2007 Financial Audit Reports and 2008 Investigative Audit Report Released Since Last Meeting by the North Carolina Office of the State Auditor:

1. Western Carolina University: - (Financial Audit): Two Audit Findings

   Report URL:
   http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2007-6075.pdf

**Matters Related to Financial Reporting**

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. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The University did not maintain adequate internal control over access to its computer systems and data. This increases the risk of error or fraud.

We identified three computer programmers with access to computer programs used in production, as well as data files. The ability to change programs should be segregated from responsibility for moving programs into production to prevent unauthorized changes. Also, access to data files should be limited to the greatest extent possible.

We also identified accounting personnel with access rights that were inconsistent with their job duties. Personnel should only be granted the minimum access rights needed to perform their job.

Finally, the University did not appropriately terminate access rights for all separated employees. We identified 5 former employees whose access to the accounting system and the overall computer network was terminated several weeks or months after they left the University and 13 other former employees who still had access at the time of our audit. Access should be terminated as soon as individuals leave employment.

**Recommendation***:* The University should improve internal control over computer system and data access.

**University Response***:* We agree with this finding. Security procedures and processes will be put in place to remedy this situation. Security and data access will be reviewed on at least an annual basis to assure access is appropriate to job responsibilities. Additionally, employee and account terminations will be addressed as part of the University's Identity Management and Human Resources system implementations. Interim processes and controls will be implemented prior to full implementation of these systems.

2. NO PHYSICAL INVENTORY OF MACHINERY AND EQUIPMENT

The University did not perform a physical inventory of machinery and equipment. This increases the risk that an error or misappropriation could occur and not be detected in a timely manner.

The University's Business and Financial Policies and Procedures state that" ... an annual inventory is taken to verify the existence, condition, and location of the University's fixed assets. Each department should complete their inventory within the yearly quarter they have been assigned, and return the completed inventory sheets to the Purchasing Fixed Asset Coordinator. This inventory is then used to update property records and to provide documentation for annual financial reporting."

**Recommendation**: The University should improve internal control to ensure that policies and procedures are followed and fixed assets are properly accounted for and reported.

**University Response**: We agree with this finding. Implementation of Banner required some critical decisions relative to balancing of resources to meet daily and yearend operational needs. Foregoing the annual physical inventory was a necessary, though difficult, decision. For the fiscal year ending June 30, 2008, the University will resume its practice of conducting an annual physical inventory for machinery and equipment.

2. The University of North Carolina at Asheville: - (Financial Audit): One Audit Finding

   Report URL:
   http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2007-6055.pdf

**Matters Related to Financial Reporting**

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

The University did not maintain adequate internal control over access to its computer systems and data. This increases the risk of error or fraud.

We identified one computer programmer with access to computer programs used in production, as well as the ability to access and change data files. The ability to change programs should be segregated from responsibility for moving programs into production to prevent unauthorized changes. Also, access to data files should be limited to the greatest extent possible.

We also identified seven accounting and academic related personnel with access rights that were inconsistent with their job duties. Personnel should only be granted the minimum access rights needed to perform their job.

**Recommendation**: The University should carefully evaluate access over computer systems and data access to ensure proper segregation of duties and to improve internal control.

**University Response*:*** Management agrees with this finding and has corrected the inappropriate information system access.

3. The University of North Carolina at Greensboro: - (Investigative Audit): Four Audit Findings

   Report URL:
   http://www.ncauditor.net/EPSWeb/Reports/Investigative/INV-2008-0335.pdf

   See Attachment

4. Fayetteville State University: - (Financial Audit): Fourteen Audit Findings

   Report URL:
   http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2007-6088.pdf

## Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit findings were identified during the audit ending June 30, 2007, and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters. Finding numbers 1 through 5,7 through 10, and 14 were also reported in the prior year.

1. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH JOB DUTIES

As previously reported, the University did not have adequate procedures in place to assure that employees only had information systems access rights necessary to perform their jobs. This could result in unauthorized or inappropriate transactions.

Inappropriate access rights included the following:

a. The University's Vice Chancellor for Business and Finance, Associate Vice Chancellor for Business and Finance, and Controller are responsible for approving system transactions that have been entered by their subordinates. When employees in these positions have the access rights to create and approve transactions, there is no control in place to prevent fraud. These employees had unlimited system access rights to the entire purchasing and payment process. They could create vendors, create requisitions, create and modify purchase orders, indicate the receipt of purchased goods, create returns of goods, enter invoices, and print checks. In addition, they could add and delete assets from the equipment inventory. They could change departmental budgets. They could enter and update grant information. They could enter charges and payments on students' accounts. These employees were also allowed to create journal entries and approve them.

b. The Systems Accountant had the same access rights as the Vice Chancellor for Business and Finance, Associate Vice Chancellor for Business and Finance, and Controller. In addition, this employee had the ability to set user restrictions in the system.

c. The Director of Information Technology Operations had the same access rights as the Vice Chancellor for Business and Finance, Associate Vice Chancellor for Business and Finance, and Controller. In addition, this employee could update admission decisions and register students for classes. This is not a Business and Finance Office position.

d. The Director of Purchasing was responsible for approving purchase orders. This employee had the system access rights to initiate the purchases that the employee was also responsible for approving. This employee could create vendors, create requisitions, and create and modify purchase orders. This employee was also allowed to create journal entries and approve them.

e. The Director of Financial reporting was responsible for approving the asset additions and deletions made in the system by the Fixed Asset Coordinator. The Director of Financial Reporting had the same system access rights as the Fixed Asset Coordinator, which would enable this employee to add or delete assets and it not be detected. This employee was also allowed to create journal entries and approve them.

f. Some employees in the Information Technology Department had unnecessary access rights to student information. They could enter student applications, update admissions decisions, and register students for classes. One employee could also update tuition and fee rates.

g. The University had 34 employees who were allowed to create journal entries. Of the 34 employees, nine could also approve journal entries. Nothing would prevent these nine employees from approving the journal entries they created. The system was not set up where journal entries were sent to specific managers for approval. All journal entries went to the same system location for approval and anyone with approval authority could post the entry. This could result in employees approving transactions that did not fall within their job responsibilities. Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets. This would reduce the opportunities for any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

**Recommendation***:* The University should limit system access rights to ensure that employees are assigned the least amount of system access necessary to perform their jobs and that adequate segregation of duties is maintained in employees' access to the system. System access rights should be reviewed on a regular basis.

**University Response**: System access rights were not tested and limited prior to the new accounting system implementation. Many users still had both group access and individual access until recently. FSU agrees that user access should be reviewed periodically. Currently the user access has been reviewed and authorized access for each position continues to be reviewed. In establishing the protocol for user access by position, care has been taken to avoid allowing access that could result in the possibility or opportunity for misuse or fraud. This protocol has established the access rights and will be reviewed on a regular basis by the Associate Vice Chancellor and the Director of Systems and Procedures with recommendations for changes to the Vice Chancellor as appropriate.

2. UNAUTHORIZED PURCHASES OF SERVICES

As previously reported, we noted deficiencies in internal control procedures over cash disbursements. Purchase orders were created after services were performed. Failure toobtain authorization for purchases could result in misappropriation of assets and budget overruns.

We reviewed 28 payments for services. In five instances, or 17.9% of the payments reviewed, purchase orders were created after services were provided. Authorization of transactions is a basic internal control that reduces the potential for misappropriation of assets and budget overruns.

**Recommendation**: University management should enforce its written policies and procedures, which require authorization for purchases.

**University Response**: FSU agrees with the recommendation to follow the written guidelines for purchase of goods and services. Currently, those guidelines have been reviewed and changed. While FSU will continue to abide by State Guidelines, our threshold for creating an official purchase order has been raised to a more appropriate level.

3. UNIVERSITY FAILS TO FOLLOW COLLECTION PROCEDURES ON STUDENT ACCOUNTS

As previously reported, the University did not diligently bill and collect student charges. During the fiscal year ended June 30, 2007, the University did not follow its established collection procedures on unpaid charges. Specifically, the University did not send the accounts to a State contracted collection agency. As a result, the University continues to have over $2 million in unpaid student charges that at this point, are considered to be approximately 70 percent uncollectible.

The University's cash management policies over accounts receivable states that for accounts that cannot be collected by the State Attorney General's Office, the University must refer the accounts to a State contracted collection agency.

**Recommendation**: University management should enforce their cash management policies.

**University Response**: FSU agrees that cash management procedures need to be followed. Due diligence in collecting outstanding balances is underway as described in the University Cash Management Plan. However, completing the due diligence procedures and working with the collection agencies takes time to complete. New employees are learning the cash management procedures. All employees are working to complete collections timely.

4. MONITORING OF CASH COLLECTED OUTSIDE OF MAIN CASHIERING OFFICE IS INADEQUATE

As previously reported, cash collected outside of the University's main cashiering office was not adequately monitored. Management did not ensure that cash collected was submitted to the University's main cashiers in a timely manner or that all of the cash collected was turned in. As a result, the University significantly increased its risk for error or fraud.

The University's student purchasing cards are called Bronco One cards. Students pay for a variety of services on campus using their Bronco One cards. University employees in the Bronco One Card Office collect cash from students on a daily basis and are responsible for updating students' Bronco One accounts for the funds collected. In the 2007 fiscal year, Bronco One Card Office employees randomly submitted cash collections to the University's main cashier's office for deposit in the University's account. No reconciliation was prepared between the amount of cash collected and credited to students' Bronco One accounts and the amount of cash submitted by the Bronco One Card Office for deposit.

Sound internal controls require reconciliation between cash collected and credited to students' accounts and cash submitted to the main cashiering office for deposit.

**Recommendation**: Cash collected in the Bronco One Card Office should be submitted to the main cashiering office for deposit on a daily basis. A reconciliation between cash collected and credited to students' accounts and cash submitted to the main cashiering office for deposit should be prepared on a regular basis. This reconciliation should be reviewed and approved by someone outside of the Bronco One Card Office.

**University Response**: FSU agrees cash should be submitted to the main cashiering office, reconciled and deposited in accordance with the cash management plan. Procedures are being implemented to ensure accurate and timely reconciliation of cash collected and deposited on the Bronco Card account with cash deposited in the main cashiering office. Cashiers will verify the reconciliation at the time of deposit.

5. INADEQUATE MANAGEMENT RESPONSE TO AUDIT FINDINGS

The University repeatedly has audit findings in the areas of cash disbursements and information system access rights. The University has had an information system access rights finding reported for four consecutive years and a cash disbursements finding reported for three consecutive years. The University has had repeat audit findings for two consecutive years regarding the University's management of student accounts and the University's monitoring of cash collected outside of the main cashiering office.

Sound internal controls require that management provide prompt resolution to problems identified in audits and other reviews.

**Recommendation***:* Current University management is working to resolve the repeat audit findings by reevaluating employee information system access rights and by updating and enforcing University policies and procedures. We recommend that management continue these efforts to ensure that the issues are resolved. In the future, University management should promptly evaluate, respond, and take corrective action to resolve audit findings.

**University Response***:* Current staff and management are dedicated to resolving problems identified in audits and other reviews. Full attention will be given to issues identified by auditors and corrective action will be taken so that future audits do not identify repeat deficiencies. The University will also review recommendations from consultants and will implement those that are cost effective and efficient.

6. ESTIMATED USEFUL LIVES OF CAPITAL ASSETS NOT RE-EVALUATED

The University has not periodically evaluated the appropriateness of the estimated useful lives of its capital assets. After we requested that the University perform such an evaluation, staff identified an overstatement of accumulated depreciation of $26,328,564.78.

With the implementation of Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments,* as amended by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis - for Public Colleges and Universities,* universities had to start recording depreciation for capital assets. The University used the suggested Office of the State Controller useful lives of assets but has not adjusted those suggested guidelines based on actual experience. A periodic review of useful lives is necessary to ensure that costs are allocated based on actual use of the assets.

**Recommendation***:* The University should monitor the useful lives of its depreciable assets on a regular basis. Management should make changes to the useful lives when necessary in order to ensure that depreciation expense is recognized over the entire useful lives of the assets.

**University Response***:* FSU agrees that useful lives of depreciable assets should be monitored on a regular basis. Staff will monitor the assets and the useful lives on a regular basis going forward.

## 7. ERRORS IN THE STUDENT FINANCIAL AID APPLICATION VERIFICATION PROCESS

University employees did not properly verify and correct some students' financial aid application data that were used to determine the students' eligibility for financial aid awards. As a result, errors were made in financial aid awards.

We reviewed the University's verification and correction of financial aid application data for 41 students. We found seven errors in the students' files. In six instances the University correctly documented their verification of the students' application data but failed to correct the students' application data for differences noted through the verification process. Known questioned costs from these errors total $200 for the Pell Grant Program. The other error represents an instance where the University did not properly perform the verification process by not resolving questionable information in student's file. It is likely that questioned costs exceed $10,000 in the population.

Title 34CFR, Part 668.56(a) lists the information that institutions must verify and update for students selected for verification. Title 34CFR, Part 668.54(a)(3) indicates that institutions must resolve information in students' financial aid files that they have reason to believe is incorrect. The Federal Student Aid Handbook, Chapter 4, Verification, describes the types of questionable information that must be resolved by institutions including conflicting information concerning the number of household members, adjusted gross income and the number of household members in college. The Student Financial Aid Handbook states that institutions must document their resolution of discrepancies in students' files.

**Recommendation***:* The University should correct students' financial aid application data for all differences identified through the verification process in order to ensure that awards are accurate. The University should properly review students' federal financial aid applications and document their resolution of discrepancies found while performing the verification process of students' financial aid application data.

(Award #s P063P060322 and P375A060322 - Award year 7/1/2006 - 6/30/2007)

**University Response***:* The University uses the federal verification worksheet and the individual's income tax return form as acceptable forms of documentation per the US Department of Education to use in the verification process for information on the FAFSA and ISIR for all differences identified through the verification process. The verification form is used to verify the information submitted on the FAFSA. The procedure the university uses is in accordance with the verification regulation.' Additionally, for the 2007-2008 academic year the Office of Financial Aid is re-verifying students who were selected for verification by the Central Processing System and received federal assistance to ensure accuracy of awards. Also, effective 2008-2009, the university is requesting a letter of clarification for figures listed on worksheets A, Band C of the FAFSA and not reported on the Federal Verification Worksheet and/or Federal Tax Return. Additionally, ongoing verification training is underway to ensure the verification process is being carried out per the US Department of Education guidelines.

8. ERRORS IN FINANCIAL AID A WARDS

The University made errors in awarding several students' financial aid. As a result, some students received the wrong award amounts and some students received the wrong type of federal loan.

We reviewed the awards of 74 federal financial aid recipients in order to determine whether students' awards were calculated correctly. One student received a $650 Pell grant when the student should have received a $2,025 Pell grant. Nine students received a total of $15,051 in unsubsidized federal loans when the students should have received the $15,051 in subsidized federal loans. Unsubsidized loans result in more interest expense to students.

Pell grant award amounts are established by Congress. Title 34CFR, Part 682.201(a)(2) indicates that institutions must determine students subsidized loan eligibility prior to awarding unsubsidized loans.

**Recommendation***:* The University should ensure that students are awarded the correct amount and type of financial aid.

(Award #s P063P060322 - Award year 7/1/2006 - 6/30/2007)

**University Response***:* The Financial Aid Counselors employed by the University during the State Auditor's audit period for the year ended June 30, 2007 had not received the training necessary to correctly calculate student's financial aid awards. However, current Financial Aid Counselors have received and continue to receive extensive training on calculating and adjusting student's financial aid awards. The Financial Aid Policy and Procedures Manual require counselors to receive at least 50 hours of Financial Aid Professional Development Training annually.

The errors noted by the State Auditor's finding have been corrected. The Pell Grant award amount was corrected and the nine unsubsidized student loans were changed to subsidized student loans and the accrued interest was credited back to the student.

9. ERRORS IN CALCULATION OF STUDENTS' COST OF ATTENDANCE IN DETERMINING STUDENT FINANCIAL AID AWARDS

The University incorrectly determined a number of students' cost of attendance when awarding student financial aid. As a result, the amount that students were allowed to borrow from loan programs was also incorrect.

Cost of attendance represents the University's estimate of expenses that are incurred by its students and is one of the factors that determines students' eligibility for financial aid awards. The University establishes different cost of attendance budgets for categories of similar students.

We reviewed the cost of attendance calculated by the University for 74 students who were awarded financial aid and found that in 44 instances the incorrect cost of attendance

budget was used. All of these students except one were assigned a lower cost of attendance budget than the University designated as appropriate for the applicable category of student. As a result, the University underestimated the students' cost of attendance and reduced the students' eligibility to borrow financial aid in the form of federal loans.
The Federal Student Aid Handbook, Volume 3, Chapter 2, Page 17 states that when a University establishes standard cost of attendance budgets for different categories of students, the University must apply the cost allowances uniformly to all students within the categories.

**Recommendation***:* The University should apply the same cost of attendance budget to similar groups of students.

(Award year 7/1/2006 - 6/30/2007)

**University Response***:* The University ran a program in Banner for the 2006-2007 academic year to correct the cost of attendance budgets used for year ended June 30, 2006. However, the program did not fix all of the cost of attendance budgets used for the 06-07 academic year, but no over awards occurred from using the incorrect cost of attendance budgets. The University has established standard cost of attendance budgets for the 07-08 school year and these costs were applied uniformly to all students. The cost of attendance budgets are reviewed and adjusted annually and a student's financial aid eligibility is based on the standard budget allowances.

10. STUDENTS WHO RECEIVED STUDENT FINANCIAL AID NOT MONITORED FOR SATSFACTORY ACADEMIC PROGRESS

The University did not consistently review students' academic progress in order to determine financial aid eligibility. As a result, some students who did not meet the University's satisfactory academic progress standards received financial aid awards. Known questioned costs that result from these errors include $42,007 for the Pell Grant Program, $2,000 for the Supplemental Educational Opportunity Grant, and $119,000 for the Federal Family Education Loan Program.

Satisfactory academic progress standards are designed to prevent students from continuing to receive federal financial aid awards if students are not making progress towards earning a degree. It is the University's policy to review students' academic progress at the end of each spring semester in order to determine financial aid eligibility for the next fiscal year. However, the University did not have procedures in place to review the academic progress of students who miss one or more semesters and then decide to reenroll at the University. This allowed students who did not meet the University's satisfactory academic progress standards to reenroll at the University and receive financial aid awards.

We examined the academic progress of 40 students who received federal financial aid awards to verify that the students met the University's satisfactory academic progress standards. We noted two students who did not meet the standards, both of whom had reenrolled at the University in the academic year we audited without having their academic progress reviewed. With the assistance of University management, we obtained a report that identified 16 additional students who reenrolled at the University in the academic year we audited who did not meet the University's satisfactory academic progress standards and received financial aid.

Title 34CFR, Part 668.16(e) states that institutions must establish, publish, and apply reasonable standards for measuring whether an otherwise eligible student is maintaining satisfactory progress in his or her educational program.

**Recommendation**: The University should monitor the academic progress of students who maintain continuous enrollment at the University as well as students who reenroll after missing a semester.

(Award #s P063P060322 and P007A063097 - Award year 71112006 - 6/30/2007)

**University Response**: Under the current policy, the University adequately monitors all students who maintain continuous enrollment for satisfactory academic progress at the end of each academic year. Students who have not been enrolled for one or more semesters must apply for readmission to the University. These students are monitored for satisfactory academic progress as part of the application for readmission process. Currently, students with one suspension are permitted to re-enroll without submitting an appeal letter. However, students with more than one suspension are required to submit an appeal letter and go through the appeals process.

The Academic Appeals Committee is currently revIsmg the satisfactory academic progress and appeals policy to strengthen the monitoring procedures for student's who re-enroll after missing a semester. The policy will be effective in fall 2008.

11. UNTIMELY RETURN OF FEDERAL FUNDS

The University was late in returning funds that were owed to the federal government for students who were awarded federal financial aid and later withdrew from the University. As a result, the University did not comply with federal regulations.

When a student withdraws from the University prior to a specified date within the semester, the University is required to return a portion of the students' financial aid award to the federal government. We tested 17 students who were awarded financial aid and then withdrew from the University. In ten cases the University returned the unearned award funds to the federal government five to 90 days late, with an average of 28 days late.

Title 34CFR, Part 668.22(j) requires that when a student withdraws from the University, the University must calculate the amount of federal financial aid that was not earned by the student and return those funds to the federal government or appropriate lender. The funds must be returned within 45 days of the date that the University determined that a student withdrew.

**Recommendation**: The University should ensure that federal funds that are unearned by students who withdraw from the University are returned to the federal government within the required timeframe.

(Award #s P063P060322 and P375A060322 - Award year 7/1/2006 - 6/30/2007)

**University Response**: Prior to the fall of 2006, the Financial Aid Office did not receive timely notification that a student had withdrawn from the University. In the fall semester of 2006, the University implemented a No Show policy. The policy requires instructors to submit an interim grade of "X" for students who do not attend class the first week of the semester or term. The Registrars Office runs a report of all students in this category and submits it to the Business office and Financial Aid Office for review. After the review, students that are identified as no shows in at least 75 percent of their classes are dropped. However, instances have occurred where instructors didn't identify students through this process but identified them later in the semester via email. This resulted in the untimely return of federal funds. The No Show policy is discussed at Pre-School Conferences and a greater emphasis will be placed on this policy in the future. Also, the Registrars Office is developing a report that will identify those individuals that are continually in non compliance with this policy.

In addition, the Registrars Office discontinued the process that allowed students to withdraw from the University online. The Registrars Office found that this process didn't meet the needs of several offices including Financial Aid. The online process was terminated in the spring 2008 and the manual withdrawal process was reinstated. The manual process ensures that Financial Aid is notified of the withdrawal allowing the Office to take the actions needed to ensure that unearned federal funds are returned within the required timeframe.

12. INADEQUATE RECONCILIATION OF STUDENT FINANCIAL AID AWARDS

The University did not reconcile students' financial aid awards calculated by the financial aid department to students' awards paid by the business and finance department or to the funds that the University received from the federal government in order to pay students' financial aid. As a result, there was an increased risk of error in payments, receipts, and/or financial aid records and reports. The Federal Family Education Loan awards amount that the University reported to the Office of the State Controller for the year ended June 30, 2007, was overstated by $2,294,241.

Chapter 12 of the federal Blue Book states that at a minimum, a school's financial management system including its accounting system must provide monthly reconciliation of individual federal student aid awards as recorded in the financial aid, business office, student account, and federal systems.

**Recommendation**: Each month the University should perform a reconciliation of student awards calculated by the financial aid department to student awards paid by the business and finance department to the funds received from the federal government.

(Award #s P063P060322, P007A063097, P375A060322, P376S060322, P033A063097Award year 7/1/2006 - 6/30/2007)

**<u>University Response</u>***:* Based on the Code of Federal Regulations, the University has implemented internal controls to, ensure compliance and accurate financial reporting. The University has developed a written reconciliation policy and procedure for federal funding to ensure monthly reconciliations are performed and documented between the Financial Aid and Business Offices. The University is reviewing and reconciling federal awards.

13. EXCESS FEDERAL LOAN FUNDS NOT RETURNED TIMELY

The University did not return excess federal loan funds to lenders on a timely basis. As a result, the University was not in compliance with federal regulations.

The University received $117,909 of Federal Family Education Loan Program funds in June 2007 that were not disbursed to students. The University returned the funds to the lender on July 19, 2007, which was past the time frame allowed by federal regulations.

Title 34CFR, Part 668.167(b) states that institutions must return loan program funds to a lender if the institution does not disburse those funds to a student or parent for a payment period within three business days following the date the institution receives the funds.

**<u>Recommendation</u>***:* The University should return any excess financial aid funds within the required time frame. To help ensure that this happens, the University should reconcile student financial aid funds received to student financial aid funds disbursed. (Award year 7/1/2006 - 6/30/2007)

**<u>University Response</u>***:* FSU agrees excess federal funds should be returned timely. The federal program changed prior to the audit year from the Federal Direct Loan Program to the FFELP program and the cash reconciliation procedures were not adjusted to reflect the differences in these programs. Procedures have now been revised to ensure funds are reviewed arid reconciled and any excess federal funds are returned within the required timeframe.

14. INAPPROPRIATE SYSTEM ACCESS RIGHTS TO FINANCIAL AID DATA

As previously reported, the University assigned information system access rights to University employees inconsistent with adequate security over financial aid data. This could allow employees to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

All employees in the University's financial aid department had the same information system access rights to financial aid data as the Director of Financial Aid. Also, two employees in positions outside of the financial aid department, one consultant, and some user ID's that were not assigned to specific employees had access to financial aid data. Lastly, employees who no longer worked in the University's financial aid department still had access rights to financial aid data.

Sound internal controls require that University employees are assigned the least level of information system access necessary to perform their jobs and that adequate segregation of duties is maintained in employees' access to the system.

This finding is resolved. The University reviewed access rights to financial aid data and made appropriate revisions as of June 30, 2007.

(Award #s P063P060322, P007A063097, P375A060322, P376S060322, P033A063097Award year 7/1/2006 - 6/30/2007)

5. North Carolina Agricultural and Technical State University: - (Financial Audit): Thirteen Audit Findings

Report URL:
http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2007-6070.pdf

**Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws. regulations, contracts or grants. Finding number 8 was also reported in the prior audit.

1. QUESTIONABLE SCHOLARSHIP AWARDS

We noted a number of questionable scholarship awards and deficiencies in documentation supporting awards. Most of the questionable awards were made to relatives of University employees.

Bookstore Scholarship Fund

Relatives of University employees appear to have received a disproportionate share of financial aid paid from the Bookstore Scholarship Fund. As a result, students with greater need may have gone without assistance.

We examined 13 of the 47 awards made during 2006-07 from the University Bookstore Scholarship Fund. This examination covered $18,466 of the $42,435 paid from the fund during the year. We determined that three of the 13 awards examined, totaling $5,300, were given to relatives of employees working in the office of a Vice Chancellor.

There was no formal policy defining eligibility requirements or the awarding process for the University Bookstore Scholarship Fund. A draft policy stated that the University Treasurer" Office was to make the award and the above-mentioned Vice Chancellor was to approve the awards. Treasurer's Office personnel stated that the scholarship was to assist students with significant financial need.

We determined that none of the 13 awards examined were approved by the Vice Chancellor. According to the students' files, mo of employees' relatives who received the scholarships did not have financial need that was not met by other funding sources, and the documentation for the other employee's relative did not clearly demonstrate need. Furthermore, the forms authorizing awards totaling $4,300 for one of the recipients could not be located. This award was the largest bookstore scholarship given in the 2006-07 year.

In addition to the awards made to employees' relatives, we also noted that two awards were made to a student solely at the direction of a University administrative official. These mo awards totaled $6,092.

The three awards made to employees' relatives combined with those selected by University administrative officials accounted for 27% of the total scholarships awarded for the year from the Bookstore Scholarship Fund. Our discussions with personnel in the Treasurer" Office and Financial Aid Office revealed that if these administrative officials or other such persons of authority requested an award be made, it would not be questioned.

Other Scholarships Awarded to Employees’ Children

We examined other scholarships paid to employees' relatives and noted that one was awarded a $5,000 scholarship when the average award for this type of scholarship was only $1,528. The award for the Spring semester was authorized solely with the Financial Aid Director's signature stamp. Since the Director of Enrollment Services approved the Fall Award, employees may have assumed it was appropriate to continue the award in the Spring. This student also received a $1,500 scholarship award for which the authorization could not be located.

Authorization was also not located for a $600 Chancellor's Scholarship awarded to the relative of an employee in an administrative office or for a $1,500 UNC Campus Scholarship awarded to the relative of an Associate Vice Chancellor. We examined a total of 8 1 awards to relatives of employees over the past two years. The University was unable to locate authorizations for 25 (31%) of these awards.

**Recommendation***:* All scholarship funds should have written eligibility, application and processing procedures. All awards should be properly authorized and documentation maintained by the authorizing department and the Financial Aid Office. To maintain segregation of duties, the office that disburses financial aid should not award financial aid. Therefore, the responsibility for awarding bookstore scholarships should be removed from the Treasurer's office. Scholarships having an element of need should be administered by the Financial Aid Office since that is where documentation of financial need resides. Employees should not be allowed to award scholarships to themselves or immediate family members.

**University Response**:

Bookstore Scholarship Fund

We concur with the recommendations that the disbursement of Bookstore Scholarships (i.e., posting awards to the student accounts) should be coordinated with the Financial Aid Office, that award documentation should be consistently maintained in the financial aid office, and that criteria for the scholarship should be developed. While the greatest number of scholarships awarded from this fund, generally ranging from $500 to $1,000, is for the purchase of books and supplies, emergency awards also come from this fund. The Bookstore Scholarship Fund is not intended to be a need based award, and the disbursement of these funds did not result in an over award of financial aid. ***A*** further review of this matter has led us to believe that the $4,300 award mentioned in the above finding may have been erroneously charged to this fund rather than to the University scholarship funds responsible for the student's support.

Other Scholarships Awarded to Employees' Children

The Financial Aid Director has retrieved all signature stamps. Staff members must indicate their signature on the scholarship award forms. A review will be performed each semester to ensure that all scholarship award forms are in place and the award corresponds with fie financial aid system.

The Student Financial Aid Office is developing criteria and procedures for scholarships without written documentation. All scholarship award forms must be properly authorized before the award is keyed in the financial aid system. All forms will be keyed and authorized by personnel in the Scholarship area.

2. DEFICIENCIES IN MANAGEMENT OF STUDENT ACCOUNTS

The University made errors in the way it managed students' accounts. As a result, accounts receivable were overstated, accounts were not collected, and invalid disbursements were made.

We examined a sample of 59 student accounts receivable balances at June 30, 2007, and noted the following issues:

a. Thirteen accounts were overstated by $24,967. One reason for the overstatement was failure to reduce charges for housing and meal plans when students withdrew. Apparently, the University's Treasurer's Office did not consistently receive notice when students withdrew or stopped attending the University. In some cases, the University even paid the meal plan vendor for a student who withdrew or stopped attending. Another reason for the overstatement was charges to students participating in a partnership program whereby students who pay for classes at the student's home university can attend classes at another university without additional charges.

b. Eleven accounts had outstanding balances of $39,296 because the University erroneously posted student financial aid awards to the students' accounts and then later had to cancel the award. Financial aid was awarded to the students at the beginning of Fall semester 2006 based on preliminary data supplied to the Financial Aid Office. Later these financial aid awards were cancelled when the student failed to submit requested documentation to the Financial Aid Office or was determined to be otherwise ineligible for aid. The students did not pay the costs directly and were not dropped from classes. Financial aid should not be posted to a student account until eligibility has been determined. A student is not eligible to receive financial aid until they have met all documentation requirements.

c. One student's account was credited with a scholarship because the Summer School office erroneously sent a document to the Treasurer's Office stating that a department would pay the bill for the student. After the credit was posted, the scholarship was cancelled and collection from the student was not pursued.

d. The University used a student's Fall 2006 financial aid to pay off a prior year debt owed by the student. The prior year debt was created when the University erroneously issued PLUS loan payments to both the student and the parent and did not pursue reimbursement. Current year financial aid awards should only be used to satisfy current year charges.

e. A student that was not enrolled for classes in Spring 2007 had financial aid posted to their account and received a $6,501 student aid disbursement, The student had preregistered for the Spring in a graduate program and was awarded financial aid. After reviewing grades for Fall 2006, the graduate school academically dismissed the student, but charges for the Spring were not taken off until after financial aid was posted and a disbursement generated.

f. There were other instances where student accounts had significant balances due to lack of controls over registration and payment of student accounts. Residency status was changed in the Graduate School without supporting documentation. Two students were allowed to register without making payment or having pending financial aid. Two students defaulted on tuition payment plans. Four students added classes or housing and meal charges for which they did not have pending financial aid. These students did not pay for the additional charges. One student made payment with an insufficient funds check and the student's classes were not dropped for the non-payment.

**Recommendation**: The University should strengthen internal controls over student accounts to ensure that accounts receivable balances are valid, amounts owed are collected, and all disbursements are appropriate. Communication between all areas that affect student accounts should be enhanced so that timely and appropriate changes to accounts can occur.

**University Response**: We concur with the recommendations. The University will perform a detailed analysis of all student receivable accounts. Additionally, the following processes have been and/or are being implemented to enhance controls over the University's 11,000 student accounts:

a. The Office of Housing & Residence Life has requested a program from our Information Technology staff that will purge housing assignments for non-enrolled students. The current process requires Housing & Residence Life staff to manually perform this process.

   Also, the Treasurer's Office and the Registrar's Office will perform a second-level review of consortium student registrations to ensure that they are properly coded, which should prevent the erroneous assessment of charges.

b. The Student Financial Aid Office has developed procedures to ensure that files are reviewed correctly before an award is made. The Counseling staff has attended in-house training on verification. Final review of the files will still occur for 100% accuracy. Procedures will be reviewed to determine appropriate changes in processes.

c. Scholarship notifications will only be acknowledged if posted in Banner by the Student Financial Aid Office. Students will no longer be validated from documents sent to the Treasurer's Office from internal departments.

## 3. UNALLOWABLE COSTS PAID FROM STATE APPROPRIATIONS

The University charged costs to state funds that are not allowable under State Budget Manual rules. We identified a total of $99,458 in unallowable costs.

At year end, the University's Office of Budget and Planning reallocates costs initially charged to overhead receipts accounts to state funds. This prevents excess state appropriations from reverting back to the State. The charges are not reviewed to ensure that they are allowable costs as defined by the State Budget Manual.

For the year ended June 30, 2007, a total of $3,436,700 was reallocated from overhead receipts to state funds. We examined 102 of the reallocated charges, totaling $259,492, and determined that $68,714 was unallowable. The expenditures in question included purchases for theater tickets, flowers, coffee services, catering, housing scholarships, awards/plaques, and travel expenses for a marching band retreat.

We also noted that $12,178 of travel and contracted services expenditures for the band were paid without typical departmental approval or documentation required by University. policy. The band director initially asked budget personnel in Auxiliary Services to approve the travel, which is standard practice. When the travel authorization was denied based on a lack of funds, the band director paid for the trip using a University credit card and then sought and received retroactive approval from the Office of Budget and Planning Director. The Office of Budget and Planning Director initiated an agreement for services on behalf of the band director. There was no documentation to define the duties required in the agreement and the Office of Budget and Planning Director provided the sole approval.

We also examined $200,350 of expenditures charged to food service accounts for items other than student meal plans. We identified $30,744 of these expenditures that were not allowed to be paid with state funds according to the State Budget Manual. Unallowable charges included catering, refreshments, and other food related items. Of the $30,744 identified as unallowable, $16,165 was for food provided to students at various events. The University had misinterpreted State budget policy and operated under the assumption that if students comprised more than 50% of the attendees at any given event, then State funds could be used to pay for food, refreshments or catering.

**Recommendation**: The University should strengthen internal control to ensure that charges to state funds are allowable and that University policy is followed.

**University Response**: We concur with the finding. Our current practice at year end is to move appropriate charges from overhead to state funds if funding is available. We moved transactions associated with the account code. In the future we will review expenditures at the transactional level. This will ensure that each transaction is appropriate for transfer to state funds,

For the band travel, this was an obligation of the University. Three offices met and reviewed the transaction before approval was granted for payment. In the future we will ensure that appropriate procedures are followed so as not to put the University in the position of approving an after-the-fact transaction. We will communicate with all departments that if prior approval has not been granted, the transaction should not take place. We have identified funding to create an administrative support associate position for the University Band Office. The position will be created effective July 1,2008. This position will be responsible for handling the paperwork from the Band and the Office of Budget and Planning will not have to initiate paperwork on their behalf.

In April 2007, the Division of Business and Finance realized that we were operating under an incorrect assumption relative to the use of state funding for payment of food and catering items when there was demonstrated student participation. After reviewing the information with *OSBM*, we amended our policy to reflect the appropriate regulation. We communicated the new and revised policy to the entire campus, updated the web information and created a desk reference for administrative staff across the University. The final policy was updated and implemented effective May 2007.

4. INAPPROPRIATE TRAVEL REIMBURSEMENTS PAID

During our audit, we found two instances where travel costs were paid without proper approvals and supporting documentation and 12 instances where employees were paid excessive mileage reimbursements. Questionable charges totaled $4,769.

When examining expenditures charged to the discretionary account of a Vice Chancellor, we identified mo travel expenditures that were not properly approved. One was approved by a subordinate of the Vice Chancellor rather than a designee in the Chancellor's office, which was standard practice. One reimbursement request was signed on behalf of the Chancellor by an undetermined party. The travel assistant did not recognize the initials. Reimbursements for the hotel accommodations were supported by an online confirmation rather than a hotel receipt, and justification for the trips was not documented. Further, the hotel costs of $329 and $259 per night appear to be unreasonable compared to the price of other available hotels in the area. The total paid for the two trips was $4,01 9, including airfare.

We examined a sample 23 travel expenditures charged to federal grants and found two instances where excessive mileage was approved and reimbursed. Since both excessive mileage amounts were approved by the same supervisor, we examined an additional ten transactions approved by the supervisor. We determined that all ten had excessive mileage charges. The supervisor stated that he realized the travel was excessive, but that these employees chose to drive an unusual route. University travel expenditures are reviewed by a travel accountant who stated that mileage is verified through an online mapping service. Mileage for each of the trips examined was in excess of the mileage shown on the mapping service by at least 110 miles, but the mileage reimbursement request was not returned to the department for further review.

**Recommendation**: All travel expenditures should be made in compliance with university travel policy. All travel expenditures should be authorized in advance and approved by the employee's supervisor. Justification for reimbursement that exceeds state approved subsistence rates should be documented,

**University Response**: We concur that all travel expenditures should be properly authorized and reviewed. The management oversight of the travel accountants has been transferred from the Purchasing Department to the Accounts Payable Department. The travel staff will receive additional training in which we will stress the importance of reviewing travel expenditures for advance approvals in accordance with the University travel policy. The Accounting Office will adhere strictly to the current procedure of requiring justification for reimbursement that exceeds state approved subsistence rates. Additionally, all travel related to senior administrative staff is being reviewed and approved by the Chancellor.

The instance related to excess mileage reimbursement was isolated to three individuals. The department in question has been notified of these instances and a memorandum has subsequently been issued reemphasizing the travel reimbursement policy. Our review of travel expenditures indicates that the instance related to improper travel approval and justification may be isolated in nature. The review of travel reimbursements for proper approval and documentation has been reemphasized to the travel accounting staff.

5. DEFICIENCIES IN FINANCIALREPORTING

The financial statements and notes to the financial statements prepared by the University had numerous misstatements and could have been misleading to readers without our audit adjustments. Misstatements noted in our audit included:

Current Unrestricted Cash was overstated $6,419,486 and Restricted Cash and Cash Equivalents was understated by the same amount. The University did not record the effect of interfund borrowing of unrestricted cash to cover deficit balances in restricted funds.

Student Tuition and Fees Revenue and Insurance and Bonding Expense were overstated by $2,448,010. The University acts as an agent for student health insurance, and thus, the funds billed, collected and remitted to the insurance company are not revenue or expense to the University. In addition, Student Tuition and Fees were overstated $54,475 when the administrative fee received from the insurance company was recorded as Student Tuition and Fees instead of Other Operating Revenue,

a. The Net Assets Restricted for Expendable Debt Service disclosed a deficit balance of $84,937. For proper financial reporting a reclassification should have been made from Unrestricted Net Assets to eliminate the deficit.

b. Several of the notes to the financial statements were incomplete or contained errors.

Management is responsible for the fair presentation of its financial statements and notes in accordance with accounting principals generally accepted in the United States of America and the policies of the Office of the State Controller. To meet this responsibility, management must maintain internal controls over financial reporting to prevent or detect and correct material misstatements.

**Recommendation**: The University should implement effective internal controls to ensure the accuracy of the financial statements and related notes. The process for review of the financial statements and notes should be strengthened to ensure that misstatements and presentation errors are corrected prior to the submission of the statements and notes to the Office of the State Controller and the Office of the State Auditor.

**University Response**: We concur with the recommendation. A financial statement review committee has been created to insure a more consistent and formal approach to the review of the financial statement exhibits and notes. With the implementation of new audit reporting standards, the University understands the importance of submitting comprehensive financial statements and footnote disclosures for audit review.

## 6. INTERNAL CONTROLS OVER PURCHASING CIRCUMVENTED

University employees circumvented established internal controls over purchasing by using a purchase order line item normally reserved for incidental charges such as shipping and handling to buy additional items, As a result, there was an increased risk of error or fraud.

The University uses automated purchase orders, and the system has built-in procurement controls to identify transactions requiring price quotes or change orders. However, the automated form has a nondescript line normally used for incidental charges associated with the purchase that can be used to avoid the controls.

We determined that the total amount paid through the additional line on purchase orders during the fiscal year was $78,959. We examined 16 of the transactions with a total dollar value of $22,527, and we identified ll instances totaling $18,927 where charges other that shipping and handling were added. Change orders would have been required on 10 of these transactions, and in one instance, price quotes would have been required.

**Recommendation**: The University should place controls over the use of the additional line on the purchase order to prevent unauthorized purchases. University policies and procedures should be followed regarding obtaining price quotes and change orders.

**University Response**: We concur. This was a training issue with the implementation of Banner accounts payable. We have put policies in place that require that the additional line field would be used only for charges such as freight: shipping & handling. All other additional charges would be handled in accordance with purchasing guidelines. The accounts payable staff has received additional training in this area.

## 7. STUDENTS NOT BILLED FOR COST OF MEDICAL INSURANCE

The University made medical insurance payments on behalf of students without charging the students for the costs. As a result, the University incurred $46,945 in costs that should have been reimbursed by students.

The University purchases group medical insurance for students who need coverage and charges the cost of premiums to the students' accounts. However, internal control was not in place to ensure that the total amount paid to the insurance company was in fact charged to students. We determined that 205 students were not billed for their medical insurance premiums.

**Recommendation**: Internal controls, such as a reconciliation of insurance payments to student charges, should be established to ensure that total insurance payments made are billed to students.

**University Response**: We concur. A system report has been written to identify students who are eligible to receive health insurance and a reconciliation process has been developed. A project team is currently exploring ways to make this a more efficient process.

8. DEFICIENCIES IN ACCOUNTING FOR GRANTS

The accounting records for federal and state grants indicate that the University does not adequately account for individual program activities. As a result, expenditures may be charged for unallowable activities, cash in excess of need may be drawn, and/or the University may fail to request funds earned.

The University had 189 federal and state grant accounts with no activity during the fiscal year ended June 30, 2007, which may indicate that the grants were closed. There were 69 inactive accounts with deficit cash balances totaling $241,227, and the remaining 120 accounts had total positive cash balances of $7 1 1,115. The deficit balances may indicate that the University used other funds for grant purposes, while the excess positive balances may indicate that excess cash was drawn down from the funding agency. On the other hand, the balances could have resulted from accounting errors.

The accounting records are designed to ensure that various funding sources are used in accordance with grant restrictions and those revenues are drawn down to support allowable charges. Failure to maintain accurate records on a timely basis increases the risk or errors or fraud.

**Recommendation**: The University should evaluate its accounting procedures for grant funds and make changes to ensure that receipts are properly applied and that over-expenditures are prevented.

**University Response**: We concur. The accounting procedures for grant funds are currently being evaluated to ensure timely billing, reconciliation of expenditures, receipts and receivables. The University continues to review and analyze remaining cash balances related to closed grants.

9. FAILURE TO RETURN UNEARNED STUDENT FINANCIAL AID FUNDS

The University did not compute or return unearned student financial aid funds to the federal government in accordance with program regulations. When students withdraw, unofficially withdraw, or drop courses, the University is required to compute the amount of unearned student financial aid credited to the students' accounts for tuition and fees and return it to the federal government. Regulations require that the calculation be done within 30 days of the end of the payment period or semester for students who unofficially withdraw, that is, simply stop attending class. Unearned funds are required to be returned to the federal government no later than 45 days after the date that it is determined the student had withdraw.

The University computed unearned revenue of $8,512 for the Fall 2006 semester related to unofficial withdrawals; however, the calculation was not done until January 2008, eight months after the end of the academic year. Unearned revenue of $87.771 related to unofficial withdrawals for the Spring 2007 semester was calculated in July 2007, two months after the end of the academic year. The Fall 2006 amounts were finally paid back to the federal government in March 2008, while the Spring 2007 amounts were paid back July 17, 2007.

In addition to noncompliance with federal regulations, the University also failed to report a liability in the financial statements for the amount owed.

**Recommendation**: The University should establish policies and procedures to comply with federal regulations regarding the timely identification of unofficial withdrawals and the return of unearned funds.

**University Response**: We concur that the University should adhere to established policies and procedures for all withdrawals. The students mentioned above were all unofficial withdrawals. Additional procedures are being developed to facilitate compliance.

10. LACK OF CONTROLS OVER FEDERAL DEBARMENT VERIFICATION

The University did not have controls in place to ensure that covered transactions (contracts and procurements in excess of $25,000 and subawards) were made only to vendors or subrecipients that were eligible to participate in federal programs. The lack of controls increase the risk that the University may contract with, or provide funds to, suspended or debarred parties.

Title 2 CFR sections 1 80.220 and 180.300 require verification for covered transactions 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 control procedure under which the University operates requires the Sponsored Programs Office to review the Federal Debarment List to assure that any potential subcontractor has not been debarred. Additionally, the University Purchasing Office reviews the State of North Carolina Debarment List before issuing purchase orders for procurements. However: we concur that having the Purchasing Office review both the Federal and State list provides stronger assurance that the University is in compliance with federal suspension and debarment regulations. Consequently, the Purchasing Office has now implemented that procedure.

11. NONCOMPLIANCE WITH PERSONNEL TIME AND EFFORT DOCUMENTATION

The University did not consistently maintain documentation to support payroll charges to Research and Development grants. As a result, there is an increased risk of unallowable costs being charged to the grants.

Auditors reviewed nineteen payroll transactions charged to Research and Development grants to determine if the cost was allowable. The University had failed to maintain documentation required by federal cost principles (OMB CircularA-2 1, J. 10) to support personnel charges to federal programs in six of these transactions. Auditors also reviewed eight Research and Development grants with matching requirements. In two of these grants, the University failed to maintain records to support the personnel charges for the required match. The University subsequently obtained after-the-fact time and effort certifications; therefore, no costs are questioned.

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

**University Response**: We concur with this finding. As previously noted, the time and effort certifications were subsequently obtained. During the 2007 fiscal year, the University implemented new time and effort reporting policies and procedures. We are continuing to review and strengthen the process to ensure full compliance with cost principles.

12. LACK OF MONITORING GRANT ACTIVITY

The University does not have sufficient internal controls in place to monitor transactions initiated and approved by principal investigators. As a result: there is an increased risk that unallowable transactions may occur without detection.

The A-102 Common Rule and OMB Circular A410 (2 CFR part 2 15) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. In a decentralized environment with many people authorizing transactions, having strong monitoring controls is imperative. The University does not have a person with specific knowledge of the grant requirements independently monitoring transactions authorized by principal investigators. Principal investigators may also be responsible for receiving their own procurements, which increases the risk of fraud.

**Recommendation**: The University should enhance internal controls to include an independent monitoring effort over costs charged to grants.

**University Response**: The University recognizes that strong internal controls are essential to detecting and preventing unallowable transactions. We agree that our current controls may not be at an optimum level- Our plans to enhance controls include the following:

- A position is being established in Contracts and Grants dedicated to training and compliance issues.
- The Contracts and Grants staff is increasing their reviewing and monitoring processes to ensure compliance.
- As resources become available, the University will install departmental research administrators in major research departments to independently monitor transactions authorized by principal investigators.
- The Sponsored Programs and Contracts and Grants Offices are conducting training sessions with principal investigators and administrative staff to review federal allowable cost directives.

13. DEFICIENCIES IDENTIFIED BY UNIVERSITY OFFICE OF INTERNAL AUDIT

The University discovered and the Office of Internal Audit (O1A) investigated two situations that resulted in findings relevant to our audit objectives:

a. The O1A investigated two allegations of possible conflicts of interest involving faculty members. The OIA determined that there were conflicts present for two College of Engineering faculty members. One faculty member who was the principal investigator on five grants was also a principal owner of the vendor paid $184,000 to perform the grant work. The professor's relationship with the vendor was disclosed on the annual conflict of interest disclosure, but the department chairperson took no action to mitigate the risk of a conflict on interest.

b. The OIA investigated misuse of a University procurement card that was issued to the Principal Investigator (PI) of a grant. The OIA concluded that lack of management review and oversight allowed the PI to use the procurement card to purchase items for personal use and to purchase items not authorized by the grant. The University Purchasing Department failed to suspend the card when the required monthly reconciliation was not turned in by the PI. There was at least $20,000 in personal purchases for which the PI has been charged with embezzlement. The P1 also failed to perform work necessary to produce results required by the grant or failed to document the work performed.

**Recommendation**: The University should initiate actions considered necessary to resolve and eliminate the conflict of interest between faculty members employment with the University and any outside business interests. Appropriate University personnel should review conflict of interest disclosures, identify potential conflicts of interest, and take action to mitigate the University's associated risk. Supervisory personnel should review and approve subordinates work periodically to ensure adherence to University policies and procedures. All procurement cards should be placed on suspension when cardholder's reconciliations are not received by the due date.

**University Response**: We concur with the recommendations. The University has taken actions to resolve conflict of interest issues with the faculty member. Additionally, the University is currently reviewing and revising the conflict of interest policy.

The University has enhanced controls over procurement card transactions. The management of the procurement card processor has been transferred to the accounts payable department. Additionally, a confirmation process has been implemented requiring a response from the bank to the University validating all card suspensions and cancellations.

6. The University of North Carolina at Pembroke: - (Financial Audit): Two Audit Findings

   Report URL: http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2007-6082.pdf

**Matters Related to Financial Reporting**

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number 1 was also reported in the prior year.

1. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES

The University granted information system access rights inconsistent with adequate segregation of duties. The University had three employees in management positions who had system access rights that allowed them to create vendors, create purchase orders, enter invoices for payment, print checks. and post journal entries. Another employee in management had the same access rights, with the exception of check printing. Because these employees are in management, they are also responsible for oversight of the transactions that they are capable of initiating.

Segregation of duties is a basic internal control that requires limitations of information system access rights that could allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

*This finding has been resolved.* Inappropriate system access rights were removed in October 2007 for the three management employees.

2. DEFICIENCIES IN FINANCIALREPORTING

The financial statements and 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:

a. The University has not periodically evaluated the appropriateness of the estimated useful lives of its capital assets. After we requested that the University perform such an evaluation, staff identified an estimated overstatement of accumulated depreciation of approximately $1 - 6 million.

b. Noncurrent Restricted Cash and Current Unrestricted Cash were understated $532.15 1.93 and $811,667.0 1, respectively, and Current Restricted Cash was overstated $1,343,818.94.

c. Current Receivables were understated $1,714,587.91 and Noncurrent Receivables were overstated by the same amount.

d. Several of the notes to the financial statements contained errors. For instance, the total cash in the deposits note was understated $4,197,131.87.

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

**University Response**: The University of North Carolina at Pembroke (UNCP) agrees with the findings recognizing the exposure to the risk for future financial statements given the circumstances precipitating the current findings. In a large part, the root cause has been the high turnover rate; subsequently, the quality of work has been defined by inexperienced personnel and contractors. From the period of August 30, 2006 to August 30, 2007, the UNCP's Controller staff experienced a 'severe' turnover rate of over 50%. UNCP has experienced disproportionate turnover due to retirement with some due to internal and external movement, LINCP lost ball' of its critical positions with significant institutional memory in year-end closing, CAFR and financial reporting. The consequence was a drop in the quantity and quality of productivity from the Controller's team.

In an effort to meet the year-end and financial deadlines with such severe resource shortages and institutional memory loss, the University contracted the vast majority of year-end, CAFR and financial reporting deliverables to retired University professionals. This was somewhat successful limited by the new reporting and auditing changes with which the contracted employees were not familiar.

The University is now managing assets within GASB 33/35 : periodically evaluating the appropriateness of the estimated useful lives of its capital assets. As well, all understatements and errors have been corrected.

Also, the Chancellor has made a commitment to support the effort in moving UNCP's Controller" team to a ""Center of Excellence". This commitment is made with the addition of human capital, upgrading of lower positions and additional positions. The Controller's Office has submitted and was approved by OSP an organizational plan to reengineer the Controller's organizational structure. A separate financial reporting team has been created with a team of six accounting professionals reporting to the Assistant Controller: Manager of Financial Reporting, Senior Financial Reporting Accountant (11, Financial Reporting Accountant (2), Financial Reporting Specialist (1) and systems technician (1). As well, the model for a UNCP accountant position is changing to actively promote the employment of personnel with an accounting degree, MBA and/ or CPA.