Compliance, Audit, Risk Management and Legal Affairs Committee
November 27, 2018

MINUTES

MEMBERS PRESENT: Ward Russell (Chair), Mona Edwards, Brad Hayes, Dean Priddy, Susan Safran

OTHERS PRESENT: Chancellor Franklin Gilliam, Jerry Blakemore, General Counsel, Liaison; Dr. Julia Jackson-Newsom, Associate Vice Chancellor for Strategy and Policy, Liaison; Charles Maimone, Vice Chancellor for Business Affairs, Liaison; Don Skeen, Internal Auditor, Liaison; Waiyi Tse, Chief of Staff; Kelly Harris, Associate Chief of Staff and Assistant Secretary to the Board of Trustees; and other members of the administration and staff.

PROCEEDINGS:

Chair Russell called the meeting to order at 9:30 A.M.

Chair Russell reminded the Committee members of their duty under the State Government Ethics Act to avoid conflicts of interest and advised that any conflict of interest or appearance thereof with respect to any matter before the Board or the Committee needed to be raised at that time. None were identified.

Quorum was confirmed through roll call.

The Minutes of September 25, 2018 were approved with no additions or corrections.

Discussion Items:

Audit Review for Board of Trustees (CARL-1)

Chair Russell invited Auditor Don Skeen to present the summary of audits for the Committee.

Summary of Internal Audits Performed:

- Misuse or Theft of State Property
  - Objective: Determine compliance with North Carolina statutory requirements for reporting of allegations of the misuse or theft of state property to the State Bureau of Investigation.
  - Findings: No exceptions
• Parking Operations (Parking Permits)
  ➢ Objective: Perform an evaluation of internal controls relative to revenue collected from the sale of parking permits by Parking Operations.
  ➢ Scope: Examination was limited to the sales, collection, and security of parking permit inventory during the four-month period beginning July 1, 2018 and ending October 31, 2018. Processes for recording and reconciling parking permit sales were reviewed, with emphasis on employee payroll deductions and the safekeeping of parking permits.
  ➢ Findings: No internal control weaknesses were identified, and controls were operating effectively.

Summary of External Audits Performed:
• Financial statement audits of the University’s Endowment & the separate legal entities (e.g., foundations) affiliated with the University are communicated to the Boards and Audit Committees of those entities.
  ➢ Responsibilities of the Compliance, Audit, Risk Management and Legal Committee includes the review of all audits and management letters of University-Associated Entities as defined by the Board of Governors.
  ➢ UNC Policy Manual: An “Associated Entity” means any foundation, association, corporation, LLC, partnership or other non-profit that was established by officers of the University, that is controlled by the University, that raises funds in the name of the University, that has a primary purpose of providing services or conducting activities in furtherance of the University’s mission pursuant to an agreement with the University, or that has a tax exempt status that is based on being a support organization for the University.
• Financial statement audits of the entities included in the University’s basic financial statements (University’s Endowment & the University’s Affiliated Entities) for the fiscal year ended June 30, 2018
  ➢ The financial statements of these entities are blended in the University’s financial statements because their directors are appointed by the UNCG Board of Trustees and their sole purpose is to benefit UNCG.
    o The Endowment Fund of UNCG
    o The UNCG Investment Fund, Inc.
    o The UNCG Excellence Foundation, Inc.
    o The UNCG Human Environmental Sciences Foundation, Inc.
    o Capital Facilities Foundation, Inc.
  ➢ Independent auditor’s (Bernard Robinson & Co., LLP) report for each of these entities, issued in October 2018, expressed the opinion that the financial statements were presented fairly, in all material respects.
  ➢ Independent auditor’s (management) letter to the Boards of each entity reported no significant audit findings.
  ➢ An independent auditor’s report on internal control and compliance was provided to the Board of The Endowment Fund of UNCG as required by governmental auditing standards (no deficiencies were identified).
• Financial statement audits of entities excluded from the University’s basic financial statement for the fiscal year ended June 30, 2018
  ➢ Independent auditor’s report (Bernard Robinson & Co., LLP), issued in October 2018, expressed the opinion that the financial statements were presented fairly, in all material respects.
    o Weatherspoon Art Museum Association
Independent auditor’s report (Duncan Ashe, P.A.), issued in November 2018, expressed the opinion that the financial statements of The Alumni Association of the University of North Carolina at Greensboro were presented fairly, in all material respects. Independent auditor’s letter to the Boards reported no significant audit findings.

Summary History of Internal Audit Activity
- Lists internal audit engagements, any follow-up to external audit findings, and audit planning
- Provides a summary of internal audit reviews conducted over a five-year period
- Presents the past four years and the current year, including engagements planned, but not completed

Institutional Risk Management Update/Annual Briefing (CARL-2)

Chair Russell invited Mark McKinney, Director of Institutional Risk Management, to provide an update on Risk Management initiatives.

Mr. McKinney referenced a request over the summer from Lynne Saunders, Vice President of Compliance and Audit for the System Office. The request was pursuant to the System policy on enterprise risk management and compliance, specifically reporting significant enterprise risks to the president, and with the president’s guidance, to the Board of Governors. The process is a part of the continuing dialogue regarding risk management initiatives.

The initial deadline for all UNC institutions to submit their risk register to the System Office was set for 12/31/18. The intent was to build a system-wide risk register through input from the institutions. The monthly calls, regular meetings and shared resources generated many questions that led to an ERM focus group of select institutions – UNCG, UNCW, ECU and ECSU. These institutions were directed to narrow the submissions to the top five risks, in no particular order and as broadly defined as possible. The ultimate goal was to produce a manageable set of information to better understand system-wide risks and tailor risk management discussion topics for the BOG Committee on Audit, Risk Management and Compliance. UNC System Policy defines five categories; UNCG defines six (UNCG adds hazard). Access to the compiled data will be available, but not individual institutions’ registers - the top five risks of seventeen institutions. There are currently no defined next steps, but there will likely be further conversations and requests.

Mr. McKinney reviewed UNCG’s submission register, which identified the following: Interaction with Minors; Data Security/Cyber; Overall University Regulatory Compliance; Financial Resource Security and Stability; Campus Safety. This list was evaluated by the IRM working group as well as the IRM Steering Committee. The University is in a constant state of refining the risk register and evaluating the current environment.

Discussion took place about some of the exclusions from the list such as enrollment and deferred maintenance. Mr. McKinney explained that significant in-depth discussions took place regarding a number of exclusions from the top five, including enrollment; however, in keeping with System Office’s request to submit only five, enrollment was included in number four although not explicitly. He was willing to have further discussion on this issue.

Further discussion followed concerning campus safety and minors on campus. The risk related to minors on campus was considered more of a strategic community issue. In that respect, the decision was made to isolate the two.
Chancellor Gilliam thought it was notable that Wilmington listed deferred maintenance as a risk. With reduction in R and R money and the decrease in likelihood of capital investments by the System Office, he was concerned that our physical plant was deteriorating and could become a much greater risk as time goes on. He added that it is less about safety and more about usability and functionality. As the sophistication and robustness of activities increase, the facilities are unable to accommodate them (i.e. Taylor Theatre).

The IRC work groups are focused on mitigation of Tier I and associated risks. The summer camps work group will meet in December to outline expectations of the group. The expected outcome is a policy, consistent procedures, and an identified champion at the executive level. The second work group will meet in January or early February on collaborative partnerships (Millennial Campus), specifically in the area of policy.

One of the best practices in higher education ERM is to have two levels of conversations. The first level is a hybrid of the strategic and operational level which is where IRMC is now – a good group of AVCs and directors who have direct points of contact with people involved in more strategic points of the University. In the new year, strategic conversations will take place with various members of the Chancellors Council, CARL Chair Ward Russell, and BOT Chair Brad Hayes. Questions will be sent in advance and responses will be compiled after the discussions.

Mr. McKinney then reviewed the implementation plan in terms of follow-up and next steps and highlighted some of the main points. The hope is that a Risk Management culture can be established through the conversations and the outcome of the work groups.

Compliance Review – OGC and Athletics (CARL-3)

Chair Ward invited Jerry Blakemore to lead the Committee through a review of compliance as it relates to Athletics.

Previous briefings to the CARL Committee have been focused on areas of compliance in research conflict of interest and risk management. This presentation was developed jointly with Office of the General Counsel (OGC) and the Athletic Department, with special thanks to Jody Smith and Kristen Bonatz.

Athletics Director Kim Record provided her perspective on NCAA compliance with regard to current internal and external issues the country is facing. She introduced Jody Smith, Senior Associate Athletic Director and Senior Woman Administrator, and Dr. David Wyrick, Faculty Committee Chair on Intercollegiate Athletics. Ms. Record discussed Athletics’ Strategic Plan, the commitment UNCG has made, and the support provided for student athletes. UNCG strives to be a nationally recognized athletics program continuously competing for championships. Ms. Record emphasized that NCAA compliance is not only the athletic director’s job, but also that of the Committee, the Board, and the campus community.

As a result of an FBI investigation, the NCAA appointed a commission chaired by Condoleezza Rice who is working with a large group of various constituents to review and reform college basketball, primarily men’s basketball. Ms. Record represents the Southern Conference on the D1 Council, which is the national governing body for Division 1 schools. The Athletics Department and the University have invested significant resources to make compliance a priority, and Ms. Record’s recruitment of Jody Smith reinforced that priority. Athletics has a number of campus partners and checks and balances in place with units such as the registrar’s office, admissions, and financial aid, among others. They strive to be proactive and not reactive.

Ms. Smith oversees the Athletics Compliance Office and directly reports to Kim Record and the Chief of Staff. The UNC system required this additional layer of reporting approximately five years ago, thereby making compliance an institutional responsibility. The office has an Assistant AD of Compliance and a Compliance Assistant working daily with the staff, student athletes, and anyone who is supportive of
athletics. In addition to the complicated NCAA Manual, they must stay abreast of a data base of thousands of interpretations and the ever-changing rules to ensure that the coaches are following them and that the University is in compliance. Building relationships with staff, student athletes, and donors is important, so these individuals feel they can ask questions or report concerns. The goal is to protect the institution, not just the Athletics Department, from major infractions.

Institutional control is the main frame of NCAA compliance. Everyone needs to do the right thing, know the rules, be accountable for them, report if anything happens, and always act with the highest integrity.

Ms. Smith pointed to the four pillars of institutional control: commitment to compliance, monitoring and enforcement, rules education, and institutional control analysis. She talked about what each meant and the role of Athletics Compliance in monitoring and enforcing each.

Compliance deals with a number of NCAA bylaws on a regular basis. Ms. Smith pointed to Bylaws 10-17 and spoke specifically about Bylaw 10 on Ethical Conduct.

- Unethical conduct: Basically means everyone should tell the truth if asked to participate in an investigation. Some examples could be a student providing fraudulent academic credit to a recruiter by cheating on the SAT, or a staff member, coach, or donor offering an inducement.
- Sports wagering: Athletics staff members, student athletes, or anyone who oversees athletics are not permitted to participate in sports wagering. Staff are not allowed to bet on any NCAA sport or even bet on a friendly golf game. Wagering anything of value is considered gambling. No March Madness bracket, no Super Bowl squares, and no information provided to someone betting. Fantasy leagues are permissible as long as there is no entry fee.
- NCAA drug testing: NCAA drug testing is year-round in all sports. The NCAA can come into the institution at any time during the year (including summer) and drug test student athletes. This can occur at off campus athletic activities as well. Testing positive for marijuana, for example, would result in the student athlete losing 50% of their season. Testing positive for performance enhancement drugs can result in a student athlete’s loss of a year of eligibility to compete.

In summary, athletics is a shared responsibility from the Chancellor down, so please ask before acting. Compliance staff are always available by phone or email.

As a point of information for the Board, Chancellor Gilliam mentioned his appointment as Chair of the NCAA Division 1 Presidential Forum. The forum is made up of presidents and chancellors from the 32 conferences that are represented in Division 1. The NCAA board of directors has charged the Forum with looking at compliance issues with regards to academics and with preparing a report on academic misconduct. Coincidentally, much of the impetus for this investigation by the NCAA occurred in this state. It raises a very interesting line between institutional freedom - essentially the freedom of the institution to set its own academic program - versus what the NCAA sees as its responsibility to monitor misconduct in regard to student athletes. The working group will have an initial draft in January.

Mr. Blakemore pointed out that the Board of Trustees, the Chancellor, the Athletics Department and everybody else who touches athletics are part of the round table approach to compliance and each has very specific responsibilities.

The Board of Trustees has two primary responsibilities, the first being the fiduciary responsibility to the institution. That fiduciary responsibility involves the BOT assuring that the mission of the university is paramount. Specifically, it is the student athlete, with the student or the academic part being first and primary. The Board’s role in terms of fiduciary responsibility is making sure the mission of the university is what is driving decisions, resource development, etc.
The other BOT responsibility is oversight. The university is obligated to keep the Board apprised of changes in rules and what the university is doing to adhere to them. That oversight does not include the BOT being involved in operations or administrative functions. It does involve a careful and appropriate approach to oversight.

The message that Athletics conveys to their employees is applicable across the board with respect to the NCAA Bylaws. Mr. Blakemore recommended everyone take a cautious approach with the issue of wagering. We do not want to be in a position where it appears the University is directly or indirectly authorizing, sponsoring, or endorsing it. Refraining from wagering for something of value as it is defined in legal terms is key. The more visible UNCG becomes, the more the chances increase for reporting - to SoCon as well as the NCAA. BOT members should not be overly concerned with whether they will be held liable in an official capacity, but we do not want this issue to be associated with UNCG’s reputation.

NCAA requirements specifically lay out an institution’s responsibility. Think in terms of Monitor, Cooperate, Comply. This is true from the Board down. The Board’s role will not typically come into play on a day-to-day basis; rather, it is to monitor programs the way the Board currently does in many different ways. Each BOT member has had and will continue to have formal and informal discussions with the Chancellor and with the AD as part of this monitoring responsibility. Each BOT member, and in fact the CARL Committee, has established priorities for debriefing on compliance areas as previously mentioned. The observations, oversight, priorities, and the tone set by the BOT’s communications to the Chancellor is another form of monitoring.

The Association of Governing Boards (AGB) has laid out a set of principles for all governing boards. One of the first responsibilities is the delegation that the BOT, Board of Governors, and President of the System make to the Chancellor as the university’s chief executive officer. Ultimately, it is not Athletics’ or the AD’s responsibility exclusively. It is the university’s responsibility on the operational, administrative, and budget side of the house. The governing board must accept accountability in ensuring the university’s education mission - a very important part of board responsibility.

Chancellor Gilliam wanted the Board to be aware of one of the NCAA proposals that has been advanced. It will require the presidents and chancellors to attest to the academic integrity of their athletic programs as part of their contracts. This is highly resisted by the presidents and in private schools it would be impossible to do. The presidents and chancellors have already said that you have the right and authority to evaluate how I [the chancellor] am handling athletics, and if you see inefficiencies you need to take action. By way of this proposal, the NCAA would unnecessarily insert itself into the province of governing boards and CEO’s. The Chancellor also pointed out that the BOT is properly exercising its oversight authority by the creation of an action of this Committee.

**Compliance Update (CARL-4)**

Dr. Julia Jackson-Newsom was pleased to report that the University has hired a new Director of Compliance. Kristen Meeks is a graduate of Spelman College and UNC Law School. She comes to UNCG from the National Association of College and University Attorneys, where she was the Assistant Director of Legal Resources with responsibilities for compliance. Ms. Meeks joins the University in mid-January 2019 and will be introduced to the Committee at their next meeting in April.
Action Item

Chair Meeting with State Auditor (CARL-5)

Chair Russell and Internal Auditor Skeen met with the State Auditor on November 19 and were pleased to report that no exceptions were found. Mr. Skeen’s report covered the following:

Financial statement audit of The University of North Carolina at Greensboro for the fiscal year ended June 30, 2018 (report of the North Carolina Office of the State Auditor)

➢ Exit conference was held November 19, 2018; report released on State Auditor’s web site on November 14, 2018 with no reportable findings.

➢ Written communications from the Office of the State Auditor:
  o Independent Auditor’s Report: expressed the opinion that the financial statements were presented fairly, in all material respects.
  o Independent Auditor’s Report on Internal Control and Compliance: stated that the audit did not identify any deficiencies in internal control or instances of noncompliance.

Mr. Skeen added that the report is available on the State Auditor’s website for anyone interested in the details.

Information Item

Public Records Presentation (CARL-6)

In the interest of time, the information on Public Records was not presented, but the Committee was encouraged to review the materials and contact Mr. Blakemore with any questions or concerns.

With no further business to come before the Committee, the meeting was adjourned at 10:55 a.m.

Respectfully submitted,

Kelly Harris
Assistant Secretary to the Board of Trustees