

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA  
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES  
FOR THE YEAR ENDED JUNE 30, 2015



**NC**  **OSA**  
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Board of Trustees  
Dr. Carol L. Folt, Chancellor  
The University of North Carolina at Chapel Hill

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at The University of North Carolina at Chapel Hill for the year ended June 30, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

Our audit objective was to render an opinion on the State of North Carolina's, not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

The audit finding in this report is also evaluated to determine its impact on the State's internal control and the State's compliance with rules, regulations, contracts and grants. If determined necessary in accordance with *Government Auditing Standards*, this finding is reported in the State's *Single Audit Report*.

*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 cursive script that reads 'Beth A. Wood'.

Beth A. Wood, CPA  
State Auditor

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Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

STATE OF NORTH CAROLINA  
**Office of the State Auditor**



**Beth A. Wood, CPA**  
State Auditor

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

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Board of Trustees and Management of  
The University of North Carolina at Chapel Hill

Report on Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major programs for the year ended June 30, 2015, we have performed audit procedures at The University of North Carolina at Chapel Hill. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's Single Audit Report. Our federal compliance audit scope at The University of North Carolina at Chapel Hill included the following:

- Research and Development Cluster

The audit results described below are in relation to our audit scope at the University and not to the State of North Carolina as a whole.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts and grants applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's Single Audit Report. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit*

*Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the University's compliance with those requirements.

### Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's Single Audit Report.

### Other Matters

The results of our audit procedures at The University of North Carolina at Chapel Hill disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in the Findings, Recommendations, and Responses section of this report.

### Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all

deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we consider the deficiency described in our finding in the Findings, Recommendations, and Responses section of this report to be a material weakness in internal control over compliance.

The University of North Carolina at Chapel Hill's Response to Audit Finding

The University's response to the finding identified in our audit is included in the Findings, Recommendations, and Responses section of this report. The University's response was not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on it.

Purpose of Report on Internal Control Over Compliance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 28, 2016



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



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## MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

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### **LACK OF SALARY AND WAGE CERTIFICATIONS INCREASES RISK OF INAPPROPRIATE CHARGES TO FEDERAL GRANTS**

The University did not complete the effort certifications<sup>1</sup> necessary to ensure that all salaries and wages charged to federal grants were for services rendered under those grants. The University paid \$189,402,452 in salaries and wages from federal funds in fiscal year 2015.

Because the University did not complete any of the required certifications, there was an increased risk salary and wage charges were inappropriately billed to federal grants.

The University did not complete the required effort certifications because the University did not complete their upgrade of the ECRT system, which is the system used to certify time and effort. The upgrade was not complete due to resources being reallocated to assist in the implementation and subsequent issues with the University's new accounting system.

Federal regulations<sup>2</sup> require the University to support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award. To comply with this regulation the University has implemented a policy which requires employees certify their time spent on one or more projects in the electronic ECRT system, and a supervisor or authorized signer who has direct knowledge of the employee's efforts must approve the certified report.

#### **Federal Award Information**

This finding impacts federal research and development funding for July 1, 2014 through June 30, 2015.

#### **Recommendation**

The University should allocate the appropriate resources to ensure that the required certifications are completed timely and accurately, and are approved by appropriate personnel.

#### **University Response**

See pages 5-7 for The University of North Carolina at Chapel Hill's response.

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<sup>1</sup> Effort Certifications are the documentation that certifies to the federal granting agencies that the effort required as a condition of the award has actually been completed. Effort reporting is required by the federal awarding agency which requires certification of effort spent by all employees whose salaries are charged directly to federal and federal flow-through funds.

<sup>2</sup> For awards that began prior to December 26, 2014, Appendix A of 2 CFR Part 220 [J.10.b(2).c(2)(2c)] For awards that began after December 26, 2014, 2 CFR 200.430(h)(8)(vii) and 2 CFR 200.430(a)(1).



THE UNIVERSITY  
of NORTH CAROLINA  
at CHAPEL HILL

**CAROL L. FOLT**  
*Chancellor*

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March 2, 2016

The Honorable Beth A. Wood, State Auditor  
Office of the State Auditor  
20601 Mail Service Center  
Raleigh, NC 27699-0600

Dear Auditor Wood:

Thank you for the opportunity to review the Office of the State Auditor's (OSA) draft Audit Findings and Recommendations from the federal compliance portion of the University's annual audit for the year ending June 30, 2015. We appreciate the time you have spent with the University as we have addressed the matters at issue.

As was discussed in our audit conference, the University agrees with the audit finding. We take our federal responsibilities as a research university seriously and appreciate the opportunity to describe the circumstances and steps currently taking place that will resolve the matter and complete the effort reporting process for FY15 and the first half of FY16, by April 29, 2016. Although we identified these issues more than a year ago and have worked steadfastly since that time to correct them, we should have planned more thoroughly to prevent them.

Effort certification is a process all research institutions receiving federal grants must complete. The University's policy requires that effort reports be prepared for semiannual periods. These reports are typically produced approximately six weeks after the conclusion of the period of performance and go through a process of review and approval by both the administrative units overseeing the grants and the individuals whose salary is charged to them.

In first quarter of FY15, the University implemented a new and more efficient financial, accounting, human resources and grants management system. This required a transition from the University's prior systems to a new business management platform. It was known at the outset that upgrading our effort

reporting systems and integrating them into the new business management platform could be time-consuming and challenging given the need to collect, convert and merge data from various sources into the new system.

The University's initial effort to integrate the two systems in late 2014 revealed that a number of adjustments and process changes would be required before accurate effort reports could be provided to administrative units and their employees for review and confirmation. This meant reports for the University's two effort periods in FY15 would be delayed. Complications in the integration process ultimately meant that all necessary data would not be merged into the new system until December 2015. To ensure that reports for FY15 would be accurate, thorough testing and training was completed and the new system became operational in late January 2016.

The audit finding correctly states that in early February 2016 the University had not completed its effort certification for FY15. While this situation represents a delay and deviation from normal practice, it was a direct result of the software transitions and was necessary to ensure accuracy of the data and generation of proper reports. Responsive to the Audit Findings and Recommendations, the University's Vice Chancellor for Research, through its Office of Sponsored Research, is taking the following corrective actions:

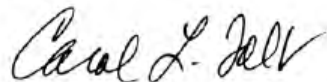
- Data conversion, integration and testing for the effort reporting system was completed in December 2015.
- The necessary staff training for the new system was completed in January 2016.
- The University has begun its effort reporting cycle for FY15 and the first half of FY16. This involves dual-level review, in which campus research administrators first review effort cards for their faculty and staff to make corrective adjustments, and individual faculty and staff then review and certify their individual effort cards.
- On March 1, individual effort cards will be delivered to faculty and staff for review and certification.
- By April 29, 2016, all individual effort cards will be certified by faculty and staff or salary expenses will be removed from those projects where an effort card has not been certified, consistent with the University policy on effort reporting.

The process currently underway will complete the effort certification for all of FY15, as well as the first six-months of FY16, bringing the University current with effort reporting requirements and the University's policy.

UNC-Chapel Hill takes its obligations to the state and federal government very seriously. The implementation of our new business management platform and the upgrade of our effort reporting systems was done to make the University's operations more efficient, to enhance the quality of our service, and to ensure proper stewardship of public resources.

We value your service to the State of North Carolina and appreciate this opportunity to respond.

Sincerely,

A handwritten signature in black ink that reads "Carol L. Folt". The signature is written in a cursive, flowing style.

Carol L. Folt

# ORDERING INFORMATION

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