TO: Ward Russell, Chair, Audit, Risk Management and Compliance Committee  
Brad Hayes, Chair, Board of Trustees; Member, Audit, Risk Management and Compliance Committee  
Dean Priddy, Member, Audit, Risk Management and Compliance Committee  
Susan Safran, Member, Audit, Risk Management and Compliance Committee  

FROM: Chancellor Franklin D. Gilliam, Jr.  
Office of General Counsel  

RE: Proposed Expanded Audit, Risk Management and Compliance Committee  

Date: May 8, 2017  

I. PURPOSE  

The purpose of this memorandum is to provide background information related to the development, structure and function of the Audit, Risk Management and Compliance Committee (ARMC); to propose an expanded ARMC, including a detailed statement of function, composition and responsibilities; to propose a name change for the Committee; and to solicit your thoughts regarding the proposal and its implementation.  

II. BACKGROUND  

1. Association of Governing Boards of Universities and Colleges (AGB) Recommendations  

AGB is the premier organization centered on governance in higher education. One of AGB’s primary missions is to continuously advance the practice of governance, by designing and instilling best practices and advocating nationally on issues that affect higher education. The following represent AGB’s views related to risk, the role of Boards and best practices:  

AGB identifies four types of risk management that an institution might face:
• Traditional operational risk, which could include a weather catastrophe or a fire that shuts down a building or the whole campus. Other less obvious examples include a strike or an accident at a nearby chemical or power plant.
• Legal and regulatory risk, which includes, among other things, litigation by employees or students claiming discrimination or charges of failure to comply with safety requirements.
• Financial risk, which includes, for example, a sudden drop in tuition revenue or enrollment, a decline in government appropriations in support of financial aid or faculty research, or a fundraising campaign that fails to meet expectations.
• Political and reputational risk, which could include such things as loss of accreditation, the imposition of NCAA sanctions, or an adverse public response to a high-profile campus event.

2. Board of Trustees Responsibility for Risk Management
AGB has identified the following factors for Boards to consider in addressing risk-related issues:

a. The Board’s responsibility for risk management has four components:
• Establishing risk management as an institutional priority.
• Considering the institution’s tolerance for risk.
• Calling on senior administrators to establish a process for identifying, prioritizing and monitoring risk, with formal assignment of responsibility for risk assessment and management to an appropriate individual or office.
• Monitoring the plan’s implementation through regular, formal reporting to the board or an appropriate Board committee by the appropriate senior administrator.

b. Key questions for the Board of Trustees to consider:
• Has the Board discussed its responsibility for risk management?
• How frequently does the University review major areas of risk exposure?
• Does the Board or an appropriate Board committee regularly receive risk management reports?
• As part of strategic planning, does the Board consider major risks to the successful operation of the institution, as well as opportunities, and appropriate strategic responses?

3. Statutory and Board of Governor Delegated Duties of the Board of Trustees

The UNCG Board of Trustees has authority and duties established by the General Assembly, and delegated by the University of North Carolina Board of Governors to the UNCG Board of Trustees.

a. Board of Trustees’ Source of Authority

“Each board of trustees shall promote the sound development of the institution within the functions prescribed for it, helping it to serve the State in a way that will complement the activities of the other institutions and aiding it to perform at a high
level of excellence in every area of endeavor. Each board shall serve as advisor to the Board of Governors on matters pertaining to the institution and shall also serve as advisor to the chancellor concerning the management and development of the institution. The powers and duties of each board of trustees, not inconsistent with other provisions of this Article, shall be defined and delegated by the Board of Governors.” N.C.G.S. § 116-33.

b. Board of Trustees General Duties
- Promote the sound development of the institution within the functions prescribed for it.
- Serve as advisor to the Board of Governors on matters pertaining to the institution and serve as advisor to the Chancellor concerning the management and development of the University.
- Have such other powers and duties, as shall be defined and delegated by the Board of Governors.

c. Examples of Board of Trustees Statutorily Derived Duties & Authority Related to Risk and Compliance
- Designate a standing committee to consider conflicts of interest issues.
- Establish a campus law enforcement agency and employ campus police officers and authorize mutual aid agreements.
- Management flexibility for senior personnel, tuition and fees, and information technology.
- Recommend to the Board of Governors tuition and fees for program-specific and University-specific needs.
- Establish policies and rules governing the planning, acquisition, implementation, and delivery of information technology and telecommunications at the University.

d. Board of Governors Delegations to the Board of Trustees
- Ensure that the University establish an enterprise risk management process that aligns with the institution’s programs, activities, and management systems and that supports the institution’s strategic and other goals.
- Ensure University's compliance with the educational, research, and public service roles assigned to it by the Board of Governors.
- In the event of a vacancy in the chancellorship, establish a search committee to find nominees for the position.
- Advise the Chancellor with respect to the development of budget estimates for the institution and with respect to the execution and administration of the budget.
- Maintain a master plan for the physical development of the University.
- Acquisition and disposition of interests in real property.
- Recommend to the President the amounts to be charged by the University for application, athletics, health services, student activities, educational and technology, retirement of debt incurred for capital improvements projects authorized by the General Assembly, course, and special fees.
- Upon recommendation of the Chancellor, determine the type, level, and extent of student services (health care, athletic programs, counseling, etc.) to be maintained for the benefit of students at the institution.
- Authority and responsibility to adopt policies applicable to the control and supervision of campus power plants, water and sewer systems, other utilities and child development centers.

4. **Current UNCG Audit, Risk Management and Compliance Committee Structure and Function:**

The current Charter for the Audit, Risk Management and Compliance Committee includes only the audit functions, which include assisting the Board in fulfilling its oversight responsibilities related to: (1) the integrity of the University’s financial reporting; (2) the adequacy and effectiveness of the systems of internal control; and (3) the independence and performance of the external and internal audit functions. Given that the Board has expanded the functions of the ARMC to include enterprise risk management, the administration is preparing an expanded charter for the Committee.

**III. PROPOSED EXPANDED ARMC COMMITTEE STRUCTURE CHANGE**

The administration recommends expanding the scope of the Audit, Risk Management and Compliance Committee to include Legal Affairs, and that the committee be name be changed to the Compliance, Audit, Risk Management, and Legal Affairs (“CARL”) Committee. Furthermore, the administration proposes that the charter of the CARL Committee be expanded to include all functions of the Committee: Compliance, Audit, Risk Management, and Legal Affairs.

The administration proposes that the Board of Trustees adopt the CARL Committee Charter attached hereto as Exhibit A, which reflects the thoughts of the Office of General Counsel and which is still under development with administrators in Business Affairs, Internal Audit and the Office of the Chancellor.

**IV. SUMMARY**

In summary, a Board of Trustees plays a critical role in ensuring that executive management is taking appropriate action to identify, evaluate, monitor and manage risks, as well as helping create and maintain a culture of both legal and ethical compliance. Critical components of this effort include: (1) supporting executive management; (2) establishing appropriate committees and communication structures; (3) establishing priorities, evaluating and monitoring progress and exercising its oversight responsibilities in a prudent and responsible manner. Review of the current Board committee structure allows both the Board and executive management to fulfill their respective roles and responsibilities, as well as clarify, prioritize and establish structures that best serve the interest of the University.
EXHIBIT A

Proposed Compliance, Audit, Risk Management and Legal Affairs Committee Charter*

A. Policy Statement

It is the policy of the Board to support University efforts to develop, implement, evaluate and monitor a University-wide enterprise risk management process; to promote the establishment of and collaboration among the risk management, ethics, and compliance programs at the University; and to promote a culture that supports board goals for risk management and compliance.

B. Purpose/Goals

1. The CARL Committee shall assist the Board in fulfilling its oversight responsibilities related to audit, risk management, compliance, legal and ethical functions of the University.
2. The Committee shall assist the Board in fulfilling its oversight responsibilities related to: (1) the integrity of the University’s financial reporting; (2) the adequacy and effectiveness of the systems of internal control; and (3) the independence and performance of the external and internal audit functions.
3. The Committee shall assist the Board in fulfilling its oversight responsibilities related to the establishment, implementation, evaluation and monitoring of a campus-wide institutional risk management process.
4. The Committee shall assist the Board in fulfilling its oversight responsibilities related to compliance with relevant laws, regulations and ethical standards, including NCAA and research and related compliance.
5. The Committee shall make inquiries of and receive reports related to threatened or pending litigation, employment litigation, substantial administrative agency complaints, substantial government investigations, and other relevant legal matters.

C. Organization

1. CARL shall consist of a minimum of five voting Members of the Board selected by the Board Chair. The Board Chair shall designate one member of the Committee to serve as its Chair and may designate another member to serve as Vice Chair.
2. Unless otherwise designated by the Chancellor, the Vice Chancellor for Business Affairs, the General Counsel, the Director of Internal Audit, and the Associate Vice Chancellor for Strategy and Policy shall serve as liaisons to the Committee.

* This proposed charter is still under development and reflects the current thoughts of Office of the General Counsel, which is working with appropriate administrators in Business Affairs, Internal Audit and the Office of the Chancellor.
D. Meetings

1. CARL shall meet at the request of the Chancellor, the Chair of the Committee, or any two members of the Committee. Committee meetings will be scheduled to facilitate the timely review of matters under consideration by the Board.

2. CARL is a Standing Committee of the Board and shall follow Board rules for a quorum, voting, and minutes.

3. The Committee may, pursuant to the Open Meetings Law, go into closed session to discuss privileged and confidential information, or any other purpose allowed by the Open Meetings Law.

E. Duties and Responsibilities of the CARL Committee Related to Compliance

1. Promote the establishment of and collaboration among the compliance programs across the University.

2. Evaluate, monitor and advise a campus-wide compliance program.

3. Promote a culture that supports Board of Trustees and University goals for compliance.

4. Promote a uniform approach to measuring the University resources expended on compliance.

5. Support training and educational efforts related to compliance.

6. Provide regular reports to the Board of Trustees regarding compliance.

7. Refer matters to the Chancellor, or other University administrators, as appropriate.

8. Perform such other duties as directed by the Board of Trustees.

F. Duties and Responsibilities of the CARL Committee Related to Audit

1. At the beginning of the University’s audit cycle, review and approve a summary of the annual internal audit plan for the campus. At the end of the cycle, review a comparison of the plan advanced to the internal audits performed.

2. Review the results of the annual financial audit with the State Auditor or his designated representative. Review year-end financial statements, audit findings, and other matters from all external audits of the University.

3. Review all audits and management letters of University-Associated Entities as defined in Section 600.2.5.2 [R] of the UNC Policy Manual.

4. Discuss the results of any other audit performed and report/management letter (i.e. information system audits, investigative audits, etc.) issued by the North Carolina Office of the State Auditor with either the State Auditor or his staff, the Director of Internal Audit, or appropriate campus official.

5. For any audit finding contained within a report or management letter issued by the State Auditor, review the institution’s corrective action plan and obtain a resolution report once corrective action has taken place.
6. Discuss the results of any audit performed by independent auditors and, if there are audit findings, review the institution’s corrective action plan and receive a report once corrective action has taken place.

7. Obtain quarterly reports from the Director of Internal Audit that, at minimum, report material (significant) reportable conditions, the corrective action plan for these conditions, and the resolution once these conditions have been corrected.

8. Prepare and forward to the Board of Governors an annual summary of the work performed by the Audit Committee, including a report of the work of the audits, reviews, investigations or special assignments completed by the University. The report should also include any identified material reportable conditions and how such conditions were addressed.

9. Assure that the University has a plan for performing self-assessments of operating risks and evaluations of internal controls on a regular basis and for carrying out internal audit functions in a way that meets professional standards.

10. Be available to meet during the year with the State Auditor or his staff for consultation purposes.

11. Request, as needed, that the State Auditor or his designee rotate the Audit Manager assigned to the University’s financial statement audit.

12. Consult with the Office of University Counsel regarding any legal matters that may have a significant impact on the University’s financial statements or overall financial performance.

13. Review and approve the Internal Audit Department’s Charter.

14. Consult with the Chancellor regarding the selection or removal of the Director of Internal Audit.

G. Duties and Responsibilities of the CARL Committee Related to Risk Management

1. Promote the establishment of and collaboration among the risk management programs across the University.

2. Evaluate, monitor and advise a campus-wide enterprise risk management process.

3. Promote a culture that supports Board of Trustees and University goals for risk management.

4. Promote a uniform approach to measuring the University resources expended on risk management.

5. Support training and educational efforts related to risk management.

6. Provide regular reports to the Board of Trustees regarding risk management.

7. Refer matters to the Chancellor, or other University administrators, as appropriate.

8. Perform such other duties as directed by the Board of Trustees.
H. Duties and Responsibilities of the CARL Committee Related to Legal Affairs

1. The Committee shall oversee adherence to laws, regulations, and policies that pertain to University operations.
2. The Committee shall consider and report or recommend to the Board on matters pertaining to legal issues.
3. The Committee shall provide oversight for the legal functions of the University and for the Office of the General Counsel.
4. Within the Committee’s authority and responsibility as described above, the following is a partial but not exclusive list of legal subject matter areas which may be brought to the Committee for discussion and oversight and/or which the Committee may ask to review. This list is intended to be illustrative and is included here to help define the scope of the legal functions of the University. Most of these matters fall in whole or in part within the oversight purview of other committees of the Board.

- Threatened or pending litigation involving the University
- Legal aspects of compliance issues
- Health, safety and environment
- International activities and foreign laws
- Employment disputes
- Administrative agency complaints
- Government inquiries and investigations
- Conflicts of interest
- Campus safety and security
- First Amendment issues, including academic freedom and demonstrations
- Discrimination, including harassment, and affirmative action
- Employee misconduct
- Contract matters, including purchasing
- Research grants and contracts
- Clery Act
- Governance
- Policy development
- Federal and state legislative and regulatory issues
- Significant settlement agreements
- Unusual or significant severance or termination arrangements and payments

I. General

1. CARL shall coordinate with other Board committees as appropriate.
2. The CARL may modify or supplement the duties and responsibilities set forth above as needed.
3. The Committee, in conjunction with the Chancellor, shall develop annually a list of the principal duties and responsibilities of the Committee and a timetable for completion of Committee functions.

4. The CARL, with the assistance of the Office of the General Counsel, Vice Chancellor for Business Affairs, and Director of Internal Audit, and the Associate Vice Chancellor for Strategy and Policy shall periodically review and assess the adequacy of the CARL Committee Charter.