

Minutes of the February 8, 2007 Meeting
of the Board of Governors' Audit Committee

The Audit Committee met in the Foundation Conference Room of the Alumni-Foundation Event Center in Greensboro, North Carolina at North Carolina A&T State University on Thursday, February 8, 2007, at 5:00 p.m.

Members in attendance were Mr. William L. Burns, Jr., Mr. John W. Davis III, Mr. Ray S. Farris, Mr. William G. Smith, and Mr. David W. Young. Necessarily absent was Ms. Hannah D. Gage. Others attending the meeting were Vice Presidents Leslie Winner; Associate Vice Presidents George Burnette and James O. Smith. In attendance from Appalachian State University was Chancellor Kenneth E. Peacock.

Chair Smith convened the meeting and welcomed everyone.

On the motion of Mr. Young, seconded by Mr. Farris, the minutes were approved.

Next, on the motion of Mr. Burns, seconded by Mr. Young, the agenda was approved.

Chair Smith called upon Mr. Burnette to present the audits released since the last meeting by the North Carolina Office of the State Auditor. The Committee discussed the following:

1. Appalachian State University: – (Financial Audit) – Three Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6080>

Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. INADEQUATE CONTROLS OVER CASH RECEIPTS AND DEPOSITS

New River Light and Power does not issue system-generated prenumbered receipts. Cashiers collect payments from customers and stamp the bill and stub "PAID." Manual receipts are issued for meter deposits. The cashiers count their collections and prepare their own Daily Cash Report. No system-generated cash report is available. A cashier other than the collector posts payments to customer accounts but the current computer system does not provide an audit trail to verify or identify who posted payments to accounts. All cashiers can prepare and submit daily deposits. The Cashiering Supervisor has the ability to make adjustments to customer accounts and collect cash through the cashiering system, prepares bank deposits, and is involved in the billing process. In addition, this employee prepares the deposit to redeposit bad checks.

Recommendation: We recommend that Management design and implement policies and procedures to ensure adequate segregation of duties over the cash receipts and daily deposits. Since New River is in the process of purchasing a new computer system and software, Management should ensure that the new system provides an audit trail for receipts, posting of payments, and cash reports.

ASU Response: Staffing levels do not permit collecting, recording, depositing, and reconciling cash receipts among different individuals. New River Light and Power has compensated with controls such as thorough management review and supervision and strict individual accountability.

A comprehensive computer conversion is scheduled for completion by December 2007. The new system will provide an audit trail for receipts, posting payments and cash reports as recommended by auditors in 2006. System highlights include:

- Payments will be posted in "real time" by the cashier receiving the cash payment.
- A system-generated audit trail will verify the employee who posted payment to an account.
- System-generated receipts will be printed for consumers.
- A system-generated cash report will be printed for each cashier for daily balancing.
- Adjustments to consumer accounts will be limited to an employee who does not collect cash.

2. NONCOMPLIANCE WITH POLICIES AND PROCEDURES OVER PURCHASING

New River Light and Power is not complying with Purchasing policies and procedures provided by the University. During our examination of expenditure transactions, we noted that payments were processed without the issuance of purchase orders. Changes to the Purchasing policies and procedures were implemented without appropriate University approval. No written documentation was available for the implemented changes to the policies and procedures.

Recommendation: We recommend that the University take the necessary steps to ensure that all departments and areas comply with the Purchasing policies and procedures as outlined in the ASU Resource Manual. In addition, we recommend that the proper policies and procedures be followed regarding documentation of changes to policies and procedures prior to implementation.

ASU Response: New River Light & Power will follow purchasing policies as outlined in the ASU Resource Manual. Also, New River Light & Power will follow ASU procedures when recommending changes to policies and procedures. That process includes the Office of Business Affairs, the Office of Internal Audits and the University Attorney's Office.

3. INTERNAL CONTROL WEAKNESSES OVER PAYROLL FUNCTIONS AT NEW RIVER LIGHT AND POWER

On July 26, 2006, the University's internal auditors released a payroll review that reported failures of internal controls over payroll functions at New River Light and Power. The report noted:

- Unapproved employee time sheets
- Temporary employee working without authorization
- Temporary part-time employees earning and banking compensatory time
- Payroll personnel physically taking employee deposit tickets and checks to various banks in lieu of direct deposit
- Key management positions being held by retired personnel working as temporary part-time employees

In addition, during our examination of payroll, we noted the following errors:

- One temporary part-time employee did not have a current employment authorization on file.
- Another temporary part-time employee's timesheets did not reflect all hours worked. We noted that several of his timesheets reflected hours worked that were actually taken off as compensatory time recorded on a separate carryover time record.
- A terminated full-time employee was overpaid due to the incorrect hourly rate being used to calculate her terminal pay, resulting in an overpayment of \$256.67

Recommendation: We recommend that the University take the necessary steps to ensure that all temporary employees have current employment authorizations on file, timesheets include all hours worked, and terminal pay is correctly calculated. We also recommend that the internal auditors continue to monitor the payroll process at New River Light and Power until they are satisfied that the process is working properly.

ASU Response: Responses to the Audit findings are addressed as follows:

- *Unapproved employee time sheets*
The Personnel Officer is currently requiring completion of time sheets on a daily basis. Incomplete or unapproved timesheets are not accepted.
- *Temporary employee working without authorization*
As of January 04, 2007, New River Light and Power has one employee classified as temporary status. A Temporary Employment Authorization form for this employee has been completed and is current.

- *Payroll personnel physically taking employee deposit tickets and checks to various banks in lieu of direct deposit.*

Payroll personnel at New River Light and Power no longer deliver employee deposit tickets and checks to the various banks.

- *Key management positions being held by retired personnel working as temporary part-time employees.*

Key management positions at New River Light and Power include the General Manager and the Facilities Engineer Supervisor. On October 9, 2006, the position of General Manager was filled by a permanent, full-time employee. The individual currently serving in the part-time position of Facilities Engineer Supervisor remains on staff. However, all major decisions within the areas of responsibility of the Facilities Engineer Supervisor are only to be made following discussion and approval with the General Manager. It is anticipated that a permanent, full-time employee will fill this position prior to 2008.

- *One temporary part-time employee did not have a current employment authorization on file*

The last day of employment of this employee was January 4, 2007.

- *Another temporary part-time employee's timesheets did not reflect all hours worked. We noted that several of his timesheets reflected hours worked that were actually taken off as compensatory time recorded on a separate carryover time record.*
- *A terminated full-time employee was overpaid due to the incorrect hourly rate being used to calculate her termination pay, resulting in an overpayment of \$256.67.*

The earning of compensatory time is no longer allowed for temporary employees. It is our position that the above stated occurrence was an isolated error. Payroll issues will be closely monitored by management in the future.

In addition to the responses stated above, the ASU Office of Internal Audits will monitor the payroll process at New River Light & Power until they have satisfied that the process is working properly.

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

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6050>

3. Winston-Salem State University: – (Financial Audit) – No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6084>

4. The University of North Carolina at Pembroke: – (Financial Audit) – Two Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/EDSreportdetail.asp?RepNum=FIN-2006-6082>

Matters Related to Financial Reporting

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control. Finding number two was also reported in the prior year.

1. INFORMATION SYSTEM ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEGREGATION OF DUTIES

The University granted information system access rights inconsistent with adequate segregation of duties. The University had three employees in management positions who had system access rights that allowed them to create vendors, create purchase orders, enter invoices for payment, print checks, and post journal entries. Another employee in management had the same access rights, with the exception of check printing. Because these employees are in management, they are also responsible for oversight of the transactions that they are capable of initiating.

Segregation of duties is a basic internal control that requires limitations of information system access rights that could 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.

Recommendation: The University should limit information system access rights to assure that employees are only assigned access rights necessary to perform their jobs and that adequate segregation of duties is achieved.

University's Response: The University's Controller's Office has limited the access rights for the four employees noted in the audit to achieve adequate segregation of duties. The Controller's office has begun the process of reviewing the access rights to employees assigned to Controller financial programs.

2. DEFICIENCIES IN INTERNAL CONTROL OVER BOOKSTORE RECEIPTS

The University did not have adequate controls in place to ensure proper segregation of duties and proper review of transactions in the bookstore.

- Cash handling responsibilities were not properly segregated. One individual was responsible for all aspects of the daily deposit including receipting money, processing returns without prior approval, running cash reports, reconciling the cash to reports, and preparing the deposit. There was no indication of review of this individual's work by management.
- The cash report summary generated daily from the system was used to balance with cash receipts. In order to generate this summary report, the individual responsible for running cash reports had to prompt the system with the register numbers used each day to include all register transactions in the summary. As a result, this report was susceptible to manipulation by not entering all of the register numbers used in a day when generating the report.

- All bookstore employees, including student employees, processed their own returns without prior approval.

This finding has been resolved. The University implemented controls in the bookstore that ensure proper segregation of duties over cash handling, including returns, and proper review of transactions and daily reports.

Mr. Smith then called on Vice President Winner to discuss two exceptions that she planned to incorporate in the “Motions to go into Closed Session.” These are listed below:

- hear reports concerning investigations of alleged criminal misconduct (while investigation is ongoing)
- prevent disclosure of information that is confidential pursuant to state or federal law such as
 - the State statute providing that University internal auditors’ work papers are confidential
 - the State statute providing that work papers of State Auditor are confidential

Questions were answered following the discussion.

After that, Mr. Smith briefly mentioned the Accountability Plans for the University system and answered questions.

There being no further business, the meeting was adjourned.

Mr. William G. Smith
Chair of the Audit Committee

Mr. David W. Young
Secretary of the Audit Committee