

**MINUTES**  
**State Board of Community Colleges**  
**ACCOUNTABILITY AND AUDIT COMMITTEE**  
**Thursday, January 19, 2023**

**ACCOUNTABILITY AND AUDIT COMMITTEE MEMBERS**

Mr. Mark Merritt, Chair	Ms. Lisa Estep	Mr. Jerry Vaughan
Mr. Andy Penry, Vice Chair*	Hon. Terry Van Duyn	Ms. Ann Whitford

\*Attended via Zoom

**OTHER STATE BOARD MEMBERS**

Hon. Chaz Beasley	Mr. Tom Looney	Mr. Burr Sullivan
Treasurer Dale Folwell	Hon. Ray Russell	

**OTHERS**

Ms. Tawanda Artis	Ms. Tiffany Howell	
Mr. Patrick Fleming	Ms. Sondra Jarvis	Mr. Tim Lietz (Jefferson Wells)
Dr. Kimberly Gold	Ms. Hannah McClellan, EdNC	

**CALL TO ORDER**

Mr. Merritt called the Accountability and Audit Committee meeting to order at 4:00 p.m.

**ROLL CALL**

Ms. Jarvis called the roll of the Accountability and Audit Committee members.

**ETHICS STATEMENT**

Mr. Merritt read the Ethics Awareness and Conflict of Interest Statement. No conflicts were noted.

**APPROVAL OF AGENDA AND MINUTES**

Mr. Merritt requested a motion to approve the agenda. Ms. Whitford motioned to approve, seconded by the Mr. Vaughan; the committee approved by voice vote. Mr. Merritt requested a motion to approve the minutes from the November 17, 2022, meeting. Mr. Vaughan motioned to approve, seconded by the Mr. Sullivan; the committee approved by voice vote.

**FOR INFORMATION**

**Cyber Security Update (Attachment AUD 01)**

Mr. Merritt recognized Mr. Stephen Reeves, Chief Security Officer, to review Attachment AUD 01. Mr. Reeves stated the System Office now has a fully staffed Information Security Office. He stated Senate Bill 105 provided funding to hire nine (9) Information Security Officer positions. Mr. Reeves stated the team is working to support the colleges and have begun scheduling quarterly meetings with the colleges to meet and assist with improving the local security infrastructure and any security needs the colleges have. Mr. Reeves discussed the adoption of

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State Board Code 1B 700 Information Security Program, he stated the code will be used to improve security at the colleges. Mr. Reeves discussed several cyber security incidents that occurred and stated the team remediated over 40,000 compromised student email credentials. Mr. Reeves discussed the teams upcoming initiatives. Mr. Reeves stated the team is working on Rural College Broadband Access at the colleges which will include a security assessment conducted by a third party at the conclusion of the college's improvements. He stated the security assessment will be essential to establishing a new baseline. Mr. Reeves discussed a second initiative of conducting regional in-person table-top exercises (TTX) on Incident Response to cyber events. He stated the TTXs are a good way to expose technology and business staff to decision making processes and behavior response models.

Mr. Merritt asked what the response is and receptibility to the System Office assisting in remediating cyber security incidents at the colleges. Mr. Reeves responded the colleges are greatly appreciative and receptive to assistance from the System Office. Mr. Reeves discussed the System Office's process in responding to cyber security incidents at the colleges.

Ms. Whitford asked Mr. Reeves if he would classify the regional TTXs as professional development. Mr. Reeves responded in agreement that it could be viewed as such. Mr. Reeves stated for professional development the System Office provides the "Know Before Solution" enterprise systemwide, he stated the tool provides the colleges an opportunity to deliver cloud based KSA training and training on things that would be relevant to the cyber security locally. Mr. Reeves noted the team conducted listening session to understand the challenges at the local college level from technology personnel and identify ways to partner and improve. Mr. Reeves briefly discussed on challenges that were identified. Ms. Whitford thanked Mr. Reeves and stated professional development assist with retention.

Treasurer Folwell discussed an incident a Fayetteville Technical Community College in which a check between the college and an individual was deposited fraudulently and did not make it to the intended recipient. Treasurer Folwell stated as the transfer of funding in continuous throughout the colleges, all colleges should be on positive pay, which he explained requires a confirmation of identity verification for a check to be deposited.

Compliance Services Report (Attachment AUD 02)

Mr. Merritt recognized Ms. Tolar. Ms. Tolar stated the Compliance Office is full staff and the remaining vacancy has been filled. Ms. Tolar stated the office is moving forward reviews at the colleges. Ms. Tolar review the compliance review process; she stated the compliance examiners go to the college's campus for two (2) to three (3) weeks to review records and obtain responses. She stated a report is generated by the compliance examiner and then Ms. Tolar reviews before the report is sent to the college. She stated if the college has a preliminary finding the college has thirty (30) days to respond in writing the report was received and

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provide additional information if needed. She stated the response is review at the System Office and then a final report is generated and sent to the college.

Mr. Merritt asked if Ms. Tolar would provide forecast of what reports will be coming to the Board for review. Ms. Tolar stated it is difficult to share what reports will be coming to the Board, she stated the colleges are given an opportunity to review and respond (which could impact any findings).

Legal Risks Review

Mr. Merritt recognized Ms. Artis. Ms. Artis stated she has grouped the legal risk into three (3) categories. She stated the first was litigation, which could come as complaints or reports received. Ms. Artis stated there have been several things that have come up from four (4) colleges over the past year, some being related to employment issues, program issues, and personnel issues of hiring and payroll. She stated the next risk is related to the colleges (legal matters), she stated each college retains their own legal counsel, but stated there is a shared governance with the System Office in which the colleges may reach out to the System Office for legal assistance. She stated the college Board and student grievance also come to the System Office. Ms. Artis reviewed some of the legal matters that the System Office sees. Ms. Artis stated the third risk is a "catch all" for legal risk such as contracts. She stated the System Office was not tracking contracts prior and she has worked with the IT team to create a database to track the contracts. Ms. Artis stated she intends to update the procurement manual. Ms. Artis discussed creating another system for contract management. Ms. Artis discussed an increase in public records request, she stated her team has completed twenty-four (24) records request in the last year. She discussed record number public records request at the colleges. Ms. Artis discussed a System Office policy review. She discussed a desire to update the System Office numbered memos, stating they have not been purged in a while and that the numbered memos may be redundant.

Treasurer Folwell stated a process and protocol is necessary is for public records request. He stated he receives a lot of public record request from at the Treasurer's Office. He discussed some request being vague and at times needing to discuss the request with the requestor to narrow down the request to identify what exactly the request is for to save time and effort.

Ms. Artis agreed and stated that she experiences that often with media request. She stated at times when a requestor has an attorney it is difficult to narrow the request.

Mr. Sullivan stated the embezzlement at Fayetteville Technical Community College of \$1.4 million dollars was recovered through the efforts of Treasurer Folwell who discussed with the financial institution Morgan Stanley consuming the loss as opposed to the college having to take the burden of the financial loss. Mr. Sullivan stated the only thing that causes a loss such

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as this is the lack of financial controls. He stated he has requested Ms. Andrews to gather detail in order to review and share with the business officers at other colleges to learn from the experience.

Risk Assessment from Jefferson Wells (Attachment AUD 03)

Mr. Merritt recognized Mr. Tim Lietz from Jefferson Wells. Mr. Merritt reviewed Jefferson Wells efforts over the past year to conduct a risk assessment. Mr. Leitz presented the following to the Committee:

- Mr. Leitz discussed his professional experience.
- Mr. Leitz discussed Jefferson Wells internal audit expertise and discussed the company's working experience with other State Agencies. He provided the overview of work the company covers.
- Mr. Leitz discussed the effective internal audits including discussion of infrastructure, operations, resources, and governance.
- Mr. Leitz discussed questions from the State Board:
  - Should the System Office supplement its internal audit resources with external resources? Mr. Leitz responded a strong consideration should be given to supplementing internal audit resources. He discussed the use of utilizing external resources would complete the work fast and provide opportunity to address the highest risk audits.
    - Mr. Vaughan asked how the highest audit risk are determined. Mr. Leitz stated the company assess highest risk by the likelihood of the risk happening and the impact of the risk if it did happen.
  - How often should the System Office conduct a risk assessment and what is the best practice? Mr. Leitz responded Jefferson Wells recommended performing a internal audit risk assessment annually. He discussed the areas of internal risk to consider assessing. He responded the best practice is to have risk assessments updated consistently throughout the year in "real-time".
  - Does Jefferson Wells have thoughts on how to mitigate risk and should the Audit Committee ask the System Office leadership to respond with risk mitigation plans?
    - Mr. Leitz stated if there are risk that cannot be audited to assign the risk to key leaders in the agency to report to the Audit Committee how they are managing the risk. Mr. Leitz responded risk management and compliance functions work collaboratively within an organization to mitigated identified and present risk. He stated senior leaders could develop risk mitigation plans over twelve (12) to eighteen (18) months for significant risk that fall within their area of responsibility.
  - What are the overall impressions Jefferson Wells would like to share with the

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Audit Committee with respect to the work and findings?

- Mr. Leitz responded Jefferson Wells understands this is the first risk assessment completed for the System Office and realizes this was a learning experience for all involved. He stated Jefferson Wells understand the Internal Audit Office is in development and working to stabilize their work and one a new leader is identified they will continue to build on the internal auditing functions. He stated the staff has been very transparent and cooperative and hopefully that existing risk will be identified in order to be mitigated. He stated the process was very successful and Jefferson Wells did not experience any roadblocks with staff in their assessment.
- What advice does Jefferson Wells have for the Audit Committee to address the identified risk?
  - Mr. Leitz responded to address the highest risk areas first, monitor emerging risk with high velocity, conduct risk management training for System Office leaders, consider IT risk assessments and fraud risk assessments, and to hold System Office leaders accountable for risk mitigation.

Mr. Vaughan asked how successful an audit department is in conducting IT risks assessments without IT expertise. Mr. Letiz responded it is challenging to conduct IT risk assessment without an IT background and stated the best solution is to hire someone with the expertise or outsource the risk assessments.

Ms. Whitford asked is there a recommendation for how many internal auditors should be hired. Mr. Leitz responded generally the recommendation is based on the amount of revenue for public companies, he stated for the System Office there is not a specific revenue to based the recommendation on and stated the number of internal auditors should be based on the audit plan and determined by the rate of internal audits being conducted annually. With one internal auditor one (1) to two (2) audits would be expected, and if more internal audits are desired annually, than additional internal auditors would be required.

Mr. Merritt discussed current concerns with not having an internal auditors employed and the possibility of needing to outsource the internal audits in order to meet the deadlines of certain internal audits. Mr. Vaughan asked if the required hours for each internal audits was covered within the scope of work of the previous internal auditor or if the hours were based on consideration of having additional internal auditors. Mr. Merritt responded the System Office is only budgeted for one (1) internal auditor position.

Mr. Sullivan stated auditors are difficult to find, he stated the System Office has seen two (2) turnovers recently in the internal auditing position, He stated the turnovers increase the risk. Mr. Sullivan stated a seven (7) year audit plan does not protect the System Office and he

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recommend having external support to cover risk management. He stated he is not sure how to pay for the external support but recommends using external resources. Mr. Merritt stated he believes the Audit Committee agrees and stated the next step for the Committee is to have discussion with the System Office leadership of risk mitigation and how to bring in additional external resources to complete the risk assessments in less than the seven (7) years outline, in possibly a two (2) or three (3) year timeframe.

Mr. Merritt thanked Mr. Leitz and Jefferson Wells for the work complete and stated it provides the new Internal Auditor with a strong foundation. Mr. Leitz thanked Mr. Merritt.

**NEW BUSINESS**

**ADJOURN**

Mr. Merritt called the meeting adjourned at 5:05 p.m.

Respectfully submitted,  
Tiffany Howell  
Recording Secretary