



April 6, 2018

Dr. Cecil Staton  
Chancellor  
East Carolina University  
Greenville, North Carolina 27858

Re: Management Letter – Athletics Financial Review (L18033)

Dear Chancellor Staton:

In December of 2017, our office received a written complaint about the financial situation of ECU Athletics. We understand that the UNC System Office and members of the UNC System Board of Governors have subsequently received the same written complaint. The UNC System Office and the UNC Board of Governors are aware of our review.

The complaint alleges a lack of transparency regarding Athletics' financial situation, as well as potential waste and/or misuse of Athletics and ECU Educational Foundation ("Pirate Club") funds. The complaint includes specific financial information that was available on the ECU Board of Trustees website, information that was posted to a social media site by an employee of ECU Athletics, and other information that was based on various assumptions and calculations. After an initial discussion with the Chief of Staff, former Vice Chancellor for Administration and Finance, University Counsel, and UNC System Office, we determined that a review of the concerns was warranted in order to be consistent with the handling of similar situations. This management letter is submitted to you as a result of our review. (Note: A list of the acronyms used in this letter may be found on the last page.)

Recently, there have been discussions from numerous people and articles from various media outlets concerning the state of ECU Athletics finances. We have included detailed information in this letter due to the information (accurate and inaccurate) and speculations that are circulating. While individuals are entitled to their personal opinions, we would like to caution any individual that is reviewing this letter that numbers need to be reviewed and analyzed in the appropriate context. Although we are employees of the University, our job as internal auditors is to present our conclusions (whether positive or negative) based on the evidence we collect utilizing appropriate audit procedures. We also have a duty to all internal and external stakeholders to demonstrate integrity, competence, objectivity, and be free from undue influence. We take this duty very seriously in every engagement that we complete.

The scope of our review included:

- Review of Athletics-related financial information that has been presented in public meetings and on internet sites
- Review of external auditors' reports concerning the financial statements of the Pirate Club for fiscal years 2016 and 2017
- Review of Athletics budgets and related documentation for fiscal years 2014 through 2018
- Review of financial transactions, fund balances, and supporting documents related to Athletics and the Pirate Club
- Review of Athletics-related contracts
- Review of relevant policies, rules, regulations, and procedures
- Interviews with University staff and management

Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, as promulgated by the Institute of Internal Auditors. Our fieldwork was completed on March 20, 2018.

The objectives of our review were to:

- Review the concerns expressed in the complaint letter
- Determine if the Athletics-related financial information that is available on public websites and other media is accurate
- Review the Athletics budget and compare to actual expenses
- Review and evaluate compliance with contracts and agreements that have a significant bearing on Athletics finances
- Review sample Athletics and Pirate Club expenses for propriety, business purpose, and adherence to University and/or Pirate Club policy (as applicable)

In summary, our review did **not** reveal any funds that were unaccounted for, unallowable expenses, or misuse of University resources. Our review did confirm instances where the actual financial performance did not meet budget projections, as well as overspending in some expense categories in some prior years. However, Athletics is a very complex environment and whether the budget projections are ultimately achieved is subject to many factors, some of which are beyond management control. Background information and our conclusions follow.

## **Background**

**ECU Athletics** competes at the NCAA Division I Football Bowl Subdivision (FBS) level. For the most recently completed fiscal year (FY 2017), Athletics had revenues of approximately \$40.7M and expenses of approximately \$41.15M. Athletics operates in a very complex environment. It is subject to compliance with NCAA Division I Bylaws and Title IX, and has competing priorities such as academic success, public trust, competitive success, and fiscal sustainability.

Our office has conducted several audits of Athletics and provided numerous consults and advice over the past several years. Our most recently conducted review was an operational audit of Athletics' policies, processes, and internal controls for the fiscal

years ending in 2012 and 2013. The audit was ongoing during the transition period from the previous Athletic Director to the current Athletic Director, and our final report was issued in April of 2014. We performed follow-up reviews on our audit recommendations in June 2015 and June 2016. Between 2013 and 2017 our office also completed multiple reviews of the internal controls over Athletics Camps, as well as an audit of student-athletes' financial aid (to determine compliance with NCAA bylaws). All findings and recommendations were satisfactorily resolved.

The **ECU Educational Foundation (aka "Pirate Club")** is a 501(c)(3) organization whose mission is to be the friend-raising and fund-raising arm of ECU's Athletics program. It is managed by an Executive Director who reports to the ECU Athletics Director and to the Executive Committee of the Pirate Club. The Executive Committee makes decisions regarding the entity's operating budget and the amount and type of financial support that is provided to ECU Athletics annually.

Like the ECU Foundation and the ECU Medical and Health Sciences Foundation, the Pirate Club is an ECU "affiliated entity," and as such, our office and the NC Office of the State Auditor have the right to audit its operations, controls, and financial statements. The Pirate Club financial statements and related internal controls are audited annually by independent external auditors who are selected by the Audit Committee of the Pirate Club Executive Committee. Those audit reports are reviewed by the University's Chief Audit Officer and the ECU Board of Trustees Audit Committee. The audit reports are also submitted to the UNC System Office. Our review of the two most recent external audits revealed an unmodified opinion of the Pirate Club's financial statements for the fiscal years ended June 30, 2016, and June 30, 2017.

The Pirate Club provides direct financial support to ECU Athletics in multiple ways, including funding athletic scholarships, facility enhancements, and other program costs. In addition, the Pirate Club pays for its own operating expenses such as employee salaries and benefits, office supplies and equipment, insurance, etc. The Pirate Club's revenues include donor contributions, return on investments and other sources.

**ECU Financial Services**, housed within the Division of Administration and Finance, provides accounting services to ECU Athletics and the Pirate Club. The Controller of the Pirate Club and the Accounting Manager who oversees Athletics and Pirate Club accounting operations are employees of ECU Financial Services, reporting up-line to the Vice Chancellor for Administration and Finance and not to the Athletic Director. Financial Services personnel provide advice regarding the allowability of and the supporting documents required for expense transactions. All Athletics and Pirate Club fund balances and accounting records are housed within the University's Banner Enterprise Resource Planning (ERP) system and are available for review and inspection by our office, the NC Office of the State Auditor, and University management. The use of Pirate Club funds (or any ECU-affiliated foundation funds) for expenses does not impair financial transparency to auditors, University management, or the University's constituents. ECU Financial Services personnel have

not historically been directly involved in a material way in the decisions regarding Athletics annual operating budgets.

### **Athletics Financial Situation**

The written complaint states that the ECU athletic budget has gone from a surplus of \$3,501,218 in 2011-2012 to a negative. The complaint projects ECU will have a deficit of \$3,297,832 at the end of 2017-2018 and will have a loss of \$6,799,050 over six years.

The written complaint includes the following specific questions regarding Athletics' financial situation. The Office of Internal Audit's conclusions based on the evidence reviewed during this engagement are provided after each question.

#### **Where is all the money?**

The complaint states that there is \$16,497,194 (this amount includes \$3,260,000 of "Pirate Club Dollars") that is unaccounted for and arrives at this amount by selecting certain expenses and revenues and adding or subtracting them to the projected loss of \$6,799,050. This methodology results in an inaccurate accounting of revenues and expenses as all revenues and expenses are not included in the calculation. Further, **some** of the revenues and expenses utilized to arrive at the alleged \$13,237,194 (excludes "Pirate Club Dollars") unaccounted for funds are based on information and assumptions that are not accurate.

The Office of Internal Audit prepared a summary schedule (Table 1) of fund balances, revenues, and expenses for the fiscal year 2011-2012 to the fiscal year 2016-2017 for the Athletics Department (this schedule does not include Pirate Club funds.) This schedule is based on financial information from the University's ERP system. Technically and historically speaking, even in a positive financial year, Athletics operates in a cash "deficit" situation for much of the fiscal year, since two of its largest revenue streams are not received until June. These two streams are distributions from the Pirate Club and ECU's share of payouts from the conference. Therefore, the Office of Internal Audit did not include the fiscal year 2017-2018 to-date in the schedule.

Table 1:

	FY 2011-2012	FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2015-2016	FY 2016-2017
<b>Beg. Fund Balance</b>		3,501,217.60	2,157,785.51	(843,929.66)	(795,568.14)	(1,880,316.60)
<b>Revenue</b>		32,785,482.33	33,849,338.62	38,186,518.90	38,148,189.40	40,711,364.74
<b>Expenses</b>		34,128,914.42	36,851,053.79	38,138,157.38	39,232,937.86	41,150,396.64
<b>Net Inc/Loss</b>		(1,343,432.09)	(3,001,715.17)	48,361.52	(1,084,748.46)	(439,031.90)
<b>End. Fund Balance</b>	3,501,217.60	2,157,785.51	(843,929.66)	(795,568.14)	(1,880,316.60)	(2,319,348.50)

Based on the information obtained from the ERP system, the Office of Internal Audit could find no evidence that Athletic funds have been unaccounted for. Moreover, in reviewing information from the ECU Board of Trustees public website (located in Archived Next Meeting Documents), we find that ECU Athletics has been transparent

in providing financial information in one form or another over the years to the ECU Board of Trustees and the public.

**Is this deficit a result of poor projections or profligate spending that has not been explained to the ECU fan base?**

Our review of budgeted revenues and expenses to actual revenues and expenses for fiscal years 2014 to 2017 revealed that some revenue and expense projections had not been achieved in some years. For example, ticket revenue was over-budgeted for three of the four years. Also, Athletics has consistently not estimated enough for repairs and replacements. This category of expenses has been under-budgeted for the last three complete fiscal years. In addition, we noted instances where individual sports overspent their expense budget.

Beginning early in the fiscal year 2018 (and prior to our review), Athletics management had identified concerns with the previous years' budgets and had started implementing a number of initiatives to address the issues. These steps include:

- Developing an annual operating budget that more realistically depicts the anticipated revenues and expenses for the year
- More closely communicating with the Vice Chancellor for Administration and Finance regarding the budget
- Providing actual expense data to coaches, budget managers, and sports administrators on a weekly basis so that they will be aware of the status of their spending in relation to budget.
- Eliminating a senior-level administrator position and implementing a 10% cut in operating expenses (does not include payroll, benefits, and scholarships)
- Providing access to and training on budget-related reports and tracking tools to coaches and sport budget managers
- Requiring purchases greater than \$250 be approved by the sports administrators, not just the coaches
- Drafting a five-year operating budget projection

There have been various public discussions regarding the exit fee to Conference USA (C-USA) and the entry fee to the American Athletic Conference (AAC). We confirmed that the exit fee of \$1.4M from C-USA was paid out of Athletic funds in the fiscal year 2013-2014. Our review of the entry fee to the AAC revealed that some expenses had been paid out of University funds and some have been paid out of the Athletics operating budget. We confirmed that ECU was required to pay a \$2.5M entry fee to join the American Athletic Conference. The fee is being paid at a rate of \$500K per year over a five-year period, beginning in FY 2015 and ending in FY 2019. To date, \$1.5M of this fee has been paid, with \$500K coming from the Athletic operating budget, and \$1M being paid from an auxiliary overhead fund that is managed by the Division of Administration and Finance. During our interviews, management stated that they anticipate paying the \$500K payment for FY 2018 from the auxiliary overhead fund (not from the Athletic operating budget). The auxiliary overhead fund derives its income from overhead charges that are applied to all auxiliary University operations such as Athletics, the student stores, housing, and dining. These are not state funds and are

not derived from student tuition receipts. From FY 2013 to present, Athletics has paid over \$1.7M into this fund.

As for revenues, tuition receipts are not utilized for Athletic operations. However, students are charged a student fee for Athletics. Our review confirmed that Athletics student fee revenue has increased in total over the past three years and the per-student Athletics fee has increased each of the last three years. Student fees assessed to each student are based in part on the student’s status (full or part-time; on-campus or distance education) and the number of credit hours the student is registered for each academic term. Therefore, accurate determination of student fee revenue cannot be calculated by simply multiplying the number of enrolled students by any set dollar amount. In addition, a portion of the Athletics student fee is used to support the Marching Pirates, the Cheerleading Team, and the Dance Team. Actual student fee revenue credited to the Athletics operating budget is included in Table 2.

Table 2:

Fiscal Year	Annual Athletics Fee (per FT on-campus student)	Total Athletics Student Fee Revenue	Increase from Prior Year
2014	631	13,070,200	
2015	631	13,517,117	446,917
2016	661	14,249,768	732,651
2017	696	15,159,430	909,662
<b>Total</b>	<b>N/A</b>	<b>55,996,515</b>	<b>2,089,230</b>

Please note that all student fees are vetted by a campus committee comprised of approximately 35 individuals that include students, faculty, and staff members. The student fees are approved by the Student Government Association, Executive Council, and Board of Trustees. Some fees, including the Athletics fee, must also be approved by the UNC Board of Governors.

**How do the BOT and Chancellor justify an extension and \$70,000/year raise for the AD when the Athletic Department is supposedly in the red and over \$13M is not accounted for transparently?**

The Office of Internal Audit did not inquire as to the justification of extending the AD’s contract and salary increase. This type of personnel decision is delegated to the Chancellor and the ECU Board of Trustees. The Office of Internal Audit reviews governance processes to ensure the processes are reasonable and consistently followed.

**How are all Athletic Department expenses paid when the Athletic Department runs at a deficit? It has been discussed that money is being shifted from housing, dining, maintenance, and auxiliary services to cover ECU Athletics’ deficit. Does this have to be paid back at all or paid back with interest? Has this been publicly disclosed? What is the plan for payback and is it viable?**

Based on our interviews with Financial Services and senior management, when Athletics or any of the University's "auxiliary" business units (such as housing, dining, student stores, athletics, etc.) operate in a deficit situation, the excess expenses are paid out of the University's single STIF (State Treasurer Institutional Funds) account. Any unit that spends more than it contributes to the STIF account during the year is charged interest on the deficit amount until it is returned to the account. Athletics management is aware of the repayment requirement and will budget for repayment to the STIF account in future budget years. Athletics management will need to coordinate with the Division of Administration and Finance regarding this process.

### **Southside Expansion Project**

The complaint states that the Southside Expansion project is underway and already over-budget due to the increased cost of labor and materials that was reported in a local newspaper. The complaint states that approximately \$15M in pledges was raised with the Pirate Club reporting they raised \$13.5M for this last year. The complaint also states that it appears the University has taken out a "\$55M Bond Anticipate Note from BB&T as of October 26, 2017...which suggest that there is no cash on-hand for this project or that it has already been used on cost overruns."

The complaint asks the following specific questions regarding the Southside Expansion Project. The Office of Internal Audit's conclusions based on the evidence reviewed during this engagement are provided after each question.

#### **What happens if these pledges do not materialize or if the Athletic Department cannot make the loan payments? Given this Athletic Department's financial shape, can they afford to take on this loan/risk responsibility?**

Repayment of the debt will come from revenue from premium seats, field level club, and premium parking. Repayment does not depend on pledge payments. Philanthropic pledge payments provide an additional level of security to ensure debt repayment.

The Southside Expansion project is a Guaranteed Maximum Price (GMP) contract, which cannot exceed \$60M in cost to ECU. The University has taken out a \$55M Bond Anticipate Note from BB&T to be used as a "line of credit" until the bonds are issued in the spring of 2018. Our interviews with senior administrators revealed that there is a contingency plan to mitigate the risk that pledges and other income related to this expansion project do not meet projections. The Pirate Club will place actual receipts from donors and seat licenses into a restricted fund until approximately \$6.2M is collected (equal to two years of bond service payments). The fund can only be used in the event premium seat revenue, and future pledge receipts are insufficient to pay a bond payment. This funding will serve as a "cushion" in the event that future revenue streams cannot pay the bond payments. Management's current anticipation is that additional revenue from seat licenses, the field level club, and premium parking will be sufficient to cover the bond costs.

As with all major capital projects, there is some degree of risk that future revenue streams will not be sufficient to cover the expenses associated with paying the debt and operating the facility. However, the authority to accept such risks for this and all similar capital projects rests with senior management, the ECU Board of Trustees, and the UNC Board of Governors. Also, “management” sets the acceptable risk tolerance of the University.

### **Pirate Club**

The complaint questions the amount of money that the Pirate Club uses to fund scholarships and states that in 2015 and 2016, the Pirate Club has raised \$3,265,900 that is unaccounted for. The complaint questions where that money is and states it is unaccounted for as the Athletic Department states it is using operating budget funds to cover the Cost of Attendance and this does not add up.

As previously stated, the Pirate Club provides direct financial support to ECU Athletics in multiple ways, including funding athletic scholarships, facility enhancements, and other program costs. According to the published audited financial statements, in fiscal year 2017, the Pirate Club received approximately \$7.6M in unrestricted monetary gifts and provided over \$9.3M in financial support to ECU Athletics, an amount that includes \$6.4M for scholarships. In fiscal year 2016, the Pirate Club received approximately \$7.6M in unrestricted monetary gifts and provided over \$8.7M in financial support to ECU Athletics, an amount that includes \$6.3M for scholarships. In fiscal year 2015, the Pirate Club received approximately \$8.0M in unrestricted monetary gifts and provided over \$14.1M in financial support to ECU Athletics, including \$5.9M for scholarships and \$7.3M for facility enhancements.

The complaint also asks the following specific questions regarding Pirate Club. The Office of Internal Audit’s conclusions based on the evidence reviewed during this engagement are provided after each question.

### **When has the Pirate Club been able to fully fund scholarships?**

Our office reviewed documentation from the fiscal year 2005 through the fiscal year 2017. During this time frame, the Pirate Club did not fully fund scholarships in any year, and there is no policy that states that the Pirate Club is required to fund scholarships fully. Total Athletics scholarship expense more than doubled from the fiscal year 2005 to the fiscal year 2017 (from approximately \$4.3M to \$8.9M). The amount of funding contributed by the Pirate Club to Athletics for scholarships has increased each year since 2005 (from \$3.2M to \$6.4M). Table 3 includes a breakdown of how Athletics scholarships have been funded from FY 2014 through FY 2017.



Table 3:

Funding Source	FY 2017	FY 2016	FY 2015	FY 2014
Pirate Club (1)	6,419,712.56	6,309,953.00	5,956,162.00	5,908,300.00
Athletics Operating (2)	1,177,746.07	1,094,556.56	1,285,471.33	904,577.69
NCAA Special Asst.(2)	257,655.52	223,751.26	31,995.17	89,879.20
NCAA SA Opp. Fund (2)	-	5,726.00	175,308.83	108,083.15
NCAA One-Time Funding	787,417.00	-	-	-
Other University Funds (3)	222,154.34	758,994.00	332,100.00	40,000.00
<b>Total Athletics Scholarship Expense</b>	<b>8,864,685.49</b>	<b>8,392,980.82</b>	<b>7,781,037.33</b>	<b>7,050,840.04</b>

(1) Includes funds transferred from the PC to Athletics for scholarships and scholarships paid directly from the PC; all funds transferred to Athletics are included in the financial statements provided to the BOT for Athletics.

(2) These funding sources are included in the financial statements provided to the BOT for Athletics.

(3) The "Other University Funds" that have been used are all funds that are specifically designated for various scholarships and grants-in-aid. The use of the funds for this purpose is appropriate and expected.

### **Who makes the decision on how much the Pirate Club provides for scholarships?**

Each year Athletics requests funding for scholarships from the Pirate Club. The Executive Director of the Pirate Club, with the input and approval of the Pirate Club Executive Committee, makes the decision as to how much funding is provided.

### **If the fundraising, as we believe, is inadequate, why hasn't the overall approach to Athletics' fundraising been changed?**

The approaches to fundraising are management's (and the applicable Foundation board's) decisions to make. Internal Audit did not review any evidence to draw a conclusion regarding this question.

### **What is the total amount of the endowment and how are the earnings used?**

As of January 31, 2018, the total corpus amount of true and quasi-endowments held by the Pirate Club is \$12,840,960. Investment earnings are divided among the individual endowment funds based upon percentage of ownership and allocated to restricted earnings. An annual spending distribution (determined by the Pirate Club Investment Committee) is transferred from restricted earnings to an expendable account to be used for the endowment's stated purpose.

**In terms of Pirate Club pledges, how much is “written off” (pledged never paid) annually during meetings with ECU Financial Services?**

Pledges are reviewed annually by the Pirate Club and ECU Financial Services. During this review, each donor’s historical payment information is considered as well as the known financial position of the donors and changes in status such as death or change in marital status since the pledge was made. The Executive Director of the Pirate Club approves the amount to be written off based on this review. These write-offs are accounted for as direct and immediate reductions in accounts receivable since the pledges have been determined to be uncollectible. The total amount of pledges written off in this manner in FY 2017 was \$45,150, FY 2016 was \$622,705, and FY 2015 was \$38,119.

In addition to the annual process of identifying direct write-offs, the Pirate Club’s annual income statements include Bad Debt Expense. This is a projection of anticipated pledges that will not be collected in the future and is based in part on a percentage of all outstanding pledges. The FY 2017 Bad Debt Expense on the income statement was approximately \$177K. It was \$143K in FY 2016. The methods and assumptions that Financial Services uses for calculating this amount have been reviewed annually and determined to be reasonable by external auditors. Internal Audit did not perform any testing of the methodology used.

**Questions regarding the Athletic Director’s entertainment expenses.**

Internal Audit reviewed sample entertainment expenses paid from Athletics and Pirate Club funds during the 2017 and 2018 fiscal years. As of the date of our field work, the total expenses coded to the “entertainment” account during these two years was approximately \$164K. We reviewed supporting documentation for transactions totaling 19% of the spending in this category. The Athletic Director was present at some, but not all, of the entertainment events that we reviewed. Our review of these sample transactions did not reveal any misuse of the funds or any significant concerns. We did note that the Pirate Club did not have a documented set of expense guidelines such as what the ECU Foundation and the ECU Medical and Health Sciences Foundation have in place. A formally documented set of spending guidelines would be helpful to the Pirate Club and to University management. As a result of our recommendation, management agreed to discuss this with the Pirate Club Executive Committee. It is our understanding that a set of spending guidelines for the Pirate Club has now been drafted and approved by the Pirate Club Executive Committee.

We compared the lists of attendees of the sampled Athletics and Pirate Club entertainment events with the Pirate Club membership roster and gift records, in order to determine whether high-cost events were related to donor cultivation/donor relations, or some other business purpose. While we noted some events that could be perceived by the general public to have a relatively high per-attendee cost (i.e., in excess of \$50 per person), these meals or events typically included donors, who had an average lifetime giving amount of approximately \$634K for each of the people/families

represented at the events. Thus, the University appears to have received a reasonable return on investment for these events.

In addition, we reviewed all reimbursements (for travel expenses, entertainment, etc.) made to the Athletic Director from March 31, 2017 through the date of our field work. We also reviewed all reimbursements made to the Athletic Director, coded to the “entertainment” account, for fiscal years 2015 through 2018. Our review did not reveal any expenses that were in violation of applicable policy or the terms of the Athletic Director’s contract.

**Questions “Calcutta” events that are held to raise additional funds for the Pirate Club that are not disclosed.**

Our review did not reveal any evidence or knowledge of any Pirate Club revenues that are not accounted for in the appropriate fund(s). Our review confirmed that an annual fund-raising event referred to as “Calcutta” was started by a former BOT member and a current BOT member in FY 2015. The event is by invitation-only and is intended to raise money for the Pirate Club, with revenues and expenses related to the event being accounted for in a single Pirate Club fund. The total net income of the event over the four years of its existence is approximately \$19K. The revenues were received and accounted for in the aforementioned Pirate Club fund by ECU Financial Services personnel. The fund was originally established in 2000 with the documented purpose of receiving revenues from and paying expenses related to Pirate Club social events. Our review of the expenses paid out of this fund revealed that they appear to be consistent with the stated purpose of the fund and the nature of the allowable expenses as stated in the fund authority document.

**Sabre Society**

The complaint states that a former AD created the Circle of Excellence/Sabre Society and states there is no public or transparent documentation of how the funds are used by the current AD. The complaint further states that 50% of the funds are used for scholarships and 50% for unbudgeted initiatives in the Athletic Department and questions if the funds were moved to the Pirate Club to make it harder to audit the percentage going to the Athletic Department.

Sabre Society funds, like all Pirate Club funds and all other funds controlled by any of the ECU-related foundations, are accounted for in the University’s Banner ERP system, and supporting documents are available for inspection prior to and after expenses are paid. The transactions are processed and managed by employees of ECU Financial Services. No funds or transactions are processed without the knowledge and/or approval by Financial Services and are auditable by the University.

Our review revealed that the Sabre Society funds are being accounted for and used as agreed upon by University management and the Pirate Club Executive Committee. Our review confirmed that 50% of funds collected from Sabre Society members are recorded in the Pirate Club annual fund, and the other 50% is recorded in a separate

Sabre Society fund. Of the 50% recorded in the Sabre Society fund, 20% can be used as discretionary funds and the other 30% is used to cover Sabre Society member benefits and campaign expenses and scholarships. Our review of the Sabre Society revenues and expenses for the fiscal year 2017 and fiscal year 2018 to date revealed that the expenses paid out of the fund were, in fact, utilized for the above stated purposes, as approved/directed by the Pirate Club Executive Committee.

In the fiscal year 2017, the Sabre Society fund received \$471,750 in gift revenue and incurred \$99,725 in expenses. The Pirate Club transferred \$405,500 to Athletics from the Sabre Society fund, which was 86% of the gifts that came into the fund during the fiscal year, exceeding the net income for the fund during the year. All of this amount was applied by Athletics towards student-athlete scholarship expenses.

### **Conclusion**

We appreciate the cooperation and professionalism of the staff and management who assisted us with this engagement. We particularly appreciate the time and effort that ECU Financial Services personnel spent retrieving records and information for us throughout this engagement. If you have any questions or concerns, please do not hesitate to contact us. We look forward to working with you in future endeavors.

Respectfully submitted by:



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Amanda Danielson, MSA, CIA  
Internal Auditor



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Wayne Poole, MBA, CIA, CISA  
Associate Director, Office of Internal Audit



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Stacie Tronto, MBA, CISA, CIA, CFE  
Chief Audit Officer

cc: Audit Committee – ECU Board of Trustees  
Mr. James Hopf – Chief of Staff  
Ms. Megan Ayers – Assistant Secretary to the ECU Board of Trustees  
Mr. Tom Eppes – Executive Director of Communications, Marketing, and Public Affairs  
Ms. Donna Payne – Vice Chancellor for Legal Affairs and University Counsel  
Ms. Sara Thorndike – Vice Chancellor for Administration and Finance  
Ms. Dee Bowling – Associate Vice Chancellor for Financial Services and Internal Control Officer  
Ms. Sherrilyn Johnson – Financial Director, Institutional Trust Funds and Foundations  
Ms. Sheri Whitfield – Accounting Manager  
Mr. Dave Hart – Special Advisor to the Chancellor for Athletics  
Mr. Lee Workman – Senior Associate Athletic Director  
Mr. Phillip Wood – Senior Associate Athletic Director and Executive Director, ECU Educational Foundation  
Ms. Faye Steele – Specialist, Compliance Management  
Mr. Tim Wiseman – Assistant Vice Chancellor, ERM  
Ms. Lynne Sanders – Vice President for Compliance and Audit Services, UNC System Office  
Council of Internal Auditing  
Mr. Ray Whitby, Jr. – North Carolina Office of the State Auditor

Acronyms:

AAC – American Athletic Conference  
AD – Athletic Director  
C-USA – Conference USA  
ERP – Enterprise Resource Planning  
GMP – Guaranteed Maximum Price  
NCAA – National Collegiate Athletics Association  
STIF – State Treasurer Institutional Funds