

Minutes of the October 11, 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, October 11, 2007, at 4:30 p.m.

Members in attendance were Dr. Laura W. Buffaloe, Mr. Frank Daniels, Jr., Mr. G. Leroy Lail, Mr. Charles H. Mercer, Jr., Mr. William G. Smith, and Mr. David W. Young. Others attending the meeting were Associate Vice Presidents David King, and James Smith. Others in attendance were Chancellor Kenneth E. Peacock from Appalachian State University and Chief Operations Officer George Burnette from North Carolina School of the Arts.

Chair Smith welcomed everyone to the meeting and recommended approval of the minutes from the last meeting. On the motion of Mr. Daniels, seconded by Mr. Young, the minutes of the September 7, 2007 meeting were approved. Also, on the motion of Mr. Young, seconded by Mr. Lail, the agenda was approved.

Next, Chair Smith expressed a special thanks to George Burnette for his work and support to the Committee.

Then, Mr. King briefly mentioned G.S 116.30.1 Special Responsibility Constituent Institutions, and if in the event of any audit findings, campuses had 90 days to correct or be in the process of correcting the findings.

After that, Mr. King presented the first item, 2006 Financial Audit Report and 2007 Investigative Audit Report released since the last meeting. Questions were answered throughout the discussion.

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.

The next item Summary of Internal Audit Plans for 2007-08, approved by the Board of Trustees at each of the 16 campuses was discussed and questions were answered.

Mr. King then explained that the 2007 General Assembly had passed House Bill 1401, The North Carolina Internal Audit Act. The first meeting of the Council of Internal Auditing will be October 31, 2007. At its November meeting, an update will be provided to this committee.

The last item discussed was the Summary Report of Associated Entities and Findings. All of the Associated Entities had Memorandums of Understanding (MOUs) in place. Questions were answered.

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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Dr. Laura W. Buffaloe  
Secretary of the Audit Committee



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

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, NC 27699-0601  
Telephone: (919) 807-7500  
Fax: (919) 807-7647  
Internet  
<http://www.ncauditor.net>

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.

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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

East Carolina University  
105 Spilman Building • Greenville, NC 27858-4353  
252-328-6212 office • 252-328-4155 fax  
www.ecu.edu

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August 30, 2007

Honorable Leslie W. Merritt, Jr., CPA, CFP  
North Carolina Office of the State Auditor  
2 S. Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

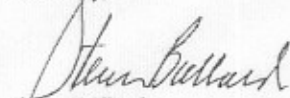
Re: Management Letter – Private Use of University Vehicle

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