

2009 Financial Audit 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 Asheville: - (Financial): Three Audit Findings  
Released Date: 6/10/2010

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2009-6055.pdf>

**Matters Related to Financial Reporting**

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts, or grants.

1. INAPPROPRIATE ACCESS TO THE INFORMATION SYSTEMS

The University did not maintain adequate internal control over access to its information systems and data. This increases the risk of error or fraud.

We identified seven information systems staff members with database access that gives them the ability to update, alter, or remove financial data. The ability to access and change database information should be restricted to employees with the need to perform database administration functions.

We also identified four computer programmers who perform security administration functions for the financial accounting system. This allows the programmers to create, modify, and remove system users and related access rights for the financial information. We further identified three computer programmers with access to directly update data using the financial accounting system. To prevent inappropriate access to financial information, the ability to change computer programs should be segregated from responsibilities for system administration of the financial accounting system. Further, these individuals should not have access to perform accounting functions.

**Recommendation:** The University should improve internal control over granting and managing access to the information systems and data.

**University's Response:** Management agrees with this finding and is implementing procedures to improve internal control over granting and managing access to the information systems and data.

2. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the University contained misstatements that were corrected as a result of our audit. Without these corrections, the financial statements could have been misleading to users. Misstatements noted in our audit included:

- a. The restricted expendable capital projects net asset balance was understated by \$1,340,893, the restricted expendable debt service net asset balance was overstated by \$1,197,279, and unrestricted net assets were overstated by \$143,614 as a result of classification errors.

- b. Nonexpendable net asset balances were overstated as a result of the University's failure to record investment losses that exceeded the related endowment's available accumulated income and net appreciation. Nonexpendable net asset balances were overstated by \$257,430 and expendable net asset balances were understated by the same amount. As a result, the note disclosure of endowment balances available to be spent and those restricted for specific purposes were also understated. The University incorrectly reported that endowment losses did not exceed available accumulated income and net appreciation.
- c. The University failed to record the effects of borrowing unrestricted cash to cover deficit balances in restricted funds. As a result, current unrestricted cash was overstated by \$261,910, restricted current cash was understated by \$230,361 and restricted noncurrent cash was understated by \$31,549.
- d. Student tuition and fees, net of discounts and allowances, was overstated by \$208,520. This was the result of the University reversing the journal entry to adjust the allowance for doubtful accounts in error.
- e. The University failed to properly report a portion of federal student financial aid as nonoperating revenue. This resulted in an overstatement of federal grants and contracts of \$153,164 and an understatement of nonoperating noncapital grants from federal student financial aid of the same amount.
- f. The allocation of salaries and benefits across functional classifications disclosed in the notes to the financial statements was misstated. Although the net effect of the changes did not affect the total balance, misstatements by functional classification ranged from an understatement of \$38,525 to an overstatement of \$2,792,958.
- g. The change in fair value of investments reported on the statement of cash flows was reported as an increase of \$778,368, when in fact there was a decrease by that amount.

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

**Recommendation:** The University should implement effective internal controls to ensure the accuracy of the financial statements and related notes.

**University's Response:** Management agrees with this recommendation and will implement additional procedures and controls to ensure that the financial statements and the accompanying footnotes are accurate.

### 3. INAPPROPRIATE USEFUL LIVES FOR CAPITAL ASSETS

The University did not appropriately evaluate and adjust the useful lives of its capital assets. As a result, the financial statements prepared by the University contained misstatements that were corrected as a result of our audit.

Review of useful lives is a continual and inherent part of the depreciation process. The University failed to appropriately evaluate the remaining useful lives of capital assets, resulting in a material amount of fully depreciated assets that are still in use. The University reported \$5.5 million in fully depreciated capital assets in the financial statements. Correcting this error resulted in an increase in capital assets of \$3,598,830 and an increase in current year depreciation expense of \$130,622.

**Recommendation:** The University should implement adequate internal controls to ensure that the useful lives of capital assets are appropriately evaluated and adjusted accordingly.

**University's Response:** Management reluctantly accepts this recommendation. The University controller reviewed and increased the useful life for new assets in 2007. In 2008, the useful life was reviewed and increased for new assets. In 2009, the useful life for new assets was reviewed and increased. Our fixed assets are housed in the Banner system which does not allow the flexibility to extend the useful lives of assets that are going to fully depreciate within the year. During the 2009 year end process, our fixed asset accountant position became vacant and any kind of major change regarding fixed assets would have been at great risk. The fixed asset accountant position has been filled and we have ordered new fixed asset software that allows the flexibility to change the useful life of our fixed assets. With this said, hiring the new fixed asset accountant coupled with ordering, installing, and putting into use the new fixed asset software mitigates the risk of a recurrence of this finding.

2. North Carolina A&T State University: – (Information Systems): Five Audit Findings  
Released Date: 6/16/2010

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Infosystems/ISA-2010-6070.pdf>

### **Matters Related to Information Systems**

1. FAILURE TO DEVELOP A RISK ASSESSMENT

North Carolina A&T State University has not created a risk assessment to identify and assess risks to its information technology assets. Without an adequate risk assessment, the University can neither sufficiently 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:** North Carolina A&T State University 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. University management should design controls appropriately in order to mitigate risk.

**University's Response:** The University concurs with the finding. The University will establish a process for conducting a risk assessment on an annual basis. An information technology risk assessment is currently in progress.

2. FAILURE TO DEVELOP AN EFFECTIVE AND APPROVED DISASTER RECOVERY PLAN

North Carolina A&T State University's disaster recovery plan lacks critical elements, including a statement of assumptions and alternate user department procedures. Additionally, the current disaster recovery plan is in draft form, and has not been approved by executive management. As a result, it may not enable the University to restore all of its critical functions if a disaster were to occur. Also, management's intentions may not be carried out in the event of a disaster.

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:** NC A&T's management should develop a comprehensive disaster recovery plan that anticipates potential service interruptions and devise contingencies to either minimize or address those potential interruptions. Additionally, the disaster recovery plan should be reviewed and approved by executive management to ensure it has campus-wide support.

**University's Response:** The University concurs with the finding. Since business continuity encompasses disaster recovery and alternate user departmental procedures, the University will form a campus-wide Business Continuity Committee. The Business Continuity Committee's broad oversight will include developing implementing and maintaining a comprehensive business continuity and disaster recovery plan that address both academic and administrative needs.

### 3. FAILURE TO DEVELOP AN EVACUATION PLAN THAT INCORPORATES ESSENTIAL DETAILS

North Carolina A&T State University's evacuation plan for the computer center does not designate an assembly area. Also, the plan neither specifies positions to serve as evacuation personnel, nor includes procedures for rapidly securing the agency's facilities, assets, and records. Failure to include these details in the evacuation plan may result in confusion at the time of an emergency which may lead to jeopardizing university personnel and assets.

COBIT states that continuity plans should be complete and include all elements of an evacuation plan.

**Recommendation:** The University should revise their evacuation plan for the computer center to include the designation of an assembly area, the specification of positions to serve as evacuation personnel, and procedures for rapidly securing the agency's facilities, assets and records.

**University's Response:** The University concurs with the finding. The evacuation plan for the computer center was revised and now includes designated assembly areas, positions to serve as the evacuation chain of command, and procedures for rapidly securing the University's facility. The plan will be reviewed annually.

### 4. FAILURE OF PROGRAMMERS TO RETAIN TEST RESULTS OF CHANGES MADE TO APPLICATIONS

North Carolina A&T State University does not retain test results of changes made to applications. By not retaining the results of changes including the results of user acceptance tests, the risk of unauthorized changes being entered into the system, as well as the risk that changes made was not accepted by the users who requested the changes, is increased.

COBIT states that documentation of changes made to applications and the results of the tests of the changes should be retained.

**Recommendation:** NCA&T's management should require programmers to retain the test results of changes made to applications. NCA&T should establish a tracking and reporting system to document rejected changes, and to communicate the status of approved, in-process, and completed changes.

**University's Response:** The University concurs with the finding. The User Acceptance Sign-off process was amended to include test results.

5. FAILURE TO MAINTAIN SEGREGATION OF DUTIES WITHIN IT POSITIONS

North Carolina A&T State University has failed to maintain segregation of duties within some IT positions due to the overlap of incompatible responsibilities.

- The application programmers have the ability to serve as database administrators. This is a segregation of duties conflict because the programmers have access to application programs as well as to production data.
- Systems administrators have the ability to serve as application programmers and database administrators. This is a segregation of duties risk because systems administrators have access to systems software, application programs as well as production data.

These conditions allow users to modify critical data for their use and benefit with little to no detection by management.

COBIT states that management should implement a division of roles and responsibilities that reduces the possibility that a single individual could compromise a critical process.

**Recommendation:** University management should consider removing incompatible roles and/or responsibilities from IT personnel to reduce the risk of unauthorized acts. The reports produced by tracking software should be sent to a security or internal audit group for review.

**University's Response:** The University concurs with the finding. University management is currently performing a thorough assessment of the roles and responsibilities within the Information Technology department. Any responsibilities that create segregation of duty issues will be remedied.

3. North Carolina Central University: – (Financial): No Audit Findings

Released Date: 6/30/2010

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2009-6090.pdf>

4. The University of North Carolina at Charlotte: – (Financial): No Audit Findings

Released Date: 6/30/2010

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2009-6050.pdf>

