

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

1. Fayetteville State University: – (Financial): Three Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2008-6088.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 numbers 2 and 3 were also reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes prepared by the University contained a number of misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to readers.

Misstatements noted during our audit included:

- a. The University reported cash held for its discretely presented component unit on both the University's and the component unit's financial statements. The cash should only have been reported on the component unit's statement of net assets. As a result, the University's cash and funds held for others accounts were overstated by \$1,944,524.11.
- b. The University did not properly classify cash on the statement of net assets. As a result, current unrestricted cash and cash equivalents was overstated by \$2,345,090.81, current restricted cash and cash equivalents was understated by \$2,893,420.06, and noncurrent restricted cash and cash equivalents was overstated by \$548,329.25.
- c. The University did not properly record a restatement for prior year construction costs. This caused supplies and materials to be overstated by \$818,708.01.
- d. The University did not capitalize the cost of two renovation projects. This caused construction-in-progress to be understated by \$1,295,685.39 and supplies and materials to be overstated by the same amount.
- e. The University used the wrong useful lives in its calculation of depreciation expense. This caused depreciation to be understated by \$1,047,277.67 and accumulated depreciation to be understated by the same amount.

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

University Response: FSU agrees with the importance of accurately presenting the financial statements, including the notes. We are working diligently to put procedures in place to accurately reflect financial activity. For future statements, we will remove the cash held in the University STIF account for the Fayetteville State University Foundation; report restricted cash based on Banner fund, rather than GASB fund, as previously reported; and more thoroughly

review capital expenditures. The University will continue to place emphasis on the year-end financial reporting process and be diligent in the review of financial statement information.

2. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH JOB DUTIES

The University has granted information system access rights that are inconsistent with prudent internal control principles. As a result, there is an increased risk of error and fraud.

Inappropriate access rights included the following:

- The data owner and security manager are not reviewing assigned access rights on a regular basis to ensure that they are appropriate and support proper segregation of duties.
- We 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.
- Various security classes contain forms that should not be together in the same security class. This allows personnel the access to forms that do not support proper segregation of duties.

Recommendation: The University should take appropriate steps to strengthen internal controls to limit employees' access rights to those that are only necessary to perform their jobs. Security classes should also be evaluated to maintain adequate segregation of duties in employees' access to the system. System access rights should be reviewed on a regular basis.

University Response: University staff has worked consistently to review and correct inconsistencies in system access rights. The specific items listed in the prior year audit were corrected and other changes were made during the audit period, including ensuring separation of duties for data entry and approval of journal entries and requisitions. Review of security classes will continue and an extensive audit and reassignment project is underway.

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

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

The University's student purchasing cards are called Bronco One cards. Students use the cards to pay for a variety of services. 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 2008 fiscal year, Bronco One Card Office employees submitted cash collections to the University's main cashier's office for deposit in the University's account; however, 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 that all cash be deposited promptly and a reconciliation between cash collected and credited to students' accounts and cash submitted to the main cashiering office for deposit.

This finding has been resolved: The University corrected the deficiencies as of April 2008.