

February 6, 2018

University of North Carolina School of the Arts
Kilpatrick Townsend & Stockton, LLP
1001 West Fourth Street
Winston-Salem, NC 27101

COMMITTEE MEMBERS:

Stephen Berlin, Chair
Pete Brunstetter
Anna Folwell
Rob King
Michael Tiemann, ex officio

COMMITTEE STAFF:

Shannon Henry, Chief Audit, Risk, and Compliance Officer
Amanda Balwah, Staff
Faculty Representative
Staff Representative
Foundation Liaison

AGENDA

OPEN SESSION

1. Call to Order and Confirm Quorum.....Chairman Berlin
2. Approval of Minutes from the December 5, 2017 Meeting.....Chairman Berlin
3. Enterprise Risk Management:.....S. Henry, C. Leffler
 - a. Discussion of Implementation Approach and Status
 - b. Approval of Revised Committee and Department Charters
 - c. Approval of Enterprise Risk Management and Compliance Policy
 - d. Discussion of Poole College of Management Risk Assessment
4. Matters of Governance and Compliance.....Claire Machamer
 - a. Information Governance and Security – General Update
5. Discussion of External Audits & Reviews (if any).....S. Henry & UNCOSA Management
 - a. None to report at this time.

Note: Information related to any external audits or reviews released prior to the meeting will be provided at the meeting.

- 6. Discussion of Internal Audit's Reports, Open Projects, and Plans.....Internal Audit Staff
 - a. 90-Day Follow-up to the OSA investigative Report of 10/18/17*
 - b. Cash Count & Receipting Follow-up Review*
 - c. Discussion of Next Planned Project*
 - d. Summary of New and/or Open Observations and Recommendations – Matters Subject to Public Inspection*

**Additional information related to this item or any internal audits or reviews released prior to the meeting will be provided at the meeting.*

CLOSED SESSION

- 7. Approval of Minutes from the December 5, 2017 Meeting.....Chairman Berlin
- 8. Summary of Internal Audit's Reports & Reviews.....Internal Audit Staff
 - a. Discussion of Special Reviews and Investigations
 - b. Summary of New and/or Open Observations and Recommendations – Inclusive of Matters Not Subject to Public Inspection

OPEN SESSION

- 9. Other Business.....Committee Members & Staff
- 10. Adjourn.....Chairman Berlin

DRAFT OPEN MINUTES

December 5, 2017

University of North Carolina School of the Arts
Law Office of Kilpatrick Townsend & Stockton LLP
Winston-Salem, North Carolina

TRUSTEES PRESENT

Steve Berlin (Chair)*, Anna Folwell*, Rob King*, Michael Tiemann (ex officio)

TRUSTEES ABSENT

Pete Brunstetter*

*denotes voting member

COMMITTEE STAFF PRESENT

Shannon Henry (Chief Audit, Risk, and Compliance Officer), Charlie Leffler (Interim Vice Chancellor for Finance and Administration), David Harrison (General Counsel), Amanda Balwah (Secretary of the University), Martha Golden (Faculty Counsel Representative), Leslie Kamtman (Staff Counsel Representative), Julie Williams (Foundation Liaison)

OTHERS PRESENT

Rod Isom (Audit Manager), Kam So (Internal Auditor), Pilar Horne-Davis (Internal Auditor), Devin Doss (Internal Auditor), Lisa McClinton (Controller), James Lucas (Director of Human Resources), Claire Machamer (Chief Technology Officer), Cindy Liberty (Director of the Foundation), Josh Canzona (Ombudsman), Greg Gleghorn, (Director of Information Security)

CONVENE MEETING AND CONFIRM QUORUM

Committee Chair Steve Berlin convened the Open Session of the University of North Carolina School of the Arts Audit Committee at 4:03 p.m. A quorum was confirmed.

APPROVAL OF MINUTES

MOTION: Rob King moved to approve the minutes from the September 19, 2017 meeting. Michael Tiemann seconded and the minutes were unanimously approved.

EXTERNAL AUDITS AND REVIEWS

Shannon Henry, Chief Auditor, presented the following external audit reports to the committee:

- UNCSA Financial Statement Audit for Fiscal Year 2017

The NC Office of the State Auditor conducted the audit. It was a clean audit with no issues to report. State Auditor Beth Wood did ask Ms. Henry to communicate with the Board what the results of the Annual Financial Statement Audit mean:

- A clean financial statement audit means that stakeholders can place reliance on the reported numbers; that there are no material misstatements.
 - While clean annual Financial Statement Audits are a good thing, they do not give insight into whether or not there is fraud, waste, or abuse, or if the school uses its resources efficiently.
- UNCSA Housing Corporation Financial Statement Audit 2017

Rives and Associates, a private CPA firm, conducted the audit. It was a clean audit with no issues to report.

- UNCSA Program Support Corporation Financial Statement Audit 2017

Rives and Associates, a private CPA firm, conducted the audit. It was a clean audit with no issues to report.

- Riverrun International Film Festival Financial Statement Audit Report 2017

Butler and Burke, a private CPA firm, conducted the audit. It was a clean audit with no issues to report.

- The Semans Art Fund, Inc. Financial Statement Audit Report 2017

Butler and Burke, a private CPA firm, conducted the audit. It was a clean audit with no issues to report.

- UNCSA Investigative Report

The NC Office of the State Auditor conducted the investigation. The report resulted in one finding and two recommendations for disciplinary action and training. UNCSA has already taken disciplinary action and is making progress toward training. The University is required to make satisfactory progress toward resolving findings identified by the State Auditor's Office within a three-month period. The Chief Auditor is legislatively required to review the finding and corrective action plan, and report the results of that review to General Administration and the State Auditor. Internal Audit's follow-up is due by January 18, 2018.

INTRODUCTION OF THE OMBUDSMAN

Joshua Canzona, the University's new Ombudsman, introduced himself to the committee. Mr. Canzona discussed his role and explained that he provides employees with ways to address challenges. Options offered by the Ombudsman can range from policy-based solutions to practice for hard workplace conversations. Listening is the Ombudsman's main job, and he is bound by a strict ethical code that requires his confidentiality, independence from the University, neutrality, and informality, allowing the employee to control the situation. Mr. Canzona currently has 10-11 open cases since his introduction to the University earlier in the semester.

SUMMARY OF THE 2017-2018 INTERNAL AUDIT PLAN

Internal Audit completed its annual risk assessment for the year and added audits to its audit plan related to Human Resources, Life Safety, the Clery Act, and the University's control environment. Audits and advisory services reported for the quarter produced 3 written recommendations. Numerous consults with university personnel have been conducted. 88% of previous Internal Audit Findings have been resolved and the University has implemented 77% of Internal Audit's recommendations. This exceeds the target recommendation implementation rate of 70%. The results of the risk assessment survey conducted on campus revealed most employees cited concerns about Human Resources, Financial Resources, Information Technology, and Campus Safety.

The following internal audits are in progress:

- 1 internal follow-up review;
- 1 follow-up to the Office of State Auditor's investigative report;
- 1 special review requested by management; and
- 1 internal control review.

OTHER BUSINESS

Information Security

UNC General Administration has drafted a new Information Security Policy. The policy requires that each UNC school establish an information governance and security infrastructure that includes policies, risk assessments, strategies to address risks, and incident response and notification. The policy also requires the designation of a senior officer with information governance and security responsibility that is accountable to the Chancellor and the BOT. Each UNC School's Audit Committee is tasked with oversight authority for Information Governance and Security. The senior officer is required to provide updates at Audit Committee meetings. Chief Technology Officer, Claire Machamer, will fulfill this role for UNCSA.

Ms. Machamer has also hired a Director of Information Security, Mr. Greg Gleghorn. Mr. Gleghorn is conducting an informal vulnerability survey. He believes there are areas of concern, but they can be fixed with policy, infrastructure, and implementation of best practices.

Ethics Committee Update

Ms. Henry reported that the Ethics Committee recently had its second meeting. James Lucas, Director of Human Resources, reported that, in response to the Ethics Committee's recommendations, the policy portal has been updated to include required reviews and sign-offs of policies related to ethics. Further, Internal Audit is working to assist UNCSA with automated monitoring of its compliance calendar.

CLOSED SESSION

MOTION: Rob King moved to go into closed session to prevent the disclosure of privileged information under N.C.G.S. 143-318.11 (a) (1), Internal Auditor's work papers, under Section 116-40.7 of the North Carolina General Statutes. Michael Tiemann seconded and the motion was unanimously approved.

ADJOURNMENT

After returning to Open Session, there was no further business to discuss. Chairman Berlin adjourned the meeting at 4:58 p.m.

Respectfully submitted by:
Amanda G. Balwah
Assistant Secretary to the Board of Trustees

KEY AGENDA ITEMS

I. Enterprise Risk Management – Policies & Structure.....Shannon Henry

Summary: In March of 2016, the UNC System Office adopted an Enterprise Risk Management (ERM) and Compliance policy with requirements that each institution establish an ERM process that aligns with and supports the institution’s strategic goals. In order to facilitate the establishment of a disciplined process and ensure the identification and management of risk is comprehensive and systematic, a policy, governance structure, and steering committee charter have been developed. Further, the jurisdiction of the Audit Committee has been widened to establish accountability for enterprise risk management and compliance and roles related to ERM and compliance program establishment have been defined for the Chief Audit Officer.

Action:

The following items require board approval:

- 1) UNCSA BOT Audit, Risk, and Compliance Committee Charter
 - a. The committee’s charter has also been updated to include oversight of UNCSA’s information governance and security.
- 2) UNCSA Internal Audit Charter
- 3) UNCSA Enterprise Risk Management and Compliance Policy
- 4) UNCSA Enterprise Risk Management Steering Committee Charter

The following item is for informational purposes only:

- 1) UNCSA Enterprise Risk Management Governance Structure

II. Enterprise Risk Management – Risk Assessment.....S. Henry & C. Leffler

Summary: UNCSA is partnering with graduate students in the Poole College of Management at NC State to help us further our ERM process. The graduate students are under the supervision of faculty who lead NC State’s ERM Initiative. The goal of the project is help us identify the top risks related to our School’s strategic success.

Action: This item is for informational purposes only.



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University of North Carolina School of the Arts Board of Trustees Audit, Risk, and Compliance Committee Charter

I. PURPOSE

The ~~audit committee~~ assists the University of North Carolina School of the Arts (UNCSA) Board of Trustees in fulfilling its oversight responsibilities of the institution and associated entities which fall under the requirements established by the Board of Governors in the following areas:

1. The financial reporting process;
2. The effectiveness of the institution's internal control and enterprise risk management systems;
- ~~3.~~ The audit process;
- ~~4.~~ The information governance and security infrastructure;
- ~~5.~~ The institution's process for monitoring compliance with laws and regulations; and
- ~~6.~~ The institution's code of conduct.

The committee is responsible for ~~providing maintaining~~ open lines of communication between the university's internal audit, risk management, and compliance functions ~~or, UNCSA management~~ and the UNCSA Board of Trustees. The committee will take all appropriate actions to set the overall tone at the institution for quality financial reporting, effective internal control, risk management, and compliance systems, and ethical behavior. The University Chancellor, the Chief Audit Officer (CAO), and/or Audit, Risk and Compliance Committee (ARCC) Chair have the power to call a meeting whenever necessary.

II. AUTHORITY

The ~~ARCC~~ audit committee has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

1. Appoint, compensate, and oversee the work of the North Carolina Office of the State Auditor and any other registered public accounting firm employed by the organization;
2. Resolve any disagreements between management and the auditor regarding financial reporting;
3. Pre-approve all audit and ~~nonaudit~~ related services;
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
5. Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties; ~~and~~
- ~~6.~~ Meet with the organization's officers, external auditors, or outside counsel as necessary; and
- ~~7.~~ Set the university's risk appetite.

III. COMPOSITION

1. The ~~audit committee~~ ARCC shall be a standing committee of at least three, and no more than six, members of the Board of Trustees.
2. The Chair of the Board will select both the chair of the ~~audit committee~~ ARCC and the members of the committee.
3. The Chair of the Board will serve as an ~~ex~~ officio member of the ~~audit committee~~ ARCC.

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4. Voting committee members must be comprised only of trustees, however, committee members may be non-trustees. Non-trustee committee members shall have all of the rights and responsibilities of trustee members, except the right to vote.
5. Each ~~ARCC~~ committee member must be independent of UNCOSA management and free of any relationship that would impair such independence. Members may not receive from UNCOSA any consulting, advisory, or other fees paid monetarily or with other consideration. This is not intended to prevent committee members from receiving travel expense reimbursements for participating in meetings or meals furnished at meetings.
6. Each ~~audit committee~~ ARCC member will be financially literate. Financial literacy is defined as being able to read and understand fundamental financial statements. If possible, at least one member should be a “financial expert.” This is defined as a person who has an understanding of generally accepted accounting principles and financial statements, the ability to assess the application of these principles, an understanding of ~~audit committee~~ ARCC functions, experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising persons engaged in such activities and an understanding of internal controls and procedures for financial reporting.

IV. MEETINGS

1. The ~~audit committee~~ ARCC will meet at least four times a year, with authority to convene additional meetings as circumstances require.
2. All ~~audit committee~~ ARCC members are expected to attend each meeting in person or via teleconference or videoconference.
3. A majority of the voting members of the committee will constitute a quorum.
4. The ~~audit committee~~ ARCC will invite members of management, auditors, risk and compliance managers, or others to attend meetings and provide pertinent information as necessary.
5. The ~~audit committee~~ ARCC will hold private meetings with internal and external auditors and executive sessions. If the internal or external auditors request a meeting, the committee is required to meet as promptly as possible.
6. Meeting agendas will be prepared by UNCOSA staff and provided in advance to the committee members, along with the appropriate briefing materials.
7. The committee shall maintain written minutes of its meetings.

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V. RESPONSIBILITIES

With regards to each topic listed below, the ~~audit committee~~ ARCC will:

Financial Statements

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and understand their impact on the financial statements.
2. Review with management and the external auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements and other sections of the annual report and related regulatory filings.
4. Review with management and the external auditors all matters required to be communicated to the ~~audit committee~~ under auditing standards.
5. Understand how management develops financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

1. Review the effectiveness of the internal control system, including information technology security and control, through activities of the internal and external auditors.
2. Understand the scope of internal and external auditor’s reviews of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management’s responses.

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- Determine whether recommendations made by the internal and external auditors have been implemented by management.

Internal Audit

- Review with management and the ~~chief audit officer (CAO)~~ the charter, activities, staffing, and organizational structure of the internal audit function. Consider and review any changes to the scope of the internal audit charter. Provided the CAO has responsibilities for risk and compliance functions, ensure there are safeguards in place to limit impairments to independence or objectivity.
- Have final authority to review and approve the annual audit plan, the internal audit budget and resource plan, and all major changes to the plans.
- Ensure there are no unjustified restrictions, ~~or~~ limitations, or interferences, and review and concur in the appointment, compensation, replacement, or dismissal of the CAO.
- Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
- On a regular basis, meet separately with the CAO to discuss any matters that the committee or internal auditing believes should be discussed privately.

External Audit

- Review the external auditors' proposed audit scope and approach.
- Review the performance of the external auditors and exercise final approval on their appointment or discharge.
- On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

- The ARCC, through the Chancellor and CAO, shall receive reports from management and the organization's legal counsel regarding compliance matters institution-wide, including, but not limited to, the following areas: environmental health and safety, diversity and affirmative action, contracts and grants, and financial aid.
- ~~2.~~ Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
- ~~3.~~ Review the findings of any examinations by regulatory agencies and any auditor observations.
- ~~3.~~ Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance therewith.
- ~~4. Obtain regular updates from management and the organization's legal counsel regarding compliance matters.~~

Risk Management

- The ARCC is responsible for oversight of the processes to identify, assess, prioritize, and manage general business risks. This includes the current risk environment, emerging risks, and the interrelationship between risks and the context of the university's risk appetite.
- Receive reports from management regarding the risk environment for UNCSCA and ensure that management's responses to significant risks are appropriate, and that resources to address high priority risks are allocated appropriately.
- Monitor and evaluate guidelines and policies to govern the process by which risk assessment and management is undertaken.

Information Governance and Security

- Ensure that information governance and security is addressed in the annual audit planning and risk assessments that are conducted by the institution's internal auditor.

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2. Periodically include an agenda item for emerging information governance and security matters at its regularly scheduled meetings.
3. Receive a report at least annually from the appropriate senior officer on the institution's information governance and security infrastructure and information technology security controls.

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Reporting

1. Regularly report to the Board of Trustees about committee activities, issues, and related recommendations.
2. Provide an open avenue of communication among internal auditing, the external auditors, risk and compliance managers, and the Board of Trustees.
3. Report annually to the UNC Board of Governors, describing the ~~audit committee~~ARCC's composition, responsibilities and how they were discharged, and any other information required.
4. Review any other reports issued by the organization ~~issues~~—that relate to the ~~audit committee~~ARCC's responsibilities.

Complaints and Ethics

1. Ensure policies and procedures are established to allow employees to report alleged improper activities.

Other Responsibilities

1. Review and assess the adequacy of the ~~audit committee~~ARCC charter annually, requesting board approval for updates of its charter, as necessary.
2. Perform other activities related to this charter as requested by the Board of Trustees.
3. Institute and oversee special investigations as needed.
4. Evaluate the ~~audit committee~~ARCC's and individual members' performance on a regular basis.
5. Consult with UNCSA legal counsel to review any legal matters that may have a significant financial impact.
6. Ensure ~~that~~ the internal auditors receives continuing education annually.
7. Ensure ~~that~~ the internal auditors participates in the University of North Carolina Auditors' Association, the Institute of Internal Auditors, and other professional organizations in order to stay updated on professional standards, developments with audit, risk, and compliance~~ing~~ procedures and other relevant issues.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the ~~6th~~ 9th day of ~~December~~February 2018~~3~~

~~Robert L. King, III~~Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

~~Donald E. Flow~~ ~~XX~~ Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

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University of North Carolina School of the Arts Board of Trustees Audit, Risk, and Compliance Committee Charter

I. PURPOSE

To assist the University of North Carolina School of the Arts (UNCSA) Board of Trustees in fulfilling its oversight responsibilities of the institution and associated entities which fall under the requirements established by the Board of Governors in the following areas:

1. The financial reporting process;
2. The effectiveness of the institution's internal control and enterprise risk management systems;
3. The audit process;
4. The information governance and security infrastructure;
5. The institution's process for monitoring compliance with laws and regulations; and
6. The institution's code of conduct.

The committee is responsible for providing open lines of communication between the university's internal audit, risk management, and compliance functions and the UNCSA Board of Trustees. The committee will take all appropriate actions to set the overall tone at the institution for quality financial reporting, effective internal control, risk management, and compliance systems, and ethical behavior. The University Chancellor, the Chief Audit Officer (CAO), and/or Audit, Risk and Compliance Committee (ARCC) Chair have the power to call a meeting whenever necessary.

II. AUTHORITY

The ARCC has authority to conduct or authorize investigations into any matters within its scope of responsibility. It is empowered to:

1. Appoint, compensate, and oversee the work of the North Carolina Office of the State Auditor and any other registered public accounting firm employed by the organization;
2. Resolve any disagreements between management and the auditor regarding financial reporting;
3. Pre-approve all audit and related services;
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation;
5. Seek any information it requires from employees — all of whom are directed to cooperate with the committee's requests — or external parties;
6. Meet with the organization's officers, external auditors, or outside counsel as necessary; and
7. Set the university's risk appetite.

III. COMPOSITION

1. The ARCC shall be a standing committee of at least three, and no more than six, members of the Board of Trustees.
2. The Chair of the Board will select both the chair of the ARCC and the members of the committee.
3. The Chair of the Board will serve as an ex officio member of the ARCC.

4. Voting committee members must be comprised only of trustees, however, committee members may be non-trustees. Non-trustee committee members shall have all of the rights and responsibilities of trustee members, except the right to vote.
5. Each ARCC member must be independent of UNCOSA management and free of any relationship that would impair such independence. Members may not receive from UNCOSA any consulting, advisory, or other fees paid monetarily or with other consideration. This is not intended to prevent committee members from receiving travel expense reimbursements for participating in meetings or meals furnished at meetings.
6. Each ARCC member will be financially literate. Financial literacy is defined as being able to read and understand fundamental financial statements. If possible, at least one member should be a “financial expert.” This is defined as a person who has an understanding of generally accepted accounting principles and financial statements, the ability to assess the application of these principles, an understanding of ARCC functions, experience preparing, auditing, analyzing or evaluating financial statements, or experience supervising persons engaged in such activities and an understanding of internal controls and procedures for financial reporting.

IV. MEETINGS

1. The ARCC will meet at least four times a year, with authority to convene additional meetings as circumstances require.
2. All ARCC members are expected to attend each meeting in person or via teleconference or videoconference.
3. A majority of the voting members of the committee will constitute a quorum.
4. The ARCC will invite members of management, auditors, risk and compliance managers, or others to attend meetings and provide pertinent information as necessary.
5. The ARCC will hold private meetings with internal and external auditors and executive sessions. If the internal or external auditors request a meeting, the committee is required to meet as promptly as possible.
6. Meeting agendas will be prepared by UNCOSA staff and provided in advance to the committee members, along with the appropriate briefing materials.
7. The committee shall maintain written minutes of its meetings.

V. RESPONSIBILITIES

With regards to each topic listed below, the ARCC will:

Financial Statements

1. Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and understand their impact on the financial statements.
2. Review with management and the external auditors the results of the audit, including any difficulties encountered.
3. Review the annual financial statements and other sections of the annual report and related regulatory filings.
4. Review with management and the external auditors all matters required to be communicated to the committee under auditing standards.
5. Understand how management develops financial information, and the nature and extent of internal and external auditor involvement.

Internal Control

1. Review the effectiveness of the internal control system, including information technology security and control, through activities of the internal and external auditors.
2. Understand the scope of internal and external auditor’s reviews of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management’s responses.

3. Determine whether recommendations made by the internal and external auditors have been implemented by management.

Internal Audit

1. Review with management and the CAO the charter, activities, staffing, and organizational structure of the internal audit function. Consider and review any changes to the scope of the internal audit charter. Provided the CAO has responsibilities for risk and compliance functions, ensure there are safeguards in place to limit impairments to independence or objectivity.
2. Have final authority to review and approve the annual audit plan, the internal audit budget and resource plan, and all major changes to the plans.
3. Ensure there are no unjustified restrictions, limitations, or interferences, and review and concur in the appointment, compensation, replacement, or dismissal of the CAO.
4. Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.
5. On a regular basis, meet separately with the CAO to discuss any matters that the committee or internal auditing believes should be discussed privately.

External Audit

1. Review the external auditors' proposed audit scope and approach.
2. Review the performance of the external auditors and exercise final approval on their appointment or discharge.
3. On a regular basis, meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately.

Compliance

1. The ARCC, through the Chancellor and CAO, shall receive reports from management and the organization's legal counsel regarding compliance matters institution-wide, including, but not limited to, the following areas: environmental health and safety, diversity and affirmative action, contracts and grants, and financial aid.
2. Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of noncompliance.
3. Review the findings of any examinations by regulatory agencies and any auditor observations.
4. Review the process for communicating the code of conduct to the organization's personnel and for monitoring compliance therewith.

Risk Management

1. The ARCC is responsible for oversight of the processes to identify, assess, prioritize, and manage general business risks. This includes the current risk environment, emerging risks, and the interrelationship between risks and the context of the university's risk appetite.
2. Receive reports from management regarding the risk environment for UNCOSA and ensure that management's responses to significant risks are appropriate, and that resources to address high priority risks are allocated appropriately.
3. Monitor and evaluate guidelines and policies to govern the process by which risk assessment and management is undertaken.

Information Governance and Security

1. Ensure that information governance and security is addressed in the annual audit planning and risk assessments that are conducted by the institution's internal auditor.
2. Periodically include an agenda item for emerging information governance and security matters at its regularly scheduled meetings.

3. Receive a report at least annually from the appropriate senior officer on the institution's information governance and security infrastructure and information technology security controls.

Reporting

1. Regularly report to the Board of Trustees about committee activities, issues, and related recommendations.
2. Provide an open avenue of communication among internal auditing, the external auditors, risk and compliance managers, and the Board of Trustees.
3. Report annually to the UNC Board of Governors, describing the ARCC's composition, responsibilities and how they were discharged, and any other information required.
4. Review any other reports issued by the organization that relate to the ARCC's responsibilities.

Complaints and Ethics

1. Ensure policies and procedures are established to allow employees to report alleged improper activities.

Other Responsibilities

1. Review and assess the adequacy of the ARCC charter annually, requesting board approval for updates of its charter, as necessary.
2. Perform other activities related to this charter as requested by the Board of Trustees.
3. Institute and oversee special investigations as needed.
4. Evaluate the ARCC's and individual members' performance on a regular basis.
5. Consult with UNCSCA legal counsel to review any legal matters that may have a significant financial impact.
6. Ensure the internal auditors receive continuing education annually.
7. Ensure the internal auditors participate in the University of North Carolina Auditors' Association, the Institute of Internal Auditors, and other professional organizations in order to stay updated on professional standards, developments with audit, risk, and compliance procedures and other relevant issues.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018

Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

Enterprise Risk Management Steering Committee Charter

I. RESPONSIBILITIES AND DUTIES

The enterprise risk management (ERM) steering committee (the "committee") shall monitor the risk environment for the University of North Carolina School of the Arts (the "university") and provide direction for the activities to mitigate, to an acceptable level, the risks that may adversely affect the university's ability to achieve its goals. The committee facilitates continuous improvement of the university's capabilities around managing its priority risks. In addition, the committee will support the Audit, Risk and Compliance Committee's (ARCC) efforts to monitor and evaluate, as mandated by professional standards and University of North Carolina General Administration (UNCGA) requirements, risks that impact the institution's goals.

Specifically, the committee shall:

- **Identify and Prioritize Business Risks:** Review the university's risk register in order to understand the current risk environment for the university, including a review of emerging risks, the interrelationships between risks and the context of university's risk appetite;
- **Evaluate the Effectiveness of Risk Mitigation Activities:** Define and communicate expected results of the ERM implementation committee and risk owners. Review risk mitigating strategies for effectiveness and consistency with the university's risk tolerance;
- **Ensure that Gaps in Effectiveness are Addressed for High-Priority Risks:** Provide direction for the allocation of resources and assignment of responsibilities for activities addressing business risks; and
- **Improve ERM Infrastructure:** Provide guidance regarding the ERM infrastructure, including systems, processes and organizational structure.

The committee is not responsible for any day-to-day tasks involved in risk management or the mitigation of any risks; however, individuals on the committee may have specific risk management tasks as part of their primary job at the university.

The above list of activities should serve as a guide with the understanding that the committee may carry out additional functions and adopt additional policies and procedures as may be appropriate in light of changing business, legislative, regulatory, legal or other conditions. The committee shall also carry out any other responsibilities and duties delegated to it by UNCGA, the Board of Trustees and/or the Chancellor of the university from time to time, related to the purposes of the committee outlined in this section.

Enterprise Risk Management Steering Committee Charter

II. MEMBERSHIP AND OPERATIONS

The committee will include the following “voting members”:

- Dr. David English (Executive Vice Chancellor and Provost);
- Mr. Charlie Leffler (Interim Vice Chancellor for Finance and Administration);
- Mr. Ward Caldwell (Vice Provost and Dean of Student Affairs);
- Mr. Ed Lewis (Vice Chancellor for Advancement);
- Mr. Jim DeCristo (Vice Chancellor and Chief of Staff); and
- Mr. David Harrison (General Counsel).

The committee chairperson will serve as a non-voting, ex officio member of the committee:

Committee Chairperson: Ms. Shannon Henry (Chief Audit, Risk, and Compliance Officer).

Each voting member shall have one vote. Three or more committee members in agreement can result in actions directed by the committee. The effect of ceasing to be an employee of the university is the automatic termination as a voting member or member of the committee. It is appropriate that members of the committee have a range of different backgrounds, skills and experiences, having due regard to the operational, financial and strategic risk profile of the university.

The committee may direct internal groups and/or engage outside experts to assist in its responsibilities. The committee will report, through the Chief Audit, Risk and Compliance Officer, regularly to the ARCC of the university’s board of trustees following meetings of the committee regarding current status of risk and action items.

III. MEETINGS AND ATTENDANCE

- The committee should meet at least four times (quarterly) per year. Additional meetings may be held as the work of the committee demands or if requested by the Chancellor, a university Board of Trustees’ member, external auditor or internal auditor. The chairperson of the committee or a majority of the members (in the chairperson’s absence) may call a special meeting of the committee.
- As necessary or desired, the chairperson may invite members of the ERM implementation committee and/or risk owners to be present at meetings. The committee may also exclude from its meetings any person it deems inappropriate for such meeting(s).
- In lieu of detailed minutes, for each meeting, the chairperson will create a summary of attendees and any action items or key decisions and circulate that to all committee members that were invited to the meeting.
- The chairperson will prepare the agendas for committee meetings. The agenda of each meeting will be circulated, whenever reasonably practicable, to each member prior to each meeting. The following may serve as the standing agenda for all meetings of the committee regardless of whether it is stated in the quarterly agenda:

Enterprise Risk Management Steering Committee Charter

- Quarterly review of the university's risk register, paying particular attention to items that have changed since the previous meeting (e.g., risks for which the prioritization has changed, new risks, new mitigation activities, etc.);
- Report from the Chief Audit, Risk and Compliance Officer concerning activities related to ERM; and
- Any other business.

IV. ANNUAL REVIEW OF THIS CHARTER

The committee shall have oversight to perform a review and assess, at least annually, the adequacy of this charter and any improvements to this charter that the committee considers necessary or valuable. The committee shall conduct such reviews in such manner as it deems appropriate.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018

Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

Enterprise Risk Management Governance Structure

I. Governance Structure

- **Role of Risk Owner**

- Responsible for Risk Mitigation and Management (RMM) Plans
- Monitor current mitigation activities
- Update RMM Plans for review by the Enterprise Risk Management (ERM) Implementation Committee

- **Role of ERM Implementation Committee Chairman**

- Maintain the ERM framework
- Transition information from risk owners
- Lead implementation committee activities
- Serve as the primary ERM program presenter (assisted by the CARCO as needed)

- **Role of ERM Implementation Committee**

- Members of the committee (see below)
- Implement the ERM framework in alignment with the university's strategic plan
- Develop risk assessment and mitigation activities
- Identify, analyze, evaluate and treat strategic, operational, reporting and compliance risks across campus
- Review status of RMM Plans and monitor mitigation activities and accompanying support provided by Risk Owners

- **Role of Chief Audit, Risk and Compliance Officer (CARCO)**

- Champion the establishment of ERM
- Advise, challenge, coach, and support management's decisions on risk, as opposed to making risk management decisions.
- Coordinate ERM activities
- Serve as chairperson to the ERM Steering Committee and facilitate ERM program presentations to the Chancellor and the Audit, Risk, and Compliance Committee (ARCC) of the university's Board of Trustees
- Information liaison between the ERM Implementation Committee and the ERM Steering Committee; facilitate reports of ERM status, emerging risks, obstacles, etc.

- **Role of ERM Steering Committee**

- Members of the committee (see below)

Enterprise Risk Management Governance Structure

- Develop risk appetite and ERM policy statements for review and approval by the Chancellor and the Audit, Risk, and Compliance Committee of the Board of Trustees (ARCC)
- Align ERM goals and objectives with strategic plan
- Oversee efforts to identify, assess, measure, respond, monitor, and report risks
- Define and communicate expected results with Risk Owners and ERM Implementation Committee
- Identify top tier (tier 1) risk areas
- Evaluate and approve reporting format
- Provide discussion opportunities for RMM Plans and ERM updates
- Review and approve ERM Implementation Committee recommendations
- Facilitate RMM Plan discussions concerning tier 1 risks with the ARCC and other Board Committees as considered necessary
- **Role of Chancellor and ARCC**
 - Set the risk appetite and give final approval on ERM policies (recommended by the Steering Committee)
 - Provide continued ERM support and focus
 - Make final decisions on risk responses
 - Support Steering Committee's implementation of risk responses and provide guidance
 - Establish accountability for risk management

II. Assurance Services and ERM

- The Internal Audit Manager (Mr. Rod Isom) will have an ex officio seat as an ERM Implementation Committee member. The responsibilities include:
 - Providing assurance for risk management processes
 - Provide consulting role as long as safeguards are established to ensure that risk ownership is maintained by non-Assurance Services positions

III. ERM Implementation Committee Members

- Audit, Risk and Compliance – Shannon Henry, Chief Audit Risk and Compliance Officer
- Audit, Risk and Compliance – (VACANT) Risk and Compliance Program Specialist
- Finance – Jackie Riffle, Director of Budget
- Finance – Allen Carnes, Associate Vice Chancellor for Business Operations
- Finance – Lisa McClinton, Associate Vice Chancellor for Finance and Controller
- Finance – Gary Penrod, Director of Financial Systems
- Finance/Facilities – Chris Boyd, Associate Vice Chancellor for Facilities Management
- Facilities – Xavier Dick, Environmental Health and Safety Manager

Enterprise Risk Management Governance Structure

- Human Resources – James Lucas, Director of Human Resources
- Police and Public Safety – Frank Brinkley, Chief of Police
- Police and Public Safety – Clarisse Davis, Emergency Management Coordinator
- Academics – Karen Beres, Vice Provost and Dean of Academic Affairs
- Academics – Dean Wilcox, Dean of Liberal Arts
- Academics – Martin Ferrell, Headmaster and Dean of High School Academics
- Academics – Susan Ruskin, Dean of Film
- Academics – Susan Jaffe, Dean of Dance
- Academics – Brian Cole, Dean of Music
- Academics – Michael Kelley, Dean of Design and Production
- Academics – Scott Zigler, Dean of Drama
- Academic Affairs/Financial Aid – Jane Kamiab, Director of Financial Aid
- Academic Affairs/Registrar – Erin Morin, Registrar
- Academic Affairs/Enrollment Management – Sheeler Lawson, Director of Admissions
- Information Technology – Claire Machamer, Chief Technology Officer
- Information Technology – Gregory Gleghorn, Director of Information Security
- Student Affairs – Joe Rick, Assistant Dean of Student Affairs, Director of Residence Life Programs and Housing
- Student Affairs – Steve Gallagher, Director of Student Engagement
- Health Services – Shannon Summer, Director of Health Services
- University Relations – Marla Carpenter, Director of Communications
- University Relations – Katharine Laidlaw, Chief Marketing Officer
- University Relations/Advancement – Meredith Carlone, Senior Director of Development
- Institutions and Centers – Corey Madden, Executive Director

IV. ERM Steering Committee Members

- Academic Affairs – David English, Executive Vice Chancellor and Provost (voting member)
- Finance – Charlie Leffler, Interim Vice Chancellor for Finance and Administration (voting member)
- Student Affairs – Ward Caldwell, Vice Provost and Dean of Student Affairs (voting member)
- Chancellor's Office – Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff (voting member)
- Legal Affairs – David Harrison, General Counsel (voting member)
- Advancement – Ed Lewis, Vice Chancellor for Advancement (voting member)
- Audit, Risk and Compliance – Shannon Henry, Chief Audit Risk and Compliance Officer (chairperson, non-voting ex-officio member)

Enterprise Risk Management Governance Structure

V. Update Charters

ERM roles and responsibilities should be reflected in the ARCC, the Steering Committee and Implementation Committee Charters. Consider whether a formalized administrative policy should be developed.

University of North Carolina School of the Arts
Internal Audit Charter

(ARCC) of the university Board of Trustees in a manner outlined in the section on Accountability. Internal Audit staff personnel shall report to the CAO. The CAO shall include a report on internal audit personnel as part of the regularly scheduled ARCC meetings or upon request from the Chair of the ARCC. To provide for independence of the Office of Internal Audit, its personnel report to the Chief Audit Officer, who reports administratively to the Chancellor and functionally to the Audit Committee of the University Board of Trustees in a manner outlined in the above section on Accountability. It will include as part of its reports to the audit committee a regular report on internal audit personnel.

IV. AUTHORITY

1. The Chief Audit Officer and staff of the Office of Internal Audit are authorized to:
 - a. Have unrestricted access to all functions, records, property, and personnel, in a manner consistent with North Carolina law.
 - b. Have full and free access to the ARCC Audit Committee.
 - c. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.
 - d. Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the University.
2. The Chief Audit Officer and staff of the Office of Internal Audit are not authorized to:
 - a. Perform any operational duties for the University or its affiliates.
 - b. Initiate or approve accounting transactions external to the Office of Internal Audit.
 - c. Direct the activities of any University employee not employed by the Office of Internal Audit, Risk, and Compliance except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

V. ACCOUNTABILITY

The Chief Audit Officer, in the discharge of his/her duties, shall be accountable to the Chancellor and the ARCC Audit Committee to:

1. Provide an assessment on the adequacy and effectiveness of the University's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
2. Report significant issues related to the processes for controlling the activities of the University and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
3. Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

VI. Independence

To provide for independence of the Office of Internal Audit, its personnel report to the Chief Audit Officer, who reports administratively to the Chancellor and functionally to the Audit Committee of the University Board of Trustees in a manner outlined in the above section on Accountability. It will include as part of its reports to the audit

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University of North Carolina School of the Arts
Internal Audit Charter

~~committee a regular report on internal audit personnel.~~

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~~VI. RESPONSIBILITY~~~~responsibility,~~

~~The Chief Audit Officer and staff of the Office of Internal Audit have responsibility to:~~

1. Apply and uphold the principles and rules of conduct in the Code of Ethics established by the Institute of Internal Auditors (IIA).
2. Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the ARCCaudit committee for review and approval.
3. Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the ARCCaudit committee.
4. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
5. Establish a quality assessment program by which the Chief Audit Officer assures the operation of internal auditing activities.
6. Perform consulting services, beyond internal auditing's assurance services, to assist management in meeting its objectives. Examples may include facilitation, process design, training and advisory services.
7. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
8. Periodically report to the Chancellor and the ARCCudit Committee summarizing the results of audit activities.
9. Communicate appropriate and significant risk findings to the University's General Counsel.
10. Keep the Chancellor and the ARCCudit Committee informed of emerging trends and successful practices in internal auditing.
11. Provide significant goals and results to the ARCCudit Committee.
12. Assist in the investigation of significant suspected fraudulent activities within the University and notify the Chancellor and the ARCCudit Committee of the results.
13. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the University.
- 13-14. Provide audit and/or activity reports to the University of North Carolina (UNC) Board of Governors, the UNC System Office, the North Carolina (NC) Office of State Budget Management, and the NC Office of the State Auditor.

~~I. Authority~~

~~I.~~

~~The Chief Audit Officer and staff of the Office of Internal Audit are authorized to:~~

~~I.~~

- a.I. ~~Have unrestricted access to all functions, records, property, and personnel.~~
- b.I. ~~Have full and free access to the Audit Committee.~~
- c.I. ~~Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.~~
- d.I. ~~Obtain the necessary assistance of personnel in units of the University where they perform audits, as well as other specialized services from within or outside the University.~~

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~~The Chief Audit Officer and staff of the Office of Internal Audit are not authorized to:~~

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University of North Carolina School of the Arts
Internal Audit Charter

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

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~~VII. ROLES BEYOND INTERNAL AUDITING in Enterprise Risk Management~~

To help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively, the CAO's role has been expanded to include the following as it relates to the university's enterprise risk management (ERM) and compliance monitoring functions.

~~1. ENTERPRISE RISK MANAGEMENT~~

The CAO's roles related to ERM include the following: The Office of Internal Audit and Institutional Compliance's core role with regard to Enterprise Risk Management (ERM) is to provide objective assurance to the Audit Committee of the University Board of Trustees on the effectiveness of the University's ERM activities to help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively.

The main factors the Chief Audit Officer should take into account when determining internal auditing's role are whether the activity raises any threats to the internal auditor's independence and objectivity, and whether it is likely to improve the University's risk management, control and governance processes.

To maintain the objectivity and independence required by The IIA's *Standards* the Office of Internal Audit and Institutional Compliance should and should not play the following roles throughout the ERM process:

~~1. Core internal auditing roles in regard to ERM~~

- ~~• Giving assurance on risk management processes.~~
- ~~• Giving assurance that risks are correctly evaluated.~~
- ~~• Evaluating risk management processes.~~
- ~~• Evaluating the reporting of key risks.~~
- ~~• Reviewing the management of key risks.~~

~~The Office of Internal Audit and Institutional Compliance may extend its involvement in ERM to include the roles identified below as "legitimate" provided that the following safeguards are in place:~~

- ~~❖ Management remains responsible for risk management.~~
- ~~❖ Internal audit should not manage any of the risks on behalf of management.~~
- ~~❖ Internal audit should provide advice, and challenge and support management's decisions on risk, as opposed to making risk management decisions.~~

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University of North Carolina School of the Arts
Internal Audit Charter

2. Legitimate internal auditing roles with safeguards

- a. Championing the establishment of ERM.
- a.b. Facilitation of the processes to identify, evaluate, manage and monitor risks. ~~Facilitating identification and evaluation of risks.~~
- b.c. Advising, challenging, coaching and supporting management's decisions on risk, as opposed to making risk management decisions. ~~Coaching management in responding to risks.~~
- e.d. Assisting with the ~~C~~oordinating of ERM activities.
- d.e. Consolidating the reporting on risks.
- e.g. Championing the establishment of ERM.
- f. Communicating with senior management and the ARCC when management has accepted a level of risk that may be unacceptable to the university. ~~Maintaining and developing the ERM framework.~~

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2. COMPLIANCE ~~compliance~~

The CAO's role related to university-wide compliance monitoring includes the following:

- a. Serve as the connector for individual components of university compliance.
- b. Facilitate reports from compliance managers to the ARCC.
- c. Report auditor observations of noncompliance to the ARCC.

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3. Roles internal auditing should not undertake

- Developing risk management strategy for board approval.
- Setting the risk appetite.
- Imposing risk management processes.
- Management assurance on risks.
- Taking decisions on risk responses.
- Implementing risk responses on management's behalf.
- Accountability for risk management.

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To ensure these additional roles related to ERM and compliance do not impair, or appear to impair the organizational independence and objectivity of the CAO and the internal audit function, the following safeguards are in place:

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- 1. The CAO reports administratively to the Chancellor and functionally to the ARCC.
- 2. The CAO does not own risks. University management remains responsible for risk management and compliance.
- 3. The CAO does not manage risks or compliance on behalf of management.
- 4. University management sets the risk appetite, makes decisions about and implements risk responses.
- 5. The ARCC and Chancellor are responsible for imposing risk management practices.
- 6. The ARCC will periodically evaluate reporting lines and responsibilities of the CAO and the internal auditors and develop alternative processes to obtain assurance related to ERM, if deemed necessary.

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VIII. Standards of Audit Practice

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The Office of Internal Audit, Risk, and Compliance will meet or exceed the *International Standards for the Professional Practice of Internal Auditing (Standards)* of the IIA.

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~~University of North Carolina School of the Arts
Internal Audit Charter~~

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018

Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

Chief Audit Officer

Chancellor

Audit Committee Chair

Dated

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UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS INTERNAL AUDIT CHARTER

I. MISSION

The mission of Internal Audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight. Internal Audit helps the university accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

II. SCOPE

The Winston-Salem State University Office of Audit, Risk, and Compliance is the internal audit service provider for the University of North Carolina School of the Arts. The scope of work of the Office of Audit, Risk, and Compliance is to determine whether the university's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

1. Risks are appropriately identified and managed.
2. Interaction with the various governance groups occur as needed.
3. Significant financial, managerial, and operating information is accurate, reliable, and timely.
4. Employee's actions are in compliance with policies, standards, procedures, and applicable laws and regulations.
5. Resources are acquired economically, used efficiently, and adequately protected.
6. Programs, plans, and objectives are achieved.
7. Quality and continuous improvement are fostered in the university's control processes.
8. Significant legislative and regulatory issues impacting the university are recognized and addressed properly.

Opportunities for improving risk management, management control, efficiency, compliance, and the university's image may be identified during audits. They will be communicated to the appropriate level of management.

III. INDEPENDENCE

Internal Audit shall maintain its independence. The Chief Audit Officer (CAO) reports administratively to the Chancellor and functionally to the Audit, Risk, and Compliance Committee (ARCC) of the university Board of Trustees in a manner outlined in the section on *Accountability*. Internal Audit staff personnel shall report to the CAO. The CAO shall include a report on internal audit personnel as part of the regularly scheduled ARCC meetings or upon request from the Chair of the ARCC.

IV. AUTHORITY

1. The CAO and staff are authorized to:
 - a. Have unrestricted access to all functions, records, property, and personnel, in a manner consistent with North Carolina law.
 - b. Have full and free access to the ARCC.
 - c. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply techniques required to accomplish audit objectives.
 - d. Obtain the necessary assistance of personnel in units of the university where they perform audits, as well as other specialized services from within or outside the university.
2. The CAO and staff are not authorized to:
 - a. Perform any operational duties for the university or its affiliates.
 - b. Initiate or approve accounting transactions external to Internal Audit.
 - c. Direct the activities of any university employee not employed by the Office of Audit, Risk, and Compliance.

V. ACCOUNTABILITY

The CAO, in the discharge of his/her duties, shall be accountable to the Chancellor and the ARCC to:

1. Provide an assessment on the adequacy and effectiveness of the university's processes for controlling its activities and managing its risks in the areas set forth under the mission and scope of work.
2. Report significant issues related to the processes for controlling the activities of the university and its affiliates, including potential improvements to those processes, and provide information concerning such issues through resolution.
3. Provide information periodically on the status and results of the annual audit plan and the sufficiency of department resources.
4. Coordinate with and provide oversight of other control and monitoring functions (risk management, compliance, security, legal, ethics, environmental, external audit).

VI. RESPONSIBILITY

The CAO and staff have responsibility to:

1. Apply and uphold the principles and rules of conduct in the Code of Ethics established by the Institute of Internal Auditors (IIA).
2. Develop a flexible annual audit plan using an appropriate risk-based methodology, including any risks or control concerns identified by management, and submit that plan to the ARCC for review and approval.
3. Implement the annual audit plan, as approved, including, and as appropriate, any special tasks or projects requested by management and the ARCC.
4. Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.
5. Establish a quality assessment program by which the CAO assures the operation of internal auditing activities.
6. Perform consulting services, beyond internal auditing's assurance services, to assist management

in meeting its objectives. Examples may include facilitation, process design, training and advisory services.

7. Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion.
8. Periodically report to the Chancellor and the ARCC summarizing the results of audit activities.
9. Communicate appropriate and significant risk findings to the University's General Counsel.
10. Keep the Chancellor and the ARCC informed of emerging trends and successful practices in internal auditing.
11. Provide significant goals and results to the ARCC.
12. Assist in the investigation of significant suspected fraudulent activities within the university and notify the Chancellor and the ARCC of the results.
13. Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the university.
14. Provide audit and/or activity reports to the University of North Carolina (UNC) Board of Governors, the UNC System Office, the North Carolina (NC) Office of State Budget Management, and the NC Office of the State Auditor.

VII. ROLES BEYOND INTERNAL AUDITING

To help ensure key business risks are being managed appropriately and that the system of internal control is operating effectively, the CAO's role has been expanded to include the following as it relates to the university's enterprise risk management (ERM) and compliance monitoring functions.

1. ENTERPRISE RISK MANAGEMENT

The CAO's roles related to ERM include the following:

- a. Championing the establishment of ERM.
- b. Facilitation of the processes to identify, evaluate, manage and monitor risks.
- c. Advising, challenging, coaching and supporting management's decisions on risk, as opposed to making risk management decisions.
- d. Assisting with the coordination of ERM activities.
- e. Consolidating the reporting on risks.
- f. Communicating with senior management and the ARCC when management has accepted a level of risk that may be unacceptable to the university.

2. COMPLIANCE

The CAO's role related to university-wide compliance monitoring includes the following:

- a. Serve as the connector for individual components of university compliance.
- b. Facilitate reports from compliance managers to the ARCC.
- c. Report auditor observations of noncompliance to the ARCC.

To ensure these additional roles related to ERM and compliance do not impair, or appear to impair the organizational independence and objectivity of the CAO and the internal audit function, the following safeguards are in place:

1. The CAO reports administratively to the Chancellor and functionally to the ARCC.

2. The CAO does not own risks. University management remains responsible for risk management and compliance.
3. The CAO does not manage risks or compliance on behalf of management.
4. University management sets the risk appetite, makes decisions about and implements risk responses.
5. The ARCC and Chancellor are responsible for imposing risk management practices.
6. The ARCC will periodically evaluate reporting lines and responsibilities of the CAO and the internal auditors and develop alternative processes to obtain assurance related to ERM, if deemed necessary.

VIII. Standards of Audit Practice

The Office of Audit, Risk, and Compliance will meet or exceed the *International Standards for the Professional Practice of Internal Auditing (Standards)* of the IIA.

Effective Date: This Charter becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018

Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS
Enterprise Risk Management and Compliance

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

- II. Establishment and Oversight of Enterprise Risk Management and Compliance Processes. The Board of Trustees monitors system-wide risk and compliance through the Audit, Risk, and Compliance Committee (ARCC). The chancellor, with the assistance from the chief audit, risk, and compliance officer of the university, the general counsel, the chief financial officer, 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. The university's processes should align with the institution's programs, activities, and management systems and support the institution's strategic and other goals.
 - a. The process will include components focused on the following:
 - i. Developing, implementing, evaluating, and monitoring a university-wide enterprise risk management process;
 - ii. Promoting a culture that supports board goals for risk management and compliance;
 - iii. Promoting a uniform approach to measuring the university resources expended on regulatory compliance;
 - iv. Supporting training and educational efforts;
 - v. Providing regular updates to the board's ARCC;
 - vi. Referring matters to university officers, divisions, and units, as appropriate; and
 - vii. Performing other duties as directed by the president of the University of North Carolina, the Board of Governors, the chancellor, and the Board of Trustees.
 - b. The process shall include appropriate procedures for:
 - i. Identifying risks that impact the institution's goals;
 - ii. Developing plans to monitor and mitigate risks;
 - iii. Providing periodic updates to the chancellor and the Board of Trustees; and
 - iv. Reporting significant enterprise risks to the president of the University of North Carolina and, with the president's guidance, to the Board of Governors.

Effective Date: This policy becomes effective upon adoption by the Board of Trustees.

Adopted: This the 9th day of February 2018

Michael D. Tiemann
Chair, Board of Trustees
UNC School of the Arts

Stephen R. Berlin
Chair, Audit Committee
UNC School of the Arts

DRAFT

AGENDA ITEM

Information Security Update.....Claire Machamer, CTO
and Greg Gleghorn, Director of Information Security

Summary: Director of Information Security Greg Gleghorn is working to establish an information security program for UNCASA. These updates reflect highlights of the work accomplished since the last meeting.

- Conducted an internal risk assessment which has established a baseline security posture which will be used as a comparison analysis as measurable controls, safeguards, and countermeasures are put in place.
- Evaluated the UNCASA perimeter and provided recommendations along with quotes to upgrade current firewall to next generation firewall due to the end of life status of the current firewall and the vulnerabilities associated with it. Recommended new applications, such as Umbrella, as part of the firewall upgrade to reduce ransomware and phishing attempts.
- Have begun writing or rewriting a total of 14 policies to correspond to standards related to information security controls.
- Started a Security Awareness Training initiative beginning with education on phishing. Also talking with vendors to obtain Security Awareness Training simulation software quotes for a training tool to educate end users.

Action: Informational purposes only

KEY AGENDA ITEM

Discussion of Internal Audit Follow-up to the State Audit Investigation...Internal Audit Staff

Summary: North Carolina G.S. 116-30.1 requires that universities within the UNC system make satisfactory progress toward resolving reports of noncompliance issued by the Office of the State Auditor (OSA) within a three-month period, commencing with the date of receipt of the published report. Internal Audit is legislatively required to follow-up and report on the university's resolution status. Internal Audit's follow-up review of OSA's investigative report concerning the former VC of Business Affairs and a conflict of interest is complete. The Internal Audit review revealed the university made satisfactory progress toward resolving the OSA finding. The follow-up report has been shared with OSA and the UNC System Office for concurrence.

Action: This item is for informational purposes only.