AGENDA
Executive and Audit Committee
Board of Trustees Meeting
December 10, 2004
Mr. James R. Talton, Jr., Chairman, Presiding

Report Items

Acted on by the Full Board since the last meeting:

Approval of Termination of Employment Contract of John Thompson

Acted on by the Executive and Audit Committee since the last meeting:

1) Approval of Resolution of Naming the Conference Room #1202 the
   East Carolina University Foundation Board Room
2) Approval of Request for Property Acquisition – 911 Forbes Street
3) Approval of Request for Property Acquisition—928 E. 14th Street
4) Approval of Right-of-Way Easements for DOT 14th Street Bridge Replacement and Street
   Widening
5) Approval of Reimbursement Resolution for Certification of Participation (COPS) Financing of
   Banner Administrative Systems Project
6) Approval of Request to Harvest Timber at ECU’s Otter Creek Natural Area
7) Approval of Recommendation of Initial Appointment with Permanent Tenure for:
   Marcus E. Randall, M.D., Professor, Department of Radiation Oncology, and Director
   of the Leo Jenkins Cancer Center, Brody School of Medicine;
   Martha R. Alligood, Ph.D., Professor and Director of the PhD Program, Department of Family
   and Community Nursing, School of Nursing

Discussion/Action Items

1) Approval of Minutes
   --September 24, 2004 (Full Board Meeting)

2) Internal Audit Activities Reports
   Internal Audit Reports
   Presentation: What Do You Do For a Living?

3) Board Self-Assessment

*Documentation for the above items will be available at the Board meeting. They will also be on
file in the Assistant Secretary to the Board’s office, 107 Spilman Building.
Executive and Audit Committee Meeting
Summary of Discussion
September 24, 2004

Chairman James R. Talton, Jr. convened the committee at 11:10 a.m. Also attending with Mr. Talton were committee members Showfety, Kinlaw, Hill, Kelly, and Ward. Other Trustees attending were Bodenhamer, Brody, Miller, Redwine, and Shannon O’Donnell.

Minutes of July 13 were approved.

Mr. Talton asked Mr. Showfety to acknowledge at the full Board meeting the report items on actions taken since the July 13 Board meeting.

Dr. Smith addressed the importance of Appendix Y and the revisions presented for approval today. There were no questions and an approval motion will be brought later today to the full board.

There were no questions for internal auditor Stacie Tronto. David Brody raised questions about best practices on financials as well as setting priorities and monitoring them. Both Mr. Talton and Dr. Ballard indicated that those topics would be addressed at our upcoming Board self-assessment retreat. The Board of UHS might be involved as well on the business plan of the BSOM. Perhaps that could dovetail with both the visit of the Family Practice Center and also involve the BOV.

The meeting adjourned at 11:30 a.m.

APPROVED: ____________________________

James R. Talton, Jr.
Chairman of the Committee

James LeRoy Smith
Assistant Secretary to the Board
STATE OF NORTH CAROLINA

COUNTY OF PITT

AGREEMENT TO TERMINATE
EMPLOYMENT CONTRACT

THIS AGREEMENT is entered into this ___ day of ___24___ day of ___November___ 2004, by and between Mr. John Thompson and East Carolina University (hereinafter “UNIVERSITY”), a state-supported institution of higher education and constituent member of the University of North Carolina, acting by and through its authorized officials.

WHEREAS, Mr. Thompson has served as Head Football Coach pursuant to an employment contract with the UNIVERSITY which was signed December 20, 2002 and effective January 2, 2003; and

WHEREAS, Mr. Thompson and the UNIVERSITY desire to terminate the Contract upon mutually acceptable terms and conditions;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, Mr. Thompson and the UNIVERSITY hereby agree to the following terms of settlement in full satisfaction of each and every claim and potential claim which has been, or could be, asserted by Mr. Thompson against the UNIVERSITY, The University of North Carolina, or any of their officers, agents or employees:

I. APPLICABLE LAW

This agreement is entered into in the County of Pitt, State of North Carolina, and is governed and construed in accordance with the laws of North Carolina, except that each party to the agreement will be viewed as an equal participant and there will be no presumption against the drafting party.

II. WARRANTIES

A. Each party warrants and represents to the other that it has been fully informed and has full knowledge of the terms, conditions and effects of this agreement.

B. Each party warrants and represents that it has had the opportunity to confer with legal counsel and that it signed this agreement freely and voluntarily and without coercion.

C. Each party warrants and represents to the other that no promise or inducement has been offered or made except as herein set forth, and that this agreement is executed without reliance upon any statement or representation by any other party or its agent.
III. OBLIGATIONS

A. Mr. Thompson agrees that he will accept the UNIVERSITY’s decision to terminate without cause. Mr. Thompson agrees to resign and his resignation is effective November 29, 2004.

B. Mr. Thompson further agrees that the Contract between East Carolina University and him signed December 20, 2002 and effective January 2, 2003 shall terminate effective November 29, 2004. Mr. Thompson relinquishes all rights and privileges under this contract.

C. The parties agree that they shall have no further claims, rights, obligations or privileges whatsoever to each other under the contract (which is hereby terminated) or otherwise, and any such claims or other matters are hereby released.

D. Mr. Thompson agrees that he will vacate his office, surrender all UNIVERSITY property in his possession, and leave the UNIVERSITY on or before the close of the business day on November 29, 2004.

E. The UNIVERSITY agrees that unless Mr. Thompson obtains other employment, he will be paid his annual salary of $150,000 per year. This salary will be paid in equal semi-monthly installments from December 1, 2004 until January 1, 2008 or until Mr. Thompson obtains other employment and shall be subject to payroll deductions required by State and federal law which include State and federal taxes and FICA withholding. Until Mr. Thompson obtains employment or until January 1, 2008, whichever comes first, he will continue to receive benefits like other similar situated employees including retirement and health care benefits.

F. If Mr. Thompson does obtain other employment prior to January 1, 2008, he will no longer be compensated as provided in Part III(E). Instead, he will be paid at a rate of $100,000 per year for the period from the date of his first other employment until January 1, 2008. Such payments would be made in equal semi-monthly installments and would be subject to deductions required by State and federal law including State and federal taxes and FICA withholding. From the date Mr. Thompson first accepts other employment, he will no longer receive health care and retirement benefits and other benefits to which he would have been entitled prior to his acceptance of such employment.

G. It is specifically agreed that in exchange for the UNIVERSITY’s agreement to pay compensation as specified herein, Mr. Thompson waives any right to receive further compensation under Part IV, VII and XI(C) of the Contract. The UNIVERSITY agrees to pay Mr. Thompson any and all amounts actually earned under Paragraph V(A) of the Contract prior to termination including any amounts due for the month of December. It is agreed that the UNIVERSITY will not be obligated to pay the Coach for participation in the production and marketing of television, radio and internet programs that do not feature the Coach and follow termination of his employment contract.
H. It is agreed that all material or articles of information, including without limitation, personnel records, recruiting records, team information, films, statistics, or any other material or data furnished to Mr. Thompson while he served as Coach at the UNIVERSITY or developed by Mr. Thompson on behalf of the UNIVERSITY or at the UNIVERSITY’s direction for the UNIVERSITY’s use or otherwise in connection with the UNIVERSITY’s employment of Mr. Thompson or it shall remain the sole property of the UNIVERSITY. At the termination of his employment contract effective November 29, 2004, the Coach shall cause any such materials in his possession or control to be delivered to the UNIVERSITY.

IV. RELEASE

A. Mr. Thompson hereby releases, acquits and forever discharges The State of North Carolina; The University of North Carolina and its Board of Governors; the UNIVERSITY and all current and former officers, agents and employees of the above-named entities from all claims, actions, causes of action, demands, rights, damages, costs, sums of money, accounts, covenants, contracts, promises, attorney fees and all liabilities of any kind or nature whatsoever at law, in equity, or otherwise, which Mr. Thompson ever had, now has, or may have, for all events and occurrences from the beginning of the world to the date of this agreement.

B. In compliance with the Age Discrimination in Employment Act (“ADEA”) as amended by the Older Worker’s Benefit Protection Act of 1990 (“OWBPA”) (collectively, “those Acts”), Mr. Thompson acknowledges that the release and discharge of claims contained in Section IV.A. above includes waiver of Mr. Thompson’s rights under those Acts and releases the persons and entities listed in Section IV.A. above from liability under those Acts. Mr. Thompson acknowledges that this waiver is knowing and voluntary. Mr. Thompson understands and acknowledges, as provided in those Acts, that he has been advised previously he has the right, and he has been encouraged, to consult an attorney of his own choosing before entering into this agreement and that he was afforded sufficient time to undertake such consultation if he so chose. He acknowledges that he has read and understands all the terms and conditions of this agreement. Mr. Thompson acknowledges that he has received consideration under the terms of this agreement in exchange for his waiver of his rights under the ADEA and the OWBPA. Mr. Thompson acknowledges that he has had at least twenty-one (21) calendar days in which to consider whether to accept or reject this agreement. He represents that any decision he may make to sign this agreement before the end of the 21-day period is knowingly and voluntarily made and not induced by the UNIVERSITY through fraud, misrepresentation, or threat to withdraw or alter this Release prior to expiration of the 21-day period. To the extent that Mr. Thompson signs this agreement in less than twenty-one days, he hereby knowingly and voluntarily waives any right he has to the twenty-one days.
V. EFFECTIVE DATE

The parties agree that this agreement shall not become effective or enforceable until at least seven days after the date that Mr. Thompson signs this agreement. Until then, either party may revoke the agreement.

VI. COMPROMISE OF DISPUTED CLAIMS

Each party understands and agrees that this settlement is in compromise of doubtful and disputed claims; that no covenant herein is to be construed as an admission of liability on the part of any party hereby released; that each party hereby released denies any liability for such claims; and that each party intends merely to avoid dispute resolution processes and fully and finally resolve such disputed claims.

VII. EFFECT OF AGREEMENT

This agreement shall be binding upon and inure to the benefit of the parties and their agents, officers, employees, successors, assigns, heirs, executors, and administrators.

VIII. PUBLIC RECORD

It is agreed that this agreement is a public record which is subject to the public disclosure requirements specified in Chapter 132 of the General Statutes of North Carolina.

EXECUTED this the 24th day of November, 2004.

EAST CAROLINA UNIVERSITY

BY: [Signature]

James R. Talton, Jr.
Chair, Board of Trustees

ATTESTED TO:

BY: [Signature]

James LeRoy Smith
Assistant Secretary, Board of Trustees

BY: [Signature]

Steve Ballard
Chancellor

MR. JOHN THOMPSON

Date: 11/19/04
MEMORANDUM
via Fax

TO: Executive and Audit Committee

FROM: James LeRoy Smith  
Interim Vice Chancellor for Academic Affairs 
and Assistant Secretary to the Board

DATE: October 28, 2004

RE Approval of a Resolution

Mr. Lanier has asked for approval of the attached resolution in conjunction with the naming of conference room number 1203 in the Greenville Centre as the "East Carolina University Foundation Board Room". He would like to have the resolution on display at the Board meeting tomorrow, if possible.

Please call (252-328-6105) or fax (252-328-0129) your reply to me so that we may forward the resolution to the print shop for compilation.

Many thanks for your consideration of this request.

_____ I approve of this request.

_____ I do not approve.

__________________________
signature

East Carolina University is a constituent institution of the University of North Carolina. An Equal Opportunity/Affirmative Action Employer.
MEMORANDUM

To: Executive and Audit Committee of ECU
   Board of Trustees

From: Steven Ballard, Chancellor

Subject: Request for Property Acquisition – Full Gospel Christian
        Church, 911 Forbes Street, Parcel #26933

I am writing to reconfirm authorization of the Executive and Audit Committee to purchase the Full Gospel Christian Church at the northeast corner of Tenth and Forbes Streets.

In May 2004, Richard Brown and Scott Buck requested and received approval to purchase several properties all in the same general area west of core campus, including the Full Gospel Christian Church.

This request is to advise and confirm your approval since we recently negotiated with the assistance of the State Property Office a purchase price of $90,000, or $45.20/SF. The appraisal price was $74,500 on April 14, 2004, and the tax value is $90,190.

We also seek approval to sever the building from the property when deemed appropriate.

Contingent on your approvals, we intend to request the ECU Real Estate Foundation to acquire this property on our behalf in order to expedite the purchase due to the lead time of the subsequent approvals from Board of Governors, Joint Commission on Governmental Operations, and Council of State.

Funding for this acquisition will come from Auxiliary Overhead funds, account number 3-01670.

Should you have any questions, please feel free to contact me.

Approve Date

Disapprove Date

SB:kc

Attachment

cc: Jim Smith
    C. Hawkins
    T. Walton
    S. Buck
PROPERTY LEGEND

1. McDonald's
2a & 2b. Old Hardees
3. Stadium Cleaners
4. Full Gospel Christian Church
5a & 5b. The Wash House
6. Amoco
7. Chan
8. Scotts Cleaners
9. Woodworks Building (ECU)

● = Denotes properties for approval
MEMORANDUM

To: Executive and Audit Committee of the ECU Board of Trustees

From: Steven Ballard, Chancellor

Subject: Request for Property Acquisition – 928 East Fourteenth Street

September 23, 2004

I am writing to request authorization of the Executive and Audit Committee to purchase a house at 928 East Fourteenth Street, owned by Michael and Phyllis Langston.

With the assistance of the State Property Office, we recently negotiated a purchase price of $111,000. The property was appraised by the State at $88,000, the owner submitted an appraisal valued at $113,000, and the tax value is $105,100. The lot comprises 8,499 SF, the house, 1,384 SF with a cost per SF of $80.20.

We also seek approval to sever the house and outbuilding from the site.

Contingent on your approval, we intend to request the ECU Real Estate Foundation to acquire this property on our behalf in order to expedite the purchase due to the lead time of the subsequent approvals from Board of Governors, Joint Commission on Government Operations and Council of State.

Funding for this acquisition will come from Auxiliary Overhead Funds, account number 3-10670.

Should you have any questions, please feel free to contact me.

Approve ___________________________ Date ___________________________

Disapprove ___________________________ Date ___________________________

SB:kc

Attachment

cc: J. Smith
C. Hawkins
T. Walton
S. Buck

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Langston Property – 928 E. 14th Street

Property ECU currently owns
MEMORANDUM

To: Executive and Audit Committee of the ECU Board of Trustees

From: Steven Ballard, Chancellor

Subject: Right-of-Way Easements for DOT 14th Street Bridge Replacement and Street Widening, NCDOT Project #33226.2.1

October 1, 2004

The NC Department of Transportation (DOT) is replacing the 14th Street bridge east of the intersection of 14th Street and Charles Boulevard. A component of this highway project will be widening of 14th Street from east of the bridge (at the ECU Steam Plant entrance) to Charles Boulevard.

The DOT has requested right-of-way easements from East Carolina University for the following properties:

Parcel #012) 119.8 SF or 0.003 acres in right-of-way and permanent drainage easement. This property is the vacant lot on the east side of the ECU Steam Plant and on the south side of 14th Street.

Parcel #011) 432 SF or 0.01 acres in right-of-way and permanent drainage easement. This property is the ECU Steam Plant and on the south side of 14th Street.

Parcel #007) 304.5 SF or 0.007 acres in right-of-way and permanent drainage easement. 62.4 SF or 0.001 acres in temporary construction easement. This project is adjacent to the west side of the ECU Steam Plant on the south side of 14th Street. The temporary construction easement will terminate at the completion of the highway project.

Parcel #004) 1961.4 SF or 0.045 acres in right-of-way and permanent drainage easement. This property contains the ECU Facilities Warehouse on the north side of 14th Street (between Duck Thru convenience store and the carwash).

The DOT had the above right-of-way and easement property appraised and will pay East Carolina University the following:

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<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>012</td>
<td>3,225</td>
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<tr>
<td>011</td>
<td>14,100</td>
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<td>007</td>
<td>80,400</td>
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<tr>
<td>004</td>
<td>18,250</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$115,975</strong></td>
</tr>
</tbody>
</table>

East Carolina University is a constituent institution of the University of North Carolina. An Equal Opportunity/Affirmative Action Employer.
This DOT project will ease traffic congestion in this area and provide a needed bridge replacement. Funds from the disposal of this property will revert back to the State Budget Office as dictated by State policy.

Should you have any questions regarding this request, please feel free to contact me.

______________________________  _________________________
Approve                          Date

______________________________  _________________________
Disapprove                       Date

Attachment

SB:kc

cc:   J. Smith
      C. Hawkins
      G. Harrell
      T. Walton
      S. Buck
<table>
<thead>
<tr>
<th>Parcel #</th>
<th>14th Street Property Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>012</td>
<td>East of ECU Steam Plant</td>
</tr>
<tr>
<td>011</td>
<td>ECU Steam Plant</td>
</tr>
<tr>
<td>007</td>
<td>West of ECU Steam Plant</td>
</tr>
<tr>
<td>004</td>
<td>Facility Services Warehouse</td>
</tr>
</tbody>
</table>
To: Executive and Audit Committee  
From: Charles M. Hawkins  
CC: S. Ballard, J. Smith, J. Brinn  
Date: October 20, 2004  
Re: Approval Reimbursement Resolution for Certificate of Participation (COPS) financing of Banner Administrative Systems Project

Attached is a request for approval of the Reimbursement Resolution for East Carolina University to be reimbursed for Capital Expenditures in connection with the acquisition and implementation of the Banner Administrative Systems. Please review this recommendation, register your vote below and return by fax. Should you have any questions regarding this recommendation, please call me at 252-328-6975.

Thank you.

Attachments

Approved  
Disapproved  

Date  
Date
East Carolina University  
Board of Trustees  
Executive and Audit Committee

ACTION ITEM
Approval of the Resolution for reimbursement of capital expenses related to the acquisition and implementation of the Banner Administrative Systems. In accordance with the legislation contained in the North Carolina General Statutes, action is needed by the Board of Trustees to proceed with the project and be reimbursed using the COPS financing.

BACKGROUND INFORMATION
In early 2003, East Carolina University performed an extensive analysis of the SunGard SCT Banner suite with the end result being the unanimous approval by the Chancellor’s Executive Council on May 26, 2003 to proceed with the project.

In Fiscal Year 2003, the University, working with the Office of the President, moved forward to purchase the full suite of SunGard SCT Banner products (Advancement, Finance, Financial Aid, Human Resources and Student) to replace the current administrative systems of East Carolina University. The University made this decision because an estimated $9.5 million would be needed to upgrade the current systems without the benefit of having fully web-enabled, integrated systems that would allow ECU to provide services competitive to other Universities and to support the planned growth of our student population.

The budget for the project is $18.7 million and is funded with $9 million from the COPS financing and $9.7 million of Other University Funds over a 4 year period. The COPS financing is funded from a $50 student fee approved for this purpose beginning in fiscal year 2004-2005 and will be in effect for 10 years.

RECOMMENDED ACTION
We recommend The Executive and Audit Committee members approve the Reimbursement resolution as prepared by Bond Counsel for the Banner Administrative Systems project implementation.
RESOLUTION OF THE BOARD OF TRUSTEES OF EAST CAROLINA UNIVERSITY DECLARING ITS INTENT TO BE REIMBURSED FOR CAPITAL EXPENDITURES INCURRED IN CONNECTION WITH THE ACQUISITION OF EQUIPMENT FROM THE PROCEEDS OF CERTAIN TAX-EXEMPT OBLIGATIONS.

WHEREAS, the Board of Trustees (the "Board") of East Carolina University (the "University") hereby determines that it is in the best interests of the University to acquire and install computer software and hardware and related equipment on the campus of the University (the "Projects");

WHEREAS, the Board presently intends, at one time or from time to time, to finance a portion of the costs of the Projects with proceeds of tax-exempt obligations (the "Obligations"); and

WHEREAS, the Board desires to proceed with the Projects and the University will incur and pay certain expenditures in connection with the Projects prior to the date of the execution and delivery of the Obligations (the "Original Expenditures"), such Original Expenditures to be paid for originally from a source other than the proceeds of the Obligations, and the University intends, and reasonably expects, to be reimbursed for such Original Expenditures from a portion of the proceeds of the Obligations to be executed and delivered at a date occurring after the dates of such Original Expenditures;

NOW, THEREFORE, BE IT RESOLVED by the Board as follows:

Section 1. Official Declaration of Intent. The Board presently intends, and reasonably expects, the University to be reimbursed for the Original Expenditures incurred and paid by the University on or after the date occurring 60 days prior to the date of adoption of this Resolution from a portion of the proceeds of the Obligations. The Board reasonably expects to finance a portion of the costs of the Projects and the maximum principal amount of Obligations expected to be executed and delivered to reimburse the University for a portion of the costs of the Projects up to $9,000,000.

Section 2. Compliance with Regulations. This Resolution as a declaration of official intent of the Board under Section 1.150-2 of the Treasury Regulations promulgated under Section 103 of the Internal Revenue Code of 1986, as amended, to evidence the University's intent to be reimbursed for the Original Expenditures from proceeds of the Obligations.

Section 3. Itemization of Capital Expenditures. The Vice Chancellor for Administration and Finance of the University or designee, with advice from special counsel, is hereby authorized, directed and designated to act on behalf of the University in determining and itemizing all of the Original Expenditures incurred and paid by the University in connection with the Projects during the period commencing on the date occurring 60 days prior to the date of adoption of this Resolution and ending on the date of the execution and delivery of the Obligations.

CLT692844v1
Section 4. **Effective Date.** This Resolution shall become effective immediately upon the date of its adoption.

ADOPTED AND APPROVED this 26th day of **October**, 2004.

THE BOARD OF TRUSTEES OF EAST CAROLINA UNIVERSITY

By: [Signature]

Assistant Secretary to the Board of Trustees
STATE OF NORTH CAROLINA

COUNTY OF MECKLENBURG

I, James LeRoy Smith, the duly elected Secretary of the Board of Trustees of East Carolina University, DO HEREBY CERTIFY that (1) the foregoing is a full, true and correct copy of the Resolution adopted by the Board of Trustees of East Carolina University at its regular meeting of December 10, 2004 and appearing in the minutes of such meeting, (2) notice of the meeting of the Board of Trustees of East Carolina University held on October 20, 2004 was sent to each member of the Board, and (3) a quorum was present at the meeting on October 21, 2004 at which time the foregoing Resolution was adopted.

WITNESS, my hand and the seal of East Carolina University this 20th day of October, 2004.

[Signature]

Assistant Secretary of the Board of Trustees
Executive and Audit Committee

From: Charles M. Hawkins

CC: S. Ballard, J. Smith, G. Harrell, D. Knowles, S. Buck

Date: November 1, 2004

Subject: Request Approval to Harvest Timber at ECU’s Otter Creek Natural Area

Attached is a request for approval to harvest and thin approximately twenty (20) acres of overstocked pine plantation at ECU’s Otter Creek Natural Area.

Please review this recommendation, register your vote below and return by fax. Should you have any questions regarding this recommendation, please call me at (252) 328-6975.

Thank you.

Attachments

Approved ___________________________ Date ____________

Disapproved ___________________________ Date ____________

CMH:kc

CLT692844v1
East Carolina University
Board of Trustees
Executive and Audit Committee

ACTION ITEM
Approval of the Resolution to harvest and thin approximately twenty (20) acres of overstocked pine plantation at ECU’s Otter Creek Natural Area.

BACKGROUND INFORMATION
In 1987 and 2000, the ECU Foundation, Inc. gifted the 70 acre Otter Creek Natural Area, near Falkland, to the University. The ECU Natural Area Committee has advised twenty (20) acres of pines are in dire need of management based on consultation with a Weyerhaeuser Corporation forester. It is recommended that ten (10) acres be clear cut for reforestation and ten (10) acres be thinned to promote growth and deter disease. It is estimated the twenty (20) acre harvest will yield approximately $6,000 to be designated for reforestation with native hardwoods, signage, marking property lines and a security gate for the site.

RECOMMENDED ACTION
We recommend The Executive and Audit Committee members approve this request and contingent of your approval, we will seek UNC Board of Governors and Council of State approvals and the State Property Office will secure a proper timber valuation (timber cruise) prior to contracting for a timber harvest.
MEMORANDUM

TO: Members of the Executive and Audit Committee
    James R. Talton, Jr.
    Stephen D. Showfety
    Robert O. Hill, Jr.
    Michael W. Kelly
    Dan V. Kinlaw
    Margaret C. Ward

FROM: James LeRoy Smith
      Assistant Secretary to the Board

DATE: October 27, 2004

RE: Approval of Recommendations

Rather than wait until our Board meeting on December 10th, I respectfully request the members of the Executive and Audit Committee consider the recommendations for approval for initial appointments with permanent tenure for Marcus E. Randall, M.D., Professor, Department of Radiation Oncology, and Director of the Leo Jenkins Cancer Center, Brody School of Medicine and Martha R. Alligood, PhD, Professor and Director of the PhD Program, Department of Family and Community Nursing, School of Nursing. These recommendations have been endorsed by Chancellor Ballard and Vice Chancellor Lewis. Details are attached.

Please call (252-328-6105) or fax (252-328-0129) your reply to me.

Many thanks for your consideration of this request.

_____ Yes, I approve of the request for Marcus E. Randall.
_____ No, I do not approve.

_____ Yes, I approve of the request for Martha R. Alligood.
_____ No, I do not approve.

______________________________________
signature
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INTRODUCTION

The Office of Internal Audit and Management Advisory Services is committed to the mission of the University and assisting management in the effective discharge of their responsibilities and duties. With that in mind, the Internal Audit team has committed themselves to a very aggressive annual audit plan and re-engineering of Internal Audit timeline. The Internal Audit team is also committed to the four core values or principles considered essential to the effective practice of internal auditing: integrity, objectivity, confidentiality, and competency.

The following pages summarize the progress of our commitment to the annual audit plan and other internal audit activities for the period July 1, 2004 to September 30, 2004.
SUMMARY OF COMPLETED AND PENDING ENGAGEMENTS

For the quarter ending September 30, 2004, we completed and/or initiated the following engagements, follow-ups, and special reviews for a total of 1725 hours, which is 60% of total auditor hours for this period. Please note that actual auditor hours of the completed engagements will not equal the total auditor hours for the period because an engagement may have been initiated in the previous fiscal year or quarter. The complete annual audit plan for fiscal year 2005 can be found in Appendix A. The completed engagements are highlighted in yellow. The annual audit plan is a dynamic document that may change during the fiscal year as circumstances dictate. Requests from management and changes in the University’s organization or operations may result in changes to the plan and priorities.

COMPLETED ENGAGEMENTS, FOLLOW-UPS, AND SPECIAL REVIEWS

Operational:

Recurring Contractual Payment System
Administration and Finance
Issued: 08/19/04
Budgeted Hours: 100
Actual Auditor Hours: 207

The Interim Vice Chancellor for Administration and Finance requested an operational review of the automated recurring contractual payment system. This system was developed to automate manual processes and streamline University operations to provide more efficient and effective services. Recommendations were suggested in order to mitigate risks that were identified during the review.

Compliance:

Special Responsibility Constituent Institution Actions
FY 2003-2004
Chancellor
Issued: 09/28/04
Budgeted Hours: 100
Actual Hours: 264

University of North Carolina policy 600.3.1 requires that an annual internal audit be conducted with regard to expenditures authorized under budget flexibility. There are numerous safeguards and standards that must be met and maintained in order to receive and retain the designation as a special responsibility constituent institution. Recommendations were suggested in order to strengthen internal controls over the budget flexibility process.
SUMMARY OF COMPLETED AND PENDING ENGAGEMENTS

Special Reviews:

Travel Review
University Housing
Issued: 07/28/04 & 09/01/04
Budgeted Hours: 100
Actual Auditor Hours: 51

In October of 2003, an allegation was received that University Housing employees were traveling first class on University business and also questioned the use of rental cars. We found no substantiation that first class travel was used. Further, the Vice Chancellor of Student Life approved use of the rental cars and the employees provided an adequate explanation as to why the rental cars were needed. However, we did find instances of non-compliance with the University travel policy, such as authorizations to travel not completed, no reference to Airline Ticket Authorization numbers, etc. These non-compliance issues are being addressed by management.

Foundation/Endowment Scholarship Accounts
College of Human Ecology
Issued: 09/30/04
Budgeted Hours: 100
Actual Hours: 337

In October of 2003, an allegation relating to three Foundation accounts in the Department of Nutrition and Hospitality Management was received. The allegations included (1) instances of not distributing scholarships per the donor’s instructions, (2) inappropriate use of foundation funds for purposes not specific to the account, and (3) the mismanagement of funds such that scholarships were not available for distribution to the students. We found no instances of intentional misuse and mismanagement of the Foundations accounts; however, recommendations were made to strengthen internal controls over the Foundation accounts.

Personal Cell Phone Usage
Office of Economic and Community Development
Issued: 08/18/04
Budgeted Hours: 40
Actual Hours: 73

In May of 2004, the Associate Vice Chancellor for the Office of Economic and Community development requested the Office of Internal Audit to review the University cell phone records of a former employee for personal use. With the assistance of the former employee and the Associate Vice Chancellor, $674.15
SUMMARY OF COMPLETED AND PENDING ENGAGEMENTS

of personal phone charges was identified. A payment schedule has been established with the former employee to repay the personal cell phone charges.

Follow-Up Reviews:

Dowdy Student Stores – Operational Engagement Issued November of 2001
Business Services
Issued: 08/09/04
Budgeted Hours: 100
Actual Hours: 42

The primary purpose of the follow-up was to verify compliance with the recommendations and management responses and to assess the adequacy of the corrective actions taken with regard to the operational engagement issued in November of 2001. It was found that out of seventeen observations, fifteen had been satisfactorily completed. The incomplete items involve instances of computer workstations left unattended and not secured. Also, Dowdy Student Stores has not implemented and tested a business continuity plan.

Operations Center – Compliance Engagement Issued January of 2002
Information Technology and Computing Services
Issued: 08/18/04
Budgeted Hours: 100
Actual Hours: 69

The primary purpose of the follow-up was to verify compliance with the recommendations and management responses and to assess the adequacy of the corrective actions taken with regard to the compliance engagement issued in January of 2002. In summary, it was found that out of the four observations, three had been satisfactorily completed. The incomplete observation involves the reimbursement of shift premium pay. A reimbursement plan has been established and the reimbursement should be complete by December of 2004.

University Unions – Operational Engagement Issued September of 2002
Student Life
Issued: 09/08/04
Budgeted Hours: 100
Actual Hours: 66

The primary purpose of the follow-up was to verify compliance with recommendations and management responses and to assess the adequacy of the corrective actions taken with regard to the operational engagement issued in September of 2002. In summary, management had satisfactorily addressed ten of the thirteen observations. We found instances where the computer workstations were left unattended and were not secured. We also found that
backups for the Student Media server were not kept in a secure, offsite location. Further, we found that University Unions had not implemented and tested a business continuity plan.

**PENDING ENGAGEMENTS, FOLLOW-UPS, AND SPECIAL REVIEWS**

The following is a list of engagements, follow-ups, and special reviews that have been initiated but not yet completed:

**Operational:**
International House (Study Abroad Program)
Joyner Library

**Compliance:**
HIPAA Privacy Review
Chancellors Discretionary Account 06/30/04
Police Department
International I-9

**Information Technology:**
Disaster Recovery Testing 2004

**Special Reviews:**
Dining Services
MCNC Grant
Agro-medicine Telephone Review
Alumni Relations
Parking and Traffic Deposit Sheets

**Follow-Up Reviews:**
Telecommunications
University Pro-Card
REPORT OF OTHER INTERNAL AUDIT ACTIVITIES

Besides performing engagements, follow-ups, and special reviews, the Internal Audit department is also involved in other activities that supports the mission of the University, adds value to the University, and assists management in the effective discharge of their responsibilities and duties. A complete list of internal audit activities by category and the percentage of time expended on each category can be found in Appendix B. The following provides more detail of these activities:

RE-ENGINEERING THE INTERNAL AUDIT DEPARTMENT

We continue to strive to improve the Office of Internal Audit and Management Advisory services. The plan to re-engineer the Internal Audit department along with approximate completion dates can be found in Appendix D.

Our major goal this fiscal year is to implement risk based audit plans. Further, we continue to strive to build rapport with senior management to ensure those at the top have a clear picture of the internal audit function and also to ensure that Internal Audit has a clear understanding of the opportunities, challenges, and constraints that senior management faces.

CONSULTATIONS

Internal Audit provides consultation and management advisory services to administrative and academic units. For this period, we provided 29 consultations for a total of 132 hours or 5% of total auditor hours to a variety of departments. A complete list of consultations for this quarter can be found in Appendix C.

EXTERNAL AUDITOR ASSISTANCE

The Director of Internal Audit has been designated to serve in the capacity of Audit Liaison Officer. In this role, the Director and other members of the Internal Audit department are the initial contact point and coordinators of external audit activities. For this quarter, the Internal Audit department has provided 109 hours to assist the North Carolina State Auditors with year-end audit work and answering other questions.

PROFESSIONAL DEVELOPMENT/TRAINING

The Internal Audit department is committed to continuing education. We continue to provide staff development and career counseling to all members of the Internal Audit team to ensure that each person is in the process of becoming certified in at least one audit-related discipline and can consistently provide the level of service expected by the University. For this quarter, the Internal Audit team expended a total of 223 hours towards professional development, which
REPORT OF OTHER INTERNAL AUDIT ACTIVITIES

includes on-line research, reading periodicals and textbooks, and attending training events.

COMMITTEES

It is very common and highly encouraged that internal auditors sit on key management and project committees as ad-hoc, nonvoting members who participate in the meetings by offering commentary and insights. Hopefully, by building rapport with senior management, Internal Audit will be invited in the future to sit on key management committees. Currently, the Internal Audit department is represented on the following committees:

- Information Systems Steering Committee
- Information Resources Coordinating Council
- Banner Steering Committee
- HIPAA Oversight Committee
- HIPAA Security Implementation Committee
<table>
<thead>
<tr>
<th>Description</th>
<th>Management Requested</th>
<th>Budget Status</th>
<th>Actual Status</th>
<th>Budgeted Hours</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Audits:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alumni Association</td>
<td></td>
<td>Brought Forward</td>
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<td>256</td>
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<tr>
<td>Billing Practices - MFPF</td>
<td>Yes</td>
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<td>CHSC Operations</td>
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<td>Yes</td>
<td>Brought Forward</td>
<td>On Hold</td>
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<td>Distance Education</td>
<td>Yes</td>
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<tr>
<td>Joyner Library</td>
<td>Yes</td>
<td>Brought Forward</td>
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<tr>
<td>Office of Technology Transfer</td>
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<td>Petty Cash Funds</td>
<td>Yes</td>
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<td>Student Loans</td>
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<tr>
<td>University Cashier's Office</td>
<td>Yes</td>
<td>Brought Forward</td>
<td>Inactive</td>
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<td>University Life and Other Financial Arrangements</td>
<td>Yes</td>
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<td>Athletic Camp Billings and Receivables</td>
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<td>Current Year</td>
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<td>Surplus Property</td>
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<td>Study Abroad Program</td>
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<td><strong>Subtotal Operational Audit Hours</strong></td>
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<td>3337</td>
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<td>Compliance Audits:</td>
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<td>CHSC - QAT Grant</td>
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<td>Personnel Flexibility</td>
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<td>Current Year</td>
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<tr>
<td>Chancellor Discretionary Account 2004/2005</td>
<td>Yes</td>
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<td>Inactive</td>
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<tr>
<td>Construction Contracts - Review Process</td>
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<td>Grants and Contracts - Regulatory Compliance</td>
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<td>Misuse of State Property - 2003/2004</td>
<td>Yes</td>
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<td>Police Fair Labor Law and Compliance</td>
<td>Yes</td>
<td>Current Year</td>
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<td>100</td>
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<tr>
<td>SRCI/UNC Mgmt. Flexibility - 2004/2005</td>
<td>Yes</td>
<td>Current Year</td>
<td>Inactive</td>
<td>100</td>
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<tr>
<td>State Audit Reports</td>
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<td>Chancellor Discretionary Account 2003/2004</td>
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<tr>
<td>HIPAA Privacy Review</td>
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<td>Work In Progress</td>
<td>Active</td>
<td>20</td>
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<tr>
<td>SRCI/UNC Mgmt. Flexibility - 2003/2004</td>
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<td>Work In Progress</td>
<td>Complete</td>
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<td><strong>Subtotal Compliance Audit Hours</strong></td>
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<td></td>
<td></td>
<td>2164</td>
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<td>Information Technology Audits:</td>
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<td></td>
<td></td>
<td></td>
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<td>Logistican</td>
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<td>Brought Forward</td>
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<tr>
<td>PBX - West Campus</td>
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<td>Banner - SDLC</td>
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<td>935</td>
<td>11%</td>
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<td>Special Reviews:</td>
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<td>Agromedicine Telephone Review</td>
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<td>Alumni Relations</td>
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<td>Contractual Auto Payments</td>
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<td>Dining Services - Limited Review</td>
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<td>Active</td>
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<td>Hospitality Management and Discretionary Acct</td>
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<td>Complete</td>
<td>40</td>
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<td>MCNC Grant</td>
<td></td>
<td>Work In Progress</td>
<td>Active</td>
<td>20</td>
<td></td>
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<tr>
<td>Parking and Traffic Daily Deposits</td>
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<td>Radiation Oncology - Employee Time Records</td>
<td>Yes</td>
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<td>RD5 Telephone Review</td>
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<td>Complete</td>
<td>5</td>
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<td>Travel - Housing</td>
<td>Yes</td>
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<td>Complete</td>
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<td><strong>Subtotal Special Review Audit Hours</strong></td>
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<td></td>
<td></td>
<td>861</td>
<td>7%</td>
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<td>Follow-Up Reviews:</td>
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<td></td>
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</tr>
<tr>
<td>Athletics</td>
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<td>Dowdy Student Store</td>
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<td>End User Computing Policies and Procedures</td>
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<td>Housing - Special Review</td>
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<td>100</td>
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<td>ITCS Operations Compliance</td>
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<td>Music Review - Employee Time Records</td>
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<td>Psych - Finestone Grants</td>
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<td>Telecommunications</td>
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<td>Active</td>
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<tr>
<td>University Procard</td>
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<td>Work In Progress</td>
<td>Active</td>
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<tr>
<td>University Unions</td>
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<td><strong>Subtotal Follow-Up Review Audit Hours</strong></td>
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<td>808</td>
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<td>Special Projects:</td>
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<td>Implement Risk Based Audit Plans</td>
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<td></td>
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<td></td>
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<td>Director Hours</td>
<td>% of Total Director Hours</td>
<td>Total Hours</td>
</tr>
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<td>-------------------------------------------------------</td>
<td>-------------</td>
<td>------------------------</td>
<td>----------------</td>
<td>---------------------------</td>
<td>-------------</td>
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<td>Administration(1)</td>
<td>344</td>
<td>15%</td>
<td>27</td>
<td>5%</td>
<td>371</td>
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<td>Audits, Special Reviews, and Follow-Ups</td>
<td>1429</td>
<td>63%</td>
<td>296</td>
<td>49%</td>
<td>1725</td>
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<td>Consultations</td>
<td>34</td>
<td>1%</td>
<td>98</td>
<td>16%</td>
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</tr>
<tr>
<td>External Auditor Assistance and Year-End Work</td>
<td>104</td>
<td>5%</td>
<td>5</td>
<td>1%</td>
<td>109</td>
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<tr>
<td>Leave Time(2)</td>
<td>144</td>
<td>6%</td>
<td>42</td>
<td>7%</td>
<td>186</td>
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<tr>
<td>Professional Development/Training</td>
<td>166</td>
<td>7%</td>
<td>57</td>
<td>10%</td>
<td>223</td>
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<tr>
<td>Routine Tasks(Misc. Meetings, Committee Meetings, Etc.)</td>
<td>34</td>
<td>1%</td>
<td>73</td>
<td>12%</td>
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<tr>
<td>Special Projects</td>
<td>16</td>
<td>1%</td>
<td>0</td>
<td>0%</td>
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<tr>
<td><strong>Total</strong></td>
<td>2270</td>
<td>100%</td>
<td>598</td>
<td>100%</td>
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</table>

(1) Currently Internal Audit does not have an Administrative Assistant dedicated to performing administrative duties such as ordering supplies, maintaining leave records, filing, etc. The staff auditors are currently performing these duties.

(2) 3% of leave time involves State Holidays
2% of leave time involves compensatory time off
## Appendix C

**Consultations**
1QFYEO5
07/01/04 - 09/30/04

<table>
<thead>
<tr>
<th>SECTION</th>
<th>DESCRIPTION</th>
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<tbody>
<tr>
<td>Alumni Relations</td>
<td>Review computer files</td>
</tr>
<tr>
<td>External</td>
<td>Copy of IT Audit position for NCA&amp;T</td>
</tr>
<tr>
<td></td>
<td>Investment Committee</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Athletic Imprest Fund</td>
</tr>
<tr>
<td></td>
<td>Entertainment expenses and travel reimbursement forms.</td>
</tr>
<tr>
<td>Foreign Languages</td>
<td>Remove hard drive and ghost hard drive of former Foreign Languages employee</td>
</tr>
<tr>
<td>ITCS</td>
<td>Cell phone usage</td>
</tr>
<tr>
<td></td>
<td>SCT Banner and electronic access</td>
</tr>
<tr>
<td></td>
<td>Security access of Cotanche Building</td>
</tr>
<tr>
<td>Materials Management</td>
<td>Banner receiving report and quantity on hand</td>
</tr>
<tr>
<td></td>
<td>Inventory adjustments for tax value of storeroom items.</td>
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<tr>
<td></td>
<td>Profit/loss reports for last 3 years for Central Warehouse</td>
</tr>
<tr>
<td></td>
<td>Travel cards for Athletics</td>
</tr>
<tr>
<td></td>
<td>Travel guidelines for federal grant.</td>
</tr>
<tr>
<td></td>
<td>Use of Foundation accounts on procards</td>
</tr>
<tr>
<td></td>
<td>Using procards for travel expenses</td>
</tr>
<tr>
<td>Parking &amp; Traffic</td>
<td>Change payroll deduction procedures for payment of parking fines by staff</td>
</tr>
<tr>
<td></td>
<td>Internal cashier balance sheet</td>
</tr>
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<td></td>
<td>Notarized statement for lost permits</td>
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<td></td>
<td>Overpayments</td>
</tr>
<tr>
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<td>Permit Upgrades</td>
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<tr>
<td>Physical Therapy</td>
<td>Student checking account for student massage clinic</td>
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<tr>
<td>Student Health Services</td>
<td>Counseling room changes to allow for private consults on prescriptions</td>
</tr>
<tr>
<td></td>
<td>Immunizations provided to SHS staff</td>
</tr>
<tr>
<td>Student Life</td>
<td>Cell phone usage</td>
</tr>
<tr>
<td></td>
<td>Distribution of Planners w/Campus Living logo to division staff</td>
</tr>
<tr>
<td></td>
<td>Mendenhall Student Center receipts</td>
</tr>
<tr>
<td></td>
<td>Stolen petty cash funds and how to replenish</td>
</tr>
<tr>
<td>University Attorney</td>
<td>Using fax machine for personal use</td>
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## Appendix D
Re-Engineering Internal Audit Timeline
1QFY05
As of 09/30/04

<table>
<thead>
<tr>
<th>Task Number</th>
<th>Action Plan</th>
<th>Status</th>
<th>Approximate Completion Date</th>
<th>Actual Completion Date</th>
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<tbody>
<tr>
<td>1.</td>
<td>Group membership to the Institute of Internal Auditors (IIA) for the Internal Auditing (IA) staff. (Membership renewal required each year.)</td>
<td>Complete</td>
<td>3Q03</td>
<td>3Q03</td>
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<tr>
<td>2.</td>
<td>Change the title of department from &quot;Office of the Internal Auditor&quot; to &quot;Office of Internal Audit and Management Advisory Services.&quot;</td>
<td>Complete</td>
<td>2Q04</td>
<td>2Q04</td>
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<td>3.</td>
<td>Implement Institute of Internal Auditor's Professional Practices Framework. (Annual review of compliance required each year.)</td>
<td>Complete</td>
<td>3Q04</td>
<td>4Q04</td>
</tr>
<tr>
<td>4.</td>
<td>Encourage professional development among staff members by attending local IIA sponsored meetings, reading internal auditing publications, and attending conferences and seminars.</td>
<td>Ongoing</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>5.</td>
<td>Obtain internal stakeholders' input on their expectations of the Internal Audit Department.</td>
<td>Inactive</td>
<td>3Q04</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Revise audit reporting formats and evaluate the potential to deliver reports electronically.</td>
<td>Active</td>
<td>3Q04</td>
<td>4Q04</td>
</tr>
<tr>
<td>7.</td>
<td>Restructure Internal Audit department staff.</td>
<td>Inactive</td>
<td>4Q04</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Implement risk based audit plans. (Annual audit plan will be risked based beginning July of 2004.)</td>
<td>Inactive</td>
<td>4Q04</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Market the services provided by the Internal Audit department through presentations and brochures.</td>
<td>Active</td>
<td>4Q04</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Evaluate and implement audit automation software.</td>
<td>Inactive</td>
<td>1Q05</td>
<td></td>
</tr>
<tr>
<td>11.</td>
<td>Encourage staff to obtain a certified/professional designation such as CIA, CPA, CISA, or CFE.</td>
<td>Ongoing</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>12.</td>
<td>Request a quality assurance review from an external source. (Should be performed every 5 years.)</td>
<td>Inactive</td>
<td>3Q05</td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Strive to obtain the Institute of Internal Auditor's Quality Improvement Award.</td>
<td>Inactive</td>
<td>3Q05</td>
<td></td>
</tr>
</tbody>
</table>