

Minutes of the May 10, 2007 Meeting  
of the Board of Governors' Audit Committee

The Audit Committee met in Conference Room A of the General Administration Building in Chapel Hill, North Carolina on Thursday, May 10, 2007, at 5:00 p.m.

Members in attendance were Mr. John W. Davis III, Mrs. Hannah D. Gage, Mr. William G. Smith, and Mr. David W. Young. Necessarily absent were Mr. William L. Burns, Jr., and Mr. Ray S. Farris. Others attending the meeting were Vice President Leslie Winner; Associate Vice Presidents George Burnette, James O. Smith and Laura Foxx. In attendance from Appalachian State University was Chancellor Kenneth E. Peacock.

Chair Smith convened the meeting and welcomed everyone.

On the motion of Mr. Davis, seconded by Mr. Young, the agenda was approved.

On the motion of Mrs. Gage, seconded by Mr. Davis, the minutes of the meeting of March 15, 2007 were approved.

Mr. Burnette presented the first item, 2006 Financial Audit Reports and 2007 Information Systems Audits, released since the last meeting. He briefly discussed six Financial Audits, one of which had a finding but had been corrected. Then he discussed one Information Systems Audit, which had a finding and was in the process of being corrected. Questions were answered throughout the discussion.

2006 Financial Audit Reports and 2007 Information Systems Audit Report Released Since Last Meeting By the North Carolina Office of the State Auditor:

1. The University of North Carolina at Greensboro: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6040>

2. East Carolina University: – (Financial Audit): Three Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6065>

**Matters Related to Financial Reporting or Federal Compliance Objectives**

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

**1. ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEPARATION OF DUTIES**

The University has granted computer system access rights that are inconsistent with prudent internal control principles. As a result, there is an increased risk of unauthorized

entries in the system.

The University granted 833 users access to the input form used to create and post journal entries to the accounting system. Of these, 518 users are non-accounting personnel who were given access to the form for the purpose of making budget amendments. Furthermore, the University does not have a procedure to review journal entries that could detect unauthorized entries made to the University's data file. Unauthorized journal entries could affect the integrity of the University's data file and prevent it from reporting accurate financial information.

Prudent internal control principles require that users only be given access to the specific computer resources needed for their job duties.

**Recommendation:** The University should strengthen internal controls by removing or limiting the capabilities of users with access to the journal entry input form.

**University's Response:** The University concurs with the finding, and accordingly has removed journal voucher access from the non-accounting campus users. A report of the remaining users is being reviewed for appropriateness of journal voucher access. Only those employees whose job duties require such data entry access will be allowed to retain the journal voucher access rights. The ECU Office of Internal Audit and Management Advisory Services will review to verify that access to electronic journal voucher forms is appropriate.

## 2. INADEQUATE CONTROLS OVER BANK RECONCILIATIONS

The ECU Brody School of Medicine's State Treasurer's Investment Fund (STIF) account was not properly reconciled to the University's general ledger on a monthly basis. As of July 2006, the account was reconciled only to February 2006. As a result, the University failed to detect that cash recorded in the general ledger and on the financial statements at June 30, 2006, was understated by \$1,181,294.25.

**Recommendation:** Bank statements should be properly reconciled each month and agreed to general ledger cash balances. Any discrepancy should be promptly investigated and resolved. The reconciliation should be reviewed and approved by appropriate level of management.

**University's Response:** The University agrees with the finding and has developed a plan to address the timeliness of the ECU School of Medicine's Medical Faculty Practice Plan bank account reconciliation. As of February 9, 2007, the ECU School of Medicine's Medical Faculty Practice Plan bank account is reconciled through the month of January 2007. All but one of the reconciling items noted on the bank reconciliation occurred in January 2007. The ECU Office of Internal Audit and Management Advisory Services will review and test the reconciliation for accuracy.

## 3. INADEQUATE CONTROLS OVER VERIFICATION OF STUDENT AID APPLICATION INFORMATION

The University did not have controls in place to ensure adequate verification of student aid application information for Title IV, Higher Education Assistance program as required by Title 34 CFR 668, Subpart E. Of 20 students selected for verification, we found that eight verifications were improperly performed.

- In four of the verifications, required information was not obtained or discrepancies noted during the verification were not reflected or updated in the student's financial aid record. After considering the differences, it was determined

that one of the students was not eligible for \$1,700 of federal awards received and this is questioned cost.

- In two of the verifications the student's financial aid information was changed to lower the expected family contribution, but documentation did not exist to substantiate the changes.
- In the remaining two verifications, the students were dependents of employees of ECU. In one instance, information gathered during the verification process indicated that the information on the financial aid application was incorrect and would have reduced or eliminated the award, but the Financial Aid Office did not correct the information. In the other instance, the information was such that a prudent person would question whether the parent actually provided the majority of the student's support. We are questioning the award made to these two students in the amount of \$8,572 and \$8,175, respectfully.

These findings impact the following grants PELL (P051927), SEOG, FWS and PERKINS (A053090), and FFELP for the 2005-06 award year.

**Recommendation:** The University should improve its controls over verification of student aid application information to ensure compliance with federal policies and procedures. The University should recalculate and determine eligibility for the above instances and refund any overpayments to the U.S. Department of Education.

**University's Response:** In September, 2006, the ECU Office of Internal Audit and Management Advisory Services issued an audit report that recommended the Office of Student Financial Aid improve its controls over verification of student application information. Since that time, the Office of Student Financial Aid has been working diligently to improve the controls over the verification process. The ECU Office of Internal Audit and Management Advisory Services is in the process of following up on the corrective actions taken.

As for the questionable awards, the University has taken the following actions:

- \$1,700 - This money is being returned to the U.S. Department of Education.
- \$8,572 - This award was reviewed by the ECU Office of Internal Audit and Management Advisory Services, and it was determined that this situation needs to be reported to the U.S. Department of Education Office of the Inspector General.
- \$8,175 - This award was reviewed by the ECU Office of Internal Audit and Management Advisory Services, and it was referred to the U.S. Department of Education Office of the Inspector General in December, 2005. The Office of the Inspector General stated they conferred with the U.S. Attorney's Office in Raleigh, North Carolina, and the amount did not meet the threshold for prosecution; therefore, they would not review any further. The ECU Office of Internal Audit and Management Advisory Services could not conclude on the eligibility of the student with regard to the \$8,175 award.

3. The University of North Carolina at Chapel Hill: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6020>

4. North Carolina School of the Arts: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6092>

5. The University of North Carolina at Wilmington: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6060>

6. The University of North Carolina at Asheville: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6055>

7. The University of North Carolina at Pembroke: – (Information Systems Audit): One Audit Finding

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=ISA-2007-6082>

### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following audit results reflect the areas where UNCP has performed satisfactorily and where recommendations have been made for improvement.

#### **General Security Issues**

General security issues involve the maintenance of a sound security management structure. A sound security management structure should include a method of classifying and establishing ownership of resources, proper segregation of duties, a security organization and resources, policies regarding access to the computer systems and a security education program. UNCP has established a reasonable security program that addresses the general security of information resources. However, we noted one significant weakness in general security during our audit.

#### **1. SECURITY PROGRAM WEAKNESS**

UNCP has established a reasonable security program that addresses the general security of information resources. However, the following security issues were not addressed in its security program:

- The University's Security Policies are currently in draft format. As a result, management's security intentions may not be followed and security may be implemented in an inconsistent manner

- There is no formally written baseline configuration for securing the University's critical operating system. As a result, security may be implemented in an inconsistent and insecure manner.
- No risk assessment has been performed for the University's critical operations. As a result, critical risks may not be identified and addressed

**Recommendation:** Management should develop and adopt a set of formal standards to ensure that all critical security issues are addressed in its policies and procedures. Also, it should have a mechanism in place to periodically review these standards for any new critical areas that should be addressed and include policies and procedures regarding these areas in its security policies. Management should also develop a baseline configuration for securing the University's network and computer devices. The University should also perform a risk assessment

**University's Response:** We agree with the finding. Corrective action is underway

Then Mr. Burnette discussed the Summary Report of Associated Entities and the status of their Memorandum of Understanding (MOU). He reported only six MOUs had not been signed and a letter would be forwarded to the appropriate Chancellors informing them that they should have a fully executed agreement by August 1, 2007. Failure to comply would result in the Associated Entity being required to cease using the university's name and services in its operations. Questions were answered throughout the report.

On the motion of Mr. Davis, seconded by Mr. Young, the Committee went into closed session to prevent the disclosure of information that was privileged or confidential pursuant to the law of this State or of the United States, or not considered a public record within the meaning of Chapter 132 of the General Statutes pursuant to G.S. §143-318.11(a)(1) and G.S. §116-40.7 which provided that University internal auditors' work papers were confidential.

#### CLOSED SESSION

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The Committee returned to open session.

There being no further business, the meeting was adjourned.

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Mr. William G. Smith  
Chair of the Audit Committee

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Mr. David W. Young  
Secretary of the Audit Committee