

AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

North Carolina Agricultural and Technical State University
Greensboro, NC

November 22, 2013

MINUTES

The Audit Committee of the Board of Trustees convened on Friday, November 22, 2013 at 12:00 noon in the Alumni-Foundation Event Center, Executive Boardroom. Mrs. Pamela McCorkle Buncum called the meeting to order.

Roll Call revealed the following:

Present: Mrs. Pamela McCorkle Buncum, Chair
 Mr. William Dudley
 Ms. Laura Meagher
 Dr. Bertram Walls

Others Present: Mr. Larry Kreiser, Internal Audit Director
 Mr. Robert Pompey, Jr., VC for Business & Finance
 Mr. Marc Williams, Deputy General Counsel
 Mrs. LaShonna Frederick, Recorder, Internal Audit

Excused Absence: Mrs. Karen Collins

Mrs. Buncum welcomed new Audit Committee member, Mrs. Laura Meagher to the meeting. A motion for the approval of the open session minutes of the last meeting held September 20, 2013 was offered by Mr. William Dudley and seconded by Dr. Bertram Walls. The motion was unanimously carried and the minutes were approved. Mrs. Buncum yielded the meeting to Mr. Larry Kreiser.

The open session and closed session activity reports were provided to the committee members prior to the meeting. These reports were broken down by scheduled and unscheduled audits. Mr. Kreiser discussed the open session activity report. The reporting period was September 1, 2013 to November 15, 2013.

Scheduled Audits

There were no scheduled audits completed since the last committee meeting.

Unscheduled Audits

There were four unscheduled audit completed since the last committee meeting.

Office of the State Auditor (OSA) - Allegation of Nepotism

This complaint was about a Senior Manager being in an amorous relationship with an employee in the Senior Manager's chain of command. Mr. Kreiser stated that our policy is consistent with the state policy. Mr. Marc Williams added that our policy states that only one level of supervision between the Senior Manager and the employee is required. Mrs. Buncum was concerned that even though there are two levels between the Senior Manager and the employee, the Senior Manager could still have intimidated the Hiring Manager in some way. There could have been some type of unspoken persuasion to hire this employee. Mr. Kreiser stated that in the academic arena, more members of the same family are being employed at the same institutions. Institutions find themselves in this situation when trying to accommodate these arrangements. It becomes even harder when the family members have skills in the same area. In this case, the University attempted to find employment for the person at another state institution, but that did not work out. The University hired the employee and managed the situation by having two levels of supervision. Mr. Kreiser added that our policy is consistent with the state's policy. In this particular situation, the Office of Internal Auditing was concerned about the possibility of undue influence. Mr. Kreiser told the Auditor that referred the complaint to the OIA that he could not challenge the state policy from where he sat but from where they sat, they could take on the policy and get it changed. Mr. Williams suggested that the University make its policy more stringent instead of petitioning the state to change its policy. Mrs. Buncum wanted to know whether there were any financial risks associated with this nepotism situation. Mr. Kreiser responded that there were none.

2009 Security Breach – 2013 Review

A security breach occurred in 2009. There were three audit objectives for this review: to find out (1) how the breach happened, (2) how many people were affected, and (3) what do we need to do to minimize this risk going forward. The University has contacted a forensic company to determine the number of individuals involved in the breach. The company needs a court order to begin their work and review data stored on the former employee's personal computer. Mr. Williams added that the former employee withheld consent for the University to review her computers and other devices. The criminal case against the former employee is on appeal right now and until it concludes, all of her equipment is held by the state's attorney office.

Mrs. Buncum asked whether the University complied with North Carolina General Statute 75-65, informing affected parties about the breach and letting them know that their information maybe out there. Mr. Kreiser responded that first, we need to obtain an interpretation of the statute. From his understanding, if you know that the data has been maliciously used or if you have reason to believe that it will be, then there is a reporting requirement. Otherwise, there is not. Mr. Williams added that there is no reason to believe that the former employee is going to do anything with the data and that no one has been affected. Mr. Kreiser stated that we need guidance from the Attorney General's Office on this statute.

School of Technology – Unauthorized Solicitation of Funds

An employee raised funds in the University's name and placed the funds in a personal PayPal account. Mrs. Buncum wanted to know the type of disciplinary action the School of Technology employee received. Mr. Kreiser responded that the employee was terminated. Ms. Meagher asked whether employees are trained on what they can and cannot do. She also asked whether there was an employee handbook or some type of training on this type of behavior. Mr. Williams responded that this particular issue should be self-evident. Mr. Pompey added that Business & Finance sends out

memorandums to the campus community from time to time giving the proper procedures for establishing an account. The Accounting Office also runs a blind confirmation with banks to determine whether there are any accounts in the University's name.

Review of Cooperative Extension Support Staff Training Retreats

The Cooperative Extension Office is scheduled for a full audit. This review was scoped down due to time constraints; the OIA only looked at the support staff retreats. After performing the review, auditors determined that there was no liability to return the federal funds used for the retreats. Federal funds do allow for training but the cost has to be reasonable. The training value should be present for sending administrative assistants to 2-3 day retreats to the beach or to the mountains. When training is provided, it needs to be reasonable. Cooperative Extension will restructure the retreats and bring them under control. Mrs. Buncum asked what was Cooperative Extension's training budget compared to the overall budget. She also wanted to know the percentage of funds used for the number of employees they have. Mr. Kreiser responded that these questions would be answered in the full audit. Mr. Pompey added that the general nature of Cooperative Extension is external training. Training is a very significant part of what Cooperative Extension does – working with people and farmers in all parts of the state.

The other issue that the OIA looked into was that the Senior Manager was concerned that emails provided to him were manipulated and pertinent information was removed. The OIA did not find any evidence of such.

Ms. Meagher wanted to know what is the determination as to which incidents to investigate and the level of priority. Mr. Kreiser responded that if the issue is minor, it will be sent to the Chancellor and the Chancellor will forward it to the appropriate individuals. If the OIA does not investigate the issue, the department will respond with what they have found during their investigation. If the issue is serious enough, the OIA will investigate it. If the OIA investigates the issue, an audit report will be issued. Mrs. Buncum added that about once a year, Mr. Kreiser provides an update to the Audit Committee on the number and type of hotline complaints received by the OIA.

There were no additional questions or comments. Mr. Marc Williams read the language to go into closed session in accordance with N.C.G.S. 143-318.11(7). Dr. Walls made the motion to go into Closed Session. It was seconded by Mr. Dudley.

There were five scheduled and four unscheduled audits in process. These audits, which were in various stages, were discussed in Closed Session.

Following the discussion, Ms. Meagher made the motion to resume Open Session. It was seconded by Dr. Walls and unanimously carried.

Other Business

Office of the State Auditor Update

Mr. Pompey gave an update on the financial statement audit performed by the OSA. The OSA has completed the field work and tentatively scheduled an exit conference for December 18, 2013. Mr. Pompey asked the availability of the committee members to attend the exit conference. Dr. Walls asked were there any surprises noted during the audit. Mr. Pompey responded that we had two audits

– the Financial Statement Audit and the Single Audit. There were no issues in the Financial Statement Audit, but there was one issue in the Single Audit. The Student Financial Aid Office failed to send out notifications to the student of their right to cancel aid in a certain number of days. This report is usually combined with other agencies and released early around March.

Mr. Pompey has also asked the State Auditors to attend the February Audit Committee meeting to give the results of the Financial Statement Audit. During this time, the Audit Committee will have the opportunity to have a discussion with the State Auditors.

Ms. Meagher asked whether the Audit Committee would have the opportunity to speak with the Internal Audit Director in a private session. This shows good governance, so it will be added to the agenda for the February meeting.

QAR Update

The OIA has requested a Quality Assessment Review, selected a team for the review, and created a Memorandum of Understanding. The OIA should have some results by the next committee meeting. The cost of the QAR will be the cost of the team's travel. If the OIA paid a vendor to perform the QAR, the cost would be \$10-\$15K. The OIA will have to reciprocate and participate in a QAR for another state agency. Mr. Kreiser was selected to be a team leader for a QAR for the North Carolina Department of Revenue.

With no further business, Mr. Dudley made a motion to adjourn the meeting. It was seconded by Dr. Walls. The meeting adjourned at 1:04 pm.

Recorded by:

LaShonna Frederick