AGENDA
ECU Board of Trustees
Audit Committee Meeting
Mendenhall Student Center, Great Room 1
Thursday, September 25, 2008
9:00 am

I. Approval of April 17, 2008 Minutes  Action

II. Approval of Revised Audit Committee Charter  Action

III. Approval of Revised Internal Audit Charter  Action

IV. Approval of 2008-2009 Annual Audit Plan  Action

V. Certification Letters and Audit Plan – UNC GA and Council of Internal Auditing  Information

VI. EAGLE Testing Results  Information

VII. Office of State Auditor IT Audit Results  Information

VIII. Internal Audit Annual Report FYE 2008  Information

IX. Management Control Policy  Information

X. Research Compliance Officer Report  Information

XI. Other Business  Discussion
Minutes from ECU BOT Audit Committee  
April 17, 2008  
Mendenhall Student Center

Committee members present:  Joel Butler-Chair, Bruce Austin, and Carol Mabe  
Executive Council Members present:  Paul Zigas, John Durham, Kevin Seitz  
Others Present:  Stacie Tronto, Gregg Hassler, Steve Duncan

Chairman Butler convened the meeting at 10:00 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 minutes of the February 21, 2008 to be approved. The minutes of the February 21, 2008 meeting were approved.

Ms. Stacie Tronto, the Director of Internal Audit, discussed the ECU 2006-2007 Financial Audit report that was issued by the North Carolina Office of the State Auditor in March of 2008. It was reported there are two reportable conditions dealing with fixed assets. A corrective action plan has been submitted to the Chancellor and the audit findings should be satisfactorily resolved within the 90 day deadline.

The revised 2007-2008 Annual Audit plan was discussed. Two audits were added to the plan totaling 340 audit hours as of March 29, 2007. A request was made to cancel two of the planned audits regarding “Research Administration” and “Cell Phone and Parking Review”. This would reduce the audit hours by 365 hours. A motion was made to approve the revised 2007-2008 Annual Audit plan. The motion carried and was approved by all committee members.

In March of 2008, Dr. Ballard and Chairman Butler sent to the ECU community a letter of support for the Internal Audit function. The letter asked the ECU community to support the Internal Audit function as well.

Ms. Tronto reported to committee that the process for developing the 2008-2009 audit plan was under way. Ms. Tronto explained that the plan is developed using a risk-based approach and documents were shared with the committee regarding the risk assessment process.

The EAGLE project was also discussed with the audit committee. Ms. Tronto explained this project is North Carolina’s new internal control program established by the Office of the State Controller (OSC) that is going to be implemented in phases in State government. East Carolina University is part of the Phase I implementation of EAGLE. Dr. Steve Duncan has been appointed the Internal Controls Officer and will function as the liaison between OSC and East Carolina University. Ms. Tronto explained that management or the functional areas are responsible for documenting their internal control processes.
and the Office of Internal Audit is responsible for testing the controls documented by management. Ms. Tronto explained that she did not know how many hours would be required by the Internal Audit function to fulfill the requirements of EAGLE, which would have an affect on the completion of the current audit plan.

Ms. Tronto updated the committee on the current status of the Council of Internal Auditing. The Council is currently discussing the professional standards that Internal Audit functions should abide by. Currently, the Internal Audit Act requires that Internal Audit follow the Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors or if, appropriate Government Auditing Standards issued by the Comptroller General of the United States. The Council is considering that Internal Audit must primarily abide by Government Auditing Standards. Ms. Tronto explained this would have an impact on the function of Internal Audit but didn’t yet the extent of the impact.

Ms. Tronto updated the committee with regard to the internal audit resources that had been requested. The resource request was submitted to management on August 13, 2007, but there has been no news if the resources are going to be funded.

With there being no other business, the meeting adjourned at 11:00 a.m.

Respectfully submitted by Stacie Tronto
II. Approval of Revised Audit Committee Charter

East Carolina University
Proposed Audit Committee Charter
Last Date of Approval: 09/07/07

Background

All constituent institutions of the University of North Carolina (UNC) are required by State law to have their financial audit conducted by the North Carolina Office of the State Auditor. Historically, the Office of the State Auditor has not performed non-audit services, including those prohibited by the Sarbanes-Oxley Act. The Office of the State Auditor determines staff assignments for individual audits, including rotation of Audit Managers for each audit client.

Purpose

To assist the East Carolina University Board of Trustees in fulfilling its oversight responsibilities for (1) the integrity of the University's financial statements, (2) the University's compliance with legal, regulatory, and ethical requirements, (3) the performance of the University's internal audit function, and (4) the University's compliance with the Best Financial Practices Guidelines adopted by the UNC Board of Governors in November of 2005.

Organization

The Audit Committee shall be a standing committee of the ECU Board of Trustees. Each Committee member must be independent of management and free of any relationship that would impair such independence.

If practicable, at least one member of the Committee should be a financial expert. A financial expert is someone who has an understanding of generally accepted accounting principles and financial statements; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; and an understanding of the audit committee function. If feasible, the role of financial expert will be rotated on an annual basis.

Meetings

The audit committee shall meet at least four times a year and hold additional meetings as circumstances require. The Committee will invite representatives of management, auditors, legal counsel, and others to attend meetings and provide pertinent information as necessary. It will also hold private meetings with the Director of Internal Audit if deemed necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of the meetings will be prepared.
Duties and Responsibilities

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

Per UNC-BOG:

- Meet at least quarterly during the year.
- Review the results of the annual financial audit with the North Carolina State Auditor or his designated representative.
- Discuss the results of any other audit performed and report/management letter (i.e. information system audits, investigative audits, etc.) issued by the North Carolina State Auditor with either the State Auditor or his staff, the Director of Internal Audit, or appropriate campus official.
- For any audit finding contained within a report or management letter issued by the State Auditor, review the institution’s corrective action plan and receive a report once corrective action has taken place.
- Discuss the results of any audit performed by independent auditors and, if there were audit findings, review the institution’s corrective action plan and receive a report once corrective action has taken place.
- Review all audits and management letters of University Associated Entities as defined in section 600.2.5.2[R] of the UNC Policy Manual.
- Receive quarterly reports from the Director of Internal Audit that, at a minimum, reports material (significant) reportable conditions, the corrective action plan for these conditions and a report once these conditions have been corrected.
- The Director of Internal Audit reports to the Chancellor with a clear, recognized reporting relationship to the chair of the BOT Audit Committee.
- Receive, review, and approve the annual audit plan for the internal audit department.
- Ensure that all internal audits were conducted in accordance with professional standards.
- Receive and review an annual summary of audits performed by the internal audit department.
- Ensure the Director of Internal Audit forwards copies of both the approved audit plan and summary of internal audit results to UNC General Administration in the prescribed format.

Other:

- Review and concur in the appointment, replacement, or dismissal of the Director of Internal Audit and the compensation package.
- Meet privately with the Director of Internal Audit as deemed necessary.
- Review and assure the internal audit function has appropriate budget and staff resources.
- Review and accept internal audit reports when issued.
- Periodically review and revise the internal audit charter as needed.
- Resolve disagreements between internal audit and management concerning audit findings and recommendations.
II. Approval of Revised Audit Committee Charter

The Committee, with the assistance of the Director of Internal Audit should periodically review and assess the adequacy of the Audit Committee Charter.

Approved September 11, 2007
III. Approval of Revised Internal Audit Charter

East Carolina University
Office of Internal Audit and Management Advisory Services

Proposed Revised Internal Audit Charter

Last Date of Approval: 10/24/03

Mission and Scope of Work

The mission of the Office of Internal Audit and Management Advisory Services (OIAMAS) is to provide independent, objective assurance and consulting services designed to add value and improve the organization’s operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of work of the OIAMAS is to determine whether the organization’s network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

- Risks are appropriately identified and managed.
- Interaction with the various governance groups occurs as needed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees’ actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.
- Programs, plans, and objectives are achieved.
- Quality and continuous improvement are fostered in the organization’s control process.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

Opportunities for improving management control and the organization’s image may be identified during audits. They will be communicated to the appropriate level of management.

Accountability

The Director of Internal Audit, in the discharge of his/her duties, shall be accountable to the East Carolina University Board of Trustees through the Audit Committee and the Chancellor, to:
III. Approval of Revised Internal Audit Charter

- Provide annually an assessment on the adequacy and effectiveness of the organization’s processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
- Report significant issues related to the processes for controlling the activities of the organization and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
- Periodically provide information on the status and results of the annual audit plan and the sufficiency of the internal audit department resources.
- Coordinate internal activities with other monitoring functions such as risk management, compliance, security, legal, ethics, environmental, and external audits.

**Independence**

The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results. To provide for the independence of the OIAMAS, its personnel report to the Director of Internal Audit, who reports administratively to the Chancellor and functionally to the Audit Committee. The Director shall have full and independent access to the Chancellor and the Audit Committee.

Functional oversight by the Audit Committee includes:

- Approve the annual internal audit plan and monitor progress quarterly.
- Review and accept internal audit reports when issued.
- Periodically review and revise the internal audit charter as needed.
- Confirm and assure the independence of the internal audit function.
- Review and concur in the appointment, replacement, or dismissal of the Director of Internal Audit and the compensation package.
- Review and assure the internal audit function has appropriate budget and staff resources.
- Meet privately with the Director of Internal Audit as deemed necessary.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors’ *Standards for the Professional Practice of Internal Auditing*.
- Resolve disagreements between internal audit and management concerning audit findings and recommendations.

Administrative oversight by the Chancellor includes day-to-day oversight such as approval of Director of Internal Audit annual leave and travel.

**Responsibility**
III. Approval of Revised Internal Audit Charter

The Director and staff of the Internal Audit Department have responsibility to:

- Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the Chancellor and Audit Committee for review and approval as well as periodic updates.
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management and the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirement of the Charter.
- Evaluate and assess significant functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
- Issue periodic reports to management, the Chancellor and Audit Committee summarizing results of audit activities.
- Keep the Chancellor and Audit Committee informed of emerging trends and successful practices in internal auditing.
- Provide a list of significant measurement goals and results to the Chancellor and Audit Committee.
- Assist and/or conduct the investigation of suspected fraudulent activities within the organization and notify the Chancellor and the Audit Committee of the results.
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization.
- Serve as a liaison between University management and external auditors.
- As appropriate, provide consulting services to management that add value and promote the best interests of the organization.

- Establish a quality assurance program by which the Director of Internal Audit assures the operation of internal audit activities.
- Ensure the requirements are met with regard to internal audit activities as set forth by UNC-BOG and Council of Internal Auditing.

Authority

The Director and staff of the Internal Audit Department are authorized to:

- Have unrestricted access to all functions, records, property, and personnel.
- Allocate resources, set frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish audit objectives.
- Provide consulting services to management as deemed appropriate.

The Director and staff of the Internal Audit Department are not authorized to:
III. Approval of Revised Internal Audit Charter

- Perform any operational duties for the organization or its affiliates.
- Initiate or approve accounting transactions external to the Internal Audit Department.
- Direct the activities of any organization employee not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

Standard of Audit Practice

The Internal Audit Department will meet or exceed the Standards for the Professional Practice of Internal Auditing of The Institute of Internal Auditors or if appropriate Government Auditing Standards issued by the Comptroller General of the United States. 

Approved by Board of Trustees 10/24/03
Audit Plan Pending
Board of Trustee Audit Committee

Certification Letter FYE 2008

August 29, 2008

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

Dear Mr. Smith:

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
V. Certification Letters and Audit Plan - UNC GA and Council of Internal Auditing

Office of Internal Audit and Management Advisory Services
Greenville, NC 27858-4354
252-328-9025 office
252-328-4340 fax

Director of Internal Audit
Certification Letter FYE 2008
August 29, 2008

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

Dear Mr. Smith:

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.
September 2, 2008

Dr. C. Steve Duncan
Internal Controls Officer
East Carolina University
Greenville, NC 27834

Re: Management Letter – EAGLE Testing for 2007-08 Fiscal Year

Dear Dr. Duncan:

As you know, “Enhancing Accountability in Government through Leadership and Education” (EAGLE) is the State of North Carolina’s new internal control program. The program was established by the Office of the State Controller (OSC) to meet the requirements of House Bill 1551, Chapter 143D, “State Governmental Accountability and Internal Control Act.” As a frame of reference, this program can be thought of as the North Carolina state government’s version of the Sarbanes-Oxley Act which is applicable to publicly held companies throughout the nation.

Under the EAGLE Program, each state agency is required to perform an annual assessment of internal control over financial reporting. This assessment is submitted to the Office of the State Controller and 2008 is the first year that this reporting is required.

At ECU, the following responsibilities were assigned in relation to this program for the 2007-08 fiscal year:

1. **Financial Services** analyzed the financial statements and, using the guidelines provided by OSC, identified accounts that were considered “high risk”.
2. **Financial Services and functional business areas** identified the processes that feed transactions into these high risk accounts, and applied criteria developed by OSC to identify certain processes as “high risk”.
3. **Financial Services and functional business areas** documented these “high risk processes”, to include the internal controls that are present to mitigate the risk of financial statement misstatements and fraud. As part of this documentation process, Financial Services and functional
business areas identified any controls which they knew should be strengthened. *This principle of management taking responsibility for internal controls is one of the core tenets of the EAGLE program.*

4. **Internal Audit** tested the “high risk processes” to determine whether or not the controls are functioning as intended by management, and whether or not the controls appear to provide adequate mitigation of the risks of financial statement misstatements and fraud.

The following processes were identified as high risk by Financial Services and functional business areas:

<table>
<thead>
<tr>
<th>Process</th>
<th>Affected Financial Statement Account(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patient Coding and Billing</td>
<td>Patient Services, Net receipts</td>
</tr>
<tr>
<td>Patient Receivables Write-offs</td>
<td>Patient Receivables</td>
</tr>
<tr>
<td>Direct Payments</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Record employee time</td>
<td>Accrued Payroll/Personal Services</td>
</tr>
<tr>
<td>Cash Receipts (West Campus)</td>
<td>Pooled Cash</td>
</tr>
<tr>
<td>Housing Misc. Charges Assessment</td>
<td>Sales and Services - Residential Life</td>
</tr>
<tr>
<td>Dining Charge Assessment</td>
<td>Sales and Services - Dining</td>
</tr>
<tr>
<td>Reconcile Fixed Asset Ledger to General Ledger</td>
<td>Machinery and Equip/Accumulated Depreciation</td>
</tr>
<tr>
<td>Evaluate Useful Life of Asset</td>
<td></td>
</tr>
<tr>
<td>Perform Annual Asset Inventory</td>
<td></td>
</tr>
</tbody>
</table>

This management letter is submitted to you as a result of our office’s testing of the identified “high risk” processes. Our review was performed in accordance with the *Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors. Our testing fieldwork was completed on August 28, 2008.
In summary, our testing revealed that of 46 critical internal controls in the aforementioned processes, 38 were found to be effective. The control weaknesses noted during our testing are documented on the attached Issue Summary Log, which has been submitted to the Office of the State Controller in accordance with EAGLE program guidelines. All issues have been communicated to management in the appropriate functional areas, and each area has submitted a plan of action for resolving the applicable control weaknesses. Our office will follow-up during the 2008-09 EAGLE testing cycle.

Conclusion
We appreciate the professionalism and cooperation of staff and management personnel across the campus. We realize, as you do, that this testing was completed immediately following fiscal year-end, which is typically an extremely busy time of year for many of the personnel who provided information for our review.

If you have any questions or concerns, please do not hesitate to contact us. We look forward to working with you in future endeavors.

Respectfully submitted by:

Wayne B. Poole, MBA, CIA, CISA
Assistant Director, Office of Internal Audit

Stacie Tronto, MBA, CISA, CIA, CFE
Executive Director, Office of Internal Audit

Atch: EAGLE Program Issue Summary Log, as submitted to the Office of the State Controller

cc: Dr. Steve Ballard – Chancellor
Audit Committee – ECU Board of Trustees
Mr. John Durham – Executive Director of University Communications
 and Assistant Secretary to the ECU Board of Trustees
Dr. Judi Bailey – Senior Executive Director of Enrollment Management
Mr. Michael Dowdy – Vice Chancellor for University Advancement
Dr. Phyllis Horns – Interim Vice Chancellor for Health Sciences
Dr. Deirdre Mageean – Vice Chancellor for Research, Graduate Studies and Economic Development
Mr. Kevin Seitz – Vice Chancellor for Administration and Finance
Dr. Marilyn Sheerer – Interim Provost and Vice Chancellor for Academic Affairs and Student Life
Ms. Anne Jenkins – Associate Vice Chancellor for Administration and Finance
Mr. David Price – Financial Director
Mr. David King – UNC General Administration
Mr. Bobby Matthews – UNC General Administration
Council of Internal Auditing
Mr. Ray Whitby, Jr. – North Carolina Office of the State Auditor
### EAGLE Program
**Issue Summary Log**
East Carolina University
30-Jun-08

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>K.2</td>
<td>Patient Receivables Write Offs</td>
<td>Write-offs of $500 or more must be reviewed and co-signed by a supervisor.</td>
<td>W3</td>
<td>Review of support documentation for 40 sample writeoffs revealed that supervisor/manager approval is documented for 37 of the 40 sample writeoffs. Exception rate is 3/40, or 7.5%.</td>
<td>Without dual control, the risk of a single person intentionally or unintentionally making an erroneous write-off is heightened. This risk is mitigated to a degree by control W0, which was deemed effective during testing.</td>
<td>Management should ensure that all data entry personnel and supervisors are aware of the requirement to obtain next level supervisor/manager approval prior to entering writeoffs of $500 or more.</td>
<td>(Provided by Frank Evans, Director of Clinical Financial Services). We agree with this recommendation and will implement appropriate changes by September 2008.</td>
</tr>
<tr>
<td>K.2</td>
<td>Patient Receivables Write Offs</td>
<td>An annual random review of employees' and family members' accounts is performed to ensure postings are appropriate.</td>
<td>W8</td>
<td>Documentation indicated that reviews of Clinical Financial Services employees' accounts were completed in Sep-Oct 2007 and in Feb 2008. Testimony of the Patient Accounting Manager revealed that her review included patients with the same last name and address as the employee. Testimony of the Patient Accounting manager also revealed that there is no documented awareness training as stated in Patient Accounting policy titled Quality Review and Internal Control Standards, but that employees do sign an agreement not to access their account or family members' accounts when they begin their employment in the Clinical Financial Services Department.</td>
<td>Since the criteria and process that are followed in the review of employee/family member accounts are not completely documented, we cannot conclude on the effectiveness of this control.</td>
<td>Management should ensure that Patient Accounting policies reflect current controls. Management should thoroughly document the criteria and results of the reviews of employee and family member accounts.</td>
<td>(Provided by Frank Evans, Director of Clinical Financial Services). We agree with this recommendation and will implement appropriate changes by September 2008.</td>
</tr>
<tr>
<td>K.3</td>
<td>AP Direct Payments</td>
<td>Employee signs the Direct Pay request form certifying they have not received a reimbursement for the expenditure</td>
<td>DP2</td>
<td>Payee signature requirement (for employee reimbursements) - this control is not actually in place. The payee signature requirement for reimbursements has recently been added to a revised Direct Payment Request Form and the Policy for this new requirement has not been released. Accounts Payable is not enforcing this requirement since the policy regarding payee signatures has not been released.</td>
<td>Lack of communication of reimbursement policies may result in confusion and non-compliance with said policies.</td>
<td>Management should implement the proposed payee signature policy and require the use of the new Direct Payment request form as soon as feasible. Any policy changes should be communicated to employees as widely as possible.</td>
<td>(Provided by David Price, Financial Director). Management concurs with the recommendation, and will issue a memo to campus via ECU Official notifying departments to use the new form. The new form will be attached to the communication as well.</td>
</tr>
<tr>
<td>K.3</td>
<td>AP Direct Payments</td>
<td>All documents must be reviewed for approval signatures, accuracy and completeness by the AP tech</td>
<td>DP4</td>
<td>The University does not have a delegated signature authority policy. The testing sample had employees with delegated authority filling out Direct Payment Request Forms and approving the forms using their delegated authority. Delegated employees are using initials beside the approvers name, instead of their signature. Delegated authority is being addressed in another audit.</td>
<td>Without a delegated signature policy and a list of expenditure approvers, the accounts payable office cannot verify whether or not an expense has been legitimately approved. Further, managers and directors who are responsible for University funds may not be aware of how these funds are being used, and the risk of misuse is heightened.</td>
<td>Management should develop and implement a policy to provide guidelines for the appropriate delegation of signature authority and approval authority for financial transactions at the University.</td>
<td>(Provided by David Price, Financial Director). Management concurs with this recommendation. A policy providing the guidelines for defining and documenting the appropriate delegation of signature authority and approval authority for financial transactions will be developed.</td>
</tr>
<tr>
<td>K.3</td>
<td>AP Direct Payments</td>
<td>Access to the invoice entry forms in the Banner Finance module is limited to AP technicians based on assigned job functions</td>
<td>DP6</td>
<td>At the time of our field work, two terminated employees and one employee with changed job duties still had modify access to the Banner invoice entry form. Issue already addressed in another internal audit.</td>
<td>Users with unwarranted access to the invoice entry function in Banner heighten the risk of inappropriate functions being made to outside parties.</td>
<td>Management should ensure that access to the invoice entry form and other critical information system functions is reviewed and updated on a regular basis.</td>
<td>(Provided by David Price, Financial Director). Management concurs with the observation and recommendation. Access has been terminated for the three individuals referred to in the observation. Further, Financial Services will develop a process to periodically review the appropriateness of access rights granted to the invoice entry form and other critical information system functions.</td>
</tr>
<tr>
<td>----</td>
<td>------------------------------</td>
<td>-------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>K.5</td>
<td>MFPP Cash Receipts</td>
<td></td>
<td>A supervisor is required to verify all amounts on the Cash Activity Batch Control Summary and sign off.</td>
<td>Review of the Cash Activity Batch Control Summary forms for four sample days revealed several instances where the dual signature by a local or clinic site supervisor was not documented or was questionable. The error rate in this sample was 4%.</td>
<td>Without dual control of cash and other liquid assets, the risk of theft or misuse is heightened.</td>
<td>DHS Cashier’s Office should identify and investigate instances of omitted or questionable dual signatures on these forms as they are received. (Provided by Suzanne Imboden, Carol Fornes and Gary Vanderpool – Division of Health Sciences Administration). Health Sciences management agrees that dual signatures on the Cash Activity Batch Control Summary forms are an important internal control measure and will implement the action plan as defined below on or before September 30, 2008. (Auditor Note: the aforementioned plan of action is on file in ECU Internal Audit. It was too lengthy for inclusion here.)</td>
<td></td>
</tr>
<tr>
<td>K.6</td>
<td>Misc Adjustments to Student Housing Accts</td>
<td></td>
<td>Approval should be. Advance payments are recorded on pre-numbered duplicate receipts; all pre-numbered forms used in sequence and accounted for. Receipts are reconciled monthly against the student Banner accounts to ensure charges were posted.</td>
<td>Payment was posted to the student account for 18 of 18 sample advance payment forms that were found on file. However, for two additional Advance Payment transactions in our sample, the source documents could not be located. In addition, although pre-numbered forms are used to document advance payment transactions, the numerical sequencing was not maintained/accounted for, duplicate Advance Payment form numbers were ordered and used, and old Advance Payment forms had been destroyed without documentation of the form numbers that were destroyed.</td>
<td>Failure to account for all of the pre-numbered Advance Payment forms heightens the risk that payments may be received but not posted to the appropriate accounts.</td>
<td>Management should ensure that procedures are established to maintain and account for all pre-numbered advance payment forms, to use these forms in numerical sequence, and to periodically reconcile these forms with the student accounts to ensure payments have been posted. (Provided by David Bock, Assistant Director for Finance, Campus Living). Campus Living agrees with the finding and recommendation and has already ordered bound, pre-numbered receipt books. The receipt books will remain in the Finance office or assigned to an area for use and then returned to Finance. The payments will be reconciled with the student accounts periodically. The receipt books should be delivered and used by October 1, 2008. We are currently maintaining the numerical sequence of the Advance Payment forms we are using until the receipt books arrive.</td>
<td>(Provided by Stephanie Coleman, Accountant, Student Life and Financial Services). By December 1, 2008, Housing will discontinue collecting advance payments from students face to face and refer them to the Cashier’s Office. Financial Services will work on a report from Student Banner to obtain a list of all students that have paid the advance payments to ensure that a signed contract is on file and that all contracts Housing receives has an advance payment paid. The only receipts that will be sent will be the ones that arrive in postal mail. Housing’s literature will state to send contract and payment to the Cashier’s Office. Another situation where receipt books may be used is during return students sign up. Discussions will occur between housing and cashier to determine if this would create too much traffic on the Cashier. This is typically a 2-3 week period of time in February.</td>
</tr>
</tbody>
</table>
### K.6 Misc Adjustments to Student Housing Accounts

**Issue Summary:**
All sampled adjustments or charges were posted to the student account. However, control weaknesses were noted. The Account Adjustment form was not on file for 9 of 33 students in our sample. In addition, a copy of the Account Adjustment forms is not retained on file in the Campus Living Finance Office. Finally, there is no process for reconciliation of Account Adjustment forms to ensure that all charges have been posted to student accounts.

**Risk Implication:**
Failure to retain source documentation for payment transactions and reconcile the Account Adjustment forms with the student account increases the risk that student charges are incurred but not posted to the correct account(s).

**Recommendation:**
Management should ensure that procedures are established to retain source documentation for miscellaneous housing charges, and to periodically reconcile these with the student accounts to ensure charges have been posted.

**Management’s Response:**
Management agrees with the finding and recommendation. The Finance department has already changed the Account Adjustment form to a 4-part form with the original and a copy going to the Cashier, a copy staying temporarily in the Finance office, and a copy put in the student’s file. The process for reconciliation of Account Adjustment forms to ensure that all charges have been posted to student accounts.

*(Provided by David Buck, Assistant Director for Finance, Campus Living)*

### K.7 Dining charges entered in student accounting system

**Issue Summary:**
Reconciliation is performed timely, and differences are resolved. However, there was no evidence of reconciler’s or Food Service Director’s sign off on reconciliation. Food Service Director must review since reconciler also has access to enter data in CBORD and Banner.

**Risk Implication:**
Without the Food Service Director’s review, the risk of a single person entering transactions undetected is heightened.

**Recommendation:**
Management should ensure that the reconciler and Food Service Director document their review/approval of the periodic reconciliation of the CBORD Central Office Transactions records and Banner account postings.

**Management’s Response:**
Management agrees with this Recommendation and has already implemented this process.

*(Provided by Joyce Sakeley, Food Service Director/Contract Manager)*

### K.8 Reconcile Fixed Assets to General Ledger

**Issue Summary:**
Reconciliation of accumulated depreciation in Banner Fixed Assets module to GL.

**Risk Implication:**
Incomplete reconciliation processes heighten the risk of inaccurate financial statements.

**Recommendation:**
Management should ensure that processes are implemented to reconcile accumulated depreciation in the Banner Fixed Assets module to the general ledger, and to reconcile the fixed assets subsidiary ledger to the general ledger at year end.

**Management’s Response:**
Management concurs with the audit issue and recommendation. Effective with the 2009 fiscal year, accumulated depreciation and fixed asset balances in the Banner Fixed Assets module will be reconciled to the general ledger. Financial Services and the Fixed Assets Office will work together to provide an accurate and timely reconciliation.

*(Provided by David Price, Financial Director)*
Audit Report Pending
INTERNAL AUDIT ACTIVITY
ANNUAL REPORT
FISCAL YEAR 2007-2008

Office of Internal Audit and
Management Advisory Services
July 14, 2008
# Table of Contents

MESSAGE FROM THE DIRECTOR .......................................................................................... 3  
MISSION AND OVERVIEW OF INTERNAL AUDIT FUNCTION .................................. 5  
FINANCIAL EXPENDITURES ............................................................................................. 8  
PRODUCTIVITY PERCENTAGES ..................................................................................... 9  
SUMMARY OF AUDIT SERVICES ................................................................................... 10  
COMPLETION OF AUDIT PLAN ...................................................................................... 11  
MANAGEMENT CORRECTIVE ACTIONS ....................................................................... 14  
RISK BASED AUDIT METHODOLOGY/CORE BUSINESS FUNCTIONS ............. 15  
CONSULTATIONS ........................................................................................................... 18
Message from the Director…

Approximately 5 years ago, as the Interim Director of Internal Audit, I recognized that our office was not strategically aligned or equipped to assist East Carolina University in meeting its goals and objectives. The current staff and I decided to realign the internal audit function with that of the University and incorporate internal audit best practices. This was a five year plan and I am happy to report that we have accomplished thirty-two of the thirty-four goals. Some of the most notable goals that we have accomplished over the past five years with the support of the Chancellor, the ECU Board of Trustees, and Senior Management include:

- Changed reporting structure to report functionally to the Audit Committee of the ECU Board of Trustees and administratively to the Chancellor to facilitate independence.
- Developed and implemented an audit committee charter.
- Revised the internal audit charter to reflect the new definition of Internal Audit and reporting structure.
- Changed the title of the department from “Office of the Internal Auditor” to “Office of Internal Audit and Management Advisory Services”
- Implemented Institute of Internal Auditor’s professional standards and code of ethics to include workpaper standards, a project tracking system, a follow-up tracking mechanism, and professional development standards.
- Developed and implemented internal audit activities manual, which contains policies and procedures of the internal audit function.
- Developed and implemented risk-based audit plans.
- Restructured internal audit department staff and requested a re-study of audit positions in order to align these positions with private industry.
- Developed and implemented internal quality assurance assessment plan.
- Revised Internal Audit website and developed brochure explaining Internal Audit services.
- Received a “Quality Assurance Review” from the Institute of Internal Auditors.
- Recruited an IT Auditor that received training in computer forensics utilizing EnCase® software and developed “Incident Response” policies and procedures.
- Revised audit report formats and now deliver reports electronically to include a quarterly report of internal audit activities.
- Created and delivered numerous presentations and a brochure on the role of the internal audit function.
- Implemented a hotline to report fraud, waste, and abuse.

As we move forward, the Office of Internal Audit and Management Advisory Services continues to review industry best practices as it relates to internal audit and determine if those practices are applicable to the University. We also strive to obtain input from the Chancellor, Senior Management, Board of Trustees,
UNC General Administration, and other colleagues on their expectations of the internal audit function and how we can partner with each group and add value to the University. We have many challenges ahead of us but our number one goal is to offer a respectable value added product to the University. This is our first yearly report and we hope you find the contents informative with regard to the activities of the Office of Internal Audit and Management Advisory Services.

Stacie Tronto, MBA, CISA, CIA, CFE
Executive Director, Office of Internal Audit and Management Advisory Services
Mission and Overview of Internal Audit Function

Mission

The mission of the Office of Internal Audit and Management Advisory Services (OIAMAS) is to provide independent, objective assurance and consulting services designed to add value and improve the organization’s operations. It helps the organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Reporting Structure

The Office of Internal Audit and Management Services reports functionally to the Audit Committee of the East Carolina University Board of Trustees and administratively to the Chancellor and has five professional staff members and one audit director. Three personnel have professional certifications such as Certified Public Accountant, Certified Internal Auditor, Certified Information Systems Auditor, and Certified Fraud Examiner. Two personnel have a Master of Business Administration degree.

The Office of Internal Audit and Management Advisory Services follow professional standards and conducts its audits in accordance with the Institute of Internal Audit’s (IIA) International Standards for the Professional Practice of Internal Auditing. OIAMAS also follows COBIT standards when conducting information technology audits and Governmental Auditing Standards when applicable. We also follow the IIA’s Code of Ethics, which promotes integrity, objectivity, confidentiality, and competency.

In keeping with the Institute of Internal Audit standards, the Director must have a strong working relationship with the audit committee. Therefore, the Director provides results of audits and other internal audit activities to the audit committee on a regular basis. Further, the Director assists the audit committee to ensure its charter, activities, and processes are appropriate to fulfill its responsibilities; ensures that the charter, role, and activities of internal audit are clearly understood; maintains open and effective communications with the audit committee and the chairperson; and keeps the audit committee informed of emerging trends and best practices.
Audit Services

In order to meet the responsibilities and objectives as set forth in the Audit Charter, it is necessary for OIAMAS to perform reviews and audits of varying types and scopes depending on the circumstances and requests from management. Each fiscal year an annual audit plan is developed and submitted to the Chancellor and Audit Committee of the ECU Board of Trustees for review and approval. The audit plan is based on a risk assessment methodology, as well as requests from management. Audit services can be requested by members of the university community through memos, e-mail or by phone. The following types of audit services are provided by OIAMAS.

Audit Liaison Officer:

The Director of OIAMAS has been designated by the Chancellor to serve in the capacity of Audit Liaison Officer. In this role, the Director and other members of the department are the initial contact point and coordinators of external audit activities. In accordance with UNC General Administration requirements (McCoy, 7/16/96), “the Internal Auditor will be informed by the Chancellor, deans, and department heads of all internal reviews being conducted by other university employees. Any reports and related work papers resulting from these reviews will be accessible to the Internal Auditor for follow-up.”

Copies of all University audit findings and recommendations issued to management by external auditors and investigators along with University responses are forwarded to the OIAMAS in a timely manner. During the period of resolution, OIAMAS monitors the progress of the corrective action being implemented. Upon implementation of the recommendation or other alternative action by management, the Internal Auditor performs verification procedures to ensure that the stated plan of action has in fact been implemented and issues a status report.

Financial Audits:

A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity to financial information with generally accepted accounting principles. Financial audits can be full or limited in scope, depending on the objectives.

A full scope financial audit consists of a review of the financial statements of an entity of sufficient extent to express an opinion on those statements. Such an audit is conducted in accordance with generally accepted auditing standards as adopted by the AICPA. The North Carolina Office of the State Auditor normally performs the University’s financial audit. External accounting firms perform the Foundation audits.
Financial audits that are limited in scope are normally performed by OIAMAS. These audits can include a transaction cycle review of administrative systems such as purchasing, payroll, and payables or a special examination of the financial activities of a decentralized university department.

**Operational Audits:**

Operational audits are concerned with the effectiveness and efficiency of operational units within the University. Effectiveness measures how successfully an organization achieves its goals and objectives. Efficiency measures how well an entity uses its resources to achieve its goals.

**Compliance Audits:**

A compliance audit measures the compliance of the client with some established University, Federal, or State laws, regulations, and/or policies.

**Information Technology Audits:**

Information technology audits are conducted to evaluate the quality of the controls and safeguards over the information technology resources of the University. These audits normally consist of reviewing the effective use of information technology resources, adherence to management’s policies, and to encourage the design and implementation of adequate controls over computer applications and the computing environments in which they are used.

**Investigative Audits:**

These audits are normally requested by management and/or anonymous tips and focus on alleged, irregular conduct. Reasons for investigative audits include: internal theft, misuse of State property, and/or conflicts of interest.

**Consultations/Advisory Services:**

The Office of Internal Audit and Management Advisory Services also provides routine consultation and advisory services to University management. This may include but is not limited to interpreting policies and procedures, participation on standing committees, limited-life projects, ad-hoc meetings, education and training, and routine information exchange.

**Year-end Work – State Auditors:**

The Office of the Internal Audit and Management Advisory Services provides assistance to the NC State Auditors by conducting and/or compiling the following:
• Petty Cash Counts and Bank Certifications
• Listing of Audit Engagements
• Listing of ECU Related Corporations
• Inventory for University Printing & Graphics, Brody School of Medicine, and Student Health Services
• Fixed Assets Inventory

**Other**

Other special projects may be performed by OIAMAS as delegated by the UNC General Administration, ECU Board of Trustees, the Chancellor, or other University management. It should also be noted that when feasible, OIAMAS takes an integrated audit approach in performing audit services, which involves combining financial, operational, compliance, and information technology audits. This approach is a cost saving measure that results in a broader coverage of assurance.

### Financial Expenditures

The following table depicts the financial expenditures for the last three fiscal years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$327,162.55</td>
<td>$380,152.64</td>
<td>$416,451.26</td>
</tr>
<tr>
<td>Benefits</td>
<td>67,358.80</td>
<td>73,922.26</td>
<td>88,230.65</td>
</tr>
<tr>
<td><strong>Total Labor Expenses</strong></td>
<td>$394,521.35</td>
<td>$454,074.90</td>
<td>$504,681.91</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>2,413.81</td>
<td>2,686.54</td>
<td>2,211.17</td>
</tr>
<tr>
<td>Reference Materials</td>
<td>5,094.05</td>
<td>3,520.09</td>
<td>2,874.94</td>
</tr>
<tr>
<td>Training</td>
<td>9,434.29</td>
<td>14,414.75</td>
<td>15,696.03</td>
</tr>
<tr>
<td>Membership Dues</td>
<td>1,650.00</td>
<td>1,970.00</td>
<td>1,995.00</td>
</tr>
<tr>
<td>Telephone, Copies, Postage</td>
<td>1,834.29</td>
<td>1,649.94</td>
<td>1,547.62</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>724.32</td>
<td>593.27</td>
<td>1,135.69</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>273.00</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$21,150.76</td>
<td>$24,834.59</td>
<td>$25,733.45</td>
</tr>
<tr>
<td><strong>Total Labor &amp; Operating Expenses</strong></td>
<td>$415,672.11</td>
<td>$478,909.49</td>
<td>$530,415.36</td>
</tr>
<tr>
<td>Quality Assurance Review (One Time)</td>
<td>13,398.50</td>
<td>8,762.80</td>
<td></td>
</tr>
<tr>
<td>Relocation of Office (One Time)</td>
<td>29,826.42</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Total One Time Expenses</strong></td>
<td>$43,224.92</td>
<td>$8,762.80</td>
<td>-</td>
</tr>
<tr>
<td><strong>Grand Total of Expenses</strong></td>
<td>$458,897.03</td>
<td>$487,672.29</td>
<td>$530,415.36</td>
</tr>
</tbody>
</table>
Our annual operating budget, which does not include labor expenses, is approximately $25,700. The biggest expense is training, which comprises 61% of our expenditures for fiscal year 2007-2008. Training is very important as it keeps the staff up-to-date on the latest audit techniques and information. The Chancellor and the Vice Chancellor for Administration and Finance have been very supportive of the budget requests for OIAMAS. In the previous fiscal year, they provided an increase of $6,000 for training and an in-range salary adjustment for all staff auditors in order for the staff salaries to be competitive with the market rate. This helps with the retention of professional staff in OIAMAS. They also provided one-time funds of approximately $25,000 in order for OIAMAS to obtain an external quality assessment review, which is required by the IIA’s Standards.

Productivity Percentages

Our productivity goal is 70%, which means we strive to spend at least 70% of our time on direct audit hours. Direct audit hours are comprised of audits, follow-ups, special reviews, special projects, consultations, external auditor assistance, and routine tasks. An example of a routine task is the review of North Carolina State Bureau of Investigation reports to determine if there is an internal control weakness. Indirect audit hours are comprised of training, leave time, and administrative time. Actual productivity for this fiscal year was 71% as compared to last fiscal year’s productivity ratio of 68%. The 71% represents 9,071 staff hours dedicated to the audit function. The actual hours by percentage are depicted in the chart below.
The following table depicts a summary of audit services performed for fiscal year 2007-2008 as well as the previous fiscal year. Number completed is the number of actual audits, follow-ups, consultations, or special projects that were completed for that year. Staff hours are the number of staff hours it took to complete the service and observations are the number of findings that were noted in the reports. For follow-up reviews, observations represent the reportable conditions that had not been resolved by management as of the date of the follow-up review.

<table>
<thead>
<tr>
<th>Audit Service</th>
<th>#Completed/Staff Hours/Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY 2007-08</td>
</tr>
<tr>
<td><strong>Audits:</strong> Audits are designed to review departmental processes using a systematic and disciplined approach. These audits may include financial, operational, compliance, and information technology.</td>
<td>3 audits 457 hrs. 9 obs.</td>
</tr>
<tr>
<td><strong>Special Reviews:</strong> Management may also request a special review be conducted for a limited issue that does not constitute a financial, operational, compliance, or information technology audit. Special reviews also include investigations in response to allegations of fraud, waste, and abuse.</td>
<td>26 audits 2172 hrs. 47 obs.</td>
</tr>
<tr>
<td><strong>ECU Follow-Up Reviews:</strong> Follow-up reviews are performed to determine if management has resolved the observations identified in the ECU Internal Audit reports and management letters.</td>
<td>14 follow-ups 758 hrs. 5 obs.</td>
</tr>
<tr>
<td><strong>External Auditor Follow-Up Reviews:</strong> These are follow-ups conducted by OIAMAS with regard to external auditor reportable conditions to determine if management has resolved the conditions.</td>
<td>5 follow-ups 194 hrs. 3 obs.</td>
</tr>
<tr>
<td><strong>Consulting Services:</strong> Consulting services are requested by management and may include, but is not limited to, interpreting policies and procedures, participation on standing committees, limited-life projects, ad-hoc meetings, education and training, and routine information exchange.</td>
<td>202 consults 1212 hrs. NA</td>
</tr>
<tr>
<td><strong>Special Projects:</strong> Includes special initiatives that are initiated by Internal Audit that do not fall into the service categories above. Examples are Enterprise Risk Management, Fraud Awareness Plan, Annual Risk Assessment, etc.</td>
<td>2 projects 58 hrs. NA</td>
</tr>
</tbody>
</table>
Completion of Audit Plan

For this fiscal year, OIAMAS completed 59% of its amended audit plan as compared to 52% last fiscal year. The table below depicts the number of planned audits, audits added, audits cancelled, and audits completed for the last two fiscal years.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of Audits Planned</td>
<td>66</td>
<td>92</td>
</tr>
<tr>
<td>Total Number of Audits Added</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>Total Number of Audits Cancelled</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Audits in Plan as Amended</strong></td>
<td><strong>85</strong></td>
<td><strong>94</strong></td>
</tr>
<tr>
<td><strong>Total Audits Completed</strong></td>
<td><strong>50</strong></td>
<td><strong>49</strong></td>
</tr>
<tr>
<td><strong>Percentage of Audit Plan Completed</strong></td>
<td><strong>59%</strong></td>
<td><strong>52%</strong></td>
</tr>
</tbody>
</table>

| Total Budget Audit Hours Planned         | 6,226        | 7,558        |
| Total Budget Audit Hours Added           | 1,419        | 757          |
| Total Budget Audit Hours Cancelled       | 440          | 176          |
| **Total Budget Audit Hours as Amended**  | **7,205**    | **8,139**    |
| **Total Actual Audit Hours**             | **6,715**    | **6,445**    |

* Includes hours for audits started in that fiscal year but not completed.

The audit plan for fiscal year 2007-2008 was developed using a risk based audit methodology and available auditor hours. Available auditor hours was developed using a weighted average of 4.75 FTEs that equates to 5,928 available audit hours. Although there are five professional staff members, one of the staff members performs administrative duties such as ordering supplies, travel, and maintaining leave records as the OIAMAS does not have an administrative assistant to perform these duties. Also, the number of planned hours exceeds the available hours as we are understaffed by two FTEs. A request has been made for two FTE positions. See the section on Risk Based Audit Methodology for an explanation of how audits are selected for the audit plan each fiscal year.

The table on the following page depicts the audits that have been completed for this fiscal year. Note that an audit may cross fiscal years and budgeted hours may not match the current fiscal year audit plan.
### Operational Audits:

- **Financial Aid - Phase 2B of 4**
  - Budgeted Hours: 400
  - Actual Hours: 941
  - Variance: (541)
  - Risk Ranking: High
  - # of Obs: 6

### Compliance Audits:

- **SRCI/UNC Mgmt. Flexibility - 2006/2007**
  - Budgeted Hours: 256
  - Actual Hours: 372
  - Variance: (116)
  - Risk Ranking: High
  - # of Obs: 1

### Information Technology Audits:

- **Disaster Recovery Test - 2006/2007**
  - Budgeted Hours: 100
  - Actual Hours: 96
  - Variance: 4
  - Risk Ranking: High
  - # of Obs: 2

### Special Reviews:

- **Faculty Course Materials**
  - Budgeted Hours: 40
  - Actual Hours: 119
  - Variance: (79)
  - Risk Ranking: High
  - # of Obs: 2

- **Dept of Chemistry - Hotel**
  - Budgeted Hours: 40
  - Actual Hours: 36
  - Variance: 4
  - Risk Ranking: High
  - # of Obs: 2

- **University Policies, Procedures, and Training**
  - Budgeted Hours: 40
  - Actual Hours: 7
  - Variance: 33
  - Risk Ranking: High
  - # of Obs: 2

- **QS1 Application PCI Compliance**
  - Budgeted Hours: 40
  - Actual Hours: 15
  - Variance: 25
  - Risk Ranking: High
  - # of Obs: 0

- **Issuance of Firearm and Unmarked Police Vehicle**
  - Budgeted Hours: 40
  - Actual Hours: 25
  - Variance: 15
  - Risk Ranking: High
  - # of Obs: 2

- **Peds - Equipment**
  - Budgeted Hours: 40
  - Actual Hours: 62
  - Variance: (22)
  - Risk Ranking: High
  - # of Obs: 0

- **School of Art Faculty Issue**
  - Budgeted Hours: 40
  - Actual Hours: 100
  - Variance: (60)
  - Risk Ranking: High
  - # of Obs: 3

- **Foreign Language - Conflict of Interest**
  - Budgeted Hours: 100
  - Actual Hours: 74
  - Variance: 26
  - Risk Ranking: High
  - # of Obs: 4

- **Student Readmission**
  - Budgeted Hours: 100
  - Actual Hours: 112
  - Variance: (12)
  - Risk Ranking: High
  - # of Obs: 4

- **State Vehicle and Time Abuse**
  - Budgeted Hours: 40
  - Actual Hours: 120
  - Variance: (80)
  - Risk Ranking: High
  - # of Obs: 0

- **Athletics - Track**
  - Budgeted Hours: 100
  - Actual Hours: 129
  - Variance: (29)
  - Risk Ranking: High
  - # of Obs: 1

- **CHSC Physical Security Controls**
  - Budgeted Hours: 40
  - Actual Hours: 138
  - Variance: (98)
  - Risk Ranking: High
  - # of Obs: 6

- **Athletic Scholarship**
  - Budgeted Hours: 100
  - Actual Hours: 146
  - Variance: (46)
  - Risk Ranking: High
  - # of Obs: 2

- **Maritime Studies Field School Funds**
  - Budgeted Hours: 256
  - Actual Hours: 150
  - Variance: 106
  - Risk Ranking: High
  - # of Obs: 6

- **Housing - Leave Issues**
  - Budgeted Hours: 40
  - Actual Hours: 158
  - Variance: (118)
  - Risk Ranking: High
  - # of Obs: 1

- **CHSC - Use of Resources**
  - Budgeted Hours: 40
  - Actual Hours: 180
  - Variance: (140)
  - Risk Ranking: High
  - # of Obs: 3

- **Student Financial Aid Verification**
  - Budgeted Hours: 160
  - Actual Hours: 332
  - Variance: (172)
  - Risk Ranking: High
  - # of Obs: 0

- **Communication and Fine Arts Keys**
  - Budgeted Hours: 40
  - Actual Hours: 126
  - Variance: (86)
  - Risk Ranking: Medium
  - # of Obs: 2

- **USDA Grant Review**
  - Budgeted Hours: 100
  - Actual Hours: 79
  - Variance: 21
  - Risk Ranking: Medium
  - # of Obs: 0

- **Student Life Meal Cards**
  - Budgeted Hours: 100
  - Actual Hours: 33
  - Variance: 67
  - Risk Ranking: Low
  - # of Obs: 1

- **Exercise and Sport Science**
  - Budgeted Hours: 40
  - Actual Hours: 13
  - Variance: 27
  - Risk Ranking: Low
  - # of Obs: 0

- **Equipment Relocation to Germany**
  - Budgeted Hours: 40
  - Actual Hours: 17
  - Variance: 23
  - Risk Ranking: Low
  - # of Obs: 1

- **ITCS Employee Timekeeping**
  - Budgeted Hours: 40
  - Actual Hours: 31
  - Variance: 9
  - Risk Ranking: Low
  - # of Obs: 1

- **IM - Patient Enhancement Project**
  - Budgeted Hours: 40
  - Actual Hours: 55
  - Variance: (15)
  - Risk Ranking: Low
  - # of Obs: 2

- **Unauthorized Discounts**
  - Budgeted Hours: 100
  - Actual Hours: 85
  - Variance: 15
  - Risk Ranking: Low
  - # of Obs: 0

- **Faculty Moving Expenses**
  - Budgeted Hours: 40
  - Actual Hours: 149
  - Variance: (109)
  - Risk Ranking: Low
  - # of Obs: 2

The above table is continued on the following page.
VIII. Internal Audit Annual Report FYE 2008

<table>
<thead>
<tr>
<th>Audits Completed FY 2007-2008</th>
<th>Budgeted Hours</th>
<th>Actual Hours</th>
<th>Variance</th>
<th>Risk Ranking</th>
<th># of Obs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Follow-Up Reviews:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RDI Telephone</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>OIG EDOIG/A09G0033</td>
<td>40</td>
<td>89</td>
<td>(49)</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>Compliance with I-9</td>
<td>40</td>
<td>84</td>
<td>(44)</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>State Audit 2006-2007 Reportable</td>
<td>100</td>
<td>55</td>
<td>45</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>State Audit 2005-2006 Reportable</td>
<td>40</td>
<td>74</td>
<td>(34)</td>
<td>High</td>
<td>2</td>
</tr>
<tr>
<td>State Audit 2005-2006 Mgmt Letter</td>
<td>40</td>
<td>21</td>
<td>19</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>State Audit 2005-2006 Mgmt Letter Bank Recs</td>
<td>8</td>
<td>4</td>
<td>4</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>Alumni Relations</td>
<td>20</td>
<td>122</td>
<td>(102)</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>Employee Leave Records</td>
<td>10</td>
<td>17</td>
<td>(7)</td>
<td>High</td>
<td>1</td>
</tr>
<tr>
<td>NSABP - Dept of Surgery</td>
<td>40</td>
<td>61</td>
<td>(21)</td>
<td>High</td>
<td>0</td>
</tr>
<tr>
<td>2006-2007 Miscellaneous Audits</td>
<td>100</td>
<td>32</td>
<td>68</td>
<td>Low</td>
<td>0</td>
</tr>
<tr>
<td>Friends of Joyner Library</td>
<td>40</td>
<td>57</td>
<td>(17)</td>
<td>Low</td>
<td>1</td>
</tr>
<tr>
<td>Pre-paid Library Accounts</td>
<td>10</td>
<td>30</td>
<td>(20)</td>
<td>Low</td>
<td>0</td>
</tr>
<tr>
<td>Hosp. Mgmt. and Endowment Fund</td>
<td>100</td>
<td>131</td>
<td>(31)</td>
<td>Low</td>
<td>0</td>
</tr>
<tr>
<td>Athletic Purchasing</td>
<td>40</td>
<td>80</td>
<td>(40)</td>
<td>Medium</td>
<td>0</td>
</tr>
<tr>
<td>University Cell Phones</td>
<td>40</td>
<td>5</td>
<td>35</td>
<td>Medium</td>
<td>0</td>
</tr>
<tr>
<td>Radiation Oncology - Lab Equipment</td>
<td>20</td>
<td>2</td>
<td>18</td>
<td>Medium</td>
<td>0</td>
</tr>
<tr>
<td>ECU Police</td>
<td>10</td>
<td>98</td>
<td>(88)</td>
<td>Medium</td>
<td>1</td>
</tr>
<tr>
<td>Summer Study Abroad</td>
<td>100</td>
<td>290</td>
<td>(190)</td>
<td>Medium</td>
<td>0</td>
</tr>
<tr>
<td><strong>Special Projects:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Assessment 2007/2008</td>
<td>200</td>
<td>780</td>
<td>(580)</td>
<td>High</td>
<td>NA</td>
</tr>
<tr>
<td>Enterprise Risk Management</td>
<td>200</td>
<td>6</td>
<td>194</td>
<td>High</td>
<td>NA</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>3758</td>
<td>5932</td>
<td>(2174)</td>
<td>High</td>
<td>63</td>
</tr>
</tbody>
</table>

OIAMAS made a number of value added recommendations this fiscal year to management with regard to internal controls, risk management, and governance processes. Some of the most notable recommendations include:

- Controls to strengthen compliance with Federal Student Financial Aid regulations.
- Controls to strengthen compliance with legislation regarding our Special Responsibility Constituent Institution.
- The implementation of an enterprise-wide uniform system of policy development and a unified “University Policy Manual”.
- Training for new supervisors and chairs of department with regard to current University policies and procedures.
- A consolidated effort to enhance awareness and readiness with regard to Business Continuity Planning across the functional units of the University.
- The development and implementation of an Enterprise-wide Risk Management system to allow management to be proactive in identifying and mitigating risks.
The Office of Internal Audit and Management Advisory Services monitors the progress in completing agreed upon management corrective actions addressing management control weaknesses and best practices in our internal audit and advisory services reports. Timely correction of control weaknesses and the implementation of best practices demonstrate management’s commitment to operating in accordance with sound business practices.

OIAMAS makes recommendations to management with regard to internal control, risk management, and governance processes. We may also make recommendations with regard to best practices. Before a recommendation is made, OIAMAS discusses it fully with management and gets their feedback to ensure the recommendation is in the best interest of the University. Management provides a response on the plan of action they are going to implement and the date the action will be implemented. Management has the option of accepting the risk with regard to not implementing a recommendation; however, the OIAMAS is compelled to make sure management understands the risk of not implementing the recommendation. For the fiscal year 2007-2008, OIAMAS made 56 recommendations and 100% of those recommendations were accepted by management.

OIAMAS conducts a follow-up of the agreed upon management corrective actions using the implementation date that has been provided by management. The table below depicts the number of recommendations OIAMAS has reviewed for corrective actions and management has implemented for the last two fiscal years.
Management’s commitment to timely corrective actions is important. Some recommendations are important enough that they are considered critical to the control environment. While all corrective actions are tracked to their agreed upon plan of action and implementation date, prompt attention to “high risk” areas is especially important as it is critical to the University in meeting its fiduciary responsibilities. For the fiscal year 2007-2008, OIAMAS reviewed 45 corrective actions and management had completed 88% of those corrective actions as compared to 97% for the fiscal previous year. The five recommendations that had not been resolved as of June 30, 2008 include:

High Risk:
- High error rate of student I-9 forms resulting in noncompliance with Federal regulations.
- Non-conformance with University’s cash management plan.

Medium Risk:
- Development and implementation of a policy regarding payroll overpayments.

Low Risk
- Lack of repayment by faculty member with regard to a grant expenditure of $524.43
- High rate of employee leave record errors.

With regard to the high risk areas, Academic Affairs has created a Student Employment Office to centralize the administration of student employees. This includes overseeing the I-9 process for student employees. Therefore, management has made satisfactory progress with regard to the corrective action. The non-compliance with the University’s cash management plan did not involve a material amount of dollars; however, these types of issues have the potential to be a reportable condition by the North Carolina Office of the State Auditor.

Universities have had to learn to do more with less. There are many drivers that are transforming today’s higher education environment. Besides the academic mission, Universities are also faced with corporate governance and accountability issues, which have been driven by current events and legislation. To effectively manage today’s changing University environment, academic leaders must be cognizant of these drivers and the risks that accompany them and create a risk-conscious climate.
In partnering with management to create a risk-conscious climate, OIAMAS developed and implemented risk-based engagement plans. This will ensure that our priorities are focused on those areas where risks and materiality of exposure are greatest.

The development of a risk-based engagement plan includes defining an auditable unit, establishing the audit universe, establishing the risk criteria, constructing the risk model, and ranking the audit universe. We are basing the establishment of East Carolina University’s audit universe and risk framework on the models listed below.

**Audit Universe Model:**

![Audit Universe Model Diagram]

**Risk Framework Model:**

<table>
<thead>
<tr>
<th>Higher Education Business Risks:</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic</strong> – Goals of the institution</td>
</tr>
<tr>
<td><strong>Financial</strong> – Safeguarding assets</td>
</tr>
<tr>
<td><strong>Operational</strong> – Processes that achieve goals</td>
</tr>
<tr>
<td><strong>Compliance</strong> – Laws and regulations</td>
</tr>
<tr>
<td><strong>Reputational</strong> – Public image</td>
</tr>
</tbody>
</table>

Each year OIAMAS meets with the functional units as well as senior management to discuss risk using subjective and objective criteria. For the fiscal year 2007-2008 the chart on the following page depicts a summary of the high, medium, and low risk processes for each division. Also included are the budgeted audit hours that it would take to review each area.
### Internal Audit Annual Report FYE 2008

<table>
<thead>
<tr>
<th>Division</th>
<th>Hours</th>
<th>Processes</th>
<th>Hours</th>
<th>Processes</th>
<th>Hours</th>
<th>Processes</th>
<th>Hours</th>
<th>Processes</th>
<th>Total Hours</th>
<th>Total Processes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chancellor</td>
<td>4,536</td>
<td>12</td>
<td>256</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>4,792</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration and Finance</td>
<td>14,024</td>
<td>42</td>
<td>3,584</td>
<td>14</td>
<td>912</td>
<td>6</td>
<td>18,520</td>
<td>62</td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Advancement</td>
<td>1,280</td>
<td>5</td>
<td>768</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>2,048</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research &amp; Graduate Studies</td>
<td>2,380</td>
<td>8</td>
<td>2,036</td>
<td>8</td>
<td>1,536</td>
<td>6</td>
<td>5,952</td>
<td>22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Life</td>
<td>1,824</td>
<td>6</td>
<td>2,136</td>
<td>9</td>
<td>556</td>
<td>4</td>
<td>4,516</td>
<td>19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic Affairs</td>
<td>1,968</td>
<td>6</td>
<td>3,984</td>
<td>15</td>
<td>512</td>
<td>2</td>
<td>6,464</td>
<td>23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Sciences</td>
<td>8,476</td>
<td>28</td>
<td>7,812</td>
<td>30</td>
<td>0</td>
<td>0</td>
<td>16,288</td>
<td>58</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Athletics</td>
<td>1,168</td>
<td>4</td>
<td>256</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1,424</td>
<td>5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>35,656</td>
<td>111</td>
<td>20,832</td>
<td>81</td>
<td>3,516</td>
<td>18</td>
<td>60,004</td>
<td>210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OIAMAS would like to audit the high risk areas on a three-year cycle but that is resource intensive so we have committed to auditing the high risk areas on a five-year cycle and ensuring we concentrate our efforts on the core business processes of the University. The following table depicts the core business processes that have been identified along with last date of review.

<table>
<thead>
<tr>
<th>Core Business Processes</th>
<th>Audit Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>In process</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td></td>
</tr>
<tr>
<td>Admissions</td>
<td></td>
</tr>
<tr>
<td>Cash Receipting</td>
<td>In process</td>
</tr>
<tr>
<td>Dining</td>
<td>2000</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>2007</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td></td>
</tr>
<tr>
<td>Housing</td>
<td>2001</td>
</tr>
<tr>
<td>Human Resources</td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
</tr>
<tr>
<td>Patient Access (MFPP)</td>
<td></td>
</tr>
<tr>
<td>Patient Billing and Reimbursement</td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
</tr>
<tr>
<td>Purchasing</td>
<td></td>
</tr>
<tr>
<td>Registrar</td>
<td></td>
</tr>
<tr>
<td>Research Administration (Grants &amp; Contracts)</td>
<td></td>
</tr>
</tbody>
</table>

OIAMAS has requested two FTE positions and if this request is fulfilled we can audit at least three of the core business processes each year, which would allow us to cover the core business processes on a five-year basis.
As part of our management advisory services, OIAMAS partners with management across all divisions. Consulting services are requested by management and may include but are not limited to, interpreting policies and procedures, participation on standing committees, limited-life projects, ad-hoc meetings, education and training, and routine information exchange. The chart below depicts the number of consulting engagements that OIAMAS has performed for the past two fiscal years.

<table>
<thead>
<tr>
<th>Consultations</th>
<th>FY 2007-2008 Number</th>
<th>FY 2006-2007 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consults by Division:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic Affairs</td>
<td>19</td>
<td>15</td>
</tr>
<tr>
<td>Administration and Finance</td>
<td>93</td>
<td>85</td>
</tr>
<tr>
<td>Athletics</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Chancellor</td>
<td>19</td>
<td>12</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>Research and Graduate Studies</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Student Life</td>
<td>30</td>
<td>20</td>
</tr>
<tr>
<td>University Advancement</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>External to Institution</td>
<td>7</td>
<td>14</td>
</tr>
<tr>
<td><strong>Total Observations</strong></td>
<td>202</td>
<td>181</td>
</tr>
</tbody>
</table>

In conclusion, this is the OIAMAS annual report for fiscal year 2007-2008. If should have any questions, please call 252-328-9025.
IX. Management Control Policy

MODEL MANAGEMENT CONTROL POLICY

1. Management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations of "XYZ Organization" in a manner that provides the board of directors reasonable assurance that:

- Data and information published either internally or externally is accurate, reliable, and timely.
- The actions of directors, officers, and employees are in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.
- The organization's resources (including its people, systems, data/information bases, and customer goodwill) are adequately protected.
- Resources are acquired economically and employed profitably; quality business processes and continuous improvement are emphasized.
- The organization's plans, programs, goals, and objectives are achieved.

Controlling is a function of management and is an integral part of the overall process of managing operations. As such, it is the responsibility of managers at all levels of the organization to:

- Identify and evaluate the exposures to loss that relate to their particular sphere of operations.
- Specify and establish policies, plans, and operating standards, procedures, systems, and other disciplines to be used to minimize, mitigate, and/or limit the risks associated with the exposures identified.
- Establish practical controlling processes that require and encourage directors, officers, and employees to carry out their duties and responsibilities in a manner that achieves the five control objectives outlined in the preceding paragraph.
- Maintain the effectiveness of the controlling processes they have established and foster continuous improvement to these processes.

2. The internal auditing function is charged with the responsibility for ascertaining that the ongoing processes for controlling operations throughout the organization are adequately designed and functioning in an effective manner. Internal auditing is also responsible for reporting to management and the audit committee of the board of directors on the adequacy and effectiveness of the organization's systems of internal control, together with ideas, counsel, and recommendations to improve the systems.
3. The audit committee is responsible for monitoring, overseeing, and evaluating the duties and responsibilities of management, the internal audit activity, and the external auditors as those duties and responsibilities relate to the organization’s processes for controlling its operations. The audit committee is also responsible for determining that all major issues reported by the internal auditing department, the external auditor, and other outside advisors have been satisfactorily resolved. Finally, the audit committee is responsible for reporting to the full board all important matters pertaining to the organization’s controlling processes.
No handouts for this agenda item.
No handouts for this agenda item.