

# STATE OF NORTH CAROLINA

## NORTH CAROLINA COMMUNITY COLLEGE SYSTEM FISCAL CONTROL AUDIT

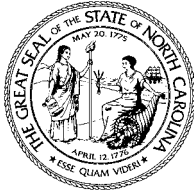
OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

**NORTH CAROLINA COMMUNITY COLLEGE SYSTEM**

**FISCAL CONTROL AUDIT**



Beth A. Wood, CPA  
State Auditor

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## AUDITOR'S TRANSMITTAL

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July 1, 2011

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
State Board of Community Colleges  
Dr. R. Scott Ralls, President  
North Carolina Community College System

This report presents the results of our fiscal control audit at the North Carolina Community College System. 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 no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*.

*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**

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## **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 North Carolina Community College System (System Office). 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.

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 of July 1, 2010 through January 31, 2011 and included selected internal controls over the following accounts and control objectives:

*Contracted Personal Services* - This account includes expenditures for services performed for both the System Office and the 58 community colleges under its administration and leadership. We examined internal control over expenditures to ensure that contracted personal services comply with state purchasing regulations, the System Office receives acceptable services at appropriate rates, the System Office receives satisfactory service before making payment, and that contracted services could not have been performed by System Office employees. As of January 31, 2011, the System Office reported contracted personal services expenditures of \$2.1 million.

*Program Approvals* - The System Office allocates grants, state aid, and subsidies to community colleges for program support. College personnel are required to submit applications to the System Office for any new programs offered. We examined internal control over new programs to ensure that the System Office properly reviews and approves new programs. As of January 31, 2011, \$277 million was allocated to certificate programs, associate degree programs, and diploma programs.

### **RESULTS**

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards.

## **ORDERING INFORMATION**

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