The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Status						Significant Audit Findings *
		Complete	Ongoing	In Process	Pending	Deferred	Cancelled	
Information System Controls								
Access Controls	6	3			1		2	N
Banner Advancement	1	1						Y
Banner Finance	1				1			
College of Natural Resources - Information Technology Department	1			1				N
College of Textiles – Textile Computer Operations (TCO)	1			1				
Data Security	1					1		N
Disaster Recovery	4	3				1		Y
Distance Education and Learning Technology Applications (DELTA)	1					1		N
Electronic Data Analysis	1						1	
Enterprise Resource Planning Participation	1		1					N
General Controls Review	3	2		1				N
ITS Operational Review	1						1	
New River Computer System	1	1						N
Physical Plant Facility Max Program	1					1		
Security of Academic Records and Transcripts	1			1				
Server Survey	1	1						N
State Auditor IT Audit - WCU IA Staff to Assist	1	1						N
Student Information Systems Project Audit	1					1		
University Computing & Information Services - Password Policies and Practices	1						1	
Totals	**29**	**12**	**1**	**4**	**2**	**5**	**5**	
Internal Control Testing and/or Reviews								
UNC FIT Operations Assessment/Leading Practices:								
Contracts and Grants	1				1			
Financial Aid and Student Receivables	1				1			
General Accounting, Financial Reporting, and Budgeting	1		1					
Payroll	1				1			
Purchase to Pay	1				1			
Accounts Payable	1	1						Y
Bank Reconciliation Review	1	1						N
Budgeting	1					1		
Business Services - Fixed Annual Inventory	1						1	
Campus-Wide - Asset Control	1	1						N
Campus-Wide - Quarterly Review of P-Card Transactions	1	1						N
Cash Audits & Campus Police Parking Fines, Fees & Permits Cash Review	1	1						N
Cashier's Office	1	1						Y
Clearing Accounts	1			1				
EAGLE - Internal Control Assessment and Testing	8	5	1			1	1	Y
Facilities Management Labor Service Billing Process	1	1						N
Fixed Asset Testing	3	2					1	N
Foreign National Hiring Process	1			1				N
Inventory Verification	2	1		1				N
OB/Gyn Cash Handling	1			1				N
Payroll Outstanding Checks	1						1	
Payroll Processing, Employee Entry/Exit Process	3	1	1			1		N
Petty Cash, Change Funds, Cash Counts	12	7	1			1	3	N
Procedures for Reporting Misused State Property to the SBI	1	1						N
Processing Expenses for Federal Grants	1					1		N
Self-Assessment of Internal Control Questionnaires	11	10	1					N
Temporary Wage Process	1			1				N
Ticket Sales	2	1					1	Y
Timeliness of Vendor Payments	1	1						N
University Box Office	1	1						N
Weatherspoon Arts Foundation	1	1						N
Year End Inventory	4	3					1	N
Totals	**69**	**41**	**5**	**5**	**4**	**5**	**9**	

The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Complete	Ongoing	In Process	Pending	Deferred	Cancelled	Significant Audit Findings *
Departmental Audits and/or Reviews								
Accounts Payable	1			1				
Athletic Camps	2	2						Y
Athletics	4	1			2		1	N
Auxiliary Services - Photocopy Support Services	1			1				N
Biology	1			1				
Cameron School of Business	1			1				
Campus-Wide - Student Employment - Policies and Practices	1						1	
Center for Marine Science	1	1						N
Center for Women's Health Research	1	1						N
College Awareness Program	1	1						Y
College of Agriculture and Life Sciences	1						1	
College of Education	2	1	1					Y
College of Engineering	5	4				1		Y
College of Physical and Mathematical Sciences	1	1						N
Continuing Studies	1		1					
Department of English	1	1						N
Energy Services	1					1		
Fulbright Scholarships	1					1		
Graduate School	1			1				
Health and Human Sciences - Patient Care/Liability	1						1	
International Distance Education Program - Jamaica	1		1					
National Environmental Modeling and Anlysis Center (NEMAC)	1						1	
NC Arboretum	1				1			
New River Light and Power	1	1						N
Purchasing Audit	2	1				1		Y
Rolling Department Audits	1						1	
School of Filmmaking	1					1		
School of Health Sciences	1	1						N
Student Financial Aid	1					1		
Student Life Department	1	1						N
Student Stores	3	2					1	N
Surplus Property	1					1		
WCU EMS Operations	1	1						Y
Work Aid Review	1						1	
Totals	**46**	**20**	**3**	**5**	**3**	**7**	**8**	

The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Complete	Ongoing	In Process	Pending	Deferred	Cancelled	Significant Audit Findings *
Special Investigations (i.e. Misuse or Misappropriation of Assets)								
AdmissionPros	1	1						N
Advising File	1	1						N
Aramark Catering	1	1						N
Biology Research	1	1						Y
Bookstore: Shortage in Change Fund	1	1						N
BSOM Computer Review	2	2						Y
Carolina Population Center	1	1						N
Cell and Developmental Biology	1	1						N
Chemistry Admin. Review	1	1						Y
Chemistry Stock Room	1	1						Y
Child Development Center & Lab School	1	1						Y
Citizen Soldier Program	1	1						N
College of Agriculture and Life Sciences	3	3						Y
College of Engineering	3	3						N
Conflict of Interest Review	1	1						Y
Department of Biology Time and Attendance	1	1						N
Department of Education OIG Follow-up Request	1	1						N
Department of Music Conflict of Interest	1	1						N
Department of Theater Misuse of Property	1	1						N
DHHS Contracts	1			1				N
Distance Education and Learning Technology Applications (DELTA) Gateway Technology Center	1	1						N
Employee and Tuition Free Courses	1	1						N
Employee Timekeeping	1	1						Y
Employee Using Unauthorized University Discounts	1	1						N
Equity Travel	1	1						N
Ethics Hotline Complaints	2	2						N
Facilities Division - Facilities Operations	1	1						N
Facilities Management Gas Card Investigation	1	1						N
Facilities Management Overtime Procedures	1	1						N
Facilities Service Vendor	1	1						N
Institute for Science Learning	1	1						N
International Affairs	2	1	1					N
Investigation of Student Health Physician Contractor	1	1						N
Investigation Re: "The Financial Crisis in NC - Dealing with it at NCSSM"	1	1						N
Laupus Library	1	1						Y
Misuse of Cell Phone	1	1						N
Misuse or Theft of State Property (Reporting)	1	1						N
Motor Fleet Management Incidents	3	3						N
NC Fellows	1			1				N
NC SBI Reporting	1						1	
Office of Student Life - Student Travel Reimbursement	1						1	
Outside Employment Investigation	1	1						N
Payroll Controls/Advanced Pay Controls	1	1						N
REAP Expense Review	1	1						Y
Review of Transactions with Board Trustee	1	1						N
School of Music	1	1						N
School of Nursing Complaints	1	1						N
School of Nursing Parking Tokens	1	1						N
Sheps Center	1	1						N
SPA Employee Timekeeping Review	1	1						Y
Special Audit of Independent Contractor Services	1	1						N
State Auditor's Requests	10	7	3					Y
Student Affairs - Talent Search Program	1	1						Y
Student Health Center	1	1						Y
Student Stores Employee Computer Use	1	1						Y
Theater Department	1	1						N
Theft of Petty Cash - Art Department	1	1						N
Travel Impropriety	1	1						N
Vinticulture Grant	1	1						N
Work on Department of Education Program Review	1	1						
Totals	**78**	**70**	**4**	**2**	**0**	**0**	**2**	

The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Status						Significant Audit Findings *
		Complete	Ongoing	In Process	Pending	Deferred	Cancelled	
Special Assignments								
Athletics - Complimentary Ticket Review	1	1						N
Braves One Card - Billing Procedures/Practices	1						1	
Business Continuity / Disaster Recovery	1	1						Y
Data Base Maintenance/Corrections	1	1						N
Data Standards Committee			2					
Development of Confidentiality Statement		1						
EAGLE Program - Internal Control Review	1					1		
Financial Aid	1	1						N
Internal Control Officer for EAGLE			1					
Internal Control Team for EAGLE			1					
Library Purchasing	1					1		
Members of FSU BANNER Steering Committee			1					
ODS & Security	1	1						N
Payroll Implementation Team			1					
Provost's Financial Review	1	1						Y
Rental Property	1	1						N
Review of Nursing Program Grant	1	1						N
Software Evaluation Committee	1		1					
Special Report to the Office of Internal Audit		1						
Student Security Deposits	1			1				
UNC FIT	2		1	1				
Unscheduled Audits	1	1						Y
Totals	**16**	**11**	**8**	**2**	**0**	**2**	**1**	
Audit Findings Follow-up								
AFI	1			1				
Bank Reconciliations	1	1						N
Campus Police	2	2						N
Campus-Wide Contracts and Grants	1	1						N
Campus-Wide National Science Foundation Summer Salary	1	1						N
CHSC Security and Asset Controls	1	1						N
College of Agriculture and Life Sciences	2	2						N
College of Engineering	3			1		2		
College of Physical and Mathematical Sciences	1	1						N
Copier Selection Review	1	1						N
Facilities Division - Facilities Operations	1	1						N
Financial Aid	3						3	N
Use of Consultants	2		2					N
Follow-up on State Auditor Findings	29	24	1			2	2	N
I-9 Compliance	2	2						N
Information Privacy Compliance	1	1						N
Institute for the Environment	1	1						N
Internal Audit Findings Follow-up	7	2	1	1	2	1		N
Investigation of Independent Contractor Services	1	1						N
Journal Entry Controls	1	1						N
Joyner Library	1	1						N
Maritime Studies	1				1			
Natural Resources & Environmental Design	1	1						N
NCSA Foundation Film Inventory	1	1						N
Office of Information Technology	2	1	1					N
Payroll Overpayment Policy	1	1						N
Postal Services Follow Up	1	1						N
Property Insurance	1	1						N
PSC Audit	1	1						N
Purchasing Card	2	2						Y
Radiation Oncology - Server	1	1						N
Security of Labs/Stockrooms	1	1						N
Telecommunications Special Review	1	1						N
Time and Attendance	1	1						N
University College - Cash Collections (Speical Review)	1	1						Y
University Ticket Office (Special Review)	1	1						Y
Totals	**80**	**59**	**5**	**3**	**3**	**5**	**5**	

The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Complete	Ongoing	In Process	Pending	Deferred	Cancelled	Significant Audit Findings *
Compliance Audits								
ADA Compliance	1			1				
Biosafety Program	1					1		
Central Supply Store and Warehouse	1		1					N
College of Engineering	1	1						N
Compliance with Donor Terms	1	1						N
Compliance with Contracts and Grants Requirements	5	1		2		1	1	N
Contracting for Services	1	1						N
Eligibility of Athletes	1	1						N
Environmental Health & Safety - Haxardous Waste	1	1						N
EPA Employee Files	1				1			
Export Controls	1					1		
Financial Aid Files: Awards and Payment Documentation	1	1						N
I-9 Compliance	1	1						N
Incomplete Grades	1	1						N
NCAA Campliance	5	3			1		1	N
PCI Compliance	1	1						N
Program Income Review	1	1						N
Property Accountability	1	1						N
Purchase Card Program	2	1					1	N
Review of FERPA Compliance	1				1			
Review of Lab Safety	1				1			
Review of OSHA Compliance	1						1	
Review of SEVIS Compliance	1				1			
SCSSI Compliance Review	1			1				
Secondary Employment Procedures	1	1						N
Student Accounts Receivables Process	1	1						Y
Student Loan Process	1				1			
Supplementtal Pay	1	1						N
Time and Effort Reporting System	2	1				1		N
Travel - Use of State Vehicles	1				1			
Travel Reimbursements	1	1						N
TRIO Program - Ronald McNair	1						1	
Tuition Waivers	1				1			
Totals	43	21	1	4	8	4	5	
Lapsed Salary/Management Flexibility								
Management Flexibility-Lapsed Salaries	1						1	
Review carry-forward and lapsed salary usage (for FY 2009).	1			1				
Review of 2007-2008 transations audthorized under management flexibility	1	1						N
Review of carry-forward and lapsed salary usage (for FY 2008).	1	1						N
SRC/UNC Management Flexibility 2007/2008	0							
SRCI Flexibility Budget Revisions	1	1						N
Totals	5	3	0	1	0	0	1	

The University of North Carolina System
Annual Summary of Internal Audit Activity
Year Ending June 30, 2009

Specific Audits	Number of Audits	Complete	Ongoing	In Process	Pending	Deferred	Cancelled	Significant Audit Findings *
Other								
ACC Football Settlement 2008	1	1						N
ACL Concurrent Audit Routines			1					
Advisory Services: Additional Employment			1					
Affiliated Entities Financial Statement Summary	1	1						N
Associated Entities - Friends of Baseball ("Rally Club")	1			1				N
Campus Safety-Lighting, Traffic, Security	1						1	
Chancellor Requested Projects	1		1					
Committee Involvement			2					
Contract and Grant Expenditures	1					1		
Cost of College/Departmental Photocopies	1						1	
County Cooperative Extension Service	1			1				N
Credit Balances on Student Accounts	1	1						N
Debt Service Function	1					1		
Development of Up to Date Procedures Manual				2				
Employment Eligibility Function	1			1				
EXSS Special Course Fees	1	1						N
Foundation Quarterly Review of Disbursements	1	1						N
Fraud Awareness Plan			1					
FSU Bank Account Reconciliation	1	1						N
HelpLine Call: Hiring Practices	1	1						N
Homecoming Revenue Review	1	1						N
HR Time Calculations	1	1						N
Human Subjects Research	1					1		
Implement Quality Assurance Assessment Recommendations			1					
Independent Contractor Function	1					1		
Internal Audit Peer Review Prep/Audit Manual	1			1				
Internal Billings	1					1		
IT Peer Review	1		1					
ITTS Policy on Acceptable Use of Computer Resources	1	1						N
Kenan Institute for Engineering, Technology, & Science- Kenan Fellows Program for Curriculum and Leadership Development	1	1						N
NCSSM Foundation	1		1					
Operations Administration	1	1						
Parking Office Consult - PowerPark System Upgrade	1						1	
Pediatrics Cardiology	1	1						N
QEP/Student Engagement Tracking - Advisory Committee	1						1	
Radio Station Financial Statement Review	1	1						N
Recharge Center Function	1	1						N
Restricted Funds	1			1				
School of Information and Library Science	1	1						N
SCSSI	1		1					
Student Information System Implementation	1			1				N
Taxability of Comp Season Tickets Given to Employees	1			1				
TEACCH	1			1				
Training	1		1					
UNCW Friends Financial Audit	1	1						N
Totals	**37**	**17**	**9**	**10**	**0**	**5**	**4**	

Totals	**403**	**254**	**36**	**36**	**20**	**33**	**40**	

* Findings, recommendations, and corrective actions attached

UNIVERSITY OF NORTH CAROLINA

SUMMARY OF SIGNIFICANT AUDIT FINDINGS INCLUDED IN REPORTS OF
CAMPUS INTERNAL AUDITORS

Fiscal Year Ended June 30, 2009

North Carolina State University

1. **College of Engineering – Department of Electrical and Computer Engineering (ECE) – Contracts and Grants**

   Condition - Externally reported allegations via the Office of State Auditor Hotline; delegated to NCSU Internal Audit Division. The allegations related to the management of contracts and grants in the department. The majority of allegations were substantiated. The department agreed to implement stronger controls and more effective processes to prevent recurrence and will remove the specifically identified unallowable charges. The individuals in question are no longer employed at NC State University.

2. **College of Engineering – ECE – Special Investigation of Allegations of Misuse**

   Internally reported allegations related to non-compliant purchases of furniture and other items; misuse of state funds for personal benefit, and lack of departmental internal controls over the purchasing process. The allegations were substantiated. The employee(s) that were responsible for internal controls and process integrity within the department prior to and at the time of the audit are no longer employed at NC State University. The Interim Department Head and a new Director of Administration and Finance are developing new departmental purchasing processes to ensure stronger internal controls to prevent recurrence of the issues noted and mitigate the risk of misuse.

3. **Student Affairs – Talent Search Program**

   Internally reported allegation related to misuse of funds within the department's travel cash advance process. The allegation was substantiated. The amount of funds misused was an immaterial amount and funds had been repaid prior to completion of Internal Audit's investigation. The department implemented corrective actions including disciplinary action against the employee involved and process improvements to strengthen internal controls and prevent recurrence of misuse.

4. **College of Agriculture and Life Sciences – Department of Crop Science**

   Internally reported allegation related to apparent misuse of long distance phone service in a departmental lab. The allegation was substantiated. A significant number of international long distance calls were made from lab phones and resulted in a significant amount of cost. Campus Police arrested the suspect and pressed charges. The Department placed long-

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distance restrictions on the lines used for the majority of the calls quickly after they became aware of the problem. The Department has implemented other corrective actions including additional training and improved internal controls over the phone bill review process. The suspect was convicted and is paying restitution to the Department.

The University of North Carolina at Charlotte

5. **Office of the State Auditor – Deficiencies in Internal Controls over Financial Reporting (FY2008 Annual Financial Audit)**

   The Office of the State Auditor reported that the financial statements contained several misstatements that were corrected as a result of the audit. Without these corrections, the financial statements could have been misleading to readers. The cause of the finding was turnover of key players with financial reporting responsibilities. Over the past year, the Controller's Office has specifically addressed the procedural issues that led to the finding and conducted a recruitment and selection process that provides the solid foundation needed for successful financial reporting. In addition, the Associate Vice Chancellor for Finance has implemented a staff development and training plan specifically targeted for all key financial services staff members. UNC Charlotte Internal Audit reviewed the corrective action plan and found that it satisfactorily targeted the OSA finding.

6. **FY 2008 OSA IT Audit Findings 90 day Follow-up.**

   The Office of the State Auditor reported that the University of North Carolina at Charlotte has not performed a current business risk assessment, that program change controls policies and procedures are not current and do not address the existing computer environment, that Change Management policy and procedures are incomplete with respect to system software changes/upgrades and do not contain all essential elements, and that inadequate configuration procedures noted in system scans. Review of exceptions has been actively addressed and procedural changes necessary have been or are being made.

7. **Operational Review - College of Education**

   Time and attendance documentation was grossly inaccurate and inadequate in two departments. Timesheets have been properly adjusted and accounted for.

8. **Operational Review - College of Engineering**

   Serious segregation of duties issues were noted in the invoice and billing processes of a key recharge unit. Two departments were executing laboratory use agreements with private companies owned by staff and faculty members without proper approval and depositing revenue in an inappropriate fund. Recharge unit procedures were redesigned and segregation of duties issues adequately addressed. Departments ceased executing inappropriate lab use agreements.

9. **Student Accounts Receivables Process**

Collections process for delinquent accounts does not meet statutory or common practice standards. Updated policy and procedures will be in place no later than August 2010.

East Carolina University

10. **Disaster Recovery Testing 2008**

The IT Disaster Resilience Strategy, the IT Disaster Recovery Plan and the associated recovery procedures have been appropriately validated, consistent with the schedule published in the IT Disaster Recovery Plan. However, some opportunities for strengthening the University's readiness for information technology disasters where noted with regard to business continuity planning and functional management's review and approval of recovery time for critical systems. The Business continuity planner position was frozen due to the current budget situation; however, management continues to work to resolve this issue. Management will encourage the ERM Director to fill in until such time as a permanent BC planner is hired, and remain engaged in BC identification and testing as part of the ERM duties/responsibilities. The Chief Information Officer and the System Planning Committee have initiated a process whereby key stakeholders in ECU's critical business applications will be polled for acceptable downtime periods in the event of a system failure. Internal Audit will follow-up on corrective actions during the annual disaster recovery test for 2009.

11. **EAGLE Testing 2007/2008**

Under the EAGLE program, state agencies are required to perform an annual assessment of internal controls over financial reporting. East Carolina University was chosen as one of the agencies to implement this program for 2008, which was the first year that reporting was required. In summary, East Carolina University identified 10 high risk processes with 46 critical controls. Of the 46 controls, 38 were found to be effective. Management will correct noted weaknesses and Internal Audit will review corrective actions during the next EAGLE testing cycle.

12. **University Cashier's Office**

A review was conducted to ascertain the effectiveness of existing policies and procedures related to the administration of the University's cashiering function and to determine the adequacy of the internal controls over related processes. Overall, we found the internal controls with respect to policies and procedures, segregation of duties, cash receipting and disbursing, and logical security to be adequate based on the samples tested. We found that internal controls could be strengthened with regard to physical security and business continuity planning. Management will explore options regarding physical security and report back to Internal Audit by June 30, 2009. The business continuity plan will be tested and the results of the test will be documented by June 30, 2009

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13. **Accounts Payable**

A review was conducted to ascertain the effectiveness of existing policies and procedures related to the administration of the University's accounts payable function and to determine the adequacy of the internal controls over related processes. Overall, we found the internal controls with respect to invoice management, payment processing, 1099 reporting, independent contractors, and records retention to be adequate. We found that internal controls could be strengthened with regard to segregation of duties, access controls, vendor file maintenance, outside charge accounts, and delegated signature authority. A number of recommendations were made to strengthen controls with regard to the segregation of duties, access controls, vendor file maintenance, outside charge accounts, and delegated signature authority. Management concurred with the recommendations with a planned implementation date of March 2009.

14. **Division of Health Sciences – Alleged Misuse of University Resources**

The Office of Internal Audit received an allegation that an employee at the Brody School of Medicine was reportedly misusing University time and resources. Review revealed a pattern of use of University resources for personal gain, and revealed evidence that substantiated the allegations received. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

Auditor's Note: - The employee in question is no longer employed with the University.

15. **Division of Academic Affairs – Departmental Purchases and Inventory**

Departmental Chair requested a review of departmental purchases to ensure employee(s) were not purchasing items for personal gain. Review did not reveal departmental purchases for personal gain; however, review did reveal evidence of misuse of University computers, violation of University purchasing card policy, and opportunities for improved controls over the department's purchasing and inventory processes. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action. The department anticipates having all internal controls implemented by July 1, 2009.

16. **Division of Health Sciences – Misuse of University Resources**

The Office of Internal Audit received an allegation that a Health Sciences employee was possibly misusing University resources. The review revealed evidence that an employee inappropriately used University-owned computing resources to download and play games, conduct personal business, watch movies, and produce illegal copies of copyrighted materials. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

Auditor's Note: - The employee in question is no longer employed with the University.

17. Division of Administration and Finance – Misuse of University Resources

The Office of Internal Audit received an allegation that an Administration and Finance employee was possibly misusing University resources. The review revealed evidence that an employee inappropriately used University-owned computing resources to view and store obscene literature. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

Auditor's Note: - The employee in question is no longer employed with the University.

18. Division of Academic Affairs – Departmental Payroll and Administrative Review

Departmental Chair requested a review of departmental payroll and other administrative responsibilities of a SPA employee that had been placed on investigatory leave. The review revealed numerous instances whereby the employee did not comply with University policy and procedure to include numerous problems with the employee's handling of student employment and payroll transactions. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

Auditor's Note: - The employee in question is no longer employed with the University.

19. Division of Academic Affairs – Alleged Use of Resources for Commercial Gain

The University Attorney's Office requested a review concerning the potential use of University resources for personal gain by a faculty member. The review confirmed evidence to support the assertion of the faculty member's misuse of University resources for commercial gain. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

20. Division of Health Sciences – Review of Departmental Expenses and Petty Cash

Human Resources notified Internal Audit that a SPA employee in the Division of Health Sciences had been placed on investigatory leave for alleged unacceptable personnel conduct. A review of departmental expenses and petty cash was conducted since this employee was responsible for executing expense transactions and had custody of petty cash. The review revealed a shortage in the petty cash fund managed by the employee, a questionable expense for which the employee stated reimbursement was due, and evidence of a false written statement submitted by the employee on a petty cash reimbursement request. While conducting this review, University petty cash policies and procedures were reviewed. Internal Audit noted some weaknesses in the policies and controls over petty cash transactions at the University. A number of recommendations were made to strengthen controls over petty cash for the University. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action. Management concurred with the recommendations regarding petty cash controls with a planned implementation date of March 2009.

Auditor's Note: - The employee in question is no longer employed with the University.

21. **Division of Academic Affairs – Departmental Expenses and Controls**

Human Resources notified Internal Audit that a SPA employee in the Division of Academic Affairs had been placed on investigatory leave for potentially misusing a University Purchasing Card. A review of departmental revenues, expenses and petty cash was conducted since this employee was responsible for executing expense transactions and had custody of petty cash. The review revealed evidence that the employee used a University Purchasing card to buy items for personal benefit. Review also revealed a shortfall in departmental deposits, and other opportunities to improve internal controls within the department. A number of recommendations were made to strengthen controls in the department. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

Auditor's Note: - The employee in question is no longer employed with the University.

22. **Division of Health Sciences – Misuse of University Resources**

The Office of Internal Audit received an allegation that a Health Sciences employee was possibly misusing University resources. The review revealed evidence that a faculty member inappropriately used University-owned computing resources to view, store, and transmit obscene literature. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action.

23. **Division of Academic Affairs – Alleged Misuse of University Resources**

The Office of Internal Audit received a referral from the North Carolina Office of the State Auditor Investigative Division that an employee of the University had been allowed by management "to work from home", in addition to allegations that the employee "does not have a function" at the University and "continues to receive a salary." The review revealed that a non-exempt SPA employee was allowed to work at home by the Department Head without the appropriate documentation and approval by the Department of Human Resources. Further, evidence was found to support the lack of management oversight by the Department Head and the falsification of time records by the employee. Management will confer with Human Resources, the University Attorney's Office, and EEO with regard to the appropriate personnel action.

24. **Division of Academic Affairs – Alleged Misuse of University Resources**

The Office of Internal Audit received a referral from the North Carolina Office of the State Auditor Investigative Division with regard to two employees in the Division of Academic Affairs. The first complaint alleged an employee was providing services to staff members and keeping the fees charged for the service. The second complaint alleged an employee was misusing leave time. With regard to the first complaint, it was found the employee was not keeping the fees charged but was accepting gratuities above the fee charged. With

regard to the second complaint, it was found the employee was not misusing leave time but was not adhering to the University's compensatory time policy. Management conferred with Human Resources and the University Attorney's Office with regard to the appropriate personnel action. Management is now requiring employees adhere to the University's compensatory time policy.

The University of North Carolina School of the Arts

25. Ticket Sales Deposits

Finding 1: BOX OFFICE DOES NOT HAVE ADEQUATE SEGREGATION OF DUTIES INVOLVING RECEIPTS AND DEPOSITS
Cashiers are responsible for collecting payments, reconciling receipts to daily sales reports and preparing deposits. Due to the small staff of the Box office, the segregation of duties is not possible. Instead, the Interim Director and Assistant Facility Manager will review and approve the daily receipt reports, deposit forms and deposit receipts.

Finding 2: CASHIERS HAVE THE ABILITY TO PROCESS A TICKET RETURN WITHOUT MANAGEMENT APPROVAL AFTER A CUSTOMER HAS PURCHASED A TICKET
This allows a cashier to void a cash transaction and conceal a possible theft. Management has implemented a Ticket Refund/Exchange Form which will be submitted by the cashiers when a ticket refund or exchange is processed. The Box Office Manager, Interim Director or Assistant Facility Manager will review and approve the form and attach it with the daily deposit.

Finding 3: UNIVERSITY DOES NOT HAVE ADEQUATE CONTROLS IN PLACE TO ENSURE RECEIPTS ARE PROPERLY DEPOSITED
Deposits are not being reviewed by someone not involved with the duties of collecting and depositing receipts. The review should compare the end of day receipt report to the deposit receipt from the university cashier. Written documentation of the review and approval should be included with the end of day reports. Management has implemented a procedure whereby the receipts, reports and deposits will be reviewed to ensure accuracy and timeliness.

Finding 4: COPIES OF CREDIT CARD RECEIPTS CONTAINING CONFIDENTIAL CARD HOLDER INFORMATION ARE STORED IN AN UNSECURE STORAGE ROOM
Management has moved the credit card information to a secure area with restricted access.

26. Business Continuity Plan

The University currently does not have a campus-wide policy which requires a business continuity plan or provides guidance for developing a plan for each of the University's critical services. The University agrees that a comprehensive business continuity plan

should be developed but efforts to develop the plan will depend on the available staff and financial resources.

27. Purchasing Card Audit Follow-up

In the prior audit report, a finding noted that the UNCSA Summer Performance Festival did not submit adequate documentation of purchases when the P-Card reconciliation reports were submitted. During the follow-up review, 171 transactions were examined and 2 transactions, which totaled $285.50, did not have receipts. Management reiterated to the managers of the Summer Performance Festival the requirements of the P-Card program. Documentation was subsequently submitted for the two transactions with missing receipts.

The University of North Carolina at Asheville

28. Office of the State Auditor General Controls Review

Finding 1: LONG-TERM AND SHORT-TERM PLANS DO NOT EXIST
The University of North Carolina at Asheville does not have sufficient long and short-term plans in place to address information technology issues and opportunities. UNC Asheville will consolidate existing planning documents into a single document and make significant progress in refreshing the plan during the next three months. The IT Strategic Plan was revised on April 5, 2009. All of the IT Strategic Plan initiatives are established and carried out by the CIO, designated representatives within the university's information resources area coupled with Senior Staff approval.

Finding 2: INSTALLATION OF ANTI-VIRUS
The University of North Carolina at Asheville did not install anti-virus software on some of its systems. ITS personnel have installed anti-virus software on the systems which were indicated by the audit. Internal audit has secured the documentation in support of the completion of this work. The installation of anti-virus software was completed on February 4, 2009.

Finding 3: CONTROL OVER WEB PAGE CONTENT
The University of North Carolina at Asheville does not have controls in place to prevent sensitive information from being posted on the internal and external web pages. UNC Asheville will consolidate existing usage and data management policies into a set of standards and guidelines which web developers must use in publishing information on UNC Asheville web pages. Internal Audit reviewed the guidelines prepared by management and looked at the process the CIO has begun to implement corrective action to this finding.

Finding 4: SECURITY STATEMENTS ARE NOT SIGNED
The University of North Carolina at Asheville does not require employees to sign a "read and understood" security statement. UNC Asheville will develop an electronic approval mechanism whereby employees can certify that they have read and understood existing policy statements regarding legal usage of computing and network resources. Remediation

will include recertification of existing employees. Internal audit reviewed the document in support of the internal change made by ITS management, which included the 'check-the-box' item.

Finding 5: UNSECURE WIRING CLOSETS
Various wiring closets throughout UNC Asheville's campus were not secure and/or contained debris, storage of boxes, chemicals, etc. IT management has a list of all the IT wiring closets and the status of securing of these closets. This information has been reviewed by internal audit. Also, internal audit has visited some of the closets to review the status of the security of the closets. It was determined that access is limited to the closets. In addition, there were closets where minor repairs were needed and it was determined these were done. However, there were several closets on the list for which, according to the designated individuals responsible for the area, there was no other option for re-locating the switches or wiring.

Finding 6: ANNUAL RECERTIFICATION AND DESIGN OF ACCESS FORMS
The University of North Carolina at Asheville failed to develop a formal process to annually recertify user's access to one of its critical applications. Also, the volunteer access rights form was not sufficiently designed to capture who authorized the volunteer's access to the system and the volunteer's level of access required to the system. UNC Asheville will develop an electronic web document which will require annual recertification for user access. Internal audit has reviewed the re-designed form created by IT management in April 2009. Based on an internal audit review of this process with the Director, AIS, it was determined data security managers were in the process of responding to the Director, Administrative Information Systems, of their annual review of individuals' access.

Finding 7: SYSTEM SOFTWARE UPGRADES
The University of North Carolina at Asheville failed to upgrade its system software on a frequent basis.   IT management will ensure that upgrades to system software are performed according to a schedule currently under development. Internal audit was able to determine that published on the UNC Asheville ITS Webpage is the ITS System Status & Scheduled Maintenance and the critical patch upgrade schedule was included in the AIS Manual.

Finding 8: WEAKNESSES IN PHYSICAL & ENVIRONMENTAL CONTROLS
The University of North Carolina at Asheville's computer room uses a device to access the computer room. During our walk-through, we learned that this device was not updated on a regular basis.   We also found that water detectors in the computer room were not operational. Ceiling tiles revealed that leaks have occurred within the computer room. The computer room access device has been updated and will be on a regular, continuing basis. Repair of water detectors in the computer room is under review and will be addressed. Although the State Auditors found the water detectors in the computer room were not operational, it was determined that there was little to no risk of leaks in the room and per the recollection of the Director AIS and CIO, there have not been any leaks in this area in recent years. Also, IT management indicated the equipment in this area is covered under warranty, to compensate for loss. During the course of the audit UNC Asheville facilities personnel changed the combination on the machine room lock on December 9, 2008. To accompany

this room lock change, ITS management has developed a schedule to have the combination changed quarterly, to accommodate for any changes in personnel, which may occur. At the same time, ITS management assessed the need for a new floor water detection system in this area. This new floor water detection system would also include the replacement of the control unit for the system. Estimates for this work to be completed were dated April 7, 2009 and copies of these estimates were provided to internal audit.

Finding 9: LACK OF DETAILED AND APPROVED OPERATION PROCEDURES
The University of North Carolina at Asheville operation procedures are not approved by UNCA management. Although UNCA provided operation procedures to explain how critical application jobs are run, these procedures were not part of UNCA's published policies and procedure manual. UNC Asheville will formalize operations procedures. Periodic reviews of the procedures will be approved by data managers. The policies and procedures which were reviewed, re-written, or established by the CIO and IT management have been reviewed by internal audit.

29. **Office of the State Auditor General Controls Review - Sensitive IS Report**

Five Findings: Findings either resolved or satisfactorily progress is being made toward resolutions. Due to sensitive nature of findings, no additional information is provided in this summary.

30. **Office of the State Auditor Financial Audit (FYE 6-30-08)**

Finding 1: INAPPROPRIATE INFORMATION SYSTEM ACCESS
The University does not have adequate procedures in place to ensure computer access rights for separated employees are cancelled timely. UNC Asheville Information Technology Service management is implementing procedures to ensure computer access rights for separated employees are cancelled timely. Information Technology Service (ITS) – Administrative Information Systems (AIS) revised its Systems and Procedures Manual in October 2008.

Finding 2: NONCOMPLIANCE WITH STATE TRAVEL POLICIES
The University did not consistently comply with state travel policies. The University is in the process of reevaluating and updating the institutional travel policy and will establish controls to ensure compliance with travel policies contained in the North Carolina Budget Manual.

Finding 3: DEFICIENCIES IN FINANCIAL REPORTING
The financial statements prepared by the university contained misstatements that were corrected as a result of our audit. Management will implement additional internal controls to ensure that financial statements and the accompanying footnotes are accurate. Internal audit consistently met with the university controller during the fiscal year which ended on June 30, 2009, while reviewing the internal financial documents in support of each transaction noted. Internal audit, by following up with a review of the financial statements

and notes prepared for the fiscal year ending on June 30, 2009, will attempt to provide reasonable assurance university management prepares the financial statements and associated notes with greater attention to detail, thus reducing the risk of a similar occurrence from recurring.

31. **Office of the State Auditor Financial Audit (FYE 6-30-08) - Management Letter Comment**

    NONCOMPLIANCE WITH PURCHASING POLICIES AND PROCEDURES
    Our audit revealed instances where purchase orders were issued after the purchases were already made. The University will strengthen controls to ensure compliance with its purchasing policies and procedures. The University reviewed their current purchasing policies and procedures, determining the need for updating and revision. The University purchasing policies and procedures were revised and were approved by university senior management on March 9, 2009.

32. **Special Review: NC Center for Creative Retirement**

    Finding 1: EXCESSIVE AMONUT OF COMPENSATORY TIME EARNED
    It was alleged an excessive amount of compensatory time was earned by a university employee during the fiscal year beginning July 1, 2008. Management within the NC Center for Creative Retirement clearly saw the need to get up to speed on proper use of monthly time sheets, while making certain that if employees need to work out modifications in their schedules, it is done with their supervisor who, also, is knowledgeable about the rules of appropriate use of compensatory work time. The new interim director of the Center will work closely with HR to insure that future infractions are avoided and that all staff members are fully informed about proper scheduling and reporting of work time.

    Finding 2: DISCREPANCIES NOTED IN HOURS RECORDED ON EMPLOYEE'S TIME RECORD
    Discrepancies were reported in the hours recorded as worked by a university employee. The NCCCR director, interim director and director of the Center's College for Seniors will meet with the employee to discuss ways to ensure that improper use of compensatory time do not occur in the future and will establish clearer lines of communication so that if the employee has a problem about carrying out her work during regular hours, she will discuss this with her direct supervisor to make appropriate and allowable arrangements.

Appalachian State University

33. **GEAR UP**

    The director of the GEAR UP grant was hired without EPA hiring policies being followed which led to a director being put into a leadership position who was unable to effectively manage the program. This led to other University and Grant policies not being followed such as supplemental pay policies, spending policies and federal grant matching

requirements. A new Director and other staff members were hired with the approval of the Federal Department of Education. The new Director and her staff have made great strides in correcting the deficiencies of the GEAR UP office. She continues to work closely with the appropriate ASU personnel and the Federal Department of Education to assure the University is meeting all requirements including the federal matching requirement.

34. Wrestling Camp

The ASU Wrestling Camp was not in compliance with the ASU supplemental pay policy, ASU spending policy and General Statute 105-164 concerning sales tax.   A new director for the Wrestling Camp was named and the management was moved from Conferences and Institutes to the Athletic Department. The Athletic Director has been charged with assuring that all sports camps comply with all ASU policies and procedures. Conferences and Institutes are establishing procedures to assure that all sales tax requirements are met.

Western Carolina University

35. Residential Living – Schlage Security Management System

Finding 1: In the General Controls Audit of this system numerous deficiencies in the area of access control. These deficiencies include lack of procedures for requesting, establishing, issuing and closing user accounts; the system administrator has administrative and user rights; shared user id and passwords; no expiration of passwords and users with administrative rights. Residential Living has implemented corrective actions. The implementation of proper segregation of duties has been partially completed with compensating controls due to limited staff.

Finding 2: We found in our General Controls Audit of this system numerous deficiencies in the area of program maintenance. These deficiencies include lack of written procedures for requesting system modifications; no documentation of system changes or maintenance; remote access by vendor to modify system not verified or monitored and lack of a University required third party/confidentiality signed agreement from the vendor. Residential Living will initiate the appropriate work requests and discussions with IT and the vendor to implement the recommendations.

36. University Emergency Medical Services

Finding 1:   We found the contract between Western Carolina University, WCU-EMS and WestCare was not current and numerous contract requirements were either obsolete or not being performed. One item of risk and non-conformity was the requirement for all members of the WCU-EMS to purchase and maintain personal professional liability insurance. We found the current contract exposing potential liability and financial risk for WCU and members of the WCU-EMS.   The Executive Council of the University is currently reviewing the mission, need, purpose, responsibility, liability and services of WCU-EMS. Additionally, the Director of Health Services and Legal Counsel are discussing with representatives of WestCare contract issues.

Finding 2: Our office reviewed the Standard Operating Guidelines (SOGs) of WCU-EMS and performed testing on Section 2.1 – Requirements for the Staffing of the WCU-EMS members. We found numerous certifications that had lapsed and incomplete documentation required for membership. EMS member credentials and certifications will be maintained in the University Health Center. Those credentials will be reviewed at the start of each semester and updated as appropriate.   Any member that has lapsed credentials or certifications that will lapse in the semester will not be allowed to staff the ambulance until certification/licensure/etc. has been renewed.

37. Financial Review – Provost Office

We found the University's faculty position management system was created and maintained on a PC by the Business Officer in the Provost Office. The University is in transition from the use of OPMS (WCU's internal on-line personnel management system) to the Position

Control Module of the Banner Financial System. Currently, the desk top program maintained by the Business Officer is considered the only reliable information relating to faculty position management. The dependence on this system poses significant risk to the University in the management of faculty positions. Human Resources and Financial Services will complete the implementation of the position control system and it will be fully operational in the FY 2009-10.

Elizabeth City State University

38. Special Review of Purchasing – Overtime Hours

In review of timesheets, there were discrepancies in overtime hours and rates paid to an employee from an August 15, 2006 memo. It appears there was an overpayment based on this memo and an underpayment based on a December 15, 2006 memo, which was approved by the mother-in-law of the employee. Steps have been taken to secure the overpayment from the employee. The appropriate adjustment will be performed to ensure the employee is compensated according to the calculation. The mother-in-law no longer works for the University.

39. Special Review of Purchasing – Time Sheets

A supervisor signed time sheets and memos for payment to the daughter-in-law of her supervisor. The mother-in-law also signed time sheets for her daughter-in-law. Staff members have been directed to ensure that all time sheets are recorded and approved by the appropriate non-familial supervisor.

40. Special Review of Purchasing – Avoiding Conflicts of Interest Policy

In reviewing the documents regarding the hiring of a contractor, we did not review a justification to the Division of Purchase and Contracts to request hiring a company in which an employee, the mother of the contractor, has a major interest, which may have resulted in a conflict of interest. The Purchasing Department has been instructed on ECSU's policy.