

February 23, 2021

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 December 1, 2020 Meeting..... Chairman Berlin
3. Matters of Governance, Risk and Compliance Rod Isom
& UNCSA Management
 - a) Enterprise Risk Management... Jim DeCristo
 - b) Information Governance & Security..... Greg Gleghorn,
Director of Information Security
 - c) Title IX & Clery Compliance.....Valerie Thelen,
Chief Compliance Officer and Director of Title IX
4. Discussion of Internal Audit's Activity.....Rod Isom
 - a) IA Operations Update
 - b) Recent Reports and Other Communications
 - c) Internal Audit Activity Update
 - d) Summary of Findings and Recommendations for Fiscal Year 2021
 - e) Other Activities and Matters

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

CLOSED SESSION

- 5. Approval of Minutes from the December 1, 2020 meeting (if any).....Chairman Berlin
- 6. Discussion of Special Items, Reviews and Investigations (if any).....Rod Isom, Valerie Thelen, and David Harrison

OPEN SESSION

- 7. Other BusinessCommittee Members & Staff
- 8. Adjourn.....Chairman Berlin

OPEN SESSION MINUTES

December 1, 2020

University of North Carolina School of the Arts

Zoom Video Conference

TRUSTEES PRESENT

***denotes voting committee members**

Steve Berlin (Chair)*, Rob King*, Anna Folwell*, and Ralph Womble (ex officio)*

ADMINISTRATION & STAFF PRESENT

Rod Isom (Interim Chief Audit, Risk, and Compliance Officer), David Harrison (VC and General Counsel), Patrick Sims (Executive Vice Chancellor and Provost), Jim DeCristo (VC and Chief of Staff), Michael Smith (VC for Finance & Administration), Amanda Balwah (AVC and Secretary of the University), Greg Gleghorn (Director of Information Security), Wendy Emerson (AVC and Controller), Martha Golden (Faculty Council Representative), Kathryn Rowe (Staff Council Representative), Cory Billings (Internal Auditor)

CONVENE OPEN SESSION AND CONFIRM QUORUM

Committee Chair Steve Berlin convened the December 1, 2020 Meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 4:00 p.m. A quorum was present.

APPROVAL OF MINUTES

MOTION: Ralph Womble moved to approve the September 22, 2020 Open Session Minutes as presented. Rob King seconded and the minutes were unanimously approved.

ENTERPRISE RISK MANAGEMENT (ERM)

Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff, reported that a majority of ERM efforts have been focused on Covid-19 since March of this year. Some of the previous risk priorities continue to make progress, such as the new residence hall project, faculty and student support through the comprehensive campaign, and implementation of new Title IX regulations. There are plans for the ERM Steering Committee to re-evaluate UNCSCA's risk priorities via a survey during Spring 2021 if the Covid-19 situation is stable.

INFORMATION GOVERNANCE & SECURITY

Greg Gleghorn, Director of Information Governance and Security, provided the following update:

- Phase One of IT's Multifactor Authentication Project (MFA) is complete. All faculty and staff are now participating in multifactor authentication. This is a significant milestone and will help increase our security posture, especially as it pertains to compromised

authentication accounts. Phase Two of the project is underway and Phase Three will include students.

- Tabletop exercises have been designed to test and evaluate how effectively IT responds to ransomware incidents.

DISCUSSION OF EXTERNAL AUDITS AND REVIEWS

Wendy Emerson, Associate Vice Chancellor for Finance and Controller, presented the results of the liquidation of the Federal Perkins Loan Program. The result of the report was that all loans in the Federal Perkins Loan Portfolio have been accounted for, assigned to the Department of Education, or purchased by the University. The service cancellation data has also been properly reported.

Ms. Emerson also reported that the UNCSA Financial Statement Audit was clean with no findings.

Cindy Liberty, Executive Director of the UNCSA Foundation, reported that the UNCSA Foundation and Semans Arts Fund audits were clean audits with no findings.

DISCUSSION OF INTERNAL AUDIT ACTIVITY

Rod Isom, Interim Chief Audit, Risk, and Compliance Officer, provided the following updates:

- Internal Audit is currently down to two auditors from three last spring. One auditor is currently out on leave.
- There are three vacancies within Internal Audit. The search for an IT Auditor is currently underway.
- An investigation regarding an improper salary increase in the School of Filmmaking did not result in any reportable observations.
- The next planned review will examine COVID spending and the University's pandemic response plan. The engagement letter was issued to management on November 23, 2020 and the audit fieldwork will commencement in January 2021.
- Fieldwork has been completed in the Medical Wig Program investigation. The report is currently being prepared and will be discussed at the February 2021 committee meeting.
- Overall, three projects have been completed by Internal Audit so far this year, and another project currently in progress. The final audit reports have resulted in five observations and ten written recommendations for the Provost's Office, Community and Summer Programs, Community Engagement and ArtistCorp, and Human Resources.

MOTION TO GO INTO CLOSED SESSION

MOTION: Ralph Womble moved to go into Closed Session to prevent the disclosure of information that is privileged or confidential pursuant to Section 116-40.7 of the N.C.G.S.

– Internal Auditors Work Papers. Rob King seconded and the motion was unanimously approved.

RETURN TO OPEN SESSION

ADJOURNMENT

With no further business to discuss, Chairman Berlin adjourned the meeting at 4:50 p.m.

Respectfully submitted by:

Amanda G. Balwah

Associate Vice Chancellor and Secretary of the University

AGENDA ITEM

Enterprise Risk Management Update (ERM)presented by Jim DeCristo

Summary: Covid-19 update – a majority of ERM efforts have been focused on Covid-19 since March of last 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.

We are beginning the process to re-evaluate UNCSCA's risk priorities via a survey during spring 2021. The goal is to complete the process by April 30, 2021 as this is the deadline to submit our top 5 risks to the UNC System Office.

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

AGENDA ITEM

Information Governance and Security Update.....presented by Greg Gleghorn,
Director of Information Security

Summary:

- IT Governance Update
- Security awareness training, specifically phishing campaigns, is underway. During the final quarter of 2020, we conducted a baseline phishing campaign against all faculty/staff.

User Activity Metrics Results

Total users targeted for phishing	521
Number of replies	3 (0.58% failure rate)
Number of clicked links	28 (5.37% failure rate)
Number of data entered	17 (3.26% failure rate)
Number of reported emails	48 (9.21% success rate)

Overall our results were somewhat favorable; however, our initial phishing campaign email had a difficulty rating of 2 out of 5. Below are our plans and recommendations as we advance for our security awareness training program.

Summary Recommendations

A quarterly phishing campaign needs to be developed with an increased level of difficulty. This campaign should also include a more extensive selection of phishing templates to reduce users' chances of alerting one another to the phishing campaign.

Other phishing campaigns should be created to target specific groups that have elevated user rights or have access to sensitive systems. Example: Finance, Information Technology, Registrar, Advancement, Financial Aid, and C-Level Administrators.

Users who fail by either clicking the malicious link or submitting personally identifiable information should be enrolled in cybersecurity training. This process can be automated within KnowBe4 with minimal administrative overhead. Instructor lead training should be considered for repeat offenders.

Training needs to be developed to instruct users to submit suspected phishing emails via the phishing alert button within Outlook.

A method should be developed to track support request calls to Technology Support relating to phishing attempts. This will provide an additional metric to gauge the effectiveness of end-user training.

Plan to increase the testing scope to include Vishing (Voice Mail Phishing) and USB Drop Attacks.

Consider extending the phishing campaign to include students.

Action: For informational purposes only.

AGENDA ITEM

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

Summary:

- Clery Act Compliance Reporting Update
- Title IX Update and other Programmatic Initiatives

Action: For informational purposes only.

AGENDA ITEM

Internal Audit Activity Update Rod Isom

Summary:

- a) IA Operations Update
- b) Recent Reports and Other Communications**
- c) Internal Audit Activity Update
- d) Summary of Findings and Recommendations for Fiscal Year 2021
- e) Other Activities and Matters

***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.

IA Operations Update

Office Staffing

- The department currently has 3 vacancies within the unit.
- The IT Auditor search has identified 2 finalists. An offer is expected to be made by the end of the month.



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

February 10, 2021

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

Dear Dean Kelley:

This letter is in response to a request that the Internal Audit Unit (IA) of the Winston-Salem State University (WSSU) Office of Audit, Risk, and Compliance investigate a complaint received by management of the University of North Carolina School of the Arts (UNCSA) concerning questionable business practices within the Medical Wig class at UNCSA. The primary concerns from the allegation are misuse of purchasing cards (P-Card) and lack of payment to a graduate assistant in the Medical Wig class.

Pursuant to North Carolina General Statute § 116-40.7, we have completed our review of this matter to the extent allowed by the quality of the information received and the available evidence. The purpose of this review was to determine if the allegations had merit and could be substantiated. Please see the *Results* section for details related to the allegations and the *Audit Observations and Recommendations* section for matters related to internal controls and compliance. The university's corrective action plan is included in management's response.

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.

February 10, 2021

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Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Rod Isom', with a stylized flourish at the end.

Rod Isom

Interim Chief Audit, Risk, and Compliance Officer

cc: Brian Cole, Chancellor
Michael Kelley, Dean of Design and Production
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Cindy Liberty, Executive Director of Foundation
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

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BACKGROUND, OBJECTIVE, AND SCOPE

BACKGROUND:

IA received a complaint from university management on May 25, 2020. The complainant alleges a faculty member in Medical Wig did the following:

- Misused their university's P-Card by allowing tax to be applied for purchases;
- Misused their UNCSA Foundation (Foundation) P-Card to make an unallowable purchase; and
- Did not submit the appropriate hiring paperwork for a Medical Wig graduate assistant¹ to be added to payroll, and as a result, the student had not been paid.

The Medical Wig class, which is part of the Wig and Makeup Design program in the School of Design and Production (D&P), allows students to participate in the delicate process of working with clients who will lose or have already lost their hair due to chemotherapy or radiation therapy. The class is offered during the Spring semester through a funded partnership with the Derrick L. Davis Cancer Center at Novant Health Forsyth Medical Center (Novant). The funds awarded to the university by Novant are governed by the Foundation. The award amount for the Medical Wig class during the Spring 2020 semester was \$9,700.00.

The Foundation is a sole-support entity dedicated to the advancement and achievement of the students, faculty, and staff of UNCSA.

OBJECTIVE:

The objective of our review was to determine if the allegations had merit and could be substantiated.

To conduct the review, IA performed the following procedures:

- Reviewed university and state policies and procedures;
- Interviewed university employees and individuals external to the university; and
- Examined relevant documents and records.

¹ Human Resources' Student Title document defines graduate assistant as, "A graduate student, enrolled as a full-time student in accordance with their program of study, who performs support functions, and is not a Teaching Assistant or Research Assistant..."

BACKGROUND, OBJECTIVE, AND SCOPE

SCOPE:

The scope of the review was the 2019-2020 academic year.

This report presents the results of IA's review.

RESULTS

IA could not substantiate all aspects of the allegations. IA's review revealed the following:

- IA did substantiate that the faculty member misused their university's P-Card by allowing tax to be applied to a purchase.
 - The faculty member made a purchase of \$88.25 using their P-Card in November 2019 and did not inform the merchant that UNCSA was tax exempt which resulted in tax being applied in the total cost.
 - The \$88.25 purchase consisted of \$5.58 related to tax.
 - The faculty member resolved the matter in March 2020 by having the tax reimbursed, but due to the matter not being resolved timely, the Business Officer suspended the faculty member's P-Card.
 - *See Observation #3 in the section entitled Audit Observations and Recommendations for compliance and control issues related to this allegation.*
- IA did substantiate that a faculty member misused their Foundation P-Card to make an unallowable purchase.
 - The faculty member executed an agreement to purchase a fabricated 3-D model head for Medical Wig for \$1,018.07 with a Foundation P-Card in February 2020.
 - The purchase was identified during D&P's Business Officer review process of expenditures made with the Foundation P-Card. It was also noted that the faculty member had entered into an agreement without the appropriate authority and that the faculty member used their personal company's name and address as the purchaser.
 - The purchase was also identified as a service, which is an unallowable expense for Foundation P-Cards, based upon the fabrication process to make the 3-D head.
 - The Business Officer, in consultation with the Dean of D&P, suspended the faculty member's Foundation P-Card due to the questionable business practices.
 - *See Observation #3 in the section entitled Audit Observations and Recommendations for compliance and control issues related to this allegation.*
- IA did substantiate that a faculty member did not submit the appropriate hiring paperwork for a graduate assistant to be added to payroll during Spring 2020. However, IA did not substantiate that the student had not been paid.
 - The appropriate documentation for the graduate assistant to be added to payroll was not submitted by the faculty member. Medical Wig was awarded funds from Novant, which had funds budgeted at \$500.00 per graduate assistant, for a total of \$1,000.00. While the graduate assistant was not paid from a university related account, the faculty member

RESULTS

- personally paid the graduate assistant the \$500.00.
- *See Observation #2 in the section entitled Audit Observations and Recommendations for compliance and control issues related to this allegation.*

During the review, IA noted additional observations that were considered outside the scope of the review, that have been communicated to management in a risk monitoring memo.

See the section entitled *Audit Observations and Recommendations* for compliance and control issues related to this allegation.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following information represents the observations identified during IA's investigation. Recommendations have been provided to mitigate adverse impacts on the university's ability to meet its objectives.

1. Inadequate Conflict Management

D&P does not have effective controls in place to mitigate conflict management. As a result, the department is not in compliance with the governing conflict management policies.

A faculty member within Medical Wig has their own company that specializes in ready-to-wear hair products and services, which is related to their Medical Wig class at the university. The faculty member did not have their *Annual Report of Potential Financial Interests or Relationships* form appropriately approved for the period the Medical Wig class took place, Spring 2020. The faculty member completed and signed the form in October 2019; however, the Dean of the department did not approve the form in a timely manner. The form was not approved until October 2020, which is after the class concluded in the Spring term. Further, the form does not have a field that identifies the type of conflict category², which determines the appropriate procedures the university should implement to manage the conflict.

Further review of the *Annual Report of Potential Financial Interests or Relationships* form indicates as a reference that the faculty member's personal company was approved by the previous Provost and other personnel to provide the Wig and Makeup Department hair products at a low cost. However, at the time of submission, the previous Provost was no longer with the university.

It was also noted, during discussion with management, that appropriate controls and oversight were not in place to ensure the reported activity does not present any conflict management issues. Further, there was no evidence of a management plan approved by the faculty member's immediate supervisor and Dean for Spring 2020 that identified a clear approach to ensuring conflict is being managed and mitigated appropriately.

Lastly, the faculty member is using university resources to advertise their personal business on the university's Medical Wig website which is noncompliance with the university's External Professional Activities for Pay regulation and Technology Use regulation.

² The Conflict of Interest (Employees) Regulation (Regulation 603) classifies conflicts by categories, category 1 – 4, to determine if they are permissible. The classification of the conflict determines the actions that must be taken by management to mitigate the risk associated with the conflict.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Without appropriate controls in place to manage conflict and without senior management enforcing compliance and holding employees accountable, the department cannot operate effectively, which could negatively impact the Medical Wig class.

Criteria:

The “Disclosure of Conflicts” section of the university’s Conflict of Interest (Employees) Regulation (Regulation 603) states, “All UNCSA employees are required to complete and submit a Conflicts of Interest disclosure form on an annual basis on a schedule announced by the Provost and described in the Procedures. The Provost will remind all UNCSA covered employees to complete and return the disclosure forms on an annual basis.”

The “Definition - Conflict of Commitment” section of Regulation 603 states, “Conflicts of Commitment relates to an individual’s distribution of efforts between obligations to one’s UNCSA employment responsibilities and one’s participation in other activities outside of one’s UNCSA employment, including such generally encouraged extensions of professional expertise as professional consulting. A conflict of commitment occurs when the pursuit of such outside activities involves an inordinate investment of time that interferes with the employee’s obligations to students, colleagues, and to UNCSA’s missions.”

The “Definition - Conflict of Interest” section of Regulation 603 states, “Conflicts of Interest” relate to situations in which financial or other personal considerations may compromise, or have the appearance of compromising, an employee’s professional objectivity in meeting the employee’s UNCSA duties or responsibilities, including decisions about personnel, the purchase of equipment and other supplies, the collection, analysis and interpretation of data, the selection of pieces for performances, and other artistic activities. A conflict of interest may occur when the employee, or any member of the employee’s immediate family or household, has a personal interest in an activity that may affect the employee’s decision making with respect to UNCSA teaching, research, service or administration.”

The “Notice of Intent – Approval” section of the university’s External Professional Activities for Pay Regulation (Regulation 610) states, “An employee must receive written approval from the appropriate administrator prior to engaging in an external activity for pay.”

The “Permissibility” section of Regulation 610 states, “External Professional Activities for Pay may only be undertaken if they do not... (3) Involve any inappropriate use or exploitation of University resources.”

AUDIT OBSERVATIONS AND RECOMMENDATIONS

The “General Regulations” section of the Technology Use Regulation (Regulation 508) states, “Use of UNCOSA technology resources for direct solicitations or commercial activities for personal financial gain is strictly forbidden.”

Recommendations:

- 1) D&P should create a detailed conflict management plan and implement appropriate monitoring procedures to ensure accountability and to mitigate conflict management and noncompliance. Additionally, the arrangement of using the faculty’s member personal company to sell hair products to the university should be discussed and approved by the newly appointed Provost.
- 2) D&P should implement procedures to ensure annual forms are completed and approved in a timely manner to ensure compliance with Regulation 603 and 610.
- 3) The university should update the annual reporting form to allow for the appropriate conflict category to be identified so the appropriate procedures according to Regulation 603 can be implemented to mitigate risk.
- 4) D&P should ensure employees are trained on the appropriate use of university’s resources.

2. Not Following Hiring Protocols

UNCOSA’s hiring protocols for a graduate assistant were not followed by a Medical Wig’s faculty member. As a result, the student was not compensated for work timely and appropriately.

A graduate assistant was hired to work in the Medical Wig class during the Spring 2020 semester. However, management did not ensure the student completed the appropriate paperwork to receive payment from the university. Because the requisite documentation was not completed, the student was not appropriately paid. According to the spending budget for the funds awarded from Novant, \$500.00 was budgeted for the graduate assistant. To ensure the student received payment for the services provided, the faculty member paid the student with personal funds on May 22, 2020 but was not reimbursed. IA inquired with the student, who confirmed that payment was received.

HR’s Temporary Employment guidelines require that an employment contract be completed as part of the hiring process. There was no active record within the HR Banner system of the student for Spring 2020. Management completed the temporary paperwork during the prior year indicating that management understands how the process works. The paperwork from the prior year included *Form 401 – Temporary Flat Rate Employee* and the *Temporary Employment Contract*. Ineffective pay practices for students are a reputational risk for the university and should be avoided.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

Criteria:

HR's Temporary Employment guidelines states, "All flat rate temporary employees must have his/her paperwork submitted to Human Resources by the 10th of the payroll month in order to receive payment. If paperwork is submitted late the employee may not receive payment until the following month."

The "Foundation's Responsibility for Approving Expenditures" section of the Foundation's Spending Policies states:

All requests for reimbursement to an employee for travel, meals, entertainment and similar expenses must be received by the Foundation within 45 days of the end of the event, trip, etc. for which the expenses were incurred. If the request is not received within that time period, reimbursement will only be made if the request is accompanied by an explanation satisfactory to the Executive Director of the Foundation and signed by the appropriate member of the Vice-Chancellor(s) or the Chancellor.

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."

Recommendations:

- 1) D&P should provide training on an annual basis to faculty that hire student employees.
- 2) D&P should establish protocols to ensure paperwork is completed prior to graduate assistants beginning to work.
- 3) D&P should work with Legal Affairs and the Foundation to determine the appropriate documentation needed to verify faculty member's payment to the student and reimburse the faculty member with the funds designated for the graduate assistant so that there is evidence that the student was paid by the university.

3. Purchasing Card Violations

A faculty member misused their P-Card to buy supplies for their Medical Wig class. As a result, the employee was not in noncompliance with spending guidelines.

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A faculty member in the Medical Wig class used their Foundation P-Card to purchase a fabricated 3D model head for what appeared to be for their personal business. Details from the quote show where the head was shipped to the faculty's business address and not the university's address. Management was not able to produce shipping documents to substantiate the item was shipped to the university. However, according to discussion with the faculty member's supervisor and other members of university management, the 3D model head was used at the university. According to the faculty member, their personal company normally does business with the vendor, and the vendor must have used the personal company mailing information.

Further, the 3D model head was classified as a service, and service-related expenses are not allowable purchases according to Foundation P-card guidelines. While the service did result in a good being produced, the Foundation guidelines are not specific enough for an end user to be able to identify what constitutes a service.

Lastly, the faculty member entered into an agreement with the vendor to create the fabricated 3D model head on behalf of the Foundation. However, the faculty member did not have the authority to enter into the agreement. Prior to the fabricated 3D model purchase, the faculty member also inappropriately used their university P-Card for a different purchase.

Detective controls in place operated effectively in these instances. When the infractions were identified, the faculty member's P-Card privileges were revoked, however, the expenses had already occurred. If the appropriate control structure is not in place to mitigate expenses on front end, there is an increased risk that inappropriate charges could occur given the nature of the Medical Wig class and its similarity to the faculty's member personal business.

Criteria:

UNCSA Foundation Credit Card policy states, "Credit cards are issued by the Foundation to assist and facilitate students and faculty in the execution of their duties and assignments. In receiving a credit card, the recipient agreed to abide by the rules and responsibilities thereof. Failure to abide by the rules will result in cancelation of the credit card..." The Credit Card policy further states that P-Cards cannot be used to purchase the following, "(g) Personal support such as clothing, household items, or medical or personal services such as massages, cosmetics, or hair care."

The "General Guidelines" section of the Foundation Purchasing Card Policies states, "P-Cards are to be used for Foundation and UNCSA business transactions only. Personal use

AUDIT OBSERVATIONS AND RECOMMENDATIONS

of P-Cards is strictly prohibited. If a personal charge is made the Foundation should be contacted immediately.”

The “Persons Authorize to Approve Expenditures” section of the Foundation’s Spending Policies states that all employees reporting to the Dean of each school (including high school) or employees reporting to Vice-Chancellor(s) who are requesting for expenditures approval, must have the expenditures approved by the Dean and Provost or the Appropriate Vice-Chancellor(s) respectively. The section further states, “For all expenditures that require pre-approval/ prior approval, a copy of the preapproval and the budget if required must be sent to the Executive Director of the UNCSEA Foundation at the time of pre-approval/ prior approval.”

Recommendations:

- 1) D&P should implement preventative controls and require personnel to obtain proper approval before purchases are made.
- 2) Foundation and D&P should work together and create an annual training platform for personnel with Foundation P-Cards to ensure guidelines are understood.
- 3) The Foundation should update it policies and guidelines as it relates to prohibited expenditures regarding services. The policies and guidelines should clearly articulate what types of services are not allowed to assist with increasing understanding and mitigating unallowable expenditures.
- 4) D&P should ensure the faculty member receives additional training on university P-Cards to ensure guidelines are understood.

From: Michael Kelley
Dean of Design and Production

To: Rod Isom, Interim Chief Audit, Risk, and Compliance Officer
CC: Patrick Sim, David Harrison, Cindy Liberty
Date: February 2, 2021
Re: Response to Audit Findings and Recommendations -
Investigation of Business Practices within Medical Wig Class

School of Design & Production

Michael Kelley, Dean

1533 S. Main Street
Winston-Salem, NC 27127

Thank you so much for this very comprehensive report and the information that you have compiled, it's very informative of the missteps that we have made within the School of Design and Production around the Medical Wig and Makeup program. These recommendations within the report will be taken at full value and corrections will be made immediately. This is a very important program for the University and the School of Design and Production, and also for the supporters in our community that expect excellence from us.

UNCSA agrees with the observations and recommendations in the report and will implement the following actions:

1. Inadequate Conflict Management

Management's Response:

Plan of Action:

The Dean of the School of Design and Production would like to implement the following steps to be completed by the Wig & Makeup Associate Professor (Associate Professor):

- Annual Report of Potential Financial Interests or Relationships and management plan
 - Must be turned in before the end of the 2020-21 Academic year
 - There needs to be a meeting to discuss content before the end of the 2020-21 Academic year
- Conflicts Clearly identified
- Discuss conflicts with immediate supervisor and the Dean of the School of Design and Production
- Mediate conflict(s) with the University and get approval from:
 - The Office of the Provost
 - The Office of General Counsel for the University
- UNCSA's External Professional Activities form must be submitted to the Dean's office for approval
 - Current policy has this form completed and submitted to the Dean's Office 14 days before activity can take place

- Additional training is needed at the UNCSA Learning Center to develop a better skill set in business and business management. Development should be taken in the following:
 - Money management
 - Budget and scheduling
 - Communications
- Additional training is needed in purchasing with the School of Design and Productions UAM on universities protocols, procedures, and appropriate resources.

The School of Design and Production will create a detailed conflict management plan that will address any conflicts of interest in a more detailed manner. And will include the following information:

- A detailed description of any conflict of interest
- Monitoring procedures for accountability
- Mitigate all conflicts within the document
 - And submit to the Provost Office for approval

Expected Date of Implementation:

These classes should be taken throughout the Spring Semester of 2021 and should be completed no later than the beginning of the Academic Year 2021-22.

The School of Design and Production conflict management plan will be implemented immediately

Party Responsible for Implementing the Identified Actions:

The Dean of the School of Design and Production will expect a written report from the instructor showing the proficiency in these areas which are lacking.

2. Not Following Hiring Protocols

Management's Response:

Plan of Action:

The School of Design and Production will work with the University General Counsel, the UNCSA Foundation and the Provost of the University to determine the new protocols and hiring procedures of student employees. The following information shall be included:

- Proper training of faculty and students about the hiring practice
 - An annual meeting will be established to go over procedures
- Articulate a proper timeline for the hiring procedures
- Establishing protocols and essential paperwork needed for hiring
- And clearly identify the Human Resources guidelines

The Dean of the School of Design and Production would like the following steps to be completed by the Associate Professor:

- Work with the Dean to develop this document, this will ensure that she understands all the protocols that need to be met in order to hire student employees
- Present to the faculty the new protocols and system set forth at a faculty meeting and answer any questions that they might happen to have
- Work with the School of Design and Production UAM next year to train all students and faculty to understand the new protocols

Expected Date of Implementation:

March 1, 2021

Party Responsible for Implementing the Identified Actions:

The Dean of the School of Design and production will be the point person on this document

3. Purchasing Card Violations

Management's Response:

Plan of Action:

The School of Design and Production will need to do the following with UNCSA Foundation cards:

- Put together an annual review of all procedures for faculty and students
 - The current annual meeting about purchasing and procedures will now include faculty and all students receiving a P-Card. This is normally done at the start-up of every Academic Year.
 - Each faculty member is required to understand all the procedures with P-Card purchasing, additional training will be given to those faculty members.
- The School of Design and Production will work with the Foundation Office to develop the following:
 - Review current policy and guidelines
 - Indicate new policy changes within P-Card purchases and clearly document changes
 - Present new changes to the faculty and students

Best Regards,



Dean Michael J. Kelley



WINSTON-SALEM
STATE UNIVERSITY



Office of Audit, Risk, and Compliance

Rod Isom, Interim Chief Audit, Risk, and Compliance Officer
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Memorandum

To: Michael Kelley, Dean of Design and Production

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

Date: February 10, 2021

Re: Notification of Risk Identification – Medical Wig Class Structure and Student Employment

The Internal Audit Unit (IA) of the Office of Audit, Risk, and Compliance completed an investigative review on February 10, 2021 concerning questionable business practices within the Medical Wig class¹ at the University of North Carolina School of the Arts. The complaint was received internally through IA's audit request process.

During that review, IA noted other areas where controls should be strengthened that were outside of the scope of the investigation. It is important to note that further examination of these areas is not included on the current audit focus list; however, the assessment of potential risk for loss or reputational damage is appreciable.

Specifically, it was revealed that students who work for the faculty member's personal business are not paid in a timely manner. It was also stated that students' grades in the Medical Wig class are based upon doing work for the faculty member's personal business, that there are not clear expectations for the graduate assistants, and that the class lacks organization overall.

The Medical Wig class is a unique class that brings positive recognition to the university for its philanthropic structure, as well as the opportunity it creates for the students. Additionally, the faculty member's personal business provides students with the opportunity to gain professional industry experience which helps support professional development. However, if there is not a

¹ The Medical Wig class, which is part of the Wig and Makeup Design program in the School of Design and Production, allows students to participate in the delicate process of working with clients who will lose or have already lost their hair due to chemotherapy or radiation therapy.

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sound control environment to ensure that good business practices are in place for optimal effectiveness and to protect the students from unintentional harm, the university's reputation could be negatively impacted.

As persons responsible for oversight of academic integrity and students' well-being within the School of Design and Production (D&P), and specifically the Wig and Makeup Design Program, IA is writing to encourage you to exercise greater than routine vigilance to address the overall structure and learning environment of the Medical Wig class and the associated relationship with the faculty member's personal business.

IA recommends the Provost work with the Deans, the General Counsel, and Human Resources to create a policy that governs student employment as it relates to working for faculty members' personal businesses should such practices continue. Considerations should be given to the protection of academic integrity for students who choose to work for faculty members' personal businesses. Additionally, D&P management should work with faculty to ensure there is structure and documented expectations for Medical Wig's graduate assistants, as well as ensuring that good business practices are in place and enforced.

We encourage you to bring to our attention any other potential deficiencies in controls and procedures you believe may pose any risks so that we may help you identify and implement solutions.

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

cc: Brian Cole, Chancellor
Patrick Sims, Executive Vice Chancellor and Provost
David Harrison, Vice Chancellor for Institutional Integrity and General Counsel
Audit, Risk, and Compliance Committee, UNCSA Board of Trustees

Fiscal Year 21 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2021 Risk Assessment Process/Audit Plan	FR	N/A
Planned - Minors on Campus - 9/9/20	FR	N/A
Investigation - UNC System Office - School of Filmmaking Salary Increase – 11/18/20	FR	N/A
Investigation - Medical Wig Program – 2/10/21	FR	N/A
Risk Monitoring Memo – Medical Wig Class Structure & Student Employment – 2/10/21	FR	N/A

^Progress Status

Red - Major Delays

Orange - Some Delays

Green - On Track

Blue - 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 21 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
Planned – COVID Spending & Response Plan	FC	On Track

^Progress Status

Red - Major Delays

Orange - Some Delays

Green - On Track

Blue - Not Started

*Milestones

- (PC) Planning Complete
- (EC) Entrance Conference
- (FC) Fieldwork Commenced
- (FCP) Fieldwork Complete
- (EXC) Exit Conference
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UNCSA FY21 Summary of Findings and Recommendations

	Project Name	Finding(s)/Observation(s)	Recommendation(s)	Report Type	Subject to Disclosure	Office or Department	Report Date	Follow-up Required (Y/N)
1	Minors on Campus	No Overarching Minors Policy for Governance	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
2	Minors on Campus	No Comprehensive List of Youth Programs	<p>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:</p> <ul style="list-style-type: none"> • 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. 	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
3	Minors on Campus	No Formalized Training Program	<p>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.</p> <p>2) Monitoring procedures should be put in place to track satisfactory completion of the training curriculum by all applicable individuals.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
4	Minors on Campus	Insufficient Risk Management	<p>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.</p>	Audit Report	Yes	* Provost * Community & Summer Programs	9/9/2020	Y
5	Minors on Campus	Incomplete Screening Process	<p>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.</p> <p>2) The university should establish and communicate standards for working with minors as these may differ from general hiring requirements.</p> <p>3) All background checks for employees and independent contractors should be conducted by HR.</p> <p>4) ArtistCorps program management should develop procedures to track completion of volunteer background checks.</p>	Audit Report	Yes	* Provost * Community & Summer Programs * Community Engagement & ArtistCorp * Human Resources	9/9/2020	Y

6	Medical Wig Investigation	Inadequate Conflict Management	<p>1) D&P should create a detailed conflict management plan and implement appropriate monitoring procedures to ensure accountability and to mitigate conflict management and noncompliance. Additionally, the arrangement of using the faculty's member personal company to sell hair products to the university should be discussed and approved by the newly appointed Provost.</p> <p>2) D&P should implement procedures to ensure annual forms are completed and approved in a timely manner to ensure compliance with Regulation 603 and 610.</p> <p>3) The university should update the annual reporting form to allow for the appropriate conflict category to be identified so the appropriate procedures according to Regulation 603 can be implemented to mitigate risk.</p> <p>4) D&P should ensure employees are trained on the appropriate use of university's resources.</p>	Audit Report	Yes	* Design and Production * Provost	2/10/2021	Y
7	Medical Wig Investigation	Not Following Hiring Protocols	<p>1) D&P should provide training on an annual basis to faculty that hire student employees.</p> <p>2) D&P should establish protocols to ensure paperwork is completed prior to graduate assistants beginning to work.</p> <p>3) D&P should work with Legal Affairs and the Foundation to determine the appropriate documentation needed to verify faculty member's payment to the student and reimburse the faculty member with the funds designated for the graduate assistant so that there is evidence that the student was paid by the university.</p>	Audit Report	Yes	* Design and Production * Foundation * Legal Affairs	2/10/2021	Y
8	Medical Wig Investigation	Purchasing Card Violations	<p>1) D&P should implement preventative controls and require personnel to obtain proper approval before purchases are made.</p> <p>2) Foundation and D&P should work together and create an annual training platform for personnel with Foundation P-Cards to ensure guidelines are understood.</p> <p>3) The Foundation should update its policies and guidelines as it relates to prohibited expenditures regarding services. The policies and guidelines should clearly articulate what types of services are not allowed to assist with increasing understanding and mitigating unallowable expenditures.</p> <p>4) D&P should ensure the faculty member receives additional training on university P-Cards to ensure guidelines are understood.</p>	Audit Report	Yes	* Design and Production * Foundation	2/10/2021	Y
9	Medical Wig Investigation	Medical Wig Class Structure and Student Employment	<p>1) The Provost should work with the Deans, the General Counsel, and Human Resources to create a policy that governs student employment as it relates to working for faculty members' personal businesses should such practices continue. Considerations should be given to the protection of academic integrity for students who choose to work for faculty members' personal businesses.</p> <p>2) D&P management should work with faculty to ensure there is structure and documented expectations for Medical Wig's graduate assistants, as well as ensuring that good business practices are in place and enforced.</p>	Risk Notification Memo	Yes	* Design and Production * Provost * Legal Affairs * Human Resources	2/10/2021	N

Other Activities and Matters

Council of Internal Auditing Maturity Model

An update from a matter shared in the September 2020 ARC Committee Meeting

- The Council has established a work group in developing a maturity model for internal audit departments. The model will be used to help audit departments conform with IIA Standards and used as a roadmap for continuous improvements.
- The work group has selected a hand full of Chief Audit Officers (CAO) from the State system, which include myself, to assist in developing the maturity model framework.
- The expectation thus far is for the assessment to be completed on an annual basis with an attestation to be signed by the CAO and their boss.

Risk Assessment

- We will be conducting our annual risk assessment earlier than usual to allow for the upcoming audit plan to be approved for the start of the fiscal year.