AGENDA
ECU Board of Trustees
Audit Committee Meeting
Thursday, September 22, 2011

I. Approval of April 14, 2011 Minutes  

II. External Financial Audit of ECU – Dr. Rick Niswander  

III. Internal Audit Report – Ms. Stacie Tronto  

   a. 2011-2012 Annual Audit Plan  
   b. Dashboard – FYE 2011  
   c. Certifications – UNC GA  
   d. Significant Audit Findings – UNC GA  
   e. Internal Control Certification  
   f. Other projects  
      i. Update Internal Audit Website  
      ii. Development of Internal Control Manual  

IV. Enterprise Risk Management – Ms. Stacie Tronto for Mr. Tim Wiseman  

V. BSOM Compliance Office Report – Ms. Micki Jernigan  

VI. Research Compliance Officer Report – Mr. John Chinn  

VII. Other Business
Minutes from ECU BOT Audit Committee
April 14, 2011
Mendenhall Student Center

Committee members present: Ken Chalk (chaired in place of Mr. Joel Butler who was absent), Carol Mabe, and Bob Greczyn

Others present: Rick Niswander, Donna Payne, Tim Wiseman, John Chinn, Donna Payne, Jim McGough, and Stacie Tronto

Ken Chalk convened the meeting at 9:05 a.m. and read the conflict of interest provisions as required by the State Government Ethics Act. Mr. Chalk asked if anyone would like to declare a conflict of interest. Hearing none, he asked for the approval of the minutes for the February 24, 2011 meeting. The minutes of the February 24, 2011 meeting were approved.

Tim Wiseman updated the committee on the ERM efforts. At the next ERM committee meeting the committee will revisit the major risks that have been identified to assign ownership and address mitigation/actions regarding these risks. The Audit Committee inquired if the major risks had been presented to the Executive Council as they want to make sure that senior management “owns” the tops risks. Mr. Wiseman reported that the major risks have been presented to Executive Council.

Micki Jernigan provided an update on the BSOM Compliance Office. The following have been completed by the BSOM Compliance Office: compliance plan has been revised and updated; twenty-four policies have been reviewed and updated; seventy-eight internal provider reviews were conducted between July 1st & March 31st; provided data mining assistance for thirteen external reviews; reviewed numerous contracts in conjunction with the University Attorney’s office; performed reviews in anticipation of RAC reviews; and working on mandatory compliance training. Ms. Jernigan reported they are having difficulty recruiting for the Regulatory Compliance Specialist due to the position being part-time. This prompted the Audit Committee to ask about the staffing resources as compliance is considered a high risk area. It was noted that a HIPAA Security Officer position is needed but has been tabled because of budgetary reasons. The Audit Committee expressed concern with staffing resources and stated this needed to be a priority.

Stacie Tronto reported on the activities of Internal Audit and asked the Audit Committee to approve the revisions to the 2010-2011 annual audit plan. After discussion of the revisions the Audit Committee approved the revisions. Ms. Tronto then discussed the quality assurance review of Internal Audit and the results. Per Ms. Tronto: Internal Audit is required to have a quality assurance review every five years; purpose of the review is ascertain Internal Audit’s conformance with the IIA Standards and to identify opportunities for
improvement; the three ratings are generally conforms, partially conforms, and does not conform. Internal audit received a rating of generally conforms and a few opportunities for improvement were noted. The most notable was the recommendation to consider increasing dedicated information technology resources. It was noted there was one IT auditor in Internal Audit but this position also conducts fraud and abuse audits that requires the utilization of a highly technical software product and that is why the IT auditor conducts these reviews. The Audit Committee stated that information technology is a high risk area and Internal Audit and management needs to ensure that IT audit resources become a priority whether that means funding another position or training someone in an existing position.

With there being no further business, the Audit Committee meeting was adjourned at 10:30am.

Respectfully submitted by Stacie Tronto
August 4, 2011

State of North Carolina:
Chief Executive Officers
Chief Financial Officers

Dear Sir/Madam:

State agencies are required by *North Carolina General Statute* 147-64.7(b)(2) to obtain prior approval from the State Auditor of all contracts for auditing services that may impact the State’s financial statements. Further, the law provides that the State Auditor will prescribe policy and establish guidelines containing criteria for selecting auditors.

The procedures that state agencies should follow when procuring auditing services are described below. The procedures apply whenever an organization is required to be included in the State’s *Comprehensive Annual Financial Report* either as part of the primary government or as a component unit. Component units are legally separate organizations that are required by generally accepted accounting principles to be included in a government’s financial statements.

The Office of State Controller determines which organizations are included in the *Comprehensive Annual Financial Report*. However, if organizations are technically required to be included in the *Comprehensive Annual Financial Report*, but the Office of State Controller does not include them based on their relative immateriality, those organizations still must comply with the requirements presented below.

Therefore, the requirements apply to all state agencies, universities, community colleges, public authorities, not-for-profit organizations, foundations included in university or college financial statements, licensing boards, or any other entity that is supposed to be included in the State’s *Comprehensive Annual Financial Report*. If you have affiliated organizations that are part of your reporting entity (e.g. university and college foundations), please share this letter with those organizations.

**Required Procedures for Procuring Auditing Services from Private Certified Public Accountants**

1. Contracts should be awarded for one year with the option to renew by the audited organization each year for up to two additional years. Therefore, the following procedures should be employed at least once every three years. After a contract is awarded, organizations can renew the contract without soliciting bids until the three-year term has expired. After three years, audits must be re-bid.

2. The organization should solicit proposals for auditing services in two parts: a technical proposal and a cost proposal.
3. The technical proposal should describe the scope of services to be provided under the contract (see contract requirements below) and the auditor's experience and qualifications to perform the audit. At a minimum, the technical proposal should include (a) a list of key personnel who will perform the audit and their qualifications; (b) a list of similar clients audited by the firm and the length of time that the firm has audited each; (c) the firm's most recent peer review report; and (d) a description of any regulatory actions taken against the firm or key personnel in the last three years.

4. The cost proposal should itemize the amount expected to be billed for the audit, describe the billing arrangements, and contain a maximum not to exceed amount for the total term of the contract.

5. The technical proposals should be reviewed and evaluated before considering cost proposals. Organizations should identify the firms that are most qualified to perform the audit and then consider cost proposals from those firms. Organizations should select the firm that provides the best overall value, which may not be the least expensive choice. In making this determination, the organization should consider the information in the technical proposal, as well as the firm's history of providing quality auditing services to the organization or similar clients.

6. Unless there are no alternatives, organizations should not contract with firms whose most recent peer review report is modified due to a significant weakness in the firm's quality control process.

7. The provisions above are in addition to any other requirements that must be complied with by the audited organization. Whenever there is a conflict between the above provisions and other requirements, the more restrictive requirement shall take precedence.

Required Contract Provisions

1. The financial statements will be audited in accordance with either (1) auditing standards generally accepted in the United States of America; or (2) auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. If the organization spends more than $500,000 in combined federal and/or state financial assistance (e.g. contracts and grants), the audit must be conducted in accordance with both sets of standards.

2. The audit scope will include a determination as to whether the financial statements are presented in accordance with the appropriate accounting principles for the organization (i.e. GASB or FASB) and note that statewide accounting policies are established by the Office of State Controller.

3. The Office of State Auditor will be permitted to review the audit documentation for the engagement and such audit documentation will be retained for a period of at least three years.

4. Two (2) hard copies of the audit report will be submitted upon completion to the Office of the State Auditor. In addition, one (1) electronic copy of the completed audit report should be provided to the Office of the State Auditor for the entities
listed below only. Finally, one (1) electronic copy of all audit reports should also be submitted to the Office of State Controller (no hard copies need to be provided to the Office of State Controller).

5. The audit report will be delivered in time to meet the needs of affected parties. Certain entities must be audited so that the Office of the State Auditor can use the report as a basis for the audit report on the Comprehensive Annual Financial Report or individually issued reports on universities and colleges. When this is the case, state agencies and institutions will be informed on an individual basis. Audit reports may be required by a certain date to meet other needs as well, and care should be taken to ensure that all reporting deadlines are addressed in contracts.

Note: See Office of State Controller policy entitled Submission of Audit Reports, available at: http://www.ncosc.net/sigdocs/sig_docs/documentation/policies_procedures/sigState_Financial_Reporting.html

6. A financial penalty (e.g. 10% of the contract amount) can be imposed on the audit firm if a required due date for deliverables is not met.

Except for the entities specifically identified below, this letter acts as prior approval for you to enter into contracts for auditing services affecting the State’s financial statements. This approval is only valid so long as the required procurement procedures and contract provisions described above are used. The Office of the State Auditor may request evidence that you have met these requirements.

Audit contracts for the following entities must be specifically approved in advance by the Office of the State Auditor (and as noted above, the Office of the State Auditor and the Office of State Controller must receive electronic copies of the audit reports in addition to the required hard copies for these entities):

- Constituent Institutions of the University of North Carolina System (excluding foundations if they are audited under separate contracts)
- Community Colleges (excluding foundations if they are audited under separate contracts)
- 401K Supplemental Retirement Income Plan
- N.C. Deferred Compensation Plan
- N.C. Railroad Company
- UNC Hospitals – Rex Healthcare
- Chatham Hospital
- UNC Hospitals Liability Insurance Trust Fund
- Golden LEAF, Inc.
- N.C. Housing Finance Agency
- State Education Assistance Authority
- N.C. Rural Economic Development Center
- N.C. Biotechnology Center
- Regional Economic Development Commissions
- N.C. Teachers’ and State Employees’ Comprehensive Major Medical Plan Claims Audit
For these entities, an audit should not be started before the contract is approved by this Office. Prior to executing a contract for auditing services, you must submit to us: (a) any new contract(s) or contract amendment(s) and (b) a copy of the contract auditor’s most recent peer review report. You do not have to submit to us the contract extensions executed during the three-year period covered by the contract unless the extensions also significantly alter the contract terms. We will provide contract approval by letter.

All contracts and other information required by this letter should be submitted to the attention of Mr. Tim Hoegemeyer, General Counsel, Office of the State Auditor. Please contact Mr. Hoegemeyer at (919) 807-7670 or Tim_Hoegemeyer@ncauditor.net if you have any questions regarding these procedures. If you have any questions regarding any Office of State Controller’s reporting requirements, please contact Mr. Clayton Murphy at (919) 981-5474.

Sincerely,

Beth A. Wood, CPA
State Auditor
## Annual Engagement Plan

### By Type

<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>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSOM Coding/Billing Review</td>
<td>WIP</td>
<td>140</td>
<td>2%</td>
<td>High</td>
</tr>
<tr>
<td>University Collections Process</td>
<td>WIP</td>
<td>80</td>
<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Invoicing/Receipting Process</td>
<td>WIP</td>
<td>300</td>
<td>4%</td>
<td>High</td>
</tr>
<tr>
<td>BSOM Contract Management System</td>
<td>CYP</td>
<td>400</td>
<td>6%</td>
<td>High</td>
</tr>
<tr>
<td>Facilities Use</td>
<td>CYP</td>
<td>300</td>
<td>4%</td>
<td>Medium</td>
</tr>
<tr>
<td>Athletic Camps</td>
<td>CYP</td>
<td>400</td>
<td>6%</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Total Operational Audit Hours</strong></td>
<td></td>
<td>1620</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td><strong>Compliance Audits:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Media</td>
<td>CYP</td>
<td>120</td>
<td>2%</td>
<td>High</td>
</tr>
<tr>
<td>Clinical Trials</td>
<td>CYP</td>
<td>256</td>
<td>4%</td>
<td>High</td>
</tr>
<tr>
<td>Social Engineering</td>
<td>CYP</td>
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<td>4%</td>
<td>High</td>
</tr>
<tr>
<td>Travel- College of Education</td>
<td>CYP</td>
<td>150</td>
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<td><strong>Total Compliance Audit Hours</strong></td>
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<td>826</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 2010-2011</td>
<td>WIP</td>
<td>35</td>
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<td>Disaster Recovery 2011-2012</td>
<td>CYP</td>
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<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>HIPAA Systems and Data Storage</td>
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<td>300</td>
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<tr>
<td>Review UHS Audit Reports/Workpapers</td>
<td>CYP</td>
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<td><strong>Total Information Technology Audit Hours</strong></td>
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<td>395</td>
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<td><strong>Special Reviews:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Reviews - Pending (1000)</td>
<td>CYP</td>
<td>1000</td>
<td>14%</td>
<td>NA</td>
</tr>
<tr>
<td>Employee Resource Use - CHE</td>
<td>WIP</td>
<td>120</td>
<td>2%</td>
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</tr>
<tr>
<td>VSLC Cash Controls</td>
<td>WIP</td>
<td>40</td>
<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Academic Affairs Resource Use</td>
<td>CYP</td>
<td>120</td>
<td>2%</td>
<td>High</td>
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<tr>
<td>BSOM External Professional Activities</td>
<td>CYP</td>
<td>80</td>
<td>1%</td>
<td>High</td>
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<tr>
<td>Academic Affairs Resource Use</td>
<td>CYP</td>
<td>120</td>
<td>2%</td>
<td>High</td>
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<tr>
<td>BSOM Non-Profit Organization</td>
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<td>2%</td>
<td>Medium</td>
</tr>
<tr>
<td><strong>Total Special Review Audit Hours</strong></td>
<td></td>
<td>1620</td>
<td>23%</td>
<td></td>
</tr>
<tr>
<td><strong>Follow-Up Reviews:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>University Policy Manual and Training (L08031)</td>
<td>CYP</td>
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<td>1%</td>
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<tr>
<td>2nd Follow-Up Employee Entry/Exit (L08052)</td>
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<td>20</td>
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<td>2nd Follow-Up OSA 2010 Reportable Condition</td>
<td>CYP</td>
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<td>High</td>
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<td>2010 SEC External Security Assessment</td>
<td>CYP</td>
<td>100</td>
<td>1%</td>
<td>High</td>
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<tr>
<td>Athletics Title IX (A09025)</td>
<td>CYP</td>
<td>100</td>
<td>1%</td>
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</tr>
<tr>
<td>Continuing Studies (A09026)</td>
<td>CYP</td>
<td>80</td>
<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Distributed IT Controls (A11027)</td>
<td>CYP</td>
<td>80</td>
<td>1%</td>
<td>High</td>
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<tr>
<td>Student Employment/Pay Process (A11005)</td>
<td>CYP</td>
<td>100</td>
<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Travel Review (A11033)</td>
<td>CYP</td>
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<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Campus Dining (A10036)</td>
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<td>1%</td>
<td>Medium</td>
</tr>
<tr>
<td>Campus Living (A11063)</td>
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<td>40</td>
<td>1%</td>
<td>Medium</td>
</tr>
<tr>
<td>Computer Loan Program (L11004)</td>
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<tr>
<td>CDL Review (L11057)</td>
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<td>BSOM Use of Resources (L10020)</td>
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<tr>
<td>SBTDC (L11001)</td>
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<tr>
<td><strong>Total Follow-Up Review Audit Hours</strong></td>
<td></td>
<td>820</td>
<td>11%</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
## Annual Engagement Plan
### By Type

**FY 2011-2012**

<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>Continuous Auditing/Monitoring</td>
<td>WIP</td>
<td>400</td>
<td>6%</td>
<td>High</td>
</tr>
<tr>
<td>Fraud Risk Assessment</td>
<td>WIP</td>
<td>300</td>
<td>4%</td>
<td>High</td>
</tr>
<tr>
<td>Risk Assessment 2011/2012</td>
<td>WIP</td>
<td>50</td>
<td>1%</td>
<td>High</td>
</tr>
<tr>
<td>Consultations</td>
<td>CYP</td>
<td>1000</td>
<td>14%</td>
<td>High</td>
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<tr>
<td>Risk Assessment 2012/2013</td>
<td>CYP</td>
<td>100</td>
<td>1%</td>
<td>High</td>
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</table>

**Total Other/Special Project Hours**

<table>
<thead>
<tr>
<th>Description</th>
<th>Hours</th>
<th>%age of Total</th>
<th>Risk Ranking</th>
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<tbody>
<tr>
<td>Total Other/Special Project Hours</td>
<td>1850</td>
<td>26%</td>
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**Total Audit Hours**

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<thead>
<tr>
<th>Description</th>
<th>Hours</th>
<th>%age of Total</th>
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</thead>
<tbody>
<tr>
<td>Total Audit Hours</td>
<td>7131</td>
<td>100%</td>
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**Chancellor/Date**

**ECU BOT Audit Committee Chair/Date**

**Consultations requested by Management:**
- Tenure and Promotion
- Student Involvement and Leadership
- Office of Student Transitions and First Year Program

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**Budget Status:**
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- CYP = Current Year Plan
- CYP-B = Current Year Plan (Budgeted under Special Reviews - Pending)
- WIP = Work-In-Progress
Dashboard/Metrics Report
Year End Benchmarks
FYE 2011

Summary of Observations by FYE:

<table>
<thead>
<tr>
<th>Category</th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
</tr>
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<tbody>
<tr>
<td>Timekeeping</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Segregation of Duties</td>
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<tr>
<td>Reconciliations</td>
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<tr>
<td>Policies and Procedures</td>
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<tr>
<td>Physical Security</td>
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<tr>
<td>Petty Cash Funds</td>
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<td></td>
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<tr>
<td>Misuse of University Resources</td>
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<td>Management Oversight</td>
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<td>Documentation</td>
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<tr>
<td>Conflicts of Interest/Nepotism</td>
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<tr>
<td>Cash Receiving</td>
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<tr>
<td>Business Continuity Planning</td>
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<tr>
<td>Access Controls</td>
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</table>

Number of Observations

Completion of 2010-11 Audit Plan: Goal = 80%

<table>
<thead>
<tr>
<th>Status of Audit Plan</th>
<th>Number of Audits</th>
<th>% of Total Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completed</td>
<td>44</td>
<td>83%</td>
</tr>
<tr>
<td>In Process</td>
<td>9</td>
<td>17%</td>
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<tr>
<td>Pending</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>54</strong></td>
<td><strong>100%</strong></td>
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(Last Year = 80%)
### Productivity Ratios:  
**Goal = 70%**

<table>
<thead>
<tr>
<th></th>
<th>Direct Hours</th>
<th>Indirect Hours</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>75%</td>
<td>25%</td>
</tr>
<tr>
<td>(Last Year)</td>
<td>72%</td>
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### Management’s Corrective Actions:  
**Goal = 90%**

<table>
<thead>
<tr>
<th>Corrective Actions</th>
<th>FY 2010-2011</th>
<th>FY 2009-2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Completed</td>
<td>Outstanding</td>
</tr>
<tr>
<td>Observations by Division:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Academic Affairs</td>
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Trustees Audit Committee

Certification Letter

July 20, 2011

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

Dear Ms. Gage:

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 representatives of the State Auditor's Office and discussed corrective actions, if needed.

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 representatives of the State Auditor, 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 the report of the internal auditor on whether or not the institution has made satisfactory progress in resolving the deficiencies noted, in accordance with North Carolina General Statute 116-30.1 as amended.

5. Reviewed all audits and management letters of University Associated Entities as defined in Section 600.2.5.2 [R] of the UNC Policy Manual.

6. Received and reviewed quarterly 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.

7. Received, reviewed, and approved, at the beginning of the audit cycle, the annual audit plan for the internal audit department.
8. Received and reviewed, at the end of the audit cycle, a comparison of the annual audit plan with internal audits performed by the internal audit department.

I further attest the following:

1. 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.

2. The Audit Committee charter defines appropriate roles and responsibilities. One of these responsibilities is the assurance that the institution is performing self-assessments of operating risks and evaluations of internal controls on a regular basis.

3. Internal audit functions are carried out in a way that meets professional standards.

4. The institution's Director of Internal Audit forwarded copies of both the approved audit plan and the summary of internal audit results, including any material reportable conditions and how they were addressed, to UNC General Administration in the prescribed format.

[Signature]
Chair of BOT Audit Committee
Director of Internal Audit  
Certification Letter  
July 20, 2011

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

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’s Office.

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’s Office 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
I mentioned at the last two Internal Audit Advisory Team meetings that I would like to have your campus summary of internal audit activities for the last fiscal year to present to the Audit Committee at the August 12 meeting. To do so, I need that info by July 20. One outstanding questions has been what constitutes a “significant finding”. After going back to the Audit Committee charter and Best Practices, we should be looking at ‘material reportable condition’ and not significant findings. Lynne and I have developed a definition for material reportable condition based on what external auditors use. Below is a discussion of the process for developing the definition:

Per the best Financial Practices Guidelines – approved by the Board of Governors in November 2005, the Board of Governor’s Audit Committee acknowledged responsibility to “Review an annual summary of the work performed by the Audit Committees of the institutional Boards of Trustees, including a report of the work of the campus internal auditor which indicates any identified material reportable conditions and how they were addressed.”

**Internal Audit Standards** do not address the definition of significant deficiency or material condition. Standards note in section 2440.C2 that “Whenever these issues are significant to the organization, they must be communicated to senior management and the board.” Even though “significant” and “material” is used, they are not defined in the IIA Standards.

**Material reportable conditions** are defined by authoritative literature used by external auditors as follows:

For financial audits (SAS 115): “A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.”

For performance audits (Yellow Book Chapter 8 – 8.18): “Auditors should report deficiencies in internal control that are significant within the context of the objectives of the audit, all instances of fraud, illegal acts unless they are inconsequential within the context of the audit objectives, significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.”

To meet the requirements of the Audit Committee charter, a material reportable condition is:

1. a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis, or

2. any instances of fraud, illegal acts unless they are inconsequential within the context of the audit objectives, significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.
Based on the charter requirement, each campus needs to provide a summary of internal audit activities for the last year and identify material reportable conditions (defined above) and how they were addressed. In the past, you have provided this information on the audit plan. You may continue to do so as we move forward.

I hope this helps and does not muddy the waters. If you have any questions, please feel free to contact me.

Jeffrey A. Henderson
Assistant Vice President for Finance
UNC-General Administration
Division of Finance
(919) 962-4656 (Tel)
(919) 962-0008 (Fax)
jahenderson@northcarolina.edu
Summary of Material Reportable Conditions
Included in Reports of Campus Internal Auditors
Year Ended June 30, 2011

East Carolina University

1. Student Employment/Pay Process (Self-Help Students)

A review of the self-help student employment/pay process found that internal controls were not sufficient to meet the objectives of the audit. Summarized observations included a lack of formal written policies and procedures for hiring, paying, and terminating self-help students and overall process oversight for student employment/pay process; a lack of proper authorization for student hires and inadequate segregation of duties and access in the Payroll Office; and systemic problems with approvers’ and supervisors’ knowledge and documentation of student employee hours worked. Recommendations were made to improve the internal controls with regard to the aforementioned observations. Management concurred with the recommendations and is in the process of identifying a “central” office to oversee student employment/pay issues. The University is implementing a new time and attendance system that should address the documentation and approval of hours worked. Management is also addressing the improper segregation of duties and the appropriate approval of student hires.

2. Continuing Studies

A review of several processes in the Continuing Studies department found that internal controls over the accounting processes were not sufficient to meet the objectives of the audit. Summarized observations included inadequate segregation of duties, a lack of timely reconciliation processes, charges not posted timely for summer study abroad students, and faculty member salaries associated with off-model credit programs not consistently paid from receipt-supported funds as required by the UNC Funding Manual. Recommendations were made to improve the internal controls with regard to the aforementioned observations. Management concurred with recommendations and is addressing the internal control issues regarding the accounting processes.

3. Division of Academic Affairs – Alleged Misuse of University Resources

The Office of Internal Audit received a report that a University-owned laptop computer possibly contained pornographic materials. A review of the laptop found evidence to support possible violations of the University’s Academic Computer Use policy and/or inappropriate use/possible misuse of University resources. Management should confer with Human Resources and the University Attorney’s Office to determine the appropriate personnel action. This information was also provided to the University Attorney in order to determine whether or not a misuse...
of State property report needs to be filed. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action regarding the violation of policy and misuse of University resources.

4. **Division of Health Sciences – Misuse of Petty Cash Funds**

The Office of Internal Audit conducted a surprise petty cash count in the Division of Health Sciences. The surprise count revealed that an employee’s cash drawer was short. Upon further review, it was found this employee’s cash drawer had been short on one other occasion and there was evidence the employee falsified documents. Management should confer with Human Resources and the University Attorney’s Office to determine the appropriate personnel action. This information was also provided to the University Attorney in order to determine whether or not a misuse of State property report needs to be filed. The employee is no longer employed with the University and the cash has been reimbursed.

5. **Division of Health Sciences – Alleged Misuse of University Resources**

The North Carolina Office of the State Auditor referred an allegation that was reported to them through their anonymous “hotline”. The allegation involved employee time abuse in the Division of Health Sciences. A review of the allegation revealed inconsistencies with employee’s reported work time and his/her actual work time as well as the inappropriate use of University resources. Management should confer with Human Resources and the University Attorney’s Office to determine the appropriate personnel action. This information was also provided to the University Attorney in order to determine whether or not a misuse of State property report needs to be filed. Management should further consider reducing the employee’s leave time by 46.4 hours. Management conferred with Human Resources and the University Attorney’s Office with regard to the appropriate personnel action regarding the issues found. Management also agreed to reduce the employee’s leave balance by 46.4 hours.

6. **Division of Academic Affairs – Alleged Misuse of University Resources**

The Office of Internal Audit received three separate reports regarding the alleged misuse of University resources by an employee in the Division of Academic Affairs. A review of the allegation found evidence to support the employee regularly used University work time and computing resources to perform tasks related to a non-profit corporation and to also complete his/her Master’s degree. Management should confer with Human Resources and the University Attorney’s Office to determine the appropriate personnel action. This information was also provided to the University Attorney in order to determine whether or not a misuse of State property report needs to be filed. Management should further consider whether or not the employee should reimburse the University for the misuse of State time. Management conferred with Human Resources and the University Attorney’s Office with regard to the appropriate personnel action regarding the
issues found. Management is determining whether the amount of the misuse of State time can be quantified.

Western Carolina University

1. Grants Process/Pre-Award

The Office of Internal Audit found one grant proposal was approved by the immediate supervisor of the PI despite the fact that it was prepared utilizing old data. The PI submitted the grant proposal to the sponsoring agency without having it approved by the Office of Sponsored Research as it had not been prepared timely. This grant was not renewed and Western Carolina lost a four year/$300,000 a year grant due to the fact that the proposal was prepared utilizing old data. Total revenue lost was $1,200,000. As evidenced by the combination of the above findings, poor controls over approval of proposals result in denial of grant funds, and result in loss of large amounts of revenue that could benefit the university. Recommendations were made that all grant proposals be carefully reviewed by the PI's immediate supervisor; that all grant proposals be routed for approval through the Office of Sponsored Research; that all grant proposals be routed for approval through the Office of Sponsored Research; and that the Office of Sponsored Research offer training to faculty and staff involved in the management of grants. Management will revise the narrative in the Faculty Handbook to include language to delineate review and approval responsibilities of the Department Head and Deans. Responsibilities will include review of terms and conditions, conforms with university/departmental mission, ensure proposal provides an accurate representation of WCU abilities to address the sponsors goals; revision of Policy 55 to reflect the correct narrative; and the need to use current data will be added to current training modules.
July 26, 2011

Mr. David T. McCoy, State Controller
NC Office of the State Controller
1410 Mail Service Center
Raleigh, North Carolina 27699-1410

Dear Mr. McCoy:

In accordance with the requirements of North Carolina General Statute §143D-7, we certify, to the best of our knowledge and belief, that East Carolina University has performed an annual review of its system of internal control as of June 30, 2011.

We are responsible for establishing and maintaining a strong and effective system of internal control and have:

(a) Designed such internal controls, or caused such internal controls to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting, compliance with certain provisions of laws, regulations, contracts, and grant agreements, and the efficiency and effectiveness of our operations;

(b) Disclosed any changes that have occurred during the most recent fiscal period that has materially affected, or is reasonably likely to materially affect, internal control; and

We have disclosed, based on our annual evaluation of internal control, to the Office of the State Controller, as well as the audit committee of the board of directors (or persons performing the equivalent functions), if applicable:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control which are reasonably likely to adversely affect our ability to record, process, summarize and report financial information or instances of non-compliance with certain provisions of laws, regulations, contracts, and grant agreements, which could have a direct and material effect on the determination of financial statement amounts; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the agency’s system of internal control.

Chief Executive Officer: Ballard  Date: 7-27-11

Chief Financial Officer:  N. A.  Date: 7/27/11
INFORMATION PAPER

SUBJECT: Enterprise Risk Management (ERM) Update for the BOT-A Committee

1. Purpose. To advise BOT-A committee members of significant ERM and Chief Risk Officer (CRO) activities from the past three months and those planned or anticipated for the next three months.

2. Facts.

   a. Significant ERM/CRO Activities from the Past Three Months:

   - Received Training at RIMS ERM Workshop (18-23 June)
   - Continued Planning for ECU Hosted ERM in Higher Ed eSymposium
   - Conducted Risk Consultations and Inquiries/ Process Reviews
     - Athletics Issues – Various
     - Student Disciplinary Processes
     - Philanthropic/Fund Raising Policy - Athletics
   - Led ERM Committee Quarterly Meeting – Legal Risk Training Topic
   - Participated in ECU’s Active Shooter Emergency Exercise – Further Established Role and Responsibilities of Chief Risk Officer on Crisis Policy Team
   - Led Session at Academic Deans and Directors Meeting on Risk Identification

   b. Significant ERM/CRO Activities Next Three Months:

   - Finalize and Publish 1st ERM Annual Activity Report (’10-’11)
   - Present at Risk and Insurance Mgmt Society (RIMS) Regional Conference
   - Attend Federal/Gov’t ERM Summit
   - Conduct ECU-Hosted ERM in Higher Ed eSymposium (Oct. 12, 2011, ECHI)
   - Conduct/Facilitate Annual Top Risk Survey and Prioritization

ACTION OFFICER:
Tim Wiseman
Assistant Vice Chancellor for ERM/Chief Risk Officer
252-737-2803
Spilman Bldg, Room 207B
North Carolina Enterprise Risk Management (ERM) in Higher Education eSymposium

WEDNESDAY, OCTOBER 12, 2011
Check-in: 8:00–8:45 a.m.
Symposium Program: 8:45 a.m.–4:30 p.m.
Main Auditorium, East Carolina Heart Institute at East Carolina University
115 Heart Drive
Greenville, NC 27834-4354

Preregistration Required
Webcast (Remote Site) and In-Person Attendance Options Offered
For the registration form and additional information, visit us online at www.ecu.edu/esymposium, or contact ECU's Enterprise Risk Management Office at 252-737-4153.

Speakers and Topics Include the Following:

Opening Remarks—“Setting the Tone at the Top”
Dr. Steve Ballard, Chancellor, East Carolina University

“The Emergence of Enterprise Risk Management”
Dr. Mark Beasley, Poole School of Management, North Carolina State University

Dorothy Gjerdrum, Arthur J. Gallagher Risk Management Services

“A Practical Implementation of the ERM Model”
Shulamith Klein, Emory University–Emory Healthcare

“Controls Assessment—The University of North Carolina System Approach to Key Performance Indicators”
Gwen Canady, UNC General Administration

“Enterprise Risk Management Tools That Work (Case Study)”
Peggy Zapalac, Texas A&M University

Open Discussion
Chief Risk Officer Panel (Various Participants)

CPE attendance attestation letters are available upon request. Ultimate determination of the eligibility of this event in fulfilling CPE requirements rests solely on individual participants in conjunction with their respective professional certification organizations/entities.

Individuals requesting accommodation under the Americans with Disabilities Act (ADA) should call 252-737-1016 (voice/TTY) at least 48 hours prior to the event.
North Carolina Enterprise Risk Management in Higher Education
eSymposium
Hosted by East Carolina University

Registration Form

Name: _________________________________________________________________
Title: __________________________________________________________________
University or Firm of Employment: __________________________________________
E-Mail: ________________________________________________________________
Address: __________________________________________________________________
Telephone Number:_______________________________________________________

There are two methods of attending/participating in this eSymposium (circle the one that applies to this registration):

1. On-Site Attendance in Person: We have 250 seats available (in the order paid registrations are received) for those choosing to attend in person. The registration fee for those attending in person is $25, and includes lunch.

2. Non-ECU/Greenville Participant Attendance via Webcast and Internet Connection: We will also offer site registration for departments or other institutions in the UNC system for participation via webcast to allow a larger/broader audience and greater participation. Remote access via a special dedicated URL address is available for $195 per site/location. This is ideally for a centrally located video conference room situation to accommodate multiple participants who may not be able to attend the eSymposium in person.

East Carolina University individual registrants are asked to consolidate their registrations at the departmental level (i.e. Dean of Students, Athletics, etc.) for a single consolidated inter-departmental payment transaction supported by the individual registration forms.

For non-ECU participants, please make checks or money orders (no credit/debit cards) payable to:

   ECU- Enterprise Risk Management

Mail checks or money orders along with a registration form as soon as possible, but NLT 10/07/2011 to:

   East Carolina University
   ATTN: Enterprise Risk Management (Yolonda Newsome)
   207B Spilman Building – Mail Stop 201
   Greenville, NC 27858

Additional questions? Please contact Ms. Yolonda Newsome at newsomey@ecu.edu, or by phone @ 252.737.4153. You may also visit the eSymposium web site at www.ecu.edu/esymposium (available early-mid August).

Individuals requesting accommodation under the Americans with Disabilities Act (ADA) should contact the Department for Disability Support Services at least 48 hours prior to the event at (252) 737-1016 (Voice/TTY).

ECU ERM OFFICE USE ONLY: Received _________; Receipt Issued _________; Initials: _____