NC State Board of Trustees

Audit, Risk Management and Finance Committee

September 9, 2021

Winslow Hall

Winslow Hall Conference Room

https://go.ncsu.edu/botmeeting
Meeting Agenda

9:00am

1. Call to Order, Public Meeting Notice, Reading of Ethics Statement
   Ed Weisiger, Jr., Chair
   
   A. Ethics Statement

2. Roll Call
   Tabitha Groelle, Board Professional

3. Responsibilities of the Committee
   Charles A. Maimone, Vice Chancellor, Finance and Administration
   
   A. Committee Responsibilities
      
      a. Bylaws
      
      b. Committee Responsibilities
   
   B. 2021-2022 Committee Plan of Work
      
      a. Committee Plan of Work

4. Approval of Minutes
   Ed Weisiger, Jr., Chair
   
   A. April 15, 2021 Meeting Minutes
      Action Item for Committee

5. Action Item
   
   A. Internal Audit Charter Review and Approval
      Cecile M. Hinson, Chief Audit Officer and Director, Internal Audit Division
      
      a. Internal Audit Charter - FY22 Proposed 9921
      Action Item for Committee
6. Informational Reports

A. Internal Audit Update
Cecile M. Hinson, Chief Audit Officer and Director, Internal Audit Division

   a. Internal Audit FY 2021 Annual Report

   b. Internal Audit FY21 APES Status Spreadsheet - 2021 - 06-30

   c. Internal Audit FY 2022 Plan Package

B. Legislative and Budget Update
Kevin D. Howell, Vice Chancellor, External Affairs, Partnerships & Economic Development and Charles A. Maimone, Vice Chancellor, Finance and Administration

C. Finance Update
Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer, Finance Division

D. Enterprise Risk Management and Compliance Update
Allison B. Newhart, Vice Chancellor and General Counsel and Kristen A. Meeks, University Compliance, Ethics, and Enterprise Risk Management Officer, Office of General Counsel

7. Committee Discussion
Ed Weisiger, Jr., Chair

8. Additional Information Materials
Ed Weisiger, Jr., Chair

   A. NC State Investment Fund Performance

      a. NC State Investment Fund Performance

   B. NC State Intermediate Term Fund Performance

      a. NC State Intermediate Term Fund Performance

9. Adjourn
Ed Weisiger, Jr., Chair
In accordance with the State Government Ethics Act, it is the duty of every [Board] member to avoid both conflicts of interest and appearances of conflict.

Does any [Board] member have any known conflict of interest or appearance of conflict with respect to any matters coming before the [Board] today?

If so, please identify the conflict or appearance of conflict and refrain from any undue participation\(^2\) in the particular matter involved.

\(^1\) N.C.G.S. §138A-15 (e): “At the beginning of any meeting of a board, the chair shall remind all members of their duty to avoid conflicts of interest and appearances of conflict under [Chapter 138A].” There is no set language required by the Act. Specific language can and should be tailored to fit the needs of each covered board as necessary.

\(^2\) “A public servant shall take appropriate steps, under the particular circumstances and considering the type of proceeding involved, to remove himself or herself to the extent necessary, to protect the public interest and comply with this Chapter, from any proceeding in which the public servant’s impartiality might reasonably be questioned due to the public servant’s familial, personal, or financial relationship with a participant in the proceeding.” See N.C.G.S. §138A-36 (c). If necessary, the Chairman or individual member involved should consult with his ethics liaison, legal counsel, or the State Ethics Commission to help determine the appropriate response in a given situation.
Appendix 1

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

I. 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 cybersecurity.
NC STATE BOARD OF TRUSTEES
AUDIT, RISK MANAGEMENT AND FINANCE COMMITTEE RESPONSIBILITIES
FY 2021 – 2022

Plan of Work/Calendar
- Review of Committee Responsibilities (Annual)
- Review of Draft Agenda Items for the Year (Annual)

Approvals/Recommendations (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 (as needed) (Policy Development)
- Recommendation to full Board – campus security policy changes (as needed) (Policy Development)
- Recommendation to full Board – information technology and cybersecurity policy changes (as needed) (Policy Development)
- Recommendation to full Board – Bond/Debt (as needed) (Finance)
- Recommendation to full Board – NC State All-Funds Budget (Annual) (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)
- Campus Securities (Annual) (Audit, Risk Management, Policy Development)
- Information Technology Update (Annual) (Audit, Risk Management, Policy Development)

Receive Informational Reports
- Enterprise Risk Management & Compliance Update (as needed) (Audit, Risk Management, Policy Development)
- Finance Update (Finance)
- Legislative and Budget Update (Audit, Finance, Risk Management, Policy Development)
- Internal Audit Update (Audit)
- Investment and Institutional Fund Performance Review (Finance, Policy Development)
July
- New Trustee Orientation (as needed)

September
- Approval of Bonds/Debts (NC State Policy) (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 (UNC Policy) (NC State Policy) (as needed)
  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, Clery Act and other specifically related topics.
- Finance Update (UNC Policy) (NC State Policy)
  Desired outcome and measure of success: Receive informational reports on university financials, 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) (Annual)
  Desired outcome and measure of success: Review the Internal Audit Charter to be compliant with the Internal Audit Act
- Internal Audit Update (NC State Policy)
  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 and Institutional Fund Performance Review (NC State Policy)
  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.
- Legislative and Budget Update (NC State Policy)
  Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University
- Policy Approvals (NC State Policy) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.
- Review of Committee Responsibilities and Agenda Topics (Annual)
  Desired outcome and measure of success: Understand Committee scope and develop an effective plan of work for the year.

November
- Approval of Bonds/Debts (NC State Policy) (as needed)
  Desired outcome and measure of success: Consider and recommend bond resolution approval to BOT when presented. BOT bond approval
- Campus Securities Review (UNC Policy) (NC State Policy) (Annual)
  Desired outcome and measure of success: Receive information report of University campus security.
- Enterprise Risk Management and Compliance Update (UNC Policy) (NC State Policy) (as needed)
  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, Clery Act and other specifically related topics.
- Finance Update (UNC Policy) (NC State Policy)
Desired outcome and measure of success: Receive informational reports on university financials, institutional trust funds and investments to better understand resources and priorities that impact the University.

- Internal Audit Update (NC State Policy)
  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 and Institutional Fund Performance Review (NC State Policy)
  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.

- Legislative and Budget Update (NC State Policy)
  Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University

- Policy Approvals (NC State Policy) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

- State Auditor’s Report (NC State Policy) (Annual)
  Desired outcome and measure of success: Receive a clean audit opinion from the State Auditor’s Office.

February

- Annual Financial Report (NC State Policy) (Annual)

- Annual Report on Endowment and Investments (UNC Policy) (NC State Policy) (Annual)
  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 (UNC Policy) (NC State Policy) (as needed)
  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, Clery Act and other specifically related topics.

- Finance Update (UNC Policy) (NC State Policy)
  Desired outcome and measure of success: Receive informational reports on university financials, institutional trust funds and investments to better understand resources and priorities that impact the University.

- Information Technology Security Review (UNC Policy) (NC State Policy) (Annual)
  Desired outcome and measure of success: Receive information report of University IT risks, security and compliance.

- Intercollegiate Athletics Finance and Budget Reporting (UNC Policy) (Annual)
  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 Policy)
  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 and Institutional Fund Performance Review (NC State Policy)
  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.

- Legislative and Budget Update (NC State Policy)
Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University

- Policy Approvals (NC State Policy) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

April
- Associated Entities Review (UNC Policy) (NC State Policy) (Annual)
  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.

- Enterprise Risk Management and Compliance Update (UNC Policy) (NC State Policy) (as needed)
  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, Clery Act and other specifically related topics.

- Finance Update (UNC Policy) (NC State Policy)
  Desired outcome and measure of success: Receive informational reports on university financials, institutional trust funds and investments to better understand resources and priorities that impact the University.

- Internal Audit Update (NC State Policy)
  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 Annual Plan Review and Approval (NC State Policy) (Annual)
  Requires Committee Approval Desired outcome and measure of success:

- Investment and Institutional Fund Performance Review (NC State Policy)
  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.

- Legislative and Budget Update (NC State Policy)
  Desired outcome and measure of success: Receive informational report on Legislative budget priorities and understanding possible impacts to University

- NC State All-Funds Budget Review and Approval (UNC Policy) (Annual)
  Desired outcome and measure of success: Consider and recommend budget approval to BOT when presented. BOT budget approval

- Policy Approvals (NC State Policy) (as needed)
  Desired outcome and measure of success: Recommend appropriate policies to the full Board for approval.

- University Debt Update (NC State Policy) (Annual)
  Desired Outcome: Receive informational report regarding the University Debt, and debt standings/rating
  Measure of Success: Knowledgeable regarding University Debt, standings and ratings
The Audit, Risk Management and Finance Committee of the Board of Trustees of North Carolina State University met via Zoom on April 15, 2021.

Members present: Edward I. Weisiger, Jr., Chair
Melanie Flowers
Ann B. Goodnight
Stanhope A. Kelly
Dewayne N. Washington

Absent: Ven Poole

Chair Weisiger called the meeting to order at 3:15 p.m. He reminded the Committee that the meeting will be conducted pursuant to the provisions of the Open Meetings Act that apply during states of emergency and that allow for public bodies to meet via electronic means. This law requires that all votes be taken via roll call. Chair Weisiger then reminded those in attendance that while the Committee meeting is a public meeting, it is not a meeting for public comment and only those on the agenda will be permitted to speak. Chair Weisiger also reminded all members of their duty to avoid conflicts of interest and appearances of conflicts of interest under the State Government Ethics Act and 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. Chair Weisiger then called on Tabitha Groelle for the roll call.

ROLL CALL
Tabitha Groelle called roll and confirmed that a quorum was present.

MINUTES
Trustee Washington made the motion, seconded by Trustee Kelly, to approve the open session minutes of the February 25, 2021 meeting. Chair Weisiger called for a vote by roll call.

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The motion passed.

APPROVAL ITEMS
INTERNAL AUDIT FY2022 PLAN – CECILE M. HINSON
Cecile M. Hinson, Chief Audit Officer and Director, Internal Audit presented the Internal Audit Division (IAD) Fiscal Year 2022 Annual Audit Plan for approval. The Committee heard an overview of the Continuous Risk Assessment and Audit Planning process used to develop the Plan, the engagements proposed, and the current staff and organizational structure of the Internal Audit Division; all of which was included in the materials. Time was allowed for questions and discussion.

Trustee Washington made a motion, seconded by Trustee Kelly, to accept the Plan as presented. Chair Weisiger called for a vote by roll call:

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The motion passed.
INFORMATIONAL REPORTS
INTERNAL AUDIT UPDATE – CECILE M. HINSON
Cecile M. Hinson provided an update on internal audit activity since the last meeting. Six (6) reports are being drafted and provided to management for their response to the issues documented; summaries of these reports will be available in September. Currently in progress are: four (4) audits, four (4) follow-ups, four (4) advisory engagements, and management corrective actions for issues documented in five (5) prior audit reports.

LEGISLATIVE AND BUDGET UPDATE – KEVIN D. HOWELL AND CHARLES A. MAIMONE
Kevin D. Howell, Vice Chancellor and Julie Smith, Assistant Vice Chancellor, External Affairs, Partnerships and Economic Development, discussed current legislative activity. The Governor’s budget includes raises for state employees, full funding for enrollment growth and building reserves, biennium matching funds for the NIMBL grant, and capital plan funding. Many of these items are also Board of Governors priorities.

They discussed several bills on the legislative agenda, including BOG elections and current and future seats. Some of the bills could affect campus, including student conduct, athletic scholarships, personnel actions and vacant positions.

Charles A. Maimone, Vice Chancellor, Finance and Administration, briefly discussed the biennial budget request. He also discussed current budget activities, which included a workforce growth study. NC State falls one percent (1%) below the UNC System average in both headcount and salary dollars. Additional budget activities include potential employee increases, which would affect all funding sources, vacant positions and related state funding, reporting on the F&A cash balance, and the receipt of federal COVID relief funds, which support both student aid and institutional costs.

FINANCE UPDATE – MARY PELOQUIN-DODD
Mary Peloquin-Dodd, Associate Vice Chancellor, Finance and University Treasurer, reported on the University’s balance sheet and income statement performance for the first eight months of fiscal 2021. Both revenues and expenses have changed proportionally. She presented a multi-year comparison of revenues and operating expenses, and provided an estimate for the full fiscal year 2021, compared with fiscal 2019 and 2020. The net operating loss for fiscal year 2021 is not much different than fiscal year 2020.

ASSOCIATED ENTITIES REVIEW – MARY PELOQUIN-DODD
Associate Vice Chancellor Peloquin-Dodd also presented the Annual Review of Associated Entities to satisfy the annual Associated Entity review required by the Board of Governors. All audits were sent to the System Office and copies of the Audits that are prepared and managed by the University, were made available to the Board via hyperlinks in the pre-materials under Tab 4.3D. There were no audit findings or management letters issued for the fiscal 2020 audits. She also provided information on net assets for the Associated Entities.

UNIVERSITY DEBT UPDATE – LORI A. JOHNSON
Lori A. Johnson, University Controller, provided the committee with a debt update. She reviewed a ten-year history of the University’s Outstanding Debt, by amount, type, and purpose, and included a debt service schedule for the next 25 years. The 2020 Bond issue provided funding for Carmichael, Fitts-Woolard Hall, the Plant Sciences Building, and refinancing Series 2010 and 2013 bonds. The net savings was over $26 million.
ENTERPRISE RISK MANAGEMENT AND COMPLIANCE UPDATE – ALLISON B. NEWHART AND KRISTEN A. MEEKS

Allison B. Newhart, Vice Chancellor and General Counsel and Kristen A. Meeks, University Compliance, Ethics, and Enterprise Risk Management Officer presented an update on the University’s Strategic Enterprise Risk Management assessment. Activity fall 2020 – spring 2021 included a refresh of the university’s top risks and discussions with the Chancellor’s Cabinet. They also engaged students from Poole College of Management to create root cause analysis updates/bowtie charts. They discussed the top 11 strategic enterprise risks, responsible cabinet members and anticipated outcomes. Plans for fiscal year 2022 include continued work on bowtie charts and governance and reporting.

With no further business in open session, Chair Weisiger adjourned the meeting at 4:32 p.m.

Respectfully submitted,

______________________________
Secretary

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 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 9, 2021*
ACHIEVEMENTS TOWARDS UNIVERSITY STRATEGIC GOALS

The Internal Audit Division (IAD) mission is to support the University’s successful achievement of its strategic goals by serving as a partner in identifying and balancing risks. We are in a unique position to elicit positive change and operational improvement to the University. This year through a variety of engagement services including assurance (formal audits), advisory and consulting, investigative, and special assignments, IAD contributed to four of the five University Strategic Goals.

1. Enhance Student Success  
   0

2. Invest in Faculty and Infrastructure  
   0

3. Support Interdisciplinary Scholarship  
   1

4. Pursue Organizational Excellence  
   28

5. Engage Locally and Globally  
   3

UNIVERSITY GOAL 1 – THE SUCCESS OF OUR STUDENTS THROUGH EDUCATIONAL INNOVATION

- Jennifer Williams, senior in the Poole College of Management Bachelors of Accounting program, spent the Fall 2020 semester as in intern in our office. Jennifer is one of the many NCSU students who has leveraged valuable experience as an IAD intern to start a career in the auditing profession.

- In January 2021, Vanessa Collins, Investigative Auditor and M'Shiela Hawthorne, Operational Auditor presented practical audit and data analytics applications in “real world” fraud investigations to approximately 25 undergraduates in the Poole College of Management auditing class.

UNIVERSITY GOAL 3 – INTERDISCIPLINARY SCHOLARSHIP TO ADDRESS THE GRAND CHALLENGES OF SOCIETY

IAD provided advisory services on the Enterprise Research Administration (ERA) system project, Research Enterprise Database (RED) to support administration of research activities including interdisciplinary research. IAD joined work teams at all levels to provide insight into research data security and compliance requirements as multiple units collaborated to create new University-wide processes and resources. These activities support all areas of research including colleges, centers, institutes, clusters, interdisciplinary programs and initiatives.
For the recent implementation of the Conflict of Interest (COI) and Notice of Intent (NOI) module in particular, IAD provided recommendations for improvement in the Office of Research and Innovation’s automation of those processes.

**UNIVERSITY GOAL 4 – ORGANIZATIONAL EXCELLENCE BY CREATING A CULTURE OF CONSTANT IMPROVEMENT**

IAD’s activities this year contributed to the improvement of both policies governing and processes directing many significant university activities including:

- Strengthening logical access controls for guests and affiliates to protect university data
- Improvements in IT change management processes
- Automation of the conflict of interest processes to improve compliance and consistency
- Strengthening of the oversight over faculty external activities for pay by working with the Director of the NC State Executive Education program to ensure a Notice of Intent (NOI) is filed before a faculty member provides services to the program. This will help protect individual employees and the University from conflicts of commitment.
- Sharing audit data analytic techniques for monitoring and oversight of data graduate student support payments
- Educating college and department personnel on appropriate ways to fund graduate assistantships
- Development of resources that will help University faculty and business officers maximize graduate student financial support while maintaining compliance with state and University guidance
  - Prestige Department of Poultry Science - creation of graduate assistantship approval letters to increase the transparency of graduate student support payments within the department
  - Graduate School created Graduate Student Support Plan Procedures, tools, training, and monitoring reports to help streamline work in the Graduate School and provide a tool for the whole university
- Equal Opportunity, Title IX and Non-Discrimination Training for Employees
- Appointment, Performance Review, and Promotion Policies for County Extension Personnel
- Payments – Tuition Charge Authorization
- NC State University Journal Entry Manual
- Premium Tuition Proposal Procedure
- University Spending Guidelines
- The Graduate School – Graduate Student Support Plan Procedures
- Sponsored Programs and Regulatory Compliance Services’ (SPARCS) standard operating procedures for Testing Service Agreements (TSA)
- College-wide cash handling procedures within College of Agriculture and Life Sciences and Poole College of Management, strengthening internal controls
- Student Health Services – Pharmacy – standard operating procedures
- University Data - Information Security & Privacy Acknowledgement (ISPA) Form
- Purchasing Training for Certified Departmental Purchasing Representative (CDPR)
UNIVERSITY GOAL 5 – LOCAL AND GLOBAL ENGAGEMENT THROUGH FOCUSED STRATEGIC PARTNERSHIPS

IAD team members leveraged their expertise to engage locally this year:

- Vanessa Collins serves on the North Carolina Association of Certified Public Accountant’s Young CPA Cabinet. The Cabinet engages young CPAs by promoting and aiding their involvement and development in the accounting profession. In addition, as a Cabinet member, Vanessa participated in identifying and reporting on current trends emerging in the accounting profession.
- M’Shiela Hawthorne worked with NC Central University and the NC Office of Internal Audit to conduct a Quality Assurance Review (QAR) of UNC Hospitals.
- Nancy Burgart served on a UNC – Pembroke search committee for an IT auditor position.
- Sandra Soto provided ongoing minor advisory services to NC Cooperative Extension (NCCE) personnel through relationships built during the Audit of NCCE Business Process Governance completed in FY 2020. This included having an Extension employee reach out to IAD for a grant related question, as they had never worked with someone on main campus.
- Neil Holloway was interviewed by a high school junior about careers in the auditing profession.

Making Connections

- Connected the Enterprise Research Administration working group for proposal tracking, award tracking and financial tracking, as they were mapping account codes for student support, with the University Budget Office. IAD had identified an issue related to account codes for student support during an engagement and this was an opportunity to help with consistency in how account codes should be used.
- Connected the Office of Information Technology (OIT) Business Services with the University Controller’s Office and University Budget Office as OIT was changing a business process. This was related to how OIT handles the billings for their service level agreements, which involve Service Unit Billings (SUB) and Interdepartmental Transfers (IDT). This allowed for better insight in how SUB and IDTs are used.

COVID-19: HIGHLIGHTS OF THE IMPACT TO ACTIVITIES, PROGRAMS, AND OPERATIONS AS WELL AS UNIT RESPONSE AND OUTREACH

This year IAD switched to 100% remote work like much of the University. However, this did not reduce the volume of work coming to us. In fact, IAD performed 10% more engagements than in fiscal year 2019 (see chart next page). We were able to achieve that productivity by creating new methodologies and processes for working together and ensuring intentional, focused communications. We also had to adapt our interactions with University constituents from face-to-face meetings to virtual platforms. We were able to do this seamlessly because of the long term partnerships we have created across campus and through deliberately connecting with new staff and faculty as soon as possible. However, the loss of in-person, casual interactions cannot be ignored as those often result in notable discussions of risks and identification of areas in which IAD’s participation or assistance facilitates attention to risks, efficiency in problem solving, and resolution.
IAD conducted research and provided a summary of emerging higher education issues related to COVID-19 and mitigation approaches to the Vice Chancellor for Office of Finance and Administration (OFA). These included financial implications to universities, COVID-19 responses, best practices, and resources across Higher Education institutions.

IAD added an Audit of COVID-19 Funds Monitoring and Reporting processes to the FY 2021 Audit Plan. As part of the audit, IAD researched and directed University units to compliance resources from the U.S. Department of Education and the North Carolina Pandemic Recovery Office. These efforts will help the University Budget Office, University Contracts & Grants, and the Office of Scholarships and Financial Aid maintain compliance while they monitor and report the use of current and future COVID-19 funding allocations.

The Chief Audit Officer and Director is part of the University’s COVID-19 Advisory Group and update meetings with the Office of Finance and Administration.

IAD completed risk analysis and audit planning for an audit of Wilson College of Textiles - Nonwovens Institute – Business Processes. However, the engagement was postponed to avoid disruption of the emergency COVID-19 services provided by the Nonwovens Institute.

As the personal impacts of the pandemic, isolation, and remote work intensified through the year, we invited a guest, Dr. Angie Smith, Associate Teaching Professor in the College of Education Counselor Education program, to a staff meeting to discuss innovative ways of handling pandemic-related stress.

**PROGRAMS: CHANGES IN SCOPE OR VOLUME OF ACTIVITIES, SPECIAL ACHIEVEMENTS, OR SIGNIFICANT AND SPECIAL PROGRAM REVIEWS, STUDIES OR PLANS**

IAD completed a risk analysis and audit planning for an Audit of College of Humanities and Social Sciences – Institute for Nonprofits – Business Processes. IAD discussed the preliminary risk analysis with Humanities leadership, but the audit was cancelled when the Institute for Nonprofits was discontinued in September 2020.
risk, and requests from University units for advisory services.

In order to fulfill our mission and meet the ever-changing needs of the University, especially during this year’s pandemic, more unplanned engagements were added to the IAD’s workload than typical. Over 70% of the work completed by IAD was added to FY 2021 Audit Plan during the course of the year. The additions to the plan included the COVID-related engagements, investigations related to Hot Line allegations received, coverage of new/emerging regulatory requirement

Between 2014 and 2021, there has been an upward trend in the number of allegations reported directly to IAD (not through the EthicsPoint). This is in part due to increased marketing of the IAD Hotline as well as greater awareness University-wide of the seriousness of impacts from fraud, waste, and misuse of resources. There were fewer reported allegations in FY 2021 due to COVID-19 and remote work across campus.

Additionally, IAD collaborates with the Chief Compliance, Risk Management, and Ethics Officer in the daily management of the University’s central hot-line, EthicsPoint. This includes case management within the system, interaction with the complainant, reviewing the investigative process followed on delegated investigations to ensure completeness, and closing the case out.
DIVERSITY AND INCLUSION: INITIATIVES AND PROGRESS

All staff completed required University diversity and inclusion training. In addition, staff sought out other opportunities to learn more about diversity and inclusion in the workplace:

- Vanessa and Sandra participated in the NCACPA Virtual Privilege Walk in November 2020.
- Sandra completed Title IX and Sexual Harassment Prevention for Employees training in January 2021.
- Nancy shared resources with the team about implicit associations and unconscious bias.
- Neil participated in the University's Introduction to the Bias Incident Response Team training.
- Cecile attended the "Where Do We Go From Here? A Diversity Education Series" offered by the NCSU Alumni Association that focused on recognizing and confronting bigotry in everyday life.
- Cecile attended diversity sessions during the Association of Certified Fraud Examiners' Women's Summit, including "What It Looks Like to Support Diversity, Equity, Inclusion, and Belonging."

PRODUCTIVITY METRICS

[Image of productivity metrics chart]

NCSU INTERNAL AUDIT DIVISION
FISCAL YEAR 2021 RISK AREAS COVERED IN ENGAGEMENTS
AS OF 06/30/21

Other - Prior Year Strategic Risk - Technology Infusion, 31
Other - Internal Audit Universe Risk - Internal Controls, 30
Other - Internal Audit Universe Risk - Employee Misconduct, 11
Other - Internal Audit Universe Risk - Regulatory Non-Compliance, 8
Other - Internal Audit Universe Risk - Cybersecurity Breach, 1

2 - Reductions in State Funding, 1
3 - Data Breach, 1
5 - Faculty Lessons, 2
During the past year, university units were forced to focus on impacts due to COVID-19; thus, corrective actions on previously identified issues were delayed. IAD monitored all pending corrective actions to ensure attention to corrective action was renewed as COVID impacts lessened.

**STAFF: MAJOR NEW APPOINTMENTS, KUDOS, PROFESSIONAL ACTIVITIES AND RECOGNITION**

**Comments/feedback from campus**

- [Unit] “feels connected to campus because of Internal Audit; feels supported and not isolated; feels that IAD is a partner and helps to support the [unit] and what they are trying to accomplish”
- IAD provided audit and advisory services to the Graduate School on the development of standard operating procedures and training related to graduate student salary redistributions and their impact to
GSSP. The Graduate School provided the training to the Research Support Council. It was well received and campus personnel reached out to thank them for development of the training.

- Following the Audit of PCOM Financial Business Operations, PCOM leadership shared how much their team learned during the audit and commented that it was a positive experience.
- During the year, IAD team members were consulted for independent advisory services on risks related to University trust funds. IAD was praised for insights provided during the work.

**Staff Achievements**

- Vanessa Collins serves on the North Carolina Association of Certified Public Accountant’s Young CPA Cabinet.
- Sandra Soto is currently enrolled in the Poole College of Management’s Masters in Business Administration program.
- Vanessa Collins served on the committee for the 2021 Awards for Excellence and assisted in selecting the award winners for the Chancellor’s Unit.
- IAD partnered with Employee Relations, leveraging their interpersonal and interviewing skills in working on an investigation.

IAD’s favorite teambuilding activity, our annual group community service project, was impacted by COVID-19. We were unable to participate in a group community service project; however, staff were able to do some individual projects, such as:

- Seth Miller participated in Mask Up Raleigh and helped package 300 bags of mask kits. The kits included 5 masks, 1 bottle of hand sanitizer, and an awareness pamphlet about COVID. The bags were distributed to communities in Wake County where cases were rising.
- Seth Miller donated blood at the at the Crabtree Valley Mall location for the iHeart Radio 4th Annual Rock’n Roll Up Your Sleeves Blood Drive.
- Cecile worked with Growing Together Preschool to provide beds to preschoolers and their families.

**Staff Turnover**

- M’Shiela Hawthorne, Operational Auditor, left NCSU in April 2021 to join Red Hat as Senior Auditor.
- Caroline Pennington, temporary Executive Assistant, left in May 2021 for more time with her family.
- Neil Holloway, Internal Audit Manager, left NCSU in June 2021 to pursue other opportunities.
- Sandra Soto, Operational Auditor, will leave the University in July 2021 to join Cisco as a Senior Auditor.

**RECOMMENDATION AND CONCERNS FOR THE FUTURE**

As noted in prior Annual Reports, an on-going lack of human and financial resources remains the most significant concern impacting our ability to continue providing essential assurance and advisory services. Since 2008, our staff number and funding have remained static.

Another related, quickly growing concern is the inability to retain our staff and compete with the Triangle’s job market. The restrictions imposed by limited financial resources and external governing bodies is rendering our University non-competitive in the local audit professional job market. As of the writing of this report, our audit team has been decimated by Triangle area corporate entities who have recruited our talented, well-trained staff. Compensation offered to our staff is 45-50% above their current annual salary for the exact same work they were performing here. Based on the new corporate entities slated to locate in our area soon, this risk is only likely to become more severe.
<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original FY21 Audit Plan?</th>
<th>Coverage of University Enterprise Risks</th>
<th>FY21 University Strategic Plan Goals</th>
<th>Report Number</th>
<th>Status</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Engineering (COE) - Materials Science and Engineering - Vendor Management 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 Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td>4. Pursue organizational excellence</td>
<td>Audit Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source about a possible procurement related conflict of interest and non-compliance with purchasing requirements. Allegations were substantiated and corrective actions for the issues noted were fully and successfully implemented prior to the issuance of the report. Report issued 08/12/2020. Engagement closed.</td>
<td></td>
</tr>
<tr>
<td>Environmental Health and Public Safety (EHPS) - University Police Department Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct Other - Internal Audit Universe Risk - Internal Controls Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td></td>
<td>Audit Closed</td>
<td>The objective of this engagement was to investigate the allegations regarding the University Police Department referred from NC Office of State Auditor (OSA). Specifically: 1. Violation of the bidding process for contracts 2. Abuse time through excess leave, working partial shifts, and working flexible schedules 3. Misuse of vehicles 4. Management style negatively impacting morale 5. Waste of University funds All allegations were unsubstantiated with the exception of number 4 which was partially substantiated. No corrective actions were required as the individual named in the allegation is no longer with the University. Report issued 03/08/2021. Engagement closed.</td>
<td></td>
</tr>
<tr>
<td>College of Humanities and Social Sciences (CHASS) - Center for Family and Community Engagement Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct Other - Internal Audit Universe Risk - Fraud Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td>Audit Closed</td>
<td>The objective of this engagement was to investigate the allegations from an internal source related to a potential misuse of Center for Family and Community Engagement's (CFACE) PCard by a CFACE employee. Allegation unsubstantiated; no issues Report issued 06/30/2021. Engagement closed.</td>
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<tr>
<td>Environmental Health and Safety (EHS) - Occupational Safety and Health</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td></td>
<td></td>
<td>Audit Closed</td>
<td>The objective of this audit was to investigate allegations from an internal source to related potential Health Insurance Portability and Accountability Act (HIPAA) and Occupational Safety and Health Administration (OSHA) violations through the University’s process for requesting occupational medicine exams. Allegations unsubstantiated, no issues. Report issued 06/30/2021. Engagement closed.</td>
</tr>
<tr>
<td>Medical Issues Resolution Process</td>
<td></td>
<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
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</tr>
<tr>
<td>College of Humanities and Social Sciences (CHASS) - Institute for Nonprofits</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Cancelled</td>
<td>This audit was cancelled because the College of Humanities and Social Sciences officially closed the Institute for Non-Profits in September 2020.</td>
</tr>
<tr>
<td>Business Processes</td>
<td></td>
<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
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<tr>
<td>Other - Internal Audit Universe Risk - Governance</td>
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<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
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<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
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</tr>
<tr>
<td>College of Agriculture and Life Sciences (CALS) - NC Cooperative Extension</td>
<td>No - Carried Forward From</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Complete - In Follow-up</td>
<td>The objective of this audit was to assess the effectiveness of governance over NCCE business processes. Those processes included: Strategic planning, Financial management, Procurement, Human resources, Program delivery, Training, Compliance with Federal, State, and University guidelines. The units are working on corrective actions for 3 issues. Strategic Planning, Advisory Councils and Program Committees, and County Departmental PCard Initiative.</td>
</tr>
<tr>
<td>(NCCE) - Business Process Governance</td>
<td>Prior Year</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
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<td>Other - Internal Audit Universe Risk - Internal Controls</td>
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<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
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<td>Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
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**Key:**
- **Closed**
- **In Process**
- **Not Started**
- **On-Hold**
- **Corrective Actions in Process**
- **Complete - In Follow-up**
- **Canceled**
- **Returning to Continuous Risk Assessment**
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</thead>
</table>
| College of Agriculture and Life Sciences (CALS) - Prestige Department of Poultry Science (PDPS)  
(PHASE 1 - Department and College) | No - Carried Forward From Prior Year | Other - Internal Audit, Enterprise Risk - Internal Controls  
Other - Internal Audit, Enterprise Risk - Effectiveness and Efficiency of Process  
Other - Internal Audit, Enterprise Risk - Regulatory Non-Compliance | 4. Pursue organizational excellence | Report 1 of 2 | Complete - In Follow-up | The objectives of this audit were to:  
- Investigate Chicken Education Unit allegations received from internal sources through the Internal Audit Hot Line and the University Hot Line  
- Assess PDPS business processes for efficiency and effectiveness, strong internal controls, and compliance with federal, state, university and CALS policies and procedures.  
The college and the department are working on corrective actions for 4 issues: Student Sponsorship Payments, Department Managed Student Housing, Animal Food and Nutrition Consortium, and Cash and Check Receipts.  
Report 1 of 2 - Department and College Report - issued 02/01/2021. |
| College of Agriculture and Life Sciences (CALS) - Prestige Department of Poultry Science (PDPS)  
(PHASE 2 - University) | No - Carried Forward From Prior Year | Other - Internal Audit, Enterprise Risk - Internal Controls  
Other - Internal Audit, Enterprise Risk - Effectiveness and Efficiency of Process  
Other - Internal Audit, Enterprise Risk - Regulatory Non-Compliance | 4. Pursue organizational excellence | Report 2 of 2 | Complete - In Follow-up | The objectives of this audit were to:  
- Investigate Chicken Education Unit allegations received from internal sources through the Internal Audit Hot Line and the University Hot Line  
- Assess PDPS business processes for efficiency and effectiveness, strong internal controls, and compliance with federal, state, university and CALS policies and procedures.  
The University's central administrative units are working on corrective actions for 1 issue: GA1 Student Sponsorship Payment From.  
Report 2 of 2 - University Report - issued 02/01/2021. |
| Poole College of Management (PCOM) - Financial Business Operations | Yes | Other - Internal Audit, Enterprise Risk - Internal Controls  
Other - Internal Audit, Enterprise Risk - Regulatory Non-Compliance  
Other - Internal Audit, Enterprise Risk - Governance | 4. Pursue organizational excellence | Complete - In Follow-up | The objectives of the audit were to evaluate:  
- PCOM corrective actions from the Audit of Non-Salary Year End Transfer of Expenses and the Audit of Expenditures from Special Academic Program Resources for completion  
- PCOM financial business operations for:  
  - Appropriate levels of oversight  
  - Efficiency and effectiveness  
  - Strong internal controls  
  - Compliance with Federal, State, University and PCOM policies and procedures  
The units are working on corrective actions for 1 issue: Check Receipt - Departmental Deposit Process.  
Report issued 06/30/2021. |
### NC State University Internal Audit Division

**Fiscal Year 2021 Audit Plan and Engagement Status**

**As of June 30, 2021**

<table>
<thead>
<tr>
<th>Engagement</th>
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<tbody>
<tr>
<td>College of Sciences (COS) - General Information Technology (IT) Controls</td>
<td>No - Carried Forward From Prior Year</td>
<td>3: Data or Cyber Security Breach</td>
<td>4: Pursue organizational excellence</td>
<td>In Process</td>
<td></td>
<td>The objective of this audit is to evaluate governance over and effectiveness of IT controls within COS IT operations. These include the organizational and administrative structure of the IT function, IT strategic decision-making, the existence of policies and procedures, availability of staff and their skills, and the overall controls in the environment. Controls include security management, change management, configuration management, contingency planning, and vulnerability management. The audit will review the adequacy and effectiveness of the controls and how IT functions support the university, college’s, and department’s goals.</td>
</tr>
<tr>
<td>Student Health Services - Pharmacy Investigation (PHASE 1 - Allegation)</td>
<td>No - Added</td>
<td>3: Data or Cyber Security Breach</td>
<td>4: Pursue organizational excellence</td>
<td>Report 1 of 2 Needed; Awaiting Phase 2 Report</td>
<td>Complete - No Follow-up</td>
<td>The primary objective of this audit was to investigate an allegation from an internal source related to a potential theft of controlled substances from Student Health Services Pharmacy by a Pharmacy employee. The allegations were substantiated and corrective actions for the issues noted were fully and successfully implemented prior to the issuance of the report, see Phase 2 - Internal Controls below. Report 1 of 2 - Phase 1 - Allegation Report issued 02/11/2021.</td>
</tr>
</tbody>
</table>

**Key:**

- **Closed**
- **In Process**
- **Not Started**
- **On-Hold**
- **Corrective Actions in Process**
- **Complete - In Follow-up**
- **Canceled**
- **Returning to Continuous Risk Assessment**
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<tbody>
<tr>
<td>Student Health Services - Pharmacy Investigation (PHASE 2 - Internal Controls)</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 Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process Other - Internal Audit Universe Risk - Regulatory Non-Compliance</td>
<td>4. Pursue organizational excellence</td>
<td>Report 2 of 2</td>
<td>In Process</td>
<td>The secondary objective of the audit is to determine if there were process control weaknesses that may have facilitated both the alleged theft and concealment of the alleged theft.</td>
</tr>
</tbody>
</table>
| Federal Safeguards Rule - Security Requirements Audit | No - Carried Forward From Prior Year | Other - Internal Audit Universe Risk - Regulatory Non-Compliance Other - Internal Audit Universe Risk - Risk Identification and Management | | | In Process | The objective of this audit is to determine if the university is compliant with 2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Appendix XI - Compliance Supplement (Federal Safeguards Rule) as required for federal financial aid by implementing core elements of the rule. Specifically, whether the university:  
• Designated an individual to coordinate the information security program  
• Performed a risk assessment that addresses the three areas noted in 16 CFR 314.4 (b)  
• Documented safeguards for identified risks |
| COVID-19 Relief Funding Monitoring and Reporting | No - Added | Other - Internal Audit Universe Risk - Internal Controls Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process Other - Internal Audit Universe Risk - Regulatory Non-Compliance | 4. Pursue organizational excellence | | In Process | The objective of this audit is to assess the University’s monitoring and reporting processes associated with the use of COVID-19 funds for compliance with federal and state requirements |

**Key:**
- Closed
- In Process
- Not Started
- On-Hold
- Corrective Actions in Process
- Returning to Continuous Risk Assessment
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</tr>
</thead>
<tbody>
<tr>
<td>Title IX Governance Processes</td>
<td>No - Carried Forward From Prior Year</td>
<td>10 - Sexual Violence or Other Serious Crime</td>
<td>4. Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to assess the effectiveness of governance over University processes facilitating compliance with the Department of Education Title IX Final Regulations.</td>
<td></td>
</tr>
<tr>
<td>College of Natural Resources (CNR) - Department of Forest Biomaterials - Conflict of Interest Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td>4. Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit is to investigate an allegation from an internal source related to a potential conflict of interest between a Department of Forest Biomaterials employee and a conference organized by that employee.</td>
<td></td>
</tr>
</tbody>
</table>
| College of Agriculture and Life Sciences (CALS) - Kannapolis Travel Investigation | No - Added | Other - Prior Year Strategic Risk - Employee Misconduct | 4. Pursue organizational excellence | In Process | The objectives of this audit are to:  
> Investigate an allegation from an internal source that an employee misused a university vehicle, fuel card, and PCard for personal gain and the expenditures were charged to a grant.  
> Assess Kannapolis' travel processes for efficiency and effectiveness, strong internal controls, and compliance with federal, state, university and CALS policies and procedures. |
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<tbody>
<tr>
<td>Salary Supplements - 12-month Employees</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>On-Hold</td>
<td>The objective of this audit is to evaluate internal controls and compliance of supplemental salary payments to 12-month employees. This engagement was placed on hold after the initial planning work was completed due to temporarily limited resources and higher priority engagements taking precedence.</td>
</tr>
<tr>
<td>Office of Finance and Administration - Environmental Health and Public Safety - Security Applications and Technologies (SAT) - Physical Access Services</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td></td>
<td></td>
<td>On-Hold</td>
<td>The objective of this audit is to assess services for granting, revoking, and managing the physical access to campus locations supported by SAT. This engagement was placed on hold after the initial planning work was completed due to temporarily limited resources and higher priority engagements taking precedence.</td>
</tr>
<tr>
<td>Wilson College of Textiles - Non-woven Institute - Business Processes</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Returning to Continuous Risk Assessment</td>
<td>The objective of this audit is to review the business operations of the institute including governance, internal controls, efficiency and effectiveness of processes, compliance to federal, state, and university requirements.</td>
</tr>
</tbody>
</table>

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<tr>
<th>Engagement</th>
<th>On Original FY21 Audit Plan?</th>
<th>Coverage of University Enterprise Risks</th>
<th>FY21 University Strategic Plan Goals</th>
<th>Report Number</th>
<th>Status</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>College of Engineering (COE) - Department of Materials Science and Engineering</td>
<td>Yes</td>
<td>Returning to Continuous Risk Assessment</td>
<td>The objective is to audit internal controls and governance over the research, financial, and human resources business processes and compliance to federal, state and University requirements. This audit will serve as follow-up to issues found in fiscal year 2019 engagements. College of Engineering - Materials Science and Engineering Investigation, College of Engineering - Materials Science and Engineering - Vendor Management Investigation, and College of Engineering - Materials Science and Engineering - Purchasing Investigation.</td>
<td></td>
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</tr>
<tr>
<td>Application Programming Interface (API) Audit</td>
<td>Yes</td>
<td>Returning to Continuous Risk Assessment</td>
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</tr>
<tr>
<td>CURRENT YEAR AUDIT FOLLOW-UP</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls 4. Pursue organizational excellence Report 1 of 2</td>
<td>In Process</td>
<td>The objectives of this audit were to: -Investigate Chicken Education Unit allegations -Assess PDPS business processes for efficiency and effectiveness, strong internal controls, and compliance with federal, state, university and CALS policies and procedures. The units are working on corrective actions for 4 issues: Student Sponsorship Payments, Department Managed Student Housing, C&amp;G - Animal Food and Nutrition Consortium, and Cash and Check Receipts. Report 1 of 2 - Department and College Report issued 02/01/2021.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>College of Agriculture and Life Sciences (CALS) - Prestige Department of Poultry Science (PDPS) (PHASE 1)</td>
<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
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</tbody>
</table>

Key: Closed In Process Not Started On-Hold Corrective Actions in Follow-up Canceled Returning to Continuous Risk Assessment
<table>
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</thead>
</table>
| College of Agriculture and Life Sciences (CALS) - Prestige Department of Poultry Science (PDPS) (PHASE 2) | No - Added | Other - Internal Audit Universe Risk - Internal Controls | 4. Pursue organizational excellence | Report 2 of 2 | Corrective Actions in Process | The objectives of this audit were to:  
- Investigate Chicken Education Unit allegations  
- Assess PDPS business processes for efficiency and effectiveness, strong internal controls, and Compliance with federal, state, university and CALS policies and procedures.  
The University's central administrative units are working on corrective actions for 1 issue: GA1 Student Sponsorship Payment From.  
Report 2 of 2 - University Report - issued 02/01/2021.  
Number of Audit Issues Remaining Open: 1  
Number of Audit Issues Closed: 0 |
| College of Agriculture and Life Sciences (CALS) - NC Cooperative Extension (NCCE) - Business Process Governance | No - Added | Other - Internal Audit Universe Risk - Internal Controls | 4. Pursue organizational excellence | | Corrective Actions in Process | The objective of this audit was to assess the effectiveness of governance over NCCE business processes. Those processes included:  
- Strategic planning  
- Financial management  
- Procurement  
- Human resources  
- Program delivery  
- Training  
- Compliance with Federal, State, and University guidelines  
The units are working on corrective actions for 3 issues: Strategic Planning, Advisory Councils and Program Committees, and County Departmental PCard Initiative.  
Report issued 10/19/2020.  
Number of Audit issues Remaining Open: 3  
Number of Audit Issues Closed: 0 |
## NC State University Internal Audit Division
### Fiscal Year 2021 Audit Plan and Engagement Status
**As of June 30, 2021**

<table>
<thead>
<tr>
<th>Engagement</th>
<th>On Original FY21 Audit Plan?</th>
<th>Coverage of University Enterprise Risks</th>
<th>FY21 University Strategic Plan Goals</th>
<th>Report Number</th>
<th>Status</th>
<th>Auditor Comments</th>
</tr>
</thead>
</table>
| Poole College of Management (PCOM) - Financial Business Operations | No - Added | Other - Internal Audit Universe Risk - Internal Controls | 4. Pursue organizational excellence | Corrective Actions in Process | The objectives of the audit are to evaluate:  
- PCOM corrective actions from the Audit of Non-Salary Year End Transfer of Expenses and the Audit of Expenditures from Special Academic Program Resources for completion  
- PCOM financial business operations for:  
  - Appropriate levels of oversight  
  - Efficiency and effectiveness  
  - Strong internal controls  
  - Compliance with Federal, State, University and PCOM policies and procedures  

The unit is working on corrective actions for 1 issue: Check Receipt - Departmental Deposit Process.  
Original Report Issued 06/30/2021  
Number of Audit Issues Remaining Open: 1  
Number of Audit Issues Closed: 0 |

| Prior Year Audit Follow-Up | No - Carried Forward From Prior Year | Other - Prior Year Strategic Risk - Employee Misconduct | 4. Pursue organizational excellence | Audit Closed | The objective of this audit was to investigate allegations from an internal source regarding alleged personal purchases by an employee on a PCard and in Marketplace.  
The allegations were substantiated and 1 issue related to insufficient Marketplace and Pcard purchase support documentation was addressed.  
Report Issued 8/2/19  
Follow-up completed, engagement closed 11/02/2020 |

<table>
<thead>
<tr>
<th>Key</th>
<th>Closed</th>
<th>In Process</th>
<th>Not Started</th>
<th>On-Hold</th>
<th>Corrective Actions in Process</th>
<th>Returning to Continuous Risk Assessment</th>
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</thead>
<tbody>
<tr>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>College of Engineering (COE) - Materials Science and Engineering Investigation - Follow-up</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td>4. Pursue organizational excellence</td>
<td>In Process</td>
<td>The objective of this audit was to investigate allegations from an internal source of potential conflict of interest and misuse of federal funds. The allegations were substantiated and units are working on corrective actions for 8 issues related to Inaccurate and Incomplete Conflict of Interest Disclosure and Lack of Management Plan, PIs Pattern of Misconduct and Non-Compliance, Unallowable Expenditures Paid with National Science Foundation Grant Funds, Unallowable Expenditures Paid with Department of Energy Grant Funds, Insufficient Oversight and Lack of Compliance Assurance by Departmental Research Administration Office, Inappropriate Responsibilities and Access Assigned to Non-University Personnel, Departmental Non-Compliance with Faculty Annual Review Requirements, and Insufficient Oversight of PIs Sales and Service Account by Departmental Business Office. Report issued 12/19/2019. Number of Audit Issues Remaining Open: 7 Number of Audit Issues Closed: 1</td>
<td></td>
</tr>
<tr>
<td>Audit of Expenditures from Special Academic Program Resources</td>
<td>No - Carried Forward From Prior Year</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>4. Pursue Organizational Excellence</td>
<td>In Process</td>
<td>The objectives of this audit were to assess whether: • Governing processes and procedures were in place to establish requirements and guidance for the collection and appropriate use of these special funds within colleges and departments • Revenues for special academic programs were collected from the appropriate students at the maximum allowable amounts per term and were distributed to programs appropriately • Expenditures were consistent with requirements, guidance, and historical practices governing the use of these special funds • Expenditures were appropriately allocated and classified within the University's Financials System. Corrective actions are in process for 2 issues. Guidance for Premium Tuition and Classification and Allocation of Student Support Related Expenditures Made with Premium Tuition Funds. Report issued 02/19/2020. Number of Audit Issues Remaining Open: 2 Number of Audit Issues Closed: 0</td>
<td></td>
</tr>
<tr>
<td>Engagement</td>
<td>On Original FY21 Audit Plan?</td>
<td>Coverage of University Enterprise Risks</td>
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</tr>
</tbody>
</table>
| Non-Salary Year End Transfer of Expenses - Follow-up | No - Carried Forward From Prior Year | 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 | 4. Pursue organizational excellence | In Process |                     | The objective of the audit was to review fiscal year end non-salary related journal entries to determine if the transactions were processed accurately, properly, and in compliance with state and university requirements. Corrective actions are in process for 3 issues related to Poole College of Management Business Office Accounting and Business Practices, Journal Entry Compliance and Journal Entry Training, and Journal Entry Supporting Documentation. Report issued 11/13/2019. Number of Audit Issues Remaining Open: 3 Number of Audit Issues Closed: 0 |
| User Controls Over Ultra-Sensitive Data - Follow-up | Yes                          | 3 - Data or Cyber Security Breach  
Other - Internal Audit Universe Risk - Regulatory Non-Compliance  
Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process | 4. Pursue organizational excellence | Corrective Actions in Process |                     | The objectives of this audit were to determine whether university users with known access to ultra-sensitive data are adequately protecting the data throughout business process lifecycles, identify - to the extent possible - previously unknown areas where ultra-sensitive data is transmitted and stored; and, assess whether current university users with access to ultra-sensitive data actually have a legitimate business need for the data. 23 issues were reported. Units continue to work on corrective actions for 15 issues related to guidance, training, storage, retention, verification processes, access, and approval processes. Report issued 3/26/2018. Number of Audit Issues Remaining Open: 15 Number of Audit Issues Closed: 8 |
<table>
<thead>
<tr>
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<th>Report Number</th>
<th>Status</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Campus Enterprises - NC State Dining - Vendor Processes Fraud Risk Assessment - Follow-up</td>
<td>Yes</td>
<td>3 - Data or Cyber Security Breach</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Corrective Actions in Process</td>
<td>The objective of this audit was to assess the effectiveness of NC State's Dining's vendor payment processes and internal controls at reducing the risk of fraud. Corrective actions are in process for 2 issues. Non-Compliance with University IT Security Requirements and Use of Non-University Vendor Payment and Accounting Systems. Report issued 03/12/2019. Number of Audit Issues Remaining Open: 2 Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>Campus Enterprises - NC State Stores - Vendor Processes Fraud Risk Assessment - Follow-up</td>
<td>Yes</td>
<td>3 - Data or Cyber Security Breach</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Corrective Actions in Process</td>
<td>The objective of this audit was to assess the effectiveness of NC State's Stores' vendor payment processes and internal controls at reducing the risk of fraud. Corrective actions are in process for 2 issues. Non-Compliance with University IT Security Requirements and Use of Non-University Vendor Payment and Accounting Systems. Report issued 03/12/2019. Number of Audit Issues Remaining Open: 2 Number of Audit Issues Closed: 0</td>
</tr>
<tr>
<td>Engagement</td>
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</tr>
<tr>
<td>Office of the State Auditor (OSA) Audit of the 2020 NCSU Financial Statements</td>
<td>No - Added</td>
<td>3 - Data or Cyber Security Breach</td>
<td></td>
<td></td>
<td>Consulting Closed</td>
<td>IAD Director was involved in periodic updates throughout the engagement including Entrance and Exit Meetings. IAD staff consulted with Office of Information Technology - Security and Compliance on the Information Technology controls portion of the annual NCSU Financial Statement Audit by OSA. Consultation closed: 11/12/2020.</td>
</tr>
<tr>
<td>Minor Consulting and Advisory Services</td>
<td>Yes</td>
<td>Various</td>
<td></td>
<td></td>
<td>Consulting 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. Consultation closed. 06/30/2021.</td>
</tr>
<tr>
<td>Enterprise Research Administration (ERA) Project and Research Enterprise Database (RED) Implementation</td>
<td>Yes</td>
<td>3 - Data or Cyber Security Breach</td>
<td>3. Support interdisciplinary scholarship</td>
<td></td>
<td>In Process</td>
<td>Providing advisory and consulting services, and oversight to the Office of Research and Innovation, Office of Finance and Administration, and Office of Information Technology for the replacement of multiple legacy systems used for enterprise research administration activities. NC State has partnered with InfoEd Global to implement a new, state-of-the-art ERA system, the RED system.</td>
</tr>
</tbody>
</table>

**Key:**
- **Closed**
- **In Process**
- **Not Started**
- **On-Hold**
- **Corrective Actions in Process**
- **Complete - in Follow-up**
- **Canceled**
- **Returning to Continuous Risk Assessment**
# NC STATE UNIVERSITY INTERNAL AUDIT DIVISION
## FISCAL YEAR 2021 AUDIT PLAN AND ENGAGEMENT STATUS
### AS OF JUNE 30, 2021

<table>
<thead>
<tr>
<th>Engagement</th>
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</thead>
<tbody>
<tr>
<td>College of Veterinary Medicine (CVM) - Teaching Hospital Theft Investigation</td>
<td>No - Added</td>
<td>Other - Prior Year Strategic Risk - Employee Misconduct</td>
<td>In Process</td>
<td>Providing advisory and consultation services to CVM Human Resources staff who is investigating the possible theft of a medication (not a controlled substance).</td>
<td></td>
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</tr>
<tr>
<td>Office of Information Technology (OIT) - Secure University Research Environment (SURE) National Institute of Standards and Technology (NIST) / Cybersecurity Maturity Model Certification (CMMC) Third Party Assessment</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Internal Controls</td>
<td>In Process</td>
<td>Providing advisory and consulting services to OIT Security &amp; Compliance (S&amp;C) who has hired Deloitte &amp; Touche to conduct a NIST 800-171 Controls Assessment for an Amazon Web Services (AWS) Department of Defense (DoD) security enclave and develop a plan for becoming compliant with the Cybersecurity Maturity Model Certification (CMMC) Level 3 requirements for this enclave and potentially other on-premises and cloud solutions. The scope of the assessment includes the fourteen control families of the NIST SP 800-171 framework for the protection of the confidentiality of Controlled Unclassified Information (CUI) in nonfederal systems.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Key:**
- Closed
- In Process
- Not Started
- On-Hold
- Corrective Actions in Process
- Returning to Continuous Risk Assessment

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<th>Status</th>
<th>Auditor Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of North Carolina (UNC) System Office (SO) - International</td>
<td>No - Added</td>
<td>3 - Data or Cyber Security Breach</td>
<td>4 - Pursue organizational excellence</td>
<td></td>
<td>In Process</td>
<td>Providing advisory and consulting services to OIT S&amp;C who is working with a third-party to conduct an assessment of cybersecurity and privacy controls based on ISO 27002 framework and its associated 114 controls. The objective is to provide a baseline to measure and develop further sets of recommendations.</td>
</tr>
<tr>
<td>Organization for Standardization (ISO) 27002 Maturity Baseline Assessment</td>
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<tr>
<td>(Campus-Wide)</td>
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</tr>
<tr>
<td>Office of the State Auditor (OSA) Audit of the 2021 NCSU Financial</td>
<td>No - Added</td>
<td>3 - Data or Cyber Security Breach</td>
<td></td>
<td></td>
<td>In Process</td>
<td>IAD Director was involved in periodic updates throughout the engagement including Entrance and Exit Meetings. IAD staff consulted with Office of Information Technology - Security and Compliance on the Information Technology controls portion of the annual NCSU Financial Statement Audit by OSA.</td>
</tr>
<tr>
<td>Statements</td>
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<tr>
<td>SPECIAL ASSIGNMENTS</td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td>Closed</td>
<td></td>
<td>Chief Audit Officer was on the search committee for the Director of Research Compliance Engagement closed</td>
</tr>
<tr>
<td>Search Committee - Director of Research Compliance</td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td>Closed</td>
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</tr>
</tbody>
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**Key:**

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</thead>
<tbody>
<tr>
<td>Vice Chancellor of Finance and Administration - Emerging Issues for Higher Education Institutions During the Pandemic</td>
<td>No - Added</td>
<td>2 - Reductions in State Funding&lt;br&gt;4 - Decline in Out of State and International Enrollment&lt;br&gt;5 - Faculty Losses&lt;br&gt;Other - Internal Audit Universe Risk - Fraud&lt;br&gt;Other - Internal Audit Universe Risk - Internal Controls&lt;br&gt;Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process&lt;br&gt;Other - Internal Audit Universe Risk - Regulatory Non-Compliance&lt;br&gt;Other - Internal Audit Universe Risk - Risk Identification and Management</td>
<td>4. Pursue organizational excellence&lt;br&gt;5. Engage locally and globally</td>
<td></td>
<td>Closed</td>
<td>Internal Audit conducted research and provided a summary of emerging higher education issues related to COVID-19 and mitigation approaches. Special Assignment closed 07/31/2020.</td>
</tr>
<tr>
<td>Vice Chancellor of Finance and Administration Case Studies</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Internal Controls&lt;br&gt;Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>Closed</td>
<td>This special assignment was discontinued due to the resource-intensive nature of creating the case studies and the limited resources available in IAD. In order to address the VCOFA’s desire to use IAD-identified issues in University-wide process improvement initiatives, IAD is now issuing separate reports for University-level issues identified in their engagements. Original Objective: Development of case studies using business risk intelligence gleaned from internal audit engagements for the Office of Finance and Administration use in University-wide process improvement initiatives. Special Assignment closed 01/19/2021.</td>
</tr>
<tr>
<td>Engagement</td>
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<tr>
<td>Data Analytics Internal Project</td>
<td>No - Added</td>
<td>N/A</td>
<td></td>
<td></td>
<td>Closed</td>
<td>This special assignment was closed as data analytics is no longer a project has been successfully incorporated into our audit and advisory work. All the auditors are now proficient in the use of our data analytics tools and data visualization. Internal Audit Division is using data analytics software to identify anomalies, trends, and risks within financial business processes such as purchasing and journal entries. Data analytics also facilitates more efficient analysis and quicker turnaround of corrective actions. Special Assignment closed 01/19/2021.</td>
</tr>
<tr>
<td>Quality Assurance Review - UNC Hospitals</td>
<td>No - Added</td>
<td>N/A</td>
<td>Engage locally and globally</td>
<td></td>
<td>Closed</td>
<td>IAD auditor was selected to be on a peer review team through Office of Internal Audit (OIA) to perform a Quality Assurance Review (QAR) at UNC Hospitals. The objective of a QAR is to determine whether an internal audit function/program is in general compliance with the International Standards of the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors, and whether management's needs are being met. Special Assignment closed 12/11/2020.</td>
</tr>
<tr>
<td>Data Analytics Assistance to Office for Institutional Equity and Diversity (OIED)</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Diversity</td>
<td></td>
<td></td>
<td>Closed</td>
<td>IAD utilized data analytics tools to analyze personnel hiring and salary actions against demographics in a University unit to support work being conducted by OIED. Special Assignment closed.</td>
</tr>
<tr>
<td>University Information Technology (IT) Governance Committees</td>
<td>Yes</td>
<td>Other - Internal Audit Universe Risk - Governance</td>
<td></td>
<td></td>
<td>Closed</td>
<td>Internal Audit Division is providing objective, independent input to various university IT committees as they recommend and implement IT policies and technology to ensure the best possible decisions in advancing the use of technology meets the university's mission, vision, and goals. Special Assignment closed 05/30/2021</td>
</tr>
<tr>
<td>North Carolina Internal Audit Self-Assessment and Maturity Model (SAMM)</td>
<td>No - Added</td>
<td>Other - Internal Audit Universe Risk - Effectiveness and Efficiency of Process</td>
<td>4. Pursue organizational excellence</td>
<td></td>
<td>In Process</td>
<td>Chief Audit Officer and Assistant Director are completing a self-assessment of the Internal Audit function as newly required by the State of NC Council of Internal Audit. The objectives are to: -Assess the capabilities of the internal audit function against professional internal audit standards and good practices -Create a basis for communicating what is meant by effective internal auditing, how it serves an agency and its stakeholders, and for advocating the importance of internal auditing to decision makers -Identify the potential gaps and development areas in the internal audit function -Create a roadmap for further improvement and professionalization of the internal audit function</td>
</tr>
</tbody>
</table>

**Key:**
- **Closed**
- **In Process**
- **Not Started**
- **On-Hold**
- **Corrective Actions in Process**
- **Returning to Continuous Risk Assessment**

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<th>Coverage of University Enterprise Risks</th>
<th>Engagement Risk Assessment and Audit Planning</th>
<th>Auditor Comments</th>
<th>Corrective Actions in Process</th>
<th>On-Hold Corrective Actions</th>
<th>Started Corrective Actions</th>
<th>Complete - in Follow-up Corrective Actions</th>
<th>Returned to Continuous Risk Assessment</th>
<th>On-Hold Reporting</th>
<th>On-Hold Audits</th>
<th>Closed Reporting</th>
<th>Cancelled Reporting</th>
<th>Report Number</th>
<th>Status</th>
<th>Close Date</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td>Closed</td>
<td>Team members will facilitate 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 academic, research, and outreach missions and potential concerns or issues that may affect the university. The audit committee is responsible for ensuring the audit plan aligns with the university's strategic goals and objectives. The audit plan is reviewed annually and updated as needed.</td>
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<td>06/15/2021</td>
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<td>Closed</td>
<td>The Audit Plan includes the review of allegations reported through the Internal Audit Division Hot Line, the Office of the State Auditor Hot Line, or other internal and external sources.</td>
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<td>06/15/2021</td>
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</table>
## Audits

<table>
<thead>
<tr>
<th>Audit</th>
<th>Description</th>
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<tbody>
<tr>
<td>Foreign Influence</td>
<td>The objective of this audit is to assess the effectiveness of governance and processes ensuring compliance with foreign influence regulations</td>
</tr>
<tr>
<td>Programs that Involve the Participation of Minors</td>
<td>The objective of this audit is to evaluate compliance with University Regulation, REG 01.25.18 - Programs that Involve the Participation of Minors</td>
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<tr>
<td>Cash Handling Processes - Colleges</td>
<td>The objective of this audit is to assess cash handling processes for:</td>
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<tr>
<td></td>
<td>- effective and efficient procedures</td>
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<td></td>
<td>- strong internal controls</td>
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<td></td>
<td>- compliance to state and university requirements</td>
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<tr>
<td>Salary Supplements - 12-month employees</td>
<td>The objective of this audit is to evaluate internal controls and compliance of supplemental salary payments to 12-month employees</td>
</tr>
<tr>
<td>COVID-19 Relief Funding: Compliance with Federal and State Requirements</td>
<td>The objective of this audit is to assess the use of COVID-19 funding for compliance with federal and state requirements</td>
</tr>
<tr>
<td>End of Grant Expenditures</td>
<td>The objective of this audit is to test financial expenditures at the end of federal grant awards to ensure they are allowable, allocable, and reasonable</td>
</tr>
</tbody>
</table>

## Information Technology Audits

<table>
<thead>
<tr>
<th>Audit</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>Security Controls Over Transfer of Enterprise Systems Data into Storage</td>
<td>The objective of this audit is to assess the security of the Linux processing functions associated with transfer of Enterprise Systems data into storage</td>
</tr>
<tr>
<td>Application Programming Interface (API) Audit</td>
<td>The objective of this audit is to:</td>
</tr>
<tr>
<td></td>
<td>- Identify population of APIs transferring University data outside of PeopleSoft Enterprise Systems</td>
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<td></td>
<td>- Identify ultra-sensitive and sensitive data that is being transferred by APIs</td>
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<td></td>
<td>- Assess controls governing these types of transfers</td>
</tr>
<tr>
<td></td>
<td>- Assess security of transfers of ultra-sensitive and sensitive data</td>
</tr>
<tr>
<td>Poole College of Management - Information Technology (IT) General Controls</td>
<td>The objective of this audit is to evaluate Poole College of Management IT Operations for effective governance and IT controls</td>
</tr>
</tbody>
</table>
### Fiscal Year 2021 Engagements Expected to be in Progress on July 1, 2021

- Office of Finance and Administration - Environmental Health and Public Safety – Security Applications and Technology Services
- Title IX Governance Processes
- COVID-19 Relief Funding Monitoring and Reporting

### Investigations

The Audit Plan includes estimated time for analysis of allegations reported through the Internal Audit Division Hotline, Ethics Point Hotline, the Office of the State Auditor Hotline, or other internal and external sources and subsequent investigation.

### Prior Year's Follow-up Audits

The Internal Audit Division performs follow-up activities on all audit issues reported by our office or the Office of the State Auditor. As of March 5, 2021, corrective actions for issues noted in the following audit reports will be assessed in fiscal year 2022:

- College of Agriculture and Life Sciences – Prestige Department of Poultry Science
- College of Agriculture and Life Sciences – NC Cooperative Extension - Business Process Governance
- College of Sciences – General IT Controls
- Federal Safeguards Rule - Security Requirements Audit
- Poole College of Management - Financial Business Operations – College and Department Issues
- Poole College of Management - Financial Business Operations - University Issues
- Student Health Services - Pharmacy Investigation
- User Controls Over Ultra-Sensitive Data

### Advisory Services

- Office of Research and Innovation and Office of Finance and Administration - Enterprise Research Administration - Research Enterprise Data System Implementation
  
  Internal Audit is providing advisory and consulting services on the replacement of multiple legacy systems used for enterprise research administration activities.
### Special Assignments

| University Information Technology (IT) Governance Committees | Chief Audit Officer & Director, Assistant Director, and IT Auditor are providing advisory services to various IT governance committees. |

### Continuous Risk Assessment and Audit Planning

Every week, Internal Audit Division team members visit University faculty and staff 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 advisory engagements and is used as an objective tool in the development of our Annual Audit Plan.
NCSU Internal Audit Division
Continuous Risk Assessment and Audit Planning Process

Audit Risk Universe (see illustration, page 6)
Best practices relating to development of the audit universe contend that a risk-based internal audit function consider all risks that affect their enterprise, not just the "auditable risks." Specifically, at NCSU, this broader concept of the audit universe begins with the core elements of the NC State Mission: academics, research, and engagement. The NC State Internal Audit Division (IAD) identifies three integral activities necessary for the achievement of our mission:

1) Governing — performed by our university leadership team and the Board of Trustees who set the direction and ethical expectations for university constituents
2) Doing — performed by our faculty, engagement agents, and staff around the globe
3) Supporting — performed by university units through various processes and practices carefully designed to manage risk and ensure the university meets its goals, objectives, and requirements

Risks to these mission-critical activities and the ways in which risks are mitigated are the focus of our Continuous Risk Assessment (RA) Process that leads to the development of our Audit Risk Inventory and Audit Plan.

Continuous Risk Assessment Process (see illustration, page 7)
IAD continuously performs risk assessment activities across the Audit Risk Universe to identify areas of high risk to the university "enterprise" in relation to achieving both its strategic and tactical goals and objectives. The RA 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. We use our Audit Risk Inventory to compile and track risk exposures to the university's governance, operations, and information systems that relate to components such as the:

- Reliability and integrity of research, financial, and operational information
- Effectiveness and efficiency of operations
- Safe-guarding of assets
- Compliance with university and UNC System policies
- Compliance with legal, regulatory, and contractual obligations
- Detection and prevention of fraud
- Effectiveness of information technology security and compliance

Audit Plan Development (see illustration, page 7)
All objective and subjective information and data gathered through our continuous RA process is analyzed when received and at IAD management team meetings. This on-going analysis process allows the Internal Audit Division to determine areas that may need immediate attention, areas that are potential near-term or future audits, and areas that we will continue to watch and monitor through our process.

Our Audit Plan reflects the results of our continuous assessment and analysis process as of the end of January each calendar year. Each year's Plan is presented for approval at the April meeting of the NC State Board of Trustees and is implemented at the start of the new fiscal year on July 1.
NCSU Internal Audit Division
Continuous Risk Assessment and Audit Planning Process
Audit Risk Universe
NCSU Internal Audit Division
Risk Assessment and Audit Planning Process
Continuous Risk Inventory and Audit Plan Development

Risk Inventory
- Strategic conversation meetings
- Informal conversations
- Out of scope items from audit fieldwork
- Allegations/hotline
- State & Federal audits
- Trends in higher education

Audit Planning
 Begins in February
List of potential engagements:
- Audits
- Investigations
- Follow-ups
- Advisory Services
- Special Assignments

Risk Ranking
Risk Criteria
- Compliance
- Financial
- Fraud
- Operational
- Reputational
- Security
Likelihood & impact severity analysis
Subjective Analysis
Final score for each potential engagement

Capacity Analysis
Estimate project hours per potential and planned engagements

Audit Plan
Potential engagements with highest risk scores within capacity
Potential engagements that do not make the plan

Monitor
Mitigated
Chief Audit Officer and Director

Cecile M. Hinson, CCEP, CFE, CISA
Cecile joined the Internal Audit Division in February 2001. Prior, she worked for Lockheed Martin and PricewaterhouseCoopers, LLP, in the areas of financial, operational, and information technology auditing. Cecile received her Bachelor of Science in Business with an emphasis in Accounting from Meredith College. She is a Certified Compliance and Ethics Professional (CCEP), a Certified Fraud Examiner (CFE), and a Certified Information Systems Auditor (CISA). She is also a graduate of the NC State Equal Opportunity Institute and holds an Information Technology Audit Certificate from the MIS Training Institute.

Assistant Director

Nancy L. Burgart, CFE, CISA
Nancy re-joined the Internal Audit Division in October 2010 after working as an IT Compliance Auditor in the NC Office of the State Chief Information Officer. Nancy began her career at NC State in August 1994 and worked in various departments across campus, including Telecommunications, NCSU Libraries, and Internal Audit. Nancy has a Bachelor of Science in Accounting from East Carolina University. She is a Certified Information Systems Auditor (CISA) and a Certified Fraud Examiner (CFE).

Audit Manager

Neil Holloway, MBA, CFE, CGFM, PMP
Neil joined the Internal Audit Division in February 2015. Previously, he worked as a financial management consultant for IBM and an auditor for the U.S. Department of Defense, Office of the Inspector General. Neil earned his Bachelor of Science in Accounting from Juniata College in 2007. He earned his Master of Business Administration (MBA) from NC State in 2017. He is a Project Management Professional (PMP), a Certified Government Financial Manager (CGFM), and a Certified Fraud Examiner (CFE).

Staff

Vanessa Collins, CPA, CFE
Vanessa joined the Internal Audit Division in March 2020 after serving as an investigative auditor at the NC Office of the State Auditor for over 4 years and, prior to that, as an investigator with the NC Real Estate Commission. Vanessa has a Bachelor of Arts degree from the University of North Carolina at Chapel Hill and an MBA from North Carolina State University. Vanessa is a Certified Public Accountant (CPA) and a Certified Fraud Examiner (CFE). She also serves as a cabinet member on the NCACPA’s Young CPA Cabinet.
M'Shiela R. Hawthorne, CIA, CFE
M'Shiela joined the Internal Audit Division in December 2014. She has over 20 years of accounting experience in various industries including the military. M'Shiela has a Bachelor of Science Degree in Accounting with a concentration in Internal Audit from NC State University. She is a Certified Internal Auditor (CIA) and a Certified Fraud Examiner (CFE).

Seth Miller, CISA, Net+
Seth joined the Internal Audit Division in August 2018. He has over 7 years of compliance and auditing experience in regulated industries. Seth started his career at a non-profit organization (RTI International) focusing on governance, security, and compliance. He then moved to a large private software company (SAS) where he was focused on compliance, operations, and auditing. Seth has a Bachelor of Science Degree in Business Administration with a concentration in Marketing from Appalachian State University. Seth holds both Certified Information Systems Auditor (CISA) and Network Plus (Net+) certifications.

Sandra J. Soto, CFE
Sandra joined the Internal Audit Division in December 2017. She has over 20 years of accounting experience in various industries. Sandra graduated with honors and has a Bachelor of Science Degree in Accounting with a concentration in Internal Audit from NC State University. 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.

Caroline Pennington, MBA
Caroline joined the Internal Audit Division as a temporary executive assistant in June 2020. She has over 10 years of accounting and financial analysis experience in both the corporate world and at NC State University in the College of Textiles, Department of Mathematics, and Contracts and Grants. Caroline holds a Bachelor of Science in Accounting with a concentration in Information Systems from NC State University and a Master of Business Administration and Management Information Systems certification from East Carolina University.
MARKET COMMENTARY

Although the quarter ending March 31, 2021 started out on shaky ground, markets advanced when mass-vaccine distributions began to take hold and the U.S. Congress passed an additional $1.9 trillion stimulus package. Following a multi-quarter period that seemed to characterize a K-shaped recovery, with clearly defined winners and losers, the hope for a quicker and stronger recovery lifted previously underperforming areas of the market. Cyclical sectors that previously experienced COVID-induced headwinds began to recover, and outpaced the strongest performing sectors of 2020. The first quarter of 2021 also provided a welcome boost to the real economy, with unemployment ending the quarter at 6%.

Domestic equities, as measured by the S&P 500 Index, posted another strong return for the quarter, gaining 6.2%. Small cap stocks, as measured by the Russell 2000 Index, continued to benefit from reopening the domestic economy, returning 12.7% for the quarter and an astounding 94.8% for the one-year period ended March 31, 2021. Value investors also benefited from the rising economic tide, with the Russell 1000 Value Index gaining 11.3% compared to 0.9% for the Russell 1000 Growth Index.

International equities, as measured by the MSCI EAFE Index, underperformed domestic stocks, but were still able to produce a strong return of 3.6% for the quarter, led by European equities. Emerging markets ended the quarter up 2.3%, despite a 1.2% drop in March—a result from a weakness in Chinese stocks. Overall, emerging market investment performance rose due to the Q1 recovery, stabilization of energy prices, and a modestly weaker U.S. dollar.

Interest rates rose in the first quarter, continuing a rise from historically low yields from the prior year. Short-term rates remained anchored near 0%, while the 10-year Treasury note increased from 0.93% at the beginning of the period to 1.74% on 3/31, and the 30-year Treasury bond rose from 1.66% to 2.41%. Investors expressed concern about the amount of fiscal and monetary stimulus in the US economy, paired with pent up demand for goods and services, could lead to an overheating economy and higher inflation. Fixed income investors felt the impact of rising yields during the quarter, with the Bloomberg Barclays US Aggregate Bond Index losing -3.4%. Long-dated Treasuries saw a loss, with the Bloomberg Barclays US Treasury 20+ Year Index losing -13.9%, bringing its one-year return to 16.3%. High yield corporates were one of the few fixed income market segments to post a positive return in Q1, gaining 0.8%.

Looking ahead, a number of economic measures such as industrial production, housing starts, consumer confidence and ISM manufacturing point to a material rebound in the US economy for 2021. Vaccine distribution and the potential for variant-induced outbreaks remain key to the trajectory of economic recovery. Investors seem particularly focused on inflation in the near term, but disagreement exists over the longevity of any inflationary increase, and whether the Fed is making a policy mistake by keeping its target. Federal funds rate at a range of 0-0.25%.

With global economies at an inflection point, we maintain our long-term focus; investing the portfolio in a diverse way that provides protection for the downside, but participating in strong market recoveries.
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, 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.

HISTORY OF THE FUND

The NC State Investment Fund, Inc., (Fund) was established in April 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 2006, the Fund partnered with UNC Management Company (UNCMC) to invest in the UNC Investment Fund (UNCIF), a broadly diversified portfolio emphasizing equity-related investments to achieve the fund's long-term return objective. The transition of assets to UNCMC was completed December 2009. In 2012, the Fund invested in a Liquid Policy Portfolio (Blackrock LPP) of Exchange Traded Funds (ETF's) providing 70% equity and 30% fixed income passive exposure. In 2017, the Fund partnered with a non-discretionary private asset advisor to continue its legacy private assets program (NCSIF Private Assets) investing in a diversified portfolio of direct private assets focusing on buyouts with complementary allocations to private credit and real asset opportunities. The remaining portion of the portfolio is invested in a short term cash vehicle (STIF) to fund capital calls and liquidity for operating needs.

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

Third Quarter Fiscal Year 2021
NC State Intermediate Term Fund

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

Inception Date: July 3, 2014

March 31, 2021

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, endowments 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, and FY 2021. bringing the total invested to $261.83 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. In January 2021, $25.75 million was invested in the NC State Investment Fund Long Term Pool.

SECTOR ALLOCATION

MANAGER ALLOCATION

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Third Quarter Fiscal Year 2021