

# STATE OF NORTH CAROLINA

## FINANCIAL STATEMENT AUDIT REPORT OF ROANOKE-CHOWAN COMMUNITY COLLEGE

AHOSKIE, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2005

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

**FINANCIAL STATEMENT AUDIT REPORT OF**

**ROANOKE-CHOWAN COMMUNITY COLLEGE**

**AHOSKIE, NORTH CAROLINA**

**FOR THE YEAR ENDED JUNE 30, 2005**

**STATE BOARD OF COMMUNITY COLLEGES**

**THE NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

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**BOARD OF TRUSTEES**

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**VIRGINIA D. SPRUILL, VICE CHAIRMAN**

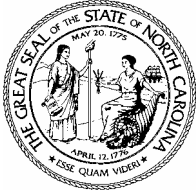
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**MR. RALPH REYNOLDS, INTERIM MANAGER OF FINANCE AND ADMINISTRATION**



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

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Office of the State Auditor

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Raleigh, NC 27699-0601  
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**AUDITOR'S TRANSMITTAL**

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The Honorable Michael F. Easley, Governor  
The General Assembly of North Carolina  
Board of Trustees, Roanoke-Chowan Community College

We have completed a financial statement audit of Roanoke-Chowan Community College for the year ended June 30, 2005, and our audit results are included in this report. You will note from the independent auditor's report that we determined that the financial statements are presented fairly in all material respects.

Our consideration of internal control over financial reporting and compliance and other matters based on an audit of the financial statements disclosed certain deficiencies that are detailed in the Audit Findings and Recommendations section of this report. The College's response is included following each 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.*

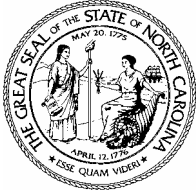
Leslie W. Merritt, Jr., CPA, CFP  
State Auditor

June 13, 2006

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Leslie W. Merritt, Jr., CPA, CFP  
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**INDEPENDENT AUDITOR'S REPORT**

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Board of Trustees  
Roanoke-Chowan Community College  
Ahoskie, North Carolina

We have audited the accompanying basic financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roanoke-Chowan Community College as of June 30, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

## INDEPENDENT AUDITOR'S REPORT (CONCLUDED)

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The Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Leslie W. Merritt, Jr.*

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

March 3, 2006

## **ROANOKE-CHOWAN COMMUNITY COLLEGE MANAGEMENT'S DISCUSSION AND ANALYSIS**

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### **Overview of Financial Statements and Financial Analysis**

Roanoke-Chowan Community College would like to present financial statements for the year ended June 30, 2005. This Management's Discussion and Analysis will include comparison between current and prior fiscal years' information.

There are three financial statements presented: the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. This presentation of the College's financial statements provides an overview of the College's financial activities for the year.

### **Statement of Net Assets**

The Statement of Net Assets presents assets, liabilities and net assets of the College at a point in time for the fiscal year ended June 30, 2005.

From the data presented, readers of the Statement of Net Assets are able to determine the assets (current and noncurrent) available to continue the operations of the College along with how much the College owes vendors (current and noncurrent). Ultimately, the Statement of Net Assets provides a snapshot of the net assets (assets minus liabilities) and their availability for expenditures by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, provides the equity in property, plant and equipment owned by the institution. Capital assets for the College are comprised of nondepreciable and depreciable assets. Nondepreciable assets include land and construction in progress. Depreciable assets include buildings, general infrastructure, and machinery and equipment. The next asset category is expendable restricted net assets, which are available for expenditures by the College but must be spent for purposes specified by an external entity that has placed restrictions on the use of the assets. The final category is unrestricted net assets, which are available to the College for any lawful purpose of the institution.

As seen in the comparison of current year and prior fiscal year information, there was an increase in the current assets classification. This change is largely due to the \$190 thousand increase in current receivables which is mostly vendor credit memos due to the College's bookstore.

The College had \$7.3 million invested in capital assets at year end. The significant decrease of \$831 thousand in noncurrent capital assets from the prior year was primarily the result of a \$248 thousand disposal of construction in progress that was not capitalized and a \$451 thousand increase in accumulated depreciation. Another significant change in noncurrent capital assets was the write-off of \$247 thousand in machinery and equipment and general infrastructure assets during the fiscal year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The College has no major construction initiatives funded or planned for the 2006 fiscal year.

During the 2005 fiscal year, the College had incurred no significant changes in regard to long-term debt or changes in credit rating or debt limitations.

### Condensed Statement of Net Assets

	<i>(in thousands)</i>	
	<b>June 30, 2005</b>	<b>June 30, 2004</b>
Current Assets	\$ 1,052.03	\$ 688.32
Noncurrent Assets - Noncapital	486.38	577.01
Noncurrent Assets - Capital	7,262.52	8,093.69
Total Assets	8,800.93	9,359.02
Current Liabilities	186.68	190.98
Noncurrent Long-Term Liabilities	171.48	202.04
Total Liabilities	358.16	393.02
Invested in Capital Assets	7,262.52	8,093.69
Net Assets - Restricted	672.32	591.62
Net Assets - Unrestricted	507.93	280.69
Total Net Assets	\$ 8,442.77	\$ 8,966.00

### Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on activity offered in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues and expenses of the College, including operating and nonoperating.

Generally, operating revenues are received for providing goods and services to various constituents of the College, while operating expenses are expenses paid to acquire or produce those services to carry out the mission of the College for which we received operating revenue. Nonoperating revenues are revenues received for which goods and services are not provided. State appropriations are considered nonoperating because they are provided by the Legislature without the Legislature directly receiving goods and services for those revenues.

A decrease in the bond allotment from the North Carolina Community College System for fiscal year 2005 accounts for the decrease in the capital aid and grants category. The allotment decreased from \$624 thousand in the 2004 fiscal year to no allotted funds in the 2005 fiscal year. Overall, the other revenue categories remained consistent with the prior year. The increase in operating expenses was mostly due to an increase in salaries and benefits and depreciation expense.



## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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### Condensed Statement of Revenues, Expenses, and Changes in Net Assets

	<i>(in thousands)</i>	
	<b>For Year Ended June 30, 2005</b>	<b>For Year Ended June 30, 2004</b>
Federal Contracts and Grants	\$ 2,822.97	\$ 2,681.63
Other Operating Revenues	597.85	530.93
Total Operating Revenues	<u>3,420.82</u>	<u>3,212.56</u>
State Aid	4,268.32	3,876.88
Other Nonoperating Revenues	870.60	928.19
Total Nonoperating Revenues	<u>5,138.92</u>	<u>4,805.07</u>
Capital Aid and Grants	<u>251.06</u>	<u>866.99</u>
Total Revenues	8,810.80	8,884.62
Operating Expenses	<u>(9,334.03)</u>	<u>(8,372.29)</u>
Increase (Decrease) in Net Assets	(523.23)	512.33
Net Assets, July 1	<u>8,966.00</u>	<u>8,453.67</u>
Net Assets, June 30	<u><u>\$ 8,442.77</u></u>	<u><u>\$ 8,966.00</u></u>

### Economic Outlook

Roanoke-Chowan Community College monitors the changes in technology and economy and strives to meet the needs of the community. As a result, the College will continue to fund two new programs that were implemented in the 2005 fiscal year: Medical Office Administration, a two-year associate degree program, and Barbering, a one-year diploma program. In addition, the Director of Basic Skills has proposed the expansion of the Basic Skills class offerings to off-campus locations for the 2006 fiscal year.

We are anticipating the upcoming fiscal year's economic trend to be very comparable to the last; therefore, a conservative approach will be taken in the handling of all College resources. The College will continue to make every effort to meet its goals and objectives and to serve the citizens of its service area.

***Roanoke-Chowan Community College***  
***Statement of Net Assets***  
***June 30, 2005***

***Exhibit A-1***

**ASSETS**

Current Assets:

Cash and Cash Equivalents	\$ 253,577.81
Restricted Cash and Cash Equivalents	189,222.07
Receivables, Net (Note 3)	447,480.73
Inventories	161,705.91
Notes Receivable (Note 3)	40.00
	<hr/>
Total Current Assets	1,052,026.52

Noncurrent Assets:

Restricted Cash and Cash Equivalents	41.08
Restricted Due from Primary Government	486,350.68
Capital Assets - Nondepreciable (Note 4)	48,828.50
Capital Assets - Depreciable, Net (Note 4)	7,213,687.90
	<hr/>
Total Noncurrent Assets	7,748,908.16
	<hr/>
Total Assets	8,800,934.68

**LIABILITIES**

Current Liabilities:

Accounts Payable and Accrued Liabilities (Note 5)	88,441.09
Deferred Revenue	24,709.89
Funds Held for Others	41.08
Long-Term Liabilities - Current Portion (Note 6)	73,490.77
	<hr/>
Total Current Liabilities	186,682.83

Noncurrent Liabilities:

Long-Term Liabilities (Note 6)	171,478.44
	<hr/>
Total Noncurrent Liabilities	171,478.44
	<hr/>
Total Liabilities	358,161.27

**NET ASSETS**

Invested in Capital Assets	7,262,516.40
Restricted for:	
Expendable:	
Scholarships and Fellowships	184,591.64
Loans	15,929.19
Capital Projects	471,804.52
Unrestricted	507,931.66
	<hr/>
Total Net Assets	\$ 8,442,773.41

The accompanying notes to the financial statements are an integral part of this statement.

***Roanoke-Chowan Community College  
Statement of Revenues, Expenses, and  
Changes in Net Assets  
For the Fiscal Year Ended June 30, 2005***

***Exhibit A-2***

**REVENUES**

Operating Revenues:	
Student Tuition and Fees, Net (Note 8)	\$ 392,447.23
Federal Grants and Contracts	2,822,970.42
State and Local Grants and Contracts	11,003.00
Sales and Services, Net (Note 8)	178,175.97
Other Operating Revenues	16,226.49
	<hr/>
Total Operating Revenues	3,420,823.11
	<hr/>

**EXPENSES**

Operating Expenses:	
Personal Services	5,293,275.08
Supplies and Materials	1,076,870.04
Services	594,223.26
Scholarships and Fellowships	1,527,561.26
Utilities	181,815.85
Depreciation	660,280.62
	<hr/>
Total Operating Expenses	9,334,026.11
	<hr/>
Operating Loss	(5,913,203.00)
	<hr/>

**NONOPERATING REVENUES (EXPENSES)**

State Aid	4,268,320.70
County Appropriations	655,237.00
Noncapital Grants	234,268.22
Noncapital Gifts	1,500.00
Investment Income	4,020.53
Other Nonoperating Expenses	(24,425.68)
	<hr/>
Net Nonoperating Revenues	5,138,920.77
	<hr/>
Loss Before Other Revenues	(774,282.23)
	<hr/>
State Capital Aid	216,871.22
Capital Grants	34,183.87
	<hr/>
Decrease in Net Assets	(523,227.14)
	<hr/>

**NET ASSETS**

Net Assets, July 1, 2004	8,966,000.55
	<hr/>
Net Assets, June 30, 2005	\$ 8,442,773.41
	<hr/> <hr/>

The accompanying notes to the financial statements are an integral part of this statement.

***Roanoke-Chowan Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Received from Customers	\$ 3,219,727.75
Payments to Employees and Fringe Benefits	(5,335,103.41)
Payments to Vendors and Suppliers	(1,879,694.65)
Payments for Scholarships and Fellowships	(1,527,561.26)
Loans Issued to Students	(40.00)
Collection of Loans to Students	1,068.02
Other Receipts	449,072.06
	<hr/>
Net Cash Used by Operating Activities	(5,072,531.49)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Aid Received	4,268,320.70
County Appropriations	655,237.00
Noncapital Grants Received	338,490.07
Noncapital Gifts and Endowments Received	1,500.00
	<hr/>
Cash Provided by Noncapital Financing Activities	5,263,547.77

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

State Capital Aid Received	216,871.22
Capital Grants Received	34,183.87
Acquisition and Construction of Capital Assets	(266,861.24)
	<hr/>
Net Cash Used by Capital and Related Financing Activities	(15,806.15)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Investment Income	4,020.53
	<hr/>
Cash Provided by Investing Activities	4,020.53

Net Increase in Cash and Cash Equivalents	179,230.66
Cash and Cash Equivalents, July 1, 2004	263,610.30
	<hr/>
Cash and Cash Equivalents, June 30, 2005	\$ 442,840.96

**RECONCILIATION OF OPERATING LOSS  
TO NET CASH USED BY OPERATING ACTIVITIES**

Operating Loss	\$ (5,913,203.00)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	660,280.62
Miscellaneous Nonoperating Income	413,329.15
Changes in Assets and Liabilities:	
Receivables, Net	(189,978.42)
Inventories	4,554.94
Notes Receivable	1,028.02
Accounts Payable and Accrued Liabilities	(29,510.37)
Deferred Revenue	24,709.89
Funds Held for Others	(83.92)
Compensated Absences	(43,658.40)
	<hr/>
Net Cash Used by Operating Activities	\$ (5,072,531.49)

***Roanoke-Chowan Community College***  
***Statement of Cash Flows***  
***For the Fiscal Year Ended June 30, 2005***

***Exhibit A-3***  
***Page 2***

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**RECONCILIATION OF CASH AND CASH EQUIVALENTS**

Current Assets:	
Cash and Cash Equivalents	\$ 253,577.81
Restricted Cash and Cash Equivalents	189,222.07
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	<u>41.08</u>
Total Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 442,840.96</u></u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Capital Asset Write-Offs	\$ 458,235.28
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The accompanying notes to the financial statements are an integral part of this statement.

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**ROANOKE-CHOWAN COMMUNITY COLLEGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Financial Reporting Entity** - The concept underlying the definition of the financial reporting entity is that elected officials are accountable to their constituents for their actions. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. An organization other than a primary government serves as a nucleus for a reporting entity when it issues separate financial statements. Roanoke-Chowan Community College is a component unit of the State of North Carolina and an integral part of the State's *Comprehensive Annual Financial Report*.

The accompanying financial statements present all funds for which the College's Board of Trustees is financially accountable. Related foundations and similar nonprofit corporations for which the College is not financially accountable or for which the nature of their relationship is not considered significant to the College are not part of the accompanying financial statements.

- B. Basis of Presentation** - The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, the full scope of the College's activities is considered to be a single business-type activity and accordingly, is reported within a single column in the basic financial statements.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the College does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- C. Basis of Accounting** - The financial statements of the College have been prepared using the economic resource measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.
- D. Cash and Cash Equivalents** – This classification includes undeposited receipts, petty cash, and cash on deposit with private bank accounts.
- E. Receivables** – Receivables consist of tuition and fees charged to students and charges for auxiliary enterprises' sales and services. Receivables also include amounts due from private sources in connection with reimbursement of allowable expenditures made pursuant to contracts and grants that are verifiable, measurable, and expected to be collected and available for expenditures for which the resource provider's conditions have been satisfied. Receivables are recorded net of estimated uncollectible amounts.
- F. Inventories** – Inventories, consisting of expendable supplies and merchandise for resale, are stated at the lower of cost or market value using the first-in, first-out method.
- G. Capital Assets** – Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The College capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an expected useful life of more than one year. Library books are generally not considered to have a useful life of more than one year unless part of a collection and are expensed in the year of acquisition.
- Depreciation is computed using the straight-line and/or units of output method over the estimated useful lives of the assets, generally 15 to 75 years for general infrastructure, 10 to 50 years for buildings, and 3 to 15 years for equipment.
- H. Restricted Assets** – Unexpended capital contributions are classified as restricted assets because their use is limited by donor/grantor agreements. Certain other assets are classified as restricted because their use is limited by external parties or statute.
- I. Noncurrent Long-Term Liabilities** – Noncurrent long-term liabilities include compensated absences that will not be paid within the next fiscal year.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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- J. Compensated Absences** - The College's policy is to record the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each July 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous July 1 plus the leave earned, less the leave taken between July 1 and June 30.

In addition to the vacation leave described above, compensated absences includes the accumulated unused portion of the special annual leave bonuses awarded by the College to all full-time permanent employees as of September 30, 2002, and as of July 1, 2003. The unused portion of this leave remains available until used, notwithstanding the limitation on annual leave carried forward described above.

When classifying compensated absences into current and noncurrent, leave is considered taken using a last-in, first-out method.

- K. Net Assets** – The College's net assets are classified as follows:

**Invested in Capital Assets** – This represents the College's total investment in capital assets

**Restricted Net Assets – Expendable** – Expendable restricted net assets include resources for which the College is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets** – Unrestricted net assets include resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the College.

- L. Scholarship Discounts** – Student tuition and fees revenues and certain other revenues from College charges are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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between the actual charge for goods and services provided by the College and the amount that is paid by students or by third parties on the students' behalf. Student financial assistance grants, such as Pell grants, and other federal, State, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the College has recorded a scholarship discount.

- M. Revenue and Expense Recognition** – The College classifies its revenues and expenses as operating or nonoperating in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the College's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, and (3) certain federal, State and local grants and contracts. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State aid that represent subsidies or gifts to the College, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities. Capital contributions are presented separately after nonoperating revenues and expenses.

- N. County Appropriations** - County appropriations are provided to the College primarily to fund its plant operation and maintenance function and to fund construction projects, motor vehicle purchases, and maintenance of equipment. Unexpended county current appropriation and county capital appropriation do not revert and are available for future use by the College.

### NOTE 2 - DEPOSITS

All funds of the College are deposited in board-designated official depositories and are required to be collateralized in accordance with *North Carolina General Statute* 115D-58.7. Official depositories may be established with any bank or savings and loan association whose principal office is located in North Carolina. Also, the College may establish time deposit accounts, money

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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market accounts, and certificates of deposit. The amount shown on the Statement of Net Assets as cash and cash equivalents includes cash on hand totaling \$950.00, and deposits in private financial institutions with a carrying value of \$441,890.96 and a bank balance of \$799,878.58.

The North Carolina Administrative Code (20 NCAC 7) requires all depositories to collateralize public deposits in excess of federal depository insurance coverage by using one of two methods, dedicated or pooled. Under the dedicated method, a separate escrow account is established by each depository in the name of each local governmental unit and the responsibility of monitoring collateralization rests with the local unit. Under the pooling method, each depository establishes an escrow account in the name of the State Treasurer to secure all of its public deposits. This method shifts the monitoring responsibility from the local unit to the State Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the College's deposits may not be returned to it. As of June 30, 2005, the College's bank balance in excess of federal depository insurance coverage was covered under the pooling method.

### NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, were as follows:

	<u>Gross Receivables</u>	<u>Less Allowance for Doubtful Accounts</u>	<u>Net Receivables</u>
<b>Current Receivables:</b>			
Students	\$ 318,240.90	\$ 11,181.51	\$ 307,059.39
Accounts	<u>140,421.34</u>	<u>                    </u>	<u>140,421.34</u>
<b>Total Current Receivables</b>	<u>\$ 458,662.24</u>	<u>\$ 11,181.51</u>	<u>\$ 447,480.73</u>
<b>Notes Receivable:</b>			
<b>Notes Receivable - Current:</b>			
Institutional Student Loan Programs	<u>\$ 40.00</u>	<u>\$ 0.00</u>	<u>\$ 40.00</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 4 - CAPITAL ASSETS

A summary of changes in the capital assets for the year ended June 30, 2005, is presented as follows:

	Balance July 1, 2004	Adjustments	Increases	Decreases	Balance June 30, 2005
Capital Assets, Nondepreciable:					
Land	\$ 34,805.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 34,805.00
Construction in Progress	399,542.84	(151,352.00)	14,023.50	248,190.84	14,023.50
<b>Total Capital Assets, Nondepreciable</b>	<u>434,347.84</u>	<u>(151,352.00)</u>	<u>14,023.50</u>	<u>248,190.84</u>	<u>48,828.50</u>
Capital Assets, Depreciable:					
Buildings	10,845,071.78	70,252.00			10,915,323.78
Machinery and Equipment	767,499.05		101,485.74	233,396.68	635,588.11
General Infrastructure	13,786.31	81,100.00		13,786.31	81,100.00
<b>Total Capital Assets, Depreciable</b>	<u>11,626,357.14</u>	<u>151,352.00</u>	<u>101,485.74</u>	<u>247,182.99</u>	<u>11,632,011.89</u>
Less Accumulated Depreciation:					
Buildings	3,450,728.39		577,599.37		4,028,327.76
Machinery and Equipment	516,285.98		56,098.80	208,971.00	363,413.78
General Infrastructure			26,582.45		26,582.45
<b>Total Accumulated Depreciation</b>	<u>3,967,014.37</u>		<u>660,280.62</u>	<u>208,971.00</u>	<u>4,418,323.99</u>
<b>Total Capital Assets, Depreciable, Net</b>	<u>7,659,342.77</u>	<u>151,352.00</u>	<u>(558,794.88)</u>	<u>38,211.99</u>	<u>7,213,687.90</u>
<b>Capital Assets, Net</b>	<u>\$ 8,093,690.61</u>	<u>\$ 0.00</u>	<u>\$ (544,771.38)</u>	<u>\$ 286,402.83</u>	<u>\$ 7,262,516.40</u>

### NOTE 5 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities at June 30, 2005, were as follows:

	Amount
Accounts Payable	\$ 31,674.29
Accrued Payroll	38,311.01
Intergovernmental Payables	13,688.32
Other Payables	4,767.47
<b>Total Accounts Payable and Accrued Liabilities</b>	<u>\$ 88,441.09</u>

### NOTE 6 - LONG-TERM LIABILITIES

A summary of changes in the long-term liabilities is presented as follows:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Current Portion
Compensated Absences	\$ 288,627.61	\$ 81,300.00	\$ 124,958.40	\$ 244,969.21	\$ 73,490.77

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE 7 - OPERATING LEASE OBLIGATIONS

Future minimum lease payments under noncancelable operating leases consist of the following at June 30, 2005:

<u>Fiscal Year</u>	<u>Amount</u>
2006	\$ 31,628.80
2007	20,784.00
2008	<u>20,784.00</u>
Total Minimum Lease Payments	<u><u>\$ 73,196.80</u></u>

Rental expense for all operating leases during the year was \$52,939.64.

### NOTE 8 - REVENUES

A summary of eliminations and allowances by revenue classification is presented as follows:

	<u>Gross Revenues</u>	<u>Less Scholarship Discounts</u>	<u>Net Revenues</u>
<b>Operating Revenues:</b>			
<b>Student Tuition and Fees</b>	<u>\$ 947,946.90</u>	<u>\$ 555,499.67</u>	<u>\$ 392,447.23</u>
<b>Sales and Services:</b>			
Sales and Services of Auxiliary Enterprises:			
Bookstore	393,638.53	299,115.21	94,523.32
Other	<u>83,652.65</u>		<u>83,652.65</u>
<b>Total Sales and Services</b>	<u>\$ 477,291.18</u>	<u>\$ 299,115.21</u>	<u>\$ 178,175.97</u>

### NOTE 9 - OPERATING EXPENSES BY FUNCTION

The College's operating expenses by functional classification are presented as follows:

	<u>Personal Services</u>	<u>Supplies and Materials</u>	<u>Services</u>	<u>Scholarships and Fellowships</u>	<u>Utilities</u>	<u>Depreciation</u>	<u>Total</u>
Instruction	\$ 2,810,694.01	\$ 280,411.39	\$ 60,585.41	\$ 0.00	\$ 0.00	\$ 0.00	\$ 3,151,690.81
Academic Support	462,137.83	33,485.86	27,277.55				522,901.24
Student Services	385,715.11	22,925.64	29,905.28				438,546.03
Institutional Support	1,086,103.87	85,667.34	206,595.51				1,378,366.72
Operations and Maintenance of Plant	286,462.06	370,865.79	129,612.69		169,430.95		956,371.49
Student Financial Aid	220,084.08	19,548.43	139,462.63	1,527,561.26	12,384.90		1,919,041.30
Auxiliary Enterprises	42,078.12	263,965.59	784.19				306,827.90
Depreciation						<u>660,280.62</u>	<u>660,280.62</u>
Total Operating Expenses	<u>\$ 5,293,275.08</u>	<u>\$ 1,076,870.04</u>	<u>\$ 594,223.26</u>	<u>\$ 1,527,561.26</u>	<u>\$ 181,815.85</u>	<u>\$ 660,280.62</u>	<u>\$ 9,334,026.11</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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### NOTE 10 - PENSION PLANS

- A. Retirement Plans** - Each permanent full-time employee, as a condition of employment, is a member of the Teachers' and State Employees' Retirement System. The Teachers' and State Employees' Retirement System (System) is a cost sharing multiple-employer defined benefit pension plan administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by *North Carolina General Statutes*. 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2005, these rates were set at 2.17% of covered payroll for employers and 6% of covered payroll for members.

For the year ended June 30, 2005, the College had a total payroll of \$4,507,868.35, of which \$3,729,118.42 was covered under the Teachers' and State Employees' Retirement System. Total employee and employer contributions for pension benefits for the year were \$223,747.11 and \$80,921.87, respectively. The College made 100% of its annual required contributions for the years ended June 30, 2005, 2004, and 2003, which were \$80,921.87, \$7,822.58, and \$0.00, respectively.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.state.nc.us/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

- B. Deferred Compensation and Supplemental Retirement Income Plans** - IRC Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement, or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred*

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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*Compensation Trust Fund.* The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$9,620.00 for the year ended June 30, 2005.

IRC Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System are eligible to enroll in the Supplemental Retirement Income Plan, a defined contribution plan, created under Internal Revenue Code Section 401(k). All costs of administering the Plan are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$16,537.00 for the year ended June 30, 2005.

IRC Section 403(b) and 403(b)(7) Plans - Eligible College employees can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403(b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and State income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of colleges and certain charitable and other nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the College. The voluntary contributions by employees amounted to \$12,764.68 for the year ended June 30, 2005.

### **NOTE 11 - OTHER POSTEMPLOYMENT BENEFITS**

- A. Health Care for Long-Term Disability Beneficiaries and Retirees -** The College participates in State-administered programs which provide postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System. These benefits were established by Chapter 135, Article 3, Part 3, of the General Statutes and may be amended only by the North Carolina General Assembly. Funding for the health care benefit for long-term disability beneficiaries and retirees is financed on a pay-as-you-go basis. The College contributed 3.2% of the covered payroll under the Teachers' and State Employees' Retirement System for these health care benefits. For the fiscal year ended June 30, 2005, the College's total contribution to the Plan was \$119,331.79. The College assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*.

- B. Long-Term Disability** - The College participates in the Disability Income Plan of North Carolina (DIPNC). Established by Chapter 135, Article 6, of the General Statutes, DIPNC provides short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System. Long-term disability income benefits are advance funded on an actuarially determined basis using the one-year term cost method. The College contributes .445% of covered payroll under the Teachers' and State Employees' Retirement System to the DIPNC. For the year ended June 30, 2005, the College's total contribution to the DIPNC was \$16,594.58. The College assumes no liability for long-term disability benefits under the Plan other than its contribution. Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

### NOTE 12 - RISK MANAGEMENT

The College is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These exposures to loss are handled via a combination of methods, including participation in State-administered insurance programs, purchase of commercial insurance, and self-retention of certain risks. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Tort claims of up to \$500,000 are self-insured under the authority of the State Tort Claims Act. In addition, the State provides excess public officers' and employees' liability insurance up to \$5,000,000 via contract with a private insurance company. The premium, based on a composite rate, is paid by the North Carolina Community College System Office directly to the private insurer.

Fire and other property losses are covered by contracts with private insurance companies. There have been no significant reductions in insurance coverage from the previous year and settled claims have not exceeded coverage in any of the past three fiscal years.

Liability insurance for College-owned vehicles is covered by contracts with private insurance companies.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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The College is protected for losses from employee dishonesty and computer fraud for employees paid in whole or in part from State funds. The blanket honesty bond is with a private insurance company and is handled by the North Carolina Department of Insurance with coverage of \$5,000,000 per occurrence and a \$50,000 deductible. The College is protected for losses from employee dishonesty and computer fraud for employees paid entirely from county or institutional funds by contracts with private insurance companies.

Employees and retirees are provided health care coverage by the Comprehensive Major Medical Plan (Plan), a component unit of the State. The Plan is funded by employer and employee contributions and is administered by a third-party contractor.

The State Board of Community Colleges makes the necessary arrangements to carry out the provisions of the Workers' Compensation Act which are applicable to employees whose wages are paid in whole or in part from State funds. The College purchases workers' compensation insurance for employees whose salaries or wages are paid by the Board entirely from county or institutional funds.

Term life insurance of \$25,000 to \$50,000 is provided to eligible workers. This self-insured death benefit program is administered by the State Treasurer and funded via employer contributions.

Additional details on the State-administered risk management programs are disclosed in the State's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

### NOTE 13 - COMMITMENTS AND CONTINGENCIES

- A. Commitments** - The College has established an encumbrance system to track its outstanding commitments on construction projects and other purchases. Outstanding commitments on construction contracts were \$379,027.15 at June 30, 2005.
- B. Community College General Obligation Bonds** - The 1999-2000 Session of the General Assembly of North Carolina authorized the issuance of \$600 million of general obligation bonds of the State, as subsequently approved by a vote of qualified voters of the State, to provide funds for capital improvements for the North Carolina Community College System. The funds authorized are to be used solely to construct new buildings and to renovate and modernize existing buildings on the North Carolina Community College System campuses. The bond legislation specifies the amount of bond funding for each College campus as well as the intended amount for new construction and

## NOTES TO THE FINANCIAL STATEMENTS (CONCLUDED)

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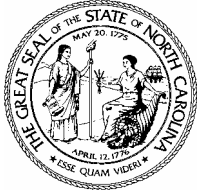
repair and replacement. The legislation further provides that the State Board of Community Colleges shall be responsible for the approval of projects in accordance with provisions of the legislation. The bonds were authorized for issuance over a six-year period beginning in 2001 at a level not to exceed amounts provided in the legislation. Using a cash flow financing approach, The Community College System's Office (CCSO) establishes annual amounts not to exceed for each approved project. The amounts not to exceed are subject to change due to actual cash availability and needs during the year. Subsequent to the bond sales and the availability of bond proceeds, CCSO notifies the Office of State Budget and Management (OSBM) of the amount not to exceed for the total of the approved projects. Within this amount, based on an official request of cash needs from the State Board of Community Colleges, OSBM authorizes allotments. These allotments are then recorded to specific community college allotment accounts by the CCSO. The College records the allotments as revenue on the accompanying financial statements. The College has no remaining authorization.

### **NOTE 14 - THE ROANOKE-CHOWAN COMMUNITY COLLEGE FOUNDATION, INC.**

The Roanoke-Chowan Community College Foundation, Inc. is a separately incorporated nonprofit foundation associated with the College. This organization serves as the primary fundraising arm of the College through which individuals, corporations, and other organizations support College programs by providing scholarships, fellowships, faculty salary supplements, and unrestricted funds to specific departments and the College's overall academic environment. The College's financial statements do not include the assets, liabilities, net assets, or operational transactions of the Foundation, except for the distributions made and benefits provided by the Foundation. The distributions received and/or benefits provided approximated \$2,850.00 for the year ended June 30, 2005.

### **NOTE 15 - CHANGE IN FINANCIAL ACCOUNTING AND REPORTING**

For the fiscal year ended June 30, 2005, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This Statement establishes and modifies disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.



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

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**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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Board of Trustees  
Roanoke-Chowan Community College  
Ahoskie, North Carolina

We have audited the financial statements of Roanoke-Chowan Community College, a component unit of the State of North Carolina, as of and for the year ended June 30, 2005, and have issued our report thereon dated March 3, 2006.

As discussed in Note 15 to the financial statements, the College implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, during the year ended June 30, 2005.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the College's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Audit Findings and Recommendations section of this report.

**Findings**

1. Access Rights Inconsistent with Adequate Separation of Duties
2. Inadequate Separation of Duties and Management Oversight

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
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GOVERNMENT AUDITING STANDARDS (CONCLUDED)**

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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, the State Board of Community Colleges, management of the College, the Governor, the State Controller, the General Assembly, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Leslie W. Merritt, Jr.*

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

March 3, 2006

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### **Matters Related to Financial Reporting**

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

#### 1. ACCESS RIGHTS INCONSISTENT WITH ADEQUATE SEPARATION OF DUTIES

The College had granted access rights inconsistent with adequate separation of duties in the following areas:

- a. The Purchasing Agent was granted access rights that would allow her the opportunity to perpetrate or conceal errors or fraud. She was given the ability to requisition, order, and receive items as well as approve purchases and requisitions from others. Furthermore, she could post journal entries and update Fixed Assets modules to conceal any other activity. This employee could also vouch payments, access the vendor file, print checks, and update the fixed asset modules.
- b. The Grants/Benefits Specialist was granted complete access to the HR module as well as all functions within the accounts payable module.
- c. The Cashier serves as the Accounts Receivable Technician and is responsible for sending out bills to third parties, receipting untracked third party payments, receipting third party payments, and preparing the daily deposits with no additional review. In addition, she has ability to post adjustments that would allow her the opportunity to perpetrate or conceal errors or fraud.

Segregation of duties is a basic internal control that requires assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets to reduce the opportunities to 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 College should strengthen internal controls by establishing appropriate access security classes. The College needs to segregate the cashiering and account receivable functions, the resource functions from the payroll processing function and the purchasing function from the receiving, requisition and approval functions as well as the accounts payable function. The College needs to create security classes unique to the needs of individuals within the office.

*College's Response:* The Business Office organization structure is currently being reviewed and updated in order to segregate duties and responsibilities. Our IT staff is evaluating access rights and implementing security measures within the computer operating system (CIS) to enhance this segregation. A new full-time business office position is being hired effective July 1, 2006, to address accountability and comply with the above finding. Internal controls are being established to substantiate better security within specified classes and menu items of the computer system.

## **AUDIT FINDINGS AND RECOMMENDATIONS (CONCLUDED)**

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### 2. INADEQUATE SEPARATION OF DUTIES AND MANAGEMENT OVERSIGHT

The College did not have adequate controls in place to assure proper review and approval procedures. The Controller reconciled all bank accounts; however, there was no further review by upper management. Although the Controller did not have duties involving cash receipting or cash disbursements, she did have access to the general ledger, which provided a means of manipulating the system via journal entry as well as access to blank check stock. Because the Controller had access to blank check stock, fraudulent checks could be created and processed outside the College's Financial System without being detected.

*Recommendation:* To ensure proper controls over cash receipts and disbursements, bank reconciliations should be performed on a monthly basis by an employee independent of duties involving cash processing. Management oversight should be involved in the review and approval of completed bank reconciliations.

*College's Response:* The Business Office has implemented internal controls for cash disbursements and review. The Dean of Finance and Administration will review and approve all bank reconciliations done by the Controller. The Controller will review all daily cash analysis reports (DCA's) each day and approve for completeness and accuracy. The third-party billings, receipts and payments will be reviewed and approved by the Controller. These procedures should constitute better controls and management oversight over the designated areas.

## **ORDERING INFORMATION**

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