

2007 Financial Audit Reports and 2007 Investigative 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/Reports/Financial/FIN-2007-6040.pdf>

2. North Carolina State University: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6030.pdf>

3. The University of North Carolina at Charlotte: – (Financial Audit): One Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6050.pdf>

Matters Related to Financial Reporting Objectives

The following audit finding was identified during the current audit and describes conditions that represent significant deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The notes to the financial statements prepared by the University had several misstatements. Although the errors were relatively small in relation to the financial statements taken as a whole, they are indicative of an increased risk that future financial statements may be misleading to readers should there be any further weakening of the financial reporting process. Misstatements noted in our audit included:

The Statement of Cash Flows contained offsetting errors of \$8,244,640. Cash Flows from Noncapital Financing Activities were understated when deficit Other Payments were presented. Cash Flows from Investing Activities were overstated when Investment Income was overstated.

The total cash reported in the Deposits note was overstated by \$2,191,995. The cash on hand and cash held in private bank accounts were reported twice, once as cash on hand and cash in private bank accounts and once as part of the equity in the State Treasurer's Short-Term Investment Fund.

The Endowment Investments note contained two misstatements. The net appreciation available to be spent was overstated by \$898,432, and the amount restricted to specific purposes was overstated by \$1,121,485.

The Receivables note erroneously included \$1,823,857 that was due from Primary Government and \$168,815 due from University Component Units. These amounts are reported on the Statement of Net Assets in individual account captions, and thus, are not part of the detail comprising the Receivables account disclosed in the note.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and implement effective internal controls to ensure the accuracy of the financial statements and related notes.

University's Response: Management agrees with this recommendation and will allocate additional resources and implement additional internal controls to ensure that financial statements and the accompanying footnotes are in agreement and are accurate.

4. North Carolina Central University: – (Financial Audit): Six Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Investigative/INV-2008-0330.pdf>

See Attachment

5. The University of North Carolina at Wilmington: – (Financial Audit): Four Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6060.pdf>

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.

TIME AND EFFORT CERTIFICATIONS NOT COMPLETED TIMELY

The University did not have controls in place to ensure that time and effort certifications were completed within the required time frames. Time and effort certifications are used to confirm that the percentage of salary charged to a grant matches the percentage of time that the employee actually expended on that grant. The risk that grants will not be properly charged increases when time and effort certifications are not completed timely.

At the beginning of our audit in August 2007, we learned that the time and effort reports had not been completed for the 2006-2007 year. After our inquiry, the certifications were sent out for both semesters of the year. Salary costs charged to the Research and Development Cluster approximated \$3 million for the fiscal year ending June 30, 2007.

The federal cost principle (OMB Circular A-21 Section 1.10) requires institutions to develop a mechanism to determine or confirm how individuals actually expend effort during a specified time period. These effort reports must be performed on a regular schedule and must be certified by individuals who have first-hand knowledge of 100 percent of the employee's compensated activities. These reports are to be prepared at least every six months. In addition, the University's policy states "To meet audit standards, the certificate (time and effort form) must account for 100 percent of the employee's work and be submitted each semester.

Recommendation: We recommend the University strengthen controls to ensure compliance with federal cost principles and with its policy concerning time and effort reporting.

University Response: The University of North Carolina at Wilmington Office of Sponsored Program will strengthen controls to ensure compliance with federal cost principles and with its policy concerning time and effort reporting.

CONTROLS OVER FEDERAL DEBARMENT VERIFICATION NEED IMPROVEMENT

The University did not have controls in place to ensure that covered transactions (contracts and procurements in excess of \$25,000) were made only to vendors that were eligible to participate in federal programs. Our tests of 17 vendor payments over \$30,000 in the Research and Development Cluster (ES-14882-05-55, award period July 1, 2006 - June 30, 2007) disclosed that the University had not verified the federal debarment status for any of the vendors tested. None of the vendors involved were currently debarred and there were no questioned costs. Inadequate controls increase the risk that contracts could be made with debarred or suspended parties resulting in questioned costs.

Title 2 CFR sections 180.220 and .300 require verification for procurement transactions, expected to equal or exceed \$25,000, to ensure that the recipients of federal funds are not suspended or debarred. This verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Recommendation: The University should establish and implement procedures to ensure compliance with federal suspension and debarment regulations.

University Response: The University has established and implemented procedures between the Purchasing Department and the Office of Sponsored Programs to ensure compliance with federal suspension and debarment regulations.

ESTIMATED USEFUL LIFE OF CAPITAL ASSETS NEEDS TO BE RE-EVALUATED

The University did not fully re-evaluate its machinery and equipment capital assets that were fully depreciated or were approaching the end of their useful lives. Because depreciation is a method of allocating an asset's cost over its useful life, a periodic review of the useful life is necessary for depreciation to reflect that allocation. The University reported total Machinery and Equipment of \$29.9 million at June 30, 2007, and \$11 million of this total was fully depreciated.

We examined a sample of fully depreciated capital assets with cost of \$4 million and found that \$2.1 million were still in service, functioning as designed, and expected to remain in service for an unknown period of time. Extending the useful lives of the fully depreciated assets by 2 - 10 years based on the asset classification, we estimated that the accumulated depreciation was overstated by approximately \$3.3 million.

Recommendation: The University should implement additional procedures to ensure that the useful lives of capital assets are periodically re-evaluated and to ensure that assets still in service are not fully depreciated.

University Response: The University of North Carolina at Wilmington will continue to strengthen procedures to ensure that the useful lives of capital assets are periodically reevaluated and to ensure that assets still in service are not fully depreciated.

FINANCIAL STATEMENTS NOT PREPARED TIMELY

The University did not have adequate controls in place to ensure its financial statements were completed and submitted within required time frames as prescribed by the Office of State Controller. The completion of financial statements in a timely manner will ensure compliance with representations made to the Office of State Controller and prevent delays in the audit process.

Per the Office of State Controller's Memorandum SAD 04-22, all component units of the State of North Carolina that are audited by the State Auditor will disclose in their letter of representation that the formal financial statements, the formal notes to the financial statements, the management's discussion and analysis, and required supplementary information (if applicable) prepared in accordance with GAAP will be made available to the State Auditor by September 30 of each year. The University, in its letter dated August 31, 2007, represented to the Office of State Controller that the financial statements would be completed and available for audit on or before September 30, 2007. However, on October 24, 2007, the University had not submitted the management discussion and analysis component and statement of cash flows component of the University's financial statements. Other required components were completed timely.

Recommendation: The University should establish and implement procedures to ensure that completed financial statements are available for audit by September 30 of each year.

University Response: The University met all deadlines for timely completion for the formal financial statements, formal notes and supplementary information to the Office of State Controller. Upon completion of our final entries and affirmation from the Office of State Controller that our financial statements were completed, we promptly sent our transaction file to the State Auditor's prior to receiving a formal request. We also made available a preliminary copy of our financial statements to the state auditors for their review to determine materiality thresholds in early September. This prompt action on the University's part was to aid the state auditors to be able to proceed with their audit as they were currently on campus and in the middle of their audit. Although our letter of representation does indicate that we will make available to the state auditors our formal financial statements, it has been our practice with the state auditors to provide the Management Discussion and Analysis and the Statement of Cash Flows as needed in their audit review. This repetitive common practice became the accepted deadline with the state auditors. Although the formal Management Discussion and Analysis was not provided to the state auditors by September 30, the management discussion and analysis worksheet had been completed and sent to the Office of State Controller by August 31.

The University will change its practice in the future to provide the formal financial statements by the established deadlines to the Office of State Auditors.