

Minutes of the April 12, 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, April 12, 2012 at 4:30 p.m.

Members in attendance were Mr. W. Louis Bissette, Jr., Mr. John M. Blackburn, Mr. Walter C. Davenport, Dr. Fred N. Eshelman, Mr. Thomas J. Harrelson, Mr. Hari H. Nath, Mr. Richard F. Taylor, and Mr. Phillip D. Walker. Necessarily absent were Dr. Franklin E. McCain and Mr. Richard F. Taylor. Others in attendance were Chancellor Kenneth Peacock (Appalachian State University), Chancellor James Anderson (Fayetteville State University) and Chancellor David Belcher and Director of Internal Audit Lisa Gaetano (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. Bissette, seconded by Dr. Eshelman, the minutes of the February 9, 2012 meeting were approved.

The Committee reviewed and discussed the Audit Committee Charter and agreed that some revisions needed to be made. (See Attachment) Those changes would be approved at its June meeting and presented to the full Board of Governors for their approval.

Ms. Lisa Gaetano, Director of Internal Audit at WCU, reported to the Committee challenges and risks faced by small internal audit divisions. She explained how the smaller campuses were working to mitigate those risks. Questions were answered throughout her report.

Ms. Jan-Rae Castillo, UNC GA's Internal Auditor, presented the completed and released report of The University of North Carolina Center for Public Television Efficiency Review Consultation (See Attachment). She discussed the suggested changes for improvement of efficiencies in the administrative operations of the Center. Many of those suggestions had been implemented by the Center and the remaining suggestions continued to be studied.

Mr. Jeff Henderson, Assistant Vice President for Finance, reviewed five external audit reports (See Attachment) released since the February meeting. The final two 2011 financial reports were released with no findings. Those reports were for Elizabeth City State University and North Carolina Central University.

The remaining three reports, North Carolina A&T State University, North Carolina Central University, and Fayetteville State University were federal compliance reports. Fayetteville State University had two findings related to control deficiencies in federal compliance. Chancellor Anderson addressed the findings and assured the Committee the institution was in the process of correcting the deficiencies. He noted that the problems would not occur in the future. The other two reports had no audit findings.

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

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Audit Committee Charter of the University of North Carolina Board of Governors

I. Background

All special responsibility constituent institutions of the University of North Carolina, including UNC General Administration, are required by State law to have their financial audit conducted annually by either the North Carolina Office of the State Auditor or a certified public accountant (CPA). Historically, the Office of the State Auditor has not performed non-audit services, including those prohibited by the Sarbanes-Oxley Act. The Office of the State Auditor determines staff assignments for individual audits, including rotation of Audit Managers for each audit client.

II. Purpose

To assist the UNC Board of Governors in fulfilling its responsibilities related to: ensuring that each constituent institution has an effective and independent internal audit function; ~~ensuring that each constituent institution has an appropriate focus on ethical standards;~~ ensuring compliance with General Statute 116-30.1; and ensuring compliance with UNC Board of Governors mandated requirements related to University-Affiliated Entities.

III. Organization

The Audit Committee shall be a standing committee of the UNC Board of Governors. The Chairman of the Board of Governors will select members of the Committee. There shall be a minimum of six (6) members. Each Committee member must be independent of management and free of any relationship that would impair such independence. Members may not receive consulting, advisory, or other fees from any of the constituent institutions or UNC General Administration.

If practicable, at least one member of the Committee should be a financial expert. A financial expert is someone who has an understanding of generally accepted accounting principles and financial statements, preferably relative to higher education; experience in applying such principles; experience in preparing, auditing, analyzing, or evaluating financial information; experience with internal controls and procedures for financial reporting; or an understanding of the audit committee function. If feasible, the role of financial expert will be rotated on an annual basis.

IV. Meetings

The audit committee shall meet no fewer than four (4) times a year. The Committee will invite representatives of the constituent institutions, external and internal auditors, representatives of the Office of the State Auditor, legal counsel, and others to attend the meetings and to provide pertinent information as requested.

V. Duties and Responsibilities

The following shall be the principal duties and responsibilities of this Committee:

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- Monitor the internal control, management staffing, and audit finding resolution requirements set out in General Statute 116.30.1. [Statutory requirement]
- Review the annual financial audits of the constituent institutions and other significant audit related communications from the State Auditor's Office or other external audit groups. [Section 301 of The Code]
- Request an annual overview from the State Auditor or a designated representative. [Section 301 of The Code]
- Review and approve an annual summary of the internal audit plans submitted by each constituent institution's and UNC General Administration's Director of Internal Audit. [Section 301 of The Code]
- Review an annual summary of the work performed by the Audit Committee of each institution's Boards of Trustees. [Section 301 of The Code] This summary should incorporate a summary report of the audits, reviews, investigations or special assignments completed by each constituent institution's and UNC General Administration's internal audit department. This report should also contain identified material reportable conditions and how they were resolved.
- Be available to meet during the year with the State Auditor or his staff, or the engaged CPA firm or its staff, for consultation purposes or to discuss the Auditor's or firm's judgments about the quality, not just the acceptability, of any accounting principles and underlying estimates in the preparation of a constituent institution's or UNC General Administration's financial statements.
- Serve as the Audit Committee for the UNC General Administration Internal Auditor. [General Statute 143-745 to 143-747]
- Review an annual report on University-Affiliated Entities. [Section 301 of The Code]
- ~~Develop and maintain a system wide code of ethics.~~
- Participate, when necessary, in training sessions related to system-wide internal controls and internal/external audit issues.
- Request, as needed, that the State Auditor rotate the Audit Manager or that the engaged CPA firm rotate the partner assigned to a constituent institution or UNC General Administration financial statement audit.
- Consult with the UNC General Administration Legal Counsel to review any legal matters that may have a significant impact on a constituent institution's or UNC General Administration's financial statements, overall financial performance, or compliance with applicable state, local or federal statutes.

The Committee may modify or supplement these duties and responsibilities as needed.

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The Committee shall have the authority to engage, in accordance with state rules and regulations, independent counsel or other advisors as necessary to carry out its duties. UNC General Administration shall provide appropriate funding, as determined by the Committee, for payment to advisors employed by the Committee.

The Committee, with the assistance of the appropriate Vice President, should periodically review and assess the adequacy of the Audit Committee Charter.

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THE UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION

MEMORANDUM

TO: Tom Howe, Director and General Manager, UNC Television

FROM: Jeffrey A. Henderson
Director of Internal Audit

SUBJECT: University of North Carolina Center for Public Television Efficiency
Consultation Report

DATE: March 14, 2012

Enclosed is the final report regarding our consultation of the University of North Carolina Center for Public Television for the audit period of July 1, 2010 through August 31, 2011. We conducted a review of administrative operations to evaluate efficiency, effectiveness, and compliance. We made seven recommendations based upon our observations during this review and received your positive response to each of them.

We thank management and staff for their time and cooperation during this review. If you wish to discuss this review or desire additional information, please contact me at extension 2-4656.

JAH/JDC

Enclosure

Cc: Mr. Walter C. Davenport, UNC-GA Board of Governors
Mr. Thomas W. Ross, President
Mr. Jeffrey R. Davies, Chief of Staff
Mr. Charlie E. Perusse, Vice President for Finance
Mr. William A. Fleming, Vice President for Human Resources
Ms. Marsha D. Fields, Associate Vice President for Finance and Services Officer
North Carolina Office of Internal Audit, Office of State Budget and Management

The University of North Carolina General Administration



University of North Carolina Center for Public Television Efficiency Consultation Report

**Office of Internal Audit
November 8, 2011**

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EXECUTIVE SUMMARY

We reviewed the administrative operations of the University of North Carolina Center for Public Television (UNC-TV), a part of the University of North Carolina General Administration (UNC GA). This consultation was scheduled as part of the 2011 fiscal year audit plan due to UNC-TV's continuation review mandated by the North Carolina General Assembly Session Law 2011 House Bill 200 Part IX. Section 9.1.(a) – 9.1.(b). The scope of this consultation included accounting and human resources processes and the information technology and facilities departments. These areas were reviewed for effectiveness, efficiency, and compliance. During the consultation, controls were identified; however an evaluation of these controls was not included within the scope.

Because of inherent limitations in any review, some potential procedural improvements may not have been identified. Also, projection of any evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

In general, the administrative operations of UNC-TV were found to be sufficient. Management at UNC-TV has taken many strides to increase operational efficiencies throughout the years. The recommendations included in this report are intended to further assist management in improving the effectiveness and efficiency of operations. Our recommendations are directed toward improvement of administrative operations and should not be considered a criticism of or reflection on any employee at UNC-TV.

The recommendations can be found on pages 7 through 11. The summarized recommendations are as follows:

1. Eliminate duplicative and time consuming process steps
2. Consolidation of fixed asset functions
3. Budget entries and revisions should be made in a way which adds value to the process
4. Automated budgeting tools should be utilized to its fullest potential
5. Explore opportunities for joint housekeeping services contract
6. When practical, resources should be shared with nearby related organizations
7. Consolidate duplicative IT functions where practicable and increase cooperative effort between organizations

Since this engagement was a consultation, implementation of the recommendations will be at UNC-TV management's discretion. Our office does not plan to perform a follow up review. UNC-TV's accounting staff has already made adjustments to their budgeting practices. They have eliminated the practice of making budget entries and revisions on three separate forms and are now only using the Budget Flexibility Request Form and the UNC GA Budget Entry spreadsheet for budget entries and revisions.

UNC-TV management agreed with the recommendations in the facilities and information technology areas and stated they intend to take the following actions:

EXECUTIVE SUMMARY

- Meet with North Carolina State Education Assistance Authority (SEAA) to discuss jointly issuing a request for proposal for housekeeping services.
- Meet with SEAA to discuss providing snow removal services.
- Collaborate with the UNC GA IT department to identify areas in IT for enhanced coordination and consolidation based on system compatibility and the nature and volume of IT needs by June 30, 2012.

We would like to thank management and the staff of UNC-TV and UNC GA for their professionalism and assistance throughout the course of this consultation.

PURPOSE AND SCOPE

PURPOSE AND SCOPE

Efficiency reviews are systematic assessments of operations and processes to determine whether resources are being used in the best possible manner.

In June 2011, the North Carolina General Assembly mandated a continuation review of UNC-TV (Session Law 2011 House Bill 200 Part IX. Section 9.1.(a) – 9.1.(b)). In order to aid the efforts of the continuation review, this efficiency consult was included in the FY 11 audit plan. The consult examined departmental functions and policies and procedures to evaluate operational efficiency, effectiveness, and compliance for the period July 1, 2010 through August 31, 2011. The fieldwork for this consult was completed on November 8, 2011.

OBJECTIVES

Specific objectives were to:

- Review and document current operations and process procedures for the accounting, human resources, information technology, and facilities departments.
- Identify opportunities for increased efficiency.

METHODOLOGY

Our professional pledge is to conduct our engagements based upon the best benchmarks available to us. The intent of the Office of Internal Audit is to conduct and manage our engagements in accordance with The Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditors*, which include the definition of internal auditing, Code of Ethics, and the *Standards*. A peer review of our department is required to ascertain compliance with these *Standards*. Our peer review is due to take place in 2015.

The methodology included:

- Reviews of UNC GA and UNC-TV accounting and human resources process procedures,
- Interviews with key UNC-TV and UNC GA personnel involved in the accounting, human resources, IT, and facilities departments, and
- Review of source documentation to gain a better understanding of the purpose and nature of the transactions.

OVERVIEW

UNC-TV is a 12-station network that provides public television to the citizens of North Carolina. It services all 100 counties of North Carolina with four full-time broadcast digital program channels: UNC-TV, UNC-KD, UNC-EX, and UNC-MX. UNC-TV first aired on January 8, 1955 and was brought under the University of North Carolina System by President William Friday. Funded by a mix of state, federal, and private monies, the station transmits the Public Broadcasting Service's programming and produced 357 hours of original local programming during 2010-2011. UNC-TV also plays an active role in North Carolinians' education through telecourses for college credit and basic literacy education and high school equivalency training.

As a part of UNC GA, the Board of Governors of the University of North Carolina holds all of UNC-TV's broadcast licenses. UNC GA also serves as the overarching human resources and accounting function for UNC-TV. Due to convenience, expertise, knowledge, and capacity reasons, some services within the human resource and accounting functions are delegated to the UNC-TV staff.

In June 2011, the North Carolina General Assembly mandated a continuation review of UNC-TV (Session Law 2011 House Bill 200 Part IX, Section 9.1.(a) – 9.1.(b)). The purpose of this consult is to aid the efforts of the continuation review by identifying areas for efficiency and cost savings. In order to do so, Internal Audit met with UNC-TV and UNC GA staff involved in administrative operations. UNC-TV and UNC GA staff within the accounting, IT, facilities, and human resources functions noted areas in which they have already taken action to improve efficiency and reduce costs. However, UNC-TV also expressed frustration with excessive documentation preparation procedures for transactional processing and UNC GA pointed out areas for process consolidation. We focused our efforts in identifying unnecessary steps in process procedures and confirming the plausibility for consolidation between the two organizations.

RECOMMENDATIONS

ACCOUNTING

Recommendation 1: Eliminate duplicative and time consuming process steps

UNC-TV is the only entity under the UNC GA umbrella that has its own full service accounting office. While other similar entities are limited to gathering and preparing paperwork for transactional processing at UNC GA, UNC-TV has the ability to process certain accounting functions from beginning to end. According to UNC GA employees, expertise knowledge, high volume, and convenience were primary reasons for UNC-TV's own fully functional accounting office.

Two accounting functions processed completely at UNC-TV are accounts payable and travel. UNC-TV currently gathers supporting documentation, approves the payment, prepares the coding sheet and then enters these payments into the Financial Records System (FRS) for transactional batch processing. The documentation is then sent to UNC General Administration to be available for the batch proofing process. This proofing is an important preventative control employed by UNC GA to ensure payments are recorded to the proper account and in the proper amount and are paid to the proper vendor at the proper address. This is done in the morning prior to requesting funds from the state.

In recent years, UNC-TV has implemented the state procurement card. As a result, this has decreased the number of manually processed payments. During FY 2011, UNC-TV's full time accounting technicians were reduced from three to two. Each UNC-TV technician entered an average of 8.11 accounts payable or travel related line items per day into FRS while UNC GA's one full-time accounting technician entered an average of 60.18 accounts payable or travel related line items per day in FRS.

Inefficiency exists in two areas. First the coding sheet duplicates information already existing in the documentation. Second UNC-TV makes copies of all accounts payable and travel documentation prior to sending to UNC GA. Making the copies of all the documentation is time consuming but UNC-TV has indicated it is necessary in order to respond to vendor inquiries. In addition, the low transactional activity may no longer warrant UNC-TV to handle the entire accounts payable and travel processes.

Representatives of the UNC GA finance office have agreed to revise several existing documents, specifically the travel reimbursement form and the direct payment voucher to include the information on the coding sheet, thereby eliminating the need for the coding sheet.

Eliminating the inefficiency surrounding the documentation is more complex. Options are as follows:

1. Move the accounting related activities to UNC GA, including the keying of transactions and responding to vendor inquiries. UNC-TV would continue to gather the supporting documentation and approve the payment. This in turn will also reduce the total number of individuals responsible for FRS data entry to one.

RECOMMENDATIONS

2. Transfer the proofing function for UNC-TV transactions to UNC-TV. This would entail a programming change to separate UNC-TV from the current UNC GA reports and sending the new report to UNC TV. Proofing would have to be performed at UNC-TV before 9:30 each morning so that any keying errors in the previous days' batches could be reported to UNC GA prior to the request for funds. It would also have to be performed by an individual not involved in the processing of transactions at UNC-TV.
3. UNC-TV could continue to process accounts payable and travel transactions but would also retain the original documentation in their accounting offices. They would have to make copies of the first page of the documentation (and any additional pages needed for the proofing) and forward those pages to UNC GA for the daily proofing. UNC GA would continue to perform the daily proofing.
4. An imaging system could eliminate the need for hard copy documentation. Currently, UNC GA's IT team is working on an imaging system that has the potential to reduce or eliminate the time needed for copying the supporting documentation and for transferring it to UNC GA's accounting office.

Internal Audit believes there is an opportunity for an efficiency to be gained by eliminating the coding sheet and reducing or eliminating the copying currently being done. We propose that UNC GA move forward with the redesign of the travel reimbursement form and the direct payment voucher to eliminate the coding sheet. We also recommend that UNC GA and UNC-TV collaborate to determine the optimal means to reduce or eliminate the need for the copying of documents currently being done.

It should be noted that UNC GA is in the process of converting to the PeopleSoft accounting software, which contains an imaging component. Once in place, imaging would eliminate the documentation issue.

FIXED ASSETS

Recommendation 2: Consolidation of fixed asset functions

Fixed asset management for UNC GA is divided into two groups: UNC-TV fixed assets and all other UNC GA fixed assets. UNC-TV owns 89% of all UNC GA fixed assets and has a full-time position dedicated to fixed asset management, including management of motor fleet vehicles. The remaining 11% is managed part time by an individual in the UNC GA purchasing department.

Given that the UNC-TV assets constitute such a large portion of the total UNC GA fixed assets, Internal Audit believes this is an area for possible efficiency and cost savings. There does not seem to be a business need for a separate position to be responsible for a small component of fixed assets. We propose that all fixed asset management responsibilities be combined under the UNC-TV's fixed asset management position.

RECOMMENDATIONS

The consolidation of fixed asset management responsibilities into one position can provide cost savings and/or efficiency in one of two ways:

1. The fixed asset management function can be moved from UNC-TV to UNC GA. From a financial statement perspective, this consolidation will make UNC GA directly responsible for all of the fixed assets. This will require the position's appropriated cost to be moved to UNC GA, resulting in a reduced appropriation need and lower operational expenses for UNC-TV.
2. The fixed asset management position can add UNC GA's fixed asset responsibilities while remaining a function of UNC-TV. This will broaden the use of existing resources while allowing the UNC-TV to maintain control over the position's existing responsibilities for day to day operations and industry specific reporting requirements.

BUDGET

Recommendation 3: Budget entries and revisions should be made in a way which adds value to the process

UNC-TV budget entries and revisions are initiated, created, and approved at UNC-TV and then sent to UNC GA for entry into the Financial Records System (FRS). If the budget entries and/or revisions are related to grant funding, they must also be approved by the contract and grant accounting technician. In documenting the budgeting process, Internal Audit found that the method used by UNC-TV to create budget entries and revisions is outdated. UNC GA updated the budget entry/revision process in June 2009.

- UNC-TV budget entries and revisions are made on an older version of the current budget entry spreadsheet. The older spreadsheet is limited to 20 budget entry lines and only allows for one-to-one, credit-to-debit journal entries. The newer budget entry/revision spreadsheet allows for compound journal entries that will reduce repetitive data entry. It also has an unlimited number of line item entries that will create one all-encompassing sheet to be signed and reviewed.
- UNC-TV budget entries/revisions are made on three separate forms: a Budget Flexibility Request Form for budget flexibility entries/revisions, a memorandum for budget entries/revisions requesting the movement of state funds between object code pools (2000, 3000, 4000, etc.), and a budget transfer spreadsheet for all other budget entries/revisions. According to the UNC GA Budget Manager, the new budgeting process calls for the use of two forms: a Budget Flexibility Request form for budget flexibility entries/revisions and the updated UNC GA budget entry spreadsheet for all other entries/revisions.

UNC-TV's current method for budget entries/revisions results in unnecessary duplication of information and the creation of non-value added forms. This increases the workload of the accounting technicians and lengthens the time it takes for a budget entry/revision to be made. Internal Audit suggests that UNC-TV accounting department adopt the updated budget

RECOMMENDATIONS

entry/revision process. Budget entries should be made using only the Budget Flexibility Request form and the updated UNC GA budget entry spreadsheet. The accounting department should also consider preparing separate contract and grant budget entries/revisions for easier approval by the contract and grant technician.

Internal Audit does want to note that at the drafting of this report, UNC-TV had begun using only the Budget Flexibility Request form and the updated UNC GA budget entry spreadsheet.

Recommendation 4: Automated budgeting tools should be utilized to its fullest potential

FRS has an Automatic Budget Reallocation (ABR) function that automatically allocates budgeted funds from a pooled object code level (2000, 3000, etc.) to a more specific four-digit object code level (2021, 3056, etc.) as expenditures are made. There are seven ABR models that vary in how many object codes are included in an object code pool. Without the ability to automatically allocate, any object codes excluded from an object code pool must be individually managed. In addition, excluded object codes are more likely to need manual budget entries/revisions throughout the year because they cannot “share” budgeted funds with other object codes from a pool.

Currently, UNC-TV uses ABR models that include the fewest number of object codes within an object code pool. The practice of underutilizing automated technology can often create avoidable manual work and increases the risk of human error. Due to budget reporting requirements from outside sponsoring entities, UNC-TV is unable to fully utilize FRS’s pooled budgeting technology. Budgeted funds must be separated accordingly for its designated purpose. UNC GA is in the process of converting its financial system from FRS to PeopleSoft. UNC-TV should explore the functional possibilities of the budget module and how it can be used to benefit their specific needs.

FACILITIES

Recommendation 5: Explore opportunities for joint housekeeping services contract

UNC-TV is located along the same drive as the North Carolina State Education Assistance Authority (SEAA) in the Research Triangle Park. SEAA is North Carolina’s agency for student financial aid and is also an affiliated entity of UNC GA. UNC-TV and SEAA individually contract for housekeeping services to different vendors. Although each organization has specific needs unique to each of their facilities, Internal Audit believes there may be a potential for cost savings if both organizations were to share a housekeeping contract. The cost of having separate housekeeping contracts for each organization may be greater than if there was a shared housekeeping contract. We propose that UNC-TV coordinate a combined request for proposal with SEAA for housekeeping services and work through the formal bidding process to identify if any cost savings can be achieved by creating a larger housekeeping contract.

Internal Audit does want to note that at the drafting of this report, management at SEAA and UNC-TV had begun discussions regarding a shared housekeeping contract.

RECOMMENDATIONS

Recommendation 6: When practical, resources should be shared with nearby related organizations

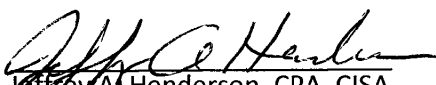
UNC-TV has the staff and equipment to do its own snow removal while SEAA contracts for snow removal services from its grounds keeping provider. Per discussions with SEAA, their grounds keeping provider is located 40 miles away. As a result, snow removal services are often delayed. Based on their close proximity to each other in the Research Triangle Park and that UNC-TV shares part of a driveway with SEAA, Internal Audit believes a potential efficiency would be gained if UNC-TV were to provide snow removal services to SEAA for a fee. This change would require minimal additional effort and allow for the same state resources to benefit two agencies. Although the service fee would not provide a significant source of cash inflow, it can be used to offset the cost of UNC-TV's operations.

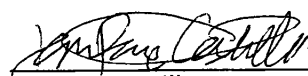
Internal Audit does want to note that at the drafting of this report, management at SEAA and UNC-TV had begun discussions regarding snow removal services.

INFORMATION TECHNOLOGY**Recommendation 7: Consolidate duplicative IT functions where practicable and increase cooperative effort between organizations**

UNC GA and UNC-TV have separate IT departments with their own equipment, software licenses, and specialized staff. Discussions with IT representatives from both organizations disclosed that each department operates independently and only work with each other on a consultative basis. Although UNC-TV has IT needs that are specific to broadcasting and communications, there are areas in which the IT departments at UNC-TV and UNC GA perform similar operations. In areas such as email, online services, and software licensing, there appears to be little difference between the core functional uses of these services.

The use of duplicative resources to provide basic IT services results in unnecessary additional costs. UNC-TV and UNC GA should consider consolidating these services to increase efficiency and attain cost savings that will benefit both organizations. Internal Audit proposes that representatives from UNC-TV and UNC GA IT departments collaborate to identify areas for enhanced coordination and consolidation based on system compatibility and the nature and volume of IT needs. This collaboration should be completed by June 30, 2012.


Jeffrey A. Henderson, CPA, CISA
Director, Office of Internal Audit


Jan-Rae Castillo, CPA
Internal Auditor

DISTRIBUTION LIST

Mr. Walter C. Davenport, UNC-GA Board of Governors

Mr. Thomas W. Ross, President

Mr. Jeffrey R. Davies, Chief of Staff

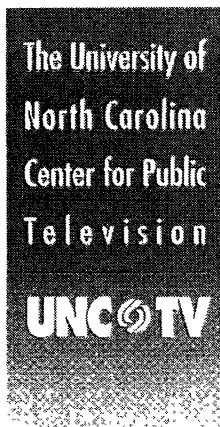
Mr. Tom Howe, Director and General Manager, UNC Television

Mr. Charlie E. Perusse, Vice President for Finance

Ms. Marsha D. Fields, Associate Vice President for Finance and Services Officer

Mr. William A. Fleming, Vice President for Human Resources

North Carolina Office of Internal Audit, Office of State Budget and Management



919 549-7000

FAX# 919 549-7201

www.uncTV.org

TO: Jeff Henderson
Jan-Rae Castillo

FROM: Tom Howe *Tom Howe*

DATE: March 8, 2012

RE: UNC-TV Efficiency Consultation Report

Thank you for the latest draft of the UNC-TV Efficiency Consultation Report and for the time and effort you have put into the entire process. On behalf of the UNC-TV management team, I appreciate the opportunity to respond to the recommendations in the draft. It is clear after reading through the report that you have already incorporated many of our suggestions into this most recent iteration. Therefore, we have just a few comments to make on this version.

RECOMMENDATIONS

Accounting

Recommendation 1: Eliminate duplicative and time-consuming process steps

UNC-TV favors the elimination of duplicative and time-consuming process steps if such elimination would result in greater efficiency. There would be no reduction of workforce in the UNC-TV Accounting Department if any of the four options are implemented. A reduction would result in inefficiencies, loss of timeliness, and inaccuracies. To compare the transactional activity and duties of UNC-TV's accounting technicians with those of the GA accounting tech is comparing apples to oranges. UNC-TV's accounting technicians have the responsibility to gather and review supporting documentation, budgetary accounts, signature approvals, packing slips, food forms, travel authorizations, and budget availability prior to entering invoices and travel reimbursements into the Financial Records System (FRS) for transactional processing. These responsibilities will still be required prior to the FRS data entry responsibilities.

As identified in the internal auditor's recommendation, inefficiency exists in two areas:

- 1) The coding sheet "Direct Payment Voucher" duplicates information already existing on the face of the invoice or travel reimbursement form. As you have recommended and UNC-GA Finance has agreed, revising several existing documents to include information on the coding sheet would eliminate the need for the coding sheet or "Direct Payment Voucher."

WUNF-TV 33 Asheville

WUNC-TV 4 Chapel Hill

WUND-TV 2 Columbia/Edenboro

WUNG-TV 58 Concord/Charlotte

WUNK-TV 25 Greenville

WUNM-TV 19 Jacksonville

WUNE-TV 17 Jville

WUNU-TV 31 Lumberton

WUNP-TV 36 Raleigh/Rapids

WUNL-TV 39 Wilmington

WUAL-TV 26 Winston-Salem

Memorandum to Jeff Henderson and Jan-Rae Castillo

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March 8, 2012

- 2) UNC-TV makes copies of accounts payable and travel documentation prior to sending to UNC-GA. The internal audit presents four options with regard to eliminating this inefficiency surrounding duplicate copies. Recommended Option One is not a viable option for UNC-TV. While accounts payable and travel FRS data entry is only a small part of the process, UNC-TV's accounting technicians have the ability to troubleshoot situations as they occur during real-time data entry. For example, the invoice may exceed the purchase order, blanket purchase orders may require amendments to designate the segregation of funds, or there may be differences in addresses on vendor invoices versus vendor file, to cite just a few issues. The advantage of having accounts payable and purchasing housed together creates a more efficient, timely, and accurate process. The efficiency opportunities proposed in Option One would be counterproductive, in our opinion, to the end result. Getting vendors paid by due date would be delayed by minimum of one day if batches were submitted to UNC-GA for data entry the following day, and even further delays would occur if, once the data entry occurred, it was determined that additional information, funding sources, etc., were necessary to complete the batch transaction. Recommended Options Two and Three are viable options, as this would eliminate the duplicate copying. Option Two requires UNC-TV to perform a proofing function prior to the daily request for funds. UNC-TV's accounts payable supervisor would review and approve all post-entry batches entered into FRS by 9:30 each morning. This review serves as a comprehensive internal control to prevent potential errors, such as keying errors, transpositions, or incorrect vendor addresses. Option Three allows UNC-TV to retain the original documentation in UNC-TV's accounting office. This would eliminate all duplicate copying for the immediate future. Option Four, although not currently available, will certainly be a viable option for UNC-TV once UNC-GA's IT team has completed its development of an imaging system, as will also UNC-GA's conversion to PeopleSoft accounting software. Eliminating these two inefficiencies outlined in the report would greatly improve the duplication and time-consuming process in place.

History

In May 2001, UNC-GA delegated accounts payable authority to UNC-TV. It was determined at that time to be an improvement in the process in order to:

- 1) Leverage UNC-TV's accounting infrastructure.
- 2) Empower UNC-TV accounting with full inquiry and real-time data entry capabilities for UNC-TV accounts payable transactions.
- 3) Increase payment timeliness and accuracy ratios.
- 4) Establish accounts payable backup when personnel turnover occurred at UNC-TV and UNC-GA.

This delegation has served UNC-TV well in overall agency customer service and timeliness ratios for accounts payable processing. It is our opinion that having the authority to complete the accounts payable and travel processes from beginning to end in real time is the most efficient way to accomplish UNC-TV's accounting functions. The data entry portion of the process is only a small portion of the activity necessary to complete the accounts payable and travel functions.

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UNC-TV has purchasing authority (with UNC-GA's approval) to fully implement the purchasing module of FRS in order to expedite the timeliness of purchasing/accounts payable. UNC-GA, however, does not fully utilize the FRS purchasing module. The current internal controls as set in place for the purchasing module prohibit UNC-GA purchasing from altering UNC-TV's purchase orders.

Recommendation 2: Consolidation of fixed asset functions

Due to the critical timelines and reporting requirements of this position as it relates to UNC-TV's activities and the fact that UNC-TV is responsible for 89 percent of all UNC-GA assets, it is imperative that UNC-TV have direct supervision over these activities. Therefore, we believe that Option Two is the appropriate way to proceed.

Fixed asset management as it relates to UNC-TV is a very complex responsibility due to the nature of the assets and component units associated with the assets. In addition, there are various funding sources associated with the assets and various retention schedules and reporting associated with each. We appreciate UNC-GA's flexibility in having the fixed asset management remain within UNC-TV and reporting to UNC-TV's director of administration.

In summary, UNC-GA assets constitute only a small portion of the total UNC-GA/UNC-TV fixed assets. UNC-TV would be agreeable to allowing its fixed asset management position to assume UNC-GA's fixed asset responsibilities while remaining an employee of UNC-TV. This will allow UNC-TV to maintain control over the position's existing responsibilities for day-to-day operations and industry-specific reporting requirements.

Budget

Recommendation 3: Budget entries and revisions should be made in a way that adds value to the process

Internal Audit found that the method used by UNC-TV to create budget entries and revisions is outdated. UNC-GA updated the budget entry/revision process in June 2009. NOTE: We would like the report to reflect the fact that the updated budget entry/revision process was never shared with UNC-TV prior to this report.

We concur with this finding and acknowledge that UNC-TV was, in fact, using an outdated method to create budget entries and revisions. We were not aware that UNC-GA updated the budget entry/revision process in June 2009 and have continued submitting the old forms for the past two years. It was not until our discussion with the internal auditor of our having to complete three separate forms for budget entries/revisions that we learned of the newer budget entry/revision spreadsheet that allows for compound journal entries and omits repetitive data entry. Upon learning this method existed, UNC-TV immediately contacted UNC-GA Accounting to inquire about the newer forms. As noted by the internal auditor, UNC-TV began using the new forms immediately.

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UNC-TV is eager to know of any revision UNC-GA makes to the process in order to be more efficient.

Recommendation 4: Automated budgeting tools should be utilized to their fullest potential

We have reviewed and are aware of the FRS automated budget reallocation functions available with the various models and take advantage of these where possible. We are often limited in the automated function as a result of funding sources, budget constraints imposed by private moneys, and restricted line-item budgets. UNC-TV has grant-reporting responsibilities that need the level of detail currently in use.

We will continue to review these automated models in conjunction with our budget planning and will use them whenever appropriate.

Facilities

Recommendation 5: Explore opportunities for joint housekeeping services contract

As the report notes, we are in agreement with this recommendation and are exploring those opportunities.

Recommendation 6: When practical, resources should be shared with nearby related organizations.

As the report notes, we are in agreement with this recommendation and are exploring opportunities.

Information Technology

Recommendation 7: Consolidate duplicative IT functions where practicable and increase cooperative effort between organizations

As the report notes, we are in agreement with this recommendation and are exploring those opportunities.

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

1. Elizabeth City State University – (Financial Audit) No Audit Findings
Date Released: 1/26/2012

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6086.pdf>

2. North Carolina Central University – (Financial Audit) No Audit Findings
Date Released: 3/26/2012

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2011-6090.pdf>

3. North Carolina A&T State University – (Federal Compliance Audit) No Findings
Date Released: 3/28/2012

Report URL

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

4. North Carolina Central University – (Federal Compliance Audit) No Findings
Date Released: 3/28/2012

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2011-6090.pdf>

5. Fayetteville State University – (Federal Compliance Audit) Two Findings
Date Released: 3/28/2012

Report URL

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2011-6088.pdf>

Matters Related to Federal Compliance Objectives

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. LACK OF CONTROLS OVER PREPARATION OF THE ANNUAL PERFORMANCE REPORT

For the Higher Education Institutional Aid program, the University did not have controls in place to ensure that the Annual Performance Reports were prepared in accordance with program requirements. Thus, there is an increased risk of inaccurate and/or incomplete reports.

During our review of the report, we noted the following deficiencies:

- The Annual Performance Reports were prepared using data outside of the October 1, 2010 to September 30, 2011 reporting period. This resulted in the underreporting of \$160,062 in expenditures for the Student Aid and Fiscal Responsibility Act (SAFRA) grant and the underreporting of \$239,745 in expenditures for the Strengthening Historically Black Colleges and Universities Program (HBCU). In total, the University underreported grant expenses for the federal fiscal year 2011 in the amount of \$399,807.
- Documentation supporting the classification of grant expenses was inadequate to validate the Annual Performance Report's expense classification for legislative allowable activities (LAA). These expense classifications drive the information to be presented in the remainder of the performance report. Because an LAA's expense information was not properly entered or omitted, the preparer was not directed to answer performance measurement questions related to an activity area. This rendered the report incomplete.
- There were also areas of the Annual Performance Report where data presented was not consistent throughout the report.

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. More specifically, the OMB Circular A-133 requires that the non-Federal entity have controls in place "to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements."

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B070087-08 for the award period October 1, 2008-September 30, 2009; Federal Award P031B070087-09 for the award period October 1, 2009-September 30, 2010; Federal Award P031B085087-09 for the award period October 1, 2009-September 30, 2010; Federal award P031B070087-10 for the award period October 1, 2010-September 30, 2011.

Recommendation: The University should place greater emphasis on annual performance reporting. The University should strengthen internal controls to ensure the completeness and accuracy of these reports.

University's Response: The University agrees with the finding and recommendation. We will take the necessary steps to ensure greater emphasis on annual performance reporting. Additional procedures will be put in place to guarantee the completeness and accuracy of these reports. A corrective action plan has been outlined, which will be monitored as part of the University's annual internal auditing program.

2. INTERNAL CONTROLS OVER PROCUREMENT AND SUSPENSION AND DEBARMENT NEED IMPROVEMENT

For the Higher Education Institutional Aid program, the University did not have adequate controls to ensure compliance with procurement and suspension and debarment requirements. Thus, there is an increased risk of noncompliance with these laws and regulations.

University personnel did not fully understand State purchasing policies and procedures for sole source and competitive purchases. In addition, University personnel were not aware of Federal requirements for certifications related to lobbying activity and suspension and debarment. Seventeen out of 39 purchases tested did not have the proper documentation to support the purchase in accordance with State and Federal regulations.

The A-133 Compliance Supplement states: "States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations."

State purchasing policy requires all purchases that are expected to be over \$5,000 to be open to competition when selecting a vendor. The University can only waive competition for specific reasons detailed by State policy. When competition is waived, written justification must be maintained by the University.

OMB Circular A-110 requires that a certification regarding lobbying activities and a certification regarding suspension and debarment be collected from a vendor if the expected purchase will be greater than \$100,000.

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B070087-08 for the award period October 1, 2008-September 30, 2009; Federal Award P031B070087-09 for the award period October 1, 2009-September 30, 2010; Federal Award P031B085087-09 for the award period October 1, 2009-September 30, 2010; Federal award P031B070087-10 for the award period October 1, 2010-September 30, 2011.

Recommendation: The University should strengthen internal controls to ensure that appropriate procurement and suspension and debarment policies are followed and relevant documentation is maintained.

University's Response: The University agrees with the finding and recommendation. Title III activity directors will adhere to the policies and procedures for purchasing as printed on the Business and Finance website. Additional training will be provided for the Title III activity directors on purchasing policies and procedures, including procurement and suspension and debarment requirements, to assure that they understand the processes. The corrective action plan for this finding will be monitored as part of the University's internal auditing program.