

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

1. East Carolina University: – (Investigative Audit): Two Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Edsreportdetail.asp?RepNum=INV-2007-0322>

See attachment

2. Elizabeth City State University: – (Financial Audit): One Audit Finding

Report URL:

<http://www.ncauditor.net/EpsWeb/Edsreportdetail.asp?RepNum=FIN-2006-6086>

Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit findings were identified during the current audit and describe a condition that represents a significant deficiency in internal control and/or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. NONCOMPLIANCE WITH BOND COVENANTS

The University has not complied with certain reporting covenants for the Elizabeth City State University Housing Foundation Series A bonds. As a result, the bond trustee could require immediate payment of the debt, though only from its dormitory system net revenues.

The “Use Agreement” between the University and Elizabeth City State University Housing Foundation, LLC requires the University to operate foundation-owned apartments. Under the agreement, the University must file certain reports, including an annual audited financial report as to the obligations and activities of its dormitory system and the foundation-owned apartments and an audited calculation demonstrating compliance with covenants as to rates, fees, charges and debt service coverage. The audit report would have been first required for fiscal 2004-05, but has never been submitted for any year.

Recommendation: The University should ensure that required reports are completed and submitted in accordance with bond covenants.

University's Response: The University agrees with the recommendation and has an arrangement with the Office of the State Auditor to perform the required audit annually. The audit will be based on agreed upon procedures approved by the bond insurance company. This recommendation will be implemented immediately.



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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August 29, 2007

Dr. Steve Ballard, Chancellor
East Carolina University
East Fifth Street
Greenville, North Carolina 27411

Dear Chancellor Ballard:

We received a complaint through the *State Auditor's Hotline* concerning the personal use of a University vehicle. Allegedly, an employee in the Diving and Water Safety Division of Research and Graduate Studies (Diving and Water Safety) used a University vehicle for personal errands and appointments. Pursuant to North Carolina General Statute § 147-64.6(c)(16), our review of this allegation resulted in the following findings and recommendations.

Private Use of University Vehicle

An employee in Diving and Water Safety acknowledged using a University vehicle to attend a medical appointment for his wife. The employee also said he took a University vehicle to his home occasionally for the purpose of retrieving tools or to conduct other University business. The employee said he knew driving a state vehicle to a personal appointment was wrong. He denied using the Diving and Water Safety pick-up trucks for other personal errands.

The following state law prohibits the private use of state-owned vehicles:

§ 14-247. Private use of publicly owned vehicle.

It shall be unlawful for any officer, agent or employee of the State of North Carolina, or of any county or of any institution or agency of the State, to use for any private purpose whatsoever any motor vehicle of any type or description whatsoever belonging to the State, or to any county, or to any institution or agency of the State.

In addition, the Materials Management section of East Carolina University's *Business Manual* (Policy Statement 68) incorporates the above state law. Thus, the Diving and Water Safety employee violated the above state law as well as University policy. North Carolina General Statute § 14-251 provides that any person, firm or corporation violating any of the provisions of N.C.G.S. § 14-247 shall be guilty of a Class 2 misdemeanor.

Dr. Steve Ballard, Chancellor
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Insufficient Control and Monitoring of University Vehicle Use

To evaluate the original allegation concerning the private use of a University vehicle, we requested vehicle mileage logs for the Diving and Water Safety vehicles. We discovered that vehicle mileage logs were not maintained for Diving and Water Safety vehicles. The Director of Diving and Water Safety said he had never been required to maintain vehicle mileage logs. He said he trusted his employees to tell him where they needed to go or where they had been and this practice followed University policy.

The Director of Parking and Transportation for the University said that vehicles permanently assigned to the University through the North Carolina Department of Administration required mileage logs. He said University-owned vehicles, such as the Diving and Water Safety pick-up trucks, *did not* require mileage logs unless a University department established a mileage log requirement. The Director of Motor Fleet Management (MFM) for the Department of Administration confirmed that University-owned service vehicles were not subject to MFM requirements concerning mileage logs, although University-owned service vehicles *were* subject to MFM regulations concerning lawful operation. The Assistant Vice Chancellor of Administration for the Division of Research and Graduate Studies said that Diving and Water Safety employees should have been maintaining mileage logs for the University-owned pick-up trucks.

Recommendations

To ensure accountability and provide a mechanism to authenticate official use of University-owned vehicles, University management should require all departments to maintain vehicle mileage logs for University-owned vehicles. The mileage logs should include sufficient detail such as dates, beginning and ending mileage, and purpose of trip, to control and monitor vehicle use. Management should periodically review and reconcile vehicle mileage logs with odometer readings and employee activities.

Please provide your written response to these findings and recommendations, including corrective actions taken or planned, by September 14, 2007. Pursuant to North Carolina General Statute §147-64.6(c)(12), a copy of this management letter will be provided to the Governor, the Attorney General and other appropriate officials. We appreciate the cooperation received from the employees of East Carolina University during our review.

Sincerely,



Leslie W. Merritt, Jr., CPA, CFP
State Auditor

Management letters and responses receive the same distribution as audit reports.



Office of the Chancellor

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August 30, 2007

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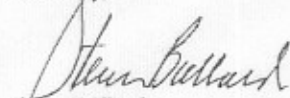
Re: Management Letter – Private Use of University Vehicle

Dear Mr. Merritt:

Thank you for the opportunity to review and comment on the draft report dated August 29, 2007 regarding the private use of a university vehicle. I am in agreement with your recommendations and will ensure that University management requires all departments to maintain vehicle mileage logs for University-owned vehicles. Further, the Director of Internal Audit will follow-up on this recommendation to ensure that it has been adequately addressed and implemented.

If you should have any questions regarding our responses, please contact Stacie Tronto, Director of Internal Audit at (252) 328-9025.

Sincerely,


Steve Ballard
Chancellor

cc: Mr. Joel Butler
Mr. George Burnette
Mr. Kevin Seitz