

STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

FISCAL CONTROL AUDIT

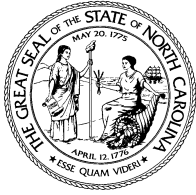
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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FISCAL CONTROL AUDIT



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AUDITOR'S TRANSMITTAL

October 7, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Dr. Harold Martin, Chancellor
Board of Trustees, North Carolina Agricultural and Technical State University

This report presents the results of our fiscal control audit at the North Carolina Agricultural and Technical State University. 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 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, METHODOLOGY AND RESULTS

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at North Carolina Agricultural and Technical State University. 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 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 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.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Our audit scope covered the period July 1, 2008 through March 31, 2009, and included internal controls over expenditures from endowment spending funds. These expenditures were made by the University to award scholarships to students, and to pay for salaries, benefits, travel and other expenditures made in support of distinguished professorships.

During our audit, we tested internal controls over scholarships awarded from endowment spending funds to determine if these expenditures were made in compliance with donor restrictions.

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

NONCOMPLIANCE WITH DONOR RESTRICTIONS ON ENDOWMENT SCHOLARSHIPS

The University did not comply with donor restrictions when awarding scholarships from endowments. We tested a sample of 27 scholarships totaling \$28,745 awarded from endowment funds and identified six scholarships totaling \$5,937 that did not comply with the requirements established by the endowment donor:

- The University was required per the donor's stipulations to obtain two letters of recommendation from applicants prior to awarding five scholarships totaling \$5,375. The University was unable to provide the letters.
- A student whose cumulative grade point average was 2.8 was awarded \$562 for the fall 2009 semester from an endowed scholarship that required a 3.0 grade point average.

Recommendation: The University should ensure that internal controls are in place and operating effectively to prevent noncompliance with endowment donor restrictions.

Agency Response: We concur. Each Endowed Scholarship Fund manager has been provided with their scholarship's award criteria. The Financial Aid Office has also been issued the awards criteria for all endowed scholarships and, along with the Gifts Accountant, will perform random audits for departmental compliance. Additionally, the respective departments will use alternative funds to restore the awards noted as being out of compliance with donor restrictions.

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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