



STATE OF NORTH CAROLINA
Office of the State Auditor

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

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December 19, 2005

Ms. Molly Corbett Broad, President
UNC Office of the President
910 Raleigh Road
Chapel Hill, North Carolina 27515

Dear President Broad:

We received a complaint through the State Auditor's Hotline alleging the former Executive Director of the UNC Math & Science Education Network (MSEN) misused State property.

We have completed a special review of this allegation. The following findings and recommendations are based on our examination of inventory and shipping documentation, review of applicable statutes and policies and interviews of UNC and MSEN employees.

Potential Misappropriation of State Property

Upon her appointment in January 2002, the current Executive Director determined that a laptop computer assigned to the former Executive Director could not be located. Several MSEN employees said the former Executive Director took the computer in question to his home. The current Executive Director said she called her predecessor and inquired about the computer. She said the former Executive Director denied knowledge of the computer's location. However, the laptop computer was found the next day in the MSEN mailroom.

As a result of the incident with the laptop computer, the current Executive Director directed her staff to perform a physical inventory of all agency equipment in January 2002. The physical inventory was then cross referenced to the inventory list compiled by MSEN's accounting department. It was determined that 26 pieces of equipment, totaling \$14,875.95, were missing. Missing items included palm pilots, digital cameras, laptops, software and various other computer equipment (see attached schedule).

The current Executive Director notified her supervisor, the Vice-President for University/School Programs, of the missing equipment. The Vice-President contacted the former Executive Director and inquired about the missing inventory. The current Executive Director provided a letter from the former Executive Director to the Vice-President denying any knowledge of the location of the missing items.

UNC's Fixed Asset policy requires all assets with values of \$500 and above to be inventoried and tagged. According to the current Executive Director her predecessor had not conducted annual physical inventories of MSEN's equipment. We found no evidence to suggest additional steps were taken to locate the missing items or identify responsible parties.

In addition, North Carolina General Statute 14-91 states, "If any officer, agent, or employee of the State, or other person having or holding in trust for the same any bonds issued by the State, or any security, or other property and effects of the same, shall embezzle or knowingly and willfully misapply or convert the same to his own use, or otherwise willfully or corruptly abuse such trust, such offender and all persons knowingly and willfully aiding and abetting or otherwise assisting therein shall be guilty of a felony."

Recommendations

We recommend UNC Administration reinforce to all staff allowable use of State resources as well as the consequences for violations. We recommend management take steps to ensure all agency equipment is properly tagged upon receipt and that a periodic inventory of equipment is conducted in order to ensure adequate control of agency property. We also recommend management report the missing equipment to the appropriate officials.

Violation of State Law and UNC Policy

Although the current MSEN Executive Director reported the \$14,875.95 in missing inventory to the Vice-President for University/School Programs in January 2002, we found no evidence that either individual pursued this issue with appropriate officials, including the State Board of Investigation (SBI). North Carolina General Statute 115-15.1 requires department heads report in writing possible violations of criminal statutes involving misuse of State property to the SBI no later than ten days after receipt of such information.

In addition, Procedure 5 of UNC Policies and Procedures requires the Associate Vice Chancellor for Finance be notified within 90 days of when assets are determined to be missing. After 210 days from the time assets are determined to be missing the Vice Chancellor is to be notified a second time, whereupon the Vice Chancellor and Asset Management will determine the appropriate steps to be taken based on the individual circumstances. Possible actions at that point include contacting the Department of Public Safety, filing a misuse report, conducting an on-site audit or providing additional time to locate the items. Neither the current Executive Director nor the Vice-President notified the Associate Vice Chancellor or Asset Management about the missing inventory.

The current Executive Director said the Vice-President told her in May 2002 that he was going to provide the list of missing items to UNC Campus Police for further investigation. However, the Vice-President said he has no recollection of filing a report. He said he did contact the former Executive Director and asked about the missing items. As stated earlier, the former Executive Director denied knowledge of the missing items. The Vice-President did not provide additional explanation regarding the failure to report the missing inventory.

Ms. Molly Corbett Broad, President
December 19, 2005
Page 3

Recommendations

We recommend UNC Administration reiterate to staff the appropriate procedures regarding knowledge of potential misappropriation of State resources. Management should also reinforce to all employees the significance of adherence to State statutes and agency policies. All instances of possible misappropriation of State assets should be reported to appropriate law enforcement officials in a timely manner. Management should consider taking appropriate disciplinary action when employees fail to comply with this requirement.

Please provide your written response to these findings and recommendations, including corrective actions taken or planned, by January 5, 2006. In accordance with G.S. 147-64.6 (c)(12), the Governor, the Attorney General, and other appropriate officials will receive a copy of this management letter. If you have any questions or wish to discuss this matter further, please contact us. We appreciate the cooperation received from the staff of MSEN during our review.

Sincerely,

A handwritten signature in black ink that reads "Leslie W. Merritt, Jr." in a cursive script.

Leslie W. Merritt Jr., CPA, CFP
State Auditor

Management letters and responses receive the same distribution as audit reports.

SCHEDULE OF MISSING UNIVERSITY ASSETS

PDA Palm M100 Organizer with 2MB Memory	\$ 94.00
Olympus Camedia D-370 Digital Camera	382.00
MS Windows XP Home Edition Software	99.00
ACDEM MSFT Windows XP Professional	99.00
Academic PCANYWHERE	59.95
ACAD Publishing Collections	499.00
Adobe PageMaker 7.0Upgrade	74.95
Adobe Photoshop 6.0 Upgrade	179.00
ACAD UPG MSFT WIN 2000 PRO	119.95
Boxlight Colorshow 2000+Active Matrix LCD Pro	3,799.00
Micro Scanmaker E3	149.95
Dell Notebook (Inspiron 3000)	3,266.00
ThinkPad 390	1,795.00
Palm M100 Connected Organizer	129.00
Zoom 56K USB External fax Modem	91.00
ThinkPad 570E	1,299.00
Ultrabase for ThinkPad 570	115.00
24x cd-rom drive for ThinkPad 570	139.00
Academic Web Design Studio F/MAC	199.95
P330N Thermal Dye-Sub Photo Printer	399.95
Palm Vx Connected Organizer	399.00
Logitech QuickCamera Web Digital Video Camera	150.30
Adobe Photoshop 4.0	500.00
Adobe PageMaker 6.5	500.00
Amorphium	49.95
HP Scanjet 300 CSE	197.00
Total	\$ 14,785.95



The University of North Carolina

OFFICE OF THE PRESIDENT

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JEFFREY R. DAVIES, *Vice President for Finance*

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January 10, 2006

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The Honorable Leslie W. Merritt, Jr., CPA, CFP
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601

Dear Mr. Merritt:

This is our response to your letter of December 19, 2005 to President Broad regarding the special review recently completed by your office concerning misuse of State property by the former Math Science and Education Network (MSEN) Executive Director in January 2002. We have reviewed the information, findings, and recommendations. We offer the following management responses.

Finding 1: Potential misappropriation of State property by the former Executive Director of Math Science and Education Network program.

- **Recommendation:** We recommend UNC General Administration reinforce to staff the allowable use of State resources as well as the consequences for violations. We recommend management take steps to ensure all agency equipment is properly tagged upon receipt and that periodic inventory of equipment is conducted in order to ensure adequate controls of University property. We also recommend management report the missing equipment to appropriate officials.
- **Management Response:** We concur with the need to periodically reinforce to the staff our policy that assures the proper use of State resources. Furthermore, we will provide this information in our new employee orientation sessions. The information is also present in the UNC General Administration's policy and procedures manual. Improper use of State property is unacceptable and will be addressed by supervisors following disciplinary standards for University employees.

UNC General Administration complies with the annual inventory and fixed asset recordkeeping, reconciliation and system standards for the State of North Carolina. The situation documented by the State Auditor's Office is an isolated one where the former Vice President for University School Programs failed to follow procedures and report the incident to the Services Officer. Our internal business practices require employees to report any suspected incident of State property misuse to their immediate supervisor. Upon receipt of an incident report, supervisors will summarize facts relevant to the case in writing and forward the information to the Services Officer. The Services Officer reports the incident to the Internal Auditor, who in turn conducts the preliminary investigation and reports the potential misuse or stolen property to the State Bureau of Investigation and the Office of the State Auditor within 24 hours.

In the State Auditor's review, the former MSEN Executive Director documented he had no knowledge of any missing equipment and denied having the equipment in his personal possession. Twenty-two items (valued at \$4,626.95) listed in the Missing University Asset report are local workstation non-capitalized software or assets valued under our \$500 fixed asset inventory threshold. The software application programs may have been loaded on the four computers and laptops that were reported missing in this case. Since we have no evidence an SBI report was filed in January 2002 or thereafter, our Internal Auditor will submit a report to the SBI on January 10, 2006.

Finding 2: The former Vice President for University School Programs failed to report to the Services Officer that the Math Science and Education Network (MSEN) discovered missing inventory in January 2002. Given that the missing items were not reported to the University Fixed Asset Officer and Services Officer, the enterprise was unaware the program had missing equipment and, therefore, had not reported the incident to the State Bureau of Investigation.

- **Recommendation:** We recommend UNC General Administration reiterate to staff the appropriate procedures regarding knowledge of potential misappropriation of State resources. Management should reinforce to all employees the significance of adherence to State statutes and University policies. All instances of possible misappropriation of State assets should be reported to appropriate law enforcement officials in a timely manner. Management should consider taking appropriate disciplinary action when employees fail to comply with this requirement.
- **Management response:** We concur with the recommendations. As stated above, we will continue to reinforce and distribute the State's misuse of state property policy to UNC General Administration staff on a recurring basis. Furthermore, our internal policy and procedures manual outlines the courses of action and timelines required by employees and supervisors to report potential incidents of state property misuse, abuse, or theft. Should a potential incident occur, it is critical that the supervisor or department head immediately notify the Services Officer to initiate the investigative and reporting process across the entity. The recurring policy reinforcement, employee training, and documented reporting standards will ensure UNC General Administration's compliance to the North Carolina General Statute §114-15.1.

If you need additional information on this matter, please contact Kelly Young in our Internal Audit Section. Thank you for your time and consideration with this matter.

Sincerely,



Jeffrey R. Davies