Minutes of the November 13, 2009 Meeting
of the Board of Governors' Audit Committee

The Audit Committee met in the Executive Conference Room of the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Friday November 13, 2009, at 8:00 a.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. Others in attendance were Board of Governors members Mrs. Hannah D. Gage, Mr. Charles A. Hayes, Mr. G. Leroy Lail, Mr. Ronald C. Leatherwood, and Mr. Franklin E. McCain; Chief of Staff Jeffrey R. Davies; Vice Presidents Laurie Charest, John Leydon, Laura Luger and Robert Nelson; Associate Vice Presidents David Harrison, Bruce Mallette and James Smith; Assistant Vice President Jeff Henderson; Chancellor Kenneth Peacock (ASU) and Chancellor Willie Gilchrist (ECSU); and Ms. Gwen Canady (UNC-GA).

Chair Young welcomed everyone to the meeting. On the motion of Mr. Davenport, seconded by Mr. Blackburn, the minutes of October 8, 2009 were approved.

Mr. Henderson reviewed five audit reports (see attachment 1) released since its October meeting. Four of the reports were 2009 Fiscal Control Audits: Appalachian State University, Winston-Salem State University, North Carolina A&T State University, and the University of North Carolina at Wilmington, all of which were issued with findings. Each of the campuses had initiated corrective actions to address the findings. The fifth report was the 2008 Financial Audit of Elizabeth City State University which had three findings. The University was working diligently to correct the conditions noted in the report.

Next, Mr. Henderson gave a status report on the status of the Elizabeth City State University Project. The team headed by Mr. Henderson completed its review of the 2009 Financial Statements. Some errors had been noted and corrections implemented by the University. ECSU submitted its financial statements, the related notes to the financial statements and management's discussion, and analysis to the Office of the State Auditor on October 30, 2009, ahead of the agreed upon deadline. There were some areas in need of correction and plans were put in place to be completed prior to the end of the current fiscal year. These areas were:

- Bank Reconciliations
- Student Accounts Receivable
- Contracts and Grants

The financial statements at ECSU would be ready to audit when the State Auditors return.

Chair Young then introduced N.C. State Auditor Beth A. Wood. Ms. Wood explained the duties and responsibilities of the State Auditor at the Universities:

- Perform Financial Statement Audits
- Perform Single Audit Reports
- Perform Information Systems Audits, three year cycle
- Perform Fiscal Control Audits
- Perform Investigative Audits

For the fiscal period July 1, 2007 through June 30, 2008, the State Auditor performed the following activities for the Universities:

- Financial Audits were performed at all 16 institutions
  - Five institutions had no findings
  - Seven institutions had findings in financial reporting
  - Seven institutions had findings of inadequate system access
  - Other deficiencies identified but were uncommon among multiple institutions
- Student Financial Aid Cluster Audits were performed at six institutions
  - Five institutions had findings
- Information Systems Audits were performed at four universities
  - All institutions had findings
- Four institutions had Fiscal Control Audits
  - All institutions had findings
- Since July 1, 2008, one Investigative Audit was issued

Once the audits were completed they were published on the State Auditor's website, management letters were sent and exit conferences were held, and concluding letters were sent. The State Auditors reported to the institutions' Audit Committees upon request.

For 2009, audits planned by the State Auditor:

- Financial Statement Audits at all the campuses
- Six Single Audits to include Student Financial Aid Audits and follow-up
- Six Information Systems Audits
- No Fiscal Controls Audits

Questions were answered throughout Ms. Wood's report.

At this point, on the motion of Chair Young, seconded by Dr. Robinson, the Committee went into closed session to prevent the disclosure of privileged information under N.C.G.S. 147-64.6(c)(18) and North Carolina General Statue 116-40.7(c) of the North Carolina General Statutes or regulations.

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CLOSED SESSION

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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

2009 Fiscal Control and 2008 Financial Audit Reports Released Since Last Meeting By the North Carolina Office of the State Auditor:

1. Appalachian State University: – (Fiscal Control Audit): Four Audit Findings

   Report URL:
   http://www.ncauditor.net/EpsWeb/Reports/FiscalControl/FCA-2008-6080.pdf

Matters Related to Fiscal Control

1. INAPPROPRIATE SHARING OF USER NAMES AND PASSWORDS

   The University did not maintain internal control over access to accounting software and data. This increases the risk of error or fraud that may not be detected.

   Temporary bookstore employees were allowed to use the full-time bookstore employees' user names and passwords to enter data into the accounting system. These temporary employees were responsible for entering data to bill students for unreturned rental textbooks.

   The Office of Conferences and Institutes assigned unlimited access to its Conference Programmer software to all employees. In the receipting software, the user name and password are generic and is used by all users.

   Sharing a user identification and password reduces accountability for any error or misappropriation that may occur.

   Recommendation: The University should implement controls to ensure that unique user names and passwords are assigned to each individual system user. The Office of Conferences and Institutes should evaluate and reassign job duties and system access rights as necessary to better segregate duties and enhance internal control.

   University's Response: The University Bookstore's temporary employees are now assigned their own user name and password that allows them access to the Bookstore's accounting system. Training regarding confidentiality takes place with each employee to ensure they understand the policy not to exchange passwords. In addition, a process has been put into place to discipline employees who allow access to their user name and password.

   The Office of Conferences and Institutes has taken steps to limit access to its accounting systems and assign unique user names and passwords only to employees whose job duties require such access. Conference and Institutes operates two computer programs for its non credit program registrations, Conference Programmer and QuickBooks. Both programs are external to the registration and accounting functions in Banner Student and Banner Finance which are used for degree credit enrollments. In both of these programs, separate and unique passwords are now assigned only to staff members in Conferences and Institutes whose job requires access to either function. Each transaction in both programs is now traceable to the individual staff member who makes any transaction entry.

2. DEFICIENCIES IN INTERNAL CONTROL OVER REVENUES - OFFICE OF CONFERENCES AND INSTITUTES

   We identified certain internal control deficiencies over revenues in the Office of Conferences and Institutes. As a result, there was an increased risk of error or fraud occurring without detection. Specifically, we noted the following internal control deficiencies:

- The Office of Conferences and Institutes did not properly segregate cash receipting duties from the preparation of the bank deposit. Five employees, including the office manager, three program assistants, and a program director, may receipt funds, void receipts, and prepare the bank deposit. These functions should be segregated so that the duties of one employee automatically provide a cross-check on the work of other employees.

- The Office of Conferences and Institutes did not have written policies and procedures in place to document the process of charging clients for services. A document was prepared at the request of the auditors to demonstrate typical operating procedures. For seven out of 15 client contracts tested, the typical operating procedures were not followed and thus it was difficult to verify that the client paid an appropriate cost for services. The actual revenue for three of these contracted amounts could not be recomputed using participant lists and rates defined per participant.

Recommendation: The Office of Conferences and Institutes should seek to segregate duties for the receipting of cash and preparation of bank deposits, or if this is not practical, implement compensating monitoring controls. The Office of Conferences and Institutes should also establish written policies and procedures for charging clients for services and reconciling actual income to contract terms.

University's Response: The Office of Conferences and Institutes has made changes in internal operational policy which requires two staff members (whose program responsibilities and duties are not involved with the program receipts being deposited) to balance and prepare bank deposits as necessary. This step separates employees who receive money from those who balance cash collections and prepare bank deposits. In addition, Conferences and Institutes will immediately establish, create and aggregate into one manual all necessary written policies and procedures for ensuring that charges for client services are reconciled with actual income in all agreements and contracts. This will involve pre-and-post program reviews of all receipts and expenditures to ensure accounting accuracy. Finally, we are initiating a review of personnel assignments in Conferences and Institutes to ensure that accounting and fiscal responsibilities are properly segregated.

3. MANUAL RECEIPT BOOKS NOT PROPERLY CONTROLLED

The University did not properly control the issuance and use of manual cash receipts books to ensure accountability for collections. The use of pre-numbered receipts, when properly reconciled to amounts deposited, is designed to ensure that all moneys received are deposited and not lost or misappropriated.

The University Cashier's Office is responsible for maintaining an inventory of all receipt books assigned to various University users. We examined the receipt books issued to and used by the Office of Conferences and Institutes. During our audit, we noted the following:

- This Cashier's Office inventory did not include two out of 43 receipt books issued to the Office of Conferences and Institutes.

- Three out of 43 receipt books examined were incorrectly assigned to a different user on the receipt book inventory.

- Three receipt books were completely used but had not been returned to the Cashier's office.

- Two receipt books had pre-signed receipts and had receipts that were altered with white-out.

- Nine receipt books assigned to the Office of Conferences and Institutes could not be located.

The use of receipts as a control against error or misappropriation is only effective if all receipts are completely and accurately accounted for and reconciled to collections.

Recommendation: The University should establish effective internal controls over the manual receipt books to ensure they are properly safeguarded for official use. Prenumbered receipts issued should be accounted for and reconciled to amounts deposited.

University's Response: We are implementing several steps to strengthen internal controls over receipt books, as follows:

- When a department becomes a first time receipt book user, the Cashier's Office reviews the procedures with the user.

- All new users now receive a copy of written procedures for using receipt books.

- New receipt books issued now have the written procedure attached to the inside front cover of the receipt book so a new employee responsible for issuing receipts has a written procedure to follow.

- The written procedure indicates that failure to follow the procedure could result in disciplinary action, including an audit finding to be shared with the Chancellor.

- Each year, the Cashier's Office will send a list of receipt books in the inventory log to each department for confirmation that the inventory is accurate. Discrepancies will be noted and resolved if possible. Departments not responding will be reported to the ASU Office of Internal Audits.

- The receipt book log will be reviewed on a periodic basis to make sure that all outstanding receipt books remain on the active log.

4. NO PRICING METHODOLOGY FOR RENTAL TEXTBOOK PROGRAM

The University Bookstore's management does not have a methodology in place to determine if revenue generated from the rental textbook program is sufficient to cover costs. Without such a methodology, the Bookstore could unknowingly lose money on the program.

Recommendation: The University Bookstore should establish a process to analyze revenues generated from the textbook rental program and associated costs to prices are fixed in accordance with management's objectives.

University's Response: We are in the process of developing a WebFOCUS program that will provide data to help us analyze, in real time, revenue generated from rental textbook fees and all other student fees to ensure that we are collecting the correct amount of revenue and that the amount is adequate to cover costs. We will run the program upon demand but especially at the beginning of each academic semester to compare revenues collected with enrollment.

2. Winston-Salem State University: – (Fiscal Control Audit): Three Audit Findings

Report URL:
http://www.ncauditor.net/EpsWeb/Reports/FiscalControl/FCA-2009-6084.pdf

Matters Related to Fiscal Control

1. DEFICIENCIES IN SALARY ADMINISTRATION RELATED TO GRANTS

The University paid salaries without having an authorized funding source in place and also paid salaries from sources other than the one authorized. Separate accounts and funding sources are established to ensure that money is available to pay for particular functions. Without an authorized funding source, the University risks paying for a function that it cannot afford.

We identified seven employees who continued to be paid after the federal funding for their positions was no longer available. The University continued to charge the salaries to the federal account code but was not able to draw down the federal funds. The total charged for these employees from October 2007 through February 2009 was $388,451.

Another employee's salary was paid from a funding source other than the one approved by the Office of State Personnel. The Office of State Personnel approved the salary funding source as a Title III grant, and the employee's time and effort reports for October 2007 through April 2009 stated the employee worked solely on the grant. The University paid the employee $166,583 for this period, but only $20,014 of the costs was reimbursed by the grant. In addition, the employee was overpaid approximately $9,600 for August 2007 through March 2008 because the University paid the employee at a rate higher than what was ultimately approved by the Office of State Personnel.

Recommendation: The University should develop and implement policies and procedures to ensure that an authorized funding source is available prior to incurring salary costs and that the costs are paid at authorized rates.

University's Response: Concur with finding. The University did indeed continue to charge salaries of seven employees to federal account codes after funding for the positions was no longer available. At no time was there action to draw down the federal funds. Of the seven employees referenced, all have been removed from unauthorized funding sources and systematic measures to prevent recurrence are completed or in progress as follows:

a. Firm end dates will be established for time-limited, federal grant funded positions and will be communicated in documentation to the incumbent and the hiring manager/authority such that expectations for continued employment are unambiguous and obligations for appropriate end-date actions are clear.

b. Firm end dates will also be entered into the Banner-based payroll system upon implementation in July, 2010 such that positive action to continue payment past a grant end-date is necessary.

c. In no case will an employee be continued without appropriate alternative funding and duties. If appropriate alternative funding and responsibilities for the incumbent are not identified not later than 90 days prior to the end of contract support, separation processes for the employee will begin.

The status of the employee working in the interim capacity for the state effort has been dated. The percentage of effort is 15% to the federal and 85% effort to state. The time and efforts sheets have been corrected. Reimbursement has been sought from federal and state. Also overpayment to this individual has been addressed and funding appropriately restored.

In order to circumvent future erroneous posting to closed grants, position numbers funded under federal funds and grants alike will be made inactive unless a new funding source has been identified. Contracts and Grants will initiate the process. This will prevent expenditures from being posting to old accounts and force corrections to the current active account. A by-product of these actions will be reduced journal entries.

2. EXCESSIVE CORRECTING ENTRIES FOR GRANT TRANSACTIONS

The University had to make numerous journal entries to correct errors in the classification of grant expenditures. Having to make numerous corrections increases the likelihood of accounting errors or noncompliance with grant requirements.

We examined journal entries associated with grants for the period of July 2008 through February 2009 and found that 57 out of 178 journal entries prepared were made to correct the classification of expenditures. Errors in classification occurred primarily when expenses continued to be charged to grants after the grant period ended, and the University had to recode the expenditures to current grant accounts. This was necessary because the new grant documents had not been processed and accounts set up at the time the expenditures were incurred.

Recommendation: The University should ensure that grant documents are submitted and processed timely and authorized accounts set up prior to incurring costs. This will reduce the need for so many journal entries and help ensure the accuracy of the accounting records and compliance with grant requirements.

University's Response: Concur with the finding. Excessive journal entries were the result of shortfalls in timely actions to remove employees from grants at the appropriate time referenced above. Expenditures were allowed to post to inactive accounts. With the process now being implemented, entries will not post and will roll to a suspense report, permitting fast resolution.

3. FAILURE TO ADEQUATELY MONITOR CONTRACTS

The University failed to adequately monitor its vending machine, bookstore, and food service operations contracts. Several errors and oversights could have been avoided had proper monitoring occurred. Concerns noted were as follows:

a. The University does not monitor revenue received from its snack vending machines. In its bid solicitation, the University indicated that it would check the counters on selected snack machines to ensure the propriety of revenue collections, but it has not done so. The bid solicitation also states that the vendor will report unit sales for each machine, thereby allowing the University to assess the reasonableness of collections; however, the vendor has not provided the University the unit sales data.

b. The University did not assess $136 in interest penalties to the snack machine vendor for late payments under the contract agreement.

c. The University was underpaid $1,452 by its drink vendor. The contracted commission rate was 38% while the rate received was 37%.

d. Monthly payments from the bookstore vendor were typically one to two weeks late.

e. A $5,728 bookstore commission payment for Rams One (the University's debit card) sales was received four months late. We brought the lack of payment to the attention of University personnel during our audit, and it was subsequently collected.

f. The University received overpayments of $1,198 in food service contract commissions due to a formula error in five weekly commission reports. Failure to review and recalculate commission reports could result in both overpayments and underpayments to the University.

g. The University posted an $886 food service commission to the wrong account. Vending receipts are restricted by UNC policy. Failure to accurately account for vending receipts increases the likelihood of unauthorized use.

h. The University did not have procedures in place to compare the sales reported by the food service vendor to the food service sales reported by the Rams One system. We performed a one-month comparison of the two sources and identified a $1,144 difference.

Recommendation: The University should monitor its contracts to ensure that all parties comply with the terms of the agreement. Commission payments should be monitored for timely receipt, correct rates, proper computations, and timely deposit into the correct general ledger account.

University's Response:

a. Concur with the finding. Effective June 2009, the counters on snack vending machines will be monitored quarterly. On June 12, 2009 the machines in the following locations were randomly monitored: Blair Hall, Fine Arts, O'Kelly Library, R J Reynolds Center, Carolina Hall, Hauser Building, Physical Plant, Atkins Hall and Police and Public Safety. The next meter reading is scheduled for September 30, 2009. The University receives a report of sales for each machine along with the monthly commission check. The vendor uses a hand-held reader that shows how much money is collected from each machine. This tape is included in the money bag for each machine and is compared to the money collected. We will monitor sales quarterly from the counter readings and compare to monthly commission sales reports.

b. Concur with the finding. The $136.03 in interest penalties was received from the snack vendor and deposited on May 8, 2009.

c. Concur with the finding. The $1,451.68 was received from the drink vendor and deposited on June 19, 2009. The rate for beverages will be monitored for accuracy on a monthly basis.

d. Concur with the finding. The monthly payments for the bookstore vendor are now received by due date outlined in the contract.

e. Concur with the finding. The $5,727.52 bookstore commission for Rams One (the University's debit card) was received and deposited on June 1, 2009.

f. Concur with the finding. Subsequent to your analysis, we found the $1,198 in food service contract commission was not an overpayment. The commissions were calculated correctly but sales reported by the contractor, ARAMARK, were incorrect. The sales recorded on the contractor's work copy were not transferred to the spreadsheet sent to Auxiliary Services. Nonetheless, contract commissions will be recalculated for appropriate verification to prevent future instances.

g. Concur with the finding. The $885.79 food service commission deposit was corrected on April 30, 2009.

h. Concur with the finding. The difference in the sales reported by the food service vendor compared to the sales reported by the Rams One system is a result of the employee meals and taxes being included in the cash sales on the Ram Card report. New registers were installed in mid-July 2009 in all food service locations and the reports that will be generated by the food vendor should separate the employee meals and taxes. Therefore both sales reports should be identical.

To prevent these instances from occurring again the following measures have been implemented:

(a) there are dual checks on all commissions deposited; (b) a file for all vendors is set-up on the Business Services shared computer drive and each staff member is aware of commissions due and the fund and account number for the deposit; (c) there will be a monthly audit of the reports received from all vendors to make sure the correct commissions are paid; (d) meter readings for the snack vending will be conducted quarterly and compared to the monthly commission sales reports; (e) we have developed a commission legend for all Pepsi products.

3. North Carolina A&T State University: – (Fiscal Control Audit): One Audit Finding

Report URL:
http://www.ncauditor.net/EpsWeb/Reports/FiscalControl/FCA-2009-6070.pdf

Matters Related to Fiscal Control

1. NONCOMPLIANCE WITH DONOR RESTRICTIONS ON ENDOWMENT SCHOLARSHIPS

The University did not comply with donor restrictions when awarding scholarships from endowments. We tested a sample of 27 scholarships totaling $28,745 awarded from endowment funds and identified six scholarships totaling $5,937 that did not comply with the requirements established by the endowment donor:

- The University was required per the donor's stipulations to obtain two letters of recommendation from applicants prior to awarding five scholarships totaling $5,375. The University was unable to provide the letters.

- A student whose cumulative grade point average was 2.8 was awarded $562 for the fall 2009 semester from an endowed scholarship that required a 3.0 grade point average.

Recommendation: The University should ensure that internal controls are in place and operating effectively to prevent noncompliance with endowment donor restrictions.

University's Response: We concur. Each Endowed Scholarship Fund manager has been provided with their scholarship's award criteria. The Financial Aid Office has also been issued the awards criteria for all endowed scholarships and, along with the Gifts Accountant, will perform random audits for departmental compliance. Additionally, the respective departments will use alternative funds to restore the awards noted as being out of compliance with donor restrictions.

4. The University of North Carolina at Wilmington: – (Fiscal Control Audit): Two Audit Findings

Report URL:
http://www.ncauditor.net/EpsWeb/Reports/FiscalControl/FCA-2009-6060.pdf

Matters Related to Fiscal Control

1. DEFICIENCIES IN THE REIMBURSEMENT OF TRAVEL CLAIMS

The University did not follow its travel policies and the State's budget manual when reimbursing employees for travel expenses. The University reimbursed employees for out-of-state lodging costs in excess of amounts authorized. In addition, there was no documentation to justify why a chartered aircraft was used by one employee. Without requiring explanations or justifications for these additional costs, the University may be paying for unnecessary or excessive travel expenses.

Our tests of the 36 travel claims with out-of-state lodging costs over $1,000 revealed the following.

- Six claims for lodging exceeded the amount that had been authorized by the supervisor. For example, one employee was authorized for lodging costs of $175 per night. However, the hotel charged and the employee was reimbursed $375 per night. The other overages ranged from $50 to $595 per trip.

- One travel authorization with excess lodging was not approved until six days after the travel had ended. Another travel authorization with excess lodging was approved eight days after the employee's departure.

- One employee incurred and was reimbursed lodging expenses for two adults and a child while at a conference without any supporting documentation showing that the rate reimbursed was the same as the single occupancy rate.

Both the University travel policies and the North Carolina Budget Manual allows for excess lodging reimbursement if more economical accommodations are not available or practical, if proper authorization is obtained in advance of travel. The University's travel policy allows family to stay with the employee while traveling, but the reimbursement rate is not to exceed the single occupancy rate.

We also noted two payments were made to an employee without required justification for the use of chartered aircraft, thereby violating the North Carolina Budget Manual's policy. The policy states that it must be substantiated in writing why another mode of transportation was not used. The total cost for both trips was $1,784. Had a personal vehicle been used the travel costs would have been $375, which would have resulted in a savings of $1,409.

Recommendation: The University should strengthen internal controls to ensure compliance with its travel policies.

University's Response: The University has established policies and system procedures in place to ensure travel approval by the budget authority during both the travel authorization and the travel reimbursement processes. In addition, the University electronic travel (e-travel) system does force all travel authorizations to be completed and approved by the responsible persons before any travel reimbursements can be issued. Although this e-travel system control will not prevent travel without authorization it will ensure that all travel is appropriately approved prior to reimbursement and will identify areas for traveler training. Additional procedures will be put into place requiring documentation to validate any travel authorization after the date of departure.

Justifications have now been received for the two payment reimbursements for the use of chartered aircraft. Each travel authorization has been substantiated in writing why another mode of transportation was not used. Further authorization for this budget authority is being reviewed.

UNCW will continue to refine and enhance travel procedures to seek additional documentation on excess lodging and enhance the travel procedures for travel to meet an appearance and reasonableness test.

2. NONCOMPLIANCE WITH CONTRACTUAL AGREEMENT POLICIES

The University did not comply with its policies to obtain approval from Human Resources and/or Purchasing Services before making a formal commitment on contracted services. In addition, we noted instances where the requisition supporting the proposed contract was not prepared in a timely manner. If the contracted service is not properly approved, the University could pay for unwanted or unnecessary expenses. Our tests of a sample of 42 contracts revealed the following:

- Fourteen contracts for personnel services were not approved by the Human Resources department prior to the work beginning. In some cases, approval was not obtained until two months after the work began.

- Four contracts were issued without the initiating departments preparing an electronic requisition and obtaining Purchasing Services' approval. These contracts were approved for payment after-the-fact and notes were written to the departments instructing them to follow the procedures in the future.

The University's purchasing policy requires the departments seeking to hire an individual or group of individuals to perform contracted personal services to obtain approval from Human Resources before making any formal commitments. It also states that a University department must prepare an electronic requisition prior to making any commitment to a service provider. Purchasing will review the requisition and coordinate any additional approvals if required.

Recommendation: The University should strengthen internal controls to ensure compliance with its policies related to contractual agreements.

University's Response: The University will require additional back-up documentation including justification and a memo of exception for any contracts not processed according to prescribed policy and procedures. UNCW will continue to refine its internal controls with additional documentation and enhance mentoring practices to ensure that departments are complying with the University Independent Contractor policy and procedures. Although the University procedures indicate that all independent contractor forms should be filed and approved before services are made, no payments are made until the form has been validated by the appropriate departments.

5. Elizabeth City State University: – (Financial Audit): Three Audit Findings

Report URL:
http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2008-6086.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. All findings were reported in the prior year.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the University contained misstatements that ultimately were corrected as a result of our audit. Further, when statements or notes and their supporting documentation were returned to the University for correction, the University often failed to make the appropriate adjustments. Without the corrections that were finally made, the financial statements could have been misleading to users. Misstatements noted in our audit included:

a. The University posted an erroneous journal entry that resulted in the overstatement of depreciation expense and understatement of supplies and materials by $1,226,941.

b. The University did not post several prior year audit adjustments, resulting in a $711,122 understatement of beginning net assets.

c. Scholarships and fellowships expense was overstated by $2,248,763 because the student financial aid tuition discounting adjustment was calculated incorrectly. This error also resulted in an overstatement of student tuition and fees by $2,242,903, sales and services by $1,316,764, and receivables by $1,310,904.

d. Scholarships and fellowships expense was overstated by $602,604 because the University erroneously transferred student charges to a student financial aid account.

e. Cash and noncapital grants were understated by $336,713. Cash was also misclassified between the current unrestricted, current restricted, and noncurrent restricted accounts. Current unrestricted cash was overstated by $5,185,519, current restricted cash was understated by $5,635,005, and noncurrent restricted cash was overstated by $449,486.

We also noted significant problems in the timeliness of financial reporting and the process to prepare the financial statements. These deficiencies included:

- The University submitted numerous different versions of financial statements for audit. The final version and supporting data were received in July 2009; ten months after the statements were due.

- The University did not reconcile its accounting records to the financial statements it submitted until April 2009, seven months after the first set of statements were submitted for audit. As a result, there was not an adequate audit trail from the financial statements to the financial records.

- Notes to the Financial Statements did not have adequate explanations or supporting documentation, indicating limited or inadequate review by the University prior to submission to the Office of the State Auditor. The lack of adequate supporting documentation significantly hindered the ability to audit the financial statements that were submitted.

- Journal entries posted by the University did not have adequate explanations or supporting documentation.

This finding was also reported in the prior year.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and implement effective internal control procedures to ensure the completeness, accuracy, and timeliness of the financial statements. The University should ensure that the financial statements are supported by the accounting records and perform an adequate review of the journal entries posted to the general ledger to ensure the entries are appropriate and adequately supported.

University's Response: We concur with the finding. The University is continuing to recruit new staff beginning with a Chief Financial Officer, effective July 1, 2008. In addition, staff turnover and vacancies have also contributed to the problems noted above. To resolve these issues, staff has been reassigned to maximize the utilization of their talents and skill sets. Other critical positions are actively being recruited or have been filled by competent new hires.

The University has strengthened the internal controls over year end processes to ensure that these problems do not reoccur in the future. Furthermore, we have partnered with larger institutions to implement improved controls and best practices.

2. INADEQUATE RECONCILIATIONS

The University did not adequately reconcile several of its bank accounts on a monthly basis. There were unexplained reconciling items between the balances in the accounting records and those on the bank records. Failure to completely reconcile bank accounts to the accounting records increases the risk that errors or fraud will occur and not be detected in a timely manner.

The University also failed to reconcile its student accounts subsidiary ledger to the general ledger or to the amounts ultimately reported in the financial statements. If the subsidiary ledger is not reconciled to the general ledger, there is a risk that the amounts reported in the financial statements are incorrect.

Similar issues were also reported in the prior year.

Recommendation: The University should implement proper policies and procedures to ensure that bank reconciliations for all accounts are adequately performed and reviewed for accuracy and subsidiary systems are reconciled to the general ledger.

University's Response: We concur with the finding. For the year ended June 30, 2007, the bank reconciliations were not completed. For the current year audit ended June 30, 2008, the bank reconciliations were completed; however, there were outstanding items dating back to 1999 which must be resolved. We are working to resolve these items.

Work has been completed to correct the reconciliations between the Student Accounts Receivables ledger and the General Ledger. When the University converted to Banner in 2006, parallel testing was not completed to ensure the integrity of the data transferred from the previous Legacy system to the new enterprise, system, Banner. Additional reconciliations are being implemented to improve the accountability of the data in the student accounts receivable ledger and the general ledger. We have also contacted other schools which have mastered this problem for assistance.

3. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH JOB DUTIES

The University did not have adequate procedures in place to ensure that employees only had information systems access rights necessary to perform their job duties. This could result in unauthorized or inappropriate transactions.

Appropriate University personnel did not periodically review access rights to determine if the correct access was granted to employees consistent with their job duties. During our audit, we noted the following access deficiencies:

- Six generic user ids had maintenance/update access to various financial processes.
- One employee had access rights that allowed her to create purchase orders, update vendor files, enter invoices, write checks, and post journal entries.
- One employee in the department of education had maintenance/update access to the financial aid module that allowed him to post financial aid awards to students' accounts.

These inappropriate access rights increase the risk that erroneous or fraudulent transactions will occur and not be detected in a timely manner. Adequately designed internal controls require transactions and other significant events to be authorized and executed only by persons acting within the scope of their authority. System access rights should be reviewed on a regular basis to ensure that rights are only granted consistent with assigned job duties.

This finding was also reported in the prior year.

This issue has been resolved: By February 2009, the University locked the six generic user ids, restricted access rights for the one employee with super user access to include only capabilities related to her specific job duties, and changed the department of education employee's access to query or read only. The finance and financial aid departments have enhanced their procedures to ensure that employees only have information system access rights to perform their job duties.