



STATE OF NORTH CAROLINA

**FISCAL CONTROL AUDIT REPORT ON
UNIVERSITY OF NORTH CAROLINA GENERAL ADMINISTRATION
CHAPEL HILL, NORTH CAROLINA
FOR THE PERIOD JULY 1, 2002 THROUGH APRIL 30, 2003**

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR

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CHAPEL HILL, NORTH CAROLINA
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STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.osa.state.nc.us>

AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Board of Governors, University of North Carolina General Administration
Molly Corbett Broad, President

This report presents the results of our fiscal control audit of the University of North Carolina General Administration for the period July 1, 2002 through April 30, 2003. Our work was performed by authority of Article 5A of Chapter 147 of the General Statutes and was conducted in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions.

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive script.

Ralph Campbell, Jr.
State Auditor

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BACKGROUND INFORMATION

The University of North Carolina General Administration (UNC GA) office was formed in 1971 when the General Assembly passed legislation that combined all the public educational institutions in North Carolina that grant baccalaureate degrees. The University of North Carolina is a public, multi-campus University dedicated to the service of North Carolina and its people. It encompasses the 16 diverse constituent institutions and other educational, research, and public service organizations.

The UNC Board of Governors is the policy-making body legally charged with “the general determination, control, supervision, management, and governance of all affairs of the constituent institutions.” The 32 voting members of the Board of Governors are elected by the General Assembly for four-year terms. Special members are non-voting members with varying terms. Such members are former chairs of the board, former governors and the president of the UNC Association of Student Governments, or that student’s designee.

Within UNC GA is the Office of the President. The mission of the Office of the President is to provide leadership and direct support to the sixteen constituent institutions and affiliated organizations. The Office includes the President as the chief administrative and executive officer. The Board of Governors elects the president, who is responsible for the execution of all policies, rules, and regulations adopted by the Board of Governors. She is also responsible for establishing the necessary administrative support to ensure that the University functions effectively and efficiently while legally fulfilling its mission of providing access to quality educational opportunities for the citizens of North Carolina.

Within the mission of the University, there are sub-agencies operating under the administrative oversight of the President. Organizationally, these sub-agencies, along with the Office of the President, are known as UNC General Administration (UNC GA). Sub-agencies include: the UNC Center for Public Television (UNC-TV), the North Carolina State Approving Agency (NCSAA), the North Carolina Center for Nursing (NCCN), the North Carolina Center for International Understanding (NCCIU), the North Carolina State Education Assistance Authority (NCSEAA), the North Carolina Center for School Leadership Development (NCCSLD), UNC Network Services, UNC EDP Collaborative Procurement, North Carolina Progress Board, North Carolina Higher Education Facility Commission (NCHEFC), North Carolina Education Pathways, UNC Shared Services Alliance, UNC Teaching and Learning Thru Technology Collaborative Program, and others.

The North Carolina State Education Assistance Authority (NCSEAA) was created in 1965 by the General Assembly. NCSEAA is a division of the UNC GA and is governed by a seven-member Board of Directors appointed for four-year terms by the Governor. The NCSEAA administers inter-institutional programs of student financial assistance, created by State and federal law, as well as private resources, designed to help North Carolinians meet the cost of higher education. It also publishes and distributes annual publications that assist students,

BACKGROUND INFORMATION (CONCLUDED)

parents, financial aid administrators, and school counselors as they investigate financial assistance for postsecondary education. Publications are available on the Internet at <http://www.CFNC.org>.

One of the programs NCSEAA administers is the North Carolina Legislative Tuition Grant (NCLTG) program. NCLTG provides financial assistance to North Carolina residents attending approved independent colleges and universities in North Carolina. Established by the 1975 North Carolina General Assembly, the program pays a portion of the tuition charges for every undergraduate North Carolinian enrolled full time at one of the approved private institutions in the form of a capitation grant. The funds for the grants come from legislative appropriations to UNC GA designated for this program.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the General Statutes and in accordance with the standards contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the University of North Carolina General Administration. The objective of the audit was to gather and evaluate evidence about selected internal control policies and procedures designed to ensure reliable financial accounting and reporting and compliance with finance-related laws, regulations, and contract provisions for the period July 1, 2002 through April 30, 2003.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

SCOPE

Our audit scope included selected internal controls in the following area:

ADMINISTRATION OF THE NORTH CAROLINA LEGISLATIVE TUITION GRANT PROGRAM

The specific internal control categories audited include:

General

Control Environment - The control environment consists of the actions, policies, and procedures that reflect the overall attitude of top management about control and its importance to the entity. The control environment sets the tone of the organization, influencing the control consciousness of its employees.

Information System General Controls - An entity's information system general controls include activities that relate to many computerized information system applications and support the effective functioning of application controls. Information system general controls commonly include controls over data center and network operations; system software acquisition and maintenance; access security; and application system acquisition, development, and maintenance.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

Financial Accounting and Reporting

Expenditure Cycle - An entity's expenditure cycle generally consists of the activities associated with disbursing cash for items other than payroll costs. Our audit of this cycle was limited to the North Carolina Legislative Tuition Grant program disbursements to participating private institutions for tuition during the current audit year.

Finance-Related Compliance

Allowability and Eligibility - Laws, regulations, and/or contracts commonly restrict the use of certain resources to specific allowable costs. Likewise, organizations and individuals must often meet specific criteria in order to be eligible for benefits in particular programs. For example, General Statutes require that participating institutions meet specific criteria and be listed as an approved institution. We designed our tests to verify that approved institutions had met all requirements and were on an approved institution list.

Monitoring Grant Recipients - Laws, regulations, and/or contracts commonly require entities to monitor grant recipients to ensure that the funded programs are carried out in accordance with specified requirements. For example, the North Carolina State Education Assistance Authority (NCSEAA) requires that participating institutions provide a yearly audited financial report and supplemental schedules of information. In addition to these yearly audits, the participating institutions are required to have compliance supplements reviewed by their external auditors. We designed our tests to verify compliance with NCSEAA requirements with regard to monitoring grant receipts at participating institutions for the prior fiscal year.

Special Provisions - Laws, regulations, and/or contracts commonly impose specific requirements on particular entities or activities. For example, NCSEAA regulations and General Statutes require specific documentation and record keeping regarding the North Carolina Legislative Tuition Grant program. We designed our tests to verify compliance with these NCSEAA regulations and the General Statutes.

METHODOLOGY

To accomplish our audit objective, we gained an understanding of internal control, performed tests of control effectiveness, and performed corroborating direct tests of the accounting records, reports, and/or compliance as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Our procedures were more limited than would be necessary to give an opinion on internal control, and accordingly, we do not express such an opinion.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

RESULTS

The results of our tests disclosed no significant weaknesses in internal control or significant instances of noncompliance or abuse which require disclosure under *Government Auditing Standards*.

The purpose of this report is to provide management and oversight organizations recommendations needed to improve internal control over financial accounting and reporting and compliance with finance-related laws and regulations. Consequently, reporting on accomplishments in areas that appear to be functioning properly is beyond the scope of this audit.

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DISTRIBUTION OF AUDIT REPORT

In accordance with General Statutes 147-64.5 and 147-64.6(c)(14), copies of this report have been distributed to the public officials listed below. Additional copies are provided to other legislators, state officials, the press, and the general public upon request.

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The Honorable Beverly M. Perdue	Lieutenant Governor of North Carolina
The Honorable Richard H. Moore	State Treasurer
The Honorable Roy A. Cooper, III	Attorney General
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Mr. Robert L. Powell	State Controller
Molly Corbett Broad	President University of North Carolina General Administration

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Representative James B. Black	Speaker of the NC House of Representatives
Representative Richard Morgan	Speaker of the NC House of Representatives
Members of the Local Legislative Delegation	NC House and Senate
Mr. James D. Johnson	Director, Fiscal Research Division

August 1, 2003

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2 South Salisbury Street
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