

University of North Carolina School of the Arts  
SAAB 306

**COMMITTEE MEMBERS:**

Peter Juran, Chair  
Greer Cawood  
Anna Folwell  
Mark Land  
Ches McDowell  
Ralph Womble, ex officio

**COMMITTEE STAFF:**

Rod Isom, 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, Associate Vice Chancellor for Institutional Integrity and Secretary of the University  
Toni Beery, Staff Council Representative  
Lauren Vilchik, Faculty Council Representative

**AGENDA**

**OPEN SESSION**

1. Call to Order and Confirm Quorum.....Chairman Juran
2. Approval of Minutes from the September 30, 2021 Meeting..... Chairman Juran
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 Update.....Valeire Thelen,  
Chief Compliance Officer and Director of Title IX
4. Discussion of External Audits and Reviews (if any).....Rod Isom &  
UNCSA Management
  - a) Semans Art Fund Annual Financial Statement Audit for 2021.....Cindy Liberty,  
Executive Director of Foundations
5. Discussion of Internal Audit's Activity.....Rod Isom
  - a) IA Operations Update
  - b) Recent Reports and Other Communications

- c) Internal Audit Plan Project Status and Updates
- d) Other Activities and Matters
- e) Review Audit Charter

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

**CLOSED SESSION**

- 6. Approval of Minutes from the April 27, 2021 & September 30, 2021 meeting (if any).....Chairman Juran
- 7. Discussion of Special Items, Reviews and Investigations (if any).....Rod Isom, Valerie Thelen, and David Harrison

**OPEN SESSION**

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

## **OPEN SESSION MINUTES**

September 30, 2021

University of North Carolina School of the Arts  
SAAB 306

### **TRUSTEES PRESENT**

**\*denotes voting committee members**

Peter Juran(Chair)\*, Mark Land\*, Ches McDowell\* and Ralph Womble (ex officio)\*

### **TRUSTEES ABSENT**

Anna Folwell\*

### **ADMINISTRATION & STAFF PRESENT**

Rod Isom (Chief Audit, Risk, and Compliance Officer), David Harrison (VC and General Counsel), 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), Lauren Vilchik (Faculty Council Representative), Cory Billings (Internal Auditor), Valerie Thelen (Chief Compliance Officer and Director of Title IX), Claire Machamer (Vice Chancellor for Strategic Communications), Patrick Sims (Executive Vice Chancellor and Provost), Terry Harmon (Chief Information Officer)

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### **CONVENE OPEN SESSION AND CONFIRM QUORUM**

Committee Chair Peter Juran convened the September 30, 2021 meeting of the University of North Carolina School of the Arts Audit, Risk, and Compliance Committee at 3:40 p.m. A quorum was confirmed.

### **APPROVAL OF MINUTES**

**MOTION: Ralph Womble moved to approve the April 27, 2021 Open Session Minutes as presented. Ches McDowell seconded and the minutes were unanimously approved.**

### **ENTERPRISE RISK MANAGEMENT (ERM)**

Jim DeCristo, Vice Chancellor for Economic Development and Chief of Staff, provided an ERM update. Based on changes made by the UNC Board of Governors, and at the request of the University System President, UNCSA updated the ERM Steering Committee Charter to include cyber security risk. IT security is already one of UNCSA's top five risk priorities and continues to be actively addressed by the ERM Steering Committee, the Director of Information Security, and his staff.

**MOTION: Ralph Womble moved to ratify the amendment to the Enterprise Risk Management (ERM) Steering Committee to include the cyber security risk. Mark Land seconded and the motion was unanimously approved.**

## **INFORMATION GOVERNANCE & SECURITY**

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

Information Technology's cyber security program is being assessed by MCNC against ISO 27002 Information Security Controls. Within this Information System Management (ISMS) framework, there are 14 high-level controls, each with sub controls (a total of 114) that are evaluated against a categorical scale:

- 0 - Not Performed
- 1 - Performed Informally
- 2 – Planned
- 3 – Well Defined
- 4 – Quantitatively Controlled
- 5 – Continuously Improving

UNCOSA began this project in May 2021 and uploaded the final assessment documentation on September 9, 2021. All UNC schools are participating in this project.

IT has engaged with Vantage Technology Consulting Group, who is helping the unit formalize IT Governance, IT Audit Preparation, and rewriting the Information Security Regulation based upon ISO 27002. The division has also partnered with Arctic Wolf as an external Security Operations Center (SoC). This partnership helps augment the unit's small staff, providing 24/7 support. IT has deployed sensors on UNCOSA's campus network and granted AW access to hosted and cloud environments.

## **TITLE IX OFFICE UPDATE**

Valerie Thelen, Chief Compliance Officer and Director of Title IX, provided the following update:

The Title IX Office has recently offered new Title IX training to meet its goal of reaching and educating more students. Partnering with Student Affairs, the training addressed issues such as bullying, harassment, and sexual assault and walked all students through the Title IX investigation process.

The office has also been able to contract with someone to assist with investigative services to ease the office workload and ensure the goal of reaching and educating all students.

## **DISCUSSION OF EXTERNAL AUDITS AND REVIEWS**

Michael Smith, Vice Chancellor for Finance and Administration, presented the following:

The UNCOSA Housing Corporation Financial Statement Audit and the UNCOSA Program Support Corporation Financial Statement Audit for fiscal year 2021 were completed earlier this month. The results of both audits included an unqualified opinion (clean audit) with no findings or issues to report.

The UNCSA Financial Statement Audit for fiscal year 2021 is underway with an anticipated completion date before the end of December. The NC Office of the State Auditor is conducting the audit.

The Chief Audit, Risk, and Compliance Officer, Rod Isom, presented the UNCSA Foundation Audit for fiscal year 2021. The result of the audit included an unqualified opinion (clean audit) with no findings or issues to report.

## **DISCUSSION OF INTERNAL AUDIT ACTIVITY**

Mr. Isom and the Internal Audit staff presented the following:

Internal Audit is happy to report that Rod Isom was appointed Chief Audit, Risk, and Compliance Officer July 1, 2021. The top priority for the division is to fill the Audit Manager previously held by Mr. Isom.

For 8 of the 12 months of FY21, Internal Audit only had 2 auditors working, and current operating staff levels are at 50% with only 3 out of 6 positions filled. All Internal Audit team members have professional certifications: 2 Certified Public Accountants, 1 Certified Information Systems Auditor, and 2 Certified Internal Controls Auditors.

Summary of Internal Audit Activity for Fiscal Year 2021:

- Audit Plan Completion Percentage – 60% (6/10)
- **9** projects were planned and **1** project was added to the audit plan
- **6** projects were completed and **4** were not started/ carried forward.
- Completed audits and advisory services resulted in reports with **11** observations that produced **29** written recommendations in various departments
- 100% of post audit satisfaction surveys were issued for applicable reviews and customers rated services 4 or higher (agree/strongly agree) on a 5-scale rating
- Averaged 126 days from Planning Meeting to Draft Report (goal is 120 days)
- Actual Hours Worked for FY21 totaled **1,005** with planned hours of **1,800** (one auditor unavailable for 8 months). Actual Hours worked for FY20 totaled **2,232** hours. FY20 overage will offset FY21 shortage and will result in roughly 400 additional hours added to the audit plan.

## **RECENT REPORTS AND OTHER COMMUNICATIONS**

All findings have been resolved in the follow-up review for the Center for Design Innovation (CDI).

## **INTERNAL AUDIT PLAN PROJECT STATUS AND UPDATES**

The audit plan was reviewed and updated to add **1** new investigative review that occurred since the plan was last approved in the April's meeting. Other projects in progress includes an IT Operations Post Follow-up Review and a Title IX Planned Review, which is centered around training and awareness programs for Students.

## **OTHER ACTIVITIES AND MATTERS**

The Self-Assessment Maturity Model (SAMM) is a self-assessment framework tool that was implemented by the North Carolina Council of Internal Auditing and must be completed annually by September 30<sup>th</sup>. The tool allows IA to assess the function against professional internal audit standards and good practices, assist with communicating audit value, and identify gaps for improvement to aid in the audit function's maturity. On a scale of 1-5, an audit function must score at least a 3 for compliance. The unit scored a **3.2**.

Mr. Isom presented the Audit, Risk, and Compliance Committee Charter as it must be reviewed on an annual basis. No changes or amendments were made to the charter.

**MOTION: Ralph Womble made a motion for the committee to go into closed session to hear or investigate a complaint, charge, or grievance by or against a public officer or employee. Mark Land seconded and the motion was unanimously approved.**

## **RETURN TO OPEN SESSION**

## **ADJOURNMENT**

With no further business to discuss, Chairman Juran adjourned the meeting at 4:38 p.m.

Respectfully submitted by:  
Amanda G. Balwah  
Associate Vice Chancellor and Secretary of the University

**AGENDA ITEM**

Review Revised ERM Risk Registers..... presented by Jim DeCristo

**Summary:** In the spring of 2021, UNCSA reevaluated risks and select the 5 top ERM risks to address. Risk owners were assigned, and implementation teams formed. Their first task was to revise or create the risk register for each risk to guide their efforts and for BOT review.

**Action:** For information only, no vote required.

**AGENDA ITEM**

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

**Summary:** Include a brief summary of the agenda item, noting what is important and why.

New Information Security Regulation 512 was officially published on October 29, 2021. This foundational document formalizes our UNCSA Information Security Program. All of our information security regulations will use this document as their base. For example, we currently have our new Acceptable Use Regulation in draft form. The AUR aligns with our Information Security Regulation 512 by specifically addressing access controls and acceptable use of our UNCSA information technology resources.

Information Security Regulation 512 also is in alignment with our UNC system standard ISO 27002. All of the 14 high-level controls are acknowledged in this document.

Acceptable Use Regulation is currently in draft form. As mentioned, our new AUR is presently in draft form, which we will soon finalize and send for approval. This will replace our current Technology Use Regulation 508, which has been in place since 2011.

We are also working on a draft of Vendor Supplier Information Security Regulation and Procedures. This regulation also complements InfoSec 512 addressing access control and this vector of Third Party compliance. Moreover, our AUR addresses third-party access at a high level and allows this document to get more specific.

Multifactor Authentication Project is 95% complete. All faculty, staff, and students are now using MFA to authenticate to UNCSA Office 365 remotely and off-campus. Students were officially included in our MFA program on November 12, 2021. We also require MFA for all VPN (virtual private network) and RDP (remote desktop) connections. Banner access is also under MFA pilot and field testing. Our finance department is currently field-testing Banner and MFA.

Finally, security metrics, as we mature our Information Security Program, we have to measure or progress with quality metrics. This is a focal point for 2022.

**Action:** Informational purposes only.

## **AGENDA ITEM**

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

### **Summary:**

- **Title IX Education and Prevention Program**

Increase annual student training:

- Fall 2021: All students attended a 1 hour live educational panel on Free Speech, Bully and Hazing, and Harassment with the Title IX Coordinator, Interim Director of Student Conduct, and Vice Chancellor of Institutional Integrity. This was an joint event with the Division of Institutional Integrity and Student Affairs.
- Attendance was mandatory and approximately 1300 students attended.
- Previously, there has only been one mandatory training requirement for returning students in Fall 2019, also a joint sponsored event between the Division of Institutional Integrity and Student Affairs on Title IX, Sexual Assault, Bystander Intervention, and Consent. Approximately 1100 students attended.
- Upcoming: In Spring 2022 there will be a mandatory online training for all students that will include Interpersonal and Sexual Violence, Healthy Relationships, Bystander Intervention, and Consent.
- This will be in the form of multiple interactive online modules, with integrated videos, quizzes, and real-time feedback to participants.

- **Clery Act Compliance Reporting Update**

The 2021 Annual Safety and Fire Report was published on October 1, 2021. See Attached document with the crime statistics breakdown for calendar year 2020.

- **Title IX Regulations**

**Still waiting for updated guidance.**

- The Department of Education Office for Civil Rights has indicated there will be updated guidance regarding Title IX and Clery compliance, there is still no timeframe for when it will be issued.

**Action:** For informational purposes only.

Clery Crime	Year	On Campus	Residence Halls*	Non-Campus	Public Property	Total	Unfounded Crimes**
Murder / Non-Negligent Manslaughter	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Manslaughter by Negligence	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Rape	2020	1	0	0	0	1	0
	2019	2	1	0	0	2	0
	2018	1	1	0	0	1	0
Fondling	2020	3	1	0	0	3	0
	2019	5	4	0	0	5	0
	2018	5	2	1	0	6	0
Incest	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Statutory Rape	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Robbery	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	1	1	2	0
Aggravated Assault	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Burglary	2020	1	1	0	0	1	0
	2019	4	3	0	0	4	0
	2018	1	1	0	0	1	0
Motor Vehicle Theft	2020	0	0	0	0	0	0
	2019	0	0	0	1	1	0
	2018	0	0	0	0	0	0
Arson	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Domestic Violence	2020	0	0	0	0	0	0
	2019	0	0	0	0	0	0
	2018	0	0	0	0	0	0
Dating Violence	2020	1	0	0	0	1	0
	2019	3	2	0	0	3	0
	2018	3	3	0	0	3	0
Stalking	2020	2	2	0	0	2	0
	2019	2	0	0	0	2	0
	2018	5	4	0	0	5	0
Liquor Law Arrests	2020	0	0	0	0	0	0
	2019	1	1	0	0	1	0
	2018	4	4	0	2	6	0
Drug Related Arrests	2020	3	2	0	2	5	0
	2019	10	6	0	2	12	0
	2018	6	3	0	5	11	0
Weapons Arrests	2020	0	0	0	0	0	0
	2019	1	0	0	0	1	0
	2018	1	1	0	1	2	0
Liquor Law Disciplinary	2020	12	6	0	7	19	0
	2019	36	27	0	0	36	0
	2018	14	12	0	3	14	0
Drug Related Disciplinary	2020	4	3	0	0	4	0
	2019	14	11	0	1	15	0
	2018	19	10	0	0	19	0
Weapons Disciplinary	2020	0	0	0	0	0	0
	2019	1	0	0	0	1	0
	2018	0	0	0	0	0	0

\*Residence Hall Crime Statistics are a subset of the On-Campus Category

\*\*This number represents crimes investigated by Sworn Law Enforcement and determined to be 'Unfounded'; meaning there was evidence the reported crime did not occur.

**AGENDA ITEM**

Associated Entities Financial Statement Audits.....Cindy Liberty,  
Executive Director of Foundations

**Summary:**

Smith Leonard Accountants & Consultants performed the financial statement audit for FY 2021 for the following associated entities:

- Semans Art Fund - The audit has been completed. The result of the audit was an unqualified opinion (clean audit), with no findings or issues to report.

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

# The Semans Art Fund, Inc.

Financial Statements  
Years Ended June 30, 2021 and 2020



# **The Semans Art Fund, Inc.**

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Financial Statements  
Years Ended June 30, 2021 and 2020

# The Semans Art Fund, Inc.

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## **Independent Auditor's Report**

Board of Directors  
The Semans Art Fund, Inc.  
Winston-Salem, North Carolina

We have audited the financial statements of The Semans Art Fund, Inc. (a nonprofit organization) (the "Fund"), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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 entity'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 entity'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 Semans Art Fund, Inc. as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

High Point, North Carolina  
September 28, 2021

# The Semans Art Fund, Inc.

## Statements of Financial Position

June 30, 2021 and 2020

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 398,205	\$ 356,330
Investments:		
Mutual funds	2,672,536	2,354,456
Common stocks	2,321,714	1,568,228
Accounts receivable	-	2,000
<b>Total assets</b>	<b>\$ 5,392,455</b>	<b>\$ 4,281,014</b>
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 21,954	\$ 21,151
Pledges payable	50,000	-
<b>Total liabilities</b>	<b>71,954</b>	<b>21,151</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	2,748,004	2,737,487
With donor restrictions	2,572,497	1,522,376
<b>Total net assets</b>	<b>5,320,501</b>	<b>4,259,863</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,392,455</b>	<b>\$ 4,281,014</b>

See accompanying notes to financial statements.

# The Semans Art Fund, Inc.

## Statement of Activities Year Ended June 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains, and other income</b>			
Interest and dividend income	\$ 38,346	\$ -	\$ 38,346
Gains (losses) on investments reported at fair value, net of fees	(11,740)	1,170,121	1,158,381
Net assets released from restrictions	120,000	(120,000)	-
<b>Total revenue, gains, and other income</b>	<b>146,606</b>	<b>1,050,121</b>	<b>1,196,727</b>
<b>Expenses</b>			
Scholarships and awards	111,611	-	111,611
Administrative costs	24,478	-	24,478
<b>Total expenses</b>	<b>136,089</b>	<b>-</b>	<b>136,089</b>
<b>Change in net assets</b>	<b>10,517</b>	<b>1,050,121</b>	<b>1,060,638</b>
<b>Net assets, beginning of year</b>	<b>2,737,487</b>	<b>1,522,376</b>	<b>4,259,863</b>
<b>Net assets, end of year</b>	<b>\$ 2,748,004</b>	<b>\$ 2,572,497</b>	<b>\$ 5,320,501</b>

See accompanying notes to financial statements.

# The Semans Art Fund, Inc.

## Statement of Activities Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, gains, and other income</b>			
Contributions received	\$ 100,000	\$ -	\$ 100,000
Interest and dividend income	36,795	-	36,795
Losses on investments reported at fair value, net of fees	(10,023)	(6,701)	(16,724)
Net assets released from restrictions	160,000	(160,000)	-
<b>Total revenue, gains, and other income</b>	<b>286,772</b>	<b>(166,701)</b>	<b>120,071</b>
<b>Expenses</b>			
Scholarships and awards	42,977	-	42,977
Administrative costs	23,565	-	23,565
Miscellaneous and other	21,791	-	21,791
<b>Total expenses</b>	<b>88,333</b>	<b>-</b>	<b>88,333</b>
<b>Change in net assets</b>	<b>198,439</b>	<b>(166,701)</b>	<b>31,738</b>
<b>Net assets, beginning of year</b>	<b>2,539,048</b>	<b>1,689,077</b>	<b>4,228,125</b>
<b>Net assets, end of year</b>	<b>\$ 2,737,487</b>	<b>\$ 1,522,376</b>	<b>\$ 4,259,863</b>

*See accompanying notes to financial statements.*

# The Semans Art Fund, Inc.

## Statement of Functional Expenses Year Ended June 30, 2021

	Scholarships and Awards	Administrative Costs	Total
Scholarships and awards	\$ 111,611	\$ -	\$ 111,611
Service fees	-	15,457	15,457
Audit fees	-	7,100	7,100
Insurance and bonding	-	1,172	1,172
Bank service charges	-	685	685
Taxes and licenses	-	64	64
Total functional expenses	\$ 111,611	\$ 24,478	\$ 136,089

See accompanying notes to financial statements.

# The Semans Art Fund, Inc.

## Statement of Functional Expenses Year Ended June 30, 2020

	Scholarships and Awards	Administrative Costs	Miscellaneous and Other	Total
Scholarships and awards	\$ 42,977	\$ -	\$ -	\$ 42,977
Service fees	-	15,154	-	15,154
Donations	-	-	15,000	15,000
Campaign video	-	-	6,791	6,791
Audit fees	-	6,525	-	6,525
Insurance and bonding	-	1,172	-	1,172
Bank service charges	-	714	-	714
Total functional expenses	\$ 42,977	\$ 23,565	\$ 21,791	\$ 88,333

See accompanying notes to financial statements.

# The Semans Art Fund, Inc.

## Statements of Cash Flows Years Ended June 30, 2021 and 2020

	2021	2020
<b>Operating activities</b>		
Change in net assets	\$ 1,060,638	\$ 31,738
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net loss (gain) on investments reported at fair value	(1,170,121)	6,701
Changes in operating assets and liabilities:		
Accounts receivable	2,000	(2,000)
Accounts payable	803	(3,529)
Pledges payable	50,000	-
<b>Net cash provided by (used in) operating activities</b>	<b>(56,680)</b>	<b>32,910</b>
<b>Investing activities</b>		
Sales (purchases) of investments, net of reinvested	98,555	(5,364)
<b>Net cash provided by (used in) investing activities</b>	<b>98,555</b>	<b>(5,364)</b>
<b>Change in cash and cash equivalents</b>	<b>41,875</b>	<b>27,546</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>356,330</b>	<b>328,784</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 398,205</b>	<b>\$ 356,330</b>

See accompanying notes to financial statements.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

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### 1. Organization

The Semans Art Fund, Inc. (the "Fund") is a private foundation established in 1977 through the generosity of Dr. and Mrs. James H. Semans of Durham, North Carolina, co-founders of the University of North Carolina School of the Arts. The Fund has the following primary purposes:

- Aid and promote, by financial assistance and otherwise, the international programs carried on by the University of North Carolina School of the Arts ("UNCSA") and support, by financial assistance and other means, said institution's curricula and special programs in music, drama, dance, stage design and production, and film.
- Serve as a non-profit organization for the purpose of soliciting, accepting, and receiving funds from public and private sources, and to distribute such funds to the UNCSA for use in supporting music programs and innovative ventures, programs and projects in music, drama, dance, stage design and production, and film.

The Fund is sustained by an independently funded endowment and is governed by a Board of Directors.

### 2. Summary of Significant Accounting Policies

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Fund and changes therein are classified and reported as follows:

- Without donor restrictions – net assets that are not subject to donor-imposed stipulations. These net assets are classified as either unappropriated or board appropriated.
- With donor restrictions – net assets subject to donor-imposed stipulations that are either temporary or permanent. Temporary restrictions may be met either by actions of the Foundation and/or the passage of time. Permanently restricted funds, or endowments, are held in perpetuity and generally permit the Foundation to use all or part of the investment income on these funds for general or donor-specified purposes. Investment income on these endowment funds includes net realized and unrealized gains and losses as well as interest and dividend income net of fees. See Note 6 for a summary of the components of net assets with donor restrictions.

Endowment returns subject to future appropriation - Undistributed investment income on endowment funds is reported within net assets with donor restrictions as endowment returns subject to future appropriation. See endowment distribution policy in this note.

Net assets released from restrictions - In the statement of activities, revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. All expenses are reported as decreases in net assets without donor restrictions. The compliance with temporary donor restrictions (i.e., the donor imposed stipulation has been fulfilled and/or the stipulated time period has elapsed) is reported as net assets released from restrictions.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (Continued)

#### ***Use of Estimates***

The preparation of financial statements in accordance with generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Contributions***

The Fund recognizes contributions, including unconditional promises to give, as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions, if any, to be received after one year are discounted at a risk-adjusted market rate determined at the date of the gift. Amortization of the discount is recorded as additional contribution revenue. Allowance is made for uncollectible contributions receivable based upon an analysis of past collection experience and other relevant factors. There were no unconditional promises to give recorded at June 30, 2021 and 2020.

The ability of the Fund’s contributors to continue giving amounts comparable with prior years is dependent, amongst other factors, upon current and future economic conditions and the continued deductibility for income tax purposes of contributions to the Fund. While the Fund’s Board of Directors believes the Fund has resources to continue its programs, its ability to do so and the extent to which it continues, may be dependent on the above factors.

#### ***Cash and Cash Equivalents***

The Fund considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The Fund maintains cash balances with various financial institutions, the amounts of which may at times exceed federally insured limits. Risks associated with cash balances are mitigated by banking with credit worthy institutions.

#### ***Investments***

Investments are stated at fair value. Purchases and sales of investments are recorded on a trade date basis. Interest and dividends are recorded when earned.

The Fund has significant investments that are also subject to concentrations of market risk. Investments are made by investment managers engaged by the Fund and are monitored by management. The Fund’s investment objectives are to achieve an annualized total return from income and capital appreciation that provides a real return in excess of inflation over normal capital markets and business cycles. Although the market value of investments is subject to fluctuations, management believes the investment policy is prudent for the long-term welfare of the Fund.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

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### 2. Summary of Significant Accounting Policies (Concluded)

#### ***Endowments***

The Fund has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Fund classifies as permanent endowment funds (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the Fund.

The remaining portion of the permanent endowment fund that does not have donor restrictions is held until those amounts are appropriated for expenditure by the Fund in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Fund considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Fund, and (7) the Fund’s investment policies.

#### ***Spending Policy***

The Fund has a policy of appropriating for distribution each year 4.5% of each endowment fund’s average fair value of the prior three years.

#### ***Income Taxes***

The Fund is exempt from income taxes on related income under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code. No material unrelated business taxable income has been identified by management. Accordingly, no provision for income taxes is made in the financial statements.

It is the Fund’s policy to evaluate all tax positions and to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a “more-likely-than-not” threshold to determine if the tax position is uncertain and what, if any, the effect of the uncertain tax position may have on the financial statements. Any changes in the amount of a tax position will be recognized in the period the change occurs. Currently, the statute of limitations remains open subsequent to and including fiscal year 2018; however, no examinations are in process.

#### ***Functional Expenses***

The Fund’s payments and expenses are directly attributed to specific scholarships and awards or administrative costs. Therefore, the preparation of the statement of functional expenses does not require estimation of expense by functional costs.

#### ***Subsequent Events***

Management has evaluated events occurring through September 28, 2021, the date that the financial statements were available to be issued, determining no events require adjustment to or additional disclosure in the financial statements.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

### 3. Fair Value Measurements and Investments

The fair value of accounts receivable, accounts payable, and pledges payable are not materially different than their carrying amounts since they approximate the amount for which the assets or liabilities could be settled.

Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities;

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data;

Level 3: Unobservable inputs that are not corroborated by market data.

The following are the assets measured at fair value as of June 30, 2021.

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,672,536	\$ -	\$ -	\$ 2,672,536
Common stocks	2,321,714	-	-	2,321,714
Total assets at fair value	\$ 4,994,250	\$ -	\$ -	\$ 4,994,250

The following are the assets measured at fair value as of June 30, 2020.

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 2,354,456	\$ -	\$ -	\$ 2,354,456
Common stocks	1,568,228	-	-	1,568,228
Total assets at fair value	\$ 3,922,684	\$ -	\$ -	\$ 3,922,684

### 4. Affiliated Party Transactions

The University of North Carolina School of the Arts Foundation (the "Foundation") is an affiliated entity also formed to promote the activities of UNCOSA. The Foundation provides accounting and other services to the Fund under a service agreement. The Fund pays a fixed fee of \$14,000 per annum increasing by 2% annually. The service agreement can be terminated by either party with 90-day notice. The fee for services included in administrative costs amounted to \$15,457 and \$15,154 in 2021 and 2020.

During fiscal 2021, the Fund pledged \$50,000 to the Foundation's Powering Creativity capital campaign, which is included in pledges payable and scholarships and awards expense in the accompanying statements of financial position and activities. Planned payments of this pledge by fiscal year are as follows: 2022 - \$25,000 and 2023 - \$25,000.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

### 5. Liquidity and Availability

Financial assets available for general expenditure within one year of June 30 are as follows:

	2021	2020
Total assets	\$ 5,392,455	\$ 4,281,014
Net assets with donor restrictions	2,572,497	1,522,376
Total financial assets available for general expenditures	\$ 2,819,958	\$ 2,758,638

As part of the Fund's liquidity management, financial assets are structured to be available for general expenditures, liabilities, and obligations as they become due. Cash in excess of daily requirements is invested in cash equivalents, primarily federal money market funds.

### 6. Restrictions on Net Assets

Net assets with donor restrictions are available for the following purposes.

<i>June 30,</i>	2021	2020
<b>Time or purpose restrictions</b>		
Endowment returns subject to future appropriation	\$ 1,568,441	\$ 518,320
<b>Perpetual restrictions</b>		
Permanent endowment funds	1,004,056	1,004,056
Total net assets with donor restrictions	\$ 2,572,497	\$ 1,522,376

### 7. Investment Income

Net gain or loss on investments reported at fair value consist of the following:

<i>Year ended June 30,</i>	2021	2020
Gain (loss) on investments reported at fair value	\$ 1,170,121	\$ (6,701)
Investment management fees	(11,740)	(10,023)
	\$ 1,158,381	\$ (16,724)

### 8. COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. Management is actively monitoring the impact on the Fund's operations. However, Management is unable to estimate the effects of the COVID-19 outbreak on the Fund and it may have a material effect on future donations, operations, financial condition, or liquidity.

# The Semans Art Fund, Inc.

## Notes to Financial Statements

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### 9. New Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which modifies disclosure requirements related to fair value measurements. The ASU is effective for fiscal years beginning after December 15, 2019, with early application permitted. Management adopted this standard in 2021 with no material impact on the Fund’s financial statements.

In March 2019, FASB issued ASU No. 2019-03, *Not-for-Profit Entities (Topic 958), Updating the Definition of Collections*, which expands the criteria under which contribution of works of art and similar assets need not be recognized. The ASU is effective for fiscal years beginning after December 15, 2019. Management adopted this standard in 2021 with no material impact on the Fund’s financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities as well as increased disclosures about such assets. This ASU is effective for fiscal years beginning after June 15, 2021, with early application permitted. Management is currently assessing the impact that this guidance may have on the Fund’s future financial statements.

**AGENDA ITEM**

Internal Audit Activity Update ..... Rod Isom

**Summary:**

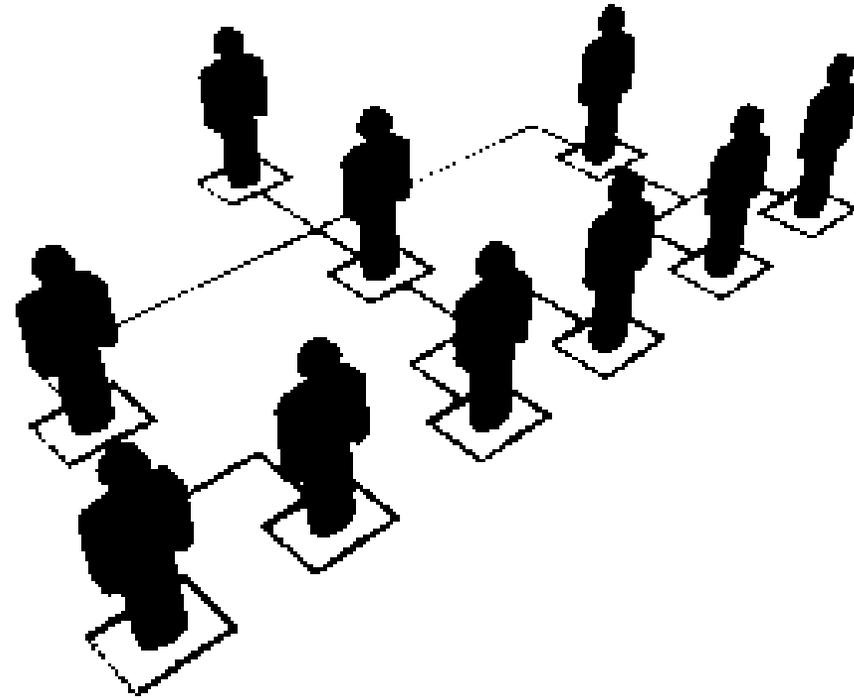
- a) **IA Operations Update**
- b) **Recent Reports and Other Communications\*\***
- c) **Internal Audit Plan Project Status and Updates**
- d) **Other Activities and Matters**
- e) **Review Audit Charter**

*\*\*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.

# Internal Audit Operations Update

- The search process for the Audit Manager position is underway.





**WINSTON-SALEM**  
STATE UNIVERSITY



**Office of Audit, Risk, and Compliance/Division of Institutional Integrity**

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

November 3, 2021

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 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, 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 WSSU'S IA for UNCSA 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  
Chief Audit, Risk, and Compliance Officer

Page 2

November 3, 2021

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

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<b>EXECUTIVE SUMMARY</b>
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This report addresses the status of reported observations first identified in IA's planned review report, released on September 19, 2016, related to protocols within UNCSA's IT department. IA issued a follow-up review report on May 22, 2020, and noted all observations were not resolved. This is IA's second follow-up review to assess the status of the remaining outstanding observations.

IA found evidence of efforts to implement the previous report's recommendations and improve controls; however, certain aspects of management's action plans noted in the prior review have not been completed. The results are as follows:

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

- Insufficient IT Gap Analysis and Risk Assessment - Resolved
- Outdated Information Security Policy - Partially Resolved
- Incomplete Data Classification - Partially Resolved
- Operating Procedures Not Documented - Partially 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 and ask that you not distribute this report to anyone without a valid need to know.

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

**BACKGROUND:**

This report addresses the status of reported observations first identified in IA's planned review report, released on September 19, 2016, related to protocols within UNCSA's IT department. IA issued a follow-up review report on May 22, 2020, and noted all observations were not resolved. This is IA's second follow-up review to assess the status of the remaining outstanding observations.

At the conclusion of the IA follow-up review, observations and recommendations were reported to management and, subsequently, management action plans were developed to explain how the agreed upon recommendations would be completed. 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 observations included in the prior follow-up review report.

To conduct the review, IA performed the following procedures:

- Interviewed university employees;
- Obtained written statements from management about the status of the observations; and
- Examined evidence supporting corrective actions where necessary.

**SCOPE:**

The scope of the review was limited to corrective measures in place as of July 31, 2021.

This report presents the results of IA's review.

<b>RESULTS</b>
----------------

IA found evidence of efforts to implement the previous report's recommendations and improve controls; however, certain aspects of management's action plans noted in the prior review have not been completed. The results are as follows:

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

**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.

- **IA's Conclusion: Resolved**

**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 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 Recommendations not Addressed - *IT is unable to demonstrate that all aspects of ISO 27002 subsection 5.1.1 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.*

- **IA's Conclusion: Partially Resolved**

- Full completion of prior recommendations is pending and being addressed as part of a larger project to improve IT governance with the assistance of Vantage, a third-party consulting firm.

- **IA's Recommendation:**

- IT should continue its efforts to implement IA's previous recommendations for full resolution and risk mitigation.

<b>RESULTS</b>
----------------

**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 Recommendations not Addressed - 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.*
  - **IA's Conclusion: Partially Resolved**
    - Guidance and control procedures for users have not yet been developed and communicated. Management indicated that this is being addressed as part of its engagement with Vantage.
  - **IA's Recommendation:**
    - IT should continue its efforts to implement IA's previous recommendations for full resolution and risk mitigation.

**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 Recommendations 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, such as computer start-up and close-down procedures, back up, equipment maintenance, and computer room and mail handling management and safety.*
  - **IA's Conclusion: Partially Resolved**
    - IA observed that all procedures included in the above recommendation have been documented, except for the data backup procedure. Completion of this procedure was delayed due to significant changes in the backup strategy necessitated by the increased use of cloud solutions.
  - **IA's Recommendation:**
    - IT should continue its efforts to implement IA's previous recommendations for full resolution and risk mitigation.

<b>RESULTS</b>
----------------

***\*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 and ask that you not distribute this report to anyone without a valid need to know.

IA appreciates the efforts of management to resolve the observations and will follow-up for full resolution of the outstanding observations. We encourage management and senior leadership to remain vigilant and bring to our attention any other matters you believe may pose risks so that we may help you identify and implement solutions.



**Name:** Terry Harmon  
**Title:** Chief Information Officer  
**Department:** Information Technology

TO: Rod Isom, Chief Audit, Risk, and Compliance Officer  
CC: Michael Smith, David Harrison, Greg Gleghorn, Richard Brown  
DATE: October 22, 2021  
RE: Response to Audit Observations and Recommendations – Follow-up – Information Technology Operations

---

Thank you so much for this report and the information that you have compiled. The recommendations within the report will be taken at full value and corrections will be made immediately.

COVID-19 impacted the timely completion of the outstanding observations due to the responsibility placed on Information Technology and the institution to transition to hybrid learning and work environments. However, we have made good progress in the past few months and will complete them by the dates indicated.

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

**1. Outdated Information Security Policy**

***Management's Response:***

Plan of Action:

UNCSA Information Technology, in conjunction with an outside consulting firm, has developed and finalized a new and comprehensive Information Security Regulation. This is currently waiting for senior management approval and subsequent publication.

Once published, Information Technology will communicate the regulation to UNCSA staff and other relevant parties.

Expected Date of Implementation:

November 2021

Party Responsible for Implementing the Identified Actions:

Department of Information Security

## **2. Incomplete Data Classification**

### ***Management's Response:***

#### Plan of Action:

The data classification definitions are included in the new Information Security Regulation as a first step. The next step is to establish Data Governance at the institutional level of which data classification is a part. The plan is to use outside consulting to guide us in this project with an anticipated start date of January 2022.

#### Expected Date of Implementation:

June 2022

#### Party Responsible for Implementing the Identified Actions:

Department of Information Security

## **3. Operating Procedures Not Documented**

### ***Management's Response:***

#### Plan of Action:

We have documented procedures for all previous recommendations except the backup procedure. Although we are in the process of changing the way we do backups, I have decided to document the current procedure and then make changes as necessary.

#### Expected Date of Implementation:

November 2021

#### Party Responsible for Implementing the Identified Actions:

IT Enterprise Systems and Applications

# Fiscal Year 22 Plan Component Project Status

Plan Component	Last Milestone*	Progress Status^
FY2021 Self Assessment Maturity Model	FR	Complete
Follow-up: CDI Controls – <b>8/31/21</b>	FR	Complete
Follow-up: IT Operations (Public) – <b>11/3/21</b>	FR	Complete
Follow-up: IT Operations (Private) – <b>11/3/21</b>	FR	Complete
Investigation: Senior Leadership Climate	FCP	On Track
Planned: Title IX Compliance - Programming & Training (Students)	FC	On Track
Follow-up: HR Operations	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
- (DR) Draft Report Issued
- (FR) Final Report Issued

## **UNIVERSITY OF NORTH CAROLINA SCHOOL OF THE ARTS OFFICE OF AUDIT, RISK, AND COMPLIANCE CHARTER**

### **I. MISSION**

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

### **II. SCOPE**

The Winston-Salem State University OARC shares its services with the University of North Carolina School of the Arts. The scope of work of the OARC is to determine whether the university's network of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure:

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

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

### **III. INDEPENDENCE AND OBJECTIVITY**

OARC shall maintain its independence. The Chief Audit, Risk, and Compliance Officer (CARCO) reports administratively to the Chancellor and the Vice Chancellor for Institutional Integrity and functionally to the Audit, Risk, and Compliance Committee (ARCC) of the university Board of Trustees in a manner outlined in the section on *Accountability*. OARC staff personnel shall report to the CARCO.

To ensure roles related to enterprise risk management (ERM) and compliance do not impair, or appear

to impair, the organizational independence and objectivity of the CARCO and the internal audit function, the following safeguards are in place:

- a. The CARCO does not own risks. University management remains responsible for risk management and compliance.
- b. The CARCO does not manage risks or compliance on behalf of management.
- c. University management sets the risk appetite, makes decisions about and implements risk responses.
- d. The ARCC and Chancellor are responsible for imposing risk management practices.

The ARCC will periodically evaluate reporting lines and responsibilities of the CARCO and the internal auditors and develop alternative processes to obtain assurance related to ERM, if deemed necessary. The CARCO shall include a report on OARC personnel as part of the regularly scheduled ARCC meetings or upon request from the Chair of the ARCC.

#### **IV. AUTHORITY**

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

#### **V. ACCOUNTABILITY**

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

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

## **VI. RESPONSIBILITY**

The CARCO and staff have responsibility to:

Internal Audit:

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

Enterprise Risk Management:

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

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

Compliance:

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

1. Serve as the connector for individual components of university compliance.
2. Facilitate reports from compliance managers to the ARCC.
3. Report auditor observations of noncompliance to the ARCC.

## **VII. Standards of Audit Practice**

The Internal Audit Unit of the OARC will govern itself by adherence to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the *International Standards for the Professional Practice of Internal Auditing*, and the Definition of Internal Auditing.

Internal Audit is also subject to the North Carolina Internal Audit Act, established by North Carolina General Statute.

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

Adopted: This the 6<sup>th</sup> day of December 2019



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Chair, Board of Trustees  
UNC School of the Arts



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Chair, Audit, Risk, and Compliance Committee  
UNC School of the Arts