

# STATE OF NORTH CAROLINA

**RESULTS OF**

**STATEWIDE FINANCIAL AUDIT PROCEDURES AT THE**

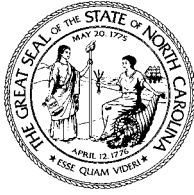
**NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**FOR THE YEAR ENDED JUNE 30, 2004**

**OFFICE OF THE STATE AUDITOR**

**LESLIE W. MERRITT, JR., CPA, CFP**

**STATE AUDITOR**



STATE OF NORTH CAROLINA  
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP  
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.ncauditor.net>

April 8, 2005

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 of North Carolina reporting entity as presented in the *Comprehensive Annual Financial Report (CAFR)* and *Single Audit Report* for the year ended June 30, 2004. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *CAFR*, the State Auditor expresses an opinion on the State's financial statements. In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts and grants applicable to the State's financial statements and to its federal financial assistance programs. Our 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 the Single Audit Act as applicable. Our audit scope at the North Carolina Community College System included the following:

State of North Carolina's Financial Statements

None

State of North Carolina's Administration of Federal Financial Assistance Programs

Vocational Education: Basic Grants to States

Our audit procedures at the North Carolina Community College System were less in scope than would be necessary to report on the financial statements that relate solely to the North Carolina Community College System or its administration of federal programs. Therefore, we do not express such conclusions.

The results of our audit procedures yielded an audit finding and recommendation for the North Carolina Community College System related to the federal financial assistance program that may require disclosure in the aforementioned reports. This finding is included in the finding and recommendation section contained herein. Our recommendation for improvement and management's response follow the finding.

*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.

*Leslie W. Merritt, Jr.*

Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

## **AUDIT FINDING AND RECOMMENDATION**

---

### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following finding and recommendation was identified during the current audit and describes a condition that represents a significant deficiency in internal control. The finding was also reported in the prior year.

#### **WEAKNESSES NOTED IN PROGRAM CHANGE CONTROL PROCEDURES**

The Department did not have supporting documentation to ensure appropriate internal controls were in place over modifications and implementation of program changes in the College Data Accounting System Application. Although Department personnel stated that program modifications and implementation of changes were performed by different personnel, there was no evidence to document that these control procedures were operating as designed.

Without adequate supporting documentation of program modifications and implementation procedures, there is an increased risk that programmers could make unauthorized transactions and modifications at any time during the year that could alter the program from its original intent.

*Recommendation:* The Department should strengthen internal controls by ensuring adequate supporting documentation is maintained for the modification and implementation of all program changes. Also, the Department should implement internal control procedures to ensure that programmers should not have the ability to place programs into production, or compensating controls should be implemented and documented to ensure that the same programmer does not modify and implement his changes into production. This will provide reasonable assurance that only authorized transactions are entered into the system.

*Agency's Response:* As a result of the audit conducted by the on-site audit team, it was recommended that:

1. The Department should strengthen internal controls by ensuring adequate supporting documentation is maintained for the modification and implementation of all program changes; and,
2. The Department should implement internal control procedures to ensure that programmers should not have the ability to place programs into production, or compensating controls should be implemented and documented to ensure that the same programmer does not modify and implement his changes into production.

With respect to the second recommendation, during the course of the audit for year ending June 30, 2003, access to the live version of the College Reporting System (CRS) was removed in May 2004, from the programmers in the College Business Team in the Information Services Section of the System Office. At that time, procedures were established for making changes to the CRS software. Those changes included:

## **AUDIT FINDING AND RECOMMENDATION (CONCLUDED)**

---

- a. A request is received by the Associate Director of the College Business IS Team from the Business and Finance Division.
- b. A copy of the data is moved from the live account to the development and test accounts.
- c. The programmer assigned makes the software changes in the test account.
- d. Once the changes are complete, the Associate Director of the College Business IS Team moves the software change to the test account where the System Accountant reviews the change.
- e. Once approved, the Associate Director of the College Business IS Team moves the software change to the live account.

We also established written forms within the Information Services Section. As such, we believe that we had, in May 2004, already addressed both the finding and recommendation.

With respect to the first finding and subsequent recommendation, it is my understanding that both the Division of Business and Finance and the Division of Administration, Information Services Section, met recently in order to take corrective action. As of April 1, 2005, the following internal control process will take place:

- a. The Division of Business and Finance requests program (system) changes in writing to the Associate Director of the College Business IS Team. Business and Finance documents the change request by maintaining the written file.
- b. The Associate Director of the College Business IS Team assigns the change to a programmer. The programmer completes the change. The change undergoes peer review before it is put into production to validate that it matches the change request. A form is used for the peer to verify the change. The College Business IS Team maintains a file as documentation.
- c. The change is placed in a “test” environment, is reviewed by Business and Finance, and approved before it is put into production.
- d. Once Business and Finance signs off, it is put into production and validated.
- e. Mid-year, we invite the Auditor’s Office (in writing) to review our process.

We believe this process will remedy any internal control deficiencies with respect to the modifications and implementation of program changes in the CRS.

## 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.

### EXECUTIVE BRANCH

The Honorable Michael F. Easley	Governor of North Carolina
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
Mr. David T. McCoy	State Budget Officer
Mr. Robert L. Powell	State Controller
Mr. H. Martin Lancaster	President, North Carolina Community College System

### LEGISLATIVE BRANCH

Appointees to the Joint Legislative Commission on Governmental Operations

President Pro Tempore	Speaker of the House
Senator Marc Basnight, Co-Chair	Representative James B. Black, Co-Chair
Senator Charles W. Albertson	Representative Alma S. Adams
Senator Thomas M. Apodaca	Representative Martha B. Alexander
Senator Daniel G. Clodfelter	Representative Harold J. Brubaker
Senator Walter H. Dalton	Representative Lorene T. Coates
Senator Charlie S. Dannelly	Representative E. Nelson Cole
Senator James Forrester	Representative James W. Crawford, Jr.
Senator Linda Garrou	Representative William T. Culpepper, III
Senator Kay R. Hagan	Representative W. Pete Cunningham
Senator Fletcher L. Hartsell, Jr.	Representative Beverly M. Earle
Senator David W. Hoyle	Representative Pryor A. Gibson, III
Senator John H. Kerr, III	Representative Joe Hackney
Senator Ellie Kinnaird	Representative R. Phillip Haire
Senator Jeanne H. Lucas	Representative Dewey L. Hill
Senator Anthony E. Rand	Representative Lindsey H. Holliman
Senator R. C. Soles, Jr.	Representative Julia C. Howard
Senator Richard Y. Stevens	Representative Howard J. Hunter, Jr.
Senator A. B. Swindell, IV	Representative Margaret M. Jeffus
Senator Scott Thomas	Representative Daniel F. McComas
	Representative Charles L. McLawhorn
	Representative Henry M. Michaux, Jr.
	Representative Richard T. Morgan
	Representative Edd Nye
	Representative William C. Owens, Jr.
	Representative Deborah K. Ross
	Representative Drew P. Saunders
	Representative Wilma M. Sherrill
	Representative Joe P. Tolson
	Representative Edith D. Warren
	Representative Thomas E. Wright
	Representative Douglas Y. Yongue

### Other Legislative Officials

Mr. James D. Johnson	Director, Fiscal Research Division
----------------------	------------------------------------

April 20, 2005

## ORDERING INFORMATION

---

Copies of this report may be obtained by contacting the:

Office of the State Auditor  
State of North Carolina  
2 South Salisbury Street  
20601 Mail Service Center  
Raleigh, North Carolina 27699-0601

Internet: <http://www.ncauditor.net>

Telephone: 919/807-7500

Facsimile: 919/807-7647