East Carolina University | Board of Trustees Meeting
Audit Committee Meeting | April 7, 2016
Agenda

I.   Approval of February 18, 2016 Minutes   Action

II.   Enterprise Risk Management - Mr. Tim Wiseman

     A.   Update - Information Paper   Information

     B.   Article   Information

     C.   UNC System Policy - ERM and Compliance   Information

III.   Office of Internal Audit – Ms. Stacie Tronto

     A.   Dashboard   Information

     B.   Annual Engagement Plan 2015 - 2016 Changes   Action

IV.   Research Compliance - Ms. Norma Epley   Information

V.   Other Business

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Kel Normann, Chair
Agenda Item	I.
Item Description	Approval of minutes – February 18, 2016
Comments	
Action Requested	Approval
Disposition	
Notes	

Minutes from ECU BOT Audit Committee
February 18, 2016
East Carolina Heart Institute

The Audit Committee of the ECU Board of Trustees met in regular session on February 18, 2016 at 9:00am in the East Carolina Heart Institute on the campus of East Carolina University. Committee members present included Kel Normann (Chair), Vern Davenport, Mark Copeland, Bob Plybon, and Terry Yeargan

Other board members present included Board Chair Steve Jones, Kieran Shanahan, Deborah Davis, Max Joyner, and Mark Matulewicz (SGA).

Others present included Chancellor Steve Ballard, Phyllis Horns, Ron Mitchelson, Rick Niswander, Donna Payne, Nick Benson, Chris Locklear, Dee Bowling, Stephanie Coleman, Virginia Hardy, Tim Wiseman, Ken DeVille, Norma Epley, Hiromi Sanders, Jeannine Hudson, Steve Duncan, Mary Schulken, Brandy Styron, Dan Sweat, Megan Ayers, Holly West, Stacie Tronto (by phone), Tereasa Hopkins, and Wayne Poole.

Kel Normann, Chair of the Audit Committee, convened the meeting at 9:00AM. Mr. Normann asked for the approval of the minutes of the November 19, 2015 audit committee meeting.

Action Item: The minutes of the November 19, 2015 audit committee meeting were approved with no changes.

Mr. Normann read the conflict of interest provisions as required by the State Government Ethics Act. Mr. Normann asked if anyone would like to declare or report an actual or perceived conflict of interest. None were reported.

Mr. Normann led a discussion on **BOT Travel Expenses**
The committee reviewed the fiscal year to date travel expenses for BOT members (7/1/15 through 1/31/16). Mr. Normann stated that BOT travel expenses will be reviewed at each Audit Committee meeting from this point forward. Mr. Normann stated that the items shaded in gray on the expense listing that was provided to the committee members were approved according to the previous policy, but would not be approved under the proposed new policy.

Mr. Joyner stated that he is concerned about the increase in travel expenses over the last several years and asked what funding source was used to cover them. Dr. Niswander stated that some state funds were used, as well as the Chancellor's Discretionary Fund (non-state). Foundation funds could also be used; it depends on the purpose of the travel. Mr. Joyner stated that he wondered whether someone should review this in more detail. He wants to be sure everyone is prudently using the funds. Mr. Joyner stated that he would like further information and has not received it. Ms. Tronto stated that Internal Audit has reviewed the last six years' travel payments in detail and has offered to have Mr. Joyner review IA's work in person in the IA office or at his office. Ms. Tronto again stated that IA will provide him whatever he needs and would welcome the chance to sit down and review the work with him. Mr. Joyner thanked Mr. Normann and the administrators at ECU for their work on this. Mr. Normann asked Mr. Joyner and Ms. Tronto to work together to move forward with any further review and discussion that was desired.

The committee engaged in a significant amount of discussion about the expense review and all agreed with their responsibility to be stewards of the University's resources. Mr. Normann thanked everyone for their comments and stated that he hopes the Board will move ahead with the new proposed policy. He stated that the past practices were not in violation of policy, but could be a perception issue, as the previous policy was too vague. Mr. Normann and Mr. Jones expressed appreciation for the thorough review and data collection efforts of Internal Audit, Administration and Finance, and the Chancellor's office over the last few months. Mr. Jones stated that this committee and the University's management have done a wonderful job of getting to a good place on the Travel process for Board members. Mr. Normann stated that if possible, a single form could be developed for the committee's use in approving and reviewing travel.

Mr. Normann stated that the Guidelines for Board Member Travel document has been revised based on the input of the Board members. He specifically thanked Mark Copeland for his significant contributions on this and asked for a motion to approve the new document.

Action Item: The committee approved a motion to present a new document titled *Operational Guidelines on Travel Reimbursement for Board of Trustees*, for consideration by the full Board of Trustees.

Mr. Wayne Poole provided the **Internal Audit update**.
Mr. Poole presented the Internal Audit dashboard for the 2015-2016 fiscal year to date (as of 1/2/16). The Internal Audit team has completed 34% of the annual audit plan for the year (the target for the year is 80%). Mr. Poole stated that the percentage is up to approximately 50% as of today and the team is on track to meet or exceed the goal this year. The team's utilization rate ("direct" productivity hours) for the year to date is 71% (the target is 75%). The team expects that it will meet this goal by year-end. The first half of the year includes the Thanksgiving and winter break periods, which impact the productivity rate.

Mr. Copeland asked how the support of Elizabeth City State University impacted Internal Audit's productivity numbers. Mr. Poole stated that the ECSU support hours are included in the consultation hours and are considered direct hours for the purpose of this computation. Ms. Tronto stated that since 7/1/15, IA has spent approximately 700 hours supporting ECSU. All of these hours are hers. Mr. Copeland stated that ECSU is taking resources from ECU. Mr. Davenport agreed and stated that the support does not appear that it is going to diminish. Ms. Tronto stated that the Internal Audit support of ECSU ends in December 2016. Chancellor Ballard stated that the University's assistance to ECSU extends beyond Internal Audit. He stated that other offices are also providing support at the request of UNC-GA. He stated that there is a delicate balance being struck between being a collegial partner and team player for UNC-GA and meeting all of the needs for East Carolina.

Mr. Poole stated that University management has made satisfactory progress on 75% of the corrective actions/recommendations for which Internal Audit has completed a follow-up this year (the target is 95%). The three recommendations that have not yet been satisfactorily addressed are all related to the School of Dental Medicine (SODM). The SODM operations ramped up at a rate faster than the infrastructure and staff could keep up with. Mr. Poole stated that there were nine original recommendations, and six of the nine have been closed. IA will complete a second follow-up on the three recommendations that were not considered complete prior to June 30.

Mr. Poole updated the Committee on the Internal Audit Quality Assessment Review, which is ongoing. Internal Audit has completed its self-assessment and finds that the Office of Internal Audit conforms with the *Standards for the Professional Practice of Internal Auditing*. The internal review noted several strengths as well as some opportunities for improvement, which are already being addressed. Based on data provided by the Institute of Internal Auditors, the office is more productive than its peer Internal Audit offices of similar size, across multiple industries. Mr. Poole stated that an external validation team will be on campus in late March to conduct interviews with University leadership and to determine whether or not it agrees with Internal Audit's self-assessment.

Dr. Ken DeVille presented the **Health Sciences Compliance Report**
Dr. DeVille reminded the committee that external payers often request data and records related to patient billing. He stated that in December 2015, ECU Physicians (ECUP) received a request for data for a Zone Program Integrity Contractor ("ZPIC") audit that is underway. These audits are contracted by the federal Centers for Medicare and Medicaid Services (CMS). These audits are typically more focused than those we have dealt with

previously, and are specifically looking for fraud. Ms. Davis asked if there was any clear risk exposure from this audit. Dr. DeVille stated that ECUP is not aware of the reason for the audit, but has analyzed the data and did not find any clear issues or significant, identifiable risk exposure. He stated that prior payer audits in the past several years have not identified any significant issues. Dr. DeVille will keep the committee informed of the next steps and the outcome when this information is available.

Dr. Ken DeVille presented an **update on a State Ethics Matter.**
Dr. DeVille advised that three additional BOT members' conflict of interest evaluation letters have been received from the State Ethics Commission. These evaluations are required by the State Ethics Act and are filed with the BOT minutes.

Action Item: The committee approved a motion to include these letters in the Board meeting documentation as an official record.

Mr. Tim Wiseman provided the **Enterprise Risk Management** (**ERM)** update.
Mr. Wiseman presented an update on the Enterprise Risk Management activity. Mr. Wiseman specifically mentioned the high risk nature of student travel and stated that the University may want to take an enterprise-wide approach to assessing and managing these risks. Mr. Wiseman noted that risk management training was recently requested by the Alternative Spring Break program. He mentioned this as an encouraging sign that management is thinking proactively and incorporating risk management into routine processes.

Mr. Wiseman stated that at the most recent ERM Committee, the Office of Environmental Health and Safety presented an overview of the Kuali Business Continuity Planning software as well as the Live Safe application that will be implemented at ECU. Ms. Davis stated that she is familiar with the Live Safe app and that it is used heavily by students at other campuses and is "wonderful". Dr. Hardy stated that the Board members will see a presentation on this app later today.

Mr. Yeargan asked for an update on where the University is with the interim policy regarding Drones on campus. Mr. Wiseman stated that there has been a group working on this and that the interim policy has been drafted. He expects that it will be in effect in about one month. Mr. Yeargan stated that he has some information from his role in the private sector that may be useful, and he will provide it if needed.

Mr. Wiseman provided an information paper from NC State University which includes templates and scorecards that can be used for reporting key risk information to the Board. He asked that the committee members, and any other Board members who have feedback or ideas on the Board's needs in this area to communicate those with him. He is working on determining how to best communicate key risk details to the Board.

Dr. Rick Niswander and Chancellor Ballard told the committee that ECU is developing a national reputation as being on the leading edge of ERM among Universities in the UNC system and across the nation.

Other Business
Mr. Normann asked if anyone had other business for the committee. No other business was brought forward by anyone in attendance.

Closed Session – At 9:47 AM, Mr. Davenport made a motion that the committee go into closed session in order to discuss items that are protected according to state statutes governing personnel information, criminal investigations, internal audit working papers, sensitive security information, and/or otherwise not considered a

public record within the meaning of Chapter 132 of the North Carolina General Statutes. The motion was seconded and unanimously approved.

The Committee returned to open session and continued work on the agenda at 10:03 AM.

There being no further business, the Audit Committee meeting was adjourned at 10:04 AM.

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Respectfully submitted,
Tereasa Hopkins and Wayne Poole
ECU Office of Internal Audit and Management Advisory Services

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Mr. Tim Wiseman
Agenda Item	II.A.
Item Description	Enterprise Risk Management Update – Information Paper
Comments	
Action Requested	Information
Disposition	
Notes	

INFORMATION PAPER

SUBJECT: Enterprise Risk Management (ERM) Update for the BOT-A Committee April 2016 Meeting

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

2. Action Recapitulation:

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

- University Youth Programs Task Force – Both Interim and Longer Term Actions
- Drones/UAS Interim Policy Coordination
- Movement of Risk Management-Insurance Function from Campus Operations to ERM
- Assisted Wake Forest University with Risk Prioritization Exercise Planning/Materials
- Student Travel Risk Coordination Meeting with Student Affairs
- Taught ISO 31000 ERM in Higher Ed Workshop Part II, Seattle, WA (Feb)
- Quarterly Enterprise Risk Management Committee Meeting and Actions (Feb 17)
- Re-Admissions Risk Case Reviews and University Behavioral Concerns Team Actions
- ERM Consultations and Inquiries – Various Departments
- Western Research Campus Utilization Committee Actions and Risk Assessments
- Conduct ERM Interviews with Campus Leaders & Off-Year Assessments (Ongoing)

 b. Significant ERM/CRO Activities Next Two Months:

- Conduct ERM Interviews with Campus Leaders & Off-Year Assessments (Thru May)
- Launch of Risk Management Recognition/Awards Program
- University Youth Programs Task Force – Both Interim and Longer Term Actions
- Teach ISO 31000 ERM in Higher Ed Workshops (Parts I & II), Raleigh (Apr & May)
- Host ERM Webinar (April)
- Quarterly Enterprise Risk Management Committee Meeting and Actions (May)
- Present at PRIMA RM Conference, Atlanta, GA (June)
- Draft '16-'17 ERM Top Risk Survey
- ERM Consultations/Research/Inquiries – Various Departments

3. Other: ECU will be featured in an upcoming article in the magazine of the American Association of State Colleges and Universities. The article is on *managing reputational risk*.

ACTION OFFICER: Tim Wiseman
Assistant Vice Chancellor for ERM & Military Programs
Spilman Bldg, Room 214, 252-737-2803

Two Year ERM Activities Model

Year	Primary Activities	Focus
Even "On" Year (Example '14-'15)	• Full ERM Risk Survey • Full Risk Prioritization Exercise • Reset • BOT & EC Presentations and Involvement • Risk Management Plans Creation (or Updates)	• Engaging Key Sensors • Assessment Process (Rigor and Detail) • Risk Register Update • Fresh Look at Current and Anticipated Risk Environment
Even "Off" Year (Example '15-'16)	• Smaller Scale Re-Prioritization/ Re-Validation Exercise • Departmental Workshops • Interviews and Sensing Sessions • Presentations to Other Key Committees/Groups	• Risk Management Plans Update/ Adjustment • "By Exception" Reviews • Select Risk Management Project Work • ERM "Maturity" Assessment(s) • Education

ECU Enterprise Risk Management

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Mr. Tim Wiseman
Agenda Item	II.B.
Item Description	Enterprise Risk Management Article
Comments	
Action Requested	Information
Disposition	
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Executive Perspectives on Top Risks for 2016

Key Issues Being Discussed in the Boardroom and C-Suite

*Research Conducted by North Carolina State University's
ERM Initiative and Protiviti*

EXCERPT

EXECUTIVE SUMMARY
ONLY

INTRODUCTION

Volatility in the equity markets, falling oil prices, polarization surrounding the 2016 presidential elections in the United States, and recent moves by the U.S. Federal Reserve to gradually raise interest rates are only some of the drivers of uncertainty affecting the global business outlook for 2016 and beyond. Entities in virtually every industry and country are reminded, all too frequently, that they operate in a risky world. Recent terrorism events, perceived adjustments in expectations about economic conditions in China, the rapidly increasing costs of healthcare, and continued concerns about cyber-data breaches vividly illustrate the realities that organizations of all types face risks that can suddenly propel them into global headlines, creating complex enterprisewide risk events that threaten reputation and brand. The rapid and steep decline in oil prices was not anticipated by many players in the energy industry, reminding everyone that they need to expect the unexpected. Boards of directors and executive management teams cannot afford to manage risks casually on a reactive basis, especially in light of the rapid pace of disruptive innovation and technological developments.

Protiviti and North Carolina State University's ERM Initiative are pleased to provide this report focusing on the top risks currently on the minds of global boards of directors and executives. This report contains results from our fourth annual risk survey of directors and executives to obtain their views on the extent to which a broad collection of risks are likely to affect their organizations over the next year.

Our respondent group, comprised primarily of board members and C-suite executives, provided their perspectives about the potential impact in 2016 of 27 specific risks across these three dimensions:[1]

- **Macroeconomic risks** likely to affect their organization's growth opportunities

- **Strategic risks** the organization faces that may affect the validity of its strategy for the pursuit of growth opportunities

- **Operational risks** that might affect key operations of the organization in executing its strategy

In presenting the results of our research, we begin with a brief description of our methodology and an executive summary of the results. Following this introduction, we discuss the overall risk concerns for 2016, including how they have changed from 2015 and 2014, followed by a review of results by size of organization and type of executive position, as well as a breakdown by industry, type of ownership structure (i.e., public company, privately held, not-for-profit and government), geographic location of their headquarters (i.e., U.S.-based or outside the United States), and whether they have rated debt outstanding. We conclude with a discussion of the organizations' plans to improve their capabilities for managing risk.

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[1] Our report about top risks for 2014 included 22 specific risks. We added five additional risks to the survey for 2015, and these were retained for 2016. See Table 1 for a list of the 27 risks addressed in this study.

METHODOLOGY

We are pleased that participation from executives was strong again this year. Globally, 535 board members and executives across a number of industries participated in this survey. We are especially pleased that this year we received responses from individuals all over the world, with 250 respondents based in the United States and 285 respondents based outside the United States. As a result, this report provides perspective about risk issues on the minds of executives at a global level.

Our survey was conducted in person and online in the fourth quarter of 2015. Each respondent was asked to rate 27 individual risk issues using a 10-point scale, where a score of "1" reflects "No Impact at All" and a score of "10" reflects "Extensive Impact" to their organization over the next year.

For each of the 27 risk issues included, we computed the average score reported by all respondents. Using mean scores across respondents, we rank-ordered risks from highest to lowest impact. This approach enabled us to compare mean scores across the three years to highlight changes in the perceived level of risk.

Consistent with our prior studies, we grouped all the risks based on their average scores into one of three classifications:

- Risks with an average score of **6.0 or higher** are classified as having a **"Significant Impact"** over the next 12 months.

- Risks with an average score of **4.5 through 5.99** are classified as having a **"Potential Impact"** over the next 12 months.

- Risks with an average score of **4.49 or lower** are classified as having a **"Less Significant Impact"** over the next 12 months.

We refer to these risk classifications throughout our report, and also review results for various demographic groups (i.e., company size, position held by respondent, industry representation, organization type, geographic location and presence of rated debt). With respect to the various industries, we grouped related industries into combined industry groupings to facilitate analysis, consistent with our prior years' reports.

The following table lists the 27 risk issues rated by our respondents, arrayed across three categories – Macroeconomic, Strategic and Operational.

Table 1: List of 27 Risk Issues Analyzed

Macroeconomic Risk Issues

- Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address

- Uncertainty surrounding political leadership in national and international markets may limit our growth opportunities

- Anticipated changes in global trade policies may limit our ability to operate effectively and efficiently in international markets

- Our ability to access sufficient capital/liquidity may restrict growth opportunities for our organization

- Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization

- Uncertainty surrounding costs of complying with healthcare reform legislation may limit growth opportunities for our organization

- Geopolitical shifts and instability in governmental regimes or expansion of global terrorism may restrict the achievement of our global growth objectives*

Strategic Risk Issues

- Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model

- Social media, mobile applications and other Internet-based applications may significantly impact our brand, customer relationships, regulatory compliance processes and/or how we do business*

- Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered

- Shifts in social, environmental and other customer preferences and expectations may be difficult for us to identify and address on a timely basis

- Ease of entrance of new competitors into the industry and marketplace may threaten our market share

- Our organization may not be sufficiently prepared to manage an unexpected crisis significantly impacting our reputation

- Growth through acquisitions, joint ventures and other partnership activities may be difficult to identify and implement

- Opportunities for organic growth through customer acquisition and/or enhancement may be significantly limited for our organization

- Substitute products and services may arise that affect the viability of our current business model and planned strategic initiatives

- Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base*

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* *Represents a new risk issue added to the 2015 survey.*

Operational Risk Issues

- Uncertainty surrounding the viability of key suppliers or scarcity of supply may make it difficult to deliver our products or services

- Risks arising from our reliance on outsourcing and strategic sourcing arrangements, IT vendor contracts, and other partnerships/joint ventures to achieve operational goals may prevent us from meeting organizational targets or impact our brand image

- Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets

- Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand

- Ensuring privacy/identity management and information security/system protection may require significant resources for us

- Our existing operations may not be able to meet performance expectations related to quality, time to market, cost and innovation as well as our competitors

- Inability to utilize data analytics and "big data" to achieve market intelligence and increase productivity and efficiency may significantly affect our management of core operations and strategic plans

- Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations

- Our organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives*

- Our organization may face greater difficulty in obtaining affordable insurance coverages for certain risks that have been insurable in the past*

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*   *Represents a new risk issue added to the 2015 survey.*

EXECUTIVE SUMMARY

Volatility in equity markets. Falling oil prices. Global terrorism. Escalating healthcare costs. Uncertainties in political regimes in certain parts of the world. Disruptive technological innovation. Expanding regulation and oversight. Shifts in expectations about China's economy. Strong U.S. dollar. These and a host of other significant risk drivers are contributing to the risk dialogue in boardrooms and executive suites.

Expectations of key stakeholders regarding the need for greater transparency about the nature and magnitude of risks undertaken in executing an organization's corporate strategy continue to be high. Pressures from boards, volatile markets, intense competition, demanding regulatory requirements, fear of catastrophic events and other dynamic forces are leading to increasing calls for management to design and implement effective risk management capabilities to identify and assess the organization's key risk exposures, with the intent of reducing them to an acceptable level.

Key Findings

- **Overall, survey responses suggest a global business environment in 2016 that is slightly more risky for organizations than it was in 2015, but not as risky as in 2014** – Most respondents indicated their organizations are likely to invest additional resources toward risk management in 2016. This seems consistent with the view that expectations for more effective risk oversight continue to rise for most organizations. More organizations are realizing that additional risk management sophistication is warranted given the fast pace in which complex risks are emerging.

- **The top 10 risks overall vary in nature** – There continue to be concerns about operational risk issues, with five of the top 10 risks representing operational concerns. Three of the top 10 risks relate to strategic risk concerns, with two related to concerns about macroeconomic issues. This year's emphasis on operational risks is consistent with our 2015 results. This differs from the concern over strategic risks that we observed in 2014.

- **With respect to the top five risks overall:**
  - **Regulatory change and heightened regulatory scrutiny** – For the majority of organizations, this risk continues to represent the top overall risk for the fourth consecutive year. Sixty percent of our respondents rated this as a "Significant Impact" risk.
  - **Economic conditions in domestic and international markets** – This risk level is slightly elevated when compared to the two prior years. Similar to concerns about regulatory scrutiny, 60 percent of respondents rated this as a "Significant Impact" risk. Interestingly, this was rated as the top risk by both boards of directors and chief executive officers (CEOs) and ranked among the top five risks for all other executives except chief audit executives (CAEs). That these leaders appear to have uncertainty regarding the global economic climate is an important message.
  - **Concerns about cyberthreats disrupting core operations** – With little surprise, this risk is again a top five concern for 2016, as well as the top operational risk overall and for the largest organizations.
  - **Succession challenges and the ability to attract and retain talent** – This risk is especially prevalent for smaller organizations (those with revenues under $1 billion), likely triggered by a tightening labor market (though the decline in unemployment rates has been relatively modest), and the respondents' perception that significant operational challenges may arise if organizations are unable to sustain a workforce with the skills and expertise needed for growth.
  - **Privacy and identity protection** – Respondents ranked this risk as a top five risk concern for the first time in 2016. The inclusion of this risk into the top five is consistent with the increasing number of reports of hacking scandals and growing concern over protecting personally identifiable information.

- **There are growing concerns about the rapid speed of disruptive innovations and new technologies** – The perceived impact of these risk issues is noticeably higher than the prior two years, moving this risk into the top 10 for 2016.
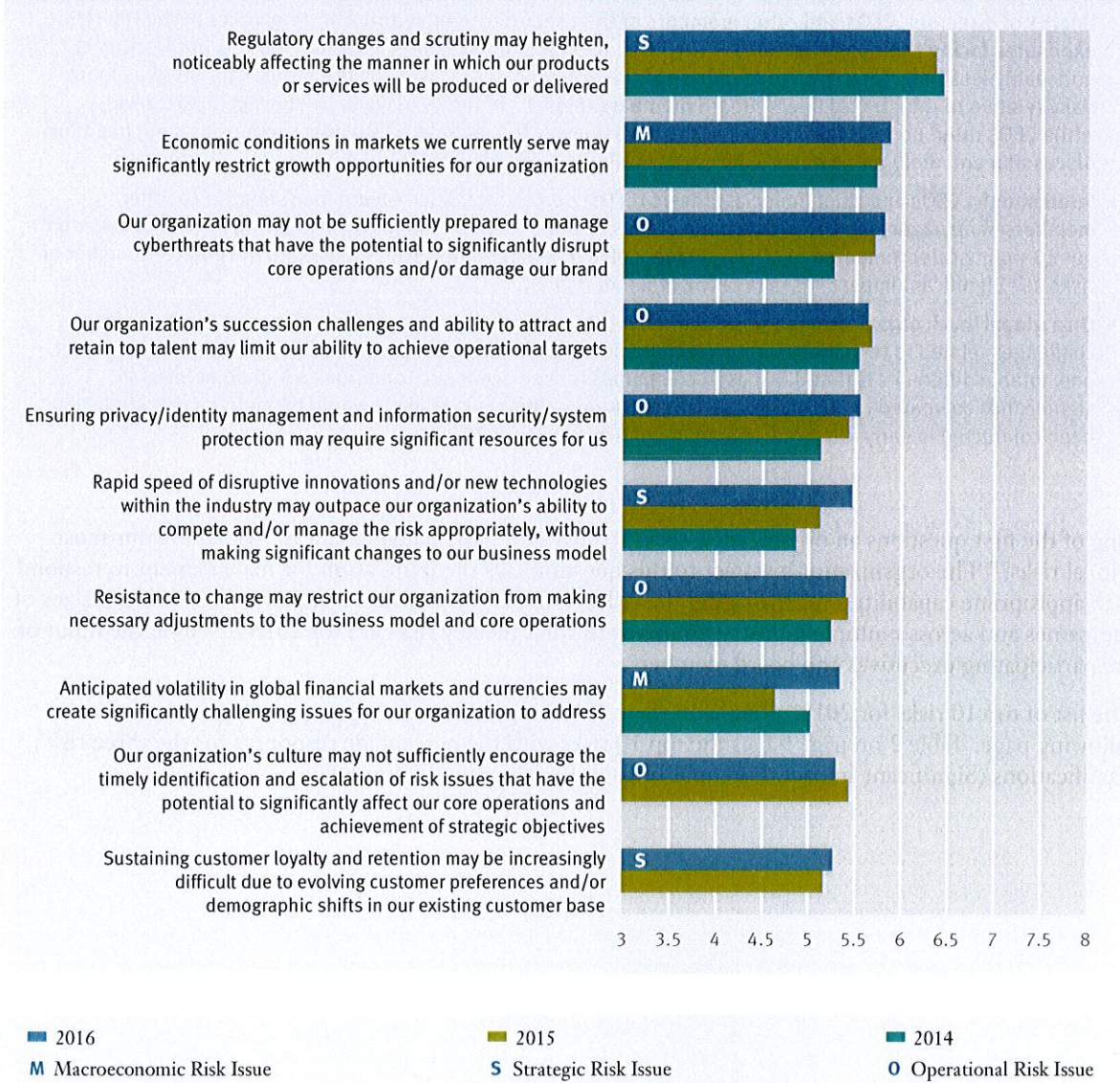
- **Boards of directors, CEOs and other members of the executive team report differing views of the top risk exposures facing their organizations** – The level of impact of risk concerns among boards of directors is noticeably less risky compared to members of the executive team, who see the outlook for 2016 as more risky relative to their board peers. Board members rated 17 of the 27 risks at the lowest impact level, while CEOs rated none of the 27 risks at the lowest level. These findings suggest there is a strong need for discussion and dialogue to ensure the organization is focused on the right emerging risk exposures.

- **Interestingly, CEOs and chief financial officers (CFOs) perceive a riskier environment relative to other members of management** – They rate none of the risks at the lowest impact level (a rating of 4.49 or lower on our 10-point scale) compared to other members of management. However, CAEs rated the greatest number of risks as "Significant Impact" risks (a rating of 6.0 or higher).

- **On a global level, organizations see similar risks** – Regardless of geographic location, organizations face challenges related to regulatory scrutiny, economic conditions, and preparedness for cyberthreats. However, one notable difference is that U.S.-based companies ranked economic conditions a half point lower in significance compared to non-U.S.-based organizations. This ranking likely would be higher if this study had been conducted in early 2016 rather than the fourth quarter of 2015.

One of the first questions an organization seeks to answer in risk management is, "What are our most critical risks?" The organization's answer to this question lays the foundation for management to respond with appropriate capabilities for managing the risks. This survey provides insights across different sizes of companies and across multiple industry groups as to what the key risks are for 2016 based on the input of the participating executives and board members.

The list of top 10 risks for 2016, along with their 2015 and 2014 scores, appears in Figure 1 on the following page. Table 2 on page 9 lists the top 10 risks with the percentage responses for the three risk classifications (Significant Impact, Potential Impact, Less Significant Impact).

Figure 1: Top 10 Risks for 2016

Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered — **S**

Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization — **M**

Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand — **O**

Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets — **O**

Ensuring privacy/identity management and information security/system protection may require significant resources for us — **O**

Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model — **S**

Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations — **O**

Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address — **M**

Our organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives — **O**

Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base — **S**

Axis: 3 3.5 4 4.5 5 5.5 6 6.5 7 7.5 8

■ 2016   ■ 2015   ■ 2014

M Macroeconomic Risk Issue   **S** Strategic Risk Issue   **O** Operational Risk Issue

In addition to our Key Findings, other notable findings this year with regard to those risks making the top 10 include the following:

- Related to risks of managing cyberthreats, respondents expressed concern about their organization's ability to adequately resource efforts needed to ensure privacy/identity management and information security on an ongoing basis. The level of risk concern for each of these two risks has increased steadily over the past two years. It is a concern across most sizes of organizations, and it is a particular concern for organizations in the Financial Services; Technology, Media and Communications; and Healthcare and Life Sciences industry groups.

- Other top risks, while not perceived as having a "Significant Impact" overall, include risks related to concerns about the organization's resistance to change restricting needed adjustments to the business model, and anticipated volatility in global financial markets and currencies that may

create significant challenging issues for organizations. With respect to the latter, note that the risk declined significantly for 2015 and then increased significantly for 2016, reflecting fluctuating levels of concern with respect to volatility in financial markets and currencies.

- Two new risk categories added to last year's survey (in 2015) again made the top 10 list of concerns for the full sample. In addition to the risk related to the organization's culture being insufficient to encouraging risk discussions, respondents also ranked the risk related to sustaining customer loyalty and retention as a top risk area.

WHILE CONCERNS ABOUT REGULATORY CHANGES AND REGULATORY SCRUTINY ARE DECREASING, IT IS IMPORTANT TO NOTE THAT THIS RISK STILL REPRESENTS THE TOP RISK CONCERN ACROSS ALL RESPONDENTS FOR 2016.

In addition to our analysis of the top 10 risk results for the full sample, we conducted a number of sub-analyses to pinpoint other trends and key differences among respondents. Additional insights about the overall risk environment for 2016 can be gleaned from these analyses, which we highlight in a number of charts and tables later in this report. Following are some significant findings from our sub-analyses:

- Three of the top five risks for 2016 with the greatest increase in risk ratings from 2015 relate to operational risk concerns, while none of those risks increasing the most relate to strategic risk concerns. In contrast, two of those risks that decreased the most from 2015 to 2016 relate to strategic risk issues. While concerns about regulatory changes and scrutiny are decreasing, it is important to note that this risk still represents the top risk concern across all respondents for 2016.

- Interestingly, CEOs and CFOs rated none of the 27 risks at the lowest impact level ("Less Significant Impact" – rating of 4.49 or lower), suggesting they have overall concerns about a number of risks. CEOs ranked concerns about economic conditions as a "Significant Impact" risk. While CAEs rated seven of the 27 risks at the lowest impact level, they identified three risks at the highest impact level. This demonstrates there may be varying views within management teams regarding their organization's risk profile.

- Among the mix of types of risks, boards of directors identified only one strategic risk as a top five risk concern, with the remaining risks related to macroeconomic and operational risk issues. In contrast, CEOs identified strategic risk issues as three of their top five risk issues. Furthermore, most other executives rated more operational risks in their top five lists of concerns relative to strategic and macroeconomic risks. This disparity in viewpoints emphasizes the critical importance of both the board and management team engaging in risk discussions, given their unique perspectives may be contributing to an apparent lack of consensus about the organization's most significant emerging risks.

- Consistent with our survey results from prior years, the environment for the largest organizations appears to be the riskiest relative to the other size categories. The largest organizations (those with revenues of $10 billion or greater) rated all of their top five risks as "Significant Impact" risks. This is in contrast to all other sized organizations that did not rate any of their top five risks as "Significant Impact" risks, except for one risk rated at that level for the smallest category of organizations. Concerns about operational risks were common among all sizes of organizations (although the specific operational risks differ), and concerns about those risks are generally higher for 2016 relative to 2015. These findings emphasize the reality that there is no "one size fits all" list of risk concerns.

- With respect to industry groupings, the Healthcare and Life Sciences industry group appears to have the highest overall level of risk concern, with five of the 27 risks rated as "Significant Impact" risks. Not surprisingly, respondents in the Healthcare and Life Sciences industry group indicated the greatest increase, as compared to other industry groupings, for 2016 in their overall impressions about the magnitude and severity of risks.

- Both U.S.-based and non-U.S.-based organizations identified regulatory issues, economic conditions and cyberthreats among their top five risk concerns. U.S.-based firms rated more operational risks among their top risk concerns, while non-U.S. firms only identified one operational risk as a top five concern. U.S.-based firms are more concerned about succession challenges and ensuring privacy/identity management, while non-U.S.-based firms are more concerned about anticipated volatility in global financial markets and currencies, along with the ease of entrance of new competitors.

The remainder of this report includes our in-depth analysis of perceptions about specific risk concerns. We identify and discuss variances in the responses when viewed by organization size, ownership type and industry, as well as by respondent role. In concluding this study, on page 47 we offer a call to action to board members and executive management to consider several questions that we provide as a diagnostic to evaluate and improve their organization's risk assessment process.

Our plan is to continue conducting this risk survey periodically so we can stay abreast of key risk issues on the minds of executives and observe trends in risk concerns over time.

Table 2: Top 10 Risks (with Percentages of Responses by "Impact" Level)			
Risk Description	Significant Impact (6 – 10)	Potential Impact (5)	Less Significant Impact (1 – 4)
Regulatory changes and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered	60%	12%	28%
Economic conditions in markets we currently serve may significantly restrict growth opportunities for our organization	60%	10%	30%
Our organization may not be sufficiently prepared to manage cyberthreats that have the potential to significantly disrupt core operations and/or damage our brand	57%	13%	30%
Our organization's succession challenges and ability to attract and retain top talent may limit our ability to achieve operational targets	52%	15%	33%
Ensuring privacy/identity management and information security/system protection may require significant resources for us	53%	15%	32%
Rapid speed of disruptive innovations and/or new technologies within the industry may outpace our organization's ability to compete and/or manage the risk appropriately, without making significant changes to our business model	51%	21%	28%
Resistance to change may restrict our organization from making necessary adjustments to the business model and core operations	49%	18%	33%
Anticipated volatility in global financial markets and currencies may create significantly challenging issues for our organization to address	50%	19%	31%
Our organization's culture may not sufficiently encourage the timely identification and escalation of risk issues that have the potential to significantly affect our core operations and achievement of strategic objectives	45%	21%	34%
Sustaining customer loyalty and retention may be increasingly difficult due to evolving customer preferences and/or demographic shifts in our existing customer base	46%	22%	32%

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Mr. Tim Wiseman
Agenda Item	II.C.
Item Description	Enterprise Risk Management UNC System Policy - ERM and Compliance
Comments	
Action Requested	Information
Disposition	
Notes	

TRANSMITTAL LETTER

The University of North Carolina
General Administration

THIS LETTER TRANSMITS CHANGES TO THE
UNC POLICY MANUAL

THE CODE Chapter III Section 301	THE STANDING COMMITTEES' JURISDICTION Sections 301 A. and 301G.* Amendments to *The Code* Sections 301A and 301G of the *UNC Policy Manual* were approved by the Board of Governors at its meeting on March 4, 2016.
1300.7	*University Enterprise Risk Management and Compliance* This policy was adopted by the Board of Governors at its meeting on March 4, 2016.

The entire *UNC Policy Manual* is attached herein or can be accessed online at
http://www.northcarolina.edu/apps/policy/index.php

*A redline version is attached herein.

CODE
SECTION 301.   THE STANDING COMMITTEES' JURISDICTION.

301 A.   The standing committees of the Board of Governors shall be: the Committee on Budget and Finance; the Committee on Educational Planning, Policies, and Programs; the Committee on Personnel and Tenure; the Committee on University Governance; the Committee on Public Affairs, and the Committee on Audit, Risk Management, and Compliance.

301 B.   The Committee on Budget and Finance shall consist of seven voting members.   The committee shall advise and consult with the president concerning budget policy and preparation.   The committee shall consider the budget proposed by the president and, upon its approval, shall submit the budget to the Board of Governors for final action.   The committee shall make recommendations to the board for the allocation of funds appropriated to the board.   It shall also advise and assist the president, and submit recommendations to the board, with respect to real property transactions, investments, endowments, and other fiscal and property matters in accordance with valuation limits established in board policy and within the jurisdiction of the Board of Governors.

301 C.   The Committee on Educational Planning, Policies, and Programs shall consist of nine voting members.   It shall receive the advice and recommendations of the president and make recommendations to the board in all areas pertaining to the development of a coordinated system of higher education in North Carolina, including: (a) the definition of mission and assignment of functions of each constituent institution; (b) the review of requests for the initiation of new degree programs and recommendations for the termination of existing programs; (c) the provision of supportive services, facilities, and other resources for the instructional, research, and public-service programs of the constituent institutions; (d) the review of policies affecting educational programs and academic affairs; (e) matters concerning the involvement of students in the University and in university life; (f) review of matters concerning health affairs in the University; and (g) review of matters concerning the utilization of information technology in furtherance of the University's mission.   The committee shall also advise and assist the president and the board in maintaining close liaison with the State Board of Education, the State Board of Community Colleges, and the private colleges and universities, including the review of all requests for state aid to the private institutions.   It shall further recommend to the board procedures and standards for the licensing of non-public educational institutions.

301 D.   The Committee on Personnel and Tenure shall consist of seven voting members. Upon recommendation of the president, it shall review and make recommendations to the board with respect to the appointment and compensation of all vice chancellors, senior academic and administrative officers, and persons with permanent tenure. Notwithstanding the provision above, the committee shall not review or recommend the appointment and compensation of vice chancellors, senior academic and administrative officers, and persons with permanent tenure for those campuses delegated the authority to appoint and set compensation for such employees so long as the boards of trustees act consistently with the policy and compensation ranges established by the Board of Governors. Further, the committee shall advise and assist the president in the review and evaluation of tenure policies and regulations which the president shall periodically conduct, and it shall review all appeals from faculty members of the constituent institutions which involve an institution's decision to not to reappoint a faculty member, to deny tenure, to discharge a tenured faculty member, or to impose a serious sanction pursuant to the provisions of Chapter VI of this Code.   It shall also review all appeals from non-faculty employees of the University who are exempt from the State Personnel Act pursuant to Section 611 of this Code.

301 E.   The Committee on University Governance shall consist of seven voting members. It shall keep under continuous review the application and interpretation of *The Code of the University of North Carolina* and all delegations of authority under that code, and it shall make such recommendations to the Board of Governors for the amending of *The Code* or delegations of authority as may seem appropriate for the effective and efficient operation of the University of North Carolina and its constituent institutions. The committee shall make nominations to the Board of Governors for elections to the boards of trustees of the constituent institutions. The committee shall receive all requests from students of the constituent institutions for appellate review by the Board of Governors pursuant to Section 502 D(3) of this *Code*.

301 F.   The Committee on Public Affairs shall consist of a number of voting members to be determined by the chair of the board. A voting member serving on this committee shall also serve on one or more other standing committees. The Committee on Public Affairs shall assist the President in maintaining a positive relationship with the Governor, the North Carolina General Assembly, the United States Congress, and other governmental entities which affect the ability of the University to carry out its mission. The committee will review all state and federal policy priorities of the University.

301 G.   The Committee on Audit, Risk Management, and Compliance (CARMC) shall consist of a number of voting members to be determined by the chair of the board. The voting members serving on this committee shall also serve on one or more other standing committees. The CARMC shall recommend a committee charter for review and approval by the board, addressing the University's internal audit, enterprise risk management, and compliance functions; recommend for approval University-wide policies regarding internal audit, enterprise risk management, and compliance; review annual and other audit reports of the constituent institutions and UNC General Administration and affiliated entities; review a summary of the internal audit plans and work of the audit committees of the constituent institutions; review a summary of the annual financial audit reports and management letters on University major associated entities; meet with the state auditor annually; and take such other actions as are necessary or appropriate to ensure that risks are identified and properly managed and to assure the integrity of the finances, operations, and controls of the University.

CODE
SECTION 301.   THE STANDING COMMITTEES' JURISDICTION.

301 A.   The standing committees of the Board of Governors shall be: the Committee on Budget and Finance; the Committee on Educational Planning, Policies, and Programs; the Committee on Personnel and Tenure; the Committee on University Governance~~,~~: the Committee on Public Affairs~~,~~: and the ~~Audit~~ Committee on Audit, Risk Management, and Compliance.

....

301 G.   The ~~Audit~~ Committee on Audit, Risk Management, and Compliance (CARMC) shall consist of a number of voting members to be determined by the chair of the board. ~~A~~ The voting members serving on this committee shall also serve on one or more other standing committees. The ~~Audit Committee~~CARMC shall ~~develop~~ recommend a committee charter for review and ~~maintain a system~~ approval by the board, addressing the University's internal audit, enterprise risk management, and compliance functions; recommend for approval University-wide ~~code of ethics,~~policies regarding internal audit, enterprise risk management, and compliance; review annual and other audit reports of the constituent institutions and ~~affiliated entities of the University,~~UNC General Administration and affiliated entities; review a summary of the internal audit plans and work of the audit committees of the constituent institutions~~,~~: review a summary of the annual financial audit reports and management letters on University major associated entities~~,~~: meet with the state auditor annually~~,~~: and take such other actions as are necessary or appropriate to ensure that risks are identified and properly managed and to assure the integrity of the finances, operations, and controls of the University.

University Enterprise Risk Management and Compliance

I.   Purpose. This policy directs the president to establish and oversee enterprise risk management and compliance processes for the University of North Carolina.

II.   Definitions. For purposes of this policy:

A.   "Chancellor" means the administrative and executive head of a constituent institution of the University of North Carolina, as described in Section 502 of *The Code*.

B.   "Constituent Institution" means one of the 17 degree/diploma-granting institutions that comprise the University of North Carolina.

C.   "President" means the chief administrative and executive officer of the University of North Carolina, as described in Section 501 of *The Code*.

D.   "Senior officer" means an individual who reports to the president in a senior officer position as designated by the Board of Governors, and who exercises University-wide responsibilities to assist the president and the Board of Governors in administering the affairs and executing the policies of the University of North Carolina.

E.   "University" means the University of North Carolina, a body politic and corporate defined as a single public multi-campus University composed of 17 diverse constituent institutions and other educational, research, and public service organizations.

III.   Establishment and Oversight of Enterprise Risk Management and Compliance Processes. The Board of Governors monitors system-wide risk and compliance through the Committee on Audit, Risk Management and Compliance (CARMC). The president, with assistance from the chief audit officer of the University, the senior vice president and general counsel of the University, and other senior officers and staff, shall establish and oversee University-wide processes to address enterprise risk management, including risks related to compliance with laws and ethical standards at the system level, and to complement and support the risk management and compliance processes and activities of the constituent institutions.

A.   The system-wide processes should include components focused on the following:

1.   Developing, implementing, evaluating, and monitoring a University system-wide enterprise risk management process;

2.   Promoting the establishment of and collaboration among the risk management, ethics, and compliance programs at the constituent institutions;

3.   Advising, assisting, and supporting the constituent institution risk management and compliance processes, and providing other advice and counsel for these purposes;

4.   Promoting a culture that supports board goals for risk management and compliance;

5.   Promoting a uniform approach to measuring the University resources expended on regulatory compliance;

6.   Supporting training and educational efforts;

7.   Providing regular reports to the board's CARMC;

8.   Referring matters to the chancellors of the constituent institutions, the president's staff, or other University officers, divisions, and units, as appropriate; and

9.   Performing such other duties as directed by the president.

B.   Subject to the direction of the president, each constituent institution shall establish an enterprise risk management process that aligns with the institution's programs, activities, and management systems and that supports the institution's strategic and other goals. The enterprise

risk management processes established at each constituent institution shall include components and appropriate procedures for:

    1.   Identifying risks that impact the constituent institution's goals;

    2.   Developing plans to monitor and mitigate risks;

    3.   Providing periodic updates to the chancellor and the board of trustees; and

    4.   Reporting significant enterprise risks to the president and, with the president's guidance, to the Board of Governors.

IV.   Other Matters

A.   Effective Date. This policy shall be effective March 4, 2016, upon adoption by the Board of Governors.

B.   Regulations and Guidelines. This policy shall be implemented and applied in accordance with such regulations and guidelines as may be adopted by the president.

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Ms. Stacie Tronto
Agenda Item	III.A.
Item Description	Dashboard
Comments	
Action Requested	Information
Disposition	
Notes	

Internal Audit Dashboard

Completion of Audit Plan: Completed vs. Planned Audits

Status of Audit Plan	Number of Audits	Percent of Total Plan	
Completed	26	**58%**	Goal = 80%
In Process	15	33%	
Pending	4	9%	
Total	**45**	**100%**	

Staff Utilization: Direct vs. Indirect Hours

	With UPS	Without UPS	
Direct Hours	**73%**	**77%**	Goal = 75%
Indirect Hours	27%	23%	

Consultations

	Number	% of Audit Plan
Consultations	87	19%

Management's Corrective Actions

Observations by Division:	Completed	Outstanding	% Complete	% Outstanding
Academic Affairs	0	0	0%	0%
Administration and Finance	14	0	100%	0%
Athletics	1	0	100%	0%
Chancellor	0	0	0%	0%
Health Sciences	24	3	89%	11%
Research and Graduate Studies	0	0	NA	NA
Student Affairs	0	0	100%	0%
University Advancement	0	0	NA	NA
Total Observations	**39**	**3**		
Total Percentages	**93%**	**7%**		

As of 03/19/16

Goal = 95%

Pending
0
11
15
12
14
0
6
0
58

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Ms. Stacie Tronto
Agenda Item	III.B.
Item Description	Annual Engagement Plan 2015 -2016 Changes
Comments	
Action Requested	Approval
Disposition	
Notes	

Description	Budget Status	Budgeted Hours	%age of Total	Risk Ranking
Operational Audits:				
Aramark Contract	WIP	300	2%	Med
Kronos/Payroll (Integrated)	BF	800	5%	High
BSOM Patient Billing	CYP	700	4%	High
Student Health Services Patient Billing	CYP	600	4%	High
SoDM (CSLC)	CYP	400	2%	High
Succession Planning and Knowledge Transfer	CYP	600	4%	High
Telemedicine	CYP	600	4%	High
Biostatistics	CYP	400	2%	Med
Occupational Therapy	CYP	400	2%	Med
Total Operational Audit Hours		**4800**	**29%**	
Compliance Audits:				
UNC Policy 700.6. - Academic Integrity	CYP	400	2%	High
Cash Counts	CYP	200	1%	Med
Total Compliance Audit Hours		**600**	**4%**	
Information Technology Audits:				
2016 IT DR and Business Continuity	CYP	200	1%	High
Oracle Security Assessment Progress	CYP	60	0%	High
Cloud Computing/Data Storage Review	CYP	400	2%	High
ERP Logical Access	CYP	400	2%	High
External Security Assessment Progress	CYP	200	1%	High
Total Information Technology Audit Hours		**1260**	**8%**	
Special Reviews:				
Special Reviews - Pending	CYP	1100	7%	NA
Special Reviews in Progress	WIP	100	1%	NA
Total Special Review Audit Hours		**1200**	**7%**	
Follow-Up Reviews:				
School of Dental Medicine (A14006)	WIP	50	0%	High
University Youth Programs (A13033)	BF	200	1%	High
2nd FollowUp - Athletics (A13039)	CYP	100	1%	High
Department of Human Resources (A13023)	CYP	40	0%	High
IT and Data Governance (A15017)	CYP	80	0%	High
Pharmacy Services (A14050)	CYP	80	0%	High
Athletic Camps (A15039)	CYP	80	0%	High
Materials Management -PORT (A13034)	CYP	20	0%	Med
Parking and Transportation Services (A15014)	CYP	100	1%	Med
Physical Therapy (A15005)	CYP	40	0%	Med
NCAA Financial Audit (A15015)	CYP	20	0%	Med
Total Follow-Up Review Audit Hours		**810**	**5%**	
Other/Special Projects:				
Consultations	CYP	2742	16%	NA
Committees/Other Routine Tasks (ie. SBI Reports, Assist State Auditor)	CYP	500	3%	NA
Quality Assurance Review	CYP	100	1%	NA
2nd EnCase Examiner	CYP	40	0%	NA
Risk Asessment/Audit Planning 2016-2017	CYP	100	1%	NA
Risk Assessment/Audit Planning 2015-2016	WIP	20	0%	NA
Total Other/Special Project Hours		**3502**	**21%**	
Total Direct Audit Hours		**12172**	**73%**	
Administration	CYP	1310	8%	NA
Leave	CYP	2496	15%	NA
Professional Development	CYP	662	4%	NA
Total Indirect Audit Hours:		**4468**	**27%**	
Grand Total Audit Hours		**16640**	**100%**	

Move BSOM Patient Billing Assurance Review to a Consultation; increases consultation %age from 16% to 21%.

Budget Status:
BF = Brought Forward From Previous Year's Plan
AYP = Added to Current Year Plan
CYP = Current Year Plan
CYP-B = Current Year Plan (Budgeted under Special Reviews - Pending)
WIP = Work-In-Progress

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Ms. Norma Epley
Agenda Item	IV.
Item Description	Research Compliance
Comments	
Action Requested	Information
Disposition	
Notes	

East Carolina University
Board of Trustees
Audit Committee
April 7, 2016

Session	Audit Committee
Responsible Person	Ms. Stacie Tronto
Agenda Item	VII.
Item Description	Other
Comments	
Action Requested	Information
Disposition	
Notes	