

Minutes of the September 17, 2009 Meeting
of the Board of Governors' Audit Committee

The Audit Committee met in Executive Conference Room of the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, September 17, 2009, at 4:00 p.m.

Members in attendance were Mr. Brent Barringer, Mr. John M. Blackburn, Mr. Frank Daniels, Jr., Mr. Walter C. Davenport, Mr. Phillip R. Dixon, Mr. Fred G. Mills, Dr. Gladys Ashe Robinson, Dr. Irvin A. Roseman, and Mr. David W. Young. Also in attendance was Board member Laura W. Buffalo; Vice President Robert O. Nelson; Associate Vice Presidents David L. Harrison and James O. Smith; Assistant Vice President Jeffrey A. Henderson; Chancellor Kenneth E. Peacock (ASU); and Project Management Officer Gwen Canady (UNC-GA).

Chair Young welcomed everyone to the meeting. On the motion of Dr. Robinson, seconded by Mr. Mills, the minutes of August 13, 2009 were approved.

Ms. Canady presented an update on the UNC Finance Improvement and Transformation (UNC FIT) Project (see attachment 1). Campus monitoring visits were planned to begin in October. The Key Performance Indicators (KPIs) reporting had begun on the campuses and a report on the dashboards would be reviewed at the October meeting.

A task force had been appointed by the Office of the State Controller to coordinate the UNC FIT program and the State's EAGLE (Enhancing Accountability in Government through Leadership and Education). The task force would identify overlap in project goals and principles and minimize duplication of efforts.

Student Accounts Receivable, Purchase to Pay, and Budgeting were being considered for the next areas of process improvements.

The UNC HR/Payroll Project for the nine Central Payroll campuses was discussed. UNC Pembroke was serving as the pilot campus for the conversion to Banner Payroll. Bi-weekly payroll was scheduled to go live October 1, 2009. However, it was anticipated that a decision would be made soon when the monthly payroll would go live. The Shared Services Center facility would be located at UNC General Administration. The Operational Model and Procedures manual was being drafted. Both UNC Asheville and Western Carolina University were still on schedule to go live in January 2010.

Mr. Henderson reviewed one external audit report released since the August meeting. Fayetteville State University had three audit findings issued in its 2008 Financial Audit Report (see attachment 2). FSU had initiated corrective actions to address the findings. FSU had made significant improvement over prior years: 17 audit findings in 2006, 14 in 2007, and five in 2008.

Finally, Mr. Henderson reported on the status of Elizabeth City State University's June 30, 2008 financial audit, which had not yet been released. Both Mr. Nelson and Mr. Henderson discussed

the upcoming June 30, 2009 financial audit of Elizabeth City State University. The State Auditor, Beth A. Wood, had expressed serious concern regarding the auditability of the report based on audits for the last two years. A team headed by Mr. Henderson had been reviewing the 2009 financial statements. Although the project was in its early stages, it was noted ECSU's financial statements would be ready upon the return of the State Auditor.

There being no further business, the meeting was adjourned.

Mr. David W. Young.
Chair of the Audit Committee

Mr. Walter C. Davenport
Secretary of the Audit Committee

UNC FIT Project Update - Process Improvement Initiatives

The UNC FIT Process Improvement initiatives implemented this past fiscal year for the areas of Contracts and Grants, Financial Aid and General Accounting are entering the monitoring and reporting phase. The UNC FIT team will be reviewing the campus status reports, compliance checklists, key performance indicators (KPIs) and visiting the campuses as appropriate.

Monitoring/Campus Visits

Campus visits to review the standards implementation will begin in October 2009 and continue through the winter. The UNC FIT team will be assessing the quality of the previously self-reported compliance and will also document any acceptable deviations from the compliance standards. Campus internal auditors will be a key partner in the monitoring phase of these process improvements. The auditors were provided a history of the project and expectations regarding their role in August.

Key Performance Indicators (KPIs)

As previously reported, Key Performance Indicators were developed from the process standards. These KPIs will be reported to campus leadership and UNC General Administration beginning in September 2009. A proposed dashboard of indicators is being reviewed and will be shared with the Board of Governors in October. The KPIs will be used to reveal trends, monitor risks, highlight successful areas as well as areas that may need improvement, identify areas where resources may be needed and improve management of campus business processes.

Coordination with the State's Internal Control Program

A task force has been appointed to assess synergies between the State's EAGLE (Enhancing Accountability in Government through Leadership and Education) Program and the UNC FIT process improvements initiative. The goal is to identify overlap in project goals and principles and minimize duplication of efforts. The task force will be meeting with the Office of State Controller in October to outline a plan.

Next Set of Standards

Over the next few months, the UNC FIT team, in conjunction with the campuses, will identify the next areas of process improvements. Student Accounts Receivable, Purchase to Pay and Budgeting are among those currently under consideration.

UNC Payroll Project Update

The UNC FIT team continues to work aggressively to move nine campuses off of the Office of State Controller's Central Payroll system and onto Banner Payroll within a Shared Services environment. As discussed at previous Audit Committee meetings, the project is implementing this module utilizing a Standard Model. Multiple streams of work are in process concurrently. The current status follows.

Standard Model

- Standard Model certified on August 27th.
- Change and Configuration Management Process document drafted and under review.

Data Quality and Correction

- Data quality assessment at UNC Pembroke revealed high quality data.
- Data Certification signed by UNCP on August 25th.
- Assessments at other universities confirmed suspected data issues - a data quality and correction plan has been provided to each campus to assist in addressing areas of weakness.

Pilot Status

- The pilot campus, UNC Pembroke, is scheduled to go live on October 1, 2009.
- Number of critical tasks must be completed in next four weeks to meet go live date. UNC FIT team is continually assessing Operational Readiness with UNCP team.
- Key go/no go decision to be made week of September 14.

Shared Services Center

- Shared Services Center facility has been defined and will be located at General Administration
- Operational Model and Procedures manual is drafted.
- Applications for the Director of Payroll are under review, the Payroll Analyst position is being advertised
- Service Level Agreement between the Shared Service Center and campuses has been drafted and is under review.

Communications and Training

- Project website established with initial project announcements, frequently asked questions and background documents.
- Initial training at pilot campus is complete for HR and Payroll staff. Training for employees will occur closer to go-live.

Work is underway for the next two campuses (UNC Asheville and Western Carolina University), that will go live in January, 2010.

2008 Audit Report 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 for 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.