2009 Financial and Federal Compliance Audits and 2010 Information Systems and Investigative Audit Reports Released Since Last Meeting By the North Carolina Office of the State Auditor:

1. The University North Carolina at Pembroke: - (Federal Compliance): Three Audit Findings Released Date: 4/8/2010

   Report URL
   http://www.ncauditor.net/EPSWeb/Reports/Financial/FSA-2009-6082.pdf

   Matters Related to Federal Compliance Objectives

   1. INADEQUATE RECONCILIATION OF STUDENT FINANCIAL AID AWARDS

      The University did not reconcile students' financial aid awards calculated by the financial aid department to students' awards paid by the business office and to the funds the University received from the federal government during the period July 2008 through March 2009. As a result, there was an increased risk of error in payments, receipts, and/or financial aid records and reports.

      Chapter 12 of the federal Blue Book requires that a school's financial management system include a monthly reconciliation of federal student aid awards recorded in the financial aid, business office, student account, and federal systems.

      This finding was also reported in the prior year.

      Federal Award Information: CFDA # 84.007 -Federal Supplemental Educational Opportunity Grant, Award # P007A083145; CFDA # 84.032 -Federal Family Education Loans; CFDA # 84.033 -Federal Work Study Program, Award # P033A083145; CFDA # 84.038 -Federal Perkins Loan Program; CFDA # 84.063 -Federal Pell Grant Program, Award # P063P081947; CFDA # 84.375 -Academic Competitiveness Grant, Award # P375A08l947; CFDA # 84.376 -National Science and Mathematics Access to Retain Talent Grant, Award # P376S081947; CFDA # 84.379 -Teacher Education Assistance for College and Higher Education Grants, Award # P379T081947. Award Year July 1, 2008 -June 30, 2009.

      This finding has been resolved. The University implemented procedures to reconcile federal awards and correct the deficiencies as of April 2009.

      University's Response: We agree with the auditor's comments, and the following action has been taken to correct the deficiencies. The University has implemented procedures and controls to reconcile federal awards received, financial awards calculated by the financial aid department, awards paid by the business office. The deficiencies were corrected and the controls were implemented as of April 2009.

   2. FEDERAL REPORTING TO OFFICE OF THE STATE CONTROLLER CONTAINED MISSTATEMENTS

      The University incorrectly reported expenditures of federal awards to the Office of the State Controller for inclusion in the State's schedule of expenditures of federal awards. We compared the reported expenditures to the University's accounting records and identified the following errors in the reported amounts:

      • Federal Supplemental Educational Opportunity Grants were understated by $15,085.
      • Federal Pell Grants were understated by $131,814.
      • Academic Competitiveness Grants were overstated by $5,125.

- National Science and Mathematics Access to Retain Talent Grants were overstated by $8,000.
- Federal Family Education Loans were overstated by $767,494.

Controls were not in place to ensure that the reporting to the Office of State Controller were prepared in accordance with federal requirements. OMB Circular A-133 requires that the University prepare federal expenditure reporting for the period covered by the University's financial statements.

Federal Award Information: CFDA # 84.007 -Federal Supplemental Educational Opportunity Grant, Award # P007A083145; 84.032 -Federal Family Education Loans; CFDA # 84.063 -Federal Pell Grant Program, Award # P063P081947; CFDA # 84.375 -Academic Competitiveness Grant, Award # P375A081947; and CFDA # 84.376 -National Science and Mathematics Access to Retain Talent Grant, Award # P376S081947. Award Year July 1, 2008 -June 30, 2009.

Recommendation: The University should enhance internal control to ensure that reports of expenditures of federal awards submitted to the Office of the State Controller are complete and accurate.

University's Response: We agree with the auditor's comments, and the following action has been taken to correct the deficiencies. The UNC Pembroke Finance Office and Financial Aid Office have jointly implemented controls and procedures to ensure timely completion of the A-133 Schedule of Expenditures of Federal Awards (SEFA) report to ensure those figures are reported for the standard July 1st to June 30th fiscal year. The Finance Office has corrected the SEFA report covering the 2008-2009 year.

3. INAPPROPRIATE INFORMATION SYSTEM ACCESS STUDENT FINANCIAL AID SYSTEMS AND DATA

The University did not maintain adequate internal control over access to student financial aid computer systems and data. As a result, there is an increased risk of error or fraud occurring without detection.

We identified four student service specialists, responsible for awarding financial aid, who had access to modify data and the rules for processing data. Access to modify rules for processing data should be limited to employees who are not involved with the awarding and disbursing of financial aid. These employees and an administrative support associate/verification specialist also had access to areas within the financial aid system that are not used by the University.

Employees should be assigned the minimal level of information systems access needed to perform their job duties. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

Significant aspects of this finding were also reported in the prior year.

Federal Award Information: CFDA # 84.007 -Federal Supplemental Educational Opportunity Grant, Award # P007A083145; CFDA # 84.032 -Federal Family Education Loans; CFDA # 84.033 -Federal Work Study Program, Award # P033A083145; CFDA # 84.038 -Federal Perkins Loan Program; CFDA # 84.063 -Federal Pell Grant Program, Award # P063P08l947; CFDA # 84.375 -Academic Competitiveness Grant Award # P375A08l947, CFDA # 84.376 -National Science and Mathematics Access to Retain Talent Grant, Award # P376S08l947, CFDA # 84.379 -Teacher Education Assistance for College and Higher Education Grants, Award # P379T081947. Award Year July 1, 2008 -June 30, 2009.

Recommendation: The University should take appropriate steps to strengthen internal control over access to the computer systems and data and address the deficiencies described above.

University's Response: We agree with the auditor's comments and the following action has been taken to correct the deficiencies. The Financial Aid Department and the Division of Information and Technology have modified the access for the student service specialists to the minimum level of information system access needed to perform their job duties. The Financial Aid Director will conduct an annual review of Banner classes to ensure that employees' security access does not exceed the level necessary to perform their assigned job duties.

2. <u>The University North Carolina School of the Arts</u>: – (Financial): No Audit Findings
Released Date: 4/9/2010

   Report URL:
   http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2009-6092.pdf

3. <u>The University North Carolina School of the Arts</u>: – (Federal Compliance): No Audit Findings
Released Date: 4/12/2010

   Report URL:
   http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2009-6092.pdf

4. <u>Fayetteville State University</u>: – (Investigative): Three Findings
Released Date: 4/19/2010

   Report URL:
   http://www.ncauditor.net/EpsWeb/Reports/Investigative/INV-2010-0355.pdf

Matters Related to an Investigative Audit

1. THE UNIVERSITY CONTRACTED FOR CAMPUS SHUTTLE BUS SERVICES WITH A COMPANY OWNED BY AN EMPLOYEE.

   On October 10, 2006, the University Division of Student Affairs secured contracts with Personalized Tours and Transportation Services, LLC (Personalized Tours) to provide on-campus shuttle bus services for the periods October 15, 2006 through December 15, 2006 and January 10, 2007 through May 12, 2007. The owner of Personalized Tours was employed by the University as the Admissions Department Associate Director (Associate Director) until October 31, 2006. The Associate Director's ownership interest in Personalized Tours violated State and University policy and contract provisions that prohibit contracting with employees or their families.

   When the University secured the original contracts with Personalized Tours, Student Affairs officials were not aware that the Associate Director owned Personalized Tours because they dealt solely with another individual. Student Affairs officials learned later that the representative was the Associate Director's brother. However, by the time they learned the owner's name, he was no longer a University employee.

   The Associate Director acknowledged that he was employed by the University and was the owner of Personalized Tours when the shuttle bus contract was executed. However, he said he had limited

involvement with the business at that time. The Associate Director said his brother handled all negotiations with the University.

According to State policy, "Every reasonable effort shall be made to avoid making purchases from or through employees of any agency. Prior written approval from the [State Purchasing Officer] is required in any instance which may develop of doing business with such personnel. In deciding to grant approval, the [State Purchasing Officer] shall consider the type item or service needed, the prevailing market conditions, whether competition is available, the cost involved, and the effects of doing business with the employee."[1]

In addition, University policy[2] prohibits the purchase of materials or services from State or University employees or their families. Finally, the University Student Affairs shuttle bus contracts contained the statement. "The Contractor shall not permit any member of [the University] or any of its employees or officers to obtain a personal or financial interest in any Agreement, subcontract or other agreement related to this contract, either for it or for those with whom it has family or business ties."

Recommendation: The University should comply with State and University policies prohibiting contracting with companies owned by University employees. When contracting for University services, University officials should verify the contractor's identity and secure complete information on the contractor. For example, the University should review corporate information with the Secretary of State's Corporations Division. Finally, the University should review all existing contracts to determine whether services are provided by companies owned by employees.

2. UNIVERSITY OFFICIALS SPLIT SHUTTLE BUS CONTRACTS TO CIRCUMVENT THE BID PROCESS AND AVOID APPROVAL BY THE DIVISION OF PURCHASE AND CONTRACT.

The initial University shuttle bus contracts were prepared and signed on October 10, 2006. Rather than executing a contract for the entire academic year, the University prepared separate contracts for each semester even though both semester contracts were signed on the same day. The total cost for the two semesters was $58,100[3] Subsequent shuttle bus contracts continued to be prepared on a semester basis. Total annual costs were $58,100[4] for the 2007-08 academic year and $87,840[5] for the 2008-09 academic year.

Student Affairs officials acknowledged that contracts exceeding a $50,000 threshold require the solicitation of proposals, bids, and price quotations from contractors. In addition, contracts exceeding $50,000 must be approved by the North Carolina Department of Administration, Division of Purchase and Contract (Purchase and Contract). By creating separate contracts for each semester, the University avoided the bid and approval requirements.

University Student Affairs officials said that the shuttle bus contracts were drafted on a semester basis because the amount of anticipated usage and certainty of funding sources were unknown. However, they could not explain why binding contracts for two semesters were drafted and signed on the same day for the 2006-07 academic year.

Purchase and Contract policy states, "An agency shall not divide requirements in order to keep the expenditure under its benchmark or delegation and thereby avoid following the appropriate contracting requirement. In the case of similar and related items and groups of items, the dollar limits apply to the total cost rather than the cost of any single item."[6]

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[1] Title 01, North Carolina Administrative Code, Subchapter 5B, Section .1509.
[2] Fayetteville State University Purchasing Policy, Paragraph III.B.
[3] Fall 2006--$16,600; Spring 2007--$41,500
[4] Fall 2007--$29,050; Spring 2008--$29,050
[5] Fall 2008--$43,920; Spring 2009--$43,920
[6] Title 01, North Carolina Administrative Code, Subchapter 5B, Section .0315.

In addition, University policy states that "public law establishes that it is not permissible to divide requirements to assure a requirement does not exceed $50,000 limit or any other imposed limit and thus avoid placement through the State or, as required, any other threshold prescribed herein."[7]

Recommendation: University management should follow State and University purchasing policies and not divide requirements to circumvent bidding and approval thresholds. The University Purchasing Department should review existing contracts to determine whether other split contracts are currently in effect. Finally, the University should consider taking appropriate disciplinary action against individuals who knowingly split the contracts to avoid bidding and approval requirements.

3. THE UNIVERSITY FAILED TO EXECUTE A SIGNED, WRITTEN CONTRACT FOR CHARTER BUS SERVICES.

In 2008, the Vice Chancellor for Business and Finance identified the need to secure a contractor for charter bus services because uninsured campus maintenance personnel were transporting students to University-sponsored activities. The University's Purchasing Department issued a Request for Proposal on November 7, 2008 to secure charter bus services. The University received three bids and a faculty "Charter Bus Review Committee" made the final selection of the winning bidder. On January 27, 2009, the Purchasing Department mailed a selection notification letter to Personalized Tours. University policy requires the Chancellor's signature or an official designated by the Chancellor to execute an enforceable, written contract.[8] However, the Purchasing Department never prepared and executed a formal contract with Personalized Tours.

Despite the lack of a formal contract, individuals throughout the University were aware of the selection of Personalized Tours as the charter bus contractor. As a result, departments across campus used Personalized Tours for multiple charter bus trips throughout 2009. The University paid Personalized Tours $111,398 for charter bus services during 2009 without a fully executed contract.

The Vice Chancellor for Business and Finance admitted that he did not properly follow-up on securing the transportation contract. In addition, contracting inexperience by University officials contributed to the failure to complete the contracting process. The failure to execute a signed, written contract increased the risk that the University could not enforce the agreement for items such as prices, customer expectations, and charter bus availability.

Recommendation: Following the Request for Proposal process and the award of the winning bid to the contractor, the University Purchasing Department should secure a signed contract to ensure an enforceable legal agreement. The University should provide additional training to its Purchasing Department regarding University and State purchasing policies. The University Controller's Office should ensure that all payments for contractual services are properly supported by enforceable legal agreements.

5. The University of North Carolina at Greensboro: – (Financial): One Audit Finding
   Released Date: 5/10/2010

   Report URL:
   http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2009-6040.pdf

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[7] Fayetteville State University Purchasing Policy, Paragraph VII.
[8] Fayetteville State University Purchasing Policy, Paragraph XXI.B.

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

1. INAPPROPRIATE INFORMATION SYSTEM ACCESS

    The University did not assign information system access rights to ensure adequate segregation of duties and limit employee access to that needed to perform job functions. As a result, there was an increased risk of error or misappropriation occurring without detection.

    Four high-level Accounting Services employees, including the Controller, had access to virtually all critical financial areas in the University's Banner information system including accounts payable functions. These four employees had the ability during our audit period to create a vendor, invoice for payment, and create and print a check through the direct pay method.

    In addition, these employees were also granted access to the Banner Finance security menu. A user with this access can make limited changes another employee's or to their own Banner fund access. Allowing these employees to have the ability to alter financial system security permits circumvention of the controls established by the University to limit access to the Banner funds and increases the risk of error or fraud.

    Payroll personnel were granted access in the Banner Human Resources system that allowed them to add a person, identify the person in the system as an employee, attach the person to a position, and make salary and leave adjustments. Payroll employees also had access to enter and approve time worked for hourly paid employees and to process payroll checks and direct deposits. This level of access increases the risk of error or fraudulent activity, particularly in the area of temporary or student payroll.

    Access rights and related job duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

    This issue has been resolved. Subsequent to year end the University has completed the appropriate steps to modify access rights to address the risks of material misstatement.

6. North Carolina Central University: – (Federal Compliance): One Audit Finding
    Released Date: 5/10/2010

    Report URL:
    http://www.ncauditor.net/EPSWeb/Reports/Financial/FSA-2009-6090.pdf

Matter Related to Federal Compliance Objectives

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal control and/or noncompliance with laws, regulations, contracts, or grants.

1. UNTIMELY NOTICE TO LENDER OF CHANGES IN STUDENTS' STATUS

    The University did not provide student financial aid lenders timely notice of students who graduated or ceased enrollment at the University. Title 34 CFR section 685.309(b)(2) requires the University to notify the National Student Clearinghouse within 30 days of its discovery that a recipient of a

federal direct loan has ceased to be enrolled on at least a half-time basis, failed to enroll, or changed his or her permanent address unless it expects to submit its next student status confirmation report within the next 60 days.

We examined the notifications for 30 students who graduated or ceased enrollment from the University and identified seven instances where the University failed to provide timely notice. The seven notifications were four to 38 days late.

Federal Award Information: Award # P268K090326; Award Year July 1, 2007 to June 30, 2008

Recommendation: The University should improve internal control to ensure timely notification of changes in student status.

University's Response: The University concurs with the audit finding and recognizes the importance in strengthening controls pertaining to reporting graduating students to the National Student Clearinghouse. We began reporting degree files every two weeks and once monthly thereafter to the National Student Clearinghouse with the December 2009 graduating class. Every effort will be made going forward to make absolutely sure that each student will be reported accurately and timely to the National Student Clearinghouse.

7. <u>The University of North Carolina at Chapel Hill</u>: – (Information Systems): Seven Audit Findings
   Released Date: 5/17/2010

   Report URL:
   http://www.ncauditor.net/EPSWeb/Reports/Infosystems/ISA-2010-6020.pdf

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Matters Related to an Information Systems Audit

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1. FAILURE TO MANAGE A CENTRALIZED INFORMATION TECHNOLOGY ENVIRONMENT

   The responsibility for managing information technology (IT) resources has not been appropriately restricted to the UNC-Chapel Hill Chief Information Officer (CIO). The University allows faculty and auxiliary departments to manage their own IT resources without being subject to the UNC-Chapel Hill CIO standards and policies.

   This condition increases the risk that security vulnerabilities will exist and that critical computer resources and data will be compromised. Also, decentralization in the IT environment increases the risk that uniform policies and procedures are not followed. Furthermore, it renders security controls ineffective if enforcement of policies do not apply to all areas of UNC-Chapel Hill.

   COBIT standards state that implementing a highly centralized IT staffing function allows management to exercise control over strategy, resources, budget and process.

   Recommendation: Management should ensure that the UNC-Chapel Hill CIO has direct authority and control over all IT resources for the University. The CIO typically reports directly to the Chancellor to ensure standards are consistently applied throughout the University.

   University's Response: Management of UNC-Chapel Hill agrees that more control must be exercised on the security of University IT resources, no matter where direct support responsibility resides.

The Chancellor will mandate that the UNC-Chapel Hill Chief Information Officer has the authority to enforce all policies and standards necessary for the protection of UNC-Chapel Hill data and IT resources. As an immediate implementation step, the CIO will require that all schools and departments identify their IT resources along with responsibility for management of systems, so that additional controls-such as more stringent access and server management requirements-can be imposed. Localized IT support is strategically important to meet the distinct and evolving research and teaching missions of the College, the Schools and certain administrative departments. Therefore, in the opinion of University management, complete centralization of IT support is not the most viable option to reduce the risk of security vulnerabilities.

2. FAILURE TO DEVELOP A RISK ASSESSMENT

UNC-Chapel Hill has not identified and assessed risks to its information technology assets. Without an adequate risk assessment, the University cannot adequately anticipate and address threats and vulnerabilities to its assets nor design appropriate controls to mitigate risk.

COBIT standards state that an organization should maintain a current business risk assessment to identify, evaluate, and prioritize risks which could significantly impact the organization's computer operations. These standards recommend the risk assessment be reviewed regularly and updated for changes in computer operations. The risk assessment for computer operations should be a part of the overall business risk assessment for the entire organization.

Recommendation: UNC-Chapel Hill management should develop a risk assessment that will assist the University in anticipating and mitigating threats and vulnerabilities to its assets, especially information technology assets. Management should design controls appropriately to mitigate risk.

University's Response: Management of UNC-Chapel Hill agrees with the finding.

The University issued RFP# 65-RFP02042010 on February 2, 2010 and has selected Illumant, LLC, to perform an Enterprise IT Risk Assessment for the entire campus. This work will begin shortly and is expected to take two months to complete.

3. FAILURE TO DEVELOP AND/OR FORMALIZE TECHNOLOGY PLANS AND STANDARDS

UNC-Chapel Hill has not developed and/or formalized the following:
- Technology infrastructure plan -This plan includes contingency arrangements and acquisition plans for operating systems, databases, and network devices.

- Technology standards -These are standards that will guide management in purchasing uniform technology to support learning, teaching, and educational goals.

Inadequately developed, formalized, or defined technology plans and standards could impair the operating effectiveness of the University and result in poorly designed information technology controls.

COBIT standards state that an organization should maintain long and short-range information technology plans, technology infrastructure plans, and technology standards to allow management to maintain proper controls over its information technology assets and provide direction to staff.

Recommendation: The University should develop a technology infrastructure plan, and formalize its technology standards.

University's Response: Management of UNC-Chapel Hill agrees with the finding.

Technology Infrastructure Plans

Three principal IT infrastructure planning initiatives are underway:
1. IT infrastructure architecture is a primary strategic focus of developing a comprehensive IT strategy for the campus, per recently-developed ITS goals and strategies.

2. The design and deployment of high-priority key infrastructure services to campus organizations is a key goal of the Carolina Counts IT projects.

3. Consolidation and standardization of the infrastructure that delivers core business functions is a focus of in-progress internal ITS efficiency and process improvements. Internal process improvements underway also include an implementation of ITIL-based processes, the creation of an infrastructure lifecycle plan, and establishment of a project management office in ITS.

These three initiatives support one another in that a capably defined and managed IT architecture establishes a framework within which infrastructure to deliver core business functions can also deliver high-value services to the community, thus maximizing the return on investment for resources so allocated.

Technology Standards

Initial areas of focus for architectural review include the following:
- Commodity x86 platform systems, and virtualized x86 hosting
- Commodity high volume network delivered storage
- Identity and resource management systems (e.g., Active Directory, Shibboleth, LDAP)
- ITS Storage Area Network consolidation
- Establishing ITS infrastructure standards

Working groups have been established to document and set requirements, codify efforts already completed, and outline steps from current state to desired state. The output of these working groups, and follow-on activities in other technology focus areas, will constitute three-and five-year infrastructure technology plans.

4. FAILURE TO FINALIZE AND APPROVE SECURITY POLICIES

UNC-Chapel Hill has not finalized its information security policy or its information security standards policy. These policies remain in draft form. These policies provide the security standards that the users of the University network must follow.

The *Statewide Information Security Manual* states: "*The Statewide Information Security Manual* is the foundation for information technology security in North Carolina. It sets out the standards required by G.S. §147-33.110, which directs the State Chief Information Officer (State CIO) to establish a statewide set of standards for information technology security to maximize the functionality, security, and interoperability of the State's distributed information technology assets."

The *Security Manual* further states: "*The Statewide Information Security Manual* sets forth the basic information technology security requirements for state government. Standing alone, it provides each executive branch agency with a basic information security manual. Some agencies may need to supplement the manual with more detailed policies and standards that relate to their operations and any applicable statutory requirements, such as the Health Insurance Portability and Accountability Act of 1996 and the Internal Revenue Code. While this Manual is the foundation for information technology security in state government, simply adopting these standards will not provide a comprehensive security program. Agency management should emphasize the importance of information security throughout their organizations with ongoing training and sufficient personnel, resources and support."

Without finalized and approved security policies in place, the University may not be able to adequately address security challenges and opportunities as they arise. This may result in a poorly controlled environment that is susceptible to increased security risks.

Recommendation: The University should finalize and formally adopt a set of security policies that will assist in anticipating the University's security needs.

University's Response: Management of UNC-Chapel Hill agrees with the finding.
The UNC-Chapel Hill security policies arc in the final stages of editing and will be announced to the campus and implemented this academic year. The overarching "Information Security Policy" has now been approved and the remaining policies will follow quickly. As a follow up to the release of the existing policies there is a "Carolina Counts" project that will undertake a gap analysis to identify any areas in The Statewide Information Security Manual that are not addressed by UNC-Chapel Hill IT security policies. Once the gaps are known, changes to existing policies will be proposed or additional policies developed to cover these gaps.

5. FAILURE TO REQUIRE STAFF TO UNDERGO ANNUAL SECURITY AWARENESS TRAINING

The University does not require users to annually recertify that they have read and understand the University's security policies and procedures. By not requiring an annual recertification, users may not be aware of the security policies and procedures in place, and the University increases the risk that users will become complacent or simply unaware of security measures they should adhere to.

COBIT standards state that management should have procedures in place that require users to annually recertify that they have read and understand management's security policies and procedures.

Recommendation: The University should first formalize and approve security policies and then require users to annually recertify that they have read and understand the University's security policies and will adhere to them.

University's Response: Management of UNC-Chapel Hill agrees with the finding.

A security awareness training module containing information about security policies and their impact on day-to-day proper usage of IT resources and protection of University data has been created and piloted. The University intends to create a new policy that requires all University employees to annually certify that they have read and understand the University's security policies and will adhere to them.

6. FAILURE TO ESTABLISH STANDARDS FOR INFORMATION PUBLISHED ON WEB PAGES

The University does not have policies and procedures in place that establish standards for what is appropriate content for the University's web site, UNC-Chapel Hill management relies on two draft policies to prevent the inadvertent publication of critical or sensitive information on its web site. Both policies have not been approved by UNC-Chapel Hill management and do not address criteria for web site content. By not implementing web site content policies and procedures, the University increases the risk that critical or sensitive information may be inadvertently divulged on its web pages.

The *Statewide Information Security Manual* states: "The State's information, data and documents shall be handled in a manner that will protect the information, data and documents from unauthorized or accidental disclosure, modification or loss. All information, data and documents must be processed and stored in accordance with the classification levels assigned to those data in order to protect their integrity, availability and, if applicable, confidentiality."

Management is responsible for designing controls over the access to critical and sensitive data. This access extends to the data that is placed on web sites.

Recommendation: The University should implement policies and procedures to ensure critical and sensitive information is not inadvertently disclosed on its web site. University management should communicate web site content standards in an approved policy.

University's Response: Management of UNC-Chapel Hill agrees with the finding.

We will ensure that the information security and data governance policies specifically address web content.

7. FAILURE TO DEVELOP AN EFFECTIVE DISASTER RECOVERY PLAN

UNC-Chapel Hill's disaster recovery plan is outdated and does not support the current information technology infrastructure. The disaster recovery plan refers to personnel who are no longer employed at the University, and the plan does not address the new technology the University recently acquired. As a result, the current plan may not enable the University to restore all of its critical functions if a disaster were to occur.

COBIT standards state that without a formal process for periodic review and approval of changes, it will be difficult to properly maintain the disaster recovery plan to ensure continued service in the event of a disaster.

Recommendation: University management should revise the current disaster recovery plan to include the new technology that exists in its current environment and test the plan to ensure that critical functions and services can be restored if a disaster occurs. Additionally, the disaster recovery plan should be reviewed and approved by executive management to ensure it has campus-wide support.

University's Response: Management of UNC-Chapel Hill agrees with the finding.

Information Technology Services included in its budget submission earlier this year a request for funding for a Business Impact Analysis in order to begin the disaster recovery planning process. In response to the audit report, the University has funded this request.

8. <u>Fayetteville State University</u>: – (Financial): One Audit Finding
    Released Date: 5/28/2010

    Report URL:
    http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2009-6088.pdf

    Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes a condition that represents a significant deficiency in internal control.

1. INAPPROPRIATE ACCESS TO INFORMATION SYSTEMS AND DATA IMPACTING FINANCIAL REPORTING

    The University did not maintain adequate internal control over access to its information systems and data impacting financial reporting. As a result, there is an increased risk of error or fraud occurring without detection.

We identified numerous employees who had system access rights that did not support adequate segregation of duties. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis. Specifically, we noted the following segregation of duties deficiencies:

    a. Nine Bursar's Office employees and two Business and Finance employees have access to perform student accounts functions from initiation to completion.

    b. The Director of Financial Reporting approves work performed by the Fixed Asset Coordinator and has access to make changes to fixed assets data.

    c. Two Applications Analyst Programmers have the access to capitalize assets, create fixed assets records, and adjust depreciation.

    d. Four Registrar's Office employees have the ability to access and modify housing fee rate tables. These tables control the amount charged to students for housing.

    e. Six Bursar's Office employees, one Admission's Office employee, one Academic Affair's employee, and one Fort Bragg Extension Campus employee had access to modify student fee rate tables and the ability to register/withdraw students for courses. These fee rate tables control the amount charged to students for class registration.

    f. In addition, the Admission's Office employee, Academic Affair's employee, and the Fort Bragg Extension Campus employee mentioned above have access to create a student in the information system.

Significant aspects of this finding have been reported for four consecutive years.

Recommendation: The University should take appropriate steps to strengthen internal control over access to the computer systems and data and address the deficiencies described above.

University's Response: The University agrees with this finding and recommendation. We will take the appropriate steps to strengthen internal control over access to the computer systems and data. Further, the University's staff has worked diligently to review access and correct inconsistencies in the system's access rights. Specifically, the staff is currently working towards this goal. The specific items listed in the prior year's audit were corrected and the procedures to review security classes have been improved.