

**4. Update from the Office of Internal Audit at UNC-GA .....Eddie Capel  
Jeff Henderson**

**Situation:** Internal audit work has been completed for UNC General Administration.

**Background:** The Audit Committee of the Board of Governors serves as the primary audit committee for the Internal Audit function at UNC General Administration. As per the Audit Committee Charter, in this capacity, the Committee will review internal audit reports and letters issued by the Internal Auditor at UNC-GA.

**Assessment:** Three Internal Audit projects have been completed by the Interim Internal Auditors at UNC-GA. The reports for these projects are attached.

**Action:** This item is for information only



# The University of North Carolina

GENERAL ADMINISTRATION

POST OFFICE BOX 2688, CHAPEL HILL, NC 27515-2688

Jeffrey A. Henderson, CPA, CISA, *Interim Internal Auditor*

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Date: April 25, 2014

To: Gail Zimmermann, Director and General Manager (Interim), UNC TV

From: Jeff Henderson, Interim Internal Auditor, UNC GA *Jeff A Henderson*

Re: Improper Use of P-card and Missing Property Concerns at UNC TV

I received a confidential memorandum from UNC General Administration Employee Services Consultant Anne Schwartz regarding an allegation of improper use of a procurement card at the UNC Center for Public Television. The memorandum requested that UNC GA Internal Audit receive a copy of the memorandum and that Internal Audit review the information leading to the memorandum and conduct an investigation if it is considered necessary.

The Internal Audit position at UNC GA is currently vacant. However, prior to moving to my current role, I served as Internal Audit Director for UNC GA. My current role at UNC GA does have me involved in operations. UNC TV is an entity affiliated with UNC General Administration. While UNC GA is not directly involved in the operations of UNC TV, the affiliation may create the appearance of an independence impairment. Management with both organizations were made aware of this potential independence issue and asked that I proceed.

The initial concern was that an employee at UNC TV was making questionable purchases with a purchasing card assigned to the employee. These purchases were not consistent with regular purchases made for events and projects at UNC TV. One of this individual's primary responsibilities is to purchase items needed for the many outreach programs and events put on by UNC TV. The Employee Services Consultant did a significant amount of work reviewing the items in questions and extended the review of purchases made by the individual back to July 2012. Other similar type purchases were found. A second step in the process was to determine if the questionable items purchased were in inventory at UNC TV. Some were found; others were not, which led to reporting the missing items to the State Bureau of Investigation.

I reviewed the work performed by the consultant and found it adequately documented the concerns of the staff at UNC TV. I interviewed several staff at UNC TV to confirm the concerns noted in the memorandum. The concern was the purchase of small quantities of items and items with little or no educational value. The typical purchase for projects and events is large quantities of items that

have an educational purpose. My review of the questionable purchases confirmed this to be the case. I also reviewed the employee's email for any indication that the items in question appeared in any email sent or received by the employee. The volume of email was extensive and not all emails were read. Scans were performed on key words to accomplish this goal. There was no evidence that the items in question were used for purposes unrelated to UNC TV activities.

The confidential memorandum and my review also found that internal controls in the outreach area, both for purchasing and for inventory controls, need significant strengthening. Purchases were made based on both written and oral requests from other outreach staff and others within UNC TV. The purchases were made and the items were given to various staff. There was no correlation of the purchases to the project or event for which the items were purchased. In addition, there is a storeroom to be used for inventory, but other than a locked door, there was no control over what was stored in the room and who could add or remove items from the room. Furthermore, items not used at a project or event were sometimes left in the outreach area and not returned to the storeroom until later. This lack of controls prevented us from finding conclusive evidence as to what became of the questionable purchases. It should be noted that UNC TV has already taken steps to strengthen the controls over both the purchasing process and inventory controls

Based on the work performed, it does appear that some purchases made were not consistent with the typical purchase for projects and events at UNC TV. However, there is not sufficient evidence to conclude whether or not the items purchased were requested by someone at UNC TV. In addition, the controls over inventory were so lacking that the ultimate use of the missing items cannot be determined based on information available during the review. Therefore it is my opinion that there is insufficient evidence to conclude that the actions of the employee were inappropriate. Without additional information upon which to investigate further, I consider the investigation closed.

Cc: Tom Shanahan  
Brooks Skinner  
Anne Schwarz  
Lynne Sanders

June 10, 2014

Mr. Jeff Henderson  
Assistant Vice President for Financial  
and Compliance Projects  
The University of North Carolina  
P.O. Box 2688  
Chapel Hill, NC 27515-2688

Dear Jeff:

Thank you for the work you performed on our audit. Your findings confirm the results of our own review. UNC-TV has taken the following steps to ensure future compliance with purchasing, inventory control, and accounting protocols and best practices:

Soon after the discrepancies were discovered in March 2014, UNC-TV appointed a new director of educational services. Her new duties include the responsibility of supervising the employees who were the subjects of this investigation. She immediately implemented new policies and procedures for handling purchases and inventory for the Educational Services Department. She also created tracking forms to record purchases, inventory, and requests for giveaway items.

Further, the director of educational services has given performance evaluations to the investigated employee and the two other employees in the unit who were associated with the investigation. The failure to follow protocol has been documented in their performance appraisals, and rankings have been adjusted appropriately. Each employee has been counseled and has been placed on notice that any variance from following the protocols in place is unacceptable. The educational services director is monitoring the situation closely to ensure that the situation of unaccounted for purchases does not happen again.

During the period of investigation, the following additional steps were taken by UNC-TV and UNC-GA:

- Human Resources and Legal Affairs were contacted immediately.
- All P-Card purchases in the Educational Services Department were suspend until further notice. Purchases have now been resumed with an added layer of approvals in the new protocols.
- UNC-GA's employment relations coordinator conducted an investigation in which she interviewed all of the employees involved, reviewed the accounting, inventory control, and outreach event documentation associated with the investigation and delivered a written report.

WUNF-TV 33 Asheville

WUNC-TV 4 Chapel Hill

WUND-TV 2 Columbia/Edenton

WUNG-TV 58 Concord/Charlotte

WUNK-TV 25 Greenville

WUNM-TV 19 Jacksonville

WUNE-TV 17 Linville

WUNU-TV 31 Lumberton

WUNP-TV 36 Roanoke Rapids

WUNJ-TV 39 Wilmington

WUNL-TV 26 Winston-Salem

Mr. Jeff Henderson

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June 10, 2014

- UNC-GA internal audit personnel were contacted by UNC-TV and Legal Affairs and asked to do a follow-up investigation using audit principles to determine if the HR findings were accurate. This letter is a response to that report.
- Concurrently with the beginning of your investigation, legal counsel informed the SBI of the matter in compliance with GS 114-15.1 concerning the misuse of state property. Legal counsel's follow-up with the SBI special agent in charge of financial crimes investigation resulted in a decision that the SBI would not investigate further.

I am confident that we now have this situation resolved and that UNC-TV has the appropriate plans in place to immediately identify and deal with any further issues that may occur.

Regards,

A handwritten signature in black ink that reads "Gail Zimmermann". The script is cursive and fluid.

Gail Zimmermann

Director and General Manager (interim)

cc: Kevin FitzGerald  
Brooks Skinner  
Anne Schwarz



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POST OFFICE BOX 2688, CHAPEL HILL, NC 27515-2688

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June 13, 2014

President Thomas Ross  
UNC General Administration  
910 Raleigh Rd.  
P.O. Box 2688  
Chapel Hill, NC 27514

Re: Internal Audit of Carry Forward Funds

Dear President Ross,


I have completed an audit of Carry Forward Funds for fiscal year ended June 30, 2013. This audit was scheduled as a part of the 2013-2014 fiscal year audit plan. The objectives of the audit were to determine if controls were sufficient to ensure that funds were disbursed according to NC General Statutes, directives from the Office of State Budget and Management and UNCGA Policies. Further, that all transactions were approved by the appropriate UNCGA officials and all transactions were classified correctly.

*North Carolina General Statute 116-30.3 Reversions*, allows for the carry forward of funds (not to exceed 2 ½%) of the General Fund appropriation from one fiscal year to the subsequent fiscal year for one-time expenditures that will not impose additional financial obligations on the State. The Office of State Budget and Management provides guidance as to the requesting of the funds to be carried forward and recording of the funds in the proper budget codes. Funds are to be spent in accordance with the OSBM Budget Manual. For the 2012-13 fiscal year, \$965,064 was carried forward and available to be spent. Only \$297,574 was actually spent from the Carry Forward Funds in 2012-13 and the balance of \$667,490 was transferred to fiscal year 2013-14.

Based on my review, it is my opinion that internal controls were in place to assure the disbursements were authorized and recorded consistent with the NC General Statutes, OSBM policy and UNCGA policy. I found no instances involving misuse of the Carry Forward Funds or any questionable disbursements

I want to express my appreciation for the cooperation and courtesies extended to me during my review by UNC GA employees

Sincerely,

  
Eddie Capel  
Interim Internal Auditor

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CC:

Dr. Fred Eshelman, UNC-GA Board of Governors

Mr. Kevin FitzGerald, Chief of Staff

Mr. Charles Perusse, Vice President for Finance

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

Mr. J. Michael Vollmer, Assistant Vice President for Finance and Budget Director

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



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June 13, 2014

President Thomas Ross  
UNC General Administration  
910 Raleigh Rd.  
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Chapel Hill, NC 27514

Re: Internal Audit of Petty Cash Funds

Dear President Ross,

I have completed an audit of UNC GA Petty Cash Funds for the fiscal year ended June 30, 2013. This audit was scheduled as a part of the 2013-2014 fiscal year audit plan. The objectives of my audit were to determine whether petty cash funds were properly accounted for, adequately safeguarded and used for their intended purpose. This review included all of the petty cash funds maintained by UNC GA. There are three petty cash funds in use by UNC GA employees. Two of the funds are located at UNCTV and the one at UNC GA, Office of Secretary. The total of all funds amount to \$900.00.

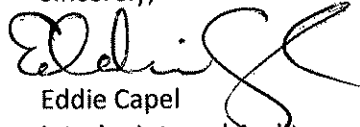
I conducted unannounced petty cash counts on all of the funds during my review. I verified the UNC GA Policies and Procedures were in place and being followed. I interviewed the petty cash funds custodians and other UNC GA personnel I deemed relevant.

UNC GA Petty Cash Funds were established to enable departments to manage minor expenditures in a convenient and economical manner. Policies and Procedures were developed to provide petty cash custodians and others, guidance for the proper utilization of the funds. Maintenance of the funds, including safeguards and security, is the responsibility of the custodian. There is periodic balancing of the funds as well as independent counting of the monies. The funds are located in secure areas of the custodians' offices

Based on my review, it is my opinion internal controls were in place to assure the petty cash funds were authorized and were being utilized in accordance with UNC GA policies and procedures. I found no instances involving misuse of the Petty Cash Funds or any questionable reimbursement or disbursement.

I want to express my appreciation for the cooperation and courtesies extended to me during my review by UNC GA employees.

Sincerely,

  
Eddie Capel  
Interim Internal Auditor

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