STATE OF NORTH CAROLINA

WINSTON-SALEM STATE UNIVERSITY

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

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AUDITOR'S TRANSMITTAL

October 7, 2009

The Honorable Beverly E. Perdue, Governor
The General Assembly of North Carolina
Board of Trustees, Winston-Salem State University
Dr. Donald Julian Reaves, Chancellor

This report presents the results of our fiscal control audit at Winston-Salem 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 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.

Beth A. Wood

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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 Winston-Salem 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 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 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 February 28, 2009 and included selected internal controls in the following organizational units:

Contracts and Grants

The Office of Contracts and Grants is a department within the division of Finance and Administration. This office provides assistance with fiscal matters dealing with project administration for both federal and non-federal contracts and grants. This assistance includes providing budgetary advice during proposal preparation and guidance to contract and grant recipients to ensure that costs charged are allowable. The Office of Contracts and Grants reported approximately $6.7 million in contract and grant expenditures during the audit period. We examined internal control designed to ensure university compliance with these grant agreements and to ensure grant awards were expended only for allowable costs.

Business Services

Business Services is a department within the division of Finance and Administration. This department is responsible for management and monitoring of contracts for vending, food services, and bookstore operations. Commissions received by the University from these operations approximated $364,000 during the audit period. We examined internal control designed to ensure compliance with and monitoring of each of these contracts. In addition, we examined internal control designed to ensure that commissions earned were expended in accordance with State regulations.

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 SALARY ADMINISTRATION RELATED TO GRANTS

The University paid salaries without having an authorized funding source in place and also paid salaries from sources other than the one authorized. Separate accounts and funding sources are established to ensure that money is available to pay for particular functions. Without an authorized funding source, the University risks paying for a function that it cannot afford.

We identified seven employees who continued to be paid after the federal funding for their positions was no longer available. The University continued to charge the salaries to the federal account code but was not able to draw down the federal funds. The total charged for these employees from October 2007 through February 2009 was $388,451.

Another employee's salary was paid from a funding source other than the one approved by the Office of State Personnel. The Office of State Personnel approved the salary funding source as a Title III grant, and the employee's time and effort reports for October 2007 through April 2009 stated the employee worked solely on the grant. The University paid the employee $166,583 for this period, but only $20,014 of the costs were reimbursed by the grant. In addition, the employee was overpaid approximately $9,600 for August 2007 through March 2008 because the University paid the employee at a rate higher than what was ultimately approved by the Office of State Personnel.

Recommendation: The University should develop and implement policies and procedures to ensure that an authorized funding source is available prior to incurring salary costs and that the costs are paid at authorized rates.

Agency Response: Concur with finding. The University did indeed continue to charge salaries of seven employees to federal account codes after funding for the positions was no longer available. At no time was there action to draw down the federal funds. Of the seven employees referenced, all have been removed from unauthorized funding sources and systematic measures to prevent recurrence are completed or in progress as follows:

a. Firm end dates will be established for time-limited, federal grant funded positions and will be communicated in documentation to the incumbent and the hiring manager/authority such that expectations for continued employment are unambiguous and obligations for appropriate end-date actions are clear.

b. Firm end dates will also be entered into the Banner-based payroll system upon implementation in July, 2010 such that positive action to continue payment past a grant end-date is necessary.

c. In no case will an employee be continued without appropriate alternative funding and duties. If appropriate alternative funding and responsibilities for the incumbent are not identified not later than 90 days prior to the end of contract support, separation processes for the employee will begin.

The status of the employee working in the interim capacity for the state effort has been dated. The percentage of effort is 15% to the federal and 85% effort to state. The time and efforts sheets have been corrected. Reimbursement has been sought from federal and state. Also overpayment to this individual has been addressed and funding appropriately restored.

In order to circumvent future erroneous posting to closed grants, position numbers funded under federal funds and grants alike will be made inactive unless a new funding source has been identified. Contracts and Grants will initiate the process. This will prevent expenditures from being posting to old accounts and force corrections to the current active account. A by-product of these actions will be reduced journal entries.

2. EXCESSIVE CORRECTING ENTRIES FOR GRANT TRANSACTIONS

The University had to make numerous journal entries to correct errors in the classification of grant expenditures. Having to make numerous corrections increases the likelihood of accounting errors or noncompliance with grant requirements.

We examined journal entries associated with grants for the period of July 2008 through February 2009 and found that 57 out of 178 journal entries prepared were made to correct the classification of expenditures. Errors in classification occurred primarily when expenses continued to be charged to grants after the grant period ended, and the University had to recode the expenditures to current grant accounts. This was necessary because the new grant documents had not been processed and accounts set up at the time the expenditures were incurred.

Recommendation: The University should ensure that grant documents are submitted and processed timely and authorized accounts set up prior to incurring costs. This will reduce the need for so many journal entries and help ensure the accuracy of the accounting records and compliance with grant requirements.

Agency Response: Concur with the finding. Excessive journal entries were the result of shortfalls in timely actions to remove employees from grants at the appropriate time referenced above. Expenditures were allowed to post to inactive accounts. With the process now being implemented, entries will not post and will roll to a suspense report, permitting fast resolution.

3. FAILURE TO ADEQUATELY MONITOR CONTRACTS

The University failed to adequately monitor its vending machine, bookstore, and food service operations contracts. Several errors and oversights could have been avoided had proper monitoring occurred. Concerns noted were as follows:

a. The University does not monitor revenue received from its snack vending machines. In its bid solicitation, the University indicated that it would check the counters on selected snack machines to ensure the propriety of revenue collections, but it has not done so. The bid solicitation also states that the vendor will report unit sales for each machine, thereby allowing the University to assess the reasonableness of collections; however, the vendor has not provided the University the unit sales data.

b. The University did not assess $136 in interest penalties to the snack machine vendor for late payments under the contract agreement.

c. The University was underpaid $1,452 by its drink vendor. The contracted commission rate was 38% while the rate received was 37%.

d. Monthly payments from the bookstore vendor were typically one to two weeks late.

e. A $5,728 bookstore commission payment for Rams One (the University's debit card) sales was received four months late. We brought the lack of payment to the attention of University personnel during our audit, and it was subsequently collected.

f. The University received overpayments of $1,198 in food service contract commissions due to a formula error in five weekly commission reports. Failure to review and recalculate commission reports could result in both overpayments and underpayments to the University.

g. The University posted an $886 food service commission to the wrong account. Vending receipts are restricted by UNC policy. Failure to accurately account for vending receipts increases the likelihood of unauthorized use.

h. The University did not have procedures in place to compare the sales reported by the food service vendor to the food service sales reported by the Rams One system. We performed a one-month comparison of the two sources and identified a $1,144 difference.

Recommendation: The University should monitor its contracts to ensure that all parties comply with the terms of the agreement. Commission payments should be monitored for timely receipt, correct rates, proper computations, and timely deposit into the correct general ledger account.

Agency Response:

a. Concur with the finding. Effective June 2009, the counters on snack vending machines will be monitored quarterly. On June 12, 2009 the machines in the following locations were randomly monitored: Blair Hall, Fine Arts, O'Kelly Library, R J Reynolds Center, Carolina Hall, Hauser Building, Physical Plant, Atkins Hall and Police and Public Safety. The next meter reading is scheduled for September 30, 2009. The University receives a report of sales for each machine along with the monthly commission check. The vendor uses a hand-held reader that shows how much money is collected from each machine. This tape is included in the money bag for each machine and is compared to the money collected. We will monitor sales quarterly from the counter readings and compare to monthly commission sales reports.

b. Concur with the finding. The $136.03 in interest penalties was received from the snack vendor and deposited on May 8, 2009.

c. Concur with the finding. The $1,451.68 was received from the drink vendor and deposited on June 19, 2009. The rate for beverages will be monitored for accuracy on a monthly basis.

d. Concur with the finding. The monthly payments for the bookstore vendor are now received by due date outlined in the contract.

e. Concur with the finding. The $5,727.52 bookstore commission for Rams One (the University's debit card) was received and deposited on June 1, 2009.

f. Concur with the finding. Subsequent to your analysis, we found the $1,198 in food service contract commission was not an overpayment. The commissions were calculated correctly but sales reported by the contractor, Aramark, were incorrect. The sales recorded on the contractor's work copy were not transferred to the spreadsheet sent to Auxiliary Services. Nonetheless, contract commissions will be recalculated for appropriate verification to prevent future instances.

g. Concur with the finding. The $885.79 food service commission deposit was corrected on April 30, 2009.

h. Concur with the finding. The difference in the sales reported by the food service vendor compared to the sales reported by the Rams One system is a result of the employee meals and taxes being included in the cash sales on the Ram Card report. New registers were installed in mid-July 2009 in all food service locations and the reports that will be generated by the food vendor should separate the employee meals and taxes. Therefore both sales reports should be identical.

To prevent these instances from occurring again the following measures have been implemented:

(a) there are dual checks on all commissions deposited; (b) a file for all vendors is set-up on the Business Services shared computer drive and each staff member is aware of commissions due and the fund and account number for the deposit; (c) there will be a monthly audit of the reports received from all vendors to make sure the correct commissions are paid; (d) meter readings for the snack vending will be conducted quarterly and compared to the monthly commission sales reports; (e) we have developed a commission legend for all Pepsi products.

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