

Minutes of the June 8, 2006 Meeting
of the Board of Governors' Audit Committee

The Audit Committee met in Conference Room A of the General Administration Building in Chapel Hill, North Carolina on Thursday, June 8, 2006, at 5:00 p.m.

Members in attendance were Mr. F. Edward Broadwell, Jr., Ms. Hannah D. Gage, Dr. Irvin A. Roseman, and Mr. William G. Smith. Necessarily absent were Mr. William L. Burns, Jr. and Mr. John W. Davis III. Others attending the meeting were Vice President Leslie Winner; Associate Vice Presidents George Burnette and James O. Smith; and Kelly Young, Systems Accountant/Internal Auditor for UNC-General Administration.

Chair Smith convened the meeting and welcomed everyone. He called for a motion to approve the minutes of May 11, 2006.

On the motion of Dr. Roseman, seconded by Ms. Gage, the minutes were approved.

Then Mr. Burnette discussed the 2005 financial audit and the 2006 information system audit reports released by the North Carolina Office of the State Auditor since the last meeting. Questions were answered throughout his presentation.

1. North Carolina Central University: – (Information System Audit) – Two Audit Findings – as published in the State Auditor's report

SYSTEMS SOFTWARE STANDARDS AND DOCUMENTATION NEED IMPROVEMENT

The NCCU's systems software standards did not address the following:

- System software changes are scheduled when they least impact IS processing.
- Problems encountered during testing or operations were resolved and the changes were re-tested. These problems should be documented.
- Fallback or restoration procedures are in place in case of production failure.

Also, NCCU did not maintain any supporting documentation for their Banner system software upgrades.

Recommendation: NCCU should make modifications to address the missing components to their existing systems software standards.

Auditee's Response: The University will revise the Systems software standards.

BACK UP TAPES FOR THE BANNER APPLICATION ARE NOT ROTATED TO AN OFFSITE FACILITY ON A WEEKLY BASIS PER NCCU POLICY

Back-up tapes for the Banner application are not rotated to an offsite facility on a weekly basis as documented in the NCCU Disaster Recovery Plan.

In the event of a disaster, or loss of data regarding the Banner application, the user departments affected by such a loss may not have sufficient resources, or the ability to reenter, or recompile lost data that has not been backed up over an extended period of time.

Recommendation: NCCU should rotate backup data tapes for the Banner application to an offsite facility on a weekly basis, as documented in the NCCU Disaster Recovery Plan.

Auditee's Response: The University will rotate the Banner backup data tapes to its offsite facility, on a weekly basis, as documented in the NCCU Disaster Recovery Plan.

2. The University of North Carolina at Asheville: (Financial Audit) – No Audit Findings

The next item of business was a review of UNC General Administration's 2006 Internal Audit Plan. Mr. Burnette introduced Kelly Young, Systems Accountant/Internal Auditor. She explained each item audited to date, as well as the proposed audit topics for the next six months, and answered questions.

February 2006	UNC-TV A/P Audit
March 2006	Insurance Valuation for UNC-TV Property
April 2006	Small Purchase Orders
May 2006	Contracts and Grants Procedures
June 2006	Contracts and Grants Procedures (Continued)
July 2006	Lapsed Salaries and Carryforward Funds
August 2006	Year End Close
September 2006	Year End Close (Continued)
October 2006	Disbursements – State General Operating, CI's, and Trust Accounts
November 2006	Receipts – UNC- TV and State Education Authority Assistance
December 2006	Miscellaneous Flex Entries – lapsed salary reallocations
January 2007	Fixed Assets – Disposals, inventory, and reconciliation

After that, Ms. Young presented the following internal audit summary as of April 2006.

1. UNC Public Television Accounts Payable Audit:

The audit was designed to determine, through appropriate inquiry, inspection, observation, and confirmation, that the Accounts Payable policies and procedures were properly carried out, provided adequate internal controls, and performed to obtain reasonable assurance about whether the accounts payables for UNC-TV were free of material misstatements.

Internal controls were adequate and no material issues were found to be reportable.

2. Involved in Four Investigative Audits between January – May 2006

3. In-Process - Audit of Insurance Valuation for UNC-TV Property:

The scope of this audit was expanded to include UNC-General Administration albeit; I do an annual evaluation of insurance valuations for UNC-GA. We have some additional leased property with contents that have just become official and were not included in previous evaluations.

This audit is 70% complete. However, the completion of this audit has been delayed due to the following factors:

- Involvement in the investigative audits listed above
- Dollar basis for valuation from Fixed Asset System which only contains assets valued at \$5,000 or above. This, therefore, requires an extensive review of over 121 UNC-TV sites/towers/buildings out of 133 buildings and sites included in insurance valuations. ANY asset less than \$5,000 must be included in the value for insurance coverage. The value of these assets (desks, printers, chairs etc...) could alone, put UNC-TV in great risk of a huge uncovered loss if not included in value.
- Director of Purchasing for UNC-TV and Director of Accounting positions are both vacant and they are the main contacts for helping with the valuation of these additional assets.

4. Delay of Audit of Small Purchase Orders:

Small purchase order audit delayed until completion of investigative audits and the Insurance Valuation audit.

The Committee discussed the 2006-07 UNC General Administration internal audit plan which would be presented in August for final approval. It would be emailed to the Committee for guidance and feedback before the August meeting.

After that, Vice President Winner explained that the General Assembly might enact Conflict of Interest and Ethics laws this session that could affect the Board of Governors, Boards of Trustees, President, Chancellors, Vice Chancellors, and Vice Presidents. The adoption of the Board's Code of Ethics should be delayed so that it can be consistent with the new legislation.

On the motion of Mr. Smith, seconded by Ms. Gage, the Committee went into closed session to: prevent the disclosure of privileged information under [N.C.G.S. 147-64.6(c)(18) and N.C.G.S. 132-6.2(c)] (internal security audit) of the North Carolina General Statutes or regulations and also to plan, conduct, or hear reports concerning investigations of alleged criminal conduct. [N.C.G.S. 143-318.11(a)(7)]

CLOSED SESSION

There being no further business, the meeting was adjourned.

Mr. William G. Smith
Chair of the Audit Committee

Dr. Irvin A Roseman
Vice Chair of the Audit Committee

CLOSED SESSION

Mr. Burnette distributed the network and security information systems audit findings for North Carolina Central University and UNC Wilmington. He explained the findings and answered questions.

He also discussed on-going investigative audit issues at North Carolina A&T State University, UNCTV, and UNC GA's University Affairs' Federal Relations division in Washington, D.C. Lastly, Mr. Burnette discussed a check fraud investigation that had just materialized and involved Fayetteville State University, Fayetteville Technical Community College, and Sandhills Community College.

On the motion of Ms. Gage, seconded by Mr. Smith, the Committee returned to Open Session.