

Minutes of the January 10, 2013 Meeting  
of the Board of Governors Audit Committee

The Audit Committee met in Conference Room C at the UNC General Administration-Spangler Center in Chapel Hill, North Carolina on Thursday, January 10, 2013 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 was Dr. Franklin E. McCain. Others in attendance were Chancellor Kenneth Peacock (ASU); University Counsel Donna Gooden Payne and Senior Associate University Attorney Paul Zigas (ECU); Chancellor Randy Woodson and Provost Warwick Arden (NCSU); Vice Chancellor for Administration and Finance Robert Edwards (WCU); Chancellor Donald Reaves and Director of Financial Aid Robert Muhammad (WSSU) and UNC General Administration staff.

Chair Davenport called the meeting to order and welcomed everyone.

On a motion from Mr. Nath, seconded by Dr. Eshelman, the minutes of the November 9, 2012 meeting were approved.

Assistant Vice President Jeff Henderson reviewed 11 audit reports released by the N.C. State Auditor since the November meeting. (See Attachment) Ten of the reports were financial audits for ASU, ECU, FSU, NCA&T, NCSU, UNCA, UNC-CH, UNCG, UNCW, and WCU. There were no audit findings in the reports. There was one investigative report at North Carolina State University's College of Natural Resources with one audit finding. Chancellor Woodson reported to the Committee that the University had taken appropriate actions to correct the problems noted.

Mr. Henderson discussed with the Committee a new process conducted by the Office of the State Auditor that included a report on Information Systems (IS) Reviews. The IS Reviews were performed in conjunction with the 2012 financial audits. Any findings directly related to the financial audit were reported as part of the financial audit. Any findings not directly related to the financial audit were reported in a separate letter to the Chief Information Officer at each campus. To date, five IS review letters have been released with findings. Those campuses have taken corrective actions.

On the motion of Mr. Nath, 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), and to plan, conduct or hear reports concerning investigations of alleged criminal conduct under North Carolina General Statute 143-318.11(a)(7).

## CLOSED SESSION

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On the motion of Mr. Bisette, seconded by Mr. Nath the Committee returned to open session.

There being no further business, the meeting was adjourned.

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Mr. Walter C. Davenport  
Chair of the Audit Committee

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Mr. Hari H. Nath  
Secretary of the Audit Committee

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

1. The University of North Carolina at Asheville – (Financial Audit) No Audit Findings  
Date Released: 10/22/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6055.pdf>

2. The University of North Carolina at Greensboro – (Financial Audit) No Audit Findings  
Date Released: 11/7/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6040.pdf>

3. East Carolina University – (Financial Audit) No Audit Findings  
Date Released: 11/28/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6065.pdf>

4. Appalachian State University – (Financial Audit) No Audit Findings  
Date Released: 11/30/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6080.pdf>

5. North Carolina A&T State University – (Financial Audit) No Audit Findings  
Date Released: 11/30/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6070.pdf>

6. North Carolina State University/College of Natural Resources/Department of Forestry and Environmental Resources – (Investigative Audit)  
Date Released: 12/6/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Investigative/INV-2012-0380.pdf>

## FINDINGS AND RECOMMENDATIONS

### AN ASSOCIATE PROFESSOR COULD NOT PROVIDE DOCUMENTATION TO SUPPORT GRANT-FUNDED TRIPS TO THE NORTH CAROLINA OUTER BANKS

An Associate Professor of Forestry and Natural Resources (Professor) spent \$3,359 from state grant funds<sup>2</sup> for two trips to the North Carolina Outer Banks.<sup>3</sup> According to the Professor, he traveled in July and August 2011 to validate data obtained from plant and water samples taken from the Currituck Sound in 2010. However, the Professor could not provide documentation to support the sampling and validation he said he performed on both 2011 trips. Additionally, quarterly research progress reports submitted to the North Carolina Department of Transportation (DOT) did not mention sample validation activities during July and August 2011.

For the July 2011 trip, the Professor and his family obtained lodging at a resort near Duck, North Carolina at a rate of \$587.69 per night for three nights. The Professor said the travel arrangements were made at the last minute and he said there were no vacancies in surrounding lower-priced hotels. Also, he said that the resort was near the work site (Corolla, NC) and staying at this facility would require less commuting time in this high traffic area. For the August 2011 trip, the Professor and his family stayed at a hotel near Kitty Hawk, North Carolina at a rate of \$367.66 for one night and \$390.01 per night for two nights. For both the July and August 2011 trips, the check-in day was Thursday and the check-out day was Sunday. The Professor said the only time available for him to perform the validation sampling was on weekends because of other work obligations Monday through Wednesday. The Professor also received \$448.70 for his meals and transportation costs on these two trips.

The Professor said that he recorded the sample results for both the July and August 2011 trips and gave the “sheets of paper” to his research assistant. After the results were recorded, the Professor said he did not keep the documentation. According to the North Carolina State University (University) Director of Contracts and Grants, there was no protocol in the Department of Forestry and Environmental Resources regarding what information should be documented and how long it should be kept to support the validation of data. However, University policies regarding responsibilities of principal investigators<sup>4</sup> for research projects require “all records generated from the work performed on any project must be maintained for a minimum of three years or as required by the sponsor, journal, or patent disclosure whichever is longer. Records include all laboratory notebooks, final data sets, the proposal, technical reports...”

Research professors at East Carolina University and the University of North Carolina Wilmington said they record the date, location, and time of their sample collections. Also, they record weather conditions and a description of the sample items collected. Additionally, these research professors said, if data is recorded manually, it is later transferred into an electronic format for storage. Both professors said they retain their field work data indefinitely for future reference.

The lack of documentation, timing of trips, and inclusion of family members, raised a number of questions regarding the necessity and work-related purpose of these trips. In our opinion, without documentation supporting a business purpose, DOT grant funds

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<sup>2</sup> The grant funds were initially awarded by the Federal Highway Administration to the North Carolina Department of Transportation for a research project in Currituck Sound.

<sup>3</sup> Outer Banks: A chain of sand barrier islands and peninsulas located along the Atlantic coast of eastern North Carolina.

<sup>4</sup> Principal investigator: the lead scientist or engineer for a project. The Associate Professor acted as principal investigator for this project.

should not have been used to fund the Professor's travel to the Outer Banks region in the summer of 2011.

RECOMMENDATION

The College of Natural Resources, Department of Forestry and Environmental Resources should comply with the University's document retention requirements for principal investigators. As such, the College should develop specific data documentation and retention requirements, consistent with standards for academic research. For example, documentation requirements could include the date, time, and location for a sample collection, weather conditions at the time of collection, and a description of the sample items collected. Once developed, these requirements should be communicated to all professors and research assistants to ensure compliance. In addition, University management should consider requiring the Department Professor to repay grant funds used for travel to the Outer Banks in 2011. (Response Letter from North Carolina State University is attached.)

7. The University of North Carolina at Wilmington – (Financial Audit) No Audit Findings  
Date Released: 12/7/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6060.pdf>

8. North Carolina State University – (Financial Audit) No Audit Findings  
Date Released: 12/7/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6030.pdf>

9. The University of North Carolina at Chapel Hill – (Financial Audit) No Findings  
Date Released: 12/12/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6020.pdf>

10. Fayetteville State University – (Financial Audit) No Findings  
Date Released: 12/12/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6088.pdf>

11. Western Carolina University – (Financial Audit) No Findings  
Date Released: 12/13/2012

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6075.pdf>

## RESPONSE FROM NORTH CAROLINA STATE UNIVERSITY

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Office of the Chancellor  
Box 7001/A Holladay Hall  
Raleigh, North Carolina 27695-7001  
919.515 2191

November 13, 2012

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

Dear Ms. Wood:

Thank you for the October 29, 2012 confidential draft report on your office's investigation of allegations concerning the North Carolina State University, College of Natural Resources, Department of Forestry and Environmental Resources. Please find attached to this letter our response to the issue reported and your related recommendations.

We would like to express our appreciation of the professionalism with which your auditors conducted this investigation and their collaborative and productive approach.

Please contact Cecile Hinson, Director of Internal Audit, at (919) 515-8862 if you have any questions or require additional information.

Sincerely,

W. Randolph Woodson  
Chancellor

Enclosure

cc: Cecile Hinson, Director of Internal Audit

North Carolina State University

Response to North Carolina Office of the State Auditor Investigative Draft Report

Regarding College of Natural Resources, Department of Forestry and Environmental Resources

October 29, 2012

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**State Auditor Finding**

**Issue:**

An Associate Professor could not provide documentation to support grant-funded trips to the North Carolina Outer Banks.

**Recommendation:**

The College of Natural Resources, Department of Forestry and Environmental Resources should comply with the University's document retention requirements for principal investigators. As such, the College should develop specific data documentation and retention requirements, consistent with standards for academic research. For example, documentation requirements could include the date, time, and location for a sample collection, weather conditions at the time of collection, and a description of the sample items collected. Once developed, these requirements should be communicated to all professors and research assistants to ensure compliance. In addition, University management should consider requiring the Department Professor to repay grant funds used for travel to the Outer Banks in 2011.

**NC State Response to Finding**

The College of Natural Resources is committed to integrity in the teaching, research, and service it provides to the State of North Carolina. Demonstrating this commitment, the following actions have been taken in response to the State Auditor's report.

First, to raise awareness among the faculty, the College is publicizing the University PI list of responsibilities in several ways. (A) The July 2012 CNR Research Update Newsletter emphasized the importance of PIs following the University's list of responsibilities, which include requirements for maintaining data and research related information. (B) The November 1, 2012 meeting of the College of Natural Resources Research Committee included a discussion about requirements to maintain research data for a minimum of three years, and if required by the sponsor, sometimes longer. (C) PI responsibilities under University policy, as well as the potential consequences of not meeting those responsibilities, were communicated to all faculty and staff at the CNR fall meeting. And (D), each department head within the College will further communicate and discuss PI responsibilities at departmental faculty meetings.



**North Carolina State University**

**Response to North Carolina Office of the State Auditor Investigative Draft Report**

**Regarding College of Natural Resources, Department of Forestry and Environmental Resources**

**October 29, 2012**

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Second, the College Research Office discussed the University's PI responsibilities, the need to properly archive research data, and the documentation expected in support of business travel with the Associate Professor. The College of Natural Resources will ensure that the funds used for travel to the Outer Banks in 2011 are fully reimbursed to the grant.

In closing, the university is pleased to note that the grant in question is on track to be completed successfully and to provide important understanding of our coastal resources.