University						
North Carolina Central University Alumni Association, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	Yes ₁	\$782,694	
The North Carolina Central University Educational Advancement Foundation, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	Yes ₁	\$146,578	
The North Carolina Central University Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$23,048,235	Discretely Presented
NCCU Real Estate Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	(\$371,568)	Blended

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
North Carolina School of Science and Mathematics						
North Carolina School of Science and Mathematics Foundation and Subsidiary	6/30/18	Yes	Williams Overman Pierce, LLP	No	\$16,043,845	Discretely Presented
North Carolina State University						
The North Carolina Agricultural Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$171,351,363	Discretely Presented
NC State Alumni Club, Inc.	12/31/18	Yes	Batchelor, Tillery & Roberts, LLP	No	\$170,798	
NC State Engineering Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$141,721,570	
NC State Investment Fund, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$1,193,020,089	Blended
NC State Natural Resources Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$38,362,543	
North Carolina State University Alumni Association, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$42,579,995	
North Carolina State University College of Sciences Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$25,357,760	
North Carolina State University Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$436,359,139	Discretely Presented
North Carolina State University Club	12/31/18	Yes	Batchelor, Tillery & Roberts, LLP	No	\$8,497,206	
NC State University Partnership Corporation and Affiliates	6/30/18	Yes	BDO USA, LLP	No	\$18,858,520	Blended
North Carolina Textile Foundation, Inc.	6/30/18	Yes	Koonce, Wooten & Haywood, LLP	No	\$48,201,545	
North Carolina Tobacco Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$10,876,596	
North Carolina Veterinary Medical Foundation, Inc.	6/30/18	Yes	BDO USA, LLP	No	\$83,840,380	
NC State Student Aid Association, Inc.	6/30/18	Yes	Elliott Davis, PLLC	Yes ₁	\$80,725,479	Discretely Presented
The University of North Carolina at Asheville						
University of North Carolina Asheville Foundation, Inc.	6/30/18	Yes	Burleson & Earley, P.A.	No	\$39,189,800	Discretely Presented

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
The University of North Carolina at Chapel Hill						
Carolina Angel Network, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	(\$388,338)	
Carolina for Kibera, Inc.	6/30/18	Yes	Koonce, Wooten & Haywood, LLP	No	\$2,861,535	
Carolina Research Ventures, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$807,935	Blended
Carolina Research Venture Investment Fund, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$4,494,284	Blended
Chapel Hill Foundation Real Estate Holdings, Inc.	6/30/18	Yes	KPMG LLP	No	\$7,046,231	
Dental Foundation of North Carolina, Inc.	6/30/18	Yes	Koonce, Wooten & Haywood, LLP	Yes ¹	\$47,702,014	
HVPV Holdings, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$1,701,676	Blended
The Educational Foundation, Inc.	6/30/18	Yes	Batchelor, Tillery, & Roberts, LLP	No	\$16,318,284	
The Kenan-Flagler Business School Foundation	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$134,776,425	Blended
The Medical Foundation of North Carolina, Inc. and Subsidiary	6/30/18	Yes	KPMG LLP	No	\$349,063,638	Discretely Presented
Morehead-Cain Scholarship Fund	6/30/18	Yes	Batchelor, Tillery, & Roberts, LLP	No	\$35,331,928	
North Carolina Botanical Garden Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$6,497,658	
The School of Government Foundation, Inc. and SOG DFI, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$28,091,653	
The School of Media and Journalism Foundation of North Carolina, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$25,007,757	
The School of Social Work Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$13,463,549	
Spirovention Inc.	12/31/17	Yes	Blackman & Sloop, CPAs, P.A.	Yes ¹	(\$464,874)	
University of North Carolina at Chapel Hill Arts and Sciences Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$325,395,901	Discretely Presented

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
The University of North Carolina at Chapel Hill (continued)						
UNC Eshelman School of Pharmacy Foundation	6/30/18	Yes	Koonce, Wooten & Haywood, LLP	No	\$54,465,897	
UNC Investment Fund, LLC	6/30/18	Yes	KPMG LLP	No	\$6,292,826,713	Blended
UNC Intermediate Pool, LLC	6/30/18	Yes	KPMG LLP	No	\$555,128,001	Blended
The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc.	6/30/18	Yes	KPMG LLP	No	\$3,427,065,937	Blended
The University of North Carolina at Chapel Hill Foundation, Inc.	6/30/18	Yes	KPMG LLP	No	\$376,524,306	Blended
The University of North Carolina at Chapel Hill School of Nursing Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$13,212,765	
UNC Global Projects, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$0	
UNC Law Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$62,247,336	Blended
UNC Management Company, Inc.	6/30/18	Yes	KPMG LLP	No	\$17,820,036	Blended
The University of North Carolina at Chapel Hill Public Health Foundation, Inc.	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$71,813,027	
WUNC Public Radio, LLC	6/30/18	Yes	Blackman & Sloop, CPAs, P.A.	No	\$21,516,530	Blended
The University of North Carolina at Charlotte						
The Athletic Foundation of the University of North Carolina at Charlotte	6/30/18	Yes	RSM US LLP	No	\$32,554,391	
The Foundation of The University of North Carolina at Charlotte, Inc.	6/30/18	Yes	RSM US LLP	No	\$165,413,892	Discretely Presented
The University of North Carolina at Charlotte Facilities Development Corporation, Inc.	6/30/18	Yes	RSM US LLP	No	\$3,759,543	Blended
The University of North Carolina at Charlotte Investment Fund, Inc.	6/30/18	Yes	RSM US LLP	No	\$207,707,771	Blended

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
The University of North Carolina at Greensboro						
Capital Facilities Foundation, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$4,785,064	Blended
Serve, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$366,664	
The Alumni Association of the University of North Carolina at Greensboro	6/30/18	Yes	Duncan Ashe, P.A.	No	\$3,415,574	
The UNCG Excellence Foundation	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$130,184,078	Blended
The University of North Carolina at Greensboro Human Environmental Sciences Foundation, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$10,043,085	Blended
Weatherspoon Art Museum Association	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$286,043	
The University of North Carolina at Greensboro Investment Fund, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$293,162,053	Blended
The University of North Carolina at Pembroke						
The UNCP University Foundation, LLC	6/30/18	Yes	Thomas, Judy & Tucker, P.A.	No	(\$30,111)	Blended
The University of North Carolina at Pembroke Foundation, Inc.	6/30/18	Yes	Thomas, Judy & Tucker, P.A.	No	\$15,429,679	Blended
The UNCP Student Housing Foundation, LLC	6/30/18	Yes	Thomas, Judy & Tucker, P.A.	No	\$2,286,638	Blended
The University of North Carolina School of the Arts						
University of North Carolina School of the Arts Foundation, Inc.	6/30/18	Yes	Smith Leonard PLLC	No	\$63,689,934	Discretely Presented
University of North Carolina School of the Arts Housing Corporation	6/30/18	Yes	State of North Carolina Office of the State Auditor	No	\$970,063	Blended
University of North Carolina School of the Arts Program Support Corporation	6/30/18	Yes	State of North Carolina Office of the State Auditor	No	\$1,202,801	Blended
RiverRun International Film Festival	6/30/18	Yes	Butler & Burke, LLP	No	\$300,364	
The Semans Art Fund, Inc.	6/30/18	Yes	Smith Leonard PLLC	No	\$4,133,625	

Summary Report of Major Associated Entities

Campus	Fiscal Year End	Unqualified Audit Opinion	Audit Performed By	Management Letter/Report Issues	Total Net Assets / Net Position	Reporting Status
The University of North Carolina at Wilmington						
The Alumni Association of The University of North Carolina at Wilmington	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$861,230	
The Foundation of the University of North Carolina at Wilmington, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$6,586,888	
UNCW Student Aid Association, Inc.	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$2,197,482	
UNCW Corporation	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$0	Blended
UNCW Research Foundation	6/30/18	Yes	Bernard Robinson & Company, L.L.P.	No	\$413,057	Blended
Western Carolina University						
The Highlands Biological Foundation, Inc.	5/31/18	Yes	Corliss & Solomon, PLLC	No	\$3,727,111	
The North Carolina Arboretum Society	6/30/18	Yes	Carter, P.C.	No	\$2,781,825	
Western Carolina University Foundation	6/30/18	Yes	Burleson & Earley, P.A.	No	\$46,222,209	Blended
Western Carolina University Research and Development Corporation	6/30/18	Yes	Burleson & Earley, P.A.	No	\$2,678,335	Blended
Winston-Salem State University						
Simon Green Atkins Community Development Corporation	6/30/18	Yes	Cannon & Company, LLP	No	\$3,361,183	
Winston-Salem State University Foundation, Inc. and Subsidiary	6/30/18	Yes	Butler & Burke, LLP	No	\$21,763,796	Discretely Presented
Winston-Salem State University National Alumni Association, Inc.	6/30/18	Yes	Butler & Burke, LLP	No	\$156,206	
The University of North Carolina System Office						
The North Carolina Public Television Foundation, Inc.	6/30/18	Yes	Thomas & Gibbs, CPAs, PLLC	No	\$3,077,979	
The University of North Carolina Foundation, Inc.	6/30/18	Yes	Koonce, Wooten & Haywood, LLP	No	\$1,679,632	Blended

Summary Report of Major Associated Entities

Campus / Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
North Carolina A&T State University			
North Carolina A&T State University Alumni Association, Inc.	<p>(1) Preparation of Financial Statements</p> <p>(2) Audit Adjustments</p> <p>(3) Contributions Received and Payments Made on Behalf of the Association</p> <p>(4) Releases of Donor Restriction</p>	<p>(1) In accordance with management's request, the audit firm drafted the Association's June 30, 2018 financial statements. The Association should prepare its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). The Association should implement a plan to prepare GAAP basis financial statements.</p> <p>(2) To enhance the Association's financial reporting process, management should complete a month-end and/or year-end close process to record accrual entries, reconcile all general ledger accounts, and analyze the accounts to ensure the completeness, existence, and accuracy of its financial data prior to commencement of the audit.</p> <p>(3) Periodically (monthly), the Association should request or extract reports from the University accounting system detailing expenses paid and contributions received by the University on the Association's behalf. The transaction activity from the University should be included in all budget to actual reporting and entered in the Association's accounting system. The Association should also enter all invoices as they are received into Quickbooks. Developing procedures for University payments and deposits will increase the accuracy and completeness of financial reporting.</p> <p>(4) During the fiscal year, the Association withdrew \$114,453 from investment accounts to support the Association's operations. However, the investment policy, revised September 2017 only allows \$21,213 (1% of the 12 quarter average investment balance) to be used in operations. The Association should calculate the spendable portion of investment balances prior to the withdrawal of funds. The calculation should be reviewed by the treasurer upon its completion.</p>	<p>(1) The Association will continue transitioning to a modified-cash basis method for its accounting structure and financial reporting. Financial statement templates supplied by the auditor will establish the foundation for change. In addition to the Statement of Financial Position and Budget Analysis, we will include Statement of Cash Flows, Functional Expense Schedule and Statement of Activities in the standard reporting portfolio. (Target: 4Q FY19)</p> <p>(2) The Business Officer and the Executive Director will establish a routine to incorporate standard financial monthly close processes, general ledger reconciliations and fund account analyses. (Target: 4Q FY19)</p> <p>(3) The Business Officer and the Executive Director will establish a monthly routine to extract reports from Banner Finance identifying association-related transactions and to record said transactions as they are incurred. (Target: 4Q FY19)</p> <p>(4) The \$114,453 withdrawn supported the scholarship payment and operations. An ongoing 12-quarter rolling calculation spreadsheet has been developed to ensure accuracy of the calculation. The Business Officer will calculate the withdrawal and the Executive Director and the Treasurer will review before action is taken on the investment accounts. (Target: 4Q FY19)</p>

Summary Report of Major Associated Entities

Campus / Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
North Carolina Central University			
North Carolina Central University Alumni Association, Inc.	(1) Financial Reporting	(1) The financial statements presented to the audit firm contained misstatements that were corrected as a result of two (2) audit adjustments. The audit adjustment relating to in-kind support of \$76,400 was individually significant to the Association's financial statements. These misstatements indicate the Association's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to the reader.	The Association agrees with this finding. We will use this observation as a pre-audit checklist item during our planning and preparation for the Association's audit for the year ending June 30, 2019.
The North Carolina Central University Educational Advancement Foundation, Inc.	(1) Functional Allocation of Expenses (2) Preparation of Financial Statements	<p>(1) The Eagle Club does not allocate expenses on a functional basis during the year in accordance with accounting standards. The Eagle Club should implement policies and procedures to allocate expenses on a functional basis.</p> <p>(2) The financial statements presented to the audit firm contained misstatements that were corrected as a result of five (5) audit adjustments. Two (2) audit adjustments were individually significant to the Eagle Club's financial statements. These adjustments related to: Scholarship expense - The annual scholarship expense amount paid by the Eagle Club to North Carolina Central University (the University) is based on a percentage of the fiscal year's revenue. The amount due for the year ended June 30, 2018 was not paid until after year end, but was not appropriately accrued. In-kind services - The value of University personnel time contributed to the Eagle Club was not recorded in accordance with generally accepted accounting principles.</p> <p>These misstatements indicate the Eagle Club's internal control over financial reporting was not effective, and without these corrections, the financial statements could have been misleading to the reader. The Eagle Club should enhance its knowledge and ability to accurately prepare financial statements in accordance with GAAP.</p>	<p>(1) The NCCU Educational Advancement Foundation(Eagle Club) accepts the recommendation as stated and will implement policies and procedures to allocate expenses.</p> <p>(2) The NCCU Educational Advancement Foundation (Eagle Club), in conjunction with the NCCU Foundation, will prepare its financial statements in accordance with GAAP.</p>

Summary Report of Major Associated Entities

Campus / Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
North Carolina State University			
NC State Student Aid Association, Inc.	<p>(1) Aging of Pledges Receivable</p> <p>(2) Donor System Reconciliation</p> <p>(3) Approval of Journal Entries</p> <p>(4) Written Personnel Policy</p> <p>(5) Contribution Restriction Documentation</p>	<p>(1) Pledges receivable per the donor system should be reconciled to the general ledger on a monthly basis. The Association should establish a written policy related to how the general reserve for pledge receivables is established and monitored. In addition, the policy should address how a specific reserve is established for capital and endowment pledges. Lastly the policy should establish guidelines for when an account should be written off.</p> <p>(2) The general ledger should be reconciled to the donor system monthly. Such a reconciliation is a primary means of preventing or detecting an error or fraud in revenue. It is recommended that a reconciliation of the general ledger to the donor system be made at the end of each month and that any reconciling items be investigated and/or cleared and explained. Lastly, review of the reconciliation should be documented.</p> <p>(3) It is recommended that all journal entries be approved by the CFO, and that review and approval should be documented</p> <p>(4) The Association should develop a written policy to establish guidelines for how compensation rates, fringe benefits, and termination agreements should be authorized and documented.</p> <p>(5) The Association should retain initial bank draft and credit card payment forms to support the intended use of the funds. In addition, the Association should retain email receipt for all contributions received via credit cards over the phone.</p>	<p>(1) The Association chooses not to adjust the pledges receivable on the general ledger each month or any interim periods during the fiscal year. The reasoning behind this is because the Association reports for interim periods under the cash basis of accounting for budget purposes and quarterly reporting required by the Operating Agreement with N.C. State University. The Association will continue to adjust pledges receivable at year-end in order to properly report under generally accepted accounting practices for external reporting. The Finance and Audit Committee of the Board of Directors shall establish a written policy related to the following:</p> <ul style="list-style-type: none"> * How the general reserve for pledges receivable is established and monitored. * How a specific reserve is established for capital and endowment pledges. * Establish guidelines/procedures for when a pledge should be written off. <p>(2) Any changes in the donor system will be posted to the general ledger monthly as applicable for the transaction type. Examples of these types of changes are correcting pledges and/or payments posted to the incorrect allocation. These changes are entered by Gift Processing and should be documented and forwarded to the CFO for processing to the General Ledger. The CFO will direct the Business Manager to record a journal entry into the general ledger system to adjust for any transfers made in the donor system by Gift Processing. With the implementation of a new donor database system, the Association will explore the option for formally linking the new system to the accounting software to best streamline recordkeeping of revenue transactions.</p> <p>(3) From time to time, the Business Manager needs to make journal entries into the accounting system as directed by the CFO. The CFO will prepare the necessary journal entries and provide them to the Business Manager to record into the accounting system. Documentation will also accompany the entries and be kept on file. At the end of each month, a general report will be reviewed and approved by the CFO, including date and time. The approved report will be kept on file by month.</p> <p>(4) The Association is establishing a written personnel policy that includes the procedures for determining and authorizing compensation and the related benefits, as well as any documentation and agreements required. The policy will be constructed within the parameters of the Operating Agreement with the university.</p> <p>(5) The Association shall require all donors on a payment plan to be documented which includes an updated payment method (bank account or credit card information). This documentation should include the donor's gift intent (allocation) for both restricted and unrestricted gifts.</p> <p>The Association will explore the options with the new donor database system of implementing an email receipt acknowledgement process to confirm the donor's intent for all donations made over the phone.</p>

Summary Report of Major Associated Entities

Campus / Associated Entity	Management Letter/Report Issues	CPA Firm's Audit Recommendations	Associated Entity's Response
University of North Carolina at Chapel Hill			
Dental Foundation of North Carolina, Inc.	<p>(1) Bank Reconciliations and Cash Balances</p> <p>(2) Financial Statement Preparation</p> <p>(3) Investment Balances & Reconciliations</p> <p>(4) Fund Accounting</p>	<p>(1) The audit firm noted during the audit that bank reconciliations had not been performed timely. It was recommended that a monthly reconciliation of bank statements to the general ledger be performed timely. Additionally, cash balances of each fund should be reviewed each month for overdrafts or unposted activity.</p> <p>(2) The Organization does not have a system of internal controls that enable management to conclude that the financial statements and related disclosures are complete and presented in accordance with U.S. GAAP. As such, management has requested the audit firm to prepare a draft of the financial statements, including the required footnote disclosures, as well as financial statement reclassification entries when applicable.</p> <p>(3) It was noted during the audit that investment activity was only partially recorded during the year, resulting in large, material adjustments during the audit. It was recommended that investment income as well as investment contributions be recorded and reconciled each month. Investment balances and activity per the University should be reconciled to investment balances kept by the Foundation.</p> <p>(4) The Organization utilizes a system of fund accounting. It was noted that ending fund balances for June 30, 2017 did not agree to opening fund balances for the June 30, 2018 year. It was recommend that opening fund balances be reviewed at the beginning of each fiscal year.</p>	<p>(1) Bank reconciliations are now current and the Foundation has one dedicated accountant supporting the accounting efforts of the Foundation. In addition, another accountant and an accounting technician have been trained in the MIP system and bank reconciliation processes, and they can help the DFNC accountant ensure that the reconciliations and balances are completed in a timely manner. DFNC is current on its bank reconciliations to May 31, 2019. June reconciliation is in progress and will be completed soon.</p> <p>(2) We are assessing handling the preparation internally and associated cost/ benefit to DFNC. It is predicated upon the DFNC accountant handling fewer non-accounting responsibilities such as processing purchasing vouchers, travel reimbursements and other administrative tasks.</p> <p>(3) DFNC would like to maintain its books of record at ConnectCarolina where all funds are accounted for already. MIP only keeps the detailed records of disbursements with expense details. Beginning FY2020, DFNC will start using ConnectCarolina to pay vendors and travel reimbursements to reduce the effort of recording transactions in two accounting systems and to capture the detailed expenditures of ConnectCarolina.</p> <p>(4) To ensure the accuracy of beginning fund balances, we agree with the recommendation that the Foundation record the audit adjustments immediately and supply the audit firm with an adjusted trial balance to confirm the accuracy of the postings.</p>
Spirovention, Inc.	<p>(1) Segregation of Accounting Duties</p> <p>(2) Contract Accounting</p>	<p>(1) It was noted that there is limited personnel, who are responsible for all accounting functions, including receiving and posting cash, preparing disbursements, recording journal entries, and reconciling accounts. Adequate segregation of duties is not possible in a small organization, so it was recommended that the CEO and the Board of Directors remain involved in the monthly review of financial information.</p> <p>(2) In order to properly recognize revenue on contracts, receipts and disbursements should be entered into the accounting system by contract. QuickBooks has a feature for entering transactions by 'job' or 'class'. Utilizing this feature, every contract the Organization enters into can be tracked as a job or class in QuickBooks, thereby allowing management to monitor all receipts and disbursements for those contracts. This would help management determine on a monthly basis the status of every contract, and improve reporting to the board.</p>	<p>(1) Given Spirovention's extremely small size, this comment will remain. However, Spirovention will continue to involve the Board members in the operation and accounting areas of this portion of the business as recommended. As noted due to limited personnel true segregation is impossible. However, Spirovention does and will continue to segregate expenses and payments from accounts receivable. The contract accountant is responsible for sending out all payments and has the authority to do so only with a proper and approved invoice that is submitted to her by the CEO. All bank statements will be reviewed by the CEO and be made available to the board to ensure that no unapproved payments have been made. The contract accountant does not have other access to the bank account and The CEO is responsible for all deposits to segregate duties as much as possible. Additionally, Spirovention will provide the Board accounting documents multiple times a year (at least after the audit and at every board meeting).</p> <p>(2) As noted in the previous finding Spirovention has implemented a policy of providing executed contracts with payment schedules to the contract accountant. These will be recorded in job/class feature in QB to enter receipts/disbursements by contract; due to the timing of 2016 audit, was not possible for the 2017 audit. However, moving forward beyond that this issue will be resolved and utilized to have better oversight and records.</p>