

AGENDA
Audit, Risk Management, Compliance, and Ethics Committee
February 11, 2021

- I. Approval of Minutes – November 5, 2020
- II. Review of Operational Metrics
- III. Action Items
 - A. Changes to the Annual Audit Plan (Mr. Wayne Poole)
- IV. Informational Items
 - A. Enterprise Risk Management Update (Ms. Stephanie Coleman)
 - B. Top Risk update: Workforce/Employee Wellness (Ms. Kitty Wetherington)
 - C. University financial audit & Affiliated Entities' audits for FY 2020 (Mr. Wayne Poole)
 - D. Internal Audit Quality Assessment Review (Mr. Wayne Poole)
 - E. Audits of Pandemic Relief Funds (Mr. Wayne Poole)
- V. Closed Session
- VI. Other Business



Audit, Risk Management, Compliance, and Ethics Committee
February 11, 2021

Agenda Item: I. Approval of Minutes – November 5, 2020

Responsible Person: Vince Smith
Committee Chair

Action Requested: Action

Notes:

**Minutes from the Audit, Risk Management, Compliance, and Ethics Committee
November 5, 2020 – Main Campus Student Center and Online MEETING**

The Audit, Risk Management, Compliance, and Ethics Committee of the ECU Board of Trustees met online and in person on November 5, 2020.

Committee members present: Vince Smith (Chair), Jason Poole (Vice Chair), Tom Furr, Van Isley, and Tucker Robbins.

Other board members present: BOT Chair Vern Davenport, Bob Plybon, Angela Moss, and Scott Shook

Vince Smith, Chair of the Committee, convened the meeting at 8:18 AM. Mr. Smith read the conflict of interest provisions as required by the State Government Ethics Act. Mr. Smith asked if anyone would like to declare or report an actual or perceived conflict of interest. None were reported.

Mr. Smith asked for the approval of the minutes of the September 10, 2020 committee meeting.

Action Item: The minutes of the September 10, 2020 committee meeting were approved with no changes.

Review of Operational Metrics

The committee reviewed the operational metrics related to Internal Audit, Healthcare Compliance, Research Compliance, and Athletics Compliance. For the year to date, Internal Audit is ahead of schedule on audit plan completion, and above the metric for the auditor productivity rate. Management has completed or made satisfactory progress on 100% of the audit recommendations that Internal Audit followed up on from July through October.

Athletics Compliance and Healthcare Compliance are exceeding their metrics for the number of compliance education sessions. Healthcare compliance is also exceeding the metric for the number of provider documentation reviews that have been completed. For the year to date, healthcare providers have an 89.9% pass rate, slightly below the 90% benchmark.

Action Items

Mr. Wayne Poole presented changes to the University's annual audit plan. Two audits were added, and one audit was removed from the plan. Trustee Jason Poole moved that the changes be approved; Trustee Furr seconded the motion. The committee approved the changes as presented in the Board materials.

Informational Items

Enterprise Risk Management – Dr. Sara Thorndike

Dr. Thorndike briefed the committee on this year's changes to the Enterprise Risk identification and ranking process. This year's process included more involvement and collaboration of ERM Committee members and input from other University constituents. Dr. Thorndike shared the top risks list that was derived from this process and discussed the underlying impacts of the COVID-19 pandemic on the top risks. While the top risks existed prior to the pandemic, the impacts are magnified in the current environment. Dr. Thorndike advised that each of the top10 risks is assigned to a member of the Chancellor's cabinet for monitoring and mitigation.

Office of Internal Audit – Mr. Wayne Poole

Mr. Poole briefed the committee on the upcoming external Quality Assessment review for the Internal Audit activity. This review is required every five years. Mr. Poole briefed the committee on the selection and qualifications of the external assessors and the process by which the assessment will be completed. Committee Chair Smith voiced his support for the methodology and plan.

**Minutes from the Audit, Risk Management, Compliance, and Ethics Committee
November 5, 2020 – Main Campus Student Center and Online MEETING**

Mr. Poole reminded the committee that the University's annual financial statement audit has been completed by the North Carolina State Auditor. The State Auditor's report was published earlier this week and the audit contained no findings.

Mr. Poole briefed the committee on the results of two recently completed internal audits – an audit of the Canvas Learning Management System and an audit of the University's IT Incident Response Process.

Healthcare Compliance Update – Ms. Michelle DeVille

Ms. DeVille briefed the committee on the highest priority healthcare compliance topics this fall. She advised us that numerous temporary federal regulatory changes have occurred as a result of the pandemic, related to patient billing and HIPAA security. Her team is monitoring the continuing changes. Some are expected to become permanent and some of the relaxation of regulatory requirements will likely end. Ms. DeVille also briefed us on her office's expanding review of controlled substance prescriptions written by ECU Physicians and School of Dental Medicine providers.

Closed Session

At 8:48AM, Trustee Jason Poole made a motion to go into Closed Session in order to protect the confidentiality of internal audit workpapers and other information that is considered confidential pursuant to applicable NC general statutes. The motion was seconded and approved unanimously.

The committee returned to open session at 9:06AM.

Other Business

There being no further business, the Committee meeting was adjourned at 9:07 AM.

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



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item:

II. Review of Operational Metrics

Responsible Person:

Wayne Poole
Director of Internal Audit

Action Requested:

Information

Notes:



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item: III.A Changes to the Annual Audit Plan

Responsible Person: Wayne Poole
Director of Internal Audit

Action Requested:

Notes:

East Carolina University
Office of Internal Audit
Annual Engagement Plan
By Type
FY 2021

Project Description		Budgeted Hours	% of Total	Division
Integrated/Operational Audits:				
Data Analytics Review of Financial Aid	WIP	300	1.8%	AA
Unpaid Adjunct Faculty Members	WIP	120	0.7%	AA, HS
SoDM Revenue Cycle Analytics	WIP	100	0.6%	HS
ECUP Telehealth Billing	OP	300	1.8%	HS
Health Sciences HR Processes	OP	300	1.8%	AF, HS
Campus Living	OP, CX	0	0.0%	SA
Automated Journal Voucher Process	OP	240	1.4%	AF
Greenphire, Research Participants, and Student Award Payments	OP	240	1.4%	ALL
Controls over Parking Garage Revenue	OP	240	1.4%	AF
Controls over Business Incubator Space and New Ventures	OP, CX	0	0.0%	REDE
Counseling Center Capacity and Operations	OP	240	1.4%	SA
University Owned Mobile Phones and Stipends (rev 1)	ADD	200	1.2%	ALL
Gift Card Compliance and Controls	ADD	240	1.4%	ALL
Total Integrated/Operational Audit Hours		2520	15.2%	
Compliance Audits:				
I-9 Employment Eligibility Process (rev 1)	OP, CX	0	0.0%	
BSOM COVID-19 Funding (scope changed)	OP	240	1.4%	ALL
University Affiliated Entities Contract Compliance	OP	240	1.4%	UA, AT
Total Compliance Audit Hours		480	2.9%	
Information Technology Audits:				
IT Disaster Recovery and Resiliency	OP	240	1.4%	AF
Data Center Security and Environmental Controls	OP	240	1.4%	AF
SoDM Information Systems/axiUm	OP	240	1.4%	HS
Controls over Canvas LMS	OP	240	1.4%	AA, AF
Non-IT-Classified System Admins (rev 1)	ADD	100	0.6%	AF
Total Information Technology Audit Hours		1060	5.8%	
Investigative Reviews:				
Hotline Allegations Triage	OP	100	0.6%	ALL
Investigative Reviews - Already In Progress	WIP	200	1.2%	
Investigative Reviews - Not Yet Received/Started	OP	2000	12.1%	
Total Investigative Audit Hours		2300	13.9%	
Follow-Up Reviews:				
Action Plan Tracking and Follow-Up	OP	400	2.4%	ALL
Kronos and Time/Leave Records (A19020)	OP	0	0.0%	ALL
SoDM Clinics and Revenue Cycle (A18024/F20029/J18013)	OP	240	1.4%	HS
Grants and Contracts (AICFR) (F20009)	OP	240	1.4%	REDE
OSA IT Recommendations	OP	160	1.0%	AF
Total Follow-Up Review Audit Hours		1040	6.3%	
Consultations/Management Advisory Services				
Routine and Unplanned Consultations	OP	660	4.0%	ALL
Routine Data Analytics Support for Clients	OP	300	1.8%	ALL
University Committees, Workgroups, Education, and Client Relations	OP	300	1.8%	ALL
ProCard Analytics for Chrome River	OP	240	1.4%	AF, ALL
Americorps External Audits	WIP	40	0.2%	AA
Student Athlete Course Clustering	OP	60	0.4%	AA

OP=Original Plan
WIP=Work in Progress July 1
ADD=Added since July 1
CX=Cancelled
PPD=Postponed

**East Carolina University
Office of Internal Audit
Annual Engagement Plan
By Type
FY 2021**

Project Description		Budgeted Hours	% of Total	Division
OnCore Clinical Trials Management System Controls	OP	60	0.4%	HS
ERM Program Support	OP	200	1.2%	AF, ALL
Distributed IT Workgroup	OP	60	0.4%	ALL
Total Consultation Hours		1920	11.6%	
Other/Special Projects:				
Coordinate and Assist with External Audits, SBI Reports, Routine Mtgs	OP	1200	7.2%	ALL
Audit Software Admin and Maintenance	OP	200	1.2%	NA
Student Intern Program	OP	120	0.7%	NA
Required IIA External Quality Assurance Review (QAR)	OP	240	1.4%	CH
Coordinate OSA IT Controls Audit	WIP	60	0.4%	AF
Risk Assessment/Audit Planning 2020-2021	WIP	20	0.1%	ALL
Risk Assessment/Audit Planning 2021-2022	OP	100	0.6%	ALL
Implement EnCase Additional Capabilities	OP	200	1.2%	CH
Fraud Risk Assessment	OP	300	1.8%	ALL
Total Other/Special Project Hours		2440	14.7%	
Total Direct Audit Hours		11760	71%	
Administration		1800	10.9%	NA
Leave/Holiday		2300	13.9%	NA
Professional Development		700	4.2%	NA
Total Indirect Audit Hours:		4800	29%	
Grand Total Audit Hours		16560	100%	

Original Plan Approved by Interim Chancellor Ron Mitchelson on June 12, 2020

Original Plan Approved by ECU BOT Audit, Risk, Compliance, and Ethics Committee on July 9, 2020

Revision 1 Approved November 5, 2020

OP=Original Plan
WIP=Work in Progress July 1
ADD=Added since July 1
CX=Cancelled
PPD=Postponed



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item: IV. A. Enterprise Risk Management Update

Responsible Person: Stephanie Coleman
Interim Vice Chancellor for Administration and Finance

Action Requested: Information

Notes:

ERMC Advisory Group and Risk Management Process Owner Matrix 2020-2022 Cycle Top Risks

Risk	Advisory Teams	Sponsors	Updates
University Financial Sustainability, including Athletics <ul style="list-style-type: none"> • Sustainable revenues from all sources (enrollment, auxiliaries, appropriations) • Magnified by current economic conditions 	Cabinet Finance	VCAF	<ul style="list-style-type: none"> -Metrics to BOT each meeting -Financial Audit results and key financial indicators to Finance/Facilities Cmte Feb 21 -Chancellor implemented spending guidelines and other steps for FY21
University Workforce Challenges <ul style="list-style-type: none"> • Recruiting and retaining qualified and diverse faculty and staff, including healthcare professionals • Retaining institutional knowledge for long-term success and sustainability • Inconsistent compensation increases • Faculty and staff wellness, stress, and burnout concerns, which are impacting the morale and effectiveness of the workforce 	Cabinet Human Resources	VCAF	<ul style="list-style-type: none"> -Shared employee engagement results with Cabinet, ERM Cmte, and F&F Cmte, fall 20 -Update to BOT ARMCE Cmte Feb 21
External and Internal Cyber Threats to the confidentiality, integrity, and availability of systems and data, including, but not limited to, ransomware attacks and technology that is not owned by the university (cloud providers, external vendors, personal devices)	ITCS	VCAF	-CIO updates to ARMCE Cmte Nov 20 and Feb 21; ongoing audits and action plans
Financial Sustainability of Clinical Healthcare and Dependence on External Relationships for healthcare delivery	Chancellor, VCAF, VCHS	VCHS	
Senior Leadership Transition , consistency and stability at the top, and impact on university's reputation, culture, strategy, goals, and sharing of information across divisions	Cabinet	Chancellor	-New Chancellor hired; starts Mar 21
Patient, Employee, and Student Health and Safety , including athletics	Safety Committee	VCHS, VCAF, VCSA, AD	-COVID testing and protocols (brief Univ Affairs Cmte Nov 20)
Student Recruitment and Retention in an increasingly competitive market, magnified by reputation/perception challenges outside eastern NC	Strategic Enrollment Planning Team	Provost, VCHS	-Metrics to BOT each meeting
Governance Relationships and the impact on ECU's reputation, budget, and support	Cabinet BOT Advocacy Committee	Chancellor	-BOT Advocacy Cmte efforts (ongoing)
Sustainability of Academic and Student Support Programming and Services and Ability to Meet Student Needs and Parent and Societal Expectations , especially in current environment	Academic Council Dean of Students	Provost, VCSA	
Maintaining Campus Infrastructure , including routine and deferred maintenance and hiring of external contractors/service providers	Campus Operations	VCAF	

The ERM Committee discussed the impacts of COVID-19 on operations and risks. While these risks existed prior to the pandemic, they are magnified in the current uncertain environment. Unforeseen challenges and liabilities affect nearly every aspect of university strategy, operations, decision-making, and governance.

ERMC Advisory Group and Risk Management Process Owner Matrix 2020-2022 Cycle Secondary Risks

- Legal liability issues related to or resulting from COVID-19, including, health and safety, student access, and employment matters (EEOC, ADA, etc...)
- ECU's reputation and visibility in large urban areas/competitive markets and with financial supporters (donors, legislators)
- Business continuity planning that could be insufficient to prevent an operational failure from a disaster or other significant event(s)
- Inability to sustain innovation and economic development due to resource constraints, impacting the engagement with and positive outcomes for eastern NC
- Significant changing regulatory compliance requirements, including healthcare billing, HIPAA, research, athletics, Title IX, personnel, and privacy
- Technology backup, recovery, and continuity and coordination of priorities between IT and functional management
- Lack of dedicated identification and monitoring of sponsored program expenditures and tracking of institutional metrics for externally funded research amplified by inadequate interfaces between the information systems used for research (ERS, eTRACS, Banner)
- Affiliated Entities' risk of noncompliance with operating agreements, misalignment with the university's mission, and potential for reputational damage
- Social unrest that could result in unsafe conditions, property damage, or reputational damage (could be related to students, employees, or the general public)
- Conflicts of interest in clinical research and care, which could result in loss of external funding and reputational damage
- Employment and equal opportunity compliance, including workplace harassment, discrimination, ADA accommodations, and mental health needs



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item: IV. B. Top Risk update: Workforce/Employee Wellness

Responsible Person: Kitty Wetherington
Associate Vice Chancellor
& Chief Human Resources Officer

Action Requested: Information

Notes:



Audit, Risk Management, Compliance, and Ethics Committee
February 11, 2021

Agenda Item: IV. C. University financial audit
& Affiliated Entities' audits for FY 2020

Responsible Person: Wayne Poole
Director of Internal Audit

Action Requested: Information

Notes:

Board of Trustees Financial Audit Results

February 2021



FY2020 Audit Results

- ECU received an unqualified opinion from State Auditor

“In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of East Carolina University, and its discretely presented component unit, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.”



FY2020 Audit Results

Condensed Statement of Net Position

(Dollars in Thousands)

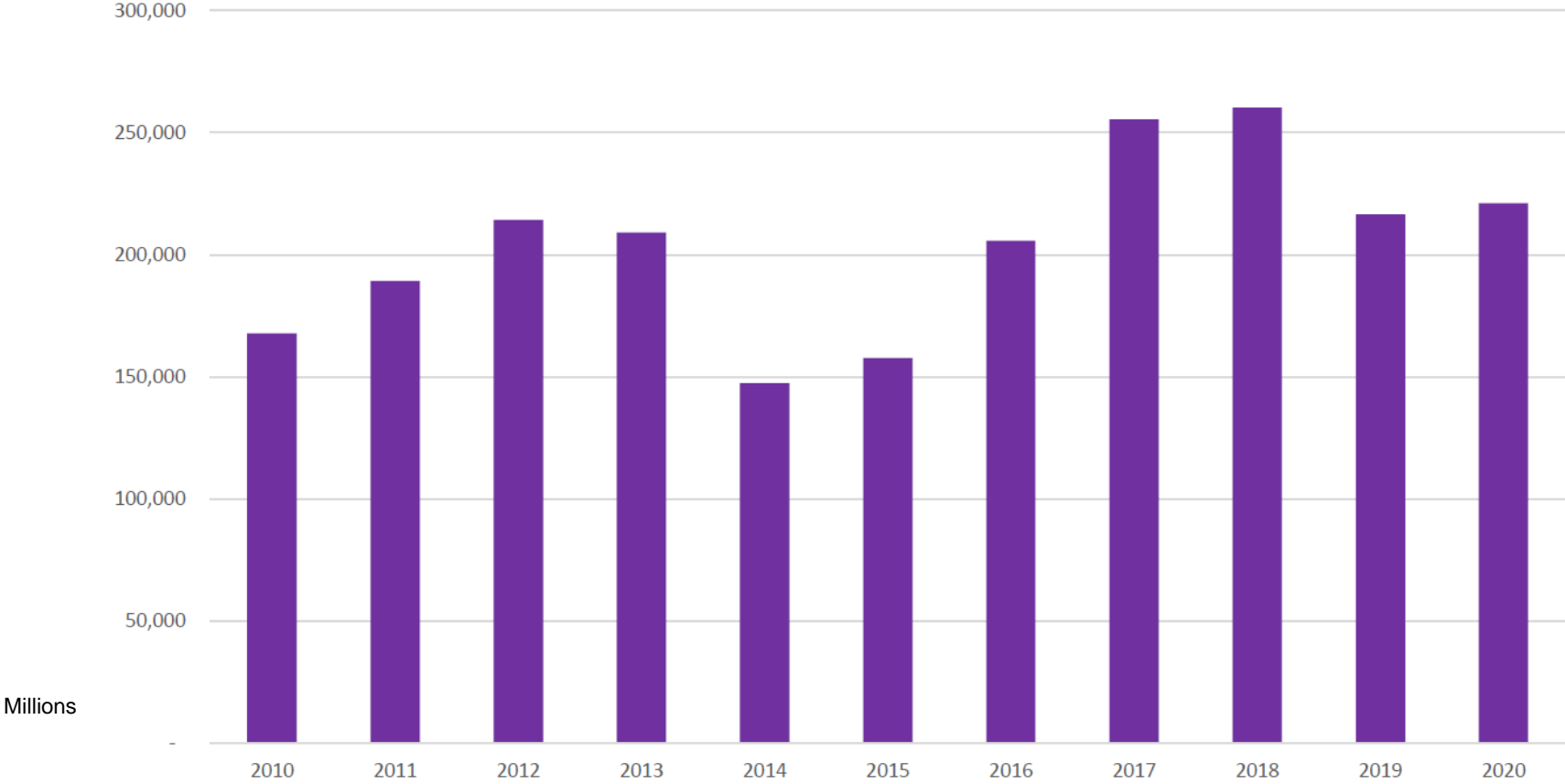
	2020	2019	Change	Percent Change
Assets				
Current Assets	\$ 341,912	\$ 334,422	\$ 7,490	2.2 %
Capital Assets, Net	1,214,389	1,196,287	18,102	1.5 %
Other Noncurrent Assets	122,835	141,173	(18,338)	(13.0) %
Total Assets	<u>1,679,136</u>	<u>1,671,882</u>	<u>7,254</u>	<u>0.4 %</u>
Deferred Outflows of Resources	<u>178,800</u>	<u>168,022</u>	<u>10,778</u>	<u>6.4 %</u>
Liabilities				
Current Liabilities:				
Long-Term Liabilities - Current Portion	20,995	22,320	(1,325)	(5.9) %
Other Current Liabilities	67,787	65,133	2,654	4.1 %
Total Current Liabilities	<u>88,782</u>	<u>87,453</u>	<u>1,329</u>	<u>1.5 %</u>
Noncurrent Liabilities:				
Long-Term Liabilities, Net	1,327,057	1,257,869	69,188	5.5 %
Other Noncurrent Liabilities	31,526	29,882	1,644	5.5 %
Total Noncurrent Liabilities	<u>1,358,583</u>	<u>1,287,751</u>	<u>70,832</u>	<u>5.5 %</u>
Total Liabilities	<u>1,447,365</u>	<u>1,375,204</u>	<u>72,161</u>	<u>5.2 %</u>
Deferred Inflows of Resources	<u>343,669</u>	<u>444,049</u>	<u>(100,380)</u>	<u>(22.6) %</u>
Net Position				
Net Investment in Capital Assets	814,571	790,650	23,921	3.0 %
Restricted	116,861	126,820	(9,959)	(7.9) %
Unrestricted	(864,530)	(896,819)	32,289	(3.6) %
Total Net Position	<u>\$ 66,902</u>	<u>\$ 20,651</u>	<u>\$ 46,251</u>	<u>224.0 %</u>

Net Position

Net Position	2020	2019	Change
Net Investment in Capital Assets	814,571	790,650	23,921
Restricted	116,861	126,820	(9,959)
Unrestricted	(864,530)	(896,819)	32,289
Total Net Position	66,902	20,651	46,251
Unrestricted, adjusted for post retirement benefits and pension	221,140	216,490	4,650



Unrestricted Net Position

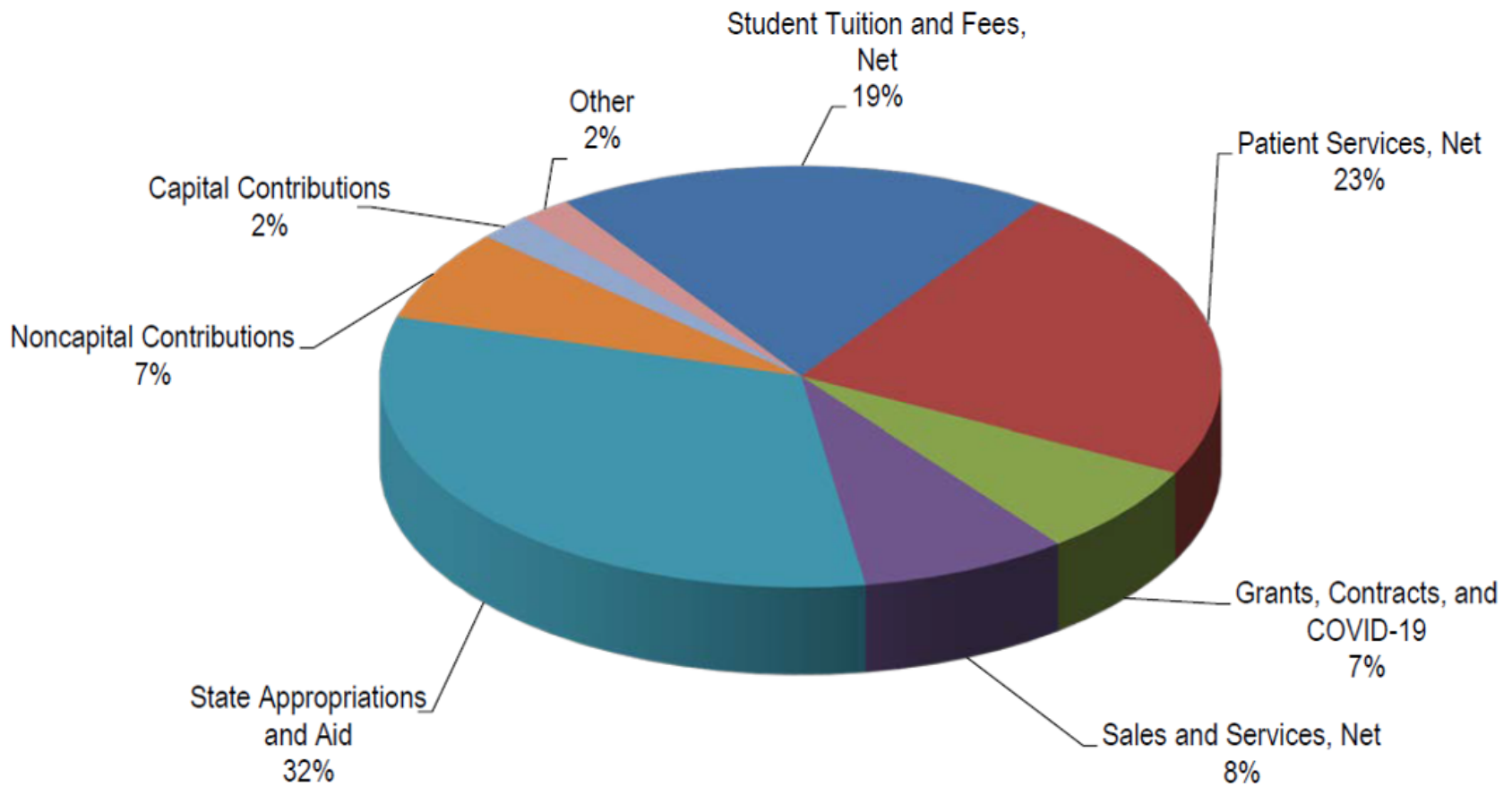


Adjusted for GASB required post retirement benefits and pensions

Unrestricted Funds

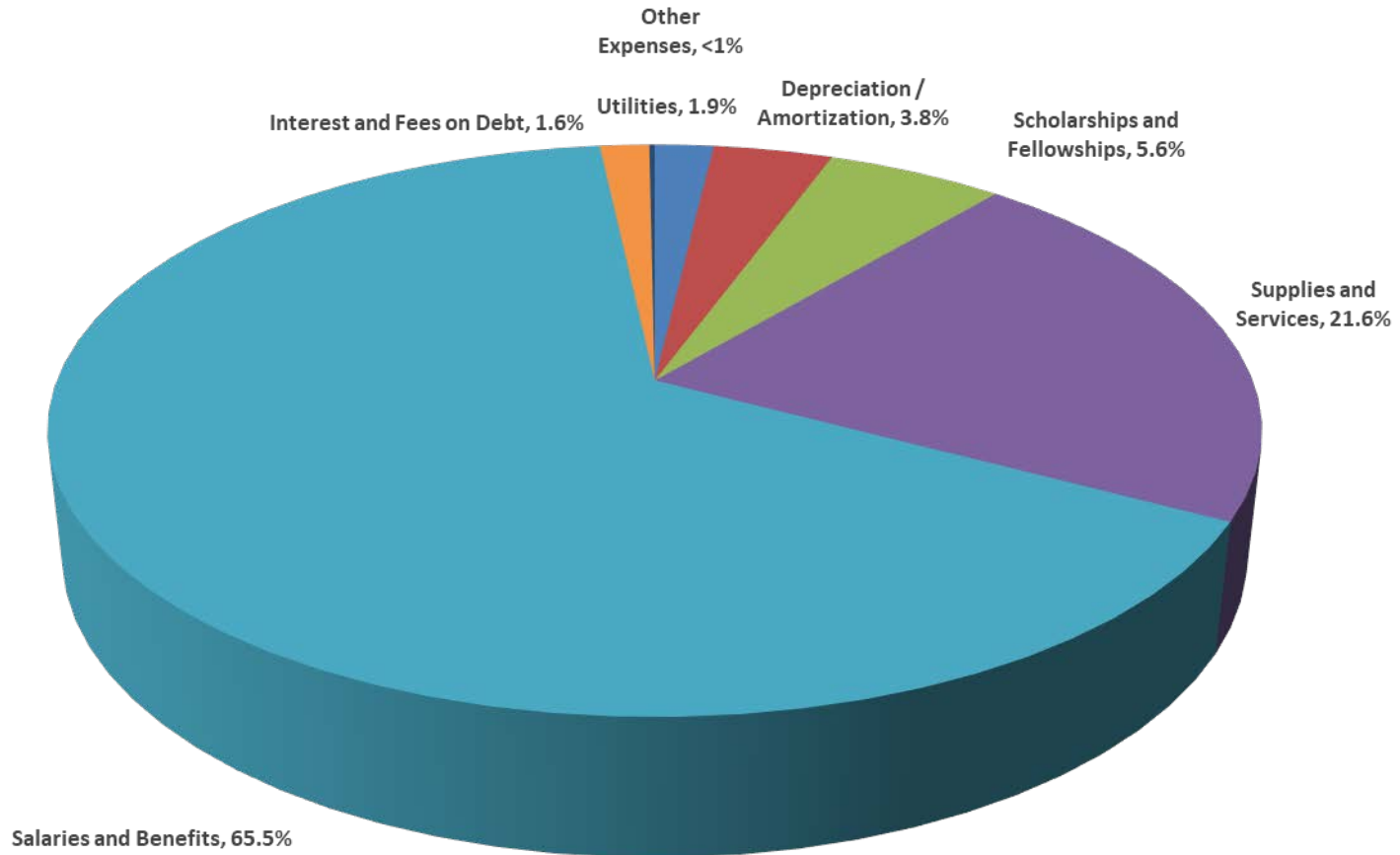
	Accrued Balances:			FY 19 to FY 20		Cash Balance	Restricted from Student Fees		
	FYE 2018	FYE 2019	FYE 2020	\$ Change		FYE 2020	FYE 2018	FYE 2019	FYE 2020
ECUP	\$93,640,712	\$86,995,597	\$82,665,890	(\$4,329,707)	Lower revenue, higher expense	\$57,673,013	\$0	\$0	\$0
University Reserves	\$11,818,966	\$6,973,520	\$35,401,918	\$28,428,397	Year end swap, CARES	\$35,403,818	\$0	\$0	\$0
Student Unions	\$30,600,971	\$22,868,131	\$16,729,628	(\$6,138,503)	Capital expenses	\$16,743,734	\$18,858,022	\$6,249,171	\$6,175,977
Student Scholarships	\$12,031,820	\$12,807,621	\$14,456,764	\$1,649,143		\$5,507,446	\$0	\$0	\$0
Housing	\$21,437,978	\$20,567,801	\$13,797,656	(\$6,770,145)	Refunds and capital expenses	\$14,402,713	\$0	\$0	\$0
Parking	\$9,038,364	\$9,898,775	\$11,098,157	\$1,199,382		\$11,027,668	\$0	\$0	\$0
F&A Receipts	\$18,627,956	\$13,282,760	\$10,305,788	(\$2,976,972)		\$10,342,592	\$0	\$0	\$0
School of Dental Medicine	\$11,083,811	\$8,612,317	\$8,432,569	(\$179,749)		\$1,099,049	\$0	\$0	\$0
Facilities Use-Capital Projects	\$0	\$7,357,301	\$7,321,420	(\$35,881)		\$7,321,420	\$0	\$0	\$0
Academic Affairs	\$5,906,017	\$7,054,956	\$6,725,356	(\$329,600)		\$4,000,728	\$0	\$0	\$0
Student Stores	\$8,415,681	\$6,267,852	\$5,778,707	(\$489,145)		\$3,669,618	\$0	\$0	\$0
Other Fund Balance <\$150k	\$6,630,511	\$5,856,229	\$5,595,885	(\$260,344)		\$5,645,501	\$277,406	\$189,549	\$213,220
Student Health Services	\$6,234,598	\$5,554,339	\$5,009,514	(\$544,825)		\$4,895,398	\$6,056,514	\$5,375,529	\$5,015,793
Campus Recreation and Wellness	\$6,913,408	\$6,577,968	\$4,942,233	(\$1,635,735)	Reduced operations	\$4,964,138	\$2,045,343	\$2,346,284	\$2,094,342
Student Activities	\$4,650,450	\$4,499,178	\$4,821,604	\$322,426		\$4,827,679	\$4,650,450	\$4,499,178	\$4,821,604
Specific University Funds <\$1M	\$4,399,110	\$4,151,934	\$4,643,992	\$492,058		\$4,957,390	\$0	\$0	\$0
Ed Tech	\$3,497,973	\$3,569,311	\$4,579,462	\$1,010,151	Lower expenses	\$4,505,957	\$3,497,973	\$3,569,311	\$4,579,462
Health Sciences	\$4,644,296	\$4,294,148	\$4,015,426	(\$278,722)		\$3,792,479	\$0	\$0	\$0
Endowment Administration	\$1,767,147	\$2,157,987	\$2,667,989	\$510,003		\$2,643,717	\$0	\$0	\$0
Police	\$1,777,606	\$1,686,768	\$1,783,423	\$96,654		\$1,791,741	\$863,883	\$914,775	\$948,944
IT	\$2,669,172	\$2,385,615	\$1,748,678	(\$636,937)		\$1,748,678	\$0	\$0	\$0
Dining	\$11,456,576	\$824,386	\$1,579,371	\$754,985		\$1,650,000	\$0	\$0	\$0
Admin Finance Auxiliaries	\$1,714,261	\$1,157,608	\$1,494,540	\$336,932		\$1,493,940	\$251,547	\$126,043	\$140,710
University Printing	\$2,088,532	\$1,635,847	\$1,300,252	(\$335,595)		\$1,189,032	\$0	\$0	\$0
Student Affairs	\$1,541,833	\$1,911,606	\$1,283,874	(\$627,732)		\$1,280,715	\$324,340	\$324,340	\$0
Student Transit	\$1,787,228	\$1,042,918	\$957,473	(\$85,444)		\$990,455	\$1,787,228	\$1,042,918	\$957,473
Warehouse and Storerooms	\$2,398,282	\$1,256,519	\$866,488	(\$390,031)		\$811,358	\$0	\$0	\$0
Chancellors Discretionary	\$1,037,583	\$932,340	\$805,033	(\$127,307)		\$805,033	\$0	\$0	\$0
Athletics	(\$2,660,700)	\$590,590	\$245,168	(\$345,422)		\$589,683	\$212,139	\$212,139	\$210,501
Miscellaneous-YE Entries	\$472,201	(\$6,686,433)	(\$9,231,503)	(\$2,545,070)		\$0	\$0	\$0	\$0
Accrued Vacation	(\$25,416,389)	(\$29,595,322)	(\$30,682,955)	(\$1,087,633)		\$0	\$0	\$0	\$0
Grand Total	\$260,205,955	\$216,490,166	\$221,139,799	\$4,649,632		\$215,774,692	\$38,824,844	\$24,849,237	\$25,158,025

FY20 Total Revenues - \$976.3M

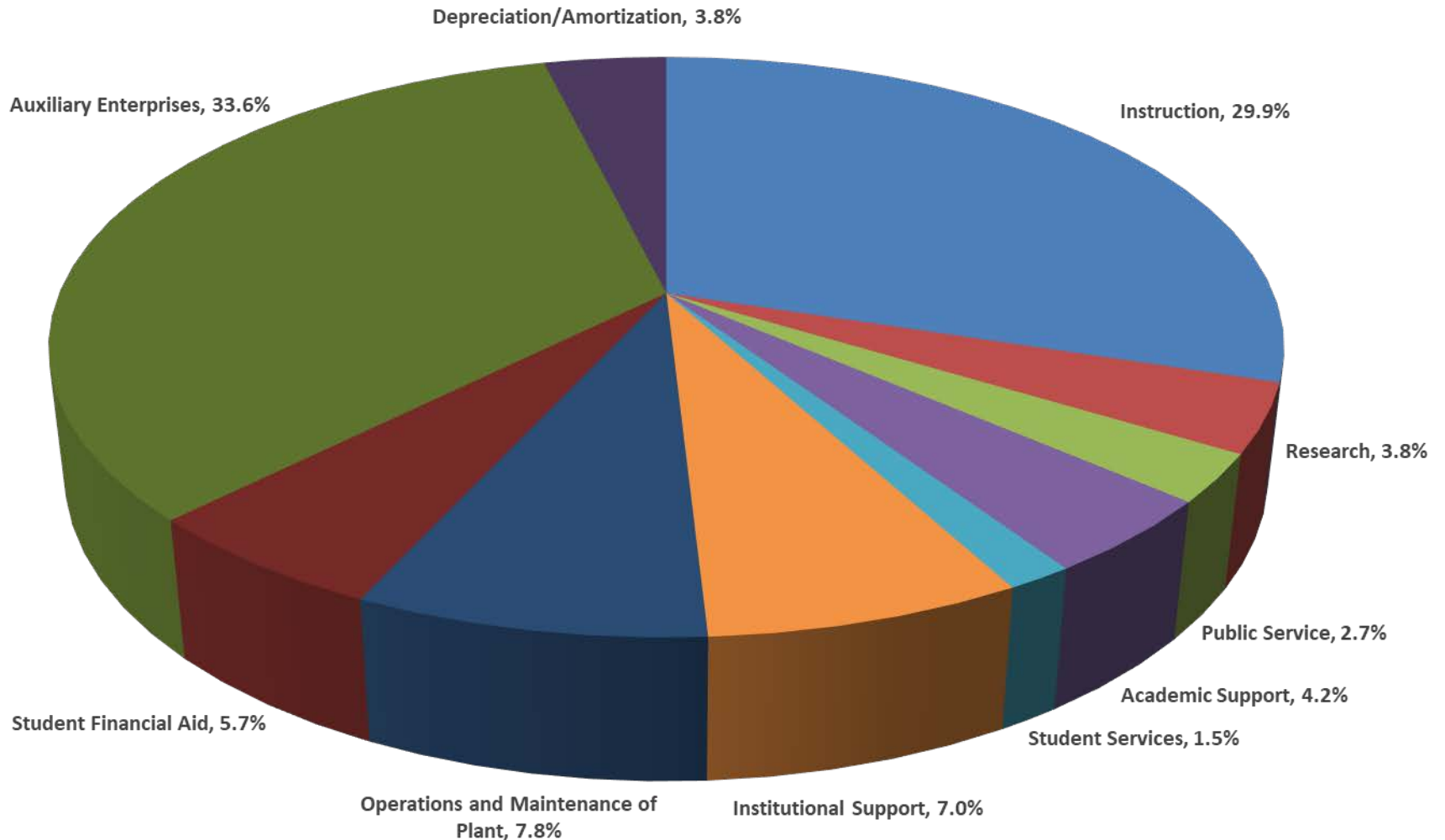


Note: Accounts with less than 0.5% of total revenues are shown as "Other".

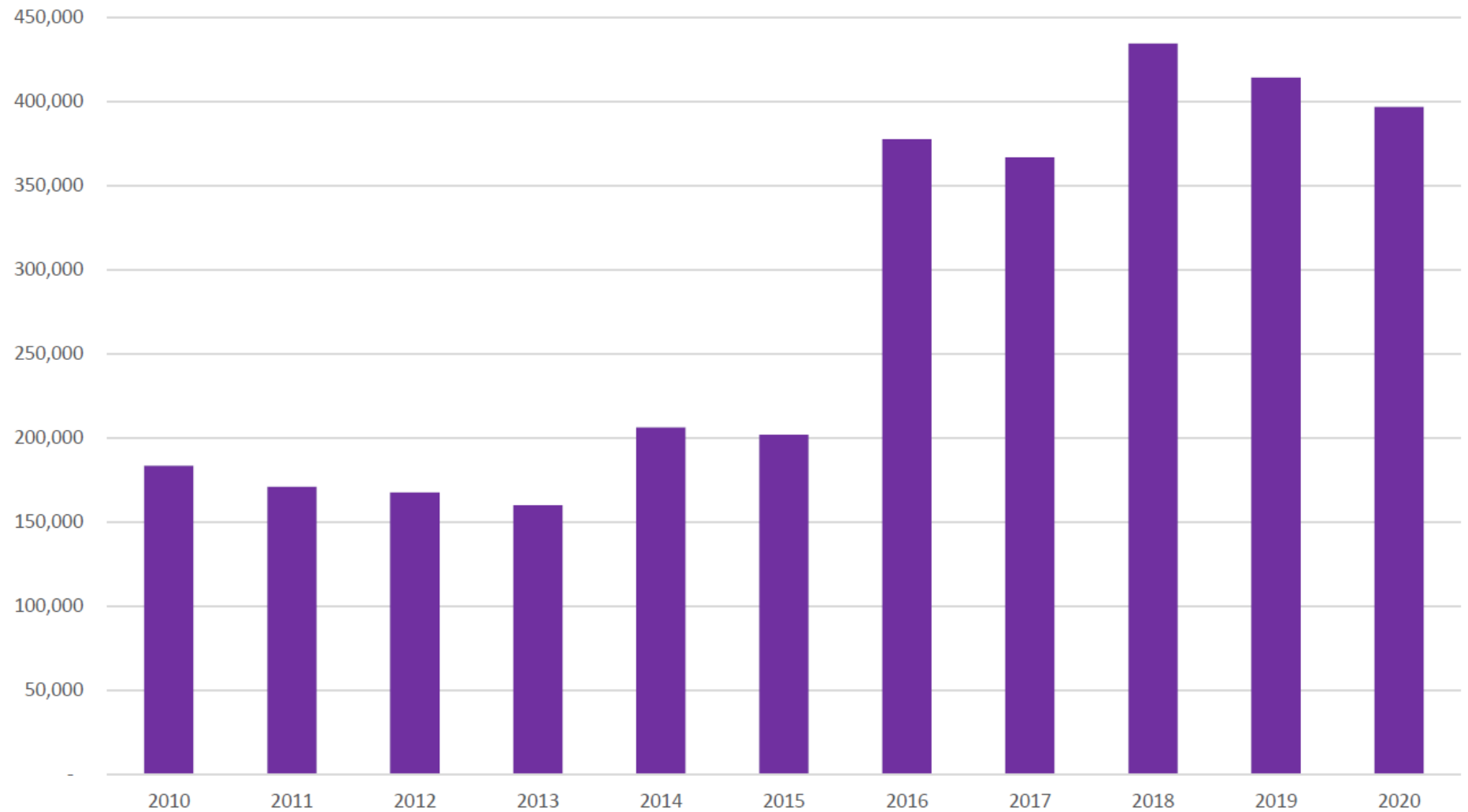
FY20 Total Expenses - \$930.1M



FY20 Operating Expenses by Function



Long-Term Debt



Annual Metrics

	FY17	FY18	FY19	FY20	Recommended
Composite Financial Index (CFI)	2.4	2.3	1.3	1.7	3.0-6.0
Primary Reserve Ratio	0.4	0.4	0.3	0.3	0.4
Unrestricted Fund Balance/Monthly Operating Revenue	3.7	3.7	3.1	3.3	2.0
Unrestricted Fund Balance (adjusted for post retirement and pensions)	255,542,744	260,205,955	216,490,266	221,139,799	
Total Fund Balance (adjusted for post retirement and pensions)	1,113,273,726	1,146,459,452	1,130,578,536	1,149,777,186	
Unrestricted Fund Balance (as restated)	(904,179,618)	(895,789,405)	(896,818,997)	(864,529,806)	
Total Fund Balance (as restated)	(43,427,907)	(6,726,980)	20,650,819	66,902,110	
Long Term Debt	366,996,789	434,796,451	414,333,666	396,978,572	
Capital Support Receipts: Appropriations, R&R, Carryforward	11,164,431	11,667,923	11,642,181	1,601,549	



Composite Financial Index - combination of four core ratios to produce a single measurement of financial performance

Primary Reserve Ratio - measures the financial strength of the institution by comparing expendable net assets to total expenses



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item: IV. D. Internal Audit Quality Assessment Review

Responsible Person: Wayne Poole
Director of Internal Audit

Action Requested: Information

Notes:



December 14, 2020

Dr. Ron Mitchelson
Interim Chancellor

Mr. Vince Smith
Chair, BOT Audit, Risk Management, Compliance, and Ethics Committee

East Carolina University
Greenville, North Carolina 27858

Re: Internal Audit Quality Assessment Review (J21023)

Dear Trustee Smith and Chancellor Mitchelson:

As you know, the Office of Internal Audit and Management Advisory Services is in the process of undergoing our Quality Assessment Review (QAR), which is required every five years. As a state entity in NC, this office is required by law to conform to established professional standards. This is our fourth assessment (prior assessments were completed in 2006, 2011, and 2016). For this cycle we chose, and the Audit Committee agreed, to follow the "Internal Self-Assessment with Independent Validation" model, since it is significantly more cost effective than full external reviews. This report is submitted to you as a result of our **internal** self-assessment.

The **external** assessment team will review our work and will conduct virtual interviews with Board of Trustees (BOT) members, senior management, compliance partners, and other University stakeholders in February 2021. The external assessment team will determine whether they agree with the conclusions of our internal self-assessment and will render a conclusion on our team's conformance with the *Standards*. We will share the results of the external assessors' review as soon as they are available.

The principal objectives of the quality assessment are to (1) assess the internal audit activity's conformance to The Institute of Internal Auditors' (IIA's) *International Standards for the Professional Practice of Internal Auditing* ("Standards"), (2) evaluate the internal audit activity's effectiveness in carrying out our mission (as set forth in the charter and expressed in the expectations of the University's Board of Trustees and management), and (3) identify opportunities to enhance our management and work processes, as well as our value to the University.

The scope of our internal assessment included the Office of Internal Audit and Management Advisory Services'

- Internal policies and procedures,

- Risk assessment and audit planning processes,
- Audit tools, documentation, and methodologies, and
- Engagement and staff management processes.

Overall Conformity Opinion

It is our opinion that the Office of Internal Audit and Management Advisory Services generally conforms with the IIA *Standards* and *Code of Ethics*. Our internal quality assessment identified three noteworthy strengths and two reportable opportunities for potential process improvement, which are provided below.

The IIA's *Quality Assessment Manual* provides a scale of three possible ratings, "Generally Conforms," "Partially Conforms," and "Does Not Conform."

- **"Generally Conforms" means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*.**
- "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*, but these deficiencies did not preclude the internal audit activity from performing its responsibilities in an acceptable manner.
- "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the internal audit activity from performing adequately in all or in significant areas of its responsibilities.

Our observations related to noteworthy strengths and potential process improvement opportunities are detailed below.

Noteworthy Strengths

Noteworthy Strength/Best Practice 1: Strong support and relationships with the Board and University management

The Chief Audit Officer (CAO) and the Internal Audit team receive strong support from the Chancellor and the BOT and have unfettered access to all members of the University's senior management team. Internal Audit has also established very strong and collegial relationships with compliance partners and management at all levels of the University. This collaboration results in assurance that the highest-risk areas are adequately monitored, and that duplication of effort is minimized.

Noteworthy Strength/Best Practice 2: Well-documented and intentional strategy and goals for the Internal Audit activity

Internal Audit has been very intentional about identifying areas for individual and overall team growth. The team has formally documented its vision, strategy, and measurable goals, and these are used as a road map for continuous improvement and long-term sustainability as a value-adding strategic partner for University management.

Noteworthy Strength/Best Practice 3: Strong use of technology to enhance the effectiveness and efficiency of risk assessment and audit processes

Over the last three years, Internal Audit has implemented a new audit management system and increased the use of data analytics techniques. These have significantly strengthened our processes. Notably:

- Implementation of the audit management system's capabilities to catalog and rate the "audit universe" – auditable business processes, units, and risks – has resulted in more effective real-time awareness of the University's key risks and areas where audit resources need to be deployed.
- Implementation of the capabilities in the audit management system to track and report on open action plans has resulted in significant efficiency gains for Internal Audit, more real-time follow-up and monitoring of prior audit recommendations, and more timely communications with management about areas that warrant attention.
- The use of data analytics tools has allowed audit testing of entire populations of transactions or events, or at minimum the transactions or events that truly warrant scrutiny. This has increased audit effectiveness and resulted in cost savings and recoupment of funds for the University. In many cases the tools are turned over to management for continuous use after the audit.

Recommendations

Process Improvement Opportunity 1: Provision of charters to the Audit Committee

The CAO reviews the Internal Audit Charter and the Audit Committee Charter annually, but historically has provided them to the BOT Audit Committee only when the applicable document needs to be changed. IIA Standard 2060, *Reporting to Senior Management and the Board*, requires that the CAO's communications with senior management and the Board periodically include information about the Audit Charter.

Recommendation: To strengthen demonstrated compliance with the reporting standard (2060), the CAO should provide the Internal Audit Charter and Audit Committee Charter annually, rather than only discussing the charters formally when they need to be amended.

Plan of Action: The CAO has already updated the BOT Audit Committee topic tracking list to reflect that the charters will be provided in the committee's meeting materials at least once per year. To maximize the benefit of doing this, the CAO will provide the charters in conjunction with either the summer (July) or fall (September) meeting, to coincide with the appointment of new members to the committee.

Process Improvement Opportunity 2: Formal documentation of consulting engagement objectives

Review of two recent formal (non-routine) consulting engagements revealed that while Internal Audit did agree with management on the objectives, scope, and expectations, we did not clearly document this agreement at the beginning of the consulting engagement. IIA Standard 2201.C1 states, "Internal Auditors must establish an

agreement with consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.”

Recommendation: To tighten compliance with standard 2201.C1, the CAO should revise the Timeline of Events template that is used to organize consulting workpapers. The template should include a clear place for objectives/client agreement to be captured.

Plan of Action: The Timeline of Events template was updated on December 7, 2020 to provide a location to clearly document the objectives for consulting or investigative engagements. The template also now includes a note that consulting engagement objectives and details need to be communicated in writing with the client.

Conclusion

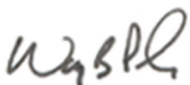
We appreciate the support extended to us by the Chancellor, senior management, and BOT. Without such strong support, we would be unable to conform to the *Standards* or provide meaningful insight and value to the University. Our partnership with you, and with the other compliance, risk, and monitoring offices at the University are vital to the continued success of our institution. We also would like to take this opportunity to publicly thank the outstanding professionals on the Internal Audit team. Their hard work, professionalism, and integrity are top-notch.

If you have any questions or concerns, please do not hesitate to contact us. We will communicate the results of the external assessment team’s review with you this spring. We look forward to working with you in future endeavors.

Respectfully submitted by:



William Kraus, MBA, CPA, CIA, CHC, CHRC
Audit Supervisor



Wayne Poole, MBA, CIA, CISA
Chief Audit Officer

cc: Audit Committee – ECU Board of Trustees
Dr. Chris Locklear – Interim Chief of Staff
Chancellor’s Cabinet Members
Ms. Megan Ayers – Assistant Secretary to the ECU Board of Trustees
Ms. Jeannine Hutson – Chief Communications Officer
Ms. Dee Bowling – Internal Control Officer
Ms. Faye Steele – Specialist, Financial Services
Ms. Lynne Sanders – Vice President for Compliance and Audit Services,
UNC System Office
North Carolina Council of Internal Auditing
Mr. Ray Whitby, Jr. – North Carolina Office of the State Auditor
Mr. Kyle Reeves – North Carolina Office of the State Auditor
Ms. Marion Candrea – External Assessment Team Lead (Rutgers University)
Mr. James Ponce – External Assessment Team Member (Wake Forest
University)



Audit, Risk Management, Compliance, and Ethics Committee
February 11, 2021

Agenda Item: IV. E. Audits of Pandemic Relief Funds

Responsible Person: Wayne Poole
Director of Internal Audit

Action Requested: Information

Notes:



Audit, Risk Management, Compliance, and Ethics Committee
February 11, 2021

Agenda Item:

V. Closed Session

Responsible Person:

Wayne Poole
Director of Internal Audit

Action Requested:

Notes:



Audit, Risk Management, Compliance, and Ethics Committee

February 11, 2021

Agenda Item:

VI. Other Business

Responsible Person:

Wayne Poole
Director of Internal Audit

Action Requested:

Notes: