

Minutes of the February 9, 2012 Meeting
of the Board of Governors Audit Committee

The Audit Committee met in the Board Room at the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, February 9, 2012 at 4:30 p.m.

Members in attendance were Mr. Walter C. Davenport, Mr. Thomas J. Harrelson, Dr. Franklin E. McCain, Mr. Richard F. Taylor, and Mr. Phillip D. Walker. Necessarily absent were Mr. W. Louis Bisette, Jr., Mr. John M. Blackburn, Dr. Fred N. Eschelman, and Mr. Hari H. Nath. Others in attendance were board members Chair Hannah Gage and Mr. Brent D. Barringer; Chancellor Charlie Nelms and General Counsel Melissa Jackson (North Carolina Central University); Chancellor Kyle Carter and Assistant Vice Chancellor George Guthrie (UNC Pembroke); Chief Operating Officer George Burnette (UNC School of the Arts); Chancellor David Belcher and Associate Vice Chancellor Robert Edwards (Western Carolina University) as well as UNC General Administration staff.

Chairman Davenport called the meeting to order and welcomed everyone.

On a motion from Mr. Walker, seconded by Mr. Harrelson, the minutes of the January 12, 2012 meeting were approved.

Ms. Gwen Canady, Project Management Officer, provided an update on the UNC Finance Improvement and Transformation Project. (See attachment) Campus monitoring visits were scheduled for February and March. Over the last two months (December and January), enhancements to the leave reporting system and the HR Data Mart have been continued.

The UNC E-Procurement Initiative was launched in December. An advisory team and process lead have been established. The team is developing key performance measures and a mechanism for tracking procurement savings to maximize our return on investment.

The Committee proceeded to review five external audit reports released since the January meeting. Four of the audit reports, Western Carolina University, Winston-Salem State University, NC A&T State University, and UNC Charlotte, had no findings. UNC Pembroke had one finding related to deficiencies in financial reporting. Chancellor Carter and Assistant Vice Chancellor George Guthrie both addressed the finding to the Committee and answered questions. The institution took steps to ensure that problems were corrected.

Ms. Jan-Rae Castillo, UNC GA's Internal Auditor, gave a summary of the activities of the Internal Auditor for the Second Quarter of the Fiscal Year 2012. (See attachment) Chief of Staff Jeff Davies praised Ms. Castillo on the outstanding work she completed on UNCTV Efficiency Consultation Report.

Mr. Jeff Henderson, Assistant Vice President for Finance, introduced three Internal Auditor Directors from the University System: Ms. Phyllis Petree-UNC Chapel Hill, Ms. Cecile Hinson-NC State University, and Ms. Stacie Tronto-East Carolina University. They gave a brief report

on the internal audit process at their campus and how findings and concerns are addressed.

On the motion of Dr. McCain, seconded by Mr. Harrelson, the Committee went into closed session to prevent the disclosure of privileged information under North Carolina General Statute 116-40.7(c), to consult with our attorney to preserve the attorney-client privilege under North Carolina General Statute 143-318.11(a)(3).

CLOSED SESSION

On the motion of Dr. McCain, seconded by Mr. Taylor, the Committee returned to open session.

There being no further business, the meeting was adjourned.

Mr. Walter C. Davenport
Chair of the Audit Committee

Dr. Franklin E. McCain
Secretary of the Audit Committee

UNC Finance Improvement and Transformation (FIT) Update

UNC Shared Services Payroll

December and January were busy months with UNC Shared Services Payroll as well as the campuses. There were year-end adjustments, annual flexible benefits load, calendar year-end leave roll and W2 processing. Four of our campuses piloted the reporting of payroll metrics, three campuses reviewed the standard model monitoring results and planning for the implementation of position control began with one campus. The FIT team continues to work on enhancements to both leave reporting and the HR Payroll Active Collab repository, as well as providing ongoing support to each of the nine campuses.

UNC Human Resources Data Mart

Campus Data Mart submissions for the months of December and January continue to improve as does the completion of required data elements. Planning for Phase II of the HR Data Mart has begun. Two new work groups have been established for the purpose of evaluating (1) non permanent type employees who should be incorporated into the Data Mart and (2) additional data elements that are needed to meet the reporting requirements for the annual Personnel Data File (PDF). We continue to work with the Office of State Personnel on the cut-off of the State's Personnel Management Information System (PMIS) and with the Office of State Controller on accessing historical university personnel data through the State's BEACON Business Intelligence (BI) module. Campus and General Administration representatives were trained on this module during the month of January.

Business Process Improvements and Financial Monitoring

UNC FIT monitoring visits are scheduled on each campus during the months of February and March. There will be dual track monitoring with the new process reviews (Capital Assets and Student Accounts) led by the system process owner and the existing process reviews (Financial Aid, General Accounting and Contract & Grants) led by a GA finance/audit team. In preparation for the visits all campuses submitted updated compliance checklists for each of the five processes and will gather required documents for review during the visit. A follow-up report will be provided to each campus. The FIT team will use these visits as opportunities to examine any adjustments/enhancements that might be warranted in our capture and reporting of key performance metrics and in potential enhancements to the standards. The Financial Dashboard for the period ending September 2011 was distributed in December.

UNC E-Procurement Initiative

UNC FIT launched a formal project in December to expand the UNC E-Procurement Initiative that will maximize the University's return on investment. An E-Procurement Advisory Team and process lead were established. The recruitment of a joint UNCGA Purchasing Officer / UNC Systems Procurement Officer position began and is anticipated to be filled by mid February. A campus spend analysis survey is expected to be complete by the end of January to identify opportunities to generate savings by electronically enabling UNC's strategically aligned contract

and catalog priorities. The strategic sourcing enhancements will expand the current inventory of ten UNC system vendor catalogs to twenty plus catalogs by June 30, 2012. The SciQuest tool creates a single portal for campus purchase to payment processes. Also, UNC, SciQuest's tool creates a single repository for both state and UNC specific contracts that can be sourced to a vendor using our best negotiated price. Additional evaluation is being conducted to explore SciQuest's electronic forms enablement that can create electronic workflows for specific procurement, payable, and other business service workflows that are now being performed manually. The project team also plans to develop a return on investment annual report for EProcurement savings, KPIs, and performance measures.

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

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Summary of Completed and Pending Engagements

The annual audit plan is a dynamic document that may change during the fiscal year as circumstance warrant. Requests from management, hotline and other investigations, and changes in the organization or operations may result in changes to the plan and to priorities.

For the quarter ended December 31, 2011, Internal Audit completed and/or initiated the following four engagements:

Pending- Scheduled Audits and Consultations:

UNCTV Efficiency Review: Fieldwork for this review was completed on November 8, 2011. Recommendations for efficiencies have been shared with members of UNC GA and UNC-TV management. A draft report has been issued for review by UNC-TV management and an exit meeting is expected to be scheduled in the coming weeks. The final report should be issued by the end of January.

President, Chief of Staff, and Vice President Expenses Review: Fieldwork for this review began in December. Our testing includes a review of compliance to UNC GA expense policies and procedures and a reasonableness assessment of expense items. We expect to complete fieldwork by March.

Other Projects:

UNC Finance Improvement and Transformation (UNC FIT) Monitoring: In conjunction with the UNC FIT initiative, Internal Audit is assisting with the financial aid, contracts and grants, and general accounting monitoring visits in February and March. The monitoring visits will consist of document tests and interviews at UNC campuses to ensure compliance to the UNC FIT standards. Time was spent this quarter planning for these visits.

In addition, Internal Audit also participated as part of the UNC FIT Internal Audit Advisory Team and attended the Council of Internal Audit meetings in downtown Raleigh.

Professional Development

State law requires the Office of Internal Audit to follow the *International Standards for the Professional Practice of Internal Auditing*. Standard 1230 states: "Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development." To meet the requirements of Standard 1230, the internal auditor has attended the following workshops and conferences:

External Training:

- “UNC Auditors Stake Your Claim on Assurance” UNC Auditors Association Annual Conference on October 10-11, 2011
- UNC Campus Controller’s Workshop on November 14, 2011
- “Control Environment, Importance of Tone at the Top, and Ethics” webinar on November 16, 2011
- “Optimizing IT operations: elevating performance in an era of declining budget cuts” KPMG webcast on November 17, 2011
- Office of State Controller Financial Conference on December 13, 2011