CALL TO ORDER
Tom Cabaniss, Chair of Committee

ROLL CALL
Tom Cabaniss, Chair of Committee

READING OF STATE GOVERNMENT ETHICS ACT CONFLICT OF INTEREST STATEMENT
Tom Cabaniss, Chair of Committee

RESPONSIBILITIES OF THE COMMITTEE

A. Review Committee Responsibilities as established in Bylaws
   Office of Finance and Administration
   Mary Peloquin-Dodd, Associate Vice Chancellor, Finance
   and University Treasurer

B. Review Draft Agenda/Plan of Work for the Year
   Office of Finance and Administration
   Tom Cabaniss, Chair, Audit, Risk Management and Finance Committee
   Mary Peloquin-Dodd, Associate Vice Chancellor, Finance
   and University Treasurer

1. APPROVAL OF MINUTES
   Approval of April 19, 2018 Open and Closed Session Minutes

2. ACTION ITEMS

   A. Internal Audit Charter Review and Approval
      (Internal Audit Act)
      Office of Internal Audit
      Cecile Hinson, Director, Internal Audit

3. INFORMATIONAL REPORTS

   A. Internal Audit Update
      (NC State Pol 01.05.1, Appendix 1, I.a.i-viii)
      Office of Internal Audit
      Cecile Hinson, Director, Internal Audit
B. Legislative and Finance/Budget Update 4.3B
(UNC Pol, Ch. 100.1, Appendix 1 (V), NC State Pol 01.05.1, Appendix 1, l.b)
Office of External Affairs, Partnerships & Economic Development
Kevin Howell, Vice Chancellor, External Affairs, Partnerships & Economic Development
Office of Finance and Administration
Scott R. Douglass, Vice Chancellor, Finance and Administration
Barbara Moses, Associate Vice Chancellor, Budget and Resource Management
Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer

C. Enterprise Risk Management and Compliance Update 4.3C
(NC State Pol 01.05.1, Appendix 1, l.c.i, ii)
Preventative Risk Management: Strategies and Practice
Office of General Counsel
Robert Hoon, Interim General Counsel
Office of Finance and Administration
David Rainer, Associate Vice Chancellor, Environmental Health and Public Safety
Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer

4. COMMITTEE DISCUSSION

5. ADDITIONAL INFORMATIONAL MATERIALS

A. NC State Investment Fund Performance Review 4.5A
(NC State Pol 01.05.1, Appendix 1, l.b, d.i)

B. NC State Intermediate Term Fund Performance Review 4.5B
(NC State Pol 01.05.1, Appendix 1, lb, d.i)

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APPENDIX 1

NC State Board of Trustees’ Delegations of Authority, Assignments and Guidelines

Audit, Risk Management and Finance Committee Delegated Authority and Assignments

a. Audit

   i. Provide oversight of the internal audit function.

   ii. Review and approve the annual internal audit plan at the beginning of the audit cycle.

   iii. Receive quarterly activity reports from the internal auditor.

   iv. Receive direct verbal and/or written reports from the university’s internal auditor regarding out of the ordinary reviews and findings that may involve senior level university employees, trustees or affiliates.

   v. Review a comparison of the annual internal audit plan to the actual internal audits performed.

   vi. Provide oversight of the annual financial statement audit.

   vii. Assure that the university is performing self-assessments of operating risks and evaluations of internal controls on a regular basis.

   viii. Meet with representatives of the State Auditor’s Office to review the annual state auditor’s report and the university’s corrective action, if any.

   ix. Review audit reports of University-associated entities.
b. Finance

   i. Advise the Chancellor with respect to the development of budget estimates for the university, and with respect to the execution and administration of the budget as approved by the General Assembly and the Board of Governors.

c. Risk Management

   i. Provide oversight of the risk management and compliance functions.

   ii. Receive annual reports on risk management, compliance and legal issues.

d. Planning

e. Policy Development

   i. Recommend to the Board of Trustees for approval policies regarding the preservation, maintenance and management of institutional trust funds.

   ii. Upon recommendation of the chancellor, recommend to the Board of Trustees for approval policies related to the maintenance of campus security.

   iii. Upon recommendation of the chancellor, recommend to the Board of Trustees for approval, policies related to information technology and cyber security.
Plan of Work/Calendar
- Review of Committee Responsibilities (Annual)
- Review of Draft Agenda Items for the Year (Annual)

Approvals (Action Items)
- Minutes
- Internal Audit Charter Review and Approval (Annual) (Audit)
- Internal Audit Yearly Plan (Annual) (Audit)
- Recommendation to full Board – policy changes related to institutional trusts (Policy Development)
- Recommendation to full Board – campus security policy changes
- Recommendation to full Board – information technology and cybersecurity policy changes (Policy Development)
- Recommendation to full Board – Bond/Debt (Finance)

Review of Required Annual Reports
- Annual Financial Report/Audit (State Auditors attend) (Audit)
- Annual Report on Endowment and Investments (Annual) (Finance, Policy Development)
- Associated Entities Review (Annual) (Audit)
- University Debt Update (Annual) (Finance)
- Intercollegiate Athletics Finance and Budget Reporting (Annual) (Finance)

Receive Informational Reports
- Enterprise Risk Management & Compliance Update – (Audit, Risk Management, Policy Development)
- Finance and Budget Update (Finance)
- Legislative Priorities (Audit, Finance, Risk Management, Policy Development)
- Internal Audit Update (Audit)
- Investment and Institutional Fund Performance Review (Finance, Policy Development)
Board of Trustees
North Carolina State University
Audit, Risk Management, and Finance Committee
Agenda Topics for FY18-19 (listed alphabetically) (Per Bylaws POL01.05.01, Appendix 1, I)

SEPTEMBER 2018
**Approval of Bonds/Debt (if needed) (Finance, Policy Development)
Enterprise Risk Management & Compliance Update (Audit, Risk Management, Policy Development)
    Proposed Topic: TBD
Legislative/Budget/Finance Update (Audit, Finance, Risk Management, Policy Development)
*Internal Audit Charter Review and Approval (Annual) (Audit)
Internal Audit Update (Audit)
*Minutes Approval
Investment and Institutional Fund Performance Review (Finance, Policy Development)
Review of Committee Responsibilities (Annual)
Review of Draft Agenda Items for the Year (Annual)

NOVEMBER 2018
**Approval of Bonds/Debt (if needed) (Finance, Policy Development)
Enterprise Risk Management & Compliance Update (Audit, Risk Management, Policy Development)
    Proposed Topic: TBD
Intercollegiate Athletics Finance and Budget Reporting (Annual) (Finance)
Legislative/Budget/Finance Update (Audit, Finance, Risk Management, Policy Development)
Internal Audit Update (Audit)
Investment Performance Review (Finance, Policy Development)
*Minutes Approval
State Auditor’s Report (State Auditors attend) (Audit)

FEBRUARY 2019
Annual Financial Report (Audit)
Annual Report on Endowment and Investments (Annual) (Finance, Policy Development)
Associated Entities Review (Annual) (Audit)
Enterprise Risk Management & Compliance Update (Audit, Risk Management, Policy Development)
    Proposed Topic: TBD
Legislative/Budget/Finance Update (Audit, Finance, Risk Management, Policy Development)
Internal Audit Update (Audit)
*Minutes Approval

APRIL 2019
Budget Outlook/Legislative Priorities (Audit, Finance, Risk Management, Policy Development)
Enterprise Risk Management & Compliance Update (Audit, Risk Management, Policy Development)
    Proposed Topic: TBD
Legislative/Budget/Finance Update (Audit, Finance, Risk Management, Policy Development)
Internal Audit Update (Audit)
*Internal Audit Yearly Plan Review for Upcoming FY (Annual) (Audit)
Investment Performance Review (Finance, Policy Development)
*Minutes Approval
University Debt Update (Annual) (Finance)

Except as noted, all update reports are as needed.

*denotes action item
**denotes Requires Full Board Approval
July

- New Trustee Orientation (as needed)

September

- Approval of Bonds/Debts (NC State Pol 01.05.01, Appendix 1, l.b, and di) (as needed)
  Desired outcome and measure of success: Consider and recommend bond resolution approval to BOT when presented. BOT bond approval

- Budget Outlook/Legislative Priorities (NC State Pol 01.05.1 App 1, l. a-d) (as needed)
  Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University

- Enterprise Risk Management, and Compliance Update (NOTE: Do we want to change the name of this to include Safety and Security as referenced in the UNC Policy, or do you think that Risk Management covers it? (UNC Pol, Ch.100.1, Appendix 1 (XV) and UNC Pol., Ch 1300.9) (NC State Pol 01.05.1, Appendix 1, l. a.vi, c, d.ii)
  Desired outcome and measure of success: Receive informational reports on University security, risk and compliance issues. Review risk, security and compliance processes, including but not limited to Title IX, Cleary Act, information technology, campus safety and other specifically related.

- Finance and Budget Update (UNC Pol, Ch. 100.1, Appendix 1 (V) (NC State Pol 01.05.1, Appendix 1, l. b)
  Desired outcome and measure of success: Receive informational reports on budget, institutional trust funds and investments to better understand resources and priorities that impact the University.

- Internal Audit Charter Review and Approval (Req by Internal Audit Act)
  Desired outcome and measure of success: Review the Internal Audit Charter to be compliant with the Internal Audit Act

- Internal Audit Update (NC State Pol 01.05.1, Appendix 1, l.a.i-viii)
  Desired outcome and measure of success: Receive informational reports quarterly on current activity, so that Trustees are aware of any issues that could impact the University. In addition, Trustees would receive bi-annual report on the activities by the Internal Audit Office in reference to the annual plan, and offer guidance when needed.

- Investment/Institutional Fund Performance Review (NC State Pol 01.05.1, Appendix 1, l.d.i)
  Desired outcome and measure of success: Inform Trustees of Investment Fund valuation and changes to market affecting the same via written materials provided at each meeting.

- Policy Approvals (NC State Pol 01.05.1, Appendix 1, l.d) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

- Review of Committee Responsibilities (Annually)
  Desired outcome and measure of success: Understand Committee scope and develop an effective plan of work for the year.

November

- Annual Audit Review (NC State Policy 01.05.1, Appendix 1, l.a.viii)
  Desired outcome and measure of success: Receive a clean audit opinion from the State Auditor's Office.

- Approval of Bonds/Debts (NC State Pol 01.05.01, Appendix 1, l.b and .d.i) (as needed)
  Desired outcome and measure of success: Consider and recommend bond resolution approval to BOT when presented. BOT bond approval

- Enterprise Risk Management and Compliance Update (NC State Pol 01.05.1, Appendix 1, l.a.vi, c, d.ii)
  Desired outcome and measure of success: Receive information report of University any known risks,

- Finance and Budget Update (UNC Pol, Ch. 100.1, Appendix 1 (V) (NC State Pol 01.05.1, Appendix 1, l.b)
  Desired outcome and measure of success: Receive informational reports on budget, institutional trust funds and investments to better understand resources and priorities that impact the University.
- Intercollegiate Athletics Finance and Budget Reporting (Annual) (UNC Pol, Ch. 1100.1.1(R) I.B)
  Desired outcome and measure of success: Receipt of financial indicators contained in the NCAA Dashboard “Presidential View” with both annual and 5-year information as well as review of annual budget including major sources of revenue and expenses. Informational report promotes transparency of Athletics financial operations.

- Internal Audit Update (NC State Pol 01.05.1, Appendix 1, I.a.i-viii)
  Desired outcome and measure of success: Receive informational reports quarterly on current activity, so that Trustees are aware of any issues that could impact the University. In addition, Trustees would receive bi-annual report on the activities by the Internal Audit Office in reference to the annual plan, and offer guidance when needed.

- Investment Performance Review (NC State Pol 01.05.1, Appendix 1, I.d.i)
  Desired outcome and measure of success: Inform Trustees of Investment Fund valuation and changes to market affecting the same via written materials provided at each meeting.

- Policy Approvals (NC State Pol 01.05.1, Appendix 1, I.d) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

February

- Annual Financial Report (NC State Policy 01.05.1, Appendix 1, I.a.viii)
  Desired outcome and measure of success: Review the University Financial Statement after receiving a clean audit opinion from the State Auditor’s Office.

- Annual Report on Endowment and Investments (Annual) (UNC Pol, Ch 100.1, Appendix 1 (VII) (NC State Pol 01.05.1, Appendix 1, I.d.i)
  Desired outcome and measure of success: To provide Committee with more understanding about University Endowment and Investments and progress over time.

- Enterprise Risk Management and Compliance Update (NC State Pol 01.05.1, Appendix 1, I.a.vi, c, d.ii)  
  Desired outcome and measure of success: Receive information report of University any known risks,

- Finance and Budget Update (UNC Pol, Ch. 100.1, Appendix 1 (V) (NC State Pol 01.05.1, Appendix 1, I.b, I.d.i)
  Desired outcome and measure of success: Receive informational reports on budget, institutional trust funds and investments to better understand resources and priorities that impact the University.

- Internal Audit Report (as required by BOG) (NC State Policy 01.05.1, Appendix 1, I.a.iii, 1.a.v)
  Desired outcome and measure of success: 

- Internal Audit Update (NC State Pol 01.05.1, Appendix 1, I.a.iii, I.a.iv, I.a.v)
  Desired outcome and measure of success: Receive informational reports quarterly on current activity, so that Trustees are aware of any issues that could impact the University. In addition, Trustees would receive bi-annual report on the activities by the Internal Audit Office in reference to the annual plan, and offer guidance when needed.

- Policy Approvals (NC State Pol 01.05.1, Appendix 1, I.d) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

April

- Associated Entities Review (UNC Pol, Ch. 600.2.1.5,) (NC State Policy 01.05.1, Appendix 1, I.a.ix)
  Desired outcome and measure of success: To inform Committee on the activities and broad overview of annual performance of associated entities as reported to UNC General Administration.

- Budget Outlook/Legislative Priorities (NC State Pol 01.05.1 App 1, I. a-d) (as needed)
  Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University

- Enterprise Risk Management and Compliance Update (NC State Pol 01.05.1, Appendix 1, I.a.vi, c, d.ii)
  Desired outcome and measure of success: Receive information report of University any known risks,
Finance and Budget Update (UNC Pol, Ch. 100.1, Appendix 1 (V) (NC State Pol 01.05.1, Appendix 1, I.b, I.d.i)
Desired outcome and measure of success: Receive informational reports on budget, institutional trust funds and investments to better understand resources and priorities that impact the University.

Internal Audit Update (NC State Pol 01.05.1, Appendix 1, I.a.iii, I.a.iv, I.a.v)
Desired outcome and measure of success: Receive informational reports quarterly on current activity, so that Trustees are aware of any issues that could impact the University. In addition, Trustees would receive bi-annual report on the activities by the Internal Audit Office in reference to the annual plan, and offer guidance when needed.

Internal Audit Yearly Plan Review and Approval (NC State Policy 01.05.1, Appendix 1, I.a.ii)
Requires Committee Approval Desired outcome and measure of success: 

Investment/Institutional Trust Performance Review (NC State Pol 01.05.1, Appendix 1, I.d.i)
Desired outcome and measure of success: Inform Trustees of Investment Fund valuation and changes to market affecting the same via written materials provided at each meeting.

Policy Approvals (NC State Pol 01.05.1, Appendix 1, I.d) (as needed)
Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

University Debt Update (NC State Pol 01.05.1, Appendix 1, I.b.)
Desired Outcome: Receive informational report regarding the University Debt, and debt standings/rating
Measure of Success: Knowledgeable regarding University Debt, standings and ratings
Chair Cabaniss opened the meeting at 3:11 p.m. in the Chancellor’s Conference Room in Holladay Hall. Roll was taken and a quorum was present. Committee members present for the meeting were:

Mr. Tom Cabaniss, Chair  
Mr. Chip Andrews  
Mr. Jim Harrell  
Dr. Ron Prestage  
Ms. Susan Ward  
Mr. Dewayne Washington

All members of the Committee were reminded of their duty to avoid conflicts of interest and appearances of conflicts of interest under the State Government Ethics Act. It was inquired as to whether there were any known conflicts of interest or appearances of conflict with respect to any matters coming before the Committee at this meeting. There being none, the meeting continued.

Minutes from the February 15, 2018 meeting were presented for approval, and Ms. Ward requested that Mr. Ron Prestage be changed to Dr. Ron Prestage. Dr. Prestage made a motion to accept the minutes and Mr. Washington seconded. With no additional changes, the minutes were approved.

The Internal Audit Annual Audit Plan for Fiscal Year 2019 was presented. There are nine planned audits in addition to engagements that are anticipated to still be in progress as of July 1, 2018. The Committee heard about the Continuous Risk Assessment and Audit Planning process used for developing the Plan and referenced the illustration of that process in the materials. Time was allowed for any questions related to the proposed plan. Dr. Prestage made a motion to accept the Plan as presented, Mr. Cabaniss seconded the motion. The Committee unanimously approved the FY 2019 Audit Plan.

Highlights of the 2017-2018 state appropriation budget were reviewed. There was an increase in appropriations and reductions were less than projected. Projections for future year state appropriations were also reviewed including potential employee salary and benefit increases, campus initiated tuition increase, enrollment change funding and cooperative extension increases. A Management Flex reduction from the UNC System is also expected. The University will watch potential change in enrollment funding as well as data modernization.

The Committee heard about UNC System budget priorities for FY 18-19, which are geared to inform, innovate and empower individual campuses.

The attached Interim financials for third quarter were reviewed. Performance is consistent with prior years, and the net position increased for the first three quarters, compared with the same period last year.

The Annual Review of Associated Entities was reported to satisfy the annual Associated Entity review required by the Board of Governors. All audits have been sent to General Administration and the copies of the Audits were made available to the Committee. There were no management issues this year in the
audits for these entities and all of the entities have an operating agreement with the University in place. Information on net assets and endowments for the Associated Entities was also presented.

The committee heard a debt update, which included a review of the ten-year history of the University’s Outstanding Debt, by amount, type, and purpose. Debt outstanding remains close to the same levels for the last several years. There have been no major changes in debt by purpose, the three largest components being housing, Talley Student Union and energy savings. Future debt will be incurred in 2019 or 2020 due to funding of Carmichael Renovations, Engineering Oval, and Plant Sciences projects. The Committee was apprised of the impact of recent tax changes on the debt markets. Reference was given to the S&P Global Ratings for NC State, provided in the pre-materials, and the university remains in strong standing with an AA/stable rating.

A report on University Campus Security and Safety was heard. Campus safety programs include Integrated Organizational Structure, Violence Prevention and Threat Management, Response and Notification and Strategic Security Planning. The University Police Department is made up of 56 sworn law enforcement officers. The department has its own 911 Center, an extra-territorial jurisdiction agreement with the City of Raleigh and communications interoperability with all local law enforcement, fire and EMS. The Security Master Plan has several goals including centrally managing security risk, enhancing security awareness, integrating planning into new buildings and enhancing security of campus perimeter and outdoor space.

The University’s Violence Prevention and Threat Management is a robust program. It integrates University Police, Behavioral Assessment Team, Division of Academic and Student Affairs, policies and training to identify threats, prevent crisis and keep the campus safe for student and staff. The University also conducts emergency response drills and uses the Wolf Alert messaging system, which can quickly broadcast information to all facets of campus.

Tabitha Groelle made a motion that the Committee convene to closed session to plan, conduct and hear a report concerning an audit under N.C. General Statutes 132-6.1© and 143-318.11(a)(1) to protect from disclosure security features of electronic data processing systems and information technology systems. Dr. Prestage moved to convene to closed session, Mr. Andrews seconded, and with no dissent the Committee convened to closed session at 4:45 p.m.

The Committee reconvened to open session at 5:06 p.m.

A quarterly update on Internal Audit activity since the last meeting was given. In process are: twelve audits, six follow-ups, nine consultations and six Committee and Task Force engagements. Two investigations have been closed after all corrective actions were satisfactorily implemented, and one operational audit has been completed.

Chair Cabaniss referenced informational materials provided to the Committee.

With no further business, the Committee adjourned at 5:08 p.m.

Submitted by ______________________________________
Secretary to the Committee

Approved ______________________________________
Chair of the Committee
INTERNAL AUDIT DIVISION

INTERNAL AUDIT CHARTER

MISSION

The mission of the Internal Audit Division (IAD) is to support the University in the successful achievement of its strategic goals. This is accomplished by serving as an independent partner to University leadership, faculty, and staff in the identification and balancing of their units’ risks through objective, flexible, and proactive audit and consultation services. IAD provides independent evaluation of the effectiveness of risk management, control, and governance processes and makes recommendations for improvement.

SCOPE OF WORK

IAD’s scope of work includes assessing whether:

- Risks are appropriately identified and managed across the University
- University governance processes support the organization’s strategies and objectives
- Financial, process, and information technology controls are effective and efficient
- Policies, regulations, rules, and other guidance and training are consistent in their information, effective, and do not create undue bureaucracy or inefficiencies
- University units are compliant to University, UNC-System Office (UNC-SO), State, and Federal requirements, related processes are administered correctly, and issues are recognized and addressed properly and promptly
- Significant financial, managerial, and operating information is accurate, reliable, secure, and timely
- Actions of University personnel are in compliance with policies and applicable laws and regulations
- University resources are acquired economically, used efficiently, and adequately protected
- Quality and continuous improvement are fostered in the University’s processes

INDEPENDENCE AND ACCOUNTABILITY

All internal audit activity must be free from undue influence or interference in the selection of activities to be examined, determination of the scope or methodology of work, and in communication of the results in accordance with the international standards of independence as set forth by the Institute of Internal Auditors (IIA).

The Chief Audit Officer & Director of Internal Audit (CAO) reports functionally and administratively directly to the Chancellor. The CAO is also accountable to the Board of Trustees (BOT) through its Audit, Risk Management and Finance Committee (Committee) as required by the University of North Carolina (UNC) Board of Governors (BOG) and the IIA standards. The
4.2A

**CAO** communicates and interacts directly and independently with the Committee. In addition, the **CAO** has informational reporting accountability to the Executive Vice Chancellor and Provost and the Vice Chancellor for Finance and Administration.

**RESPONSIBILITY**

The **CAO** has the responsibility to ensure IAD achieves the following:

- Maintain compliance with North Carolina General Statute (GS) Chapter §116-40.7 (which establishes the independent audit function at state universities); NC GS Chapter §143 Article 79, The NC Internal Audit Act; and audit-related requirements from the UNC BOG
- Establish a risk assessment process to support the development of a risk-based audit plan and a risk-based approach to individual engagements
- Submit, at least annually, a risk-based audit plan to the Chancellor and the Committee for approval and implement that audit plan
- Continually re-evaluate the audit plan based on changing conditions and emerging issues and revise as necessary to ensure that the highest risk items are given priority
- Consider the scope of work of the external auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to the organization
- Appropriate and necessary interactions with the various external audit-related governance groups occur as needed, including interactions with UNC-**SO**, the state’s Council of Internal Audit, Office of the State Auditor (OSA), Office of the State Controller, and the State Bureau of Investigation
- Appropriate and necessary interactions with the various internal audit and investigation related units occur as needed, including interactions with Office of the General Counsel, University Police Department, Employee Relations, and Student Conduct
- Investigate suspected fraudulent activities and notify the Chancellor, the Committee, and other management of any significant results; assist OSA or other external investigators with investigation of allegations as necessary
- Issue audit reports or engagement letters as appropriate to the Chancellor and other management summarizing the results of audit or consulting activities
- Report recent activities and high-risk issues to the Committee at regular quarterly meetings
- Perform consulting services, beyond internal auditing’s assurance services, to assist management in meeting its objectives and to proactively address issues
- Coordinate with other control and monitoring functions both internal and external regarding areas such as risk management, compliance, security, legal affairs, environmental health, and external audits and investigations
- Keep the Chancellor, the Committee, the Executive Vice Chancellor and Provost, and the Vice Chancellor for Finance and Administration informed of emerging trends and successful practices in the internal auditing profession
- Educate the campus-community on University policies, State and Federal regulations, best practices, and the importance of effective internal controls
- Participate on various committees, compliance task forces, and system development projects to provide guidance, proactively address potential issues and internal control weaknesses, improve inefficiencies, and increase effectiveness
- Evaluate and assess significant University functions and new or changing services, processes, operations, major systems, and control processes coincident with their development, implementation, and/or expansion
• Develop and maintain a continuous improvement and quality assurance program covering all aspects of IAD’s activities
• Internal audit activity is governed 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.

**AUTHORITY**

The **CAO** is authorized to:

• Have direct and unrestricted access to senior management and the BOT
• Have (and delegate to the IAD staff as appropriate) unrestricted, independent access to all personnel, units, functions, records, and property relevant to the performance of engagements and risk assessment activities
• Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives
• Obtain the necessary assistance of personnel in units of the organization where they perform audits as well as other specialized services from within or outside the organization as needed

The **CAO** and staff of the IAD are **not** authorized to:

• Perform any operational duties for the organization or its affiliates
• Initiate or approve accounting transactions external to the IAD
• Make decisions that are the responsibility of management

*To Be Approved by the NC State University Board of Trustees
Audit, Risk Management and Finance Committee
September 20, 2018*
OUR MISSION
Our mission is to support the University’s successful achievement of its strategic goals by serving as a partner in identifying and balancing risks through objective, flexible, and proactive audit and consultation services.

OUR VALUES
Teamwork: We each view the University and Division’s success as primary
Integrity: We hold ourselves to the same high standard to which we hold others
Accountability: We hold ourselves and others accountable and expect them to do the same
Service: We give back to the University and local community

CONTINUOUS IMPROVEMENT
Continuous improvement is embedded within the Internal Audit Division’s (IAD) culture and is incorporated within all of our activities. This ensures IAD remains agile in its mindset creating a more responsive, efficient, and effective audit program. With this culture as the norm rather than the exception, IAD is able to make thoughtful, timely decisions and focus efforts on issues, challenges, and risks that most affect the University’s ability to implement its strategy, address risks, and achieve its goals. All staff participate and take ownership in improving internal processes through active discussion during weekly management meetings, staff meetings, and performance appraisals.

QUALITY ASSESSMENT REVIEW
A Quality Assessment Review (QAR) is mandated by the Institute of Internal Auditors (IIA) Professional Standards and by the State of North Carolina for all internal audit units every five years. This year’s QAR was the second for our unit.

Preliminary results from the assessment indicate that IAD passed this year’s review with “flying colors!” Specifically, the reviewer has noted that IAD:

- Conforms to the IIA Standards
- Is very effective, often exceeding the expectations of leadership
- Has implemented “cutting edge” best practices
- Provides forward-focused, risk-based services that positively impact the University

Additionally, it was noted that IAD has strong support from the Audit, Risk Management, and Finance (ARMF) Committee of the NCSU Board of Trustees, the Chancellor, and other University administrative and academic management. The Chancellor and the ARMF ensure IAD’s ability to work independently and objectively and promote management’s prioritization of IAD’s recommendations and the timely implementation of corrective actions to identified concerns.

The final report for the QAR will be issued in August 2018.
HIGHLIGHTS OF THE YEAR

IAD receives requests every week for consultative input and advice on University projects, new initiatives, process improvements, self-assessments, and for proper handling of University issues that arise. IAD is in a unique position to elicit positive change and add value to the University through:

- **Collaborations** - IAD provides value by assisting University Administration in achieving the University’s Strategic Plan goals with collaborations between the various units and departments on campus.

<table>
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<tr>
<th>Compliance and Integrity Program – Compliance Manager Services</th>
<th>We collaborated with Compliance Manager Services to enhance University-wide compliance activities by increasing collaboration and expanding reporting opportunities for student, faculty, and staff for ethical or compliance related concerns.</th>
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| Office of Information Technology, Security and Compliance (OIT S&C) | We worked with OIT S&C to:  
• Assess Information Technology (IT) environment for Power America and identify gaps between the current information processing environment and the standards outlined in the Power America Information Security and Compliance Program (Program)  
• Assist in the identification of potential solutions and resources needed to address identified gaps and maintain ongoing compliance with the Program  
• Leverage the results of the assessment to facilitate similar improvements for the broader secure research IT |
| OIT S&C and the Health Insurance Portability and Accountability Act (HIPAA) Compliance Sub-working Group | We helped to facilitate a complete HIPAA security assessment and privacy review for the HIPAA covered health care components at NC State. |

- **Consultations and Special Assignments** - IAD strengthens the University’s Strategic Risk Management initiatives through consultations and special assignments.

| Office of Finance and Administration (OFA) | We reviewed existing research management and research support structures across campus including identifying:  
• gaps in compliance  
• best practices  
• improvements to general business and central processes  
• gaps in current available guidance documents  
• efficiency and effectiveness of customer support structure  
• ability to adapt to the growing and changing University research environment |
|---|---|
| Office of Research, Innovation and Economic Development (ORIED), Office of General Counsel, OFA, and OIT | We provided advisory and consulting services to this group as they developed a collaborative compliance process. This process aims to ensure the University achieves its research goals while maintaining compliance with National Institute of Standards and Technology (NIST) 800-171 "Protecting Controlled Unclassified Information in Nonfederal Information Systems and Organizations" and NIST 800-53 "Security and
Privacy Controls for Federal Information Systems and Organizations." This collaboration raised awareness of research compliance requirements, provided compliance educational opportunities, and created new processes that will optimize compliance activities.

**ORIED and OFA**

We assisted in identifying research administration business processes and University-wide requirements for a proposed new Enterprise Research Administration (ERA) system to replace multiple legacy systems.

**Human Resources**

We consulted on implementation of the new PeopleSoft timekeeping and absence management module (July 2017). The implementation automated 90% of the business processes that were previously completed manually for timekeeping for Fair Labor Standards Act (FLSA) non-exempt personnel.

**Office of Contracts and Grants**

We assisted in the National Science Foundation's (NSF) review of selected Federal grants awarded by NSF.

**OIT S&C**

We assisted in the Office of State Auditor's audit of NCSU's Information Technology General Controls.

- **Search Committees** - These committees play a vital role in evaluating and recommending the most qualified candidates for critical positions across the University.

  **College of Agriculture and Life Sciences (CALS)**

  We participated in the Search Committee for the Director of CALS Business Services. This position provides broad leadership over the management of the college’s centralized financial and business processing operations for CALS departments, centers, County Extension Service offices, the NC Agricultural Research Services Office and its agricultural research stations, and the NC Agricultural and Tobacco Foundations.

  **University Controller’s Office**

  We participated in the Search Committee for the Financial Reporting Director. This position plays a critical role in overseeing all aspects of the University’s financial reporting including: 1) preparing the University’s Annual Financial Report, 2) managing the audit of the University’s financial statements, and 3) completing the Office of the State Controller’s Comprehensive Annual Financial Report reporting package.

- **Audit Recommendations** - During audits, collaborations, consultations, and investigations, issues are identified and discussed with management and stakeholders to allow for process improvements and corrective actions. This year improvements and corrective actions included:

**Greater Employee Awareness:**
- The protection of ultra-sensitive data
- How to report concerning behavior
- Conflict of interest disclosures
- Financial oversight best practices
- State and University Purchasing requirements and procedures

**Enhanced Processes and Procedures:**
- Management and oversight of funds
- Review of financial transactions for documentation of allowability, allocability, and appropriateness
- Governance and security of ultra-sensitive data
- Securing State and University property
- Accurate time reporting
CONTINUOUS RISK ASSESSMENT

IAD developed and implemented a Continuous Risk Assessment process in 2008, well before it became a nationwide best practice. This process is at the core of our audit and consulting engagements and is used as an objective tool in the development of our risk-based Audit Plans. Our view of risk encompasses all elements of the NC State Mission: academics, research, and engagement. To ensure comprehensive input, all team members visit faculty and staff across the University every week to discuss their unit’s strategic plans, goals, and risk posture in relation to the University’s Mission. As a result, in Fiscal Year 2018, 8% of our engagements directly related to the Top Ten Risks identified by the University’s Strategic Risk Management program and the remaining 92% related to risks identified through the continuous risk assessment process. IAD engagement activities covering the University’s Strategic Risk Areas during Fiscal Year 2018 are noted in the charts below.

IAD’s proactive risk assessment approach assists in the anticipation of and deeper insights into issues impacting University Strategy. IAD communicates those risks so that management can build mitigating controls into systems, processes, and initiatives prior to implementation. This is more efficient and cost effective than recommending changes after implementation.
Each year in April, the NCSU Board of Trustees reviews and approves a new Audit Plan for the coming fiscal year. That Plan is a “snapshot in time” of the current risks identified as of February 1 (the end of our planning year) that are selected to be addressed through engagements during the up-coming fiscal year. The Plan is subject to change throughout the year as we weigh emerging areas of risk, management requests, and potential investigations received against the engagements on the original approved Plan. The impact of this is that some engagements on the Plan will be postponed as new engagements carrying higher or more immediate risk are added to the plan. All planned engagements that are not completed during the fiscal year are returned to our Continuous Risk Assessment process for on-going monitoring and potential inclusion in a later plan. This results in a more responsive, agile, and comprehensive audit process.

As illustrated in the chart below, 36 engagements were added to the original approved Fiscal Year 2018 Audit Plan. That represents a 157% increase to the plan.
NCSU Internal Audit Division
Fiscal Year 2018 Engagement Status
as of 6/30/18

- In Process (22)
  - Audits (4)
  - Investigations (8)
  - Consulting (5)
  - Special Assignments (5)

- In Follow-up (7)
  - Audits (3)
  - Investigations (4)

- Closed/Completed (23)
  - Audits (1)
  - Investigations (3)
  - Consulting (3)

- Returned to Risk Inventory (7)
  - Audits (1)

NCSU Internal Audit Division
Fiscal Years 2017-2018 Corrective Action Implementation
as of 6/30/18

- In Process, 28
  - FY18 Reported Issues
  - FY17 Reported Issues
  - In Process, 4
  - In Follow-Up Review, 7
  - Resolved, 2
  - Resolved, 1
In Fiscal Year 2018, our success was due to a dedicated staff, full time and temporary, who devoted 81% of their time directly to these engagements as illustrated in the chart below. Non-engagement effort includes activities such as professional development, administration, attending University functions (e.g., Awards for Excellence ceremonies), and personnel management.
As of the end of Fiscal Year 2018, all team members have been in place for over two years; the Chief Audit Officer & Director and the Assistant Director have been at the University for over 15 and 20 years, respectively. The stability of the team combined with longevity enables a deeper and more holistic understanding of the organization structurally, culturally, and operationally. In addition, it ensures a solid understanding of the risks in a complex higher education environment.

**New Staff Appointment**
Sandra Soto joined the IAD in December 2017 as an Auditor. She has over 20 years of accounting experience in various industries. Sandra has a B.S. in Accounting with a concentration in Internal Audit from NC State and she is currently enrolled in the MBA program at NC State. Sandra is a Certified Fraud Examiner (CFE). She is also trilingual: speaking English, Spanish, and French.

**Staff Kudos, Professional Activities, and Recognition**
Frank Dziepak, Investigative Auditor, won the Chancellor’s Unit Awards for Excellence in February 2018. He then represented the Chancellor’s Unit during the University level Awards for Excellence in June 2018. Frank also graduated from the NC State Equal Opportunity Institute in May 2018.

Neil Holloway was promoted to Audit Manager in May 2018. He also earned his MBA from NC State this fiscal year graduating in December 2017.

M’Sheiela Hawthorne, Auditor, served as Treasurer for the UNC Auditor Association for fiscal year 2018. She also earned her CFE certification in November 2017. The CFE covers four major disciplines that comprise the fraud examination body of knowledge: Fraud Prevention and Deterrence, Fraudulent Financial Transactions, Fraud Investigation, and Legal Elements of Fraud. This body of knowledge will further assist IAD in reducing the University’s risk of fraud.

Cecile Hinson, Chief Audit Officer & Director, earned a Certified Compliance and Ethics Professional (CCEP) certification in August 2017. A CCEP professional has knowledge of relevant regulations and expertise in compliance processes sufficient to assist organizations with their legal obligations and promotes organizational integrity through the operation of effective compliance programs.

**Staff Transitions**
Gail Kashulon, part-time Information Technology Auditor, retired in July 2017.

Anthony Workman, Information Technology Auditor, left the team in December 2017 and is pursuing new career opportunities.
UNIVERSITY GOAL 1 – ENHANCE STUDENT SUCCESS

Jennifer (Jenna) Corey joined IAD as an intern from the Poole College of Management’s (PCOM) Internal Auditing concentration program. She worked as a part-time temporary auditor during the summer of 2017. Jenna graduated from NC State in December 2017 with a B.S. in Accounting and a concentration in Internal Auditing. She is now a staff auditor with Calibre CPA Group, PLLC in Bethesda, Maryland.

Internships with our team provide a student with total immersion in the "real world" of the internal auditing profession. The student is assigned to audit and consulting projects and, with the coaching and mentorship of a senior auditor, performs all aspects of a typical project from risk assessment and planning to developing audit findings and writing the report. This experience positions the student ahead of many new graduates and even some experienced junior auditors; thus, improving their ability to compete for jobs in the market place.

Anthony Workman, former Information Technology Auditor, presented on information technology and network security to about 35 undergraduate students in a PCOM information technology class in November 2017.

UNIVERSITY GOAL 4 – PURSUE ORGANIZATIONAL EXCELLENCE

Data Analytics

IAD has been using data analytics increasingly over the last five years. Currently, IAD is using data analytics tools to perform in-depth risk analysis and visualize audit results. IAD is planning on expanding use of data analytics tools in the upcoming year as the team continues to build technical competency.

Shared Best Practices

During the consultation review of University-wide Post Award Research Management Business Processes, IAD identified organizational structures, processes, and tools in several units that stood out as best practices. These best practice examples were added (with permission) to the IAD website to benefit other campus Research Administration units as needed.

Facilitating Efficiency and Effectiveness

IAD’s broad-based perspective of the University uniquely positions it to identify opportunities to improve efficiency and effectiveness through facilitation of collaboration between units and increasing the awareness of available University services and resources.
UNIVERSITY GOAL 5 – ENGAGE LOCALLY AND GLOBALLY

Throughout the year, IAD participates in opportunities to give back to both our local and global communities. Each year the team spends 8-12 hours in community service by volunteering for unanimously selected activities in the community. These activities not only benefit our communities but also provide a valuable opportunity for strengthening our team bonds. This year the IAD staff:

- Prepared food boxes for senior citizens at the Food Bank of Central and Eastern North Carolina. IAD assisted in packing 604 boxes with 17,880 pounds of food in just 2 hours. That equates to 15,056 meals! Way to go Pack!
- Collected funds to contribute to the Toys for Tots toy drive on NC State’s campus. Toys for Tots is a non-profit charitable organization run by the US Marine Corps Reserve which distributes toys to children whose parents cannot afford to buy them gifts during the holidays.
- Collected nearly 50 gently used stuffed animals to donate to Stuffed Animals for Emergencies (SAFE), Inc. SAFE collects new and gently used stuffed animals to be redistributed to emergency organizations, children’s services, hospitals, homeless shelters and many other places that help children during times of crisis.
- Achieved a 100% participation rate in the State Employees Combined Campaign (SECC).
### NC State University Internal Audit Division

#### Fiscal Year 2018 Audit Plan and Engagement Status

**As of June 30, 2018**

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original Fiscal Year 2018 Audit Plan?</th>
<th>Coverage of Top 10 University Strategic Risks</th>
<th>Fiscal Year 2018 University Strategic Plan Goals</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division of Academic and Student Affairs - Student Health Services Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate an allegation from an internal source related to the new medical records system implementation. 8 issues were reported related to operation and functionality of the new system. The investigation occurred in 2 phases: Phase 1 - Focused on potential compliance issues. Phase 2 - Focused on correction of system issues. Phase 1 - Allegations were unsubstantiated. Report issued 4/27/17. Investigation closed. Phase 2 - Allegations were substantiated and corrective actions for the issues reported were fully and successfully implemented. Report issued 7/18/17. Investigation closed.</td>
</tr>
<tr>
<td>College of Engineering - Material Science and Engineering Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate an allegation from an internal source regarding summer salary paid to a faculty member and to determine if it was in compliance with Federal, State, and University requirements. 1 issue was reported related to summer salary being charged to an incorrect account. Allegation was substantiated and corrective action for the issue reported was fully and successfully implemented. Report issued 8/24/17. Investigation closed.</td>
</tr>
<tr>
<td>The Friday Institute for Educational Innovation Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate an allegation from an internal source regarding possible inappropriate charges made to a faculty member's PCard during summer 2016. 1 issue was reported related to unsupported travel expenses. Allegation was substantiated and corrective action for the issue reported was fully and successfully implemented. Report issued 9/20/17. Investigation closed.</td>
</tr>
<tr>
<td>Environmental Health and Public Safety - University Police Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate an allegation received from an internal source regarding proper performance of required background checks and concerns related to possible misuse of funds. Allegations were unsubstantiated. Report issued 10/9/17. Investigation closed.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Agricultural and Human Sciences Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding a potential conflict of interest existing between a faculty member and a relative who was providing services to the University. 1 issue was reported related to a conflict of interest. Allegation was substantiated and corrective action for the issue reported was fully and successfully implemented. Report issued 11/20/17. Investigation closed.</td>
</tr>
<tr>
<td>College of Sciences - Department of Biological Sciences Investigation</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding potential non-compliance with State and University procurement policies and regulations. Allegations were unsubstantiated. Report issued 1/31/18. Investigation closed.</td>
</tr>
</tbody>
</table>
### NC STATE UNIVERSITY INTERNAL AUDIT DIVISION
#### FISCAL YEAR 2018 AUDIT PLAN AND ENGAGEMENT STATUS
#### AS OF JUNE 30, 2018

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original Fiscal Year 2018 Audit Plan?</th>
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<tbody>
<tr>
<td>College of Sciences - The Science House Investigation</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding potential misuse of funds and non-compliance with University policies. Allegation was substantiated and corrective action for the issue reported was fully and successfully implemented. Report issued 3/12/18. Investigation closed.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences (CALS) - Foundations Internal Controls Review</td>
<td>Yes</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to review Foundation financial processes, internal controls, and assess compliance with University policy. No occurrences of non-compliance within the CALS Foundations processes were noted. Report issued 4/5/18. Engagement closed.</td>
</tr>
<tr>
<td>Department of Athletics - Women's Basketball Transportation Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding potential misuse of funds for personal benefit and falsification of documentation. Allegations were substantiated. No reportable issues required management corrective action. Report issued 6/22/18. Investigation closed.</td>
</tr>
<tr>
<td>Poole College of Management - Development and External Relations Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>In Process</td>
<td>The objective of this audit is to investigate allegations from an internal source regarding the potential misuse of funds using a University PCard.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Poultry Sciences - Feed Mill Education Unit Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td></td>
<td>In Process</td>
<td>The objective of this audit is to investigate allegations from an internal source regarding potential non-compliance with State and University procurement and PCard policies.</td>
</tr>
<tr>
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<tr>
<td>College of Natural Resources - Parks, Recreation, and Tourism Management Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct Other - Internal Audit Universe Risk - Internal Controls Other - Internal Audit Universe Risk - Regulatory Non-Compliance Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
<td>In Process</td>
<td></td>
<td>The objective of this audit is to investigate an allegation from an internal source regarding potential undeposited receipts, mismanagement of funds, and misuse of funds.</td>
</tr>
<tr>
<td>Campus Enterprises - University Dining Vendor Processes Fraud Risk Assessment</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Internal Audit Universe Risk - Fraud Other - Internal Audit Universe Risk - Internal Controls Other - Internal Audit Universe Risk - Regulatory Non-Compliance Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
<td>In Process</td>
<td></td>
<td>The objective of this audit is to assess the effectiveness of University Dining’s financial processes and internal controls at reducing the risk of fraud.</td>
</tr>
<tr>
<td>Campus Enterprises - NCSU Bookstores Investigation</td>
<td>No - Added</td>
<td>3 - Data or Cyber Security Breach Other - Prior Year Strategic Risk - Employee Misconduct Other - Internal Audit Universe Risk - Fraud Other - Internal Audit Universe Risk - Internal Controls</td>
<td>In Process</td>
<td></td>
<td>The objective of this audit is to assess the effectiveness of NCSU Bookstores’ financial processes and internal controls at reducing the risk of fraud.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences Department of Food, Bioprocessing, and Nutrition Sciences Investigation</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct Other - Internal Audit Universe Risk - Fraud Other - Internal Audit Universe Risk - Internal Controls</td>
<td>In Process</td>
<td></td>
<td>The objective of this audit is to investigate an allegation from an internal source regarding possible falsification of timesheets.</td>
</tr>
<tr>
<td>Engagement</td>
<td>On Original Fiscal Year 2018 Audit Plan?</td>
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</tr>
<tr>
<td>College of Agriculture and Life Sciences - Department of Crop and Soil Sciences Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td>4.3A Enhance student success</td>
<td>In Process</td>
<td>The objective of this audit is to investigate allegations from an internal source regarding the potential misuse of funds using a University PCard.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Consortium Uniting People for Sustainability (CUPS) Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td>4.3A Enhance student success</td>
<td>In Process</td>
<td>The objective of this audit is to investigate allegations from an internal source to determine if fundraising activities are compliant with Federal, State, and University regulations.</td>
</tr>
<tr>
<td>Office of Finance and Administration - Facilities - Utilities and Engineering Department Timekeeping and Pay Investigation</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td>4.3A Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to investigate allegations from an external source regarding the potential incorrect payroll payments for Facilities' employees.</td>
</tr>
<tr>
<td>Non-Salary Year End Transfer of Expenses</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Internal Audit Universe Risk - Internal Controls &amp; Regulatory Non-Compliance</td>
<td>4.3A Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to test non-salary year end transfer of expenses for allowability, allocability, and appropriateness.</td>
</tr>
<tr>
<td>Audit of Expenditures from Special Academic Program Resources</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls &amp; Regulatory Non-Compliance</td>
<td>4.3A Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to assess expenditures from special academic program resource funds for compliance.</td>
</tr>
<tr>
<td>Corrective Actions for National Science Foundation (NSF) Performance Audit of Incurred Costs</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td>4.3A Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to perform follow-up activities on all audit issues reported in the NSF external audit.</td>
</tr>
<tr>
<td>Engagement</td>
<td>On Original Fiscal Year 2018 Audit Plan?</td>
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<tr>
<td>Cooperative Extension Services (CES) Financial Governance</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td>Returned to Continuous Risk Assessment</td>
<td>The objective of this audit was to assess NCSU CES central office governance and financial processes. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>Grant Expenses at Award End</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td>Returned to Continuous Risk Assessment</td>
<td>The objective of this audit was to test financial expenditures at the end of the federal grant award life cycle to ensure they are allowable, allocable, and reasonable. Compliance of the expenditures to applicable regulations and provisions of the award agreements were to also be assessed. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>Academic Information Technology Disaster Recovery Planning</td>
<td>Yes</td>
<td>3 - Data or Cyber Security Breach</td>
<td>4. Pursue organizational excellence</td>
<td>Returned to Continuous Risk Assessment</td>
<td>The objective of this audit was to assess the strategic alignment between college and departmental information technology disaster recovery (DR) planning and their related business continuity plans (BCP). Primary focus was to be on academic and instructional DR and BCP. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>Security Applications and Technology (SAT) Services</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td>Returned to Continuous Risk Assessment</td>
<td>The objective of this audit was to assess the processes and related controls governing the system used by SAT to provide physical access controls for campus locations. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>Title IX</td>
<td>Yes</td>
<td>6 - Reduction in Financial Aid 10 - Sexual Violence or Other Serious Crime</td>
<td>4. Pursue organizational excellence</td>
<td>Returned to Continuous Risk Assessment</td>
<td>The objective of this audit was to assess the University’s compliance to the Federal Office of Civil Rights Title IX requirements relating to sexual violence in the student population. This audit was returned to the Continuous Risk Assessment process due to other University entities performing reviews of various aspects of Title IX and revision of current processes. Internal Audit Division will monitor progress of process changes.</td>
</tr>
</tbody>
</table>
### Engagement

**On Original Fiscal Year 2018 Audit Plan?**

- Yes
- No
- Added

**Coverage of Top 10 University Strategic Risks**

- Faculty Losses
- Internal Audit Universe
- Regulatory Non-Compliance
- Effectiveness and Efficiency of Process
- Identification and Risk Management

**Fiscal Year 2018 University Strategic Plan Goals**

**Status**

- Returned to Continuous Risk Assessment
- Complete - In Follow-up
- Complete

**Comments**

- The objective of this audit was to evaluate internal controls over the administration of supplemental salary payments (e.g., honor, interim, administrative, and temporary) to employees and compliance to University requirements.
- This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.

## CURRENT YEAR AUDIT FOLLOW-UP

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original Fiscal Year 2018 Audit Plan?</th>
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<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Controls Over Salary Supplements</td>
<td>Yes</td>
<td>5 - Faculty Losses</td>
<td>Returned to Continuous Risk Assessment</td>
<td></td>
<td>The objective of this audit was to evaluate internal controls over the administration of supplemental salary payments (e.g., honor, interim, administrative, and temporary) to employees and compliance to University requirements. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>Fraud Controls in the Accounts Payable Vendor Account Management Process</td>
<td>Yes</td>
<td>Other - Internal Audit Universe</td>
<td>Returned to Continuous Risk Assessment</td>
<td></td>
<td>The objective of this audit was to assess newly implemented internal controls intended to prevent fraud in the vendor account management process. This audit was returned to the Continuous Risk Assessment process based on reassessment of the audit plan in relation to other priority engagements.</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Animal Science Department Investigation Follow-up</td>
<td>Yes</td>
<td>10 - Sexual Violence or Other Serious Crime</td>
<td>Complete - In Follow-up</td>
<td></td>
<td>The objective of this audit was to investigate an allegation from an internal source regarding the potential misuse of funds in University accounts. 2 issues were noted related to student organization financial training and University procedures for reporting concerning behavior. Report issued 10/16/17. Number of Audit Issues Remaining Open: 2 (corrective actions in progress) Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>Campus Enterprises - NCSU Dining Timesheet Investigation Follow-up</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk Employee Misconduct</td>
<td>Complete - In Follow-up</td>
<td></td>
<td>The objective of this audit was to investigate allegations received from both external and internal sources regarding the manipulation of employee time sheets by the supervisor. 3 issues were noted related to inconsistent application of policy, insufficient documentation, and lack of audit trail for changes to employee time punches. Report issued 3/15/18. Number of Audit Issues Remaining Open: 3 (corrective actions in progress) Number of Audit Issues Closed: 0</td>
</tr>
</tbody>
</table>
### Engagement Plan Status As of June 30, 2018

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original Fiscal Year 2018 Audit Plan?</th>
<th>Coverage of Top 10 University Strategic Risks</th>
<th>Fiscal Year 2018 University Strategic Plan Goals</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>User Controls Over Ultra-Sensitive Data Follow-up</td>
<td>Yes</td>
<td>3 - Data or Cyber Security Breach</td>
<td>4. Pursue organizational excellence</td>
<td>Complete - In Follow-up</td>
<td>The objective of this audit was to assess processes followed by users accessing ultra-sensitive University data for effectiveness and compliance to Federal, State, and University security requirements. 23 issues were noted related to guidance, training, storage, retention, verification processes, access, and approval processes. Report issued 3/26/18. Number of Audit Issues Remaining Open: 23 (corrective actions in progress) Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Poultry Sciences - Feed Mill Education Unit Investigation - Follow-up (Phase 1)</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk Employee Misconduct</td>
<td></td>
<td>Complete - In Follow-up</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding potential non-compliance with State and University procurement, including PCard, policies. 1 issue was noted related to inadequate transaction review. Report issued 4/16/18. Number of Audit Issues Remaining Open: 1 (corrective action in progress) Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>College of Sciences - Marine, Earth and Atmospheric Sciences Investigation - Follow-up</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td>Complete - In Follow-up</td>
<td>The objective of this audit was to investigate allegations from an internal source regarding potential non-compliance with University policies on compensation. 1 issue was noted related to inadequate guidance. Report issued 5/17/18. Number of Audit Issues Remaining Open: 1 (corrective action in progress) Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>University Employee Time and Leave Management - Follow-up</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td>FollowUp - In Process</td>
<td>The objective of this audit was to test compliance to Federal Fair Labor Standards Act, State, and University requirements relating to employee compensatory leave and overtime hours. 8 issues were noted related to incorrect payroll payments to employees, timesheet standardization and guidance, aged out compensatory time reporting process, hiring processes, holiday pay, compensatory leave, and incorrect full time equivalency status. Original report issued 9/15/16. Number of Audit Issues Remaining Open: 6 (corrective actions in progress) Number of Audit Issues Closed: 2</td>
</tr>
</tbody>
</table>

**Key:**
- **Closed**
- **Complete In Follow-up**
- **In Process**
- **Returned to Continuous Risk Assessment**

---

**NC STATE UNIVERSITY INTERNAL AUDIT DIVISION**

**FISCAL YEAR 2018 AUDIT PLAN AND ENGAGEMENT STATUS AS OF JUNE 30, 2018**
<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original Fiscal Year 2018 Audit Plan?</th>
<th>Coverage of Top 10 University Strategic Risks</th>
<th>Fiscal Year 2018 University Strategic Plan Goals</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Agriculture and Life Sciences - Business Processes - Follow-up</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td>FollowUp - In Process</td>
<td>The objective of this audit was to review internal controls and effectiveness of the College of Agriculture and Life Sciences business processes as related to previous investigations and determine other areas with opportunities for improvements. 5 issues were noted related to procedures for: financial oversight, monitoring and oversight of personnel charges, additional compensation payments, salary redistributions, and administration of faculty departures. Original report issued 4/19/17. Number of Audit Issues Remaining Open: 5 (corrective actions in progress) Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>PeopleSoft Module Implementation - Timekeeping and Absence Management Module</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td>Closed</td>
<td>Internal Audit provided advisory and consulting services to Human Resources on their implementation of the PeopleSoft Timekeeping and Absence Management module that was implemented in July 2017. The changes automated 90% of the business processes that were previously completed manually for timekeeping for non-exempt personnel: Consultation closed: 8/24/17.</td>
</tr>
<tr>
<td>2017 National Science Foundation Audit</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td>Closed</td>
<td>Internal Audit consulted with the Office of Contracts and Grants and various Colleges to manage and facilitate the National Science Foundation's (NSF) review of NSF grants awarded to NCSU researchers. Consultation closed: 6/11/18.</td>
<td></td>
</tr>
<tr>
<td>Minor Consulting and Advisory Services</td>
<td>Yes</td>
<td>Various</td>
<td>Closed</td>
<td>Internal Audit receives requests every week from colleges, business units, centers, institutes, and remotely located sites seeking consultative audit input on their projects, new initiatives, or for proper handling of problems encountered. These activities deal with security, financial, research, and personnel matters and result in recommendations relating to compliance, efficiency, security and privacy, or provide general audit related information to campus. Time is allowed on the Plan for these advisory services. Staff members spent an average of 156 hours on these activates in FY2018.</td>
<td></td>
</tr>
<tr>
<td>Research Administration Systems Replacement - ERA (Enterprise Research Administration)</td>
<td>Yes - Carried Forward From Prior Year</td>
<td>3. Data or Cyber Security Breach</td>
<td>3. Support interdisciplinary scholarship</td>
<td>In Process</td>
<td>Internal Audit is providing advisory and consulting services to the Office of Research, Innovation and Economic Development and the Office of Finance and Administration on their replacement of multiple legacy systems used for enterprise research administration activities.</td>
</tr>
</tbody>
</table>

**CONSULTING ENGAGEMENTS**

- PeopleSoft Module Implementation - Timekeeping and Absence Management Module
- 2017 National Science Foundation Audit
- Minor Consulting and Advisory Services
- Research Administration Systems Replacement - ERA (Enterprise Research Administration)
### Engagement

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original 2018 Audit Plan?</th>
<th>Coverage of Top 10 University Strategic Risks</th>
<th>Fiscal Year 2018 University Strategic Plan Goals</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office of the State Auditor Information Technology (IT) General Controls Audit</td>
<td>No - Added</td>
<td>1. Data or Cyber Security Breach</td>
<td>In Process</td>
<td>Internal Audit is consulting with the Office of Information Technology Security and Compliance to facilitate the Office of State Auditor's (OSA's) IT General Controls audit. OSA's audit scope included review and consideration of Internal Audit IT audit reports and documented issues to avoid duplication of effort as appropriate.</td>
<td></td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Integrated Pest Management Research</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>In Process</td>
<td>Internal Audit is consulting with Integrated Pest Management - Research management regarding an issue of non-compliance with University policy on compensation.</td>
<td></td>
</tr>
<tr>
<td>Implementation of Accounts Payable Vendor Management System</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Fraud</td>
<td>In Process</td>
<td>Internal Audit Division is consulting with the University Controller’s Office on their implementation of a vendor management system application.</td>
<td></td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences - Warren County Cooperative Extension Service</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk: Employee Misconduct</td>
<td>In Process</td>
<td>Internal Audit Division is consulting with the College of Agriculture and Life Sciences Human Resources, Cooperative Extension Services and Warren County Cooperative Extension Service regarding a potential mishandling of funds.</td>
<td></td>
</tr>
</tbody>
</table>

### SPECIAL ASSIGNMENTS

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original 2018 Audit Plan?</th>
<th>Coverage of Top 10 University Strategic Risks</th>
<th>Fiscal Year 2018 University Strategic Plan Goals</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Information Technology Strategic Advisory Committee (ITSAC) and Various Subcommittees</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Governance</td>
<td>Closed</td>
<td>Chief Audit Officer and Director is a member of the ITSAC, the University-wide, top-level committee of non-Information Technology personnel whose focus is to ensure that changes, new directions, and planning is done in a coordinated and collaborative fashion. Additional consulting activities were performed by the Assistant Director who provides objective, independent advice to ITSAC subcommittees such as Security, Enterprise Application Systems Management, and the College Information Technology Directors. Engagement closed 6/30/18.</td>
<td></td>
</tr>
</tbody>
</table>

### Key

<table>
<thead>
<tr>
<th>Status</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed</td>
<td>Complete In Follow-up</td>
</tr>
<tr>
<td>In Process</td>
<td>Returned to Continuous Risk Assessment</td>
</tr>
<tr>
<td>Canceled</td>
<td></td>
</tr>
<tr>
<td>Engagement</td>
<td>On Original Fiscal Year 2018 Audit Plan?</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>University Compliance and Integrity Initiative</td>
<td>Yes</td>
</tr>
<tr>
<td>Financial Reporting Director Selection Committee</td>
<td>No - Added</td>
</tr>
<tr>
<td>Office of Finance and Administration - University-wide Research Management Business Processes</td>
<td>Yes</td>
</tr>
<tr>
<td>Information Technology Governance Redesign Steering Team</td>
<td>No - Carried Forward From Prior Year</td>
</tr>
<tr>
<td>EAD Data Analytics Tool Development</td>
<td>No - Added</td>
</tr>
<tr>
<td>Director of College of Agriculture and Life Sciences Business Services Search Committee</td>
<td>No - Added</td>
</tr>
<tr>
<td>Engagement</td>
<td>On Original Fiscal Year 2018 Audit Plan?</td>
</tr>
<tr>
<td>------------</td>
<td>----------------------------------------</td>
</tr>
<tr>
<td>College of Sciences - Pilot Poland Study Abroad Program Financial Review</td>
<td>No - Added</td>
</tr>
<tr>
<td>Power America Information Technology Security Assessment</td>
<td>No - Carried Forward From Prior Year</td>
</tr>
<tr>
<td>National Institute of Standards and Technology (NIST) 800-171 Compliance Steering Team</td>
<td>Yes</td>
</tr>
<tr>
<td>HIPAA Security Assessment</td>
<td>No - Added</td>
</tr>
<tr>
<td>Quality Assurance Review (QAR) - Self-Assessment</td>
<td>Yes</td>
</tr>
<tr>
<td>Quality Assurance Review (QAR) - Independent Validation</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**CONTINUOUS RISK ASSESSMENT AND AUDIT PLANNING**

| Continuous Risk Assessment and Audit Planning | Yes | N/A | Closed | All team members visit faculty and staff across the University throughout the year to discuss their unit's strategic plans, goals, and risk posture in relation to the University's Mission. This includes new and on-going activities related to their academic, research, and outreach missions and potential concerns or emerging risks to both strategic and tactical goals at the unit and University level. This process supports the identification of potential audit and consulting engagements and is used as an objective tool in the development of our Annual Audit Plan. 69 Risk Assessments completed as of 6/30/18. |

**Key:**
- **Closed**
- **Complete In Follow-up**
- **In Process**
- **Canceled**
- **Returned to Continuous Risk Assessment**
July 30, 2018

Dr. Randy Woodson  
Chancellor  
North Carolina State University  
Raleigh, North Carolina 27695

Mr. Thomas E. Cabaniss  
Chair, NCSU Audit, Risk Management and Finance Committee  
North Carolina State University  
Raleigh, North Carolina 27695

Dear Dr. Woodson and Mr. Cabaniss:

I was engaged to conduct an independent validation of the North Carolina State University’s Internal Audit Division’s (IAD) self-assessment. The primary objective of the validation was to verify the assertions made in the attached self-assessment report concerning adequate fulfillment of the organization’s basic expectations of the internal audit function and its conformity to The Institute of Internal Auditors’ (IIA’s) *International Standards for the Professional Practice of Internal Auditing* (Standards). Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with Ms. Hinson, Chief Audit Officer and Director - IAD. In acting as a validator, I am fully independent of the university and have the necessary knowledge and skills to undertake this engagement. I am a seasoned audit professional with 25 years of audit experience and hold the following credentials: Certified Internal Auditor (CIA); Certified Public Accountant (CPA); and Certified Internal Controls Auditor (CICA). Additionally, I administer a statewide peer review program for the North Carolina Council of Internal Auditing and have participated in over 20 reviews including reviews at several University of North Carolina campuses. The validation, conducted during the period July 12 – July 30, 2018, consisted primarily of a review and test of IAD’s procedures and the results of their self-assessment. In addition to both of you, interviews were conducted with other senior members of management at North Carolina State University, and most members of the IAD team.

Under the leadership of Ms. Hinson, IAD implemented agile auditing, which is a leading trend within the internal
audit profession. This best-practice emphasis has facilitated IAD’s maturation into providing forward-focused, risk-based services which significantly increases the unit’s positive impact on the University. Agile auditing allows IAD to direct time and effort toward the issues, challenges, and risks that most affect the University’s ability to implement strategy and achieve goals. This has been accomplished through leveraging technology and data analytics across the audit life cycle to: provide broader-based, more dynamic audit scopes; streamline IAD audit processes and procedures; increase IAD’s services despite limited staffing resources; and, deliver more relevant, higher impact services. In addition, Ms. Hinson’s efforts to promote closer, more collaborative relationships with stakeholders through continuous communication ensures IAD keeps abreast of emerging risk to the university.

One set back within IAD is staffing challenges and limitations; IAD has only six audit staff including one information systems auditor position for which recruitment and retention of a qualified candidate has recently proven to be very challenging. The local market competition for this high demand, specialized position requires higher salaries to address this issue. Ms. Hinson pointed out that University leadership has been supportive in addressing this issue and recruitment is in progress for this critical position. In addition, IAD is understaffed based on the most recent Office of State Budget and Management (OSBM) internal audit staffing analysis which concluded a need for a minimum of eight auditor positions. The OSBM staffing analysis was a high-level review that identified the minimal number of internal audit positions needed to cover the size of the institution, not the optimal number of positions. A more in-depth analysis would help determine the optimal number of positions to effectively address risk within the university. As mentioned above, IAD has taken counter steps to address the staffing issues through agile auditing; however, even with this counter measure, additional resources will improve IAD ability to meet the needs of their stakeholders and ensure proper controls are in place to mitigate risk within the University.

I concur fully with Ms. Hinson’s conclusions in the self-assessment report attached. Implementation of the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the internal audit function and support conformity to the Standards.

Barbara Baldwin, CIA, CPA, CICA
Assistant State Budget Officer / Internal Audit Director
North Carolina Office of State Budget and Management
Independent External Validator
NCSU Internal Audit Division – Self-Assessment with Independent Validation

May 8, 2018

BACKGROUND

The International Standards for the Professional Practice of Internal Auditing (Standards) require that a Quality Assessment Review (QAR) of an internal audit activity be conducted at least once every five years. This QAR was performed in accordance with the Standards’ “Internal Self-Assessment with Independent Validation” model through the State of North Carolina Council of Internal Auditing Office, Internal Audit Peer Review Program. This model requires an in-depth self-assessment and a review of that assessment by a qualified assessor. The assessor for this QAR of the NCSU Internal Audit Division (IAD) was the Assistant State Budget Officer and Internal Audit Director, Office of State Budget and Management, Office of Internal Audit.

OBJECTIVE AND SCOPE

The principal objectives of the quality assessment were to:

- Assess the internal audit activity’s conformance to The Institute of Internal Auditors’ (IIA’s) Standards
- Evaluate the internal audit activity’s effectiveness in carrying out its mission as set forth in its charter and expressed in the expectations of the University’s Board of Trustees and University executive leaders
- Identify opportunities to enhance its management and work processes
- Provide suggestions to enhance the audit function’s value to the University

The scope of our internal assessment was from Fiscal Year (FY) 2012 through FY 2017 and included, but was not limited to IAD’s:

- Internal policies and procedures
- Risk assessment and audit planning processes
- Audit tools and methodologies
- Engagement and staff management processes

EXECUTIVE SUMMARY OF RESULTS and OVERALL OPINION
The IIA’s *Quality Assessment Manual* suggests rating the results of an assessment using one of three ratings: “Generally Conforms,” “Partially Conforms,” or “Does Not Conform.” It is our overall opinion that the NCSU Internal Audit Division generally conforms to the IIA *Standards* and Code of Ethics. “Generally conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards. For a detailed list of conformance with individual *Standards*, please see Table 1 attached.

IAD believes that the IAD environment and culture are well established, sustainably structured, mature, and progressive. The Standards are understood, the Code of Ethics is inclusive, and both are embraced and applied by all IAD employees. IAD management provides useful audit tools, efficient standard operating procedures (SOPs), and implements innovative and appropriate practices.

**Highlights of Successful Practices**

**Support of University Leadership**

NCSU IAD consistently has strong support from the Audit, Risk Management, and Finance (ARMF) Committee of the NCSU Board of Trustees, the Chancellor, and other University administrative and academic management. Leadership ensures fiscal and organizational support for the IAD team’s efforts to recruit, train, and retain highly qualified, committed individuals. The Chancellor and the ARMF ensure IAD’s ability to work independently and objectively and promote management’s prioritizing IAD’s recommendations and timely implementation of corrective actions to identified concerns. Management has increasingly sought advice from IAD on management initiatives, major projects, new services, and process improvements.

**Continuous Risk Assessment**

IAD developed and implemented a Continuous Risk Assessment (CRA) program in 2008, well before it became a nationwide best practice. IAD considers all risks that affect the University “enterprise” - not just the "auditable risks" - and its ability to achieve its strategic and tactical goals and objectives. This broader concept of the audit universe begins with the core elements of the NC State Mission: academics, research, and engagement. All team members visit faculty and staff across the University each week throughout the year to discuss their unit’s strategic plans, goals, and risk posture in relation to the Mission. The CRA process is at the core of our audit and consulting engagements and is used as an objective tool in the development of our risk-based Audit Plans. As a result, in FY 2017, 49% of engagements directly related to the Top Ten Risks identified by the University’s Strategic Risk Management program and the remaining 51% related to risks identified during CRA.
Continuous Improvement
Continuous improvement is embedded within the culture and is incorporated within every activity. All staff participate and take ownership in improving internal processes. Quality Assurance Improvement activities are consistently discussed during weekly management meetings, staff meetings, and performance appraisals. Internally, continuous improvement supports the performance of a relatively large number of impactful engagements (64 in FY2017) with a lean staff (5) and facilitates 80% of staff time being dedicated directly to engagements.

Data Analytics
IAD has been using data analytics increasingly over the last five years. Data analysis software is used regularly for analyzing risk and performing audit fieldwork; several significant audit engagements included testing of 100% populations due to the capabilities provided by the software.

Currently, IAD is using both data analytics and visualization tools to explore the creation of continuous audit programs which may ultimately be shared with units across campus to incorporate into their operations and enable rapid identification of areas of concern. Data visualization is important as it allows anyone from within the University to quickly grasp difficult concepts and identify new patterns within the data without the need for complex, manual analysis.

Quality of Staff
All members of the IAD team are cross-trained so that no one is limited in the types of audits they can competently perform: operational, information technology (IT), compliance, fraud investigation, performance, or others. For example, all auditors receive periodic IT audit training such that the majority can perform IT General Controls (ITGC) focused audits. Recently, this allowed for the completion of a University-wide Audit of User Controls Over Ultra-Sensitive Data this fiscal year despite the IT Auditor position being vacant at the time. All auditors have also earned the Certified Fraud Examiner certification which ensures they can perform competent fraud risk assessment on each engagement and provides adequate coverage for investigative engagements.

Team members have been in place for over two years and the Director and Assistant Director have been at the University for over 15 and 20 years, respectively. This consistent time on campus has allowed the team to develop deeper knowledge of the organization structurally, culturally, and operationally in addition to ensuring a well-based understanding of the risks in a higher education environment.
Opportunities for Continuous Improvement

The IIA defines opportunities for continuous improvement as observations that can enhance alignment with the criteria of the Standards or increase the audit function's efficiency and effectiveness as opposed to indicating a lack of conformance with the Standards.

Throughout this self-assessment, IAD identified opportunities to document or improve documentation of processes that were already in practice. For example, the following areas are part of IAD’s processes and practices but were not specifically documented in IAD’s standard operating procedures or templates:

- Engagement Planning Program template should include steps which indicate:
  - The use of computer aided audit tools and other data analysis techniques
  - An assessment for the risk of fraud
- Audit and Consulting Engagement process SOP should note:
  - Use of the Risk, Scope, and Objective template in all engagements, regardless of type of engagement, to document IAD’s assessment of governance, risk management, and control processes during planning
  - How to document management’s acceptance of risk, if needed
  - Process for communicating an error or omission in a report, if it should occur

These documentation updates and other similar updates are in process as of the writing of this report and will be completed by June 30, 2018.

Additionally, the self-assessment process reaffirmed the benefits to be achieved through completing the mission and values reassessment, SWOT analysis, and risk assessment process improvement begun by the team in FY 2017. A team retreat is being planned for summer 2018 to complete that activity.
### Table 1 - Evaluation Summary: Quality Assessment
(GC = Generally Conforms, PC = Partially Conforms, DNC = Does not Conform)

<table>
<thead>
<tr>
<th>Overall Evaluation</th>
<th>GC</th>
<th>PC</th>
<th>DNC</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overall Evaluation</strong></td>
<td>GC</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attribute Standards (1000 through 1300)</th>
<th>GC</th>
<th>PC</th>
<th>DNC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1000 Purpose, Authority, and Responsibility</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1010 Recognizing Mandatory Guidance in the Internal Audit Charter</td>
<td>GC</td>
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<tr>
<td>1100 Independence and Objectivity</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1110 Organizational Independence</td>
<td>GC</td>
<td></td>
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<tr>
<td>1111 Direct Interaction with the Board</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1112 Chief Audit Executive Roles Beyond Internal Auditing</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1120 Individual Objectivity</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>1130 Impairment to Independence or Objectivity</td>
<td>GC</td>
<td></td>
<td></td>
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<tr>
<td>1200 Proficiency and Due Professional Care</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1210 Proficiency</td>
<td>GC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1220 Due Professional Care</td>
<td>GC</td>
<td></td>
<td></td>
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<tr>
<td>1230 Continuing Professional Development</td>
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<td>1300</td>
<td>Quality Assurance and Improvement Program</td>
<td>GC</td>
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<tr>
<td>1310</td>
<td>Requirements of the Quality Assurance and Improvement Program</td>
<td>GC</td>
<td></td>
</tr>
<tr>
<td>1311</td>
<td>Internal Assessments</td>
<td>GC</td>
<td></td>
</tr>
<tr>
<td>1312</td>
<td>External Assessments</td>
<td>GC</td>
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</tr>
<tr>
<td>1320</td>
<td>Reporting on the Quality Assurance and Improvement Program</td>
<td>GC</td>
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</tr>
<tr>
<td>1321</td>
<td>Use of “Conforms with the International Standards for the Professional Practice of Internal Auditing”</td>
<td>GC</td>
<td></td>
</tr>
<tr>
<td>1322</td>
<td>Disclosure of Nonconformance</td>
<td>GC</td>
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</tbody>
</table>

**Performance Standards (2000 through 2600)**

<table>
<thead>
<tr>
<th>2000</th>
<th>Managing the Internal Audit Activity</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>Planning</td>
<td>GC</td>
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</tr>
<tr>
<td>2020</td>
<td>Communication and Approval</td>
<td>GC</td>
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</tr>
<tr>
<td>2030</td>
<td>Resource Management</td>
<td>GC</td>
<td></td>
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<tr>
<td>2040</td>
<td>Policies and Procedures</td>
<td>GC</td>
<td></td>
</tr>
<tr>
<td>2050</td>
<td>Coordination and Reliance</td>
<td>GC</td>
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</tr>
<tr>
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Volatility returned to the markets in the first quarter of 2018 as uncertainty around aggressive US trade policy, inflation, and geopolitical risks rose to the forefront of investors’ minds. The Federal Open Market Committee, under the leadership of its new chairman Jerome Powell continued towards rate normalization, increasing the Fed Funds target rate by another 0.25% in its January meeting. Inflation fears began to surface during the quarter, with investors fearing that a spike may lead the Fed to deviate from its plan and increase rates preemptively. This concern had a significant impact on investors fearing that a spike may lead the Fed to deviate from its plan and increase rates preemptively. This concern had a significant impact on

Emerging markets equities provided one of the few bright spots, producing positive returns for the quarter. Domestic equities, as measured by the S&P 500 Index, were down modestly (.76%) during the first quarter. Small cap stocks, as measured by the Russell 2000 Index, were the most resilient performers for the period, down just .08%. US stocks bolstered by tax reform, started strong in calendar 2018. Other factors were strong corporate earnings, and a general sense of economic strength. Fears of a trade war with China, a potential spike in inflation, and concerns that the current economic expansion cycle is reaching its later innings stifled investor sentiment later in the period.

International equities, as measured by the MSCI EAFE GR Index, also posted negative returns for the quarter, down 1.41%. The trajectory of international returns followed that of the US, with 2018 starting on a positive note only to see volatility return later in the period over concerns about the direction of US rates and trade policy.

Emerging markets (EM), as measured by the MSCI Emerging Markets GR Index, shrugged off broader global market concerns and returned 1.47% for the first quarter. Emerging markets have produced a return of more than 25%, leading major asset classes globally.

The beginning of the year saw treasury yields rise across all maturities. The 10-year treasury yield opened the quarter at 2.46%, and hit an intra-quarter peak of 2.94% before settling at 2.74% at the end of March. In general, fixed income did not perform well during the quarter with the Bloomberg Barclays US AGG bond losing -1.46% during the period. Long-dated high yield corporates, as measured by the Bloomberg Barclays Long Corporate Index, lost -4.05% during the period, bringing its one-year return down to 6.11%.

Going forward, geopolitical uncertainty and “America-first” trade rhetoric continue to dominate headlines. While fundamentals on a global scale still appear strong and corporate earnings have been robust, investors are beginning to wrestle with the idea that the economic expansion that has boosted equity markets in recent periods is beginning to slow down. It is too early to determine whether the recent volatility is reflective of a more significant economic issue or simply a much needed correction, but it does appear that the momentum injected into the markets following Trump’s election is starting to wane, if only temporarily.
INVESTMENT STRATEGY

The Fund is managed as a broadly diversified portfolio with exposure to seven primary asset classes and many sub-strategies within each asset class. The Fund seeks to diversify exposure to the sub-strategies through the use of multiple investment managers that utilize a variety of investment approaches. The purpose of diversification is to provide reasonable assurance that no single security, class of securities, or investment manager has a disproportionate impact on the Fund's aggregate results. At times, the Fund invests in passive strategies. In working toward the Fund's investment strategy, through UNCMC, the Fund invests in a number of niche managers that can employ different types of hedging strategies such as short-selling and derivative investing to help reduce the volatility of the Fund. The focus on controlling volatility preserves capital and benefits Fund participants through the power of compounding.

ASSET ALLOCATION

HISTORY OF THE FUND

The NC State Investment Fund, Inc., was established in June 1999 to combine NC State University’s and its affiliated entities’ endowments in an external pooled investment vehicle. The goal of the investment program for the Fund is to provide a real total return from assets invested that will preserve the purchasing power of Fund capital, while generating an income stream to support the spending needs of the University. Effective July 2008, the Fund partnered with UNC Management Company (UNCMC) to invest in the UNC Investment Fund (UNCIF), with the remaining investments committed to a Liquid Policy Portfolio (LPP) of Exchange Traded Funds (ETF’s), and to 3 private equity managers which includes an allocation for cash to fund capital calls. The transition of assets to UNCMC was completed December 2009.

This report is based on information available at the time of distribution. The information comprising this report has not been audited and is subject to change.

March 31, 2018
NC State Intermediate Term Fund

NC State University, Campus Box 7207, Raleigh, NC 27695-7207

Inception Date: July 3, 2014

FUND HISTORY AND PHILOSOPHY

As a pooled fund for the collective investment of operating funds, the NC State Intermediate Term Fund (ITF) consists of Participants’ excess cash balances, which are defined as funds not needed for normal operating purposes. Generally, the ITF will not include operating funds needed within the next year, endowed funds or those funds that are specifically excluded by law or contractual agreement.

The decision to invest funds takes into account various factors including duration, credit, concentration, and manager risk, along with total return, suitability, and the experiences, quality and capability of external managers.

The primary investment objectives of the ITF are: 1) Preservation and safety of principal; 2) Liquidity; and 3) Maximization of returns within acceptable levels of risk. Because of current concerns about potential changes in monetary policy and rising interest rates, duration is limited. The investment policy calls for an average weighted maturity between one and five years, with an overall credit rating in general of A+/A as rated by a nationally-recognized rating agency. However, for any mutual funds selected by the ITF, their respective approved investment policy guidelines supersede those of the ITF.

The ITF was established on July 3, 2014 with an initial investment of $122 million. Additional investments were made during FY 2015 & FY 2017, bringing the total invested to $193.83 million. The ITF can be compared with the State Treasurer’s Short-Term Investment Fund (STIF) on both a total return and on an SEC yield basis. In order to provide a buffer for changes in the NAV of the different investments, some of the excess earnings are being used to create a loss reserve. FMV fluctuates on a day-to-day basis.

BlackRock’s SIO was liquidated from the fund on June 30, 2016. Proceeds were invested in Vanguard’s Short Term Fund and DoubleLine’s Total Return Fund on July 1, 2016. Additionally, a small position with PIMCO Income was initiated on November 2, 2016. The ITF’s position in JP Morgan was liquidated on September 27, 2017 and PIMCO Low Duration was liquidated on October 2, 2017. The proceeds from these liquidations were reinvested into Vanguard’s Short Term Fund and PIMCO Income, bringing the total cost basis to $190.4 million.

PERFORMANCE

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<th>Market Value</th>
<th>$186,179,388</th>
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<th>QTD</th>
<th>FYTD</th>
<th>1 Year</th>
<th>3 Year</th>
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<tr>
<td>ITF Fund</td>
<td>-0.4%</td>
<td>0.6%</td>
<td>1.3%</td>
<td>1.2%</td>
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<td>Barclays 1-3 yr Treasury</td>
<td>-0.2%</td>
<td>-0.2%</td>
<td>0.0%</td>
<td>0.4%</td>
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<tr>
<td>Barclays Universal 1-5 yr</td>
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<td>-0.1%</td>
<td>0.6%</td>
<td>1.3%</td>
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<tr>
<td>DoubleLine</td>
<td>-0.5%</td>
<td>0.8%</td>
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<td>PIMCO Income</td>
<td>-0.3%</td>
<td>2.9%</td>
<td>5.3%</td>
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<tr>
<td>Vanguard Short Term</td>
<td>-0.5%</td>
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<td>0.8%</td>
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<td>Volatility</td>
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<td>Sharpe Ratio</td>
<td>1.2%</td>
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<td>SEC Yield</td>
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<td>Effective Duration</td>
<td>2.8</td>
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<td>FYTD Net Interest &amp; Dividends**</td>
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<td>Net Interest &amp; Dividends Since Inception**</td>
<td>$15,998,165</td>
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**Net of Fund expenses

Note 1: The iShares Core 1-5 Year Bond ETF is used as a proxy for the benchmark for Statistics information

MANAGERS

Vanguard’s Short Term Fund has a low tracking error and is a low cost portfolio option consisting primarily of investment grade corporates.

PIMCO’s Income Fund is a portfolio of a broad range of intermediate-duration bonds that is actively managed to maximize current income while maintaining a relatively low risk profile.

DoubleLine’s Total Return Fund seeks to maximize total return by exploiting inefficiencies within the subsectors of the mortgage market while maintaining active risk management constraints.

SECTOR ALLOCATION

MANAGER ALLOCATION

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Third Quarter Fiscal Year 2018