

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

1. University of North Carolina General Administration – (Financial Audit) No Audit Findings

Date Released: 5/21/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6010.pdf>

2. North Carolina School of Science and Mathematics – (Financial Audit) One Audit Finding

Date Released: 5/30/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2012-6094.pdf>

Matters Related to Financial Reporting

The following audit finding was identified during the current audit and describes conditions that represent deficiencies in internal control.

1. DEFICIENCIES IN FINANCIAL REPORTING

The financial statements and related notes to the financial statements prepared by the School contained misstatements that were corrected as a result of our audit. The misstatements indicate that the School's internal control over financial reporting was not effective, and without these corrections the financial statements could be misleading to users. Misstatements noted during our audit included:

- Current unrestricted cash and cash equivalents was understated by \$95,167.15 and current restricted cash and cash equivalents was overstated by the same amount due to a classification error made while recording transactions of the blended component unit.
- The School failed to properly eliminate institutional transfers-in at year-end. As a result, grants, aids, and subsidies expense was overstated by \$246,270.00, services expense by \$71,861.11 and noncapital grants was understated by \$94,324.70.
- The School failed to properly reduce certain current and prior years' liabilities when paid. As a result, accounts payable and funds held for others were overstated by \$86,467.20 and \$296,962.11, respectively. The amount of liabilities from prior periods incorrectly reported resulted in a restatement of prior period net asset balances of \$321,823.15.
- The School failed to properly capitalize expenses to construction in progress, which resulted in an understatement of \$224,585.72 for non-depreciable capital assets and an

overstatement of supplies expense by the same amount.

- The School's financial statements did not agree to the general ledger accounting records. While preparing the financial statements, the School recorded transactions of the blended component unit with the financial statements but did not adjust the general ledger accounting records.
- The School did not properly disclose the cash position with the State Treasurer in the notes to the financial statements. The amount disclosed in the notes to the financial statements was overstated by \$2,157,257.81.
- The Statement of Cash Flows needed significant adjustments to correctly and fairly present the activity of the School.

The School's management is responsible for the fair presentation of the financial statements and related notes to the financial statements in conformity with accounting principles generally accepted in the United States. Best practices for financial statement preparation include adequate review of financial statements and related notes to the financial statements to ensure that no material misstatements or errors occur.

Recommendation: The School should place greater emphasis on year-end financial reporting process and strengthen internal controls to ensure the completeness and accuracy of the financial statements and related notes to the financial statements.

University's Response: After reviewing the Audit finding, we have determined that overall the finding is valid. We also concur with the recommendation to place greater emphasis on the year-end financial reporting process and overall internal control to ensure the accuracy of our financial statements. We are confident that the changes we have and will implement in the year-end review process, including a year-end checklist, will address the deficiencies noted in the audit finding.