

Minutes of the November 13, 2008 Meeting  
of the Board of Governors' Audit Committee

The Audit Committee met in the Board Room of the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, November 13, 2008, at 3:30 p.m.

Members in attendance were Mr. Brent Barringer, Mr. Frank Daniels, Jr., Mrs. Clarice Cato Goodyear, Mr. Charles A. Hayes, Mr. G. Leroy Lail, Mr. Charles H. Mercer, Jr., Mr. Jim Phillips and Dr. Gladys Ashe Robinson. Others attending the meeting were Chief of Staff Jeffrey R. Davies; Vice Presidents John Leydon, and Laura Luger; Associate Vice Presidents David King and James O. Smith; Chancellor Stanley Battle (NCA&T) and Chancellor Kenneth Peacock (ASU); Mr. Paul Hudy and Ms. Gwen Canaday (UNC-GA); and Mr. Chuck Hawkins (NCCAT).

Chair Daniels welcomed everyone to the meeting. On the motion of Mr. Lail, seconded by Mr. Barringer, the minutes of October 16, 2008 were approved.

Chair Daniels then introduced N.C. State Auditor Leslie W. Merritt, Jr. Mr. Merritt reported the University had made a lot of progress in the last four years. He gave a brief overview of the audit results from the 2007 fiscal year and preliminary audit results from the 2008 fiscal year. Next, he introduced his staff, Ms. Linda Hollar and Mr. Jeff Henderson.

Ms. Hollar reported that the annual University financial audits included tests of compliance with federal regulations for student financial aid as well as research and development grants. During the 2007 audit cycle, 11 campuses had 55 audit findings. The increase in audit findings was attributed to a number of factors including new auditing standards, a risk-based auditing approach, staff turnover on campuses, and the implementation of new information technology systems. Mr. Merritt's staff also reported they communicated directly with the campus audit committees at the beginning and end of each financial audit.

Mr. Daniels thanked Mr. Merritt for his service to the State during the past four years and for his efforts to improve fiscal accountability in state government.

Next, Mr. King reviewed the 2008 Strategic and Information Systems Audit Reports released since the last meeting by the North Carolina Office of the State Auditor (below). There were two findings in the Strategic Audit report and there were no public findings in the Information Systems Audit report.

2008 Strategic and Information Systems Audit Reports Released Since Last Meeting by the  
North Carolina Office of the State Auditor:

1. North Carolina A&T State University: – (Strategic Audit Review): Two Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/StrategicAudit/SAR-2008-6070.pdf>

## **FINDINGS AND RECOMMENDATIONS**

### **1. USE OF P-CARDS TO PURCHASE NON-ALLOWABLE ITEMS**

The following P-Card purchases were not legitimate business expenditures according to University and/or State policies:

- 1) Purchases were made for participation in the Jena Six Rally. The purchases were made from Auxiliary Funds.
- 2) A purchase of men's suits was made for the Executive Board of the Student Government Association. Article IV Section 3 of the North Carolina A & T State University Student Government Constitution states, "To assist in the provision of homecoming coronation attire, the following amounts will be paid: SGA President, not to exceed \$300.00; Miss A and T, not to exceed \$500.00." However, the purchase totaled \$1,672.45 and was for not only the SGA President, but the Vice President of External Affairs, the Secretary, and the Chief of Staff.
- 3) One clothing purchase was not supported by any documentation (receipts). However, the Purchase Card Reconciliation described the purchase as being for suits. The University's Basic Spending Guidelines by Fund Source addresses Unallowable Purchases from State Budget Codes and states, "The purchase of personal clothing items or t-shirts which are not part of required uniforms, or safety related is not allowable."
- 4) We identified two cases of gift and gift cards purchased with state funds. The University's Basic Spending Guidelines by Fund Source states, "The purchase of gifts or flowers for an employee or non-employee is considered a personal expense and is not allowable."
- 5) We identified four purchases for which documentation (receipts, invoices) was not submitted. All four purchases were made by the same P-Card holder, a Departmental Chairperson. The four instances appeared on two separate P-Card reconciliations. For both reconciliations, segregation of duties was not observed because the cardholder approved their own reconciliation. The University's Purchasing Office Procurement Card Users Guide requires cardholders submit itemized original receipts for all purchases. The Guide also requires the Department Head/Budget/Program Administrator to sign the reconciliations along with the cardholder. Personnel at the Department Head/Chairperson/Manager level or higher who have been issued a procurement card are required to obtain additional approval for their purchases and the approval must minimally be a higher level manager or designee.

**Recommendation:** The University should ensure that all purchases made with P-Cards are in compliance with the North Carolina Office of State Budget and Management's Budget Manual as well as the University's own policies.

#### **University's Response:**

- 1) We do not agree with this finding. The \$206 purchase in support of approved student bus travel was a legitimate business expenditure, allowable using any method of payment. The Student Union Advisory Board, utilizing their non-State Auxiliary funds, determined that it would be appropriate to carry emergency and first aid supplies for use by students who were traveling on the buses with the University. The supplies they purchased were intended to provide emergency provisions for male and female students, and are no different than supplies carried by an Athletics trainer on student team sport trips. The items not consumed during the trip were available for review and inspection at the Student Union.

- 2) With respect to suits purchased for student officials, the University believes that the Student Government Association can exercise its right, as conferred by its officials elected by the student body and governed by their constitution, to determine the best use of SGA funds, within reason and within their allotted student fee budget. We respect the Student Senate's right to review and approve the Student Government's annual operating budget, including purchases that may be a unique part of our culture and tradition, but are otherwise consistent with University purchasing guidelines. A copy of the approved SGA budget, which does include a budgeted clothing allowance for various student events (President and Miss A&T, Hall of Fame Pageant, Homecoming, Black Shadows Day, etc.) is available for review.
- 3) We concur with this finding. Supporting documentation is required to be submitted with the procurement card reconciliation. We have increased our campus training efforts with respect to the University's Basic Spending Guidelines and with use of the P-Card.
- 4) We concur with this finding. Supporting documentation is required to be submitted with the procurement card reconciliation. We have increased our campus training efforts with respect to the University's Basic Spending Guidelines and with use of the P-Card.
- 5) We concur with this finding. The University strengthened its approval policy as noted by the audit team, requiring itemized original receipts for all purchases and a management level approval higher than the P-Card holder. Campus training and auditing of the monthly departmental P-Card reconciliations has been intensified as well.

## **2. FINANCE CHARGES ASSESSED ON P-CARDS PURCHASES**

We identified two finance charges that totaled \$755.90. P-Card participants should not incur finance charges. The current statewide P-Card contract states: "The full balance is to be paid at least once a month, as specified in our contract with Bank of America. Payment of interest goes against the State's Cash Management Plan."

**Recommendation:** NC A&T should pay Bank of America the full balance of their bill at least once a month as required by the Division of Purchase and Contract's Procurement card contract with Bank of America.

### **University's Response:**

The University practice is to pay the full balance of the P-Card bill in a timely manner so as to avoid finance charges.

## **2. Winston-Salem State University: – (Information Systems Audit): No Public Findings**

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Infosystems/ISA-2008-6084.pdf>

Ms. Canady gave an update on the Enterprise Resource Planning (ERP)/Finance Transformation Project. She explained the project team had proceeded with the standardization of processes and controls across the University System. The project team was developing plans to implement a shared service center to consolidate and centralize certain financial operations, such as payroll processing. A Finance Transformation Executive Steering Committee had been created to guide the project and advise the implementation team: Chair Jeffrey Davies, John Leydon, Rob Nelson (UNC-GA) Chancellors DePaolo (UNCW) and Reaves (WSSU); Vice Chancellors Robert Gaines (ECSU), Richard Mann (UNC-CH), and Chuck Wooten (WCU); Provost Joan Lorden

(UNCC); Human Resource Director Pamela Burkett (UNCP), Financial Aid Director Julie Rice Mallette (NCSU), and Chief Information Officer Jeff Williams (ASU).

Chair Daniels continued a discussion from the earlier Budget and Finance Committee meeting to ensure the ERP/Finance Transformation project would have appropriate resource. A request for funding had been included in the University's expansion budget. The request for recurring funding was \$3 million in the 2009-10 fiscal year with an additional \$2 million in the 2010-11 fiscal year. Mr. Phillips made the motion that the Audit Committee would direct Chair Daniels to make an amendment motion to the full board to move the budget priority number ten to priority number four in the list of Operating Budget Priorities for 2009-11. All members of the Audit Committee agreed except for Dr. Robinson.

At this point, on the motion of Mr. Hayes, seconded by Mr. Daniels, the Committee went into closed session to prevent the disclosure of privileged information under N.C.G.S. 147-64.6(c)(18) of the North Carolina General Statutes or regulations.

\*\*\*\*\*  
CLOSED SESSION  
\*\*\*\*\*

There being no further business, the meeting was adjourned.

---

Mr. Frank Daniels, Jr.  
Chair of the Audit Committee

---

Mr. Charles A. Hayes  
Secretary of the Audit Committee