

2005 Financial Audit Reports Released Since Last Meeting By the North Carolina Office of the State Auditor:

1. Fayetteville State University: – Three Audit Findings – as published in the State Auditor’s report

INADEQUATE CONTROLS OVER CASH RECEIPTS AND DEPOSITS — RESOVLED

As previously reported, the University did not have adequate controls in place over the cash receipts and deposits to assure proper segregation of duties and proper review and approval procedures. The cashiering supervisor had the ability to collect cash, prepare and submit the deposit, certify the deposit, void receipts, and make journal entries. All cashiers had the ability to void receipts, but there was no written documentation of any review and approval by another individual.

Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or fraud in the normal course of his or her duties.

This finding was resolved during the audit period. The University strengthened internal controls over cash receipts and deposits so that no one individual controls all key aspects of a transaction or event and to include review and approval procedures over voided receipts.

EMPLOYEES HAVE ACCESS RIGHTS INCONSISTENT WITH JOB DUTIES — RESOLVED

As previously reported, the University did not have adequate procedures in place to assure that employees only had information systems access rights necessary to perform their jobs. Employees had access rights inconsistent with the responsibilities of their jobs that would allow them to perform functions incompatible with their assigned duties. Adequate access controls over information systems are necessary to prevent unauthorized or inappropriate transactions.

The University did a detail research on all of the users of the Financial Reporting System and their access rights. On July 1, 2005, the University replaced their accounting system with SunGard SCT’s Banner Finance.

University’s Response: The University became aware of this issue in April 2005. Once this concern was brought to our attention, the University took immediate corrective action. All employee access rights were reviewed and any inconsistent rights were removed prior to the completion of the financial audit for the year ended June 30, 2004. In addition to these corrective actions, an independent consultant was hired to verify these corrective actions. This verification was provided to the University on September 1, 2005. As noted by the State Auditors, the University implemented a new accounting system on July 1, 2005. During this implementation process, system access rights were thoroughly reviewed prior to implementation and are in full compliance.

DEFICIENCIES IN INTERNAL CONTROL PROCEDURES OVER CASH DISBURSEMENTS — UNRESOLVED

We noted deficiencies in internal control procedures over cash disbursements as follows:

- Purchase orders are not used correctly by the University. A sample of 50 payments for services was selected for testing. Results are as follows:
 - Seven purchase orders were created after services were provided and an invoice was submitted to the University for payment;
 - One purchase order was never created;

- One invoice was matched with the wrong purchase order;
- Policies and procedures governing contracted personal services are inadequate and inconsistently applied by the University. University staff was unclear on the documents required for payment for contracted services, in particular, the usage of Personal Service Agreements and Independent Contractor Determination Questionnaires. In addition, purchase orders for contracted services are not being used in accordance with the University's policies and procedures.
- Duplicate payments are occurring to University vendors. We noted four instances where vendors were paid twice for the same goods or services provided, which resulted in overpayments of \$95,925.15. Credit memos were subsequently issued for three of the four instances noted.
- The University is writing travel advance checks for anticipated travel months sooner than what is commonly considered good business practice. Checks written for athletic travel are kept in an employee's drawer until picked up. We also noted an instance where a University employee was paid \$9,255.00 in advance for meals and lodging expenses associated with two planned trips. The University wrote a check to the employee on December 17, 2004, even though the trips were planned for February 3, 2005, and February 27, 2005. On December 17, 2004, the University also wrote a check in the amount of \$4,741.80 directly to a hotel for the lodging associated with one of the trips. Sound internal controls require management to apply policies and procedures that ensure all transactions are processed with controls designed to prevent misappropriation of assets and errors that result in overpayments.

Recommendation: We recommend that the University strengthen internal controls over cash disbursements to include approved purchase orders prior to obtaining services, documentation that services have been performed prior to making payment, the creation and implementation of policies and procedures governing contracted personal services, and policies and procedures to eliminate duplicate payments and premature travel advances to University employees.

University's Response: Based on the Office of the State Controller's guidelines for internal control and cash disbursements, the University revised its policies and procedures for cash disbursements, contracted personal services, and travel. The University will conduct training to ensure staff is aware of the revised policies and procedures. Management oversight and internal verification will be increased to ensure purchase orders are obtained prior to services and verification of services performed is obtained prior to payment.

The University discovered the four overpayments during its review of management reports. Once these overpayments were discovered, the University immediately requested refunds from the vendors. The University has received credit memos and refunds totaling \$95,635.15 or 99.7% of the overpayment amount.

2. North Carolina A&T State University: – One Audit Finding – as published in the State Auditor's report

NONCOMPLIANCE WITH UNIVERSITY POLICY REGARDING PURCHASING BIDS/QUOTES — UNRESOLVED

We reviewed ten purchase transactions from a vendor that supplies computer equipment. University policy requires that at least three quotes be obtained for purchases over \$5,000. Of the transactions reviewed there were seven in excess of \$5,000. For five of these transactions there had been no quotes obtained. In one instance there had been one additional quote obtained from a vendor on state contract. The price charged by the vendor that the university purchased from was \$3,444 higher than the vendor on state contract. No explanation was documented as to the reason for not purchasing from the vendor with the lowest quote. University policy also states that computer purchases are required to be pre-approved by the Information Technology and Telecommunications department. In six of the transactions that we reviewed there was no evidence that the pre-approval had been obtained.

We reviewed fourteen transactions from a vendor that supplies landscaping services. All of these transactions occurred within a six week period and were for services similar in nature. The total amount of these transactions was \$49,610. The department made these purchases by dividing the order into transactions less than \$5,000, resulting in competitive bids not being sought. University policy states that purchases greater than \$25,000 require a formal bid process. University policy also states that departments may not divide orders to circumvent the necessity of obtaining competitive bids or quotes.

Recommendation: The University should comply with State and University policies and procedures related to obtaining quotes for purchases over \$5,000 and following a formal bid process for purchases over \$25,000. University departments should also comply with the policy requiring that orders not be divided to circumvent the competitive bid/quote process. Computer purchases should be pre-approved by Information Technology and Telecommunication to ensure that equipment purchased is not outdated and is compatible with other university equipment.

Response: The University concurs with the finding.

In attempting to procure goods and services from Historically Underutilized Businesses (HUB), two departments failed to observe proper quote and bid procedures. Though the University has set a goal that 13% of our purchases come from HUB vendors, the University realizes that procurement policies must be followed while seeking that goal.

The Vice Chancellor for Business and Finance met with the departments involved and has issued a memorandum to the campus stressing the importance of adhering to State and University purchasing procedures. Additionally, the Purchasing Office will reinforce these policies and procedures in their quarterly training to the University community.

3. The University of North Carolina at Chapel Hill: No Audit Findings
4. The University of North Carolina at Charlotte: No Audit Findings
5. The University of North Carolina at Wilmington: No Audit Findings
6. Winston-Salem State University: No Audit Findings