



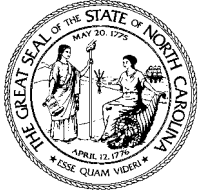
STATE OF NORTH CAROLINA

AUDIT RESULTS FROM
CAFR AND SINGLE AUDIT PROCEDURES
NORTH CAROLINA COMMUNITY COLLEGE SYSTEM
FOR THE YEAR ENDED JUNE 30, 2003

OFFICE OF THE STATE AUDITOR

RALPH CAMPBELL, JR.

STATE AUDITOR



Ralph Campbell, Jr.
State Auditor

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April 16, 2004

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Mr. H. Martin Lancaster, President
North Carolina Community College System

We have completed certain audit procedures at the North Carolina Community College System related to the State's *Comprehensive Annual Financial Report (CAFR)* and the State's *Single Audit Report*, for the year ended June 30, 2003. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

The results of these procedures, as described below, yielded audit findings and recommendations for the North Carolina Community College System related to the State's federal financial assistance programs that required disclosure in the aforementioned reports. Specifically, we found internal control weaknesses related to the Community College System's electronic data processing general controls. The findings are described more fully in the findings and recommendation section contained herein. Our recommendations for improvement and management's response follow each finding.

The accounts and operations of the North Carolina Community College System are an integral part of the State's reporting entity represented in the *CAFR* and the *Single Audit Report*. In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor also presents the results of tests on the State's internal control and on the State's compliance with laws, regulations, contracts, and grants applicable to the State's financial statements and to its federal financial assistance programs. The audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards* issued by the Comptroller General of the United States, and Office of Management and Budget Circular A-133.

As part of the work necessary for issuance of the *CAFR* and the *Single Audit Report*, the following individual funds and federal programs of the State were subjected to audit procedures at the North Carolina Community College System as we considered necessary:

Funds for the *Comprehensive Annual Financial Report*:

None

Federal Programs for the *Single Audit Report*:

Vocational Education: Basic Grants to States

The individual funds and federal programs subjected to audit at the North Carolina Community College System are substantially less in scope than would be necessary to report on the financial statements that relate solely to the North Carolina Community College System or the administration of federal programs by the North Carolina Community College System. Therefore, we do not express such conclusions.

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." The signature is written in a cursive style with a prominent initial 'R' and a trailing flourish.

Ralph Campbell, Jr.
State Auditor

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and describe conditions that represent significant deficiencies in internal control.

1. **INAPPROPRIATE ACCESS TO CRITICAL NCAS SCREENS**

Our review of the Department's electronic data processing and general controls revealed that six employees had inappropriate access to critical North Carolina Accounting System (NCAS) screens that were not necessary for their jobs.

Inappropriate access to NCAS screens increases the likelihood of errors and unauthorized transactions. During the course of our fieldwork, we advised the Department of these weaknesses. The Department immediately responded and appropriate corrective action was taken by December 12, 2003.

Recommendation: The Department should continue to review and monitor the access level provided to employees. Access should be limited to employees on a need-to-use basis.

Agency's Response: The Department will review and monitor access levels provided to employees and limit access on a need-to-use basis. Corrective Action was completed on December 12, 2003.

2. **WEAKNESSES NOTED IN PROGRAM CHANGE CONTROL PROCEDURES**

The Department did not have adequate controls in place over program changes in the College Data Accounting System Application. If program modifications are required, the programmer makes the changes and also places them into production. Although, there are some program change review procedures in place, they do not prohibit the programmer from entering unauthorized transactions and making modifications at any time during the year that could alter the program from its original intent. Current review procedures may not detect these changes.

Recommendation: The Department should adequately segregate duties to ensure that programmers do not have access to put changes into production or compensating controls should be implemented to ensure that only authorized transactions are entered into the system.

Agency's Response: Hiring the staff to accomplish Quality Assurance and Configuration Management will relieve the staff programmers from being responsible for all three functions. This will ensure the controls are in place as required by the auditors. Corrective Action will be completed six months after the completion of the hiring of the Quality Assurance Team.

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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Mr. H. Martin Lancaster	President, North Carolina Community College System

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April 29, 2004

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