

September 22, 2020

University of North Carolina School of the Arts  
Zoom Teleconference

**COMMITTEE MEMBERS:**

Stephen Berlin, Chair  
Anna Folwell  
Rob King  
Ralph Womble, ex officio

**COMMITTEE STAFF:**

Rod Isom, Interim Chief Audit, Risk, and Compliance Officer  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff  
Michael Smith, Vice Chancellor for Finance and Administration  
Amanda Balwah, Secretary of the University  
Martha Golden, Faculty Council Representative  
Mike Wakeford, Faculty Council Representative  
Heather Lathrop, Staff Council Representative  
Kathryn Rowe, Staff Council Representative

**AGENDA**

**OPEN SESSION**

1. Call to Order and Confirm Quorum .....Chairman Berlin
2. Approval of Minutes from the February 25, 2020 Meetings.....Chairman Berlin  
❖ *Please note that due to COVID 19, no Audit, Risk, and Compliance Committee was held for the April 2020 meeting.*
3. Matters of Governance, Risk and Compliance.....Rod Isom  
& UNCOSA Management
  - a) Enterprise Risk Management.....Jim DeCristo
  - b) Information Governance & Security.....Greg Gleghorn,  
Director of Information Security
  - c) New Title IX Regulations.....Valerie Thelen,  
Chief Compliance Officer & Director of Title IX
4. Discussion of External Audits and Reviews (if any).....Rod Isom & UNCOSA  
Management

- a) UNCSA 2019 Statewide Federal Compliance Audit.....Rod Isom
  - b) UNCSA 2020 Housing Corp Financial Statement Audit.....Wendy Emerson
  - c) UNCSA 2020 Program Support Corp Financial Statement Audit.....Wendy Emerson
  - d) UNCSA Annual Financial Statement Audit Update.....Michael Smith
- ❖ *Note: Information related to any external audits or reviews released prior to the meeting will be provided at the meeting.*

- 5. Discussion of Internal Audit's Activity.....Rod Isom
  - a) Recent Reports and Other Communications
  - b) Status of In-Progress Internal Audit Reviews
  - c) Summary of Internal Audit Activity for Fiscal Year 2020
  - d) Results of Fiscal Year 2021 Internal Audit Annual Risk Assessment and Audit Plan
  - e) Other Activity, Matters, and Internal Audit Operations Update
  - f) Review Committee Charter

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

**CLOSED SESSION**

- 6. Approval of Minutes from the February 25, 2020 meeting (if any).....Chairman Berlin
- 7. Discussion of Special Items, Reviews and Investigations (if any).....Rod Isom and David Harrison

**OPEN SESSION**

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

**AGENDA ITEM**

Enterprise Risk Management Update (ERM) .....presented by Jim DeCristo

**Summary:** A majority of ERM efforts have been focused on Covid-19 since March of this year. Some of the previous risk priorities have continued to make progress over the past several months, including: the new residence hall project, faculty and student support through the comprehensive campaign, and implementation of the new Title IX regulations. There are plans to re-evaluate UNCOSA’s risk priorities via a survey during spring 2021 if the Covid-19 situation is stable.

**Action:** No action needed; this report is for informational purposes only.

## **AGENDA ITEM**

Item As Listed On Agenda.....presented by Greg Gleghorn, Director of Information Security

### **Summary:**

(Informational) Multifactor Authentication Project fully underway and pilot tested. End-users now have the choice to either use the official Microsoft Multifactor authentication application, which they can freely download and install on their smartphone. Or they can use a physical hardware token that generates a random six-digit number that serves as the second factor. We are also testing with specific applications such as VPN (virtual private network) access to protect further and secure remote and mobile access. We are currently waiting on the System Office, who hosts our Banner System, so that we can apply MFA against the mission-critical application.

(Informational) The 2020 Annual Gap Analysis has been completed and will be submitted to the UNC Information Security Council this month; the last three years have shown marked improvement. Our Maturity level during our first year began with a rating of *Not Performed to Informally Performed*. In the second year, we improved to *Informally Performed to Planned*. This year our gap control rating is *Planned* with some of our controls rated as *Well Defined*. These 14 high-level controls are based on the ISO 27002:2013 Information Security Management Framework, which is a standard ISMS across the UNC system.

(Informational) The annual 2020 Risk Assessment was also conducted, and it aligns with our 2020 Gap Analysis. Our quantitative score based on our assessment tool is 2.0. Previous scores were 1.37 (2018) and 1.54 (2019). The Gap Analysis and Risk Assessment both use the following for scoring and maturity:

Not Performed 0

Performed Informally 1

Planned 2

Well Defined 3

Quantitatively Controlled 4

Continuously Improving 5

(Informational) We have developed an International VPN profile for students accessing our infrastructure from locations deemed unsafe by our system office. We worked with Kevin Lanning

(System Office) to identify rouge states that met these criteria to build a profile to give our students the ability to reach our services securely from these locations.

(Informational) During our current COVID situation, we noticed a vulnerability that is not unique to us, and it is endpoint protection. Our ongoing goal is to reduce this area of weakness and gain more control. This area is currently being vetted with vendor demonstrations and proof of concept.

**Action:** No action needed; this report is for informational purposes only.

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**AGENDA ITEM**

Title IX Policy Update.....presented by Valerie Thelen,  
Chief Compliance Officer and Director of Title IX

**Summary:**

On May 6, 2020, the U.S. Department of Education issued a 2,033 page document of regulation changes to Title IX. In order to remain in compliance with the new federal regulations, UNCSCA now has the [UNCSCA Interim Title IX Regulation](#) that applies to all students, staff, and faculty. The [UNCSCA Interim Title IX Regulation](#) includes changes to the scope of what is included under Title IX and changes to the definition of sexual harassment.

**Action:** No action needed; this report is for informational purposes only.

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



## UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS

WINSTON-SALEM, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2019



**NCOSA**  
The Taxpayers' Watchdog



Beth A. Wood, CPA  
State Auditor

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STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## **AUDITOR'S TRANSMITTAL**

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The Honorable Roy Cooper, Governor  
Members of the North Carolina General Assembly  
Brian Cole, Interim Chancellor  
University of North Carolina School of the Arts

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at the University of North Carolina School of the Arts for the year ended June 30, 2019.

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above. However, the results included herein are in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

Our federal compliance audit scope at the University of North Carolina School of the Arts included the Student Financial Assistance Cluster.

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

### Other Matters

#### *Compliance*

The results of our audit procedures at the University of North Carolina School of the Arts disclosed no instances of noncompliance that are required to be reported in accordance with the Uniform Guidance.

*Internal Controls*

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at the University of North Carolina School of the Arts based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 20, 2020

# ORDERING INFORMATION

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**COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:**

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For additional information, contact the  
North Carolina Office of the State Auditor at 919-807-7666.



**AGENDA ITEM**

Financial Statement Audit Updates.....Wendy Emerson,  
Associate Vice Chancellor for Finance

**Summary:** The NC Office of the State Auditor is conducting the University’s financial statement audit for FY 2020. Bernard Robinson & Company, LLP firm conducted the FY 2020 audits for the UNCSA Housing Corporation and UNCSA Program Support Corporation.

- The UNCSA Housing Corporation Financial Statement Audit for 2020 was completed earlier this month. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSA Program Support Corporation Financial Statement Audit for 2020 was completed earlier this month. The results of the audit were an unqualified opinion (clean audit), with no findings or issues to report.
- The UNCSA Financial Statement Audit for Fiscal Year 2020 is underway with an anticipated completion date before the end of December.

**Action:** This item is for informational purposes only.



September 1, 2020

To the Board of Directors  
University of North Carolina School of the Arts Housing Corporation  
Winston Salem, NC 27127

We have audited the financial statements of the University of North Carolina School of the Arts Housing Corporation (the “Organization”) for the year ended June 30, 2020, and we will issue our report thereon dated September 1, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management’s estimate for depreciation of capital assets.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the audit.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 1, 2020.

*Management Consultations with Other Independent Accountants*

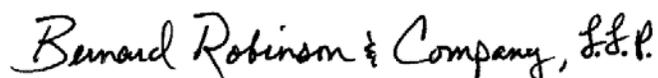
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



BERNARD ROBINSON & COMPANY, L.L.P.

UNIVERSITY OF NORTH CAROLINA SCHOOL  
OF THE ARTS HOUSING CORPORATION  
(A Component Unit of the University of North Carolina School of the Arts)

FINANCIAL REPORT

JUNE 30, 2020



**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**

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## **Independent Auditor's Report**

To the Board of Directors  
University of North Carolina School of the  
Arts Housing Corporation  
Winston Salem, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Housing Corporation (the "Corporation") (a nonprofit corporation), a component unit of the University of North Carolina School of the Arts which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Housing Corporation as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Bernard Robinson & Company, L.L.P.*

Greensboro, North Carolina  
September 1, 2020

# UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION

## Management's Discussion and Analysis

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### **Introduction**

This section of the University of North Carolina School of the Arts Housing Corporation (Corporation) financial report provides an overview of the financial position and activities for the year ended June 30, 2020. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

### **Using the Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the Corporation, the results of operations, and cash flows of the Corporation as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the Corporation's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits, detailed information on deposits, long-term liabilities, insurance against losses, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Corporation's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

### **Statement of Net Position**

The Statement of Net Position presents the assets, liabilities, and net position of the Corporation as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of the University of North Carolina School of the Arts Housing Corporation. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Corporation.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**  
**Management's Discussion and Analysis**

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Net position is divided into three major categories. The first category, net investment in capital assets provides the Corporation's total investment in property, plant, and equipment owned by the Corporation, net of outstanding liabilities related to those capital assets. The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position relates to amounts to be retained in perpetuity. Expendable restricted net position is available for expenditure by the Corporation but must be spent for purposes as determined by donors and/or external entities that have placed certain restrictions on the use of the assets. The final category is unrestricted net position, which is available to the Corporation for any lawful purpose of the Corporation. Please refer to the financial statements and notes to the financial statements for more detail.

**Condensed Statement of Net Position**

	<b>Year Ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
<b>Assets</b>			
Current Assets	\$ 1,469,728	\$ 1,446,200	\$ 23,528
Capital Assets, Net	4,031,351	4,141,942	(110,591)
Total Assets	5,501,079	5,588,142	(87,063)
<b>Liabilities</b>			
Current Liabilities	374,390	390,720	(16,330)
Noncurrent Liabilities	3,527,066	3,862,529	(335,463)
Total Liabilities	3,901,456	4,253,249	(351,793)
<b>Net Position</b>			
Net Investment in Capital Assets	177,352	(39,057)	216,409
Unrestricted	1,422,271	1,373,950	48,321
Total Net Position	\$ 1,599,623	\$ 1,334,893	\$ 264,730

The total assets of the Corporation decreased by \$87,063 for the year, with a decrease in capital assets of \$110,591, offset by an increase in current assets of \$23,528. The decrease in capital assets is due to annual depreciation expense. The increase in current assets is primarily due to an increase in cash due to increase housing cash equivalents of \$29,610 that was a result of a decrease in spending related to supplies and materials, services, utilities, and interest payments on debt. In addition, the Corporation received increased investment income as a direct result of improvements in the market.

The total liabilities of the Corporation decreased by \$351,793 for the year, with a decrease in long-term liabilities of \$335,463. The decrease in long-term liabilities is primarily due to the Corporation continuing to pay down its capital debt for the Series 2015 Certificates of Participation. The decrease in current liabilities is primarily due to an increase in accounts payable for repairs and maintenance as well as the current portion of the Series 2015 Certificates of Participation. The current portion of the Series 2015 Certificates of Participation will increase over the life of the debt.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**  
**Management's Discussion and Analysis**

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The Corporation's net position was \$1,599,623 at June 30, 2020, an increase of \$264,730 from the prior year. The significant change within net position is in the category of net investment in capital assets, which increased \$216,409. Net investment in capital assets increased due to payments made on the Series 2015 Certificates of Participation.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses and Changes in Net Position reports the Corporation's results of operation for the fiscal year. Changes in total net position presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the Corporation and expenses paid by the Corporation, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Corporation.

Generally speaking, operating revenues are received for providing goods and services to the students of the University of North Carolina School of the Arts. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Nonoperating revenues are revenues received for which goods and services are not provided.

	<b>2020</b>	<b>2019</b>	<b>Change</b>
<b>Operating Revenues</b>	\$ 845,386	\$ 1,074,981	\$ (229,595)
<b>Operating Expenses</b>			
Salaries and Benefits	90,834	92,394	(1,560)
Supplies and Services	243,753	313,734	(69,981)
Utilities	47,414	91,177	(43,763)
Depreciation Expense	110,591	110,591	-
Total Operating Expenses	492,592	607,896	(115,304)
Operating Income	352,794	467,085	(114,291)
<b>Nonoperating Revenues (Expenses)</b>			
Investment Income	32,293	29,896	2,397
Interest and Fees on Debt	(124,197)	(136,698)	12,501
Other Nonoperating Revenues	3,840	4,547	(707)
Total Nonoperating Expenses	(88,064)	(102,255)	14,191
Increase in Net Position	264,730	364,830	(100,100)
Beginning Net Position	1,334,893	970,063	364,830
Ending Net Position	\$ 1,599,623	\$ 1,334,893	\$ 264,730

## **UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**

### **Management's Discussion and Analysis**

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The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase in the net position at the end of the year. Total revenues for the fiscal year were \$881,519 compared to \$1,109,424 from the previous year, a decrease of \$227,905. The highlights of the revenue accounts presented on the Statement of Revenues, Expenses, and Changes in Net Position are as follows:

- Operating revenues decreased by \$229,595. This decrease was primarily attributable to closing campus due to COVID-19.
- Investment income increased by \$2,397. This increase was a direct result of improvements in the market.

Total expenses were \$616,789 for the fiscal year ended June 30, 2020 and \$744,594 for 2019. Operating expenses totaled \$492,592 for the year compared to \$607,896 from the previous year, a decrease of \$115,304. The significant changes include:

- Supplies and materials decreased \$69,981 due to a decline in equipment purchases and repair supplies needed compared to the prior year especially due to COVID-19 ending the spring semester early.
- Utilities decreased \$43,763 primarily due to a decrease in utilities needed due to COVID-19 ending the spring semester early.

### **Capital Asset and Debt Administration**

The Corporation, a blended entity of University of North Carolina School of the Arts (UNCSA), took out certificates of participation in the amount of \$7,200,000 to provide funds to discharge certain indebtedness used for the acquisition, construction, equipping and subsequent improvements of the Center Stage Apartment complex. The Corporation has leased the apartment complex to the School to operate and maintain. Rentals from the apartment complex are pledged for the retirement of this debt. The debt service repayment schedule extended through June 2036 with interest rates ranging from 3.625% to 4.50%. The Corporation has extinguished these long-term debt obligations by the issuance of new long-term debt instruments.

On June 12, 2016, the Corporation issued \$5,400,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2015, refunding certificates of participation with an average interest rate of 2.99%. The bonds were issued for a current refunding of \$5,825,000 of outstanding University of North Carolina School of the Arts Student Housing Project Certificates of Participation, Series 2005, with an average interest rate of 3.50%. The refunding was undertaken to reduce total debt service payments by \$2,270,191 over the next 15 years and resulted in a net present value savings of \$771,181.

As of June 30, 2020, the Corporation has outstanding balance of \$3,854,000 in University of North Carolina School of the Arts Student Housing Project Refunding Certificates of Participation, Series 2015, and continues to make all of its debt payments in a timely manner. No new debt was issued during the 2019-2020 fiscal year.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**  
**Management's Discussion and Analysis**

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**Economic Outlook**

The University of North Carolina School of the Arts Housing Corporation continued to manage and use its resources wisely in fiscal year 2020. Based on currently known facts about the Corporation's financial performance in fiscal year 2020, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality housing experience to our students.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION****Statement of Net Position****June 30, 2020****Exhibit A-1****ASSETS**

## Current Assets:

Cash and Cash Equivalents	\$ 1,448,392
Prepaid Items	21,336
Total Current Assets	<u>1,469,728</u>

## Noncurrent Assets:

Capital Assets - Nondepreciable (Note 4)	451,326
Capital Assets - Depreciable, Net (Note 4)	<u>3,580,025</u>
Total Noncurrent Assets	<u>4,031,351</u>
Total Assets	<u>5,501,079</u>

**DEFERRED OUTFLOWS OF RESOURCES**-**LIABILITIES**

## Current Liabilities:

Accounts Payable and Accrued Liabilities	28,317
Interest Payable	9,603
Long-Term Liabilities - Current Portion (Note 5)	<u>336,470</u>
Total Current Liabilities	<u>374,390</u>

## Noncurrent Liabilities:

Long-Term Liabilities, Net (Note 5)	<u>3,527,066</u>
Total Liabilities	<u>3,901,456</u>

**DEFERRED INFLOWS OF RESOURCES**-**NET POSITION**

Net Investment in Capital Assets	177,352
Unrestricted	<u>1,422,271</u>
Total Net Position	<u>\$ 1,599,623</u>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit A-2**

**OPERATING REVENUES**

Sales and Services	\$ 813,286
Other Operating Revenues	32,100
	<hr/>
Total Operating Revenues	845,386
	<hr/>

**OPERATING EXPENSES**

Salaries and Benefits	90,834
Supplies and Services	243,753
Utilities	47,414
Depreciation	110,591
	<hr/>
Total Operating Expenses	492,592
	<hr/>
Operating Income	352,794
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

Investment Income	32,293
Interest and Fees on Debt	(124,197)
Other Nonoperating Revenues	3,840
	<hr/>
Net Nonoperating Expenses	(88,064)
	<hr/>
Increase in Net Position	264,730

**NET POSITION**

Net Position - July 1, 2019	1,334,893
	<hr/>
Net Position - June 30, 2020	\$ 1,599,623
	<hr/> <hr/>

*The accompanying notes to the financial statements are an integral part of this statement*

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS HOUSING CORPORATION****Statement of Cash Flows****For the Fiscal Year Ended June 30, 2020****Exhibit A-3****CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$	848,486
Payments to Employees and Fringe Benefits		(91,115)
Payments to Vendors and Suppliers		(311,882)
		<hr/>
Net Cash Provided by Operating Activities		445,489

**CASH FLOWS FROM CAPITAL FINANCING AND RELATED FINANCING ACTIVITIES**

Proceeds from Insurance on Capital Assets		3,840
Principal Paid on Capital Debt and Leases		(327,000)
Interest and Fees Paid on Capital Debt and Leases		(125,012)
		<hr/>
Net Cash Used by Capital Financing and Related Financing Activities		(448,172)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income		32,293
		<hr/>
Net Increase in Cash and Cash Equivalents		29,610
Cash and Cash Equivalents - July 1, 2019		1,418,782
		<hr/>
Cash and Cash Equivalents - June 30, 2020	\$	1,448,392

**RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Income	\$	352,794
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:		
Depreciation Expense		110,591
Changes in Assets and Liabilities:		
Receivables, Net		7,900
Prepaid Insurance		(1,818)
Accounts Payable and Accrued Liabilities		(19,547)
Unearned Revenue		(4,800)
Compensated Absences		369
		<hr/>
Net Cash Provided by Operating Activities	\$	445,489

*The accompanying notes to the financial statements are an integral part of this statement*

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity** - The University of North Carolina School of the Arts Housing Corporation (Corporation), a blended component unit of the University of North Carolina School of the Arts (University), is a North Carolina nonprofit corporation organized to benefit the University through providing privatized housing for college students. The Corporation is governed by a five-member board. Its purpose is to aid, support, and promote the University, specifically by the ownership of the Center Stage apartment complex at 900 Center Stage Court, Winston-Salem, NC 27127. Because the directors are appointed by the Chancellor and the Corporation's sole purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.

**B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the Corporation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

**C. Basis of Accounting** - The financial statements of the Corporation have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

**D. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**E. Capital Assets** - Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Interest costs incurred are capitalized during the period of construction.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets in the following manner:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	50 years
Machinery and Equipment	2-15 years

**F. Noncurrent Long-Term Liabilities** - Noncurrent long-term liabilities include principal amounts of long-term debt and other long-term liabilities that will not be paid within the next fiscal year. Long-term debt includes certificates of participation payable and other long-term liabilities include compensated absences.

**G. Compensated Absences** - The Corporation's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out (LIFO) method. Also, any accumulated vacation leave in excess of 30 days at year-end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned, less the leave taken between January 1 and June 30.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31 is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Corporation has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Net Position** - The Corporation's net position is classified as follows:

**Net Investment in Capital Assets** - This represents the Corporation's total investment in capital assets, net of outstanding liabilities related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from rental and interest income. It also includes the net position of accrued employee benefits such as compensated absences.

**I. Revenue and Expense Recognition** - The Corporation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Corporation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as student rent and fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions that represent investment income, are considered nonoperating since these are either investing, capital, or noncapital financing activities.

**J. Income Tax Status** - The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Corporation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to change upon examination.

The Corporation is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Corporation is also required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000.

**NOTE 2 - DEPOSITS**

The Corporation's deposits in the STIF are pooled with UNCSA. UNCSA, unless specifically exempt, is required by North Carolina General Statute (G.S.) 147-77 to deposit monies received with the State Treasurer or with a depository institution in the name of the State Treasurer. Although specifically exempted, the Corporation may voluntarily deposit bond proceeds and debt service funds with the State Treasurer.

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$1,448,392, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

As of June 30, 2020, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, Fair Value Measurement and Application, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- Level 1            Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.
  
- Level 2            Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.
  
- Level 3            Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

**Short-Term Investment Fund** - At year-end, the University's investments held in the STIF were valued at \$1,448,392. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian using the Level 2 inputs. The STIF is valued at \$1 per share. Additionally, no unrealized gains or losses of the STIF are distributed to participants of the fund. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**NOTE 4 - CAPITAL ASSETS**

A summary of changes in the capital assets for the year ended June 30, 2020, is presented as follows:

**NOTE 4 - CAPITAL ASSETS (CONTINUED)**

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Capital Assets, Nondepreciable:				
Land and Permanent Easements	\$ 451,326	\$ -	\$ -	\$ 451,326
<b>Total Capital Assets, Nondepreciable</b>	<b>451,326</b>	<b>-</b>	<b>-</b>	<b>451,326</b>
Capital Assets, Depreciable:				
Buildings	5,495,783			5,495,783
Machinery and Equipment	10,130	-	-	10,130
<b>Total Capital Assets, Depreciable</b>	<b>5,505,913</b>	<b>-</b>	<b>-</b>	<b>5,505,913</b>
Less Accumulated Depreciation for:				
Buildings	1,813,609	109,916		1,923,525
Machinery and Equipment	1,688	675	-	2,363
<b>Total Accumulated Depreciation</b>	<b>1,815,297</b>	<b>110,591</b>	<b>-</b>	<b>1,925,888</b>
<b>Total Capital Assets, Depreciable, Net</b>	<b>3,690,616</b>	<b>(110,591)</b>	<b>-</b>	<b>3,580,025</b>
<b>Capital Assets, Net</b>	<b>\$ 4,141,942</b>	<b>\$ (110,591)</b>	<b>\$ -</b>	<b>\$ 4,031,351</b>

During the year ended June 30, 2020, the Corporation incurred \$124,197 in interest costs related to the acquisition and construction of capital assets. All of these costs were charged in interest expense.

**NOTE 5 - LONG-TERM LIABILITIES**

**A. Changes in Long-Term Liabilities** - A summary of changes in the long-term liabilities for the year ended June 30, 2020, is presented as follows:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Long-Term Debt					
Certificates of Participation	\$ 4,181,000	\$ -	\$ 327,000	\$ 3,854,000	\$ 336,000
Other Long-Term Liabilities					
Compensated Absences	9,166	4,120	3,750	9,536	470
<b>Total Long-Term Liabilities</b>	<b>\$ 4,190,166</b>	<b>\$ 4,120</b>	<b>\$ 330,750</b>	<b>\$ 3,863,536</b>	<b>\$ 336,470</b>

**B. Certificates of Participation** - The Corporation was indebted for certificates of participation (COP) for the purposes shown in the following table:

Purpose	Series	Interest Rate	Final Maturity Date	Original Amount of Issue	Principal Paid Through June 30, 2019	Principal Outstanding June 30, 2019	See Table Below
Certificates of Participation							
Student Housing Project, Series 2015	(A)	2.99%	06/01/2030	\$ 5,400,000	\$ 1,546,000	\$ 3,854,000	(1)

(A) University of North Carolina School of the Arts Housing Project, Series 2015 (Refunding of 2005 COPs)

**NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)**

The Corporation has pledged future revenues, net of specific operating expenses, to repay certificates of participation as shown in the table below:

Ref	Revenue Source	Total Future Revenues Pledged	Current Year			Estimate of % of Revenues Pledged
			Revenues Net of Expenses	Principal	Interest	
(1)	Housing Revenues	\$ 4,515,866	\$ 499,382	\$ 327,000	\$ 124,197	90%

**C. Annual Requirements** - The annual requirements to pay principal and interest on the certificates of participation at June 30, 2020, are as follows:

Fiscal Year	Annual Requirements Certificates of Participation	
	Principal	Interest
2021	\$ 336,000	\$ 115,235
2022	346,000	105,188
2023	357,000	94,843
2024	368,000	84,169
2025	378,000	73,165
2026-2030	2,069,000	189,266
<b>Total Requirements</b>	<b>\$ 3,854,000</b>	<b>\$ 661,866</b>

**NOTE 6 - TRANSACTIONS WITH UNCSA**

UNCSA employees provide certain services to the Corporation for which the Corporation reimburses UNCSA for salary and salary related expenses. Thus, the Corporation has no employee obligations nor employee benefit obligations. For the year ended June 30, 2020, the Corporation reimbursed UNCSA \$90,834 for these expenses.

**NOTE 6 - TRANSACTIONS WITH UNCOSA (CONTINUED)**

UNCOSA enters into certain contracts for maintenance, repairs, and custodial services to residence halls and apartments for UNCOSA students. This includes the Center State Apartments, owned by the Corporation. Management makes estimates based on the services, time and resources devoted to allocate costs for the various residence halls and apartment buildings. The Corporation's portion of these costs are charged directly to the Corporation.

**NOTE 7 - RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets and natural disasters. These exposures to loss are handled through the purchase of commercial insurance. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.



September 1, 2020

To the Board of Directors  
University of North Carolina School of the Arts Program Support Corporation  
Winston Salem, NC 27127

We have audited the financial statements of University of North Carolina School of the Arts Program Support Corporation (the “Organization”) for the year ended June 30, 2020, and we will issue our report thereon dated September 1, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 20, 2020. Professional standards also require that we communicate to you the following information related to our audit.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note A to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management’s estimate for depreciation of capital assets.

The financial statement disclosures are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. No such misstatements were noted during the audit.

*Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 1, 2020.

*Management Consultations with Other Independent Accountants*

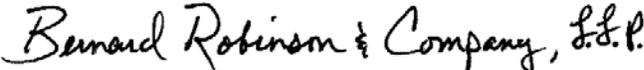
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



BERNARD ROBINSON & COMPANY, L.L.P.

**UNIVERSITY OF NORTH CAROLINA SCHOOL  
OF THE ARTS PROGRAM SUPPORT CORPORATION**  
(A Component Unit of the University of North Carolina School of the Arts)

**FINANCIAL REPORT**

**JUNE 30, 2020**



**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS  
PROGRAM SUPPORT CORPORATION  
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## **Independent Auditor's Report**

To the Board of Directors  
University of North Carolina School of the Arts  
Program Support Corporation  
Winston-Salem, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the University of North Carolina School of the Arts Program Support Corporation (the "Corporation") (a nonprofit corporation), a component unit of the University of North Carolina School of the Arts which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University of North Carolina School of the Arts Program Support Corporation as of June 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Bernard Robinson & Company, L.L.P.*

Greensboro, North Carolina  
September 1, 2020

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM  
SUPPORT CORPORATION  
Management's Discussion and Analysis**

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## **Introduction**

This section of the University of North Carolina School of the Arts Program Support Corporation (Corporation) financial report provides an overview of the financial position and activities as of and for the year ended June 30, 2020. This discussion has been prepared by management along with the financial statements and related notes to the financial statements and should be read in conjunction with the financial statements and the notes thereto, which follow this section. This discussion and analysis is designed to focus on current activities, resulting change, and current known facts.

## **Using the Financial Statements**

This annual report consists of a series of financial statements, prepared in accordance with standards issued by the Governmental Accounting Standards Board (GASB). These financial statements focus on the financial condition of the Corporation, the results of operations, and cash flows of the Corporation as a whole. The three financial statements presented include: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows.

The Statement of Cash Flows provides information relative to the Corporation's sources and uses of cash for operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The statement provides a reconciliation of beginning cash balances to ending cash balances and is representative of the activity reported on the Statement of Revenues, Expenses, and Changes in Net Position as adjusted for changes in the beginning and ending balances of noncash accounts on the Statement of Net Position. For the purpose of this discussion, we will address the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position.

The Notes to the Financial Statements provide information regarding the significant accounting principles applied in the financial statements, authority for and associated risk of deposits, detailed information on deposits, insurance against losses, and if necessary, a discussion of accounting changes, adjustments to prior periods, and events subsequent to the Corporation's financial statement period. Overall, these disclosures provide information to better understand details, risk, and uncertainty associated with amounts reported in the financial statements.

## **Statement of Net Position**

The Statement of Net Position presents the assets, liabilities, and net position of the Corporation as of the end of the fiscal year. The purpose of the Statement of Net Position is to present the readers of the financial statements a fiscal snapshot of the University of North Carolina School of the Arts Program Support Corporation. The Statement of Net Position presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net position (assets plus deferred outflows minus liabilities plus deferred inflows).

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM  
SUPPORT CORPORATION  
Management's Discussion and Analysis**

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From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of the Corporation. They are also able to determine how much the Corporation owes vendors, investors, and lending institutions. Finally, the Statement of Net Position provides a picture of the net position and their availability for expenditure by the Corporation.

Net position is divided into three major categories. The first category, net investment in capital assets provides the Corporation's total investment in property, plant, and equipment owned by the Corporation, net of outstanding liabilities related to those capital assets (if applicable). The next net position category is restricted net position, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net position relates to amounts to be retained in perpetuity. Expendable restricted net position is available for expenditure by the Corporation but must be spent for purposes as determined by donors and/or external entities that have placed certain restrictions on the use of the assets. The final category is unrestricted net position, which is available to the Corporation for any lawful purpose of the Corporation. Please refer to the financial statements and notes to the financial statements for more detail.

**Condensed Statement of Net Position**

	<b>Year Ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
<b>Assets</b>			
Current Assets	\$ 95,338	\$ 114,223	\$ (18,885)
Capital Assets, Net	1,082,625	1,082,625	-
Total Assets	<u>1,177,963</u>	<u>1,196,848</u>	<u>(18,885)</u>
<b>Liabilities</b>			
Current Liabilities	-	1,107	(1,107)
Total Liabilities	<u>-</u>	<u>1,107</u>	<u>(1,107)</u>
<b>Net Position</b>			
Net Investment in Capital Assets	1,082,625	1,082,625	-
Unrestricted	<u>95,338</u>	<u>113,116</u>	<u>(17,778)</u>
Total Net Position	<u>\$ 1,177,963</u>	<u>\$ 1,195,741</u>	<u>\$ (17,778)</u>

The total assets of the Corporation decreased by \$18,885 for the year due to a decrease in current assets. Current assets decreased primarily due to a decrease in operating revenues.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM  
SUPPORT CORPORATION  
Management's Discussion and Analysis**

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The current liabilities of the Corporation decreased by \$1,107 for the year due to a decrease in accounts payable.

The Corporation's net position was \$1,177,963 at June 30, 2020, a decrease of \$17,778 from the prior year. The significant change was within the category of unrestricted which decreased due to a decrease in operating revenues.

**Statement of Revenues, Expenses, and Changes in Net Position**

The Statement of Revenues, Expenses, and Changes in Net Position reports the Corporation's results of operation for the fiscal year. Changes in total net position presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of this statement is to present the revenues received by the Corporation and expenses paid by the Corporation, both operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the Corporation.

Generally speaking, operating revenues are received for providing goods and services to the various customers of the Corporation. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Nonoperating revenues are revenues received for which goods and services are not provided.

**Condensed Statement of Revenues, Expenses, and Changes in Net Position**

	<b>Year Ended June 30,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
<b>Operating Revenues</b>	\$ 14,494	\$ 26,655	\$ (12,161)
<b>Operating Expenses</b>			
Salaries and Benefits	19,745	19,330	415
Supplies and Services	12,527	14,385	(1,858)
<b>Total Operating Expenses</b>	<b>32,272</b>	<b>33,715</b>	<b>(1,443)</b>
<b>Operating Income</b>	<b>(17,778)</b>	<b>(7,060)</b>	<b>(10,718)</b>
Increase in Net Position	(17,778)	(7,060)	(10,718)
Beginning Net Position	1,195,741	1,202,801	(7,060)
Ending Net Position	<u>\$ 1,177,963</u>	<u>\$ 1,195,741</u>	<u>\$ (17,778)</u>

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS PROGRAM  
SUPPORT CORPORATION  
Management's Discussion and Analysis**

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The Statement of Revenues, Expenses, and Changes in Net Position reflects a decrease in the net position at the end of the year. Total operating revenues for the fiscal year were \$14,494 compared to \$26,655 from the previous year, a decrease of \$12,161. Operating revenues decreased due to a decline in demand for film print rentals especially during the COVID-19 pandemic.

Total operating expenses were \$32,272 for the fiscal year ended June 30, 2020 and \$33,715 for 2019. There was not a significant change in operating expenses.

**Economic Outlook**

The University of North Carolina School of the Arts Program Support Corporation continued to manage and use its resources wisely in fiscal year 2020. Based on currently known facts about the Corporation's financial performance in fiscal year 2020, management is confident that its sound financial position will be maintained throughout the next operating period. University administration will continue to effectively manage the financial resources of the Corporation to serve the University of North Carolina School of the Arts and to provide the highest quality educational experience to our students.

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS**  
**PROGRAM SUPPORT CORPORATION**  
**Statement of Net Position**  
**June 30, 2020**

**Exhibit A-1**

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 92,963
Receivables	2,375
	<hr/>
Total Current Assets	95,338
	<hr/>

Noncurrent Assets:

Capital Assets - Nondepreciable	1,082,625
	<hr/>
Total Noncurrent Assets	1,082,625
	<hr/>
Total Assets	1,177,963
	<hr/>

**DEFERRED OUTFLOWS OF RESOURCES**

-  

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**LIABILITIES**

-  

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**DEFERRED INFLOWS OF RESOURCES**

-  

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**NET POSITION**

Investment in Capital Assets	1,082,625
Unrestricted	95,338
	<hr/>
Total Net Position	\$ 1,177,963
	<hr/> <hr/>

*The accompanying notes to the financial statements are an integral part of this statement*

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS**  
**PROGRAM SUPPORT CORPORATION**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2020**

**Exhibit A-2**

**OPERATING REVENUES**

Film Rentals \$ 14,494

**OPERATING EXPENSES**

Salaries and Benefits 19,745

Supplies and Services 12,527

Total Operating Expenses 32,272

Operating Loss (17,778)

Decrease in Net Position (17,778)

**NET POSITION**

Net Position - July 1, 2019 1,195,741

Net Position - June 30, 2020 \$ 1,177,963

**UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS  
PROGRAM SUPPORT CORPORATION  
Statement of Cash Flows  
For the Fiscal Year Ended June 30, 2020**

**Exhibit A-3**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$	16,874
Payments to Employees and Fringe Benefits		(19,745)
Payments to Vendors and Suppliers		(9,391)
		<u>(9,391)</u>
Net Cash Used by Operating Activities		<u>(12,262)</u>
Net Decrease in Cash and Cash Equivalents		(12,262)
Cash and Cash Equivalents - July 1, 2019		<u>105,225</u>
Cash and Cash Equivalents - June 30, 2020	\$	<u><u>92,963</u></u>

**RECONCILIATION OF OPERATING LOSS TO  
NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$	(17,778)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Changes in Assets and Liabilities:		
Receivables		2,380
Prepaid Insurance		4,243
Accounts Payable and Accrued Liabilities		(1,107)
		<u>(1,107)</u>
Net Cash Used by Operating Activities	\$	<u><u>(12,262)</u></u>

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity** - The University of North Carolina School of the Arts Program Support Corporation (Corporation), a blended component unit of the University of North Carolina School of the Arts (University), is a North Carolina nonprofit corporation organized to benefit the University. The Corporation is governed by at least three and no more than 12 appointed directors. Its purpose is to foster, promote, manage, assist, and support the schools of Dance, Design and Production, Drama, Filmmaking, and Music, and any other related activity of the University. Because the directors are appointed by the Chancellor and the Corporation's sole purpose is to benefit the University of North Carolina School of the Arts, its financial statements have been blended with those of the University.

**B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, the full scope of the Corporation's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

**C. Basis of Accounting** - The financial statements of the Corporation have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Corporation receives (or gives) value without directly giving (or receiving) equal value in exchange. Revenues are recognized, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met, if probable of collection.

**D. Cash and Cash Equivalents** - This classification includes deposits held by the State Treasurer in the Short-Term Investment Fund (STIF). The STIF maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

- E. Capital Assets** – Capital assets are stated at cost at date of acquisition or acquisition value at date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation.

The Corporation capitalizes assets that have a value or cost of \$5,000 or greater at the date of acquisition and an estimated useful life of more than one year.

The Regis film collection, acquired prior to July 1, 2015, is capitalized at cost or fair value at the date of donation. This collection is considered inexhaustible and is therefore not depreciated.

- F. Net Position** - The Corporation's net position is classified as follows:

**Investment in Capital Assets** - This represents the Corporation's total investment in capital assets.

**Unrestricted Net Position** - Unrestricted net position includes resources derived from unrestricted gifts and film rentals.

Unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are established for unrestricted activities. Net position includes consideration of deferred outflows of resources and deferred inflows of resources.

- G. Revenue and Expense Recognition** - The Corporation classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Corporation's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as film rentals. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions are considered nonoperating since these are either investing, capital, or noncapital financing activities.

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**H. Income Tax Status** - The Corporation is a not-for-profit organization and is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income tax expense is limited to activities that are deemed by the Internal Revenue Service to be unrelated to their exempt purpose.

The Corporation's primary tax positions relate to its status as a not-for-profit entity exempt from income taxes and classification of activities related to its exempt purpose. It is the opinion of management that the Corporation has no uncertain tax positions that would be subject to change upon examination.

The Corporation is required to file a federal exempt organization tax return (Form 990) annually to retain its exempt status. The Corporation is also required to file an exempt organization business income tax return (Form 990-T) for any year gross unrelated business income exceeds \$1,000.

**NOTE 2 - DEPOSITS**

The Corporation's deposits in the STIF are pooled with UNCSEA. UNCSEA, unless specifically exempt, is required by *North Carolina General Statute (G.S.) 147-77* to deposit monies received with the State Treasurer or with a depository institution in the name of the State Treasurer. Although specifically exempted, the Corporation may voluntarily deposit bond proceeds and debt service funds with the State Treasurer.

At June 30, 2020, the amount shown on the Statement of Net Position as cash and cash equivalents includes \$92,963, which represents the Corporation's equity position in the State Treasurer's Short-Term Investment Fund (STIF). The STIF (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission or subject to any other regulatory oversight and does not have a credit rating) had a weighted average maturity of 1.3 years as of June 30, 2020. Assets and shares of the STIF are valued at fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's STIF) are included in the North Carolina Department of State Treasurer Investment Programs' separately issued audit report. This separately issued report can be obtained from the Department of State Treasurer, 3200 Atlantic Avenue, Raleigh, NC 27604 or can be accessed from the Department of State Treasurer's website at <https://www.nctreasurer.com/> in the Audited Financial Statements section.

**NOTE 2 - DEPOSITS (CONTINUED)**

As of June 30, 2020, the Corporation did not have any cash deposits outside the State Treasurer's STIF; therefore, the Corporation was not exposed to custodial credit risk. The corporation does not have a formal investment policy related to interest rate and credit risk. Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it.

**NOTE 3 - FAIR VALUE MEASUREMENTS**

To the extent available, the Corporation's investments are recorded at fair value as of June 30, 2020. GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. Inputs are used in applying the various valuation techniques and take into account the assumptions that market participants use to make valuation decisions. Inputs may include price information, credit data, interest and yield curve data, and other factors specific to the financial instrument. Observable inputs reflect market data obtained from independent sources. In contrast, unobservable inputs reflect the entity's assumptions about how market participants would value the financial instrument. Valuation techniques should maximize the use of observable inputs to the extent available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instruments measured at fair value on a recurring basis:

- |         |                                                                                                                                                               |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level 1 | Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date. |
| Level 2 | Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.                 |
| Level 3 | Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.                                    |

**NOTE 3 - FAIR VALUE MEASUREMENTS (CONTINUED)**

**Short-Term Investment Fund** - At year-end, the University's investments held in the STIF were valued at \$92,963. Ownership interests of the STIF are determined on a fair market valuation basis as of fiscal year end in accordance with the STIF operating procedures. Valuation of the underlying assets is performed by the custodian using the Level 2 inputs. The STIF is valued at \$1 per share. Additionally, no unrealized gains or losses of the STIF are distributed to participants of the fund. Pool investments are measured at fair value in accordance with GASB 72. The University's position in the pool is measured and reported at fair value and the STIF is not required to be categorized within the fair value hierarchy.

**NOTE 4 - RISK MANAGEMENT**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets and natural disasters. These exposures to loss are handled through the purchase of commercial insurance. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

**AGENDA ITEM**

Internal Audit Activity Update.....Rod Isom

**Summary:**

1. Recent Reports and Other Communications\*\*
2. Status of In Progress Internal Audit Reviews
3. Summary of Internal Audit Activity for Fiscal Year 2020
4. Results of Fiscal Year 2021 Internal Audit Annual Risk Assessment and Audit Plan
5. Other Activity, Matters, and Internal Audit Operations Update
6. Review Committee Charter

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

**Action:** These items are for informational purposes only.



**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Audit, Risk, and Compliance**

*Rod Isom, Audit Manager/Interim Chief Audit, Risk, and Compliance Officer*  
1600 Lowery Street, Winston-Salem, North Carolina 27110  
(336) 750-2065 | [www.wssu.edu](http://www.wssu.edu)

May 22, 2020

Mr. Michael Smith  
Vice Chancellor for Finance and Administration  
University of North Carolina School of the Arts  
1533 South Main Street  
Winston-Salem, NC 27127

Dear Mr. Smith:

The Internal Audit Unit (IA) of Winston-Salem State University's (WSSU) Office of Audit, Risk, and Compliance's follow-up review to evaluate the University of North Carolina School of the Arts' (UNCSA) progress toward resolving previously reported observations related to Information Technology (IT) operations is complete.

The following report includes a restatement of the original observations and recommendations, updates since the last review to include management's corrective actions, IA's opinions about the resolution status of the original observations, current recommendations, and management's responses to the report and recommendations. The report contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this document to protect the security of the university's systems and data.

Engagements completed by IA at WSSU are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors.

Respectfully submitted,

Rod Isom  
Audit Manager/Interim Chief Audit, Risk, and Compliance Officer

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May 22, 2020

cc: Brian Cole, Chancellor  
Terry Harmon, Chief Information Officer  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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<b>BACKGROUND, OBJECTIVE, AND SCOPE</b>
-----------------------------------------

**BACKGROUND:**

This report addresses the status of previously reported observations identified in IA's planned review report, released on September 19, 2016, related to the university's protocols within the UNCSA Information Technology Department (IT).

At the conclusion of the IA review, observations and recommendations were reported to management and, subsequently, management action plans were developed to explain how the agreed upon recommendations would be implemented. The purpose of this follow-up review was to ascertain whether the university sufficiently addressed the observations and implemented actions that were lasting or if senior management sufficiently evaluated and considered the risk of not taking action to address the reported observations.

**OBJECTIVE:**

The objective of the review was as follows:

- To evaluate the university's progress toward resolving findings included in the prior audit report.

To conduct the review, IA performed the following procedures:

- Reviewed university policies and procedures;
- Interviewed university employees; and
- Examined, on a test basis, evidence supporting internal controls and compliance.

**SCOPE:**

The scope of the review was January 1, 2019 through February 29, 2020.

This report presents the results of IA's review.

<b>SUMMARY OF RESULTS</b>
---------------------------

IA found evidence of efforts to implement the previous audit's recommendations and tighten controls; however, certain aspects of the observations noted in the prior review have not been rectified. The results are as follows:

**\*MATTERS SUBJECT TO DISCLOSURE UNDER PUBLIC LAW\***

- Insufficient IT Gap Analysis and Risk Assessment – Partially Resolved;
- Outdated Information Security Policy – Partially Resolved;
- Incomplete Data Classification – Partially Resolved;
- Operating Procedures Not Documented – Partially Resolved; and
- Campus Community Concerns – Resolved.

**\*MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW\***

- This report also contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this information to protect the security of the university's systems and data.

During the review, IA noted other minor observations related to the previous findings that have been communicated to management verbally.

See the section entitled *Restated Observations, Recommendations, and Resolution Status* for the detailed results of IA's follow-up review along with management's responses.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

IA's review of the university's actions to resolve the observations noted in the prior audit report related to IT operations revealed the following:

***\*MATTERS SUBJECT TO DISCLOSURE UNDER PUBLIC LAW\****

**PRIOR YEAR OBSERVATION #1:**

**INSUFFICIENT IT GAP ANALYSIS AND RISK ASSESSMENT**

- The IT department did not specifically identify all the gaps within their gap analysis (crosswalk), nor were there descriptive plans for compliance, mitigation, or alternative controls for such gaps identified within their risk assessment. Failing to complete the gap analysis and risk assessment processes increases the university's risk of noncompliance with standards and can prevent management from identifying and mitigating risks.

**PRIOR YEAR RECOMMENDATIONS:**

The IT department should ensure gaps are clearly defined and the risk assessment displays how those gaps will be addressed and mitigated. The university should also ensure the risk assessment process is comprehensive and addresses the likelihood of risk occurrence, risk significance, and how it can be managed properly.

**PRIOR YEAR RESPONSE FROM MANAGEMENT:**

We concur with the recommendation that the Gap Analysis should feed more directly into the risk assessment. We are developing a Risk Management Plan for a target completion of Q3 2017. This new methodology should ensure more comprehensive risk management.

References in the Gap Analysis that indicate a need for additional documentation are mostly procedures and processes which are known to key IT personnel but not recorded in electronic format. IT managers will concentrate on the development of missing process documentation in their areas, which relates directly to the Gap Analysis.

**INTERNAL AUDIT'S FOLLOW-UP REVIEW OF ACTIONS TAKEN BY MANAGEMENT**

***CORRECTIVE ACTIONS IMPLEMENTED:***

- IT completed their gap analysis by performing a crosswalk between the

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

International Organization for Standardization (ISO) 27002<sup>1</sup> and the university's current policies and guidelines to identify gaps.

- IT also started the process to assess the risks associated with the gaps identified during the gap analysis.

**RECOMMENDATION NOT ADDRESSED:**

- IT did not identify the likelihood of risk occurrence or the procedures to mitigate the risk as part of their risk assessment process. Further, IT has not prioritized its mitigations based on risk significance.

**INTERNAL AUDIT OPINION**

This observation is *partially resolved*.

**NEW INTERNAL AUDIT RECOMMENDATIONS**

The university should fully implement IA's previous recommendation and ensure the risk assessment process is comprehensive and identifies its top risks by addressing the likelihood of risk occurrence and risk significance. Further, university management should identify how the risks can be managed properly.

**MANAGEMENT'S RESPONSE**

*We concur with the recommendation to ensure that the risk assessment is comprehensive and identifies top risks by addressing likelihood of risk occurrence and significance as well as prioritization of mitigations based on risk significance. UNCSA IT has made significance progress since the establishment of the Information Security department in this endeavor. We will work to expand and refine our Risk Management Plan to include this recommendation for a target completion of calendar year Q4 2020.*

**PRIOR YEAR OBSERVATION #2:**

**OUTDATED INFORMATION SECURITY POLICY**

- IT does not have a comprehensive information security policy in place to comply with ISO 27002. Failing to develop a compliant and comprehensive security policy

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<sup>1</sup> As of April 2012, the University of North Carolina system campuses adopted the International Organization for Standardization (ISO) 27002 standard as the control security framework for information security management. UNCSA formally communicated its acceptance of the standard on March 16, 2012. The purpose of the ISO standard is to develop, maintain and promote information technology standards.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

could lead to increased risk of exposure or loss of university data, systems, or network failure, which could be a significant liability to the university.

**PRIOR YEAR RECOMMENDATION:**

The IT department should complete its new information security policy according to ISO 27002.

**PRIOR YEAR RESPONSE FROM MANAGEMENT:**

We concur with the recommendation to review the draft document to verify the inclusion of all ISO 27002 security objectives. This document has been through a preliminary review and we expect to have it to senior management in Q1 2017.

**INTERNAL AUDIT'S FOLLOW-UP REVIEW OF ACTIONS TAKEN BY MANAGEMENT**

*CORRECTIVE ACTION IMPLEMENTED:*

- IT created seven additional regulations/policies to support their current security policy.

*RECOMMENDATIONS NOT ADDRESSED:*

- IT is unable to demonstrate that all aspects of ISO 27002 subsection 5.1.1<sup>2</sup> have been considered with the update of the new security policy.
  - Specifically, the updated information security regulations/policies have not been effectively implemented as they have not been approved by senior management and the board, nor have they been published and communicated to university employees and relevant external parties.
  - Further, during the review of the new security policies/regulations, IA noted that the 'Physical and Environmental Security Regulation' does not address environmental aspects.

**INTERNAL AUDIT OPINION**

This observation is *partially resolved*.

**NEW INTERNAL AUDIT RECOMMENDATION**

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<sup>2</sup> ISO 27002 standard states, "A set of policies for information security should be defined, approved by management, published and communicated to employees and relevant external parties." ISO also provides implementation guidance and other information for the control.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

IT should implement IA's previous recommendation by ensuring the new security policy complies with ISO 27002, is approved according to university policy, and published.

**MANAGEMENT'S RESPONSE**

*We concur that the issue with an outdated security policy is not complete. IT has completed the development of 7 new regulations that overall represent a more comprehensive information security policy. Approval and publication by senior management and communication to employees is imminent. IT will work to ensure that these final items are completed in or prior to calendar year Q3 2020.*

**PRIOR YEAR OBSERVATION #3:**

**INCOMPLETE DATA CLASSIFICATION**

- IT has not documented how information is classified in a manner that ensures an appropriate level of protection based on its importance to the organization. Failing to provide the proper guidance relative to data classification could result in information being mismanaged or compromised and loss or liability to the university.

**PRIOR YEAR RECOMMENDATIONS:**

IT should ensure its data is classified in accordance with ISO 27002, specifically in terms of legal requirements, value, criticality, and sensitivity. In addition, IT should also ensure that guidance is documented on how the custodians should handle and/or protect the data and ensure the guidance is communicated to the data owners.

**PRIOR YEAR RESPONSE FROM MANAGEMENT:**

We concur with the recommendation to modify the draft document to include the additional data characteristics defining legal requirements, value, criticality and sensitivity. Indications will be added to denote the method in which the data is protected. We anticipate submitting to senior management in Q1 2017.

**INTERNAL AUDIT'S FOLLOW-UP REVIEW OF ACTIONS TAKEN BY MANAGEMENT**

***CORRECTIVE ACTION IMPLEMENTED:***

- IT has classified its data in accordance with ISO 27002.

***RECOMMENDATION NOT ADDRESSED:***

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

- Control procedures for the data classification, such as documented guidance on how the custodians should handle and/or protect the data, have not been completed and communicated to the data owners. Based on conversations with management, they expect to complete the process by calendar year-end 2020.

**INTERNAL AUDIT OPINION**

This observation is *partially resolved*.

**NEW INTERNAL AUDIT RECOMMENDATION**

IT should implement IA's previous recommendation and ensure control procedures are in place for data classification, such as documented guidance on how the custodians should handle and/or protect the data, and that this guidance is communicated to the data owners.

**MANAGEMENT'S RESPONSE**

*We concur that IT should work to ensure control procedures are further developed for data classification, such as documented guidance on how the custodians should handle and protect the data, and that this guidance is communicated to the data owners. This is the next step in the maturation process of our data classification efforts and as stated will be complete by the end of calendar year 2020.*

**PRIOR YEAR OBSERVATION #4:**

**OPERATING PROCEDURES NOT DOCUMENTED**

- IT has not documented its key operating procedures. A lack of documented procedures puts the university at risk of noncompliance with university and state policies.

**PRIOR YEAR RECOMMENDATION:**

The IT department should develop and document operating procedures for each of its key processes.

**PRIOR YEAR RESPONSE FROM MANAGEMENT:**

We concur with the need of extensive documentation for our processes. We currently have over 28,000 files directly related to systems and application documentation.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
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IT Management has developed a first pass of categorizing business processes in each of their respective areas. IT managers will concentrate on the collation and development of missing process documentation. The initial work will concentrate on processes noted in the Gap Analysis.

**INTERNAL AUDIT'S FOLLOW-UP REVIEW OF ACTIONS TAKEN BY MANAGEMENT**

*CORRECTIVE ACTION IMPLEMENTED:*

- IT has identified and documented several key operating procedures.

*RECOMMENDATION NOT ADDRESSED:*

- IT has not documented operating procedures for operational activities associated with information processing and communication facilities according to ISO 27002 subsection 12.1.1<sup>3</sup>, such as computer start-up and close-down procedures, back up, equipment maintenance, and computer room and mail handling management and safety.

**INTERNAL AUDIT OPINION**

This observation is *partially resolved*.

**NEW INTERNAL AUDIT RECOMMENDATION**

IT should fully implement IA's previous recommendations by developing and documenting operating procedures for each of its key processes.

**MANAGEMENT'S RESPONSE**

*We concur that we still have work to do in comprehensively documenting some key processes according to ISO standard 12.1.1. We have made progress in this area as our documentation efforts have increased significantly. For the rest of calendar year 2020, we will concentrate specifically on satisfying the procedures pertaining to ISO 12.1.1.*

**PRIOR YEAR OBSERVATION #5:**

**CAMPUS COMMUNITY CONCERNS**

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<sup>3</sup> ISO standard 12.1.1 states, "Operating procedures should be documented and made available to all users who need them." ISO also provides implementation guidance for the control.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
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- During our prior review of IT's operations, we used an online survey tool to survey the campus community and record responses. The survey yielded 215 responses from which we identified five common concerns; defined as those having at least 10 mentions (or 5% of responses):
  - 1) Lack of customer service from the helpdesk (29 mentions – 13%);
  - 2) Lack of IT resources as it relates to financial, personnel, and time (26 mentions – 12%);
  - 3) Wi-Fi issues in certain areas (21 mentions – 10%);
  - 4) Lack of knowledge among IT personnel (14 mentions – 7%); and
  - 5) Lack of support for Mac/Apple users (13 mentions – 6%).

**PRIOR YEAR RECOMMENDATIONS:**

The IT department should consider and address the concerns provided via the Internal Audit survey. Additionally, IT should occasionally survey the campus community in order to determine areas for improvement within IT.

**PRIOR YEAR RESPONSE FROM MANAGEMENT:**

We will form a review team comprised of senior management and the managers of the areas indicated by the feedback comments. This team will determine the focus areas which may be amendable to observable change within several months, and those that may take a year or more for change to be achieved. We are going to implement the survey application within our Help Desk ticket tracking system for customer service feedback.

**INTERNAL AUDIT'S FOLLOW-UP REVIEW OF ACTIONS TAKEN BY MANAGEMENT**

*CORRECTIVE ACTIONS IMPLEMENTED:*

- IT has added extra help desk staff;
- IT now offers support services after normal business hours;
- IT has purchased new computer hardware to ensure that its computer systems are up to date;
- IT installed new CISCO Wi-Fi hardware to improve campus-wide reception;
- IT Help Desk staff consists of Microsoft or Apple certified support technicians;
- Apple certified support technicians are now available to assist the Apple/Mac users; and
- IT assesses the effectiveness of their support to the campus through their new IT ticketing system which includes a feedback feature allowing the end users to rate their services.

**INTERNAL AUDIT OPINION**

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
----------------------------------------------------------------------

This observation is *resolved*.

<b>RESTATED OBSERVATIONS, RECOMMENDATIONS, AND RESOLUTION STATUS</b>
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***\*MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW\****

This section of the report contains IT security matters that are not subject to public disclosure under NCGS 132-6.1. Consequently, we have limited the recipients of this information to protect the security of the University's systems and data.



**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Audit, Risk, and Compliance**

Rod Isom, Interim Chief Audit, Risk, and Compliance Officer  
1600 Lowery Street, Winston-Salem, North Carolina 27110  
(336) 750-2065 | [www.wssu.edu](http://www.wssu.edu)

September 9, 2020

Patrick Sims  
Executive Vice Chancellor and Provost  
University of North Carolina School of the Arts  
1533 South Main Street  
Winston-Salem, NC 27127

Dear Mr. Sims:

The Internal Audit Unit (IA) of Winston-Salem State University's (WSSU) Office of Audit, Risk, and Compliance has completed its review of protocols involving minors at the University of North Carolina School of the Arts (UNCSA). The scope of the review was July 1, 2019 through January 31, 2020. The results of the review, along with recommendations for corrective actions and management's responses, are contained in this report. Other observations, considered minor or outside of the scope of our review, will be communicated to management by way of a management letter, risk monitoring memo, or verbally.

Engagements completed by IA at WSSU are conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors.

Respectfully submitted,

Rod Isom  
Interim Chief Audit, Risk, and Compliance Officer

September 9, 2020

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cc: Brian Cole, Chancellor  
Karen Beres, Vice Provost and Dean of Academic Affairs  
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel  
Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff  
Rebecca Nussbaum, Director of Community Engagement and ArtistCorps  
Suzanna Watkins, Director of Community and Summer Programs  
Valerie Thelen, Chief Compliance Officer and Title IX Coordinator  
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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## EXECUTIVE SUMMARY

In light of the potential for loss or liability, and other compliance and reputational risks associated with problems that may arise from an ineffective or inefficient process for the safety of minors<sup>1</sup>, an audit of the area was identified during IA's annual risk assessment. Selection of this audit was based on a comprehensive plan to assess the internal control environment across all divisions of the UNCSA.

In May 2019, the University of North Carolina System Office (UNC System) released its UNC System Policy, 1300.10, Policy on Protection of Minors on Campus (UNC System Policy 1300.10), with the purpose of ensuring the safety of minors participating in Covered Programs, defined as "activities or programs primarily serving or including minors and either:

1. Conducted by the constituent institution, whether located on university property or elsewhere; or
2. Conducted by a third-party individual or organization on university property."

The objective of the review was to assess the university practices and policies for ensuring the safety of minors while on campus. Specific goals were to ensure the university has policies and practices in place related to UNC System Policy 1300.10, Policy on Protection of Minors on Campus including:

- Screening requirements for employees, contractors, and volunteers, who interact with minors in Covered Programs, including background checks;
- Advance registration and approval requirements for proposed Covered Programs; and
- Training requirements for employees, contractors, and volunteers regarding the mandatory reporting of suspected abuse, as well as additional training expectations for Covered Individuals regarding policies and issues relevant to working with minors.

As part of the review's procedures, IA conducted a micro-engagement level risk assessment of the minors on campus by way of a campus-wide survey of the university's faculty and staff (see Appendix A). The main purpose of the survey was to identify camps, programs and activities primarily serving or including minors and to identify potential risk areas for further assessment.

The following procedures were also performed:

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<sup>1</sup> For the purposes of this review, minors are defined as individuals who are younger than 18 years of age and are participating in university-sponsored activities and programs.

## EXECUTIVE SUMMARY

- Reviewed State, UNC System, and UNCSA policies and procedures;
- Interviewed individuals internal and external to the university; and
- Examined, on a test basis, evidence supporting internal controls and compliance with the appropriate policies.

The review identified policies and procedures in place that assist with ensuring minors are safe. The review also noted how management is committed to improving practices and mitigating risks based upon updates and corrections that were being made during the review, as well as management participating in UNC System's Minors on Campus system wide training and monthly conference calls.

However, we also identified several deficient practices that need improvement to mitigate strategic, operational and compliance risks associated with this area of operation. These items are discussed in the following Summary of Observations, followed by IA's Summary of Recommendations for corrective actions.

### **Summary of Observations:**

- No Overarching Minors Policy for Governance
- No Comprehensive List of Youth Programs
- No Formalized Training Program
- Insufficient Risk Management
- Incomplete Screening Process

### **Summary of Recommendations:**

- The university should develop an overarching policy for minors to align with UNC System Policy 1300.10 which adequately addresses risks posed by minors on campus and includes at a minimum:
  - Registration and approval requirements for activities and programs primarily serving or including minors;
  - Background checks for employees, contractors, and volunteers who interact with minors;
  - Mandatory reporting of suspected abuse and neglect; and
  - Additional training expectations.
- The policy should be effectively communicated to all individuals who work closely with, supervise, instruct, or otherwise come into direct, non-incident contact with minors.
- Management should strengthen oversight by formally defining and assigning compliance responsibilities to a single department or individual. Once this role is defined, the assigned personnel should maintain an inventory of programs including, at a minimum:
  - A description of the proposed Covered Program;

<b>EXECUTIVE SUMMARY</b>
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- A responsible party or sponsor for the proposed Covered Program (Sponsor);
  - The designated university administrator or officer supporting the program;
  - The period of time for which the Covered Program will operate;
  - The expected number of employees and/or volunteers involved and minors served;
  - An acknowledgment of relevant institutional policies, including requirements for background checks, training, insurance, parking access, and facilities use;
  - An acknowledgment of state mandatory reporting requirements related to suspected abuse or neglect of a minor;
  - For third party vendors, a statement acknowledging that the constituent institution may monitor compliance with requirements for operating a Covered Program; and
  - The name or position and department of the university administrator or officer with responsibility for approving the proposed program.
- Management should develop a formalized training program for all Covered Individuals. Training curriculum should include all the necessary requirements and industry best practices to minimize risks to minors and liability to the university.
  - Monitoring procedures should be put in place to track satisfactory completion of the training curriculum by all applicable individuals.
  - Management should conduct a formalized risk assessment of the programs designed for minors at least annually to include the identification, prioritization, and measurement of risks that could potentially affect units offering programs and activities involving minors. Once risks are identified, appropriate controls should be implemented and monitored to ensure that the risks are being mitigated.
  - Management should implement controls and procedures to ensure all programs and activities are obtaining background checks for all individuals working with minors at regular intervals. Management should also ensure controls and procedures comply with UNC System Policy 1300.10.
  - The university should establish and communicate standards for working with minors as these may differ from general hiring requirements.
  - All background checks for employees and independent contractors should be conducted by HR.
  - ArtistCorps program management should develop procedures to track completion of volunteer background checks.

<b>BACKGROUND, OBJECTIVE, AND SCOPE</b>
-----------------------------------------

**BACKGROUND:**

In light of the liability and reputational risks associated with problems that may arise from ineffective protocols involving minors on campus, an audit of this matter was identified during IA's annual risk assessment. Selection of this audit was based upon a comprehensive plan to assess the internal control environment across all divisions of the UNCSA.

In May 2019, the UNC System released its UNC System Policy 1300.10, with the purpose of ensuring the safety of minors participating in Covered Programs, defined as "activities or programs primarily serving or including minors and either:

1. Conducted by the constituent institution, whether located on university property or elsewhere; or
2. Conducted by a third-party individual or organization on university property."

**OBJECTIVE:**

The objective of the review was to assess the university practices and policies for ensuring the safety of minors while on campus. Specific goals were to ensure the university has policies and practices in place related to UNC System Policy 1300.10 including:

- Screening requirements for employees, contractors, and volunteers, who interact with minors in Covered Programs, including background checks;
- Advance registration and approval requirements for proposed Covered Programs; and
- Training requirements for employees, contractors, and volunteers regarding the mandatory reporting of suspected abuse, as well as additional training expectations for Covered Individuals regarding policies and issues relevant to working with minors.

**SCOPE:**

The scope of the review was July 1, 2019 through January 31, 2020.

As part of the review's procedures, IA conducted a micro-engagement level risk assessment of the minors on campus by way of a campus-wide survey of the university's faculty and staff (see Appendix A). The main purpose of the survey was to identify camps, programs and activities primarily serving or including minors and to identify potential risk areas for further assessment.

<b>BACKGROUND, OBJECTIVE, AND SCOPE</b>
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The following procedures were also performed:

- Reviewed State, UNC System, and UNCSA policies and procedures;
- Interviewed individuals internal and external to the university; and
- Examined, on a test basis, evidence supporting internal controls and compliance with the appropriate policies.

This report presents the results of IA's review.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
-----------------------------------------------

**OBSERVATIONS:** *The following audit observations were identified during the current review and describe conditions that could adversely affect the university's ability to meet its strategic, operational, reputational, control and compliance objectives.*

**1. No Overarching Minors Policy for Governance**

The university does not have an overarching policy in place to govern the protection of minors and to maintain consistent protocols across all youth programs sponsored by the institution. As a result, steps which ensure the well-being of minors may not be executed on a campus-wide basis, exposing the youth to safety risks.

While some departments have developed their own policies and procedures for programs and activities involving minors, no overarching policy addressing program registration and approval along with screening, and training requirements for Covered Individuals has been developed to ensure consistent application of protocols and compliance with UNC System policy 1300.10. Program administrators are left to their own assumptions regarding adequate measures to ensure the safety of minors, and protocols are not applied on a consistent basis across applicable campus activities.

*Survey:*

The survey revealed that majority of the respondents did not know or were either unsure if documented procedures were in place related to the operation of camps, programs or other activities for minors conducted by their department. Of the 69 responses received for the related question, 56 (81%) did not know or were either unsure.

*Criteria:*

The "Purpose" section of the UNC System Policy 1300.10 states, "To ensure the safety of minors participating in UNC-affiliated Covered Programs and to ensure consistency across the UNC System, constituent institutions shall adopt policies with minimum standards applicable to their Covered Programs, as defined herein."

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a generally accepted framework for internal controls to improve organizational performance and governance. A fundamental concept of the framework is the design and implementation of effective internal controls. An underlying principle of control activities is that, "The organization deploys control activities through policies that establish what is expected and procedures that put policies into action."

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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*Recommendations:*

- 1) The university should develop an overarching policy for minors to align with UNC System Policy 1300.10 which adequately addresses risks posed by minors on campus and includes at a minimum:
  - Registration and approval requirements for activities and programs primarily serving or including minors;
  - Background checks for employees, contractors, and volunteers who interact with minors;
  - Mandatory reporting of suspected abuse and neglect; and
  - Additional training expectations.
- 2) The policy should be effectively communicated to all individuals who work closely with, supervise, instruct, or otherwise come into direct, non-incident contact with minors.

**2. No Comprehensive List of Youth Programs**

The university does not have a consolidated list of programs and activities for minors. As a result, the university cannot accurately identify the number of programs and activities nor the number of children and workers participating, which exposes the university to liability and reputational risk.

The review noted that there were numerous of programs and activities where the ownership and responsibility of these programs and activities were not the same person. It was also noted that the university does not have one central location or person to oversee or ensure that all programs and activities are operating effectively. A comprehensive database listing all programs and activities involving minors is essential for tracking purposes to ensure prospective employees and volunteers are adequately screened, requisite training is delivered and oversight provided. Without such a comprehensive list, it is difficult to gauge risks, monitor compliance, and ensure that adequate oversight is provided. Unidentified programs put both the university and participating minors at risk. Identifying a centralized youth programming role, responsible for the registration, approval and tracking of all youth programs, will formalize the process, minimize compliance risks and enhance the protection of minors.

*Criteria:*

The "Registration and Approval" section of the UNC System Policy 1300.10 states, "All Covered Programs must be registered and approved by the constituent institution prior to the initiation of the program or activity. All programs continuously or periodically

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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operation must be re-registered and approved by the constituent institution at least-annually.”

COSO established a generally accepted framework for internal controls to improve organizational performance and governance. Creating a sound control environment is a fundamental concept of the framework. An underlying principle of a control environment is that, “Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.”

*Recommendation:*

- 1) Management should strengthen oversight by formally defining and assigning compliance responsibilities to a single department or individual. Once this role is defined, the assigned personnel should maintain an inventory of programs including, at a minimum:
  - A description of the proposed Covered Program;
  - A responsible party or sponsor for the proposed Covered Program (Sponsor);
  - The designated university administrator or officer supporting the program;
  - The period of time for which the Covered Program will operate;
  - The expected number of employees and/or volunteers involved and minors served;
  - An acknowledgment of relevant institutional policies, including requirements for background checks, training, insurance, parking access, and facilities use;
  - An acknowledgment of state mandatory reporting requirements related to suspected abuse or neglect of a minor;
  - For third party vendors, a statement acknowledging that the constituent institution may monitor compliance with requirements for operating a Covered Program; and
  - The name or position and department of the university administrator or officer with responsibility for approving the proposed program.

### **3. No Formalized Training Program**

No formalized training program has been established for all employees, volunteers, and others who work closely with, supervise, instruct or otherwise come into non-incident contact with minors. As a result, individuals may lack a clear understanding of applicable rules and regulations, in addition to the university’s expectation for behavior and conduct.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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Information gathered through the campus-wide survey and discussions with key personnel revealed that training on topics specific to risks, such as mandatory reporting, involving minors on campus is not in place. Without effective training, individuals may not be aware of the mandatory reporting requirement and university's practices to address the minor safety. Proper training will help ensure individuals are able to fulfill their responsibilities in a manner aligned with university values and adhere to applicable regulations and operating procedures. Additionally, an effective training program will mitigate reputational and financial risks associated with conducting programs for minors.

*Criteria:*

The "Training" section of the UNC System Policy 1300.10 states:

Policies shall require that Covered Individuals receive at least annual training on institutional policies pertaining to minors on campus, including mandatory reporting requirements. Third-party providers should be responsible for training Covered Individuals under their control and for providing certification to the constituent institution that the appropriate training has occurred.

The North Carolina General Statute 7B-301, Duty to Report Abuse, Neglect, Dependency, or Death Due to Maltreatment, states that any person or institution who has reason to suspect that a minor has been abused or neglected must report their suspicion to the local social services department. Any person or institution who fails to report or prevents one from reporting is guilty of a Class I misdemeanor.

The "Responsibilities - Agencies" section of North Carolina's Office of State Human Resources' Training and Development policy states, "Each agency has a responsibility for training and developing its employees. It is responsible for assuring that training programs geared to specific agency needs are planned, budgeted and established and that their employees participate in these programs."

*Recommendations:*

- 1) Management should develop a formalized training program for all Covered Individuals. Training curriculum should include all the necessary requirements and industry best practices to minimize risks to minors and liability to the university.
- 2) Monitoring procedures should be put in place to track satisfactory completion of the training curriculum by all applicable individuals.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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#### **4. Insufficient Risk Management**

Departments and units at the university offering programs and activities for minors do not conduct a formal risk assessment to identify, measure, and manage risks in accordance with the risk appetite set by senior leadership. As a result, the university may be exposed to an unacceptable level of risks related to the safety of minors.

While anecdotal evidence exists that certain units informally consider risks to the safety of minors, there is not a formal, documented risk assessment conducted by all units offering programs and activities for minors. Risk assessment involves an iterative process for identifying and assessing risks to the achievement of objectives and provides a context for designing control activities to reduce risk to an acceptable level. Without a thoughtful and strategic risk assessment, aligned with the risk appetite set by senior administration, critical risks may go unmitigated and the individuals managing these programs are left to determine the acceptable level of risk for the university.

*Criteria:*

COSO established a generally accepted framework for internal controls to improve organizational performance and governance. A fundamental concept of the framework is the performance of risk assessments. The four underlying principles related to risk assessment are:

1. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives;
2. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed;
3. The organization considers the potential for fraud [*in this case, risks related to the suspected abuse or neglect of a minor*] in assessing risks to the achievement of objectives; and
4. The organization identifies and assesses changes that could significantly impact the system of internal control.

COSO Enterprise Risk Management – Integrated Framework defines risk appetite as the amount of risk, on a broad level, an entity is willing to accept in pursuit of value. It reflects the entity's risk management philosophy, and in turn influences the entity's culture and operating style.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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Risk tolerance is defined as the acceptable level of variation relative to achievement of a specific objective. In setting risk tolerance, management considers the relative importance of the related objective and aligns risk tolerance with risk appetite.

The UNCSA Risk Appetite states:

UNCSA's approach is to minimize exposure to risks relating to compliance, environment, culture, and people, all while accepting and encouraging an increased degree of risk in pursuit of its vision and strategic goals. UNCSA recognizes that its appetite for risk varies according to the activity undertaken, and that its acceptance of risk is always subject to ensuring potential benefits and risks are fully understood before developments and plans are authorized.

The university is committed to establishing sensible measures to mitigate risk where required.

*Recommendation:*

- 1) Management should conduct a formalized risk assessment of the programs designed for minors at least annually to include the identification, prioritization, and measurement of risks that could potentially affect units offering programs and activities involving minors. Once risks are identified, appropriate controls should be implemented and monitored to ensure that the risks are being mitigated.

## **5. Incomplete Screening Process**

The design of controls related to the background check process for individuals working with minors is incomplete. As a result, the university is not in compliance with university and UNC System policies. Further, the risk of allowing individuals who should be prohibited the opportunity to interact with minors, increases.

During the assessment of the ArtistCorps<sup>2</sup> program, monitoring was not in place by management to ensure ArtistCorps members actually have volunteers complete

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<sup>2</sup> ArtistCorps is a program which utilizes the skills of UNCSA students and graduates to provide arts instruction, integration and exposure to school-aged children and seniors in the Winston-Salem community. ArtistCorps serves at a variety of settings including Title I Schools, Head Start programs, and community organizations.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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background checks. It was noted that a volunteer did not complete a background check with the volunteer site as required by ArtistCorps policy.

Additionally, Community and Summer Programs<sup>3</sup> does not follow up on the results of the background checks it runs for contractors. Rather, the assumption is made that the individual has passed the screening process if no notification is provided otherwise by Castle Branch, the organization used to conduct background checks. Background checks are routinely performed by Human Resources (HR), however our review noted that HR was not being utilized for screening independent contractors working in Community and Summer Programs.

*Criteria:*

The “Background Check” section of the UNC System Policy 1300.10 states, “Background checks should be conducted for all Covered Individuals. Policies should provide for subsequent background checks at reasonable intervals, as determined by the constituent institution, for all Covered Individuals.”

ArtistCorps ArtsEngage Member Manual states:

As part of their service, all ArtistCorps members are expected to generate artist-volunteers for their service sites. Members will be provided with volunteer logs in order to track their progress and will have volunteer generation and management covered during training. ArtistCorps members are responsible for making sure the volunteers they generate submit to background checks as required by their service site(s).

COSO established a generally accepted framework for internal controls to improve organizational performance and governance. A fundamental concept of the framework is the design and implementation of effective internal controls. An underlying principle of control activities is that, “The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.”

*Recommendations:*

- 1) Management should implement controls and procedures to ensure all programs and activities are obtaining background checks for all individuals working with

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<sup>3</sup> Community and Summer programs oversees programs for children, high school students, adults and working professionals offered to the community throughout the year and residential programs for minors in the areas of dance, drama, filmmaking, music and visual arts offered each summer.

<b>AUDIT OBSERVATIONS AND RECOMMENDATIONS</b>
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- minors at regular intervals. Management should also ensure controls and procedures comply with UNC System Policy 1300.10.
- 2) The university should establish and communicate standards for working with minors as these may differ from general hiring requirements.
  - 3) All background checks for employees and independent contractors should be conducted by HR.
  - 4) ArtistCorps program management should develop procedures to track completion of volunteer background checks.



**David Lombard Harrison**

**Vice Chancellor for Institutional Integrity and General Counsel**

TO: Rod Isom, Interim Chief Audit, Risk, and Compliance Officer, WSSU/UNCSA

CC: Provost Patrick Sims, Vice Provost Karen Beres, Chief of Staff Jim DeCristo, Chief Compliance Officer and Title IX Coordinator Valerie Thelen, Director of Community and Summer Programs Suzanna Watkins, ArtistCorps Program Director Rebecca Nussbaum, Associate Vice Chancellor for Institutional Integrity Amanda Balwah

DATE: 8/27/2020

RE: Response to Audit Findings and Recommendations on the Implementation of Board of Governors Policy 1300.10, Policy on Protection of Minors on Campus<sup>4</sup>

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Thank you for the extension of time to respond to your report. The audit report was received at a time when UNCSA was in transition from an Interim Provost, to an Acting Provost, and finally to the hire of a permanent Provost. Because the programs are under the jurisdiction of the Office of the Provost, development was difficult to complete in the transition period – and certainly complicated by responses to the Coronavirus and COVID-19 pandemic.

In your June 29, 2020 draft audit report on the implementation of Board of Governors Policy 1300.10, Policy on Protection of Minors on Campus, you identified the following objectives:

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<sup>4</sup> [BOG Policy 1300.10](#) excludes minors enrolled in the UNCSA high school and minors enrolled in UNCSA college programs. It only applies to programs and activities where minors are not officially enrolled at UNCSA. Policy 1300.10 states:

Minors. For the purposes of this policy, minors are defined as individuals who are younger than 18 years of age and are participating in a Covered Program. [T]his policy does not apply to students under the age of 18 who are enrolled or matriculated at the constituent institution . . . .

The objective of the review was to assess the university practices and policies for ensuring the safety of minors while on campus. Specific goals were to ensure the university has policies and practices in place related to UNC System Policy 1300.10 including:

- Screening requirements for employees, contractors, and volunteers, who interact with minors in Covered Programs, including background checks;
- Advance registration and approval requirements for proposed Covered Programs; and
- Training requirements for employees, contractors, and volunteers regarding the mandatory reporting of suspected abuse, as well as additional training expectations for Covered Individuals regarding policies and issues relevant to working with minors.

UNCSA agrees with the observations and recommendations in your report, and either have implemented the recommendations or will according to the discussion below.

### **1. No Overarching Minors Policy for Governance**

Audit Recommendations:

1) The university should develop an overarching policy for minors to align with UNC System Policy 1300.10 which adequately addresses risks posed by minors on campus and includes at a minimum:

- Registration and approval requirements for activities and programs primarily serving or including minors;
- Background checks for employees, contractors, and volunteers who interact with minors;
- Mandatory reporting of suspected abuse and neglect; and
- Additional training expectations.

#### **Management Response:**

*UNCSA Administration agrees that a comprehensive overarching policy for minors on campus, not enrolled in the high school or college, must be developed for clarity and conformity to applicable standards.*

*UNCSA is using BOG Policy 1300.10 as its current policy, in conjunction with the UNC at Chapel Hill policies and training they have generously provided as guidance and training materials. UNCSA has modeled its policy on the one implemented at UNC at Chapel Hill, and with the guidance of the regular UNC System Office conferences.*

*Chief Compliance Officer and Title IX Coordinator Valerie Thelen has drafted the policy for presentation to the UNCSA Board of Trustees Audit, Risk, and Compliance Committee, for a determination of whether the Board will retain jurisdiction over the policy or delegate the authority to the Chancellor as a regulation. The Provost is responsible for the implementation and will present the proposed policy to the Board of Trustees Audit, Risk, and Compliance Committee at its next scheduled regular meeting.*

*Because the Governor's Executive Orders and UNC System Office guidance and directives related to the Coronavirus and COVID-19 pandemic eliminated any on-campus activities for programs and activities with minors, The Office of Institutional Integrity deemed it an acceptable risk to delay implementation of the Policy on Protection of Minors on Campus until the permanent Provost was chosen.*

2) The policy should be effectively communicated to all individuals who work closely with, supervise, instruct, or otherwise come into direct, non-incidental contact with minors.

*Management Response:*

*When finalized, the policy will be an integral part of the training of all Covered Individuals who come into contact with minors on campus for Covered Programs.<sup>5</sup>*

## **2. No Comprehensive List of Youth Programs**

Audit Recommendation:

1) Management should strengthen oversight by formally defining and assigning compliance responsibilities to a single department or individual. Once this role is defined, the assigned personnel should maintain an inventory of programs including, at a minimum:

- A description of the proposed Covered Program;
- A responsible party or sponsor for the proposed Covered Program (Sponsor);
- The designated university administrator or officer supporting the program;
- The period of time for which the Covered Program will operate;
- The expected number of employees and/or volunteers involved and minors served;

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<sup>5</sup> BOG Policy 1300.10 defines Covered Individuals: All individuals 18 years old or older, including employees, volunteers, and students of the constituent institution and owners, employees, and volunteers of third-party entities operating a Covered Program, who work closely with, supervise, instruct, or otherwise come into direct, non-incidental contact with minors in a Covered Program.

- An acknowledgment of relevant institutional policies, including requirements for background checks, training, insurance, parking access, and facilities use;
- An acknowledgment of state mandatory reporting requirements related to suspected abuse or neglect of a minor;
- For third party vendors, a statement acknowledging that the constituent institution may monitor compliance with requirements for operating a Covered Program; and
- The name or position and department of the university administrator or officer with responsibility for approving the proposed program.

**Management Response:**

*UNCSA agrees that a consolidated list of programs and activities for minors is essential to identifying the number of minors, programs, and activities.*

*UNCSA has conducted an inventory of all programs and activities, so that a consolidated list can be created. All programs and activities involving minors on campus have been registered and approved, but no central office has been responsible for all of them. That decision will be made by the Office of the Provost prior to the resumption of normal activities, post-pandemic, involving minors on campus in Covered Programs.*

**3. No Formal Training Program**

Audit Recommendations:

1) Management should develop a formalized training program for all Covered Individuals. Training curriculum should include all the necessary requirements and industry best practices to minimize risks to minors and liability to the university.

**Management Response:**

*UNCSA Administration agrees that formalized training is necessary. An online training module was created in April 2020, by Director of Community and Summer Programs Suzanna Watkins, based on UNC-Chapel Hill training materials. The online training and attestations were required of every faculty and guest artist working with the 2020 online Summer Intensives.<sup>6</sup>*

2) Monitoring procedures should be put in place to track satisfactory completion of the training curriculum by all applicable individuals.

**Management Response:**

---

<sup>6</sup> The training module is found [here](#), and at this link: <https://www.uncsa.edu/summer/protection-of-minors/>

*UNCSA Administration agrees that monitoring of completion of training is necessary. The training module referenced above included a Qualtrix attestation for each person completing the training. The Qualtrix reports were sent to C&SP director Suzanna Watkins at frequent intervals during the hiring period prior to the start of programs to ensure compliance. A copy of the attestation report is available for review.*

#### **4. Insufficient Risk Management**

Audit Recommendation:

1) Management should conduct a formalized risk assessment of the programs designed for minors at least annually to include the identification, prioritization, and measurement of risks that could potentially affect units offering programs and activities involving minors. Once risks are identified, appropriate controls should be implemented and monitored to ensure that the risks are being mitigated.

Management Response:

*UNCSA Administration agrees that an annual risk assessment would provide a valuable process to identify appropriate controls to implement and monitor. UNCOSA will add minors on campus to its annual Enterprise Risk Management process and assessment, in addition to annual review by the UNCOSA Board of Trustees Audit, Risk, and Compliance Committee.*

#### **5. Incomplete Screening Process**

Audit Recommendations:

1) Management should implement controls and procedures to ensure all programs and activities are obtaining background checks for all individuals working with minors at regular intervals. Management should also ensure controls and procedures comply with UNC System Policy 1300.10.

Management Response:

*UNCOSA Administration agrees that background checks in compliance with BOG Policy 1300.10 is necessary for risk reduction. Community & Summer Programs obtains background checks for all temporary employees at time of hire through HR. Starting in May 2020, independent contractors also have background checks conducted through HR. Time intervals of background checks for UNCOSA faculty and permanent employees will be established as part of UNCOSA Protection of Minors on Campus policy.*

2) The university should establish and communicate standards for working with minors as these may differ from general hiring requirements.

Management Response:

*UNCSA Administration agrees that standards for working with minors are distinct and necessary. These standards will be incorporated in UNCSA Protection of Minors of Campus policy and engagement protocols for all activities and programs that include Covered Individuals and Covered Programs.*

3) All background checks for employees and independent contractors should be conducted by HR.

*Management Response:*

*UNCSA Administration agrees that having HR conduct all background checks is a method to ensure uniform compliance. Starting in May 2020, all background checks for C&SP employees and independent contractors are conducted by HR.*

4) ArtistCorps program management should develop procedures to track completion of volunteer background checks.

*Management Response:*

*UNCSA Administration agrees that wherever possible, ArtistCorps procedures should be uniform with other programs and activities that include minors on campus. ArtistCorps will implement the background check controls established by the Office of the Provost for other programs and activities, when the centralized office for Covered programs is established.*

## APPENDIX A – CUSTOMIZED SURVEY FOR FACULTY AND STAFF

**Minors on Campus**

**For purposes of this survey, minors are defined as individuals who are younger than 18 years of age and are participating in activities and programs both on our campus and in off campus university-sponsored programs. The survey questions are not related to activities designed exclusively for students enrolled or matriculated at UNCSA (high school or post-secondary).**

1. Does your uniUdepartment have or provide any camps, programs or other activities for minor children under 18 years of age? Please do **not** include in your response activities designed exclusively for students enrolled or matriculated at UNCSA (high school or post-secondary).

- Yes.  
 No.  
 I don't know.

If you answered "Yes", in the space below please provide the following information:

Department Name / Name of Activity

2. Are you aware of any third-party providers conducting camps, programs or other activities for minors on the UNCSA campus?

- Yes  
 No

If you answered "Yes", in the space below please provide the following information:

Organization Name / Name of Activity

**APPENDIX A – CUSTOMIZED SURVEY FOR FACULTY AND STAFF**

3. Are you aware of any UNCOSA sponsored camps, programs or other activities for minors outside of UNCOSA property?

Yes

No

If you answered "Yes", in the space below please provide the following information:

Organization Name / Name of Activity

4. Are camps, programs or other activities involving minors on campus formally approved in writing prior to initiation?

Yes.

No.

I don't know.

5. Who is responsible for the review and approval of camps, programs or other activities for minors conducted by your unit/department?

Name:

Title:

6. Are documented procedures in place related to the operation of camps, programs or other activities for minors conducted by your department?

Yes.

No.

I don't know.

7. Is training required for employees/ volunteer staff involved in camps, programs or other activities for minors?

Yes.

No.

I don't know.

**APPENDIX A – CUSTOMIZED SURVEY FOR FACULTY AND STAFF**

8. Has the requirement to report suspected neglect or abuse of participants in those programs been clearly communicated to individuals participating in the management/supervision of camps, programs or other activities for minors?

- Yes.  
 No.  
 I don't know.

9. Are background checks routinely performed and reviewed for individuals working for camps, programs, or other activities involving minors?

- Yes.  
 No.  
 I don't know.

10. Do you have any concerns about the safety of minors at UNCSA?

- Yes  
 No

Please detail any concerns in the space below.

11. Please provide your contact information below.

<b>Name</b>	<input type="text"/>
<b>Title</b>	<input type="text"/>
<b>Email Address</b>	<input type="text"/>
<b>Phone Number</b>	<input type="text"/>



**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Audit, Risk, and Compliance**

*Rod Isom, Interim Chief Audit, Risk, and Compliance Officer*  
1600 Lowery Street, Winston-Salem, North Carolina 27110  
(336) 750-2065 | [www.wssu.edu](http://www.wssu.edu)

# Memorandum

**TO:** Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff

**FROM:** Rod Isom, Interim Chief Audit, Risk, and Compliance Officer *RF*

**DATE:** September 14, 2020

**RE:** Follow-up to Internal Audit's report on the Control Structure of the Center of Design and Innovation

---

At the conclusion of Internal Audit's review concerning the control structure of the Center of Design and Innovation (CDI), findings and proposed recommendations were discussed with management and, subsequently, management action plans were developed to explain how the agreed upon recommendations would be implemented. The purpose of this communication is to follow up on the status of the recommended actions to ensure management has implemented corrective measures, and sufficiently addressed the issues.

Following is a summary of the issues identified during Internal Audit's review, and the accompanying recommendations:

1. Inadequate Control Measures
  - CDI does not have adequate control measures in place to protect its unique inventory. As a result, CDI is exposed to the risk of misappropriation.
2. Deficient Exit Process
  - The UNCSA exit procedures for separating employees are inadequate. As a result, a lack of structure and uniformity exists in the exit process which increases the risks of not recovering university property in the custody of a departing employee.
3. Inadequate Contract Management
  - The UNCSA and CDI management confirmed they did not report missing equipment as required by the Research Agreement between CDI and Microsoft, specifically the Microsoft HoloLens. Additionally, management was not aware of the provision in the agreement requiring the reporting of lost or stolen Microsoft HoloLenses. Failure to follow contract

guidelines could increase the risk of legal liability for CDI and the UNCSA.

4. Failure to Comply with Employment Disclosure Policies
  - There was no evidence to substantiate the Director's disclosure of ownership interest in a company where she conducted activities related to her areas of research at the university. This represents noncompliance with governing policies.

*Internal Audit's Recommendations:*

1. CDI should work with the UNCSA and WSSU to create its own inventory policies to ensure all items are recorded. The policies should be approved and procedures monitored by the UNCSA and WSSU in accordance with the oversight responsibilities specified in the Agreement.
2. The UNCSA should implement gift procedures at CDI and ensure the staff is educated about the protocols to follow when gifts are received.
3. In accordance with the Administrative Services Agreement between CDI, the UNCSA, and WSSU, CDI should work closely with both universities to resolve remaining problems with its security cameras.
4. The UNCSA IT department should ensure its intake and outtake procedures are followed to help mitigate the risk of items going missing.
5. The UNCSA should develop exit interview procedures that are applied to CDI to help reduce the risk of departing employees removing university property. Controls should also be implemented to ensure the exit procedures are carried out effectively.
6. The university administration should become familiar with contract guidelines and agreements with outside entities going forward. CDI should consider reporting on a biannual basis, contracts and research agreements the center has executed to applicable departments, including the Legal Affairs departments at both UNCSA and WSSU.
7. CDI, the UNCSA, and WSSU departments identified in the Administrative Service Agreements between CDI and both institutions, should familiarize themselves with administrative responsibilities as it pertains to CDI and the respective institution. Controls should be implemented to ensure matters of compliance are addressed appropriately.
8. The UNCSA should enforce the control procedures it has in place for avoiding conflicts of interest. Submission of annual COI disclosure forms, annual Secondary Employment Forms, and External Professional Activities for Pay disclosures should be closely monitored and disciplinary action should be taken when necessary actions are not followed, according to policy.

*Management's response to the issues and recommendations were as follows:*

- Thank you for your efforts and the efforts of your team in regards to this review. Acting in my role as interim co-director at CDI, CDI (a partnership of UNCSA and WSSU) accepts the findings and recommendations in the report. I will take the lead to develop and execute the plan of action to implement the recommendations working with CDI staff and the administration of WSSU and UNCSA. Our plan is to close it all out in 90 days. I will keep you posted on our progress and provide documentation of our efforts.

Please respond to this office by October 9, 2020, and let us know if and how the agreed upon actions were implemented or if management has measured and accepted the risk of not taking action. Please include any and all evidence necessary to corroborate your statements.

September 14, 2020

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Thank you very much for your attention to this matter, and please contact us if you have any questions.



**Office of Audit, Risk, and Compliance**

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# Memorandum

**TO:** Angela Mahoney, Director of Human Resources  
Michael Smith, Vice Chancellor for Finance and Administration

**FROM:** Rod Isom, Interim Chief Audit, Risk, and Compliance Officer *RF*

**DATE:** September 14, 2020

**RE:** Follow-up to Internal Audit's report on the Control Environment of the University of North Carolina School of the Arts' Human Resources Department

---

At the conclusion of Internal Audit's review concerning the control environment of University of North Carolina School of the Arts' Human Resources Department (HR), findings and proposed recommendations were discussed with management and, subsequently, management action plans were developed to explain how the agreed upon recommendations would be implemented. The purpose of this communication is to follow up on the status of the recommended actions to ensure management has implemented corrective measures, and sufficiently addressed the issues.

Following is a summary of the issues identified during Internal Audit's review, and the accompanying recommendations:

1. Inconsistent and Noncompliant Hiring and Selection Process
  - There was a breakdown in the university's hiring and selection process concerning a job vacancy within the HR department. The search for and selection of a candidate was not conducted in accordance with university and State policies and could result in liability or other loss to the institution.
2. Inappropriate System Access and Changes
  - Access to hiring and salary records was not appropriately restricted for HR's internal hiring and selection process. Failing to ensure proper control measures are in place to protect private and confidential data increases information security risks and, in this case, compromises the hiring process, creates a competitive advantage, and could lead to fraud or other loss and liability.
3. Irregular Termination Process
  - HR's internal termination practices do not align with good business practices or represent good stewardship of the State's resources. This increases the university's exposure to noncompliance, loss and liability.
4. Deficiencies with Protocols to Control Confidentiality
  - HR does not have appropriate procedures in place to ensure personnel information is kept confidential and appropriately safeguarded. Failing to have policies and procedures in place that address the security of private personnel data could result in noncompliance with State

law.

5. Insufficient Plans for Effective Operational Management
  - HR does not have a documented plan in place for the department that identifies specific departmental goals and expectations and the relevant risk exposures. A lack of a documented plan increases the risk of the department failing to align with the overarching institutional strategies and negatively impacting strategic success.
6. Ineffective Training and Development Program
  - The university does not have a process in place to effectively manage employee training. As a result, the university is not operating in compliance with State policies and the risk of managers and supervisors unknowingly violating policies is increased.
7. Campus Perception of HR
  - An online tool was used to survey the campus community and record responses (see Appendix A). The survey was available from April 23, 2018 – May 11, 2018 and yielded 195 responses as follows:
    - 33 Faculty;
    - 161 Staff; and
    - One respondent who kept their affiliation anonymous.

From the survey, we identified four common concerns based on written feedback from the employee base. Additionally, we identified four areas where the majority of respondents believe HR's service delivery is strong or very strong, seven areas where the majority of respondents feel the level of service provided by HR is weak or very weak, and four areas where the majority of respondents felt neutral about the services provided by HR.

*Internal Audit's Recommendations:*

1. The university should develop the procedures and controls necessary to ensure HR complies with the policies set forth by the university, the System Office, and OSHR when hiring internally.
2. To ensure consistency, HR should develop and implement guidelines for the university's job posting process that govern its competitive job searches, both internal and external.
3. University management should determine the legitimacy of the HR job posting and seek guidance about next steps from the System Office and/or OSHR, if considered necessary.
4. The university should assign the responsibility to evaluate HR's hiring decisions for compliance with the university's Equal Employment Opportunity/Affirmative Action Plan and Policy to another senior employee, outside of HR, to avoid the potential for conflicts given that the Director of HR is also the EEO officer.
5. University management should ensure HR develops and implements appropriate user access controls, including compensating controls, where necessary. Users should be prohibited from making unauthorized updates to their own payroll and personnel records.
6. University management should evaluate employee separation practices to ensure they align with the institution's values and goals for stewardship and that practices are in place to ensure risk exposures are sufficiently managed.
7. The university should implement the measures necessary to ensure persons in positions of authority understand their responsibility to act in the best interest of the State of North Carolina when making business and financial decisions.
8. In conjunction with HR, university management should develop policies and documented procedures to govern the employee separation process. As part of the documented procedures, a checklist should be created to ensure all matters related to employee separation have been addressed with efficiency.
9. The university should implement control procedures to ensure employee's system access is removed when an employee separates
10. The university should design and implement control measures that address the confidentiality

and physical security of personnel records. The HR staff should be required to sign confidentiality statements annually.

11. University management should consider requiring department heads to develop goals that are specific, measurable, achievable, realistic, and timely, and align with the university's strategic plan. Further, specific risks to strategy and goals should be identified to ensure effective management and strategic success.
12. HR should implement control measures to assist in ensuring all State mandated trainings are offered and attended by the appropriate personnel.
13. HR should update its training website in a way that fosters clear understanding of training requirements for the university's employees and include professional development opportunities available campus-wide, including those offered by other university departments.
14. University management, in conjunction with HR, should further consider and address the concerns provided via the Internal Audit survey.
15. HR should occasionally survey the campus community in order to assess services provided and address opportunities for improvement.

*Management's response to the issues and recommendations were as follows:*

- UNCSA concurs with the recommendations in all material respects and is initiating corrective action to alleviate deficiencies and mitigate risk. Many policies and procedures have been subsequently implemented to address concerns relating to inconsistent hiring and termination processes, system access controls, and deficiencies in maintaining confidentiality.

UNCSA's Human Resource Department is currently undergoing a significant managerial and operational transition with the retirement of its Director. Leadership is capitalizing on this opportunity, with input from University of North Carolina System Office Human Resources, to effect positive change relating to standardization of policies and procedures, enhanced training and employee development, and elevating the level of proficiency and professionalism of the department.

Please respond to this office by October 9, 2020, and let us know if and how the agreed upon actions were implemented or if management has measured and accepted the risk of not taking action. Please include any and all evidence necessary to corroborate your statements.

Thank you very much for your attention to this matter, and please contact us if you have any questions.

# Fiscal Year 21 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2021 Risk Assessment Process/Audit Plan	FR	N/A
Minors on Campus - Planned Review – 9/9/20	FR	N/A
WIG Program – Investigative Review	FC	<b>On Track</b>

## ^Progress Status

**Red** - Major Delays

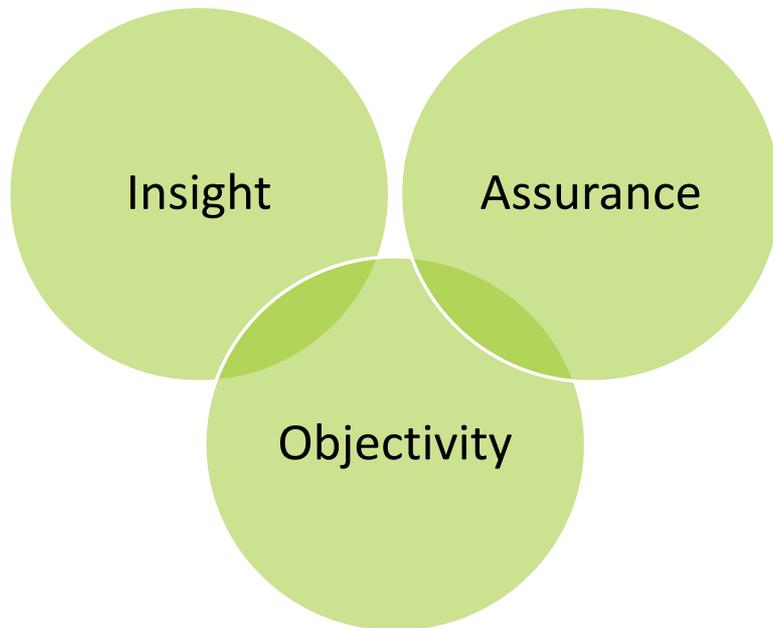
**Yellow** - Some Delays

**Green** - On Track

**Gray** - Not Started

## \*Milestones

- (PC) Planning Complete
- (EC) Entrance Conference
- (FC) Fieldwork Commenced
- (FCP) Fieldwork Complete
- (EXC) Exit Conference
- (DR) Draft Report Issued
- (FR) Final Report Issued



Internal Audit operates as an independent function charged with evaluating operations and helping to improve the effectiveness of risk management, control, and governance processes.

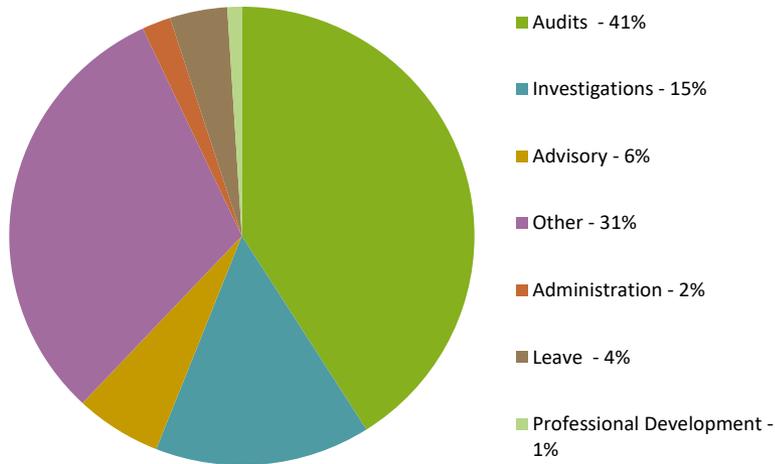
We provide management:

1. *Insight* into operations through audits and reviews.
2. *Reasonable Assurance* as to the adequacy and efficiency of operations.
3. *Objectivity* in the performance of the work.

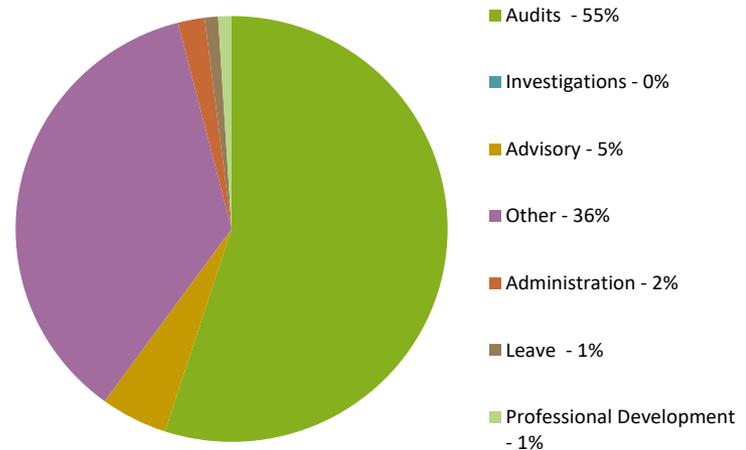
# Snapshot as of June 30, 2020

- Completed audits and advisory services resulting in reports with findings that produced **23** written recommendations and verbal recommendations for improvements in the following University Departments: Human Resources, Controller's Office, EHS, Police & Public Safety, and Information Technology.
- Conducted numerous consults with University personnel that resulted in email or verbal communications in lieu of formal reports.
- Audit Plan Completion Percentage: 81%

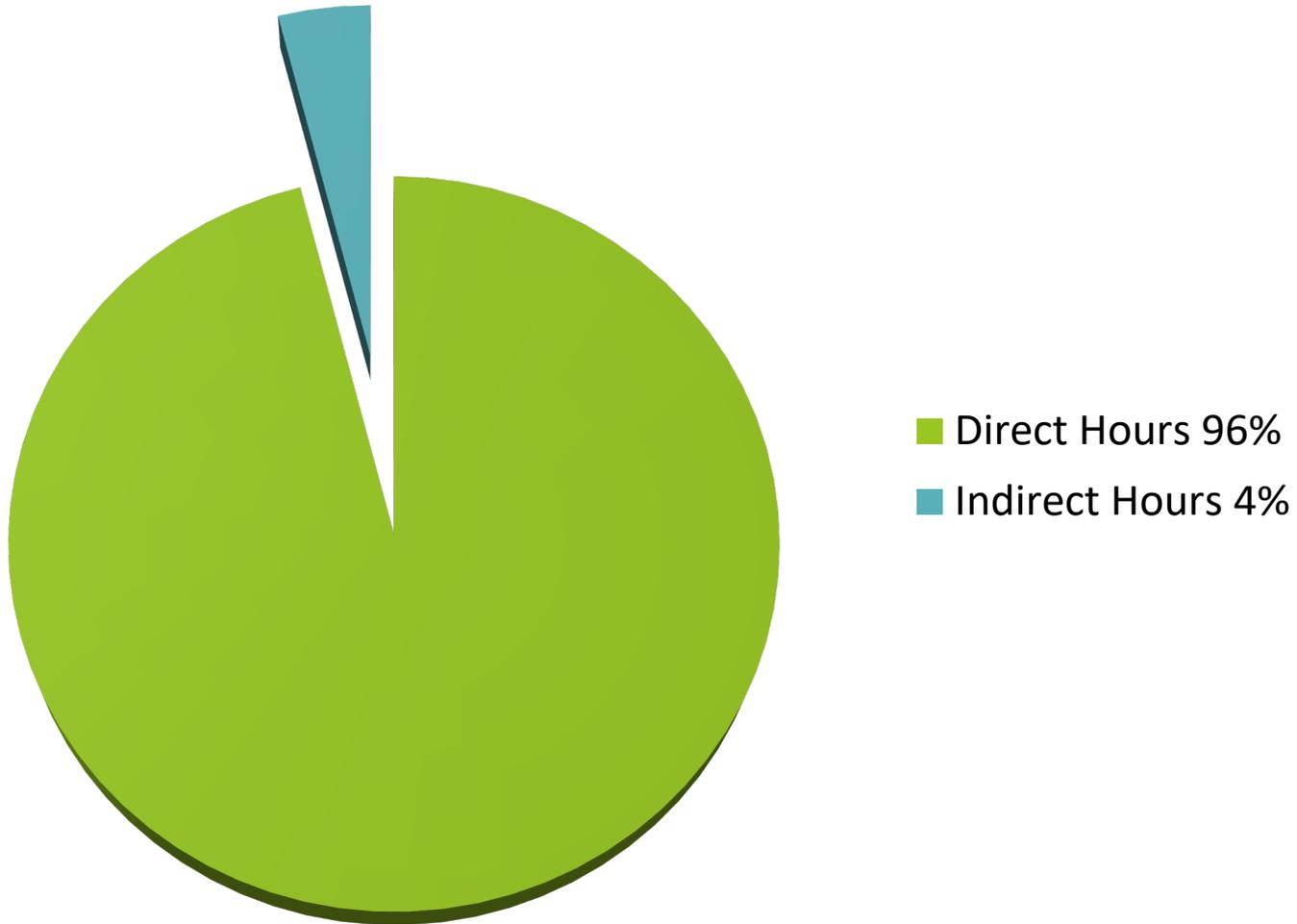
## Planned Hours = 1,800



## Actual Hours = 2,232



## Direct vs. Indirect



# Fiscal Year 20 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2020 Risk Assessment Process/Audit Plan	FR	N/A
Risk Monitoring Memo - Worker Classification – 8/9/19	FR	N/A
Environmental Health & Safety – 11/21/19	FR	N/A
FY2020 QAR – Self-Assessment with Independent Validation	FR	N/A
Risk Monitoring Memo – Campus Safety Concerns – 1/24/20	FR	N/A
IT Operations – Follow-up – 5/22/20	FR	N/A

## ^Progress Status

**Red** - Major Delays

**Yellow** - Some Delays

**Green** - On Track

**Gray** - Not Started

## \*Milestones

- (PC) Planning Complete
- (EC) Entrance Conference
- (FC) Fieldwork Commenced
- (FCP) Fieldwork Complete
- (EXC) Exit Conference
- (DR) Draft Report Issued
- (FR) Final Report Issued

# Fiscal Year 20 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
Wig Program - Investigation	FC	On Track

## ^Progress Status

Red - Major Delays

Yellow - Some Delays

Green - On Track

Gray - Not Started

## \*Milestones

- (PC) Planning Complete
- (EC) Entrance Conference
- (FC) Fieldwork Commenced
- (FCP) Fieldwork Complete
- (EXC) Exit Conference
- (DR) Draft Report Issued
- (FR) Final Report Issued

UNCSA FY20 Summary of All Findings and Recommendations - OPEN

Project Name	Finding(s)/Observation(s)	Recommendation(s)	Number of Recommendations	Report Type	Subject to Disclosure	Office or Department	New/Previous	Date	Follow-up Required (Y/N)
1 IT Operations Follow-up	<b>Previous Finding:</b> Insufficient IT Gap Analysis and Risk Assessment <b>Current Status:</b> PARTIALLY RESOLVED	The university should fully implement IA's previous recommendation and ensure the risk assessment process is comprehensive and identifies its top risks by addressing the likelihood of risk occurrence and risk significance. Further, university management should identify how the risks can be managed properly.	1	Follow-up Audit Report	Yes	Information Technology	New	5/22/2020	Y
2 IT Operations Follow-up	<b>Previous Finding:</b> Outdated Information Security Policy <b>Current Status:</b> PARTIALLY RESOLVED	IT should implement IA's previous recommendation by ensuring the new security policy complies with ISO 27002, is approved according to university policy, and published.	1	Follow-up Audit Report	Yes	Information Technology	New	5/22/2020	Y
3 IT Operations Follow-up	<b>Previous Finding:</b> Incomplete Data Classification <b>Current Status:</b> PARTIALLY RESOLVED	IT should implement IA's previous recommendation and ensure control procedures are in place for data classification, such as documented guidance on how the custodians should handle and/or protect the data, and that this guidance is communicated to the data owners.	1	Follow-up Audit Report	Yes	Information Technology	New	5/22/2020	Y
4 IT Operations Follow-up	<b>Previous Finding:</b> Operating Procedures Not Documented <b>Current Status:</b> PARTIALLY RESOLVED	IT should fully implement IA's previous recommendations by developing and documenting operating procedures for each of its key processes.	1	Follow-up Audit Report	Yes	Information Technology	New	5/22/2020	Y
5 IT Operations Follow-up	<b>Previous Finding:</b> Campus Community Concerns <b>Current Status:</b> RESOLVED	Prior recommendations were implemented.	-	Follow-up Audit Report	Yes	Information Technology	New	5/22/2020	N
6 IT Operations Follow-up	<b>MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW</b>	MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW (NCGS 132-6.1)	2	Follow-up Audit Report	No	Information Technology	New	5/22/2020	Y
7 IT Operations Follow-up	<b>MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW</b>	MATTERS NOT SUBJECT TO DISCLOSURE UNDER PUBLIC LAW (NCGS 132-6.1)	1	Follow-up Audit Report	No	Information Technology	New	5/22/2020	Y
8 Environmental Health & Safety's Life Safety Protocols	<b>Campus Safety Concerns</b>	Ensure adequate safety protocols are in place and that the campus community is aware of the protocols.	1	Risk Monitoring Memo	Yes	Police & Public Safety	Previous	1/24/2020	N
9 Environmental Health & Safety's Life Safety Protocols	<b>Lack of a Comprehensive and Effective Safety Management Plan</b>	1) EHS should develop a safety management plan that establishes policies, controls, and workplace protocols addressing how hazardous exposures and work related injuries or illnesses are identified and addressed. 2) Protocols should be created to ensure plans are put in place to effectively address safety violations identified by internal and external reviewers. 3) Fire prevention guidelines should be documented and communicated accordingly.	3	Audit Report	Yes	EHS	Previous	11/20/2019	Y
10 Environmental Health & Safety's Life Safety Protocols	<b>Insufficient Health and Safety Training Plan</b>	1) EHS should implement accountability and control measures to assist in ensuring all necessary and required trainings are offered and attended by the appropriate personnel. 2) EHS should work with Human Resources to coordinate training efforts and develop a system that will allow EHS to effectively and efficiently train new hires and employees transferring into roles where such training is required. 3) EHS should create an acknowledgement form that employees, visitors, and/or contractors have to sign indicating that they have been informed and properly educated of hazardous areas before entering.	3	Audit Report	Yes	EHS	Previous	11/20/2019	Y
11 Environmental Health & Safety's Life Safety Protocols	<b>No Safety Committee</b>	EHS should work with university administration to develop a safety committee.	1	Audit Report	Yes	EHS	Previous	11/20/2019	Y
12 Environmental Health & Safety's Life Safety Protocols	<b>Ineffective Information and Communication about EHS Services</b>	1) The university should develop an EHS webpage on its website to inform the campus community of matters related to environmental health and safety. 2) EHS should work with the Office of Strategic Communications and develop a communication strategy.	2	Audit Report	Yes	EHS	Previous	11/20/2019	Y
13 Environmental Health & Safety's Life Safety Protocols	<b>No Risk Management Process</b>	EHS should develop a risk management process so that management has the tools necessary to identify health and safety risks and develop the corresponding risk mitigating procedures.	1	Audit Report	Yes	EHS	Previous	11/20/2019	Y

14	Environmental Health & Safety's Life Safety Protocols	<i>Campus Perception of EHS</i>	<p>1) University management, in conjunction with EHS, should further consider and address the concerns provided via the IA survey.</p> <p>2) EHS should occasionally survey the campus community in order to assess services provided and address opportunities for improvement.</p>	2	Audit Report	Yes	<i>EHS</i>	Previous	11/20/2019	Y
15	Vendor Contract Follow-up	<i>Risk Monitoring Memo - Worker Classification for Federal Tax Purposes</i>	<p>1) Ensure individuals' on-going relationships with the university are being evaluated in accordance with university policy and Internal Revenue Service guidelines.</p> <p>2) The university consider the circumstances surrounding the individual identified in this communication and rectify any noncompliance.</p> <p>3) The Temporary Hourly Employee Form 301 be updated to include questions that allow all existing or pre-existing relationships to be considered.</p>	3	Risk Monitoring Memo	Yes	<p><i>* Human Resources</i></p> <p><i>* Controller's Office</i></p>	Previous	8/9/2019	N

The audit plan is based upon Internal Audit's (IA) unit risk assessment process and outlines the IA unit plans for the year based upon available resources and the impact of risks identified. The audit plan is a fluid document and is subject to change based upon current events that may pose a risk to the university, continuous risk monitoring efforts, and available resources. This document is for informational purposes only.

UNCSA FY21 Audit Plan

<b>A</b>	<b>Continuation from Previous Year:</b> <i>Projects that were carried over from the previous plan year.</i>
	Minors on Campus (Planned Audit)
	Wig Program Purchase (Investigation)
<b>B</b>	<b>Planned Reviews:</b> <i>Projects added to the plan as a result of the annual risk assessment process. Plan reviews are subject to change based upon risks.</i>
	Strategic Training Review
	COVID 19 Assessment
<b>C</b>	<b>Follow-ups:</b> <i>Previous reviews performed that identified findings. IA is required to follow-up to ensure management has taken corrective actions to resolve issue.</i>
	CDI Controls Review
	Human Resources Control Environment
	IT Operations Post Follow-up
<b>D</b>	<b>Complaints &amp; Hot Line Calls:</b> <i>New complaints received this fiscal year that will result in a review.</i>
	None currently
<b>E</b>	<b>Advisory &amp; Special Assignments:</b> <i>Special activities and assignments that are assigned to internal audit to assist and advise management. These activities below does not generally result in a audit report.</i>
	Audit Committee
	University-wide Meetings/Consults
	Assisting External Auditors & Oversight Agencies
	Search Committees
	University's Strategic Plan
	Cabinet Meetings
	Enterprise Risk Management
	Technical Assistance
<b>F</b>	<b>Other:</b> <i>Activities that assist the audit unit with planning, assessments, and continuous improvement efforts. The activities below does not generally result in a audit report.</i>
	Audit Planning & Assessment
	IA Strategy, outreach, on-the-job training, assessment
	Quality Assurance and Improvement - assessment, activities
	Internal Policies and Procedures, CAATs, Best Practices, Website, Sharepoint
	Staff Meetings
<b>G</b>	<b>Administration/Leave/Professional Development:</b> <i>Administrative relative matters, time off, and professional development.</i>
	Office Administration
	Time Off

Summary of Hours Available for Plan	
Hours per FT Auditor:	2,080
UNCSA Contract Hours:	1,800

Training & Webinars

H	<b>Other Potential Reviews Currently not Planned:</b>	<i>Potential reviews identified from the annual risk assessment that are unable to be performed due to lack of resources at this time, but could be added during the year based upon assessment of risk and additional resources.</i>
		Business Continuity/Disaster Recovery
		Equity, Diversity, & Inclusion
		Deferred Maintenance Assessment
		Title IX

# Other Activity, Matters, and Operations Update

## Bill Draft

- A new bill has been drafted that could impact Internal Audit.
- The bill draft contains a recommendation for the Council of Internal Auditing to establish minimum performance standards for all state agency internal audit units and monitor compliance with these performance standards.
- We will keep the ARCC informed as more information becomes available.

## Office Staffing

- Currently there are 3 auditors and 3 vacancies within the unit
- Due to COVID, the unit has been working remote primarily with no issues

## 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 UNCSA management and free of any relationship that would impair such independence. Members may not receive from UNCSA 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 UNCSA 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, his designee, or the 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, Risk, and Compliance Committee  
UNC School of the Arts