AGENDA
ECU Board of Trustees
Audit Committee Meeting
ECHI Conference Room
September 24, 2009
8:30 am

I. Approval of April 16, 2009 Minutes  Action

II. Research Compliance Report  Information

III. BSOM Compliance Report  Information

IV. Enterprise Risk Management Report  Information

V. Internal Audit Report
   a. Audit Plan  Action
   b. Certification Letters  Information
   c. New Requirements UNC-GA  Information
   d. Dashboard  Information

VI. Other Business
Minutes from ECU BOT Audit Committee
April 16, 2009
East Carolina Heart Institute – Conference Room B

Committee members present: Joel Butler-Chair, Bruce Austin, Carol Mabe,
Robert Greczyn
Executive Council Members present: Donna Payne
Others Present: Stacie Tronto, Steve Duncan, Greg Hassler, Jack Brinn

Chairman Butler convened the meeting at 10:10 a.m. and read the conflict of
interest provisions as required by the State Government Ethics Act. Mr. Butler
asked if anyone would like to declare a conflict of interest. Hearing none, he
asked for the approval of the minutes for the February 26, 2009 Audit Committee
meeting. The minutes of the February 26, 2009 meeting were approved.

Donna Payne, University Attorney, updated the committee on the status of the
“Policy on Policies.” ECU is adopting the NCSU model with a few changes and
hopefully this policy will be approved this fall. The draft policy is going through a
vetting process with key campus groups such as Faculty Senate, Staff Senate,
SGA, etc.

Stacie Tronto, Director of Internal Audit, presented a “draft” template of a
dashboard report. The template was discussed and audit committee members
gave feedback on the key information they would like presented in the report.
Carol Mabe stated she would like to see if the University is having the same
findings every year or if the University is improving in the areas being reported as
having weak internal controls. Internal Audit will continue to develop a
dashboard report on audit issues that are identified, management’s resolution of
these audit issues, and the productivity of the internal audit staff. A revised
template will be presented at the next audit committee meeting.

Stacie Tronto, Director of Internal Audit, provided an update on Internal Audit’s
risk assessment methodology that is utilized to build the annual audit plan.
Normally, the Internal Audit team interviews over 200 people in order to assess
the risks to individual units and processes. This year, the methodology will be
changed to include: (1) a brainstorming session with the Enterprise Risk
Management committee to identify key University risks, (2) the utilization of IT’s
risk assessment, and (3) a fraud risk assessment conducted by Internal Audit. It
is hoped in the near future that Enterprise Risk Management will have a mature
model that Internal Audit can utilize in the determination of the annual audit plan.

Stacie Tronto, Director of Internal Audit, discussed the letter received from UNC-
GA regarding the NC Office of the State Auditor IT report. Whenever the
University has State Auditor findings, it has 90 days to make satisfactory
progress in resolving those audit findings. If satisfactory progress has not been
made, the University runs the risk of losing its management flexibility status.
ECU has received a letter from UNC-GA stating that ECU has complied with the audit finding resolution requirements. ECU was also commended for the dedicated manner in which the audit findings were addressed.

With regard to other business, the audit committee requested that Enterprise Risk Management provide an update to the audit committee on a regular basis. The audit committee also requested that Internal Audit update the Executive Council on audit issues and resolutions on a more routine basis such as quarterly or semi-annually rather than when an issue arises. Ms. Tronto also discussed the Title IX audit that had been requested by the Chancellor. Ms.Tronto shared the audit plan with the committee and explained that it would be a very time consuming audit that would require a great deal of cooperation and time from the Athletics department.

With there being no other business, the meeting adjourned at 11:15 a.m.

Respectfully submitted by Stacie Tronto
MEMORANDUM

To: Audit Committee of the ECU BOT

From: John Chin
Director, Office of Research Compliance Administration

Re: Compliance report for the period February 2008 to August 2009

This is a brief summary of the activities of ECU’s Office of Research Compliance Administration (ORCA) for the period February 2008 to August 2009.

Research Compliance areas

- **Export Control** – The NC State General Administration (GA) required that all NC State universities have in place a policy on export controls. ECU developed a policy for export control along with a plan for addressing export control issues. The ECU Executive Committee approved the export control plan in December. The plan included creation of an Export Control Advisory Committee (ECAC) and a process for monitoring exporting activities.

  Export controls is a minor risk at ECU. Procedures are in place to monitor all international shipments. International travel by ECU faculty and staff, incoming international visitors, and computer equipment such as laptops taken out of the country remains a risk for ECU and those who export internationally. For those situations where ECU is given prior notification of exporting, training and informational briefing have occurred.

- **IBC (Biohazards and Select Agents and Radiation Hazards)** - The Institutional Biosafety Committee (IBC) reviews applications for use of biohazards and recombinant DNA (rDNA) by ECU researchers. The federal Office of Biotechnology Assessment (OBA) has oversight of these research projects. ECU was recently audited by the State for radiation safety and no major findings were reported.

- **IRB** – The IRB has a new director and she is in the process of making improvements in the office. The FDA visited the IRB and had no findings. The UMCIRB had an excellent report from the FDA. Since the last Audit Committee report, the IRB has submitted three reports of non-compliance to the Office of Human Research Protection (OHRP), the federal agency with oversight of human subject research. OHRP has scheduled a not for cause visit to ECU next month.

- **Responsible Conduct of Research** – Since the last report to this committee, there has been 2 allegations of scientific misconduct. ORCA did not find evidence of misconduct with one of the allegation, as the alleged misconduct did not occur at ECU but at a
collaborator’s institution. The other allegation of scientific misconduct is currently being reviewed in accordance with ECU Faculty Manual. ORCA will need to review the procedures for addressing allegations of scientific misconduct as described in the Faculty manual because it needs to be updated to follow UNC policies and the guidelines from the Office of Research Integrity, the federal agency with oversight in this area. Changes to the Faculty manual will require Faculty Senate review and approval.

• Conflict of Interest – Conflicts of Interest (COI) disclosures for 2009 have been completed. All ECU EPA employees are in compliance with disclosure requirements as described in the Faculty Manual, Appendix I. New unit reporting forms were used that gave more information to ORCA. Over 2,500 COI disclosures were made. Of these, 78 EPA employees reported a COI. Many of these reports involve the use of a faculty’s textbook in a required class. ORCA will meet with each of the EPA employee who reported a COI to insure an appropriate management plan is in place and provide a COI briefing. ORCA and HR are collaborating to provide COI training to all new EPA employees. ORCA in consultation with ECU legal counsel is revising Appendix I (COI policy) and the external professional activities for pay as found in the Faculty manual.

Please call me at 328-9473 if you have any questions regarding this memo. Thank you.
<table>
<thead>
<tr>
<th>Description</th>
<th>Budget Status</th>
<th>Budgeted Hours</th>
<th>%age of Total</th>
<th>Risk Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operational Audits:</strong></td>
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<td>EAGLE Assessments</td>
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<td>Dining</td>
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<td>Housing</td>
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<td>E&amp;Y Financial Aid and Student Receivables</td>
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<td>E&amp;Y Contracts and Grants</td>
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<td>E&amp;Y Purchase to Pay</td>
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<td>700</td>
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<td>E&amp;Y General Acctg, Fin. Reporting, and Budgeting</td>
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<td>Graduate School</td>
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<td>Continuing Studies</td>
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<td>Title IX - Athletics</td>
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<td>4%</td>
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<td><strong>Information Technology Audits:</strong></td>
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<td></td>
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<tr>
<td>Disaster Recovery 2009</td>
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<td>1%</td>
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<td>240</td>
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<td>University's Mobile Computing Practices</td>
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<td><strong>Special Reviews:</strong></td>
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<td>Special Reviews - Pending (1000)</td>
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<td>Recreation and Leisure Studies</td>
<td>CYP</td>
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<td>Medium</td>
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<td>International Affairs Issue</td>
<td>WIP</td>
<td>100</td>
<td>1%</td>
<td>High</td>
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<td>Review of Employee Entry/Exit Processes</td>
<td>WIP</td>
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<td>2nd Follow-Up OSA 2006-07 Reportable Conditions</td>
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<td>1380</td>
<td>12%</td>
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**Budget Status:**
- BF = Brought Forward From Previous Year's Plan
- AYP = Added to Current Year Plan
- CYP = Current Year Plan
- CYP-B = Current Year Plan (Budgeted under Special Reviews - Pending)
- WIP = Work-In-Progress
## East Carolina University
Office of Internal Audit
Annual Engagement Plan
By Type
FY 2009-2010

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget Status</th>
<th>Budgeted Hours</th>
<th>%age of Total</th>
<th>Risk Ranking</th>
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<td><strong>Follow-Up Reviews:</strong></td>
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<td></td>
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<tr>
<td>University Policies, Procedures, and Training (L08031)</td>
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<tr>
<td>Maritime Studies (L08030)</td>
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<td>40</td>
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<tr>
<td>Readmission of Student (L08020)</td>
<td>BF</td>
<td>40</td>
<td>0%</td>
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<tr>
<td>O/S 06/07 Audit - 2nd FU Radiation Oncology (N07015)</td>
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<tr>
<td>O/S 07/08 Audit - 2nd Student Life Meal Cards (L07035)</td>
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<td>40</td>
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<td>O/S 07/08 Audit - 2nd SOA Issuance of Keys (L07007)</td>
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<td>Fundraising Events (L08008)</td>
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<td>Moving Expenses (L07055)</td>
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<td>CHSC Employee Expenses (L08011)</td>
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<td>Chemistry Payroll &amp; Admin (L08021)</td>
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<td>Chemistry Purchases &amp; Inventory (L08058)</td>
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<tr>
<td>REAP Expense Review (L09014)</td>
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<tr>
<td>Biology Research (L08036)</td>
<td>CYP</td>
<td>20</td>
<td>0%</td>
<td>Medium</td>
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<tr>
<td>ECU Police Department (L09041)</td>
<td>CYP</td>
<td>10</td>
<td>0%</td>
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<tr>
<td>O/S 06/07 Audit - Friends of Joyner Library (L05039)</td>
<td>WIP</td>
<td>20</td>
<td>0%</td>
<td>Low</td>
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<tr>
<td><strong>Total Follow-Up Review Audit Hours</strong></td>
<td></td>
<td>700</td>
<td>6%</td>
<td></td>
</tr>
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</table>

| **Special Projects:**                                                       |               |                |               |              |
| Consultations                                                              | CYP           | 600            | 5%            | High         |
| Continuous Auditing/Monitoring                                             | CYP           | 1000           | 9%            | High         |
| Fraud Risk Assessment                                                      | CYP           | 200            | 2%            | High         |
| Internal Audit 2011 Quality Assurance Review                               | CYP           | 200            | 2%            | High         |
| Risk Assessment 2010/2011                                                  | CYP           | 100            | 1%            | High         |
| Risk Assessment 2009/2010                                                  | WIP           | 40             | 0%            | High         |
| **Total Special Project Hours**                                            |               | 2140           | 19%           |              |
| **Total Audit Hours**                                                      |               | 11340          | 100%          |              |

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Chancellor/Date

ECU BOT Audit Committee Chair/Date
UNC Board of Governors
P. O. Box 2688
Chapel Hill, North Carolina 27515-2688

Dear UNC BOG:

In accordance with the Best Financial Practices Guidelines adopted by the Board of Governors in November 2005, I confirm that the Board of Trustees (BOT) Audit Committee of East Carolina University is in compliance with the following (any exceptions must be identified and explained in an accompanying statement):

1. Met at least four times this year.
2. Reviewed the results of the annual financial audit with the State Auditor or his designated representative.
3. Discussed the results of any other audit performed and report/management letter (i.e., information system audits, investigative audits, etc.) issued by the North Carolina Office of the State Auditor with either the State Auditor or his staff, the Director of Internal Audits or appropriate campus official.
4. For any audit finding contained within a report or management letter issued by the State Auditor, reviewed the institution's corrective action plan and received a report once corrective action has taken place.
5. Discussed the results of any audit performed by independent auditors and, if there were audit findings, reviewed the institution's corrective action plan and received a report once corrective action has taken place.
6. Reviewed all audits and management letters of University Associated Entities as defined in Section 600.2.5.2 [R] of the UNC Policy Manual.
7. Received quarterly or four reports from the institution’s Director of Internal Audit that, at a minimum, reported material (significant) reportable conditions, the institution’s corrective action plan for these conditions and a report once these conditions have been corrected.
8. The institution’s Director of Internal Audit reports directly to the Chancellor with a clear and recognized reporting relationship to the chair of the BOT Audit Committee.
9. Received, reviewed, and approved the annual audit plan for the internal audit department.
10. Received and reviewed an annual summary of the audits performed by the internal audit department.
11. The institution's Director of Internal Audit forwarded copies of both the approved audit plan and the summary of internal audit results to UNCGA in the prescribed format.

Chair of BOT Audit Committee
Director of Internal Audit  
Certification Letter FYE 2009  
July 15, 2009

UNC Board of Governors  
P. O. Box 2688  
Chapel Hill, North Carolina 27515-2688

Dear UNC BOG:

As Director of Internal Audit at East Carolina University, I confirm that we are in compliance with the following (any exceptions must be identified and explained in an accompanying statement):

1. Met and updated the BOT Audit Committee at least four times this year.

2. Attended the financial audit exit conference conducted by the State Auditor or his designated representative.

3. Discussed the results of any other audit performed and report/management letter (i.e. information system audits, investigative audits, etc.) issued by the North Carolina Office of the State Auditor with either the State Auditor or his staff or appropriate campus official.

4. I report directly to the Chancellor with a clear and recognized reporting relationship to the chair of the BOT Audit Committee.

5. The audit plan was constructed with the consideration of risk and potential internal control deficiencies and included any audits outlined by the UNC General Administration (UNCGA).

6. Ensured that all internal audits were planned, documented and executed in accordance with professional standards.

7. Forwarded copies of both the approved audit plan and the summary of internal audit results to UNCGA in the prescribed format and updated the BOT Audit Committee for completion.

[Signature]
Director of Internal Audit

East Carolina University is a constituent institution of the University of North Carolina. An Equal Opportunity/Affirmative Action Employer.
July 22, 2009

MEMORANDUM

TO:     The Chancellors

FROM:   Rob Nelson

Recently, the Audit Committee of the Board of Governors asked us to review the independence and reporting relationship between the Internal Auditor, the Chancellor, and the Chair of the Audit Committee of the Board of Trustees at each institution. During that process, we learned that the Internal Auditors are not routinely notified by university management when the University receives notification from external auditors about an upcoming audit.

Please ensure that your Director of Internal Audit receives notification about all external audits from the Office of the State Auditor or any other regulatory organization.

Additionally, the Internal Auditors should be notified of audits performed on Foundations and other associated entities of the institution. The Internal Auditor should be copied on all correspondence related to these audits and should be included in entrance and exit conferences associated with these audits.

When there are audit findings included in audits of associated entities, the Internal Auditors shall evaluate and report the resolution of any findings. At the request of the Chancellor, the Chair of the Audit Committee of the Board of Trustees, the President, or the Board of Governors, the Internal Auditors will perform detailed procedures on the adequacy of the corrective actions taken by these organizations as a result of their findings.

Please forward this correspondence to the Chief Executive Officer and the Chief Financial Officer of all Foundations and other associated entities of your institution.

c:    President Erskine Bowles
         Mr. Frank Daniels
         Mr. Jeffrey Henderson
         Chief Finance Officers
         Directors of Internal Audit
Results of Independence Assessment for UNC Internal Auditors

At the January 8th meeting of the Board of Governors Audit Committee, Mr. Daniels asked for an evaluation of the reporting relationships for each Director of Internal Audit in the UNC System to ensure compliance with State and Board of Governors requirements. Specifically, the Audit Committee wants assurance that the Internal Audit function on each UNC campus maintains the appropriate level of independence and objectivity.

The objectives of the evaluation were threefold, as follows:

1. To evaluate the reporting relationship between the internal audit division, the chancellor, and the audit committee of the Board of Trustees.
2. To evaluate the qualitative interaction between the internal audit director, the chancellor, and the audit committee of the Board of Trustees.
3. To determine if the internal audit division has the freedom to act on anything it believes is necessary and to report the results of the work performed without influence or interference from campus administrators or outside parties.

To meet these objectives, the following procedures were performed:

1. Reviewed organizational chart for reporting relationships.
2. Reviewed policies and procedures for description of this relationship.
3. Obtained / Reviewed 2008 Compliance Certifications from the Internal Audit Directors and the Chairs of the Board of Trustees’ Audit Committee.
4. Interviewed the Internal Audit Director.
5. Interviewed the Chancellor.
6. Interviewed the Audit Committee chair.

We obtained the audit charter and organizational chart for each internal audit organization and reviewed the reporting relationship of each Internal Audit Director for each of the seventeen constituent institutions within the University of North Carolina system. We also reviewed the 2008 Compliance Certification from each Internal Audit Director to determine that the compliance requirements were met. We developed a core set of questions for discussion with the Internal Audit Director, the Chancellor, and the chair of the Audit Committee for each campus. We met with each of these individuals separately to discuss working relationships and other qualitative aspects of the Internal Audit function on each campus. These meetings (51 interviews in total) were held over an eight week period of time. Every participant on every campus was both supportive of this effort and cooperative.
Overall Assessment

Our interviews with each of the Directors of Internal Audit indicated they have the appropriate level of independence on their campus and they have the freedom to perform audit and investigative work and report the results of that work without influence or interference from campus administrators or outside parties. Our interviews with each of the Chancellors confirmed the comments of the Directors of Internal Audit. The Chancellors were very supportive of the work performed by the Internal Auditors and believed their work was valuable to their institutions. Likewise, the interviews with the Audit Committee chairs indicated that the internal auditors were able to perform their work free of outside influence. None of the Audit Committee chairs received any complaints or concerns from the Internal Audit Directors to indicate that they had been directed not to perform any audit or had been asked to make substantive changes to audit reports. Our evaluation also confirmed that each of the Internal Audit organizations had an appropriate Internal Audit charter. We noted that the organizational chart at each institution contained an appropriate reporting relationship for the Internal Audit organization within the institution.

Overall, it appears the reporting relationship for each Director of Internal Audit in the University of North Carolina System is in compliance with State and Board of Governors requirements.

Other Issues

During our interviews, the following issues emerged that require further evaluation and action:

Staffing – A number of institutions expressed the need for additional auditors. There is a specific need for auditors proficient in information systems auditing. Five campuses have only one internal auditor. Two campuses are meeting their internal audit needs through contract auditors. Increasing the number of internal auditors in the UNC system would allow for greater cross-training, specialization, succession planning, and risk mitigation. We plan to gather and evaluate addition information about university internal audit staffing levels and make recommendations.

Executive Committee Participation – Representatives at several institutions expressed a belief that the Director of Internal Audit should be a member of the institution’s Executive Committee. Internal Audit participation in campus governance would be advisory in nature. The belief is that participation at this level would provide Directors of Internal Audit advisory input from a risk mitigation perspective on the front-end of campus decisions. The internal auditor would be a non-voting member. Directors of Internal Audit already participate at this level of campus administration at some UNC institutions. Again, we plan to gather and evaluate additional information on this topic and make recommendations.
Audit Committee Expectations – The audit committee chair at one institution expressed the need for more guidance from General Administration on the expectations for the audit committee. He was specifically interested in how active the audit committee should be in internal audit activities. He also wanted guidance from General Administration on specific areas of attention for the audit committee. Another audit committee chair expressed the need for standards to ensure that the right people are placed at the head of the audit committee. He wants to ensure that only business, accounting, and financial professionals chair the audit committee. As a first step, we will distribute a “best practices” guide for university audit committees to the audit committee chairs on each campus. Additional guidance will be provided to audit committees as necessary.

Continuous Quality Improvement – Representatives at several institutions asked for feedback on areas for improvement following our meetings with internal auditors, chancellors, and audit committee chairs. We intend to communicate the results of this project to internal auditors, chancellors and audit committees from a best practice perspective to optimize the internal audit function on every UNC campus. In addition, every UNC campus is now required to undergo a periodic “peer review” to ensure compliance with professional internal auditing standards.
Internal Audit-Dashboard Report
ECU BOT Audit Committee Meeting
September 24, 2009

Summary of Audit Observations:

Year-end Metrics:

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<tr>
<th></th>
<th>08/09</th>
<th>07/08</th>
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<tbody>
<tr>
<td>Productivity Goal = 70%</td>
<td>72%</td>
<td>71%</td>
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<tr>
<td>Completion of Audit Plan</td>
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<td>Projects Completed</td>
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<td>Audits</td>
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<td>3/457/9</td>
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<tr>
<td>Special Reviews</td>
<td>17/1252/38</td>
<td>26/2172/47</td>
</tr>
<tr>
<td>Recommendations Made</td>
<td>56</td>
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</tr>
<tr>
<td>Management's Corrective Actions</td>
<td>75%</td>
<td>88%</td>
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<tr>
<td>Consultations</td>
<td>129</td>
<td>202</td>
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<tr>
<td>Operating Budget</td>
<td>$25,700</td>
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New Initiatives: Continuous Auditing
Fraud Risk Assessment
External Quality Assurance Review