

2012 Financial Audit Reports and Investigative Reports Released Since Last Meeting by the N.C. Office of the State Auditor:

1. University of North Carolina School of the Arts – (Financial Audit) No Audit Findings
Date Released: 12/17/2012

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6092.pdf>

2. Winston-Salem State University – (Financial Audit) One Audit Finding
Date Released: 12/17/2012

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6084.pdf>

AUDIT FINDINGS AND RESPONSES
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.

PAYROLL DEFICIENCIES IN INFORMATION SYSTEM ACCESS AND TIME ENTRY APPROVALS

We identified payroll-related deficiencies in the University's information system access and time entry approvals for hourly employees. As a result, there is an increased risk of error, misappropriation, and improper payroll disbursements, without timely detection.

During our review of the information system access and time entry approvals for payroll, we identified the following deficiencies:

- A human resources office employee had access rights that were inconsistent with her job duties. This employee could create new employees; modify pay rates of existing employees; including her own; process payroll; set up direct deposit information; and make changes to bank account numbers associated with direct deposits. Employees should be granted the minimum access rights needed to perform their job, and the duties should be segregated such that one employee cannot process a transaction from beginning to end.
- Payroll time entries for hourly employees were not always approved by the designated supervisor prior to payroll disbursements.

During the audit year, 487 timesheets for hourly employees were approved in the Banner payroll system by the payroll manager or the payroll specialist, who were not the supervisors designated to perform this approval function. The payroll personnel have been granted access in the Banner payroll system to electronically approve employee timesheets, and they do so when the supervisor does not perform these approvals in the payroll system. However, such payroll personnel approvals should occur only upon authorization from the supervisor verifying the hours worked by the employee. We examined 49 of the 487 timesheets approved by the

AUDIT FINDINGS AND RESPONSES (Continued)

payroll personnel for evidence of manual approval of hours worked by the employee's supervisor and found that 22 of the 49 timesheets were manually approved by the supervisor. The remaining 27 timesheets or 55% did not contain evidence of supervisory approval of hours worked.

RECOMMENDATION

The University should strengthen internal controls over its information system access and time entry approvals for payroll by limiting employees' access rights to those that are only necessary to perform their job duties. Assignment of employees' access and security classes should be evaluated to ensure adequate segregation of duties. In addition, the University should ensure that time entered into the payroll system is properly verified by the employee's supervisor or his designee prior to payroll disbursements. Electronic time 45 entry approvals by payroll personnel should be supported by authorization from the employee's supervisor verifying the hours worked.

UNIVERSITY'S RESPONSE

We concur. A thorough review of the security class assigned to the employee in question and appropriate modifications to the access granted have been made. Specifically, many of the Payroll and Budget application forms previously granted with 'M'odify access has been changed to 'Q'uary access, including the GXADIRD form which would allow the employee to set up direct deposit accounts whereby payroll payments could be inappropriately routed.

We concur. The university has limited employees' access rights to three employees within Payroll and Human Resources that need time entry approval to perform their job duties. Employees' access and security classes are evaluated annually to ensure adequate segregation of duties. Time entry will only be approved by written approval from the supervisor or department (when supervisor is not available). During the audit period the university took the stand to not have any employees who keyed their time into the time entry system to not be penalized by not receiving their paycheck on time due to supervisors not approving their employees' timesheets, especially during the holiday periods. We have now put the responsibility back into the hands of the approver to make sure their employees time have been approved during the pay cycle or the employee's payment will be delayed until the approver has sent written approval.

3. The University of North Carolina at Pembroke – (Financial Audit) No Audit Findings
Date Released: 12/19/2012

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6082.pdf>

4. The University of North Carolina at Charlotte – (Financial Audit) No Audit Findings
Date Released: 12/19/2012

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6050.pdf>

5. The University of North Carolina at Pembroke/Facilities Management Department – (Investigative Audit) Two Audit Findings

Date Released: 12/20/2012

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Investigative/INV-2012-0382.pdf>

FINDINGS AND RECOMMENDATIONS

1. A UNIVERSITY FACILITIES DIRECTOR MISUSED UNIVERSITY COMPUTER RESOURCES.

The Director of Facilities Planning and Construction (Director), a professional architect, used his university computer for his private architectural practice. A review of documents stored on the university computer assigned to the Director revealed 382 documents related to an architectural firm for which the Director is listed as President. The Director also listed the architectural firm as his secondary employer on personnel documents filed at the University of North Carolina at Pembroke (University). The Director acknowledged that these architectural documents were related to his private practice and were not related to his University work.

Documents stored on the university computer included the following (see Appendix A for a detailed list of examples):

- Bid requests and proposals for architectural services
- Invoices for services performed
- Floor plans for credit unions, churches, and a group home
- Contract modifications
- Notifications to potential bidders for construction contracts
- Tax documentation for the private architectural firm
- Project Manual, including specifications, for a Head Start facility

We showed the Director 68 examples from the 382 documents that related to his architectural firm. The Director confirmed that every document we presented had no relation to his university duties. While the Director claimed that he used his university computer for his private business before or after working hours, our review showed activity during his normal working hours on 69% of these document examples. (See Appendix A) As a result, the Director's work on his private architectural projects may have negatively impacted his work on university projects for which he was compensated by state funds. The Director also said that he used his university computer to store architectural firm documents to reduce the risk of losing data. Additionally, the Director said he used the "cut and paste" method¹ to revise older stored documents in creating new job-specific documents to assist him in operating his private architectural practice.

By using a university computer to generate revenue for a personal business, the Director violated the University's policy which states, "*Material purchased with University funds is the property of the State and, as such, is not intended for personal use. It is, therefore, not permissible to use University supplies or equipment for personal use.*"²

¹ Inserting current information in a document previously created to save time and effort such as inserting the current date in a previously created document while all the other information remained the same

² UNC-Pembroke Purchasing Manual, Administrative Policies and Procedures, Policy Statement 9

FINDINGS AND RECOMMENDATIONS (Continued)

The University of North Carolina Policy Manual further states that *“Inappropriate use or exploitation of University Resources means using any services, facilities, equipment, supplies or personnel which members of the general public may not freely use for other than the conduct of Institutional Responsibilities. A person engaged in external professional activities for pay may not use University Resources in the course and conduct of externally compensated activities, except as allowed by the constituent institution’s implementing policies and other applicable University policies.”*³

The University has a policy permitting incidental personal use of electronic resources.⁴ However, in our opinion, the volume of private business documents stored on the Director’s university computer significantly exceeded incidental personal use.

RECOMMENDATION

The University should consider taking disciplinary action against the Director regarding his use of a university computer for his private architectural business. University management should periodically review the Director’s computer usage to ensure compliance with University policy. In addition, University management should re-emphasize its computer use policy to all faculty and staff. The computer use policy should include consequences for non-compliance and all employees should provide written acknowledgement of their understanding of the policy.

2. UNIVERSITY PURCHASING PROCEDURES WERE NOT FOLLOWED.

For 75% of the contracts awarded to a construction vendor, the University did not follow its purchasing procedures for renovation or repair projects over \$2,500. These contracts totaled \$52,036 and were approved by University management and extended to this vendor from February 2008 to May 2011. The University’s purchasing procedures require employees to obtain three quotes for purchases between \$2,500 and \$25,000.

By not following purchasing procedures, the University may not have received the best price for work performed and some contractors may have been denied the opportunity to submit quotes for these projects. The University’s purchasing ethics policy requires employees to comply with the following directive: *“Grant all competitive suppliers equal consideration insofar as state or federal statute and University policy permit; Conduct business with potential and current suppliers in an atmosphere of good faith, devoid of intentional misrepresentation; and foster fair, ethical and legal business practices.”*

The Facilities Operations Superintendent said that his section was not aware of the \$2,500 requirement for contract proposals. As a result, the University generally solicited quotes based on a \$5,000 threshold. In some instances, the University solicited quotes at the \$2,500 threshold, but the Superintendent acknowledged that Facility Management employees failed to completely document those efforts.

RECOMMENDATION

University management should ensure that employees obtain the required number of quotes for each project or document the reasons for not following University procedure prior to the approval and awarding of contracts. University management should also ensure that all University employees involved in the purchasing process are familiar with the University’s

³ The UNC Policy Manual 300.2.2

⁴ University of North Carolina at Pembroke, Division of Information Technology Appropriate Use Policy, DoIT 01-03,III

current purchasing policies and procedures. (See attached the Appendix and UNCP's Response Letter)

6. Elizabeth City State University – (Financial Audit) No Audit Findings

Date Released: 12/20/2012

Report URL : <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6086.pdf>

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

Date Released: 1/8/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6090.pdf>

8. North Carolina Central University – (Investigative Audit) One Audit Finding

Date Released: 1/22/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Investigative/INV-2013-0383.pdf>

FINDINGS AND RECOMMENDATIONS

THE DIRECTOR OF INFORMATION TECHNOLOGY AND FACILITIES RECEIVED SUPPLEMENTAL COMPENSATION IN VIOLATION OF STATE POLICY.

The Law School's Information Technology and Facilities Director (Director) received salary supplements for extra work he performed for the Law School as well as other departments in violation of state policy. During the 2004-05 fiscal year, the Director received \$22,500 for coordinating the re-location of the Law School to and from an off-site location during the renovation of the Turner Law Building. In addition, the Director received \$36,771 over a two-year period for serving as an Activity Coordinator facilitating the installation of "smart classrooms" for other departments. Because the Director's position is subject to the State Personnel Act (SPA), these supplemental payments violated state policy.

According to the State Personnel Manual, Section 4, Page 48: *No employee whose position is designated as exempt from overtime compensation provisions shall be paid in any way [emphasis added] for hours worked in excess of forty in a workweek unless a specific exception has been approved...The annual and monthly salary rates of an employee are established under current personnel policy for each position. This salary is to represent the employee's straight-time pay for a standard 40-hour workweek.*

Work associated with School of Law

In 2005, the Law School completed an extensive renovation of the Turner Law Building. The Director said that he was asked by the former Dean to "organize and manage" the Law School move to and from the North Carolina Mutual Life Insurance Building in downtown Durham and the Turner Law Building on campus. The Director said that there was never any discussion about additional payment for these duties. However, the former Dean presented him a check for \$7,500 as a "bonus" for coordinating the move to the temporary location.

The Director said that, during the move back to the renovated building and after the former Dean had resigned, he approached the new Dean⁵ about getting a similar payment for his continuing work. In July and December 2005, the Director received two additional checks for \$7,500 each. The new Dean said that the Director told him there was an agreement between the Director and the former Dean regarding the payments. The new Dean (who became Dean in July 2005) said that he sought and received approval for the payments from the Chancellor at the time.

In total, the Director received \$22,500 in addition to his full-time state salary for his efforts in facilitating the Law School's move. The source of funds for these "bonus" payments was the Dean's discretionary fund maintained by the Law School's private foundation. However, because the work involved services related to the Director's normal duties and because state personnel policy prohibits such payments to SPA employees, the payments were inappropriate.

Work for other university departments

In July 2010, the Director assisted with the installation of electronic classrooms related to an "Enhancing Instructional Technology and Academic Computing" Title III grant. The Title III Director chose the Director for the position because of his expertise and previous success with the installation of similar technology for the Law School. The Title III Director said that, because these duties were in addition to his duties with the Law School, she believed he should be compensated.

During the 2010-11 fiscal year, the Director performed work related to the grant but was paid (in addition to his annual salary) \$19,165 from state appropriations included in the Academic Affairs Department budget. Because funds were not available in the budget for the next fiscal year, the Title III Director included the Director as an Activity Coordinator on the grant and his 2011-12 fiscal year supplement of \$17,606 was paid using Title III grant funds.

Everyone we interviewed believed the Director to be an Exempt from Personnel Act (EPA) employee who would have been eligible under state policy to receive supplemental payments (with some restrictions). However, documentation showed that the University's Human Resource Department informed the Title III Director that the Director's position was classified as an SPA position and erroneously approved the supplemental payments to the Director even though state personnel policy prohibits such payments. In total, the Director was paid \$36,771 in supplemental payments for these services between 2010 and 2012.

Combined with the payments related to the Law School move, the Director received a total of \$59,271 in supplemental payments in violation of state policy. In addition, North Carolina General Statute § 143-64.80(a) requires the University to seek recoupment of the payments:

An overpayment of State funds to any person in a State-funded position, whether in the form of salary or otherwise, shall be recouped by the entity that made the overpayment and, to the extent allowed by law, the amount of the overpayment may be offset against the net wages of the person receiving the overpayment.

RECOMMENDATION

Management should take any action necessary to recover funds that were inappropriately paid to the Director in accordance with state law. In addition, the University should provide training for human resources personnel to ensure accurate knowledge of state personnel policies. (See attached NCCU's Response Letter)

⁵ The former Dean resigned on June 30, 2005 and the new Dean resigned on June 30, 2012

APPENDIX A

EXAMPLES OF DOCUMENTS LOCATED ON DIRECTOR'S UNIVERSITY COMPUTER			
(Acknowledged by Director as documents associated with his private architectural firm)			
DOCUMENT NUMBER	DOCUMENT DESCRIPTION	DATE MODIFIED	TIME/DAY MODIFIED
1	Floor Plan- Asbury Group Home	08/17/09	04:15pm Monday
2	Asbury Homes, Auditor Confirmation letter for services 01/01/02 through 09/01/09, \$39,247.96 and other documents	10/27/09	11:49am Tuesday
3	Lumbee Regional Development Association Daycare Project Site Plan	11/05/09	10:02am Thursday
4	Allenton Head Start: Application and Certification for Payment from General Contracting Firm	12/21/11	02:59pm Wednesday
5	Copy of email memorandum re: Lumbee Allenton Head Start project from engineering firm	03/02/12	03:38pm Friday
6	Lumbee Tribe Community Center schematic floor plan	03/30/09	10:46am Monday
7	Side elevations & wall sections of a church	08/30/11	04:03pm Tuesday
8	Credit union floor plans	01/17/06	11:11pm Tuesday
9	Credit union floor plans	01/17/06	11:16pm Tuesday
10	Credit union floor plans	01/17/06	11:18pm Tuesday
11	Scotland Credit Association, Laurinburg: 4 site plans	08/17/05	04:12pm Wednesday
12	Allenton Head Start: memo to USDA concerning required changes	03/04/11	10:37am Friday
13	Allenton Head Start: memo to USDA concerning required changes	04/18/11	10:14am Monday
14	Allenton Head Start: memo and table of construction budget to USDA dated 02/03/09	02/04/10	11:59pm Thursday
15	A-1 Faith Baptist Church floor plan dated 1/24/2008	01/24/08	9:54pm Thursday
16	Lumbee Guaranty Bank, Fayetteville Addenda # G-1 Contract modifications	04/20/06	04:15pm Thursday
Source: University of North Carolina at Pembroke's Computer Assigned to Director			

APPENDIX A

DOCUMENT NUMBER	DOCUMENT DESCRIPTION	DATE MODIFIED	TIME/DAY MODIFIED
17	Lumbee Guaranty Bank, Fayetteville Addenda # G-1 Contract modifications	01/11/09	07:41pm Tuesday
18	Lumbee Tribe of NC -Tribal Housing Bid Opening Addendum # G-1	01/28/09	9:50am Wednesday
19	Lumbee Tribe of NC - Tribal Housing Addendum # G-1, Contract modification documents	02/09/09	03:27pm Monday
20	Lumbee Tribe of NC –District # 2 Community Center, Contract modification documents	01/12/09	08:52am Monday
21	Lumbee Regional Development Association, Inc; Advertisement for bids	05/31/11	03:15pm Tuesday
22	Lumbee Regional Development Association, Head Start Building; Invoice #2 for \$32,940 of \$60,000	04/08/10	10:15am Monday
23	Lumbee Regional Dev Assoc, Head Start Bldg; certification that costs are appropriate	08/25/10	08:33am Wednesday
24	Lumbee Regional Dev Assoc, Head Start Bldg; design certification as safe & sound	08/25/10	09:13am Wednesday
25	Allenton Head Start: memo to USDA on project budget. Budget includes \$60,463 from DHHS	02/04/10	11:49am Thursday
26	Lumbee Tribe Community Center Invoice # 2 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$8,800	06/17/11	12:30pm Friday
27	Lumbee Tribe Community Center Invoice # 3 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$13,200.	07/24/11	07:14am Thursday
28	Lumbee Tribe Community Center Invoice # 4 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$17,600	08/12/11	08:31am Friday
29	Lumbee Tribe Community Center Invoice # 5 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$22,000.	09/09/11	10:18am Friday
Source: University of North Carolina at Pembroke's Computer Assigned to Director			

APPENDIX A

DOCUMENT NUMBER	DOCUMENT DESCRIPTION	DATE MODIFIED	TIME/DAY MODIFIED
30	Lumbee Tribe Community Center Invoice # 6 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$26,400.	10/07/11	06:16am Friday
31	Lumbee Tribe Community Center Invoice # 7 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$30,800.	11/04/11	07:41am Friday
32	Lumbee Tribe Community Center Invoice # 8 \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$35,200.	12/02/11	08:13am Friday
33	Lumbee Tribe Community Center "Invoice # 8" \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$39,600.	12/14/11	08:59am Wednesday
34	Lumbee Tribe Community Center "Invoice #11" \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$44,000.	02/21/12	12:10pm Tuesday
35	Lumbee Tribe Community Center "Invoice # 11" \$4,400 to Bosco Locklear/ Leon Revels. Billing to-date \$48,400.	02/21/12	12:07pm Tuesday
36	Lumbee Tribe Community Center proposal for services totaling \$62,400	02/11/11	10:53am Friday
37	Lumbee Tribe District 12 Elderly Housing and Community Center Notice to bidders	02/10/10	02:45pm Wednesday
38	Waccamaw Siouan Tribe Admin Building, Notice to bidders	01/25/10	03:07pm Monday
39	Lumbee Tribe District 9 Community Center: Notice to bidders	07/05/10	12:51pm Monday
40	Robeson County Housing Authority New Maintenance Bldg, Notice to Bidders	04/27/11	09:17pm Thursday
41	Lumbee Regional Dev Assoc, Head Start Building; Notice to Bidders	04/18/11	10:18am Monday

Source: University of North Carolina at Pembroke's Computer Assigned to Director

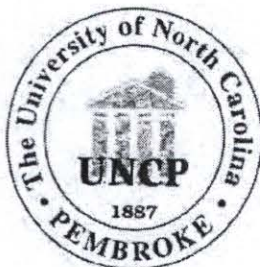
APPENDIX A

DOCUMENT NUMBER	DOCUMENT DESCRIPTION	DATE MODIFIED	TIME/DAY MODIFIED
42	Lumbee Regional Dev Assoc, Head Start Building; PROJECT MANUAL	06/06/11	10:31am Monday
43	Lumbee Tribe: Morgan Britt & Westgate Terrace Maintenance Building PROJECT MANUAL	04/03/11	09:11am Sunday
44	Lumbee Tribe: \$30,000 bid for architectural services for new Community Building	10/24/11	01:46pm Monday
45	Lumbee Tribe, District 9 Community Center, Notice to Bidders	07/05/10	04:57pm Monday
46	To Pembroke Town Manager, Invoice for 6 hours of service, totaling \$600	11/26/07	09:42am Monday
47	Cover letter to USDA dated 12/03/09	01/19/10	12:32pm Tuesday
48	Commonwealth Mass, DSB application for Mashpee Wampanoag Tribe Affordable Housing	05/10/11	03:56pm Tuesday
49	Lumbee Regional Dev Assoc, Head Start Bldg; Invoice #5 for \$1,500 of \$60,000	02/29/12	10:18am Wednesday
50	Architectural Firm's Fax Cover Sheet to employee referencing attached tax documents being faxed	05/16/11	12:00pm Monday
51	Collins Chapel Church; proposal for architectural fee of \$10,500	11/29/11	02:53pm Tuesday
52	Piney Grove Baptist Church, Invoice for \$1,000 retainer of total \$7,000 Architectural/ Engineering fee.	03/15/11	11:15pm Tuesday
53	Piney Grove Baptist Church, Floor plan	08/30/11	04:04pm Tuesday
54	IRS Form W-9 to Wesley Pines Retirement Request for Tax Identification Number & Certification	01/30/12	02:37pm Monday
55	Allenton Head Start: Project Timeline	05/26/11	07:50am Thursday
56	Piney Grove Baptist Church, front & rear elevations	08/30/11	04:02pm Tuesday
57	Piney Grove Baptist Church, Invoice for \$4,000 of total \$7,000 Architectural/Engineering fee.	05/31/11	04:17pm Tuesday
Source: University of North Carolina at Pembroke's Computer Assigned to Director			

APPENDIX A

DOCUMENT NUMBER	DOCUMENT DESCRIPTION	DATE MODIFIED	TIME/DAY MODIFIED
58	Lumbee Tribe / Hawkeye Sands Housing Units; Invoice #2 for 2 visits @ \$1,100 each or \$2,200 (plus a previous billing of \$1,293)	01/25/11	05:22pm Tuesday
59	Lumbee Tribe/ Hawkeye Sands Housing Units; Invoice #3 for \$750.00; plus previous billings of \$3,493	02/25/11	05:24pm Friday
60	Memo stating person was paid \$15,000 as a contractor providing answering services for 2010 with no taxes withheld	03/29/11	07:41pm Tuesday
61	Lumbee Tribe Community Center. Memo reducing fee from \$62,400 to \$52,800	05/11/11	09:33am Friday
62	Memo stating person was paid \$6,784 as a contractor providing answering services from July 2009 to December 2009 with no taxes withheld	03/15/10	10:12am Monday
63	Identification Number and Certification sent to Lumbee Tribe on 01/25/11.	01/26/11	06:05pm Thursday
64	Scanned work paper sent to son/ business associate	02/16/11	10:20am Wednesday
65	Request to forward information to Massachusetts signed May 10, 2011	05/10/11	02:23pm Tuesday
66	Unidentified church floor plan	03/16/11	05:49pm Wednesday
67	Scanned AIA B105 Agreement between Owner & Architect; to Mashpee Wampanoag Tribe in Massachusetts for \$90,200.	08/08/11	10:49am Monday
68	Draft of Endowed Football Scholarship for \$10,000, due in full 05/13	09/08/8	07:29am Monday
Source: University of North Carolina at Pembroke's Computer Assigned to Director			

RESPONSE FROM THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE



Chancellor's Office
One University Drive
P. O. Box 1510
Pembroke, NC 28372-1510
Telephone: (910) 521- 6201
FAX: (910) 521- 6176

December 4, 2012

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

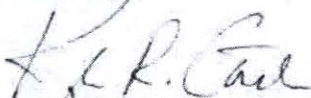
Dear Auditor Wood:

Thank you for the November 26, 2012 draft report on your special review of allegations concerning misuse of University computer resources by an employee at the University of North Carolina at Pembroke (UNCP) and Facilities Management's failure to follow University purchasing procedures. The UNCP Department of Information Technology (DoIT), General Counsel, Business Affairs, Facilities Management, and Internal Audit have reviewed the report and recommendations. General Counsel worked closely with your auditors throughout this investigation. Internal Audit will ensure that corrective action is taken on all issues. Please find our responses to your recommendations attached to this letter.

We would like to express our appreciation of the professionalism with which your auditors conducted the investigation.

Please contact Kelley Horton, Director of Internal Audit, at 910.775.4403, or Joshua Malcolm, General Counsel, at 910.775.4336, if you have any questions or require additional information.

Sincerely,


Kyle R. Carter
Chancellor

Enclosure: UNCP Response to November 26, 2012 Investigative Audit Draft Report

cc: Joshua Malcolm, General Counsel
Tom Jackson, Interim Associate Vice Chancellor for Information Resources and
Chief Information Officer
Kelley Horton, Director of Internal Audit
Dr. Ken Kitts, Provost and Vice Chancellor of Academic Affairs
Denise Carroll, Purchasing Director
Steve Martin, Assistant Vice Chancellor for Facilities Management

State Auditor Finding # 1**Issue:**

A University Director for Facilities Planning and Construction misused university computer resources.

Recommendation:

The University should consider taking disciplinary action against the Director regarding his use of a university computer for his private architectural business. University management should periodically review the Director's computer usage to ensure compliance with University policy. In addition, University management should re-emphasize its computer use policy to all faculty and staff. The computer use policy should include consequences for non-compliance and all employees should provide written acknowledgement of their understanding of the policy.

UNC Pembroke Response to Finding # 1

The University concurs that there has been a misuse of state property. In February 2012, immediately after being informed of the allegations against the Director for Facilities Planning and Construction (Director), the University notified the North Carolina State Bureau of Investigation (NCSBI) in accordance with North Carolina General Statute § 114-15.1. Shortly thereafter and upon request, the Director's computer(s) and other peripheral devices were made available to the State Auditor's Office for forensic review. The University management interviewed the Director who admitted to using his University assigned computer on occasion for his private architectural business.

In September 2012, the NCSBI informed the University that the Director's actions were not criminal in nature. Nevertheless, the University understands the importance of ensuring that state property be used for state (University) purposes. Accordingly, the University has taken appropriate and confidential personnel actions with regard to the Director.

The University would like to emphasize that the external parties mentioned in the Appendix have nothing to do with the acknowledged misuse of University computer resources by the Director.

Going forward, the Assistant Vice Chancellor for Facilities Management (Assistant VC) in coordination with the Division of Information Technology (DoIT) will periodically monitor the Director's University computer usage. Internal Audit will follow-up with the Assistant VC to ensure that these periodic reviews are conducted. The DoIT department continues to review the University's computer use policy. An email from the Interim Chief Information Officer was sent on October 5, 2012, to all faculty and staff reiterating the University's current computer use policy and reminding faculty and staff of the possible consequences for non-compliance. Computer access application forms were updated in October 2012, to reference the University's computer use policy and potential repercussions for violations. All new staff and faculty are now required to sign these forms acknowledging their understanding of the policy and possible

consequences for non-compliance before computer access is granted. In November 2012, current faculty and staff began electronically acknowledging that they read the University computer use policy and understand the potential ramifications for non-compliance. Internal Audit will sample new hires since October 2012 to ensure that the revised computer access application forms are being utilized. Internal Audit will also verify that current faculty and staff have certified that they read the University computer use policy including the consequences for non-compliance.

State Audit Finding # 2

Issue:

University purchasing procedures were not followed.

Recommendation:

University management should ensure that employees obtain the required number of quotes for each project or document the reasons for not following the University procedure prior to the approval and awarding of contracts. University management should also ensure that all University employees involved in the purchasing process are familiar with the University's current purchasing policies and procedures.

UNC Pembroke Response to Finding # 2

The University concurs that we violated our own purchasing procedures but would like to emphasize that no State laws or regulations were breached with regards to this audit finding. State regulations require three bids for construction projects over \$300,000 and suggest three quotes be acquired for construction projects between \$30,000¹ and \$300,000; no competitive bidding is required for construction projects under \$30,000. The University historically has used a more conservative approach for obtaining bids by using a threshold for purchases over \$2,500 to allow local vendors business opportunities that otherwise they might not have been privy. Despite our best efforts though, the University failed to obtain or adequately document the three required quotes for nine out of the twelve contracts awarded to one vendor from February 2008 to May 2011. Each of these contracts was in excess of \$2,500 but under \$30,000 so no state regulations were violated. Per our own investigations, we found that in some cases the University did not receive three quotes for the construction projects in question because less than three vendors responded to the request. Unfortunately the University did not adequately document this.

Understanding fully the importance of competitive bidding as well as adequately and appropriately documenting the process, the University is taking the opportunity to re-evaluate its

¹ The North Carolina – State Construction Manual, Chapter 400, section 403

purchasing procedures and possibly align them more closely with state guidelines. The University will re-train employees who are actively awarding contracts related to construction projects. The Purchasing department at UNC Pembroke will conduct by December 31, 2012 a training session with personnel in Facilities Management. The purpose of this training is to ensure that all University employees involved in these type purchases are familiar with the University's purchasing policies and procedures. Internal Audit will follow-up with Facilities Management to verify that the training session was held. Internal Audit will also audit construction contracts subsequent to training to ensure that University guidelines are being followed.



James E. Shepard, Founder

Office of the Chancellor

January 15, 2013

Ms. Beth A. Wood, CPA
State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Ms. Wood:

Thank you for the December 20, 2012 confidential draft report on your review of allegations concerning an employee receiving supplemental compensation in the North Carolina Central University School of Law. Our response follows:

North Carolina Central University acknowledges the error in paying an SPA, exempt employee supplemental compensation for having performed additional duties. We will take action to recover overpayment of state funds in accordance with General Statute § 143-64.80(a). Moreover, controls will be enhanced through additional training and redesign of internal human resource documents.

We extend our sincere appreciation for the professionalism shown by your auditors during the investigation. Please contact Ms. Loretta Hayes, Interim Director of Internal Audit, at (919) 530-7742, should you have questions or require additional information.

Sincerely,

Charles L. Becton
Interim Chancellor

CLB/

Copy to: Loretta Hayes, Interim Director, Internal Audit
Melissa Jackson Holloway, General Counsel
Bernice D. Johnson, Associate Provost and
Associate Vice Chancellor, Academic Affairs
Wendell Davis, Vice Chancellor, Administration and Finance
Susan L. Hester, Vice Chancellor and Chief of Staff