



STATE OF NORTH CAROLINA

NORTH CAROLINA COMMUNITY COLLEGE SYSTEM OFFICE

FISCAL CONTROL AUDIT

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

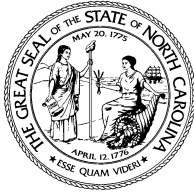
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PRESIDENT



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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
The General Assembly of North Carolina
Mr. H. Martin Lancaster, President
North Carolina Community College System Office

This report presents the results of our fiscal control audit of the North Carolina Community College System Office (System Office). 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 standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to gather and evaluate evidence about 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.

Leslie W. Merritt, Jr.

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BACKGROUND INFORMATION

The North Carolina Community College System (NCCCS) consists of the System Office located in Raleigh, North Carolina and 58 public community colleges (colleges) across the State. The System offers a wide range of educational programs to meet the needs of the local communities.

The System Office provides administrative oversight, support services, and guidance to the 58 colleges. Also, the System Office, headed by a System President, works under the policy direction of the State Board of Community Colleges. The Board is empowered to adopt policies, regulations, and standards for the effective administration and operation of all educational institutions within NCCCS.

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OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS

OBJECTIVES

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes* and in accordance with the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we have conducted a fiscal control audit at the North Carolina Community College System Office.

The objective of a fiscal control audit is to gather and evaluate evidence about 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 issuing 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.

SCOPE

Since the System Office provides administrative oversight and guidance to the colleges in preparing their financial statements, we focused on internal control for the following specific areas that affect the preparation of the colleges' financial statements:

Information System – Our audit scope for this area covered the period July 1, 2005 through January 31, 2006. Since the System Office and the colleges utilize financial data residing in the College Information System, we examined the system's program change control procedures to ensure that the System Office performed effective program change control procedures in compliance with its policy.

State Aid to Colleges – Our audit scope for this area covered the period July 1, 2005 through January 31, 2006. The System Office provides funds to the colleges based mainly upon full-time equivalents (FTEs) earned by students in curriculum programs, continuing education, or extension programs. Formulas are used to convert the colleges' FTEs into dollars to arrive at their State appropriation for operations. We examined internal control procedures to ensure a system was in place to determine the accuracy of FTEs submitted by the colleges. We also performed tests to determine that the appropriations were calculated correctly.

OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)

Year-End Financial Statement Information – Our audit scope for this area covered the period July 1, 2005 through June 30, 2006. The System Office provides several year-end financial reports to colleges to use as a guide in preparing their financial statements as outlined below:

1. Year-End Net Certifications: The purpose of the net certification report is to assist colleges in preparing journal entries for their year-end financial statements in accordance with GASB Statements No. 34 and 35. The report shows total net certifications for the entire fiscal year for each college. We examined internal control designed to ensure that the computation of net certifications complied with authoritative standards.
2. Year-End Restatements: The year-end restatement report shows the various categories of funds (federal current, federal capital, and net tuition and occupational fees) that should be restated by the colleges in compliance with requirements established by GASB Statements No. 34 and 35 and instructions issued by the Office of the State Controller. We examined internal control designed to ensure that the restatements were in compliance with authoritative standards.
3. Year-End Construction Balances: The purpose of the year-end construction report is to show year-end construction balances that should be reflected in the colleges' Special Construction Funds and included in their financial statements. We examined internal control designed to ensure that the construction balances were in compliance with the System Office's construction manual.

METHODOLOGY

To accomplish our audit objectives, we gained an understanding of internal control, performed tests of control effectiveness, and/or performed direct tests of the year-end information provided to the colleges as we considered necessary in the circumstances. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, and examining documentation supporting the amounts provided to the colleges.

RESULTS

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*.

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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