

2011 Financial Audit Reports Released Since Last Meeting by the N.C. Office of the State Auditor:

1. Western Carolina University – (Financial Audit) No Audit Findings
Date Released: 12/15/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6075.pdf>

2. Winston-Salem State University – (Financial Audit) No Findings
Date Released: 12/16/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6084.pdf>

3. North Carolina A&T State University – (Financial Audit) No Audit Findings
Date Released: 12/20/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6070.pdf>

4. The University of North Carolina at Charlotte – (Financial Audit) No Audit Findings
Date Released: 12/20/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6050.pdf>

5. The University of North Carolina at Pembroke – (Financial Audit) One Audit Finding
Date Released: 12/21/2011

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6082.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 over financial reporting.

DEFICIENCIES IN FINANCIAL REPORTING

The financial statements prepared by the University contained misstatements that were corrected as a result of our audit. These misstatements indicate that the University's internal control over financial reporting was not effective, and without our corrections, the financial statements could have been misleading to readers. Misstatements noted during our audit included:

- a. The University understated nondepreciable capital assets and accounts payable and accrued liabilities by \$1,948,952. Construction invoices for services performed in May and June 2011 were not recorded. These misstatements resulted from an insufficient review of invoices received after fiscal year end.
- b. The University understated cash and cash equivalents by \$307,541, overstated current restricted cash and cash equivalents by \$885,532, and understated noncurrent cash and cash equivalents by \$577,991. Errors noted in the University's presentation of cash included the failure to properly classify cash for interfund borrowing and several clerical errors. The University's review of the financial statements and supporting documentation failed to identify and correct the errors.
- c. The University failed to record \$1,305,609 in compensated absences. This error occurred when total amounts for compensated absences were not reconciled to employee leave records. Because compensated absences are expensed when earned, there was also a \$1,305,609 understatement of salaries and benefits expense. In addition, the University misclassified compensated absences between current and noncurrent portions of the liability. The current portion of long-term liabilities was overstated by \$1,089,602 and the long-term liabilities portion was understated by \$2,395,211.
- d. The errors noted in a through c above caused misstatements in net assets in the following amounts: unrestricted net assets was overstated by \$1,305,609, expendable net assets -restricted for capital projects was overstated by \$1,870,270 and invested in capital assets, net of related debt was understated by \$1,948,452.

Recommendation: The University should place greater emphasis on the year-end financial reporting process and reviews over that process. The University should strengthen internal controls to ensure the completeness and accuracy of the financial statements.

University's Response: The University of North Carolina at Pembroke agrees with the finding and will implement corrective action procedures. Updated procedures will ensure that all invoices are reviewed and recorded in the correct accounting period. The procedures will extend the time for which year-end accruals are analyzed and coded. In addition, University departments will be required to submit information to Finance for outstanding expenses incurred June 30 or earlier. Revised processes will also include additional oversight and reviews related to the classification of cash.

Recently the University implemented the Webfocus reporting system which will enable the University to more efficiently generate reliable financial data. This new reporting system will be used to produce the long-term liability report for compensated absences