

2010 Financial and Information Systems Audit Reports Released Since Last Meeting by the N.C. Office of the State Auditor:

1. Western Carolina University: - (Financial) – No Audit Findings
Release Date: 3/11/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2010-6075.pdf>

2. Elizabeth City State University: (Financial) - One Audit Finding
Release Date: 3/11/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2010-6086.pdf>

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control.

INAPPROPRIATE INFORMATION SYSTEM ACCESS TO THE FINANCIAL ACCOUNTING SYSTEM

The University did not maintain adequate internal control over information system access to its financial accounting system. This increases the risk that misstatements in the financial records could occur due to error or fraud and not be detected.

We identified employees who had access rights that were incompatible with their job functions. Duties should be segregated so that employees, in the normal course of performing their assigned functions, can prevent or detect errors on a timely basis. We noted the following deficiencies:

- All employees in the Registrar's Office and eight employees in other departments, such as Business and Finance, Institutional Advancement, Procurement and Material Management, Auxiliary Services, Admissions and Recruitment, and Sponsored Programs, were assigned system access rights that allowed them to add and remove charges and payments on students' accounts. Such access should be limited to employees in the Student Accounts office as needed.
- All employees in the Registrar's Office and Student Accounts Office, and five Advancement, Procurement and Material Management, and Information Technology, had system access rights that allowed them to create and make adjustments to students' financial aid packages. Such access should be limited to employees in the Financial Aid Office as needed.
- Employees in the Student Accounts Office had inappropriate system access rights that allowed them to adjust students' eligibility status, such as satisfactory academic progress, which could result in students being eligible for more or less financial aid. Such access should be limited to employees in the Financial Aid office as needed.

The employees were granted these access rights by the University for a temporary need. However, periodic access reviews were not properly completed to sufficiently identify and adjust for such segregation of duty issues.

Recommendation: The University should establish appropriate controls over granting, managing, and monitoring access to its financial accounting system to ensure employees are assigned access privileges that are appropriate and necessary for their job duties.

University Response: We agree with the finding and recommendation noted in this report, and we have already taken immediate corrective action. On January 6th, Information Technology and Business & Finance assembled the module security administrator team to 1) identify and correct any immediate information access security issues and 2) devise a comprehensive action plan to strengthen internal control over information security access going forward.

Regarding the immediate security issues, the module security team identified and corrected the deficiencies noted in this report. The results of the team's actions are as follows:

- Only employees within the Student Accounts Office have access to update charges and payments on student accounts.
- Only designated employees within the Financial Aid Office have access to create and make adjustments to a student's financial aid package.
- Employees in the Student Accounts Office have query access only to financial aid forms, which remains necessary to promote one-stop customer service as much as possible.

To maintain adequate internal control over information access to financial information going forward, we established and have implemented the following action plan:

- The Banner Security Coordinator and all Banner Module Security Administrators are now meeting monthly to review all banner user access (temporary and permanent) to ensure that appropriate security measures are obtained. The idea is to bring forth issues pertaining to access and any other issues and/or potential risks to proper cross-functional internal controls. The primary purpose of this meeting will be to address such cross-functional issues efficiently and effectively.
- All Banner Module Security Administrators are required to attend the monthly meetings unless a pre-approved absence is granted by the module security administrator's supervisor.
- Module Security Administrators will be required to thoroughly review the following three reports each month to ensure that appropriate information security access is maintained: 1) Security Class Reports; 2) Security User Reports and 3) Security Object Reports.
- The Banner Security Coordinator's role has been expanded by the Chancellor to include a stronger "gatekeeper" role. The coordinator is now empowered and is expected to notify the appropriate senior officer when a module security administrator misses a monthly security access meeting.
- Responsibility for identifying potential cross-functional segregation of duties and system access issues and/or problems rests primarily with module security

administrators. Once these issues are identified, the Banner Security Coordinator will take the lead role in facilitating timely and effective resolutions by working collaboratively with module security administrators and other staff as needed. When a resolution cannot be reached, the Banner Security Coordinator is expected to escalate the issues and/or problems to the appropriate senior officer.

3. The University of North Carolina School of the Arts: (Information Systems) – Three Audit Findings

Date Released: 3/14/2011

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Infosystems/ISA-2011-6092.pdf>

The results of our audit disclosed internal control deficiencies that are considered reportable under *Government Auditing Standards*. The deficiencies noted result from a failure to implement access controls in three critical areas.

Details about these deficiencies, due to their sensitive nature, were communicated to University management in a separate letter pursuant to *North Carolina G.S. 147-64.6(c)(18)*.

4. Winston-Salem State University – (Financial) Two Audit Findings

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Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2010-6084.pdf>

Matters Related to Financial Reporting

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

1. **INAPPROPRIATE INFORMATION SYSTEMS ACCESS**

The University did not properly assign information system access rights to limit access to employees who need it to perform their job duties. This increases the risk of error or misappropriation occurring without detection. During our audit, we noted the following access deficiencies:

- Ten employees within the accounting/accounts payable/purchasing departments were granted access to process receipts for approximately two weeks during student registration. However, upon the employees' return to their normal job duties, the access was not revoked and was allowed to remain indefinitely.
- Four employees within the campus police department were granted access to process receipts even though such access was not needed by the employees to perform their job duties.
- The capital assets officer was granted access to enter invoices into the Finance module even though such access was not needed by the employee to perform her job duties.

Prudent internal control principles require that users be given access only to the specific computer resources needed to perform their job duties, and upon termination or a change in the employee's duties, such access be revoked to prevent unauthorized access to University data.

Recommendation: The University should improve internal control over computer system access to ensure only authorized personnel are granted the necessary system access to perform their job duties, and such access is revoked in a timely manner upon a change in the employee's duties.

This finding has been resolved: The University corrected the access deficiencies by revoking or updating the access rights of those employees in question. All access deficiencies were corrected as of November 5, 2010.

University Response: We concur with the audit finding as presented above and plan to implement the following actions to improve internal control over computer system access and timely revocation of system access upon a change in the employee's duty:

- A step to terminate the short-term access of employees has been included as a part of the formal registration procedures. The 10 employees that work in Accounting, Accounts Payable and Purchasing Office department's access to the Banner Student Module should have been limited to the registration period.
- Campus police were granted to update student accounts electronically via the RT2 Traffic Violation System. The electronic posting portion of the implementation was aborted and the access for those personnel has been terminated.
- The capital assets officer access to the Banner Finance Module has been modified to prevent the ability to enter invoices.

Matters Not Related to Financial Reporting

The following finding was identified during the current audit and describes a condition that represents a deficiency in the management control process for a matter not directly related to financial reporting.

2. ATHLETIC FUND NET ASSET DEFICIT

The University's athletic fund had a net asset deficit of approximately \$3.9 million at June 30, 2010, with no established means of eliminating this deficit in the coming years. Future cash projections developed by the University show a continuing deficit over the next five years, with a cumulative net asset deficit projection for the athletic program reaching a total of approximately \$5.9 million by June 30, 2015. As a result, other unidentified funds are being used to support the athletic program.

University management has developed a five-year plan to align expenditures to revenues; thereby, achieving a projected positive cash flow by the 2015-2016 fiscal year. Although this plan may eliminate further deficits in the athletic fund by fiscal year end 2016, the plan does nothing to address the cumulative deficit of \$3.9 million that exists as of June 30, 2010 or the projected cumulative deficit of \$5.9 million by June 30, 2015. The athletic fund effectively borrowed money from another fund or funds within the University and will continue that borrowing to sustain its annual budget through June 30, 2016. However, the particular source of the borrowing has not been identified.

Recommendation: The University should develop and monitor the execution of an effective plan to ensure the athletic program is self-supporting and solvent. The source of funds used to sustain the athletic program should be identified, and the University should consider whether it

is necessary to repay the borrowed money.

University Response: We concur with the audit finding and offer the following background and comments regarding the WSSU athletics operating budget:

In January 2003, WSSU leadership established the Athletic Comprehensive Review Committee and commissioned the group to study existing sports programs and determine ways in which athletics could best support achievement of the institution's strategic vision. The committee reviewed the then University league affiliation with the Central Intercollegiate Athletics Association (CIAA) in Division II and considered the feasibility of whether WSSU should remain in the CIAA at Division II or pursue Division I status and affiliate with a Division I-AA conference. On April 15, 2003, the committee concluded that obtaining NCAA classification as a Division I (I-AA for football) collegiate sports organization and participating in intercollegiate sports competition at a more challenging level was an appropriate contribution that the athletic program could make toward its own development and that requesting NCAA reclassification of the WSSU intercollegiate athletics program to Division I was consistent with the strategic vision for the University.

A review of the WSSU Division I planning committee materials revealed that the overall costs of the migration to Division I was understated and that inflationary considerations for salaries and scholarships cost increases were not included in the expenditure projections. Consequently, revenue requirements were determined to be insufficient to cover "real" athletic program costs, which resulted in the athletic fund balance deficit.

Unrealistic and unrealized fundraising assumptions were used to underwrite the project and the most challenging component that supported the decision to move to Division I was that the plan relied heavily, yet not exclusively, upon the commitment of students through an aggressive series of student fee increases over a five-year period. Subsequent UNC tuition and fee setting policy restricted WSSU's ability to follow-up on an institutional commitment to fund the Division I athletic migration from increased Student fee support.

In early 2009, a decision was made to remain in Division II and to seek readmission to the CIAA. The 2010-11 year will complete WSSU's first year of competition in the CIAA and while there has been a significant reduction in athletics costs, our institution is still in transition and has had to honor scholarship, salary and operating obligations that were made in support of the migration to Division I (I-AA Football).

While our institution has implemented close oversight of current year athletics spending and is committed to establishing a balanced budget for the upcoming fiscal year, 2011-12, it is unlikely that the athletic program will generate enough revenue to cover annual operating costs and reduce the \$3.9 million deficit in any meaningful manner. WSSU administration will continue to seek resolution to the \$3.9 million cumulative athletic budget deficit.

5. North Carolina A&T State University – (Financial) One Audit Finding
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<http://www.ncauditor.net/EPSWeb/Reports/Financial/FIN-2010-6070.pdf>

Matters Related to Financial Reporting

The following finding and recommendation was identified during the current audit and discusses conditions that represent deficiencies in internal control.

DEFICIENCIES IN FINANCIAL REPORTING

The University's financial statements contained misclassifications that were corrected as a result of our audit. Furthermore, the University's financial package (financial statements, notes to the financial statements, and management's discussion and analysis) was not provided timely to the Office of the State Auditor. The fact that the financial information contained misstatements and was not provided timely indicates that the University has not implemented effective internal control over financial reporting. We identified the following misclassifications as a result of our audit:

- The University misclassified \$7.7 million in current intergovernmental receivables as current due from primary government.
- The University misclassified \$219,308 of noncurrent due from primary government as noncurrent intergovernmental receivables.
- The University did not properly classify net assets on the statement of net assets. Adjustments were required to reclassify \$661,635 between nonexpendable net assets categories for scholarships and fellowships, endowed professorships, departmental uses, loans, restricted for specific programs, and other.
- The University misclassified \$7.4 million of noncapital revenues as capital revenues.

University officials certify to the Office of State Controller that the financial package will be made available to the State Auditor by September 30, 2010. Auditors received the components of the financial statement package as follows:

- The statement of net assets and the statement of revenues, expenses, and changes in net assets were provided to auditors on October 15, 2010.
- The notes to the financial statements were provided to auditors on October 20, 2010.
- The statement of cash flows was provided to auditors on October 26, 2010.
- Management's discussion and analysis was provided to auditors on October 29, 2010.

Management is responsible for the fair presentation of its financial position and results of operations in accordance with accounting principles generally accepted in the United States. Management is also responsible for the timely submission of its financial statements, notes to the financial statements, and management's discussion and analysis.

Recommendation: We recommend that the University enhance its internal control to ensure timely and accurate financial reporting.

University Response: We concur with the recommendation. The University's financial statement review committee will be charged with insuring a timely, consistent and accurate review of the financial statements.