

STATE OF NORTH CAROLINA

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

FISCAL CONTROL AUDIT

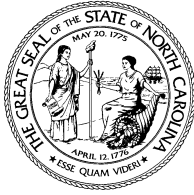
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

UNIVERSITY OF NORTH CAROLINA AT WILMINGTON

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AUDITOR'S TRANSMITTAL

October 19, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees for the University of North Carolina at Wilmington
Dr. Rosemary DePaolo, Chancellor, University of North Carolina at Wilmington

This report presents the results of our fiscal control audit at the University of North Carolina at Wilmington. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this 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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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES, SCOPE, AND METHODOLOGY

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at the University of North Carolina at Wilmington. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

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

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit scope covered the period July 1, 2008 through January 31, 2009, and included selected internal controls related to the following accounts and control objectives:

Travel

The University reports travel related expenses for University employees, students who are on the payroll (employees), students who are not on the payroll (non-employees), student group trips that a faculty/staff member will be paying for all the expenses, and non-employees. These expenses relate to transportation, meals, lodging, and miscellaneous expenses such as registration fees. During the audit period the University expended \$2,385,762 in travel related expenditures.

The University's compliance requirements are structured around the *North Carolina's Office of State Budget and Management's Budget Manual, Section 5 – Travel Policies and Regulations*. These policies and regulations provide guidance to ensure employees and non-state employees are obtaining approved advances, being reimbursed for appropriate approved travel and expenses that relate to the travel. Also, adequate financial management at the University should ensure travel expenses are not excessive and beyond what was required to conduct university business.

We examined internal control designed to ensure that travel costs were approved in advance, amounts reimbursed to individuals were for the approved travel, and expenses relate to the purpose of travel. We also examined evidence to support compliance with University and the Office of State Budget and Management policies and regulations. In the area of financial management, we examined the supporting documentation to determine whether or not the reimbursements were overly excessive and beyond what were required.

Special Projects

The University contractually enters into special projects costing less than \$500,000. Unlike State funded capital projects, special projects are funded internally by the requesting department. As of January 31, 2009, the University expended \$719,952 related to special projects.

The University's compliance requirements for special projects are structured around *North Carolina General Statute 143-131* and the *North Carolina Construction Manual Chapter 400 Section 403*. They state for all projects with a cost exceeding \$30,000, competitive bids must be solicited, and the contract awarded to the lowest responsible, responsive bidder. Per *University Business Policy 05-155*, all "Sole Source Contracts" awarded must be adequately justified in the supporting documentation. Also, adequate financial management at the University should ensure contracted special projects were entered into appropriately and at the best possible price for the quality needed.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)

We examined internal controls designed to ensure compliance with University policy and State laws and regulations. In the area of financial management, we determined whether contracted projects were entered into appropriately and at the best price for the quality needed.

Contractual Agreements

The University procures contractual services performed by a company and the procurement of personal services provided by an individual or group of individuals. As of January 31, 2009, the University had expended \$5,360,660 for contractual services excluding the University's food service agreement.

The University's compliance requirements for contractual agreements for services are structured around the *N. C. State Purchasing Manual - Section V – Purchasing Methods* and *Section XI – Consultant Contracts* and *North Carolina General Statute 135-3(8)*. Adequate financial management at the University should ensure that payments are for services that are actually received, were satisfactory, and paid at the agreed upon rate.

The *University Business Policy 05.155* states for departments to initiate a request for contractual services a department must prepare an electronic requisition prior to making any commitment to the service provider. In addition, *University Business Policy 05.156* requires any department seeking to hire an individual or group of individuals to perform contracted personal services in excess of \$2,500 to obtain approval from Human Resources and Purchasing Services.

We examined internal controls designed to ensure that contractual agreements were authorized and comply with University and State laws and regulations. Regarding adequate financial management, we determined that payments made were for services received and paid at the agreed upon rate.

Scholarships and Fellowships

Annual and endowed scholarships and fellowships are awarded by the University using donor funds and/or internally generated (institutional) funds. Annual scholarships are those where the donor will agree to an annual amount to be donated. Annual scholarship agreements will often contain a term length and/or how the scholarship can be terminated. Endowed scholarships require a minimum initial investment of \$25,000 by the donor. Those funds are then invested per their stipulations, and after one year, the interest earned can begin funding the scholarship. As of January 31, 2009, the University had awarded \$1,456,678 in annual and endowed scholarships and fellowships.

The University's compliance requirements are contained in the *University Business Policy FIN 1.10* which states the award authority and budget authority, upon selection of the recipient, is to complete a Scholarship/Fellowship/Monetary Award Transmittal authorizing the award of the scholarship to the student. In addition, the policy (*FIN 1.10A*) states upon selection of the recipient the award authority and budget authority complete a

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Scholarship/Fellowship/Monetary Award Criteria Form evidencing the student meeting all the criteria of the scholarship and thereby entitled to payment.

We examined internal control designed to ensure that University personnel completed the proper forms and obtained proper approval prior to any award being issued. We also examined evidence to support that a valid transaction did occur and that it was recorded at the proper value.

Purchasing Cards

The University's Purchasing Card Program (Program) allows rapid purchase of low-dollar goods by front-line employees. Liability rests with the University and not the cardholder for unpaid invoices. Retention of receipts and other documentation is essential to the success of the program. The Program does not change "what" you can buy under State and federal guidelines; it offers another means to process a purchase. As of January 31, 2009, the University had expenses totaling \$2,670,817 related to purchasing card transactions.

The University's compliance requirements for the Program are structured around the *N. C. Department of Administration's Purchasing Manual*. Also, *University Business Policy No. 05-160* provides minimum program guidelines for management of the purchasing card within a department and appropriate and inappropriate use of the purchasing card. This policy provides guidance to ensure, in a cost-effective manner, that card transactions will be appropriate and show sufficient documentation. Also, adequate financial management at the University should ensure purchases are not extravagant, beyond what was required, nor for personal use.

We examined internal control designed to ensure that the University personnel attached all original receipts to their monthly statement and the budget authority signed the paper statement evidencing approval for payment. We also examined evidence to ensure purchases were not excessive and required for university operations.

RESULTS

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

AUDIT FINDINGS AND RESPONSES

1. DEFICIENCIES IN THE REIMBURSEMENT OF TRAVEL CLAIMS

The University did not follow its travel policies and the State's budget manual when reimbursing employees for travel expenses. The University reimbursed employees for out-of-state lodging costs in excess of amounts authorized. In addition, there was no documentation to justify why a chartered aircraft was used by one employee. Without requiring explanations or justifications for these additional costs, the University may be paying for unnecessary or excessive travel expenses.

Our tests of the 36 travel claims with out-of-state lodging costs over \$1,000 revealed the following.

- Six claims for lodging exceeded the amount that had been authorized by the supervisor. For example, one employee was authorized for lodging costs of \$175 per night. However, the hotel charged and the employee was reimbursed \$375 per night. The other overages ranged from \$50 to \$595 per trip.
- One travel authorization with excess lodging was not approved until six days after the travel had ended. Another travel authorization with excess lodging was approved eight days after the employee's departure.
- One employee incurred and was reimbursed lodging expenses for two adults and a child while at a conference without any supporting documentation showing that the rate reimbursed was the same as the single occupancy rate.

Both the University travel policies and the *North Carolina Budget Manual* allows for excess lodging reimbursement if more economical accommodations are not available or practical, if proper authorization is obtained in advance of travel. The University's travel policy allows family to stay with the employee while traveling, but the reimbursement rate is not to exceed the single occupancy rate.

We also noted two payments were made to an employee without required justification for the use of chartered aircraft, thereby violating the *North Carolina Budget Manual's* policy. The policy states that it must be substantiated in writing why another mode of transportation was not used. The total cost for both trips was \$1,784. Had a personal vehicle been used the travel costs would have been \$375, which would have resulted in a savings of \$1,409.

Recommendation: The University should strengthen internal controls to ensure compliance with its travel policies.

University Response: The University has established policies and system procedures in place to ensure travel approval by the budget authority during both the travel authorization and the travel reimbursement processes. In addition, the University

AUDIT FINDINGS AND RESPONSES (CONTINUED)

electronic travel (e-travel) system does force all travel authorizations to be completed and approved by the responsible persons before any travel reimbursements can be issued. Although this e-travel system control will not prevent travel without authorization it will ensure that all travel is appropriately approved prior to reimbursement and will identify areas for traveler training. Additional procedures will be put into place requiring documentation to validate any travel authorization after the date of departure.

Justifications have now been received for the two payment reimbursements for the use of chartered aircraft. Each travel authorization has been substantiated in writing why another mode of transportation was not used. Further authorization for this budget authority is being reviewed.

UNCW will continue to refine and enhance travel procedures to seek additional documentation on excess lodging and enhance the travel procedures for travel to meet an appearance and reasonableness test.

2. NONCOMPLIANCE WITH CONTRACTUAL AGREEMENT POLICIES

The University did not comply with its policies to obtain approval from Human Resources and/or Purchasing Services before making a formal commitment on contracted services. In addition, we noted instances where the requisition supporting the proposed contract was not prepared in a timely manner. If the contracted service is not properly approved, the University could pay for unwanted or unnecessary expenses. Our tests of a sample of 42 contracts revealed the following:

- Fourteen contracts for personnel services were not approved by the Human Resources department prior to the work beginning. In some cases, approval was not obtained until two months after the work began.
- Four contracts were issued without the initiating departments preparing an electronic requisition and obtaining Purchasing Services' approval. These contracts were approved for payment after-the-fact and notes were written to the departments instructing them to follow the procedures in the future.

The University's purchasing policy requires the departments seeking to hire an individual or group of individuals to perform contracted personal services to obtain approval from Human Resources before making any formal commitments. It also states that a University department must prepare an electronic requisition prior to making any commitment to a service provider. Purchasing will review the requisition and coordinate any additional approvals if required.

Recommendation: The University should strengthen internal controls to ensure compliance with its policies related to contractual agreements.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

University Response: The University will require additional back-up documentation including justification and a memo of exception for any contracts not processed according to prescribed policy and procedures. UNCW will continue to refine its internal controls with additional documentation and enhance mentoring practices to ensure that departments are complying with the University Independent Contractor policy and procedures. Although the University procedures indicate that all independent contractor forms should be filed and approved before services are made, no payments are made until the form has been validated by the appropriate departments.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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