

NATIONAL SCIENCE FOUNDATION
4201 Wilson Boulevard
ARLINGTON, VIRGINIA 22230



OFFICE OF
INSPECTOR GENERAL

MEMORANDUM

MAR 25 2011

DATE:

TO: Mary F. Santonastasso, Director
Division of Institution and Award Support

Karen Tiplady, Director
Division of Grants and Agreements

FROM: Dr. Brett M. Baker 
Assistant Inspector General for Audit

SUBJECT: Audit Report No. 11-1-011, Internal Control Review at
North Carolina Central University

Attached is the final audit report, prepared by WithumSmith & Brown, PC, an independent public accounting firm, on the performance audit of internal controls at North Carolina Central University (NCCU) for the fiscal period July 1, 2008 to June 30, 2009. During this fiscal period, NCCU claimed \$1.1 million of expenses on its nine (9) active NSF awards with a total value of \$6.1 million dollars. The objective of this audit was to determine if NCCU has internal controls in place that allow for reliable accountability and stewardship of National Science Foundation (NSF) funds in accordance with the terms and conditions of the University's NSF awards.

NCCU was selected for audit to ensure that previously identified internal control weaknesses have been corrected and that existing internal controls over financial and compliance reporting, and administration of its NSF awards are working as intended.

The auditors concluded that NCCU personnel did not always follow University policies and procedures in the areas of budget transfers; monitoring budget to actual costs, especially participant support costs; travel policies; equipment purchases and inventory; payroll and fringe benefits; accounting and reporting of indirect costs; and, compliance with NCCU's own IT general controls. As a result of the control deficiencies found, the auditors questioned \$351,340 in NSF-funded award costs and \$4,193 in cost sharing. The amount of NSF-funded costs

questioned by the auditors comprised 31% (\$351,340/\$1,119,675) of the total costs claimed by NCCU for the one year period encompassed by this audit. Thus, if left uncorrected, the internal control and compliance weaknesses identified by this audit may continue to occur and affect the nine current and any future NSF awards given to NCCU. The key findings cited in the audit include:

- **Lack of Adequate Internal Control for Budgeting and Accounting, including Participant Support Costs.** Budget transfers were not always properly approved. Additionally, the NCCU Banner General Ledger (GL) system has no separate GL Code to capture participant support costs for either the budgeted or actual costs, making it difficult to monitor expenses by cost category, especially for participant support costs, against NSF approved award terms. The share of budgeted participant support costs for all 9 active grants on a cumulative basis was \$266,007. Therefore, we questioned the \$266,007 due to the lack of specific accounting records and supporting documentation that delineates participant costs by cost category and by award.
- **University & Federal Travel Policies Not Followed.** NCCU follows North Carolina Office of State Budget Management's (OSBM) travel policies and procedures for costs incurred for federal awards rather than federal travel guidelines. Total travel expenses charged to NSF awards for fiscal year 2009 were \$97,907 (8.7% of total costs incurred). We questioned \$2,621 of travel costs because these costs were in excess of allowable Federal lodging and per diem meal rates, were not properly approved, or were unsupported.
- **Lack of Adequate Control Over Equipment Purchases.** Two instances were noted where NCCU purchased equipment that was not in compliance with the terms of its NSF awards: i) 5 Global Positioning System (GPS) for robots (\$34,975) and ii) 12 laptop computers (\$10,496) aggregating to \$45,471 in questioned costs.
- **Payroll and Fringe Benefits Procedures Not Followed.** The audit found multiple instances of payments that were not in accordance with the terms of the NSF approved awards in the amount of \$10,852, which amount was questioned. In one instance it was noted that an employee charged 100% of salary cost to an NSF award, even though only 70-80% of actual labor effort was expended working on the NSF award. The amount of excess salary charged to the NSF grant totaled \$6,300. Therefore, we questioned a total of \$17,152 in payroll and fringe benefit costs.
- **Inadequate Accounting and Reporting of Indirect Costs.** The audit noted that the indirect cost basis (i.e. indirect cost base) in NCCU's Banner System was incorrectly set up, which resulted in incorrect computation and allocation of indirect costs to NCCU's NSF Projects. The indirect costs charged to NSF for all of the 9 active grants during fiscal year 2009 was \$178,979 amounting to 16% of the total costs claimed to NSF of \$1,119,675. Per our computations, we questioned \$20,089 in indirect costs, which is the total net excess of indirect costs charged by NCCU to NSF.

- **Fixed Assets Physical Inventory Deficiencies.** NCCU completely omitted one location during its annual physical inventory count. This did not result in questioned cost, however lack of proper controls can cause the loss or misuse of NSF supported assets.
- **Lack of Compliance with NCCU's Own IT General Controls.** The audit identified the following: i) program changes were not approved by designated personnel; ii) patches to critical servers were not applied on a timely basis; iii) user accounts of terminated employees were not completely disabled and were found to be partially active; iv) list of authorized users displayed at the data center was not current and did not match the system generated list of users having access to the data center. None of the above resulted in questioned costs related to NSF projects; however the lack of the above IT controls could compromise the systems that are used to administer and account for NSF project funds.
- **Inadequate Internal Controls Over NSF Grant Compliance Requirements for Cost Share and Conflict of Interest.** NCCU has not complied with the 1% cost sharing requirement for the fiscal year ended June 30, 2009 and total cost sharing per our estimate for fiscal year 2009 for the three projects amounted to \$4,193. Our inquiry and procedures indicated that the annual disclosure statements were not completed by the NCCU Principal Investigators for any of the awards under audit for fiscal year 2009.

As a result of the audit, we recommend that NSF's Director of the Division of Institution and Award Support (DIAS) address and resolve the following recommendations made to NCCU for its system of internal controls as follows:

NCCU management should i) exercise greater control over their budgetary process for monitoring NSF award costs and should adhere to their own policies and procedures regarding monitoring of budgetary activities, including creating separate GL accounts in Banner for participant support costs; ii) enhance travel expense procedures to include documentation where travel costs deviate from federal travel guidelines; iii) reinforce the requirement for appropriate NSF approvals to ensure that assets are purchased in accordance with terms of the NSF approved award; iv) strengthen its internal review process to ensure that salary and fringe benefit costs charged to NSF Grants is per the NSF award; v) monitor the rates and bases used for negotiated indirect cost agreements to ensure the rates are in compliance with NSF award terms and properly applied; vi) exercise greater care in the annual physical inventory, vii) exercise greater control over the tracking and reporting of the required 1% statutory cost sharing and, viii) comply with NSF guidelines pertaining to conflict of interest documentation. Finally, NCCU should also ensure that i) all program change requests are approved by authorized personnel before being implemented; ii) all critical servers are patched and kept updated as per the corporate policy; iii) the access for terminated employees is revoked on a timely manner from both the Active Directory and Banner System; and iv) the authorized users list displayed on the data center is updated to reflect the current list of authorized users.

NCCU agreed that it had not applied the proper indirect cost rates to its NSF awards and provided explanations for the remaining findings that will be considered and resolved by NSF.

In accordance with OMB Circular A-50, please coordinate with our office during the 6-month resolution period to develop a mutually agreeable resolution of the report findings. Also, the report findings should not be closed until NSF verifies that all the recommendations have been adequately addressed and corrective actions have been satisfactorily implemented.

OIG Oversight of Performance Engagement

To fulfill our responsibilities under Generally Accepted Government Auditing Standards, the Office of Inspector General:

- Reviewed WithumSmith & Brown's approach and planning of the audit;
- Evaluated the qualifications and independence of the auditors;
- Monitored the progress of the engagement at key points;
- Coordinated periodic meetings with WithumSmith & Brown and OIG management to discuss engagement progress, findings and recommendations;
- Reviewed the audit report prepared by WithumSmith & Brown to ensure compliance with Generally Accepted Government Auditing Standards and American Institute of Certified Public Accountants standards and Office of Management and Budget Circulars; and,
- Coordinated issuance of the audit report.

WithumSmith & Brown is responsible for the attached auditor's report on North Carolina Central University and the conclusions expressed in the report. We do not express any opinion on the internal controls or conclusions on compliance with laws and regulations.

We thank you and your staff for the assistance that was extended to our auditors during this audit. If you have any questions regarding this report, please contact Jannifer Jenkins at 703-292-4996.

Attachment



INTERNAL CONTROL PERFORMANCE AUDIT
OVER
NATIONAL SCIENCE FOUNDATION FUNDS
AWARDED TO
NORTH CAROLINA CENTRAL UNIVERSITY

FOR THE PERIOD
JULY 1, 2008 – JUNE 30, 2009

February 27, 2011



WithumSmith+Brown, PC
Certified Public Accountants and Consultants
New Jersey, New York, Pennsylvania, Maryland, Florida, Colorado.

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Brett M. Baker, PHD, CPA, CISA
Assistant Inspector General for Audit
Office of Inspector General
U.S. National Science Foundation
4201 Wilson Boulevard
Arlington, VA 22230

Dear Dr. Baker:

WithumSmith+Brown, PC is pleased to submit the performance audit report of the Internal Control Performance Audit over National Science Foundation Funds awarded to North Carolina Central University (NCCU). This audit was performed in accordance with Government Auditing Standards.

The objective of our internal control performance audit of NCCU was to provide an assessment of the adequacy of NCCU's internal control system for effectively accounting for, monitoring and administering NSF awards in compliance with Federal and NSF award requirements. Our objectives also included providing an assessment of the corrective actions taken by NCCU for the internal control deficiencies (which may have an impact on NSF grants) identified in various reports issued by OSA from 2008 onwards, including OMB Circular A-133 audit reports.

We appreciate the opportunity to assist the Office of Inspector General by providing the performance audit of NCCU.

WithumSmith+Brown, PC

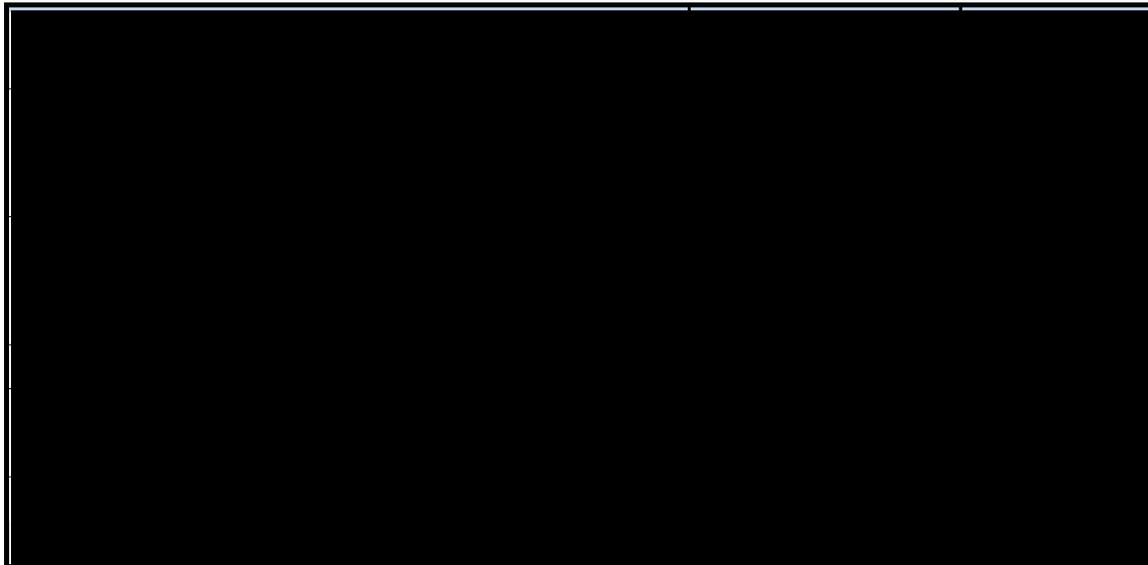
February 27, 2011

Executive Summary

The Office of Inspector General (OIG), initiated this performance audit to determine if North Carolina Central University (NCCU) currently has internal controls in place that allow for reliable accountability and stewardship of National Science Foundation (NSF) funds in accordance with the terms and conditions of NSF awards in order to ensure NCCU's ability to meet NSF program goals and objectives.

NCCU was selected for the audit by NSF OIG to ensure that previously identified internal control weaknesses have been corrected and that existing internal controls over financial compliance, reporting, and administration of its NSF awards are working as intended. Specifically, NSF OIG became aware via a newspaper article in the Fayetteville Observer in February 2008, about a fraud committed on Federal awards (not NSF awards) by a senior official at NCCU. In addition a financial statement audit under Office of Management and Budget (OMB) Circular A-133 of NCCU issued by Office of State Auditor (OSA) for the year ended June 2007 reported material weaknesses which included NCCU Information Technology (IT) systems and processes. Further OIG research revealed that in January 2009, NCCU agreed to repay the U.S. Department of Education \$1.1 million dollars for Federal loans taken out by students at an unauthorized NCCU satellite campus operated in Georgia by a member of the NCCU Board of Trustees. That satellite location was also not accredited at the time it issued university degrees to the twenty-five (25) students. The satellite location was subsequently closed by the University.

NSF-OIG engaged WithumSmith+Brown (WS+B) to perform a performance audit of Internal Controls at NCCU (Audit) for the fiscal period July 1, 2008 to June 30, 2009 relating to NSF awards. NCCU has nine (9) active grant awards amounting to \$6.1 million as of June 2009. The table below contains summary of the actual amount of NSF funds expended (\$1.1M) during the year ended June 30, 2009, per NCCU's General Ledger Banner System:



During the planning phase of this Audit, we performed a Risk Assessment for the year ended June 30, 2009 relating to NSF awards based on dollar materiality and control environment. Accordingly we identified five significant processes-including IT systems as focus areas for the Audit. Our audit team met with process owners and staff of all the significant processes to

document the processes in narratives and identify controls within the significant processes. Mapping the controls to the various risks we developed Risk Control Matrices to assess the design effectiveness. In all we identified 64 controls and classified 47 of them as Key Controls for testing which included 13 IT controls.

Our review of North Carolina State Auditor's work papers revealed that the control issues raised in the 2006-07 and 2007-08 OMB A-133 reports of NCCU had minimal impact related to NSF awards and on our 2008-09 Internal Control Audit. We reviewed the areas where weaknesses were found that affected the NSF awards. Per the latest State Auditor's report for Financial Statement Audit OMB A-133 on NCCU for the period ended June, 30 2009, no internal control deficiencies were noted during the annual audit.

Based on the procedures we performed during our Audit, we concluded that NCCU needs to adhere to its policies and procedures and improve its internal controls in several areas discussed below in order to more effectively account for, monitor, and administer its NSF awards. As a result of the control deficiencies found, we identified \$351,340 in questioned costs (including questioned participant support costs) and \$4,193 in questioned cost sharing arising in budgeting, payroll management and other compliance areas, where internal controls of NCCU should be improved. If NCCU does not address these compliance and internal control weaknesses, similar problems may continue to occur undetected in the nine current and any future NSF awards. Listed below are key findings from our internal control testing.

- **Lack of Adequate Internal Control for Budgeting and Accounting, including Participant Support Costs.** We noted that budget transfers were not always properly approved; budget vs. actual expenses are not adequately monitored; and that the NCCU Banner General Ledger (GL) system has no separate GL Code to capture participant support costs for either the budgeted and actual costs. Therefore, it is difficult for NCCU to monitor the actual outflow of expenses by cost category, especially for participant support costs, against NSF approved award terms. The share of budgeted participant support costs for all 9 active grants on a cumulative basis was \$266,007. Therefore, we questioned the \$266,007 due to the lack of supporting documentation that monitors participant costs by cost category and per award.
- **University & Federal Travel Policies Not Followed.** Our test procedures identified that travel expenses were reviewed by the NCCU travel department for State rules, but not for Federal government rules. NCCU follows NC Office of State Budget Management's (OSBM) travel policies and procedures as its travel policy. During fiscal year ended June, 30 2009, the total travel expenses charged to NSF were \$97,907 amounting to 8.7% of total award expenditures and estimated dollar amount of exceptions aggregated to \$2,621. We questioned the \$2,621 because these costs were in excess of allowable Federal lodging and per diem meal rates, were not properly approved, or were unsupported.
- **Lack of Adequate Control Over Equipment Purchases.** We noted two instances during our testing where NCCU purchased equipment that were not in compliance with the terms of the NSF award: i) 5 Global Positioning System (GPS) for robots (\$34,975) and ii) 12 laptop computers (\$10,496) aggregating to \$45,471.

NCCU shared its communications with NSF for these purchases but no specific approval from NSF was available to evidence compliance with NSF terms. Therefore, we questioned the \$45,471 in equipment costs.

- **Payroll and Fringe Benefits Procedures Not Followed.** The payroll and fringe benefits testing identified multiple instances of payments which were not in accordance with the terms of the NSF approved awards. The aggregate of various such exceptions identified questionable costs of \$10,852. In one instance we noted a discrepancy wherein an employee whose 100% of salary cost is charged to an NSF award, but spent only 70-80% of time on NSF activity as per NCCU time & effort form. Management explained that deliverables from the resource for NSF project were achieved though time spent was only 70-80%. We estimate that the amount of excess charged on account of this salary amounted to \$6,300. Therefore, we questioned a total of \$17,152 in payroll and fringe benefit costs.
- **Inadequate Accounting and Reporting of Indirect Costs.** We noted that the indirect cost basis (i.e. indirect cost base) in the Banner System has been incorrectly set up resulting in incorrect computation and allocation of indirect costs to the NSF Projects. [REDACTED]
[REDACTED] we questioned \$20,089 in indirect costs [REDACTED]
- **Fixed Assets Physical Inventory Deficiencies.** We noted that NCCU during its annual physical inventory count completely omitted one location. This did not result in questioned cost, however lack of proper controls can cause the loss or misuse of NSF supported assets.
- **Lack of Compliance with NCCU's Own IT General Controls.** Our testing identified the following: i) Program changes were not approved by designated personnel; ii) Patches to critical servers were not applied on a timely basis; iii) User accounts of terminated employees were not completely disabled and were found to be partially active; iv) List of authorized users displayed at the data center was not current and did not match the system generated list of users having access to the data center. None of the above resulted in questioned costs related to NSF projects; however the lack of the above IT controls could compromise the systems that are used to administer the NSF projects.
- **Inadequate Internal Controls Over NSF Grant Compliance Requirements for Cost Share and Conflict of Interest.** NCCU has not complied with the 1% cost sharing requirement for the fiscal year ended June 30, 2009 and total cost sharing per our estimate for fiscal year 2009 for the three projects amounts to \$4,193. Our inquiry and procedures indicated that the annual disclosure statements were not completed by the NCCU Principal Investigators for any of the awards under audit for fiscal year 2009.

To create an effective internal control environment over the NSF awards compliance process and to address the exceptions from our testing, we recommend that NSF's Director of the Division of Institution and Award Support (DIAS) address and resolve the following recommendations made to NCCU for its system of internal controls:

- Although NCCU has written policies and procedures for Contracts and Grants, NCCU management should exercise greater control over their budgetary process for monitoring NSF award costs and should adhere to their own policies and procedures regarding monitoring of budgetary activities. Also, NCCU should ensure proper recording and monitoring of participant support costs and determine the extent that participant support costs were incurred from the inception of the NSF awards. NCCU should adjust its claims to NSF accordingly. WS+B recommends creating separate GL accounts in Banner for participant support costs.
- NCCU travel expense review and approval procedures need to be strengthened with documentation in cases where deviations from federal travel guidelines are approved.
- NCCU management should reinforce to the Principal Investigator/ Co-Principal Investigator and Contracts and Grant Office to obtain appropriate approvals from NSF to ensure that assets are purchased in accordance with terms of the NSF approved award.
- NCCU management should strengthen its internal review to ensure that salary, including fringe benefits, charged to NSF Grants is per the NSF proposal/ award or NSF approval is obtained for additional costs. Further, Salary charged to NSF grants should be adjusted for work performed on other non NSF projects.
- NCCU should more closely monitor the rates and bases used for negotiated indirect cost agreements and that they are correctly applied to NSF awards. NCCU should review the indirect cost basis as defined in Banner system under various cost codes (for e.g. S001) and ensure it matches with the basis agreed with the Department of Health and Human Services (HHS). NCCU should review the indirect costs charged to all NSF awards not tested by the auditors and adjust its claims accordingly.
- NCCU should exercise greater care in their annual physical inventory process.
- As regarding the IT controls, NCCU should ensure that i) all program change requests are approved by authorized personnel before being implemented; ii) all critical servers are patched and kept updated as per the corporate policy; iii) the access for terminated employees is revoked on a timely manner from both the Active Directory and Banner System; and iv) the authorized users list displayed on the data center is updated to reflect the current list of authorized users.
- NCCU management should exercise greater control over the tracking and reporting of the required 1% statutory cost sharing. In addition, they should comply with NSF guidelines pertaining to conflict of interest documentation.

We brought all of the findings to the attention of NCCU management during and at the conclusion of our audit for their response. A complete copy of NCCU's response to the audit can be found in Appendix A of this report. A brief summary of NCCU management's response, along with our comments is included after each finding in the section "Findings and Recommendations." An overall summary is provided in the section "Summary of NCCU response and Auditor's Comments."

We have considered the additional documents and explanations provided by NCCU Management and we recommend that the questioned costs and recommendations identified in this report be further followed up and resolved by NSF management. The findings in this report should not be closed until NSF has determined that all the recommendations have been adequately addressed and the proposed corrective actions have been satisfactorily implemented.

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Introduction

National Science Foundation (NSF) engaged WithumSmith+Brown (WS+B) to provide audit support services in conducting a performance audit of internal controls (Audit) over financial compliance, reporting, and administration of NSF awards by North Carolina Central University (NCCU). This Audit is conducted for the Office of Audit (OA) of the National Science Foundation, Office of Inspector General (NSF-OIG).

The overall objective of this performance audit is to assess the adequacy of NCCU's internal control system for effectively accounting for, monitoring, and administering its' NSF awards in compliance with Federal and NSF award requirements. WS+B shall also provide information to identify accounting and administrative internal control weaknesses and to improve NCCU's financial oversight and reporting of NSF award funds.

National Science Foundation

NSF is an independent Federal agency created by the National Science Foundation Act of 1950 (P.L. 810-507) with a goal to promote and advance scientific progress in the United States. NSF funds research and education in science and engineering by awarding grants and contracts to educational and research institutions in the United States. Through grants, cooperative agreements, and contracts, NSF enters into relationships with non-Federal organizations to fund research and education initiatives.

In support of the NSF mission, each year, the NSF-OIG conducts several audits to determine if awardees have adequate internal controls in their financial and grants management systems and whether they are in compliance with the financial and administrative terms and conditions of their award agreement. These audits include grants, contracts and cooperative agreements that are funded by NSF and awarded to (1) educational institutions, (2) state, local, and Federally-recognized Indian tribal governments, (3) hospitals, (4) non-profit organizations, and (5) for-profit organizations. These audits include internal control reviews, incurred costs, indirect cost rates, pre-award proposals, and other specialty audits.

Issued audit reports include findings and recommendations, which are monitored for audit resolution by the NSF Cost Analysis and Audit Resolution Branch (CAAR) of the Division of Institution & Award Support (DIAS). DIAS also monitors the resolution of Office of Management and Budget (OMB) Circular A-133 Audit Reports that were issued by other contractors to awardees for which NSF is the cognizant agency as well as for awardees whose cognizant agency is not the NSF, but where NSF contributed substantial funds

North Carolina Central University

NCCU was established in 1910 and has an enrollment of approximately 9,000 students. NCCU is one of sixteen institutions in the University of North Carolina system. It offers both undergraduate and graduate programs of study. NCCU's Board of Trustees oversees its operations at the institutional level. NCCU's Chancellor and other senior administrators manage the university's day-to-day operations.

The NSF- OIG became aware, via a newspaper article in the Fayetteville Observer in February 2008, of instances of fraud committed by an NCCU official resulting in loss to Federal awards (not NSF awards). The North Carolina Office of the State Auditor (OSA) received an anonymous tip on its hotline and subsequently conducted an investigation which resulted in the prosecution and conviction of that University official. Moreover, while on OSA's website, NSF- OIG noted a

number of other OSA audits on NCCU, which identified other areas in which NCCU's internal controls were inadequate.

Additionally, OIG research revealed that in January 2009, NCCU agreed to repay the U.S. Department of Education \$1.1 million dollars for Federal loans taken out by students at an unauthorized NCCU satellite campus operated in Georgia by a member of the NCCU Board of Trustees. Only a select few individuals attended this private satellite location, which allowed for unsanctioned discounted tuition. That satellite location was also not accredited at the time it issued university degrees to the twenty-five (25) students. The satellite location was closed by the University.

Finally, a financial statement audit under OMB Circular A-133 of NCCU issued by OSA on July 15, 2008 for the year ended June 30, 2007 reported material weaknesses. The material weaknesses included IT system weaknesses such as the ability of multiple employees to log into the system with the same user ID, and the ability of several employees to access forms and security classes even though such access is not required for their jobs, with one of the security classes being purchasing and receiving, in which one individual can create a requisition, process a purchase order and verify the receipt of goods. The other material weaknesses cited in this audit report included deficiencies in financial reporting (misclassifications, under and over reporting of restricted cash by millions of dollars and the lack of preparation of accurate and timely bank reconciliations).

The results of the OSA audits and research conducted by the NSF- OIG, led to the conclusion that NCCU may still have weak internal controls and such an environment may put NSF award funds at risk. NCCU currently has \$6.1 million in nine (9) active grant awards. 48% of total NSF awards from four (4) of the nine (9) awards totaling approximately \$2.9 million, were issued to NCCU by NSF from October 2008 through June 2009. As a result, NSF-OIG engaged WS+B to perform a performance audit of internal controls at NCCU for the fiscal year July 1, 2008 to June 30, 2009.

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.

Findings and Recommendations

Following is a list of project numbers used in this report and corresponding NSF project numbers for reference purposes:

NCCU Project Reference	Corresponding NSF Project Reference
554308	0411529
554309	0457246
554311	0607961
554312	0625092
554310	0631347
554314	0653424
554313	0716348
554317	0811744
554316	0833184

Finding No. 1) Lack of Procedures for Enforcing University's Own Budgetary Policies

Although NCCU has written policies and procedures for Contracts and Grants, covering various processes, including Payroll, Compliance, Time and Effort, and Purchasing, we noted during our Internal Control testing the following exceptions:

- **Process: Contracts and Grants - Budget Transfers Not Properly Approved**

Whenever a budget transfer is required, per internal NCCU guidelines a Budget Transfer Form is prepared which includes details such as Grant Number, "Transfer From" Account Code, Amount, "Transfer To" Account Code and Justification for Transferring the Budget dollars. If a budget needs to be revised or if the budget needs to be transferred from restricted account codes (e.g. Participant Support Costs), prior approval from NSF is required. In addition, when budget transfers exceed 25% of the respective account balance at the time of transfer, NSF approval is sought. The Budget Transfer Form needs to be approved by the PI and his/her Supervisor. The Budget Transfer Form is then forwarded to the Office of Sponsored Research (OSRP) team for review and approval. Once approved by OSRP, the Form is forwarded to the Contracts and Grants team. The Director of Contracts and Grants reviews and approves transfers.

We noted that NCCU had inadequate controls with respect to monitoring their budget transfers of NSF award costs resulting in non compliance with its own internal policies and procedures.

We tested 10 samples for budget transfers and noted a total of six exceptions as follows:

For one of the sample budget transfers (Project 554313), no NSF approval was obtained when \$1,507 was transferred out of budgeted Participant Support Costs into Travel Costs.

In five of the sampled budget transfers made by NCCU, \$35,676 in aggregate did not follow the internal NCCU guidelines of seeking NSF approval when the amount transferred exceeds 25% of the respective account balance at the time of transfer.

The first exception was questioned as part of finding no. 2. The remaining exceptions did not result in questioned costs because the auditors found that, even though NCCU's policy to obtain NSF approval was not followed, the expenses were related to the NSF Projects.

- Process: Contracts and Grants - FFR Reporting - Budget vs. Actual – Expenses are not Adequately Monitored

Per NCCU's current process, at the time of claim for reimbursement from NSF for actual expenses, the Director C&G reviews the FFR report online along with related supporting documents for the various expenses per the Banner GL prepared by the Grant Accountant. As part of this process, the Director of Contracts & Grants verifies that total actual expenses do not exceed total budgeted expense for each award. Once the Director of Contracts and Grants is satisfied on review of the supporting documents including budget vs. actual, she approves the report online and prints the report and signs the first page of the report as evidence of her review.

Administrative Requirements for Grants and Agreements (2 CFR 215) with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Section .51(a) states "Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award."

We noted that NCCU is not adequately monitoring it's budgeted vs. actual expenses resulting in overrun in costs in line items and/or total NSF budgeted costs.

We tested for one calendar quarter eleven (11) samples consisting of nine (9) active and two (2) closed awards and noticed budget vs. actual cost variances as follows:

- a) For three (3) of the grants (554310, 554312 & 554314), we noted that the actual fringe benefit amounts charged to the grants were higher than the budget amount by \$3,851 (554310 - \$ 1,729; 554312 - \$ 1,419; 554314 - \$ 703). In two grants (554312 and 554314) the total actual expense did not exceed the NSF approved amount, however the total actual expenses (\$ 78,297) exceeded the budgeted amount (\$ 75,000) by \$3,297 for one grant (554310), The above exception results in questioned costs totaling \$3,297 related to the NSF Projects as the total actual amount of \$78,297 exceeded the NSF total award of \$75,000 for project 554310. On inquiry, NCCU informed us that the amount of \$3,297 was subsequently refunded by way of adjustment in 2009-10 FFR reporting.

- b) For two (2) of the grants (554309 and 554312), we noted that the actual salaries charged to the grants were higher than the budget amounts by approximately \$ 1,969 (for 554309 - \$1,096; 554312 - \$873).

The above exception did not result in questioned costs related to the NSF Projects because total actual expense for these grants did not exceed the total budgeted amount.

- c) For two (2) of the grants (554309 & 554310), we noted that the actual scholarships / fellowships amounts charged to the grants were higher than the budget amount by \$2,143 (554309 - \$408; 554310 - \$1,735).

The above exception did not result in questioned costs related to the NSF Projects because total actual expense for these grants did not exceed the total budgeted amount.

Recommendation No. 1: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

1.1 NCCU management should exercise greater control with respect to their budgetary controls over NSF award costs and adhere to their own policies and procedures regarding monitoring of budgetary activities. To facilitate review and approval of budget transfers, WS+B recommends enhancing the Budget Transfer Form and including the Total Budget Amount and percentage (%) of transfer, which would remind reviewer / approver to seek NSF approval whenever transfer exceeds 25% of budget line item. Similarly a check box stating whether the amounts are transferred from restricted line items like Participant Support Costs should be included on the Form to enable reviewer to seek NSF approval before approving such transfer.

1.2 Banner should be configured to put on hold all actual amounts that exceeded the Budget and to be approved / rejected by Authorized Individual through Workflow documenting the reason for such approval / rejection.

NCCU Response to Finding No. 1:

In North Carolina Central University's written policy, there is no mention of a requirement to seek prior approval from the awarding agency for budget transfers exceeding 25% of the respective account balance at the time of transfer. Apparently, the former Director of Sponsored Research informed WSB of an NCCU policy of seeking prior approval from the awarding agency for budget transfers exceeding 25% of the respective account balance at the time of transfer, which would result in constant seeking of approval if based on an account balance.

The \$1,507 transfer out of budgeted Participant Support Costs into Travel Costs was made to comply with state reporting guidelines. For grant 554310, the applicable scholarship was adjusted \$3,297 using indirect cost funds during Fiscal Year 2010. Refer to Appendix A for NCCU's complete response.

WS+B Response to NCCU Response:

The control activity of seeking NSF approval by NCCU for budget transfers exceeding 25% of a cost line was disclosed to us by the NCCU process owners, including the Director, Office of Sponsored Research and Contracts & Grants during walkthrough inquiry. Following this, the control activity was included for testing and the resulting failure was shared with NCCU Management. NCCU process owners agreed with test results and agreed to implement a more robust process to strengthen the operation of the control. None of the other findings are part of questioned costs in the report.

Finding No. 2) Lack of Adequate Internal Control for Budgeting and Accounting for Participant Support Costs

- Process: Contracts and Grants – Participant Support Costs not Separately Identified or Monitored in Compliance with NSF Award Terms:

Per NCCU's current process, the Director of the Office of Sponsored Research Programs (OSRP) along with the Principal Investigator (PI) summarize the NSF approved budget data into various cost categories on the "Budget Allocation Form" and assign the respective General Ledger (GL) Code to each individual line item. The data per the form is then entered into the Banner – GL system. The Director of Contracts and Grants reviews and approves this data by signing on the Banner Screen Shot containing the details of the NSF award which is set up to ensure completeness and accuracy.

We noted that the Banner GL system has no separate GL Code for Participant Support Costs to capture the budgeted and actual costs separately thereby making it difficult to monitor the budget vs. actual dollar amounts and ensure that all participant support costs required are actually incurred on the NSF awards.

The share of budgeted Participant Support Costs for all 9 active grants on a cumulative basis was \$266,007.

The NSF Grant General Conditions (GC-1), Article 7 states "Grantee organizations must account for participant support costs separately. Funds provided for participant support may not be used for other categories of expense without the specific prior written approval of the cognizant NSF Program Officer".

We have included in the questioned costs, an amount of \$266,007 representing participant support costs on a cumulative basis, because NCCU did not have an internal system in place to identify and monitor that the actual participant support costs incurred for the various NSF awards are in compliance with the individual award terms.

Recommendation No. 2: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 2.1 To ensure proper monitoring of Participant Support Costs, WS+B recommends creating in Banner separate GL accounts for Participant Support Costs.

2.2 We also recommend that NCCU determine the extent that participant support costs were incurred from the inception of the NSF awards and adjust its claims accordingly based on actuals spent by NCCU on the individual awards and the amount approved by NSF for each award.

NCCU Response to Finding No. 2:

From the inception date of all NSF awards through 6/30/09, NCCU's accounting records and supporting documentation indicate \$215,853 of participant support cost expenditures. For any disbursement, North Carolina Central University maintains supporting documentation for our annual financial audit scrutiny. We have now modified our general ledger to make it easier for outside parties to identify participant support costs. The revised general ledger descriptions will enable NCCU to improve compliance with participant support cost requirements. Refer to Appendix A for NCCU's complete response.

WS+B Response to NCCU Response:

Out of a total budget of participant support costs of \$266,007, NCCU Management provided on 2/26/11 participant cost details for only \$215,853. No explanation was provided by NCCU for the remaining balance of participant support costs in the amount of \$50,154. Further, NCCU Management provided a break down by cost category and did not include the amount spent against individual awards. In the absence of this information by individual award, and considering we have not done any additional procedures on the new information provided by NCCU Management, we could not confirm NCCU's adequacy of internal control for tracking participant cost per NSF award terms or that the \$266,007 were all the participant support costs required and incurred from the inception of the NSF awards. The revisions to General Ledger coding could help to track participant support cost going forward. Nonetheless, we retained the entire amount of budgeted participant cost as questioned cost in this report and recommend that NSF Management pursue this finding as an item for audit resolution.

Finding No. 3) University And Federal Travel Policies Not Followed

- Process: Contracts and Grants – Travel Costs Not Reviewed for Compliance with Federal Regulations

The NCCU Project team submits its request for pre-approval to travel via a "Request for Travel and Travel Authorization Form" which is reviewed and approved by the PI and Contracts and Grants Office for pre-approval. As requests are submitted, the Contracts and Grants Office reviews the travel request and if allowable per the NSF award approves the requests and forwards them to the Travel office. Actual travel expenses along with the supporting documents are reviewed by the travel office staff. If actual travel costs differ from the prior approval then the details are sent to the Department Head / PI / Director Contracts and Grants for approval.

Our test procedures identified that travel expenses were reviewed by the NCCU travel department for State government rules, however detail evidence of compliance with Federal government rules was not available specifically for lodging and meals. Therefore, there is no assurance that all travel costs charged on NSF awards are allowable.

The NSF Grant General Conditions (GC-1), Article 10 states “expenses for transportation, lodging, subsistence and related items incurred by project personnel and by outside consultants employed on the project who are in travel status on business related to an NSF-supported project are allowable as prescribed in the governing cost principles”.

During fiscal year 2009, the total travel expenses charged to NSF was \$97,907 with respect to all of the 9 active grants amounting to 8.7% of total award expenditures \$1,119,675. We tested 25 samples whose total expense aggregated to \$26,159. WS+B noted a total of seven (7) exceptions out of twenty five (25) samples that were tested and per our estimate, the dollar amount of exceptions aggregate to \$2,621.

WS+B observed that three (3) out of nine (9) samples that were tested for lodging expenses, the lodging charges were more than the Federal allowed limits and were pre-approved by the PI and the Contracts and Grants Office. Subsequently these same charges were also approved by the Travel department and reimbursed to the employee. The Federal limits allowed for two of the samples (I0066133 & I0066498) were at \$141 per night but actual lodging expenses were incurred at \$221 on 1 night and \$189 for the remaining nights. For the remaining sample (I0075349) the Federal limit was \$110 per night but actual lodging expenses were incurred at \$314 for the first night and \$144 for the remaining nights.

For three (3) samples out of twenty five (25) samples that were tested for travel expenses, WS+B observed that the actual amounts were higher than the pre-approved amounts; however, there were no approvals obtained from Contracts and Grants Office or respective department heads. In sample (I0077580) the pre-approved amount was exceeded by \$161, for sample (I0077579) the pre-approved amount was exceeded by \$250 and for sample I0075349 the pre-approved amount was exceeded by \$631.

For one (1) sample (I0077649) out of seven (7) samples that were tested for meal per diem expense, we observed that on one of the days of travel one hundred percent (100%) of the per diem was charged instead of seventy five percent (75%), approximately \$24 more than the amount allowed under Federal limits.

For one (1) sample (I0058265) out of twenty five (25) samples that were tested for travel expenses, the amount of expense actually claimed (\$ 2,332) did not match with the supporting receipts (\$ 2,143), a difference of \$188.

The above exceptions results in questioned costs totaling \$2,621 related to the NSF Projects.

Recommendation No. 3: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 3.1 Travel expenses were reviewed by the NCCU travel department for compliance with State government travel rules, however WS+B recommends that the travel department staff be trained on Federal Cost Guidelines applicable for travel.

- 3.2 To facilitate review of travel expenses – WS+B recommends to enhance Travel Pre-Request Form and Travel Reimbursement Form, by including Federal limits for Lodging, Per-Diem, Air Travel (US Carrier) and Ground Travel (Mileage) on the Travel Form. If the approval was provided for more than the allowable limit then reason for such exceptions must be documented by Approver on the Form.
- 3.3 NCCU should adhere to its requirement to approve actual travel that differs from prior approved travel and ensure that the amount claimed matches the supporting receipts.

NCCU Response to Finding No. 3:

NCCU follows NC Office of State Budget Management's (OSBM) policies and procedures which state that OSBM policies for travel take precedence over federal guidelines governing the use of federal grant funds. The \$2,621 of expenses was properly supported, and properly approved per OSBM guidelines and should therefore not be considered exceptions or questioned costs. NCCU will continue to use state rates as required by NC OSBM and allowed by OMB circular A-21. Refer to Appendix A for NCCU's response.

WS+B Response to NCCU Response:

Since NCCU is following State rules and plans to continue to do so, we recommend that NSF Management decide and confirm whether the NCCU policy of following State Rules for Travel Policy is allowable for its federal NSF awards.

Finding No. 4) Lack of Adequate Control over Equipment Purchases

- Process: Purchasing and Disbursements - Equipment not Authorized:

Currently, as per NCCU procedures to purchase a fixed asset included in NSF grant related expenditures, the Director of Contracts and Grants or the Grant Accountant will verify that the purchase request is within budget and approved by the Principal Investigator (PI) or designee, and as per the terms of the NSF grant award and other Federal guidelines as evidenced by online approval. The Purchasing department follows the internal NCCU procedure to buy the items for the approved request.

We noted that purchases of equipment were not adequately reviewed for allowability with respect to the terms of the NSF award/ guidelines resulting in non-compliance to the NSF award.

Total equipment and supplies purchases for the fiscal year 2009 for all the active grants amounted to \$202,736. Our testing consisted of 17 samples (\$101,898) and the details of the two exceptions are as follows:

- a) NSF Grant # 554317

NCCU purchased \$ 93,617 worth of equipment from "Mobile Robots" via Purchase Order number P0019616 dated February 5, 2009. The equipment consisted of 5 pre-pack P3-AT robots for a total of \$ 27,995, 5 GPS systems (related to the robots) for a total of \$ 34,975 and the balance were applicable

accessories. Upon review of the 554317 proposal, it was noted that NCCU was allowed to purchase \$ 93,500 worth of equipment which included robots, accessories and 20 computers. There was no mention of GPS systems.

Specific approval from NSF was not obtained when NCCU bought 5 GPS systems for the robots instead of the 20 computers.

Therefore, we questioned \$34,975 in equipment costs; since the project proposal did not include GPS Robots. The allowability of this amount (\$34,975) needs to be confirmed by NSF.

b) NSF Grant # 554308

NCCU made the following laptop purchases in fiscal year 2009:

[REDACTED]

Per the award proposals, NCCU was allowed to purchase only 20 laptops each fiscal year of grant. Further, upon our physical verification of the laptops, we noted that 12 laptops were available in the department and not issued to the students as proposed by NCCU.

[REDACTED]
dated May 4, 2007 giving permission to add participants to the program. However, the number of students finally enrolled in the program was lower which resulted in reduced scope of the project. This warrants a specific approval from NSF for excess laptops purchased and retained with NCCU and not issued to students.

The above exception results in questioned costs totaling \$10,496 (12 laptops @ \$874) related to the NSF Projects.

Recommendation No. 4: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 4.1 NCCU management should exercise greater control with respect to their budgetary controls over NSF award costs and adhere to their own policies and procedures regarding monitoring of budgetary activities. NCCU should obtain NSF approval for major changes in equipment purchase agreements.
- 4.2 NCCU management should reinforce to the PI/ Co-PI and Contract and Grant Office to obtain appropriate approvals from NSF to ensure that assets are purchased in accordance with the terms of the NSF approved award. NSF approval should be obtained and documented when deviations from the NSF award occurs.

NCCU Response to Finding No. 4:

Regarding the GPS systems, the PI stated the proposal was only an initial estimate and actual cost and configuration of the equipment at the time of order was different. The \$34,975 should therefore not be questioned costs

Regarding the laptops, the PI responsible for the grant indicated that 7 of the 12 laptops in question were ordered for persons who decided not to participate in the 2009 Summer Enrichment Program at the last minute and the additional laptops were used to replace students' computers that either crashed or had damage that usually took longer than a week to repair. In addition, the PI indicated all of the laptops in question were used by Initiatives for Transforming and Sustaining Science, Technology, Engineering and Mathematics (ISSTEM) Program students who were STEM majors. The \$10,496 should therefore not be questioned costs.

In both cases, award interpretation flexibility as circumstances changed is the issue rather than one of budgetary controls. NSF approval was not sought based on award interpretation flexibility. Refer to Appendix A for NCCU's response.

WS+B Response to NCCU Response:

We recommend that NSF Management confirm whether the cost incurred by NCCU without specific NSF approval for the purchase of GPS Robots and additional computers - both not forming part of the original NSF award, is allowable under NCCU's award terms and whether or not such costs should be treated as questionable costs.

Finding No. 5) Payroll and Fringe Benefits Procedures not Followed

- Process: Payroll and Fringe Benefits Claimed in Excess of NSF Approved Amounts are Not Properly Adjusted or Approved

Per NCCU's current process all employees working on the NSF awards are approved (electronic or wet signature) by the following (as applicable): Department Head or Principal Investigator, Dean/Chair, Vice Chancellor, Comptroller and Director of Contracts and Grants. Comptroller's approval is not required for Temporary hourly employees. The Director of Contracts and Grants or the Grant Accountant review the Employment Contracts, "Recommendation to Employ" form, "Work Authorization" form or a similar form for appropriate signatures and they verify if the employee payroll expense can be charged to the grant per the NSF grant award and other Federal guidelines and they sign off on the form to evidence their review. Any salary changes are approved by same process above and also by State authorities, where applicable.

[2 CFR 215] Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C, Section .51(a) states "Recipients are responsible for managing and monitoring each project, program, sub award, function or activity supported by the award."

1) Salaries in Excess of NSF Approved Amounts

Total salary including fringe benefits for the NCCU staff that were charged to NSF awards for fiscal year 2009 was \$390,925. Out of a total of 20 samples we tested for the NCCU staff for salary the following 3 exceptions were noted:

a) Program Manager (NSF Grant [REDACTED])

Salary increased from \$ 52,000 to \$ 63,000 (21%) in fiscal year 2009 as a result of the employee taking a position as Program Manager. Per proposal justification approved by NSF, the allowed annual salary increase was 3%. Further, the \$63,000 paid for the Program Manager appears to be in excess of the proposal limits for this position.

No document evidencing NSF approval for higher salary for the Program Manager position was available.

The above exception results in questioned costs estimated to be \$5,165 related to the NSF Projects.

b) Co-PI (NSF Grant [REDACTED])

An employment contract was in place for \$ 12,000 for the period 5/16/08 - 7/15/08 for the employee. NSF Approved Proposal allowed for 2 calendar months for a total sum of \$ 10,000. Project got extended by a no cost extension until 2010. Per NCCU, the employee was paid \$ 12,000 as follows: \$2,000 in May 2008, two \$4,000 payments in June 2008, and \$ 2,000 in July 2008 resulting in excess of the NSF approved proposal by \$ 2,000 (\$ 12,000 - \$ 10,000).

The above exception results in questioned costs totaling \$2,000 related to the NSF Projects.

c) Post Doctoral (NSF Grant [REDACTED])

The salary approved for Post Doctoral Students is \$ 36,016 for 12 months. The Post Doctoral employee has an employment contract for \$ 39,000 for 12 months resulting in excess payment of \$ 2,984 which NCCU explained to be for fringe benefits.

The above exception results in questioned costs totaling \$2,984 related to the NSF Projects.

2) Fringe Benefits in Excess of NSF Approved Amounts

Total fringe benefits for fiscal year 2009 charged to NSF projects amounted to \$38,747. WS+B reviewed the reconciliation of the benefits statement with the eligibility per the NSF award for all the active NSF projects and noted an exception as follows:

Project 554314 was not budgeted per NSF award for fringe benefits but a sum of \$703 was paid and charged to the NSF grant. This was not an allowable expenditure per the NSF award.

The above exception results in questioned costs totaling \$703 related to the NSF Projects.

3) Time & Effort Not Properly Adjusted or Approved

The "Time and Effort Report" form containing details such as Grant Number, Percentage of Effort, Distribution of Effort and the Month are completed by respective personnel for their labor effort and forwarded to the PI for approval. On a monthly basis, the PI reviews the time and effort report form, certifies the effort by sign-off on the form, and forwards the forms to Contracts and Grants Office. Time and Effort of PI's is reviewed and certified by their respective Supervisors.

We noted that controls surrounding the review and approval of "Time and Effort Report" form needed to be reinforced and appropriate adjustments made (if required) to prevent unallowable expenses being charged to NSF awards.

We tested 17 employees (33 Time & Effort Forms) and noted the following exceptions:

a) Program Manager (NSF Grant # 554308)

On review of the employee's Time and Effort forms from July 2008 to June 2009, it was noted that from July 2008 to December 2008, the employee spent 100% of his time on NSF Grant 554308. From January 2009 to June 2009, he spent 70% to 80% of his time on 554308 and the balance on other non-NSF projects. However his entire salary of \$ 63,000 per year (from September 2008 onward) was charged to NSF and no salary adjustment was made for the months of January 2009 to June 2009.

The above exception results in questioned costs estimated to be \$6,300 related to the NSF projects.

b) Post Doc (NSF Grant # 554313)

On review of the July 2008 Time and Effort Form, it was noted that the form did not have Director of Contracts and Grants or Grant Accountant review and signoff.

The above exception did not result in questioned costs related to the NSF Projects because we confirmed with the PI that the costs were accurate even though the form was not approved.

Recommendation No. 5: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 5.1 NCCU management should exercise greater control with respect to their budgetary controls over NSF award costs and adhere to their own policies and procedures regarding monitoring of budgetary activities. NCCU should obtain NSF approval for payroll costs in excess of the NSF award terms.
- 5.2 NCCU management should ensure that Salary including benefits charged to NSF Grant is per the NSF proposal/ award. Further, Salary charged to NSF Grants should be adjusted for work performed on other non NSF projects.
- 5.3 NCCU management should reinforce to the Contracts and Grant Office the importance of reviewing the employee's Time and Effort Forms per NCCU guidelines.

NCCU Response to Finding No 5:

It is the practice of North Carolina Central University to seek approval from any granting agency to pay excess salaries. One week prior to the start of program, the PI for the ISSTEM Program had to appoint a new program manager as the former manager abruptly resigned. Given the lateness of the resignation, an email notification was sent to NSF of this change. The new program manager was previously the Instructional Technology and Banner Specialist to ISSTEM. A stipend of \$10,167 was added to his prior salary to match the salary of the former program manager. The former program manager's position had previously been approved by NSF.

The finding indicated that an employee only spent 70 – 80% of their time on NSF activity, but 100% of the salary was charged to an NSF award. The employee worked full-time on the NSF activity and additional time after hours on a nonrelated project. As more than 100% effort cannot be shown on the time and effort form, the 20 – 30% was reported as a means to document the overtime on the nonrelated activity. As an exempt employee from the State Personnel Act and the Federal Fair Labor Standards Act pertaining to overtime compensation, the employee did not receive additional compensation for the overtime and was merely trying to show the 20 – 30% as in kind. Going forward, we will address how overtime effort for employees is captured.

Lastly, Management did not state that deliverables for the NSF project were achieved by the employee expending 70 – 80% of his effort on the project, as reported in the Executive Summary. Therefore, the \$6,300 is not an excess charge.

WS+B Response to NCCU Response:

NCCU did not provide us with a copy of the email notification it sent to NSF regarding appointment of a new program manager. Also, NCCU did not provide evidence showing the approval from NSF for the former program manager position's salary. Further, while we understand that the employee in question spent more than 100% of his time during the contract period working on projects, it appears that NCCU Management normalized his total time to 100% and proportionally included 70-80% towards the NSF project, with the balance towards

other Projects. Therefore, our question still remains unanswered as to why NCCU charged the entire salary cost of this employee to the NSF award. We therefore retain the entire salary amount as questioned cost and suggest NSF address this issue as part of the audit resolution.

Finding No. 6): Inadequate Accounting and Reporting of Indirect Costs

- Process: Contracts and Grants - Indirect Costs Incorrectly Calculated and Claimed

NCCU has a negotiated agreement with the US Department of Health and Human Services (HHS) as their cognizant agency for indirect cost rate determination. The rates per the negotiated agreement are to be utilized for each Federal award project including NSF. The Director of the Office of Sponsored Research negotiates the rates with HHS and the approved indirect cost rates table is provided to the Contracts and Grants Office to load into the Banner system. The Director of Contracts and Grants reviews the NSF proposal and where applicable approves the indirect rates to be utilized on the award in the Banner System (online) to be applied to the various projects. Based upon the set-up criteria the indirect costs are computed by the Banner system for the project. We noted during testing that indirect cost basis in the Banner System has been incorrectly set up resulting in incorrect computation and allocation of indirect costs to the NSF Projects.

[REDACTED]

[REDACTED] resulted in questioning a net \$20,089 in indirect cost charges [REDACTED]

Recommendation No. 6: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 6.1 NCCU should more closely monitor the rates and bases per their negotiated indirect cost agreement when applying these rates and bases to their NSF awards.
- 6.2 NCCU should review indirect cost basis as defined in Banner system under various cost codes (for e.g. S001) and ensure it matches with the basis agreed with HHS.
- 6.3 In a Multi-Year contract, NCCU should ensure any new rates agreed with HHS are brought to the notice of NSF and based on NSF approval apply the revised rates.
- 6.4 NCCU should determine if it correctly charged indirect costs during the duration of the awards for the remaining five NSF awards not tested and make adjustments to its claims accordingly.

NCCU Response to Finding No. 6:

NCCU concurs with finding no. 6.

WS+B Response to NCCU Response:

No change in questioned costs as noted in the finding.

Finding No. 7) Inadequate Compliance with University's Own Background / Reference Check Policies and No Tracking of Sick Leave for Temporary Employees Performed

- Process: Payroll and Fringe Benefits – New Hires Lacked Background Reference and Degree Certification Check

Any new hire occurs only after a process of interviewing of potential candidates and approvals from various NCCU authorities (PI, Dean, Comptroller and Director of Contracts and Grants). A background/reference check is performed by the respective departments for EPA (Exempt from State Personnel Act) employees while for others it is performed by HR on new hires before offer of employment. The Director of Contracts and Grants or the Grant Accountant will verify the budget code, availability of funds, proper signatures and whether the position is allowed per the NSF grant award in conjunction with other applicable Federal guidelines and signoff on the "Recommendation for Personnel Action" form to evidence the review. During fiscal year 2009, the Payroll Manager would review the payroll calculation spreadsheet for the mid-month cycle along with supporting documentation on a periodic basis and sign off to evidence his review.

We noted that for one new hire as a Research Associate (new hire in fiscal year 2009, NSF Grant 554316), there was no evidence provided to us of a background / reference check and a degree certificate check performed by NCCU. The lack of proper background reference and degree checks could allow unqualified or inappropriate staff to be assigned and charged to NSF projects.

- No Tracking of Sick Leave for certain Employees Performed

It was also observed that the NSF award employees (non-administrative), Post Doctorate Students, Graduate Assistants and Students receiving Stipends do not accrue leave and thus no tracking of sick or vacation leave is done. Thus, a risk exist that salary reductions will not be made in case an employee takes significant leave. (Note: Temporary employees paid on an hourly basis do not require sick or vacation leave tracking since they are paid only for the actual hours worked.)

Recommendation No. 7: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 7.1 NCCU Management should reinforce with staff that background / reference checks, along with degree certificate checks, be performed as required and that proper documentation relating to these checks is maintained.
- 7.2 NCCU Management should centralize the performance of the background / reference check for all employees. These checks can be performed by HR department for all new hires and relevant documents be sent to Director of Contracts and Grants for her records.

7.3 NCCU Management should put a mechanism in place to track Sick / Vacation leave taken by an employee [such as NSF award employees (non-administrative), Post Doctorate Students, Graduate Assistants and Students receiving Stipends] for a significant period of time. PI should inform the HR department if such an event takes place and ensure that appropriate payroll deductions are made.

NCCU Response to Finding No. 7:

Background checks, reference checks and degree certificate checks are performed for employees subject to the State Personnel Act. Reference checks and degree certificate checks are performed for employees exempt from the State Personnel Act. Proper documentation is maintained for these checks. One exception was found in WSB's sample of approximately 12 employees. Each hiring department performs reference checks and forwards the results to a central location - Human Resources. Human Resources reviews the information and requests changes and additional information from the hiring department as needed. Background checks for employees subject to the State Personnel Act is a centralized process performed by Human Resources. As this information is centrally located in Human Resources, NCCU does not see the need for it to be forwarded to the Director of Contracts & Grants.

NCCU tracks sick / vacation leave based on state employee class. Certain classes of state employees are not eligible to earn leave; it is therefore not tracked for those types of employees. Non-administrative exempt from the State Personnel Act employees, Post Doctorate Students, Graduate Assistants and Students receiving work based stipends do not earn leave. They are all compensated based on the completion of the work product or deliverable and not based on hours worked. The concept is similar to that of someone performing professional services. They may quote a price for completing a certain task. If they complete the task in 40 hours, 90 hours or 30 hours, the compensation is the same per the terms of the agreement. If the work product or deliverable isn't completed, the department would inform Contracts & Grants and/or Human Resources. The aforementioned employee classes' pay would then be adjusted as instructed by the department.

WS+B Response to NCCU Response:

Regardless of where the checks are performed, NCCU must address the need to maintain copies of the background, reference and degree certificate checks (as applicable) and related documentation. Tracking of sick/ vacation leave should be performed by NCCU for all categories of employees, but especially for those employees who work on NSF and federal awards. It is our conclusion that NSF management is in the best position to decide if compensation based on a deliverable is allowable. Note that there were no questioned costs related to this finding.

Finding No. 8) Fixed Assets Physical Inventory Deficiencies

- Process: Fixed Asset – Annual Physical Verification - Missed a Department During the Inventory Count and Failed to Report a Missing Item as Stolen

A physical inventory of capitalized fixed assets as well as inventory items is taken annually. As a policy, someone independent of the custody of the asset performs the

count. For the year ended June 30, 2009 NCCU contracted with West Staff Inc. to perform an annual physical count of fixed assets. Prior to beginning the physical count a schedule is prepared listing Building Code, Building Name, Date and time when the counts will be performed. On an annual basis, the Reconciliation / Fixed Asset Accountant reviews the physical count results as uploaded in the system and reviews the list of missing assets. Employees who discover that property has been stolen are required to report the theft to their supervisor. The supervisor is required to notify both Campus Police and the Fixed Asset Office. The stolen assets will be retired in the Banner system through Journal Entry.

During testing we noted that NCCU due to oversight failed to include all the locations during physical count procedure.

We tested the physical count documents performed during May 2009 and noted the following exceptions:

- a) The asset with tag #19014 was not included in physical inventory count. Upon inquiry, the Fixed Asset Accountant informed us that one of the locations (Biology Building) was completely omitted from the Fixed Asset Count. After our inquiry the inventory of the assets at the Biology Building was performed by the Fixed Asset Team to verify their existence. The Fixed Asset Team provided us with pictures of the sampled asset as evidence of its existence and we physically verified the existence of the asset.

There was one laptop item noted as stolen from our physical verification of five items, in the physical count results, whose original purchase price is \$965. Upon inquiry we were informed that the student could not return the laptop as it was stolen. No report evidencing the filing of complaint with the police for the stolen laptop was provided.

The above exceptions results in questioned costs estimated to be \$965 related to the NSF Projects. Failing to adhere to NCCU's policies concerning fixed assets can cause the loss or misuse of NSF supported assets and adversely affect the ability of meeting NCCU's programmatic objectives.

Recommendation No. 8: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

- 8.1 NCCU should exercise greater care in their annual physical inventory process. NCCU should maintain a checklist containing all locations where physical counts need to be performed and an authorized person should review this checklist before and after completion of physical counts, to ensure completeness in physical verifications.
- 8.2 In addition, NCCU should exercise greater care when loaning laptops to students to ensure their prompt return and should follow-up on any discrepancies in the inventory count and adhere to their own internal control policies and procedures related to reporting and handling a theft.

NCCU Response to Finding No. 8:

North Carolina Central University has a very comprehensive inventory system. We hire extra temporary workers annually to assist with inventory taking; therefore, we have independent parties counting and identifying capital inventory. Additionally, we have a complete listing of asset locations. A review of the inventory is performed daily by the Fixed Asset/Reconciliation Office Supervisor.

The audit sample consisted of 52 items. The one item not inventoried was the result of an entire building not being accessible due to a complete renovation of the building in the prior year. This exception was an isolated event.

The stolen laptop was reported to Campus Police. A copy of the police report was provided. The \$965 should therefore not be a questioned cost.

WS+B Response to NCCU Response:

We believe that NCCU's omission of performing a complete inventory verification of an entire location is due to a failure of internal control to ensure the completeness of the physical inventory. NCCU's inventory process omitted a whole location and should not be categorized as an isolated incident. As noted in our recommendation, NCCU should strengthen its annual physical inventory process.

Further the police report for the stolen laptop with a purchase cost of \$965 was provided by NCCU at the time of responding to the draft report (02/26/11). We have reviewed the police report and noted that the laptop was stolen from the student custody. Consequently we removed the \$965 from questioned cost.

Finding No. 9) Lack of Compliance with NCCU's Own IT General Controls

- Process: IT General Controls - Program Development and Changes – Unapproved Changes and Patches not Timely Applied

- 1) Per current process, all program changes are documented via a RFC (Request for Change) and require an approval from the Director of Enterprise Application Services before the program changes are moved to the production environment.

In the 4 samples we tested for program changes the following exception was noted:

- For RFC-702 - the operating system (OS) update "SUNWeu80s" was installed on the production server - Neptune on 03/04/2010. The corresponding ticket RFC-702 was created on 03/09/2010 and does not show a formal approval by the Director - EAS as required.
- 2) Per current process, in case of the critical servers, once every two months patches to be applied are identified and verified that they were tested in the test environment. Then after notifying the data owners, a downtime is scheduled and the patches are applied.

In the 3 samples we tested for application of patches the following 2 exceptions were noted:

- The server INB1-A was last patched on 9/23/2009 and
- The server SSB01 was last patched on 11/1/2009.

The patch level for the 2 sampled servers was not up to date (within 2 months) as required by the control. This appeared to be due to an oversight on the part of the person performing the control.

- Process: IT General Controls - Logical and Network Security – Terminated Employees' User Accounts Not Completely Disabled

Per current process for employee terminations, HR and/or someone from the user's department submits a request to the ITS team (AD) to revoke access. This request may be submitted via email or the helpdesk system. Depending upon circumstances, the user's account is disabled immediately or at the effective termination date. The account is then moved to a folder called "Purgatory". The helpdesk system automatically escalates open tickets to ensure that the required action is taken and the ticket closed.

In the 2 samples we tested for terminations the following 2 exceptions were noted:

- Termination of Director Disbursements (5/31/2010) - we found that while her Banner system account was deleted, her Active Directory account was not deleted and was found to be active at the time of the testing on 06/14/2010.
- Termination of Director of Office of Sponsored Research (1/25/2010) - we found that while his Active Directory account was disabled, his Banner account was not deleted and was found to be active at the time of the testing on 06/14/2010.

For both the samples that were tested for terminations, user accounts were not completely disabled and were found to be partially active.

- Process: IT General Controls - Physical Security – Authorized User List for Access to Data Center Was Not Current

Per current process, the data center has 2 points of entry – "Door 1" having a card based access control system and "Door 2" having a physical door lock /key based system. Only authorized users have been provided access to the Data Center. The physical keys for "Door 2" are also provided to only authorize users and the list is displayed on the door.

In the test of access to data center the following minor exception was noted due to oversight on the part of the person performing the control.

The list of authorized users displayed at the data center is not current and does not match the system generated list of users having access to the data center. Inquiry with the Director - EAS confirmed that each of the users appearing on the system generated access list needs access to the data center.

As the above exception does not result in a direct risk of unauthorized access, we consider this to be a minor exception.

None of the above exceptions resulted in questioned costs related to the NSF Projects, however the lack of the above IT controls could compromise the systems that are used to administer the NSF projects.

Recommendation No. 9: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

NCCU should exercise greater care in their controls over the IT system and perform the following control activities as designed:

- 9.1 Ensure that all program change requests are approved by Director – EAS before being implemented in production environment. Someone of authority should be tasked with the responsibility of ensuring that program changes are not allowed to be moved into production without the required approval.
- 9.2 Ensure that all critical servers are patched and kept updated as per the corporate policy.
- 9.3 Ensure that the access for terminated employees is revoked on a timely manner from both the Active Directory and Banner System.
- 9.4 Ensure that the authorized users list displayed on the data center is updated to reflect the current list of authorized users who have access to the data center.

NCCU Response to Finding No. 9:

- 1) The change management system allows ITS senior management to give verbal approval so that services can be restored.
- 2) At the time of the noted exception, NCCU was in the process of upgrading from Banner 7.X to 8.X. ITS evaluation determined the patches in question may have adversely affected the production systems if installed prior to the completion of the upgrade. All patches were applied after the Banner upgrade was completed and all systems had been completely tested and verified.
- 3) When a user's Active Directory account is disabled, it is no longer possible for the user to access the Banner system. It is important to note that NCCU uses a multi-level account security. Banner access is NOT possible without Active Directory (AD) access. For both of the samples listed in this finding, the multi-level security did what it was designed to do.
- 4) The paper listing that was posted has been removed and electronic listing implemented.

Refer to Appendix A for NCCU's complete response.

WS+B Response to NCCU Response:

NCCU Management's response to recommendation 9.3 does not address the risk of unauthorized access to the Banner system by an internal NCCU user. Thus, if the AD account of a terminated user is disabled but his Banner account is not disabled, there exists a risk of unauthorized access to the Banner system by an internal NCCU user using his own AD account and the terminated user's Banner account. We have not performed any additional procedures to verify NCCU management claims about remedial actions instituted and recommend that NSF Management pursue this issue as part of its audit resolution. However, none of our findings resulted in questioned costs.

Finding No. 10) Inadequate Internal Controls over NSF Grant Compliance Requirements for Cost Share and Conflict of Interest

- **Process: Compliance - Cost Sharing – One Percent Cost Share Requirement Not Met**

We reviewed the compliance by NCCU with respect to the cost sharing requirement of the awards centered on the 1% statutory requirement per the NSF Grant Policy Manual Section 330 since there is no other cost sharing required/budgeted in any of the awards under audit. We noted the elimination of the statutory 1% requirement as a result of NSF's issuance of the revised Grant General Conditions (GC-1) effective June 1, 2007. Per a summary of the significant changes to the GC-1 published by NSF and posted to their website in May 2007 the following explanation was provided addressing the elimination:

“Elimination of the statutory 1% cost sharing requirement. In accordance with prior Congressional requirement, NSF required that each awardee share in the cost of research projects resulting from unsolicited proposals. The appropriations providing funds to NSF no longer contain this language and therefore, the statutory cost sharing requirement of 1% is eliminated.”

However the following awards started prior to June 1, 2007 and, therefore, are required to provide the 1% statutory cost sharing discussed above:

- 554311 (award GEO-0607961) (Fiscal year 2009 Actual costs of \$20,091 and required Cost sharing of 1% of \$201)
- 554308 (award HRD-0411529) (Fiscal year 2009 Actual costs of \$306,029 and required Cost Sharing of 1% of \$3,060)
- 554312 (award HRD-0625092) (Fiscal year 2009 Actual costs of \$93,240 and required Cost Sharing of 1% of \$932)

Per our discussion with the Director of the Office of Sponsored Research, NCCU has not complied with the 1% cost sharing requirement for the fiscal year ended June 30, 2009 and total cost sharing per our estimate for fiscal year 2009 for the three projects amounts to \$4,193. NCCU should be able to determine the dollar amount of cost sharing for all NSF projects that were prior to June 1, 2007 cut-off and make adjustments to its claims accordingly.

- Process: Compliance - Conflict of Interest - Lack of PIs Maintaining Annual Disclosure Statement Forms

We inquired as to NCCU's compliance with NSF Proposal and Award Policies and Procedures Guide, Part II Award and Administration Guidelines (AAG), Chapter IV (A), Conflict of Interest Policies as they pertain to the Principal Investigators on the NSF awards.

Our inquiry and procedures indicated that the annual disclosure statements were not completed by the Investigators for any of the awards under audit for fiscal year 2009. In addition, the University's policies encompass the majority of the NSF policy requirements but do not reference the NSF policy requirement regarding notification of NSF's Office of the General Counsel when appropriate to keep them informed if the institution finds it is unable to satisfactorily manage a conflict of interest resulting in non-compliance with NSF policy.

Recommendation No. 10: We recommend that the Director of NSF's Division of Institution and Award Support address and resolve the following recommendations for implementation by NCCU:

NCCU management should exercise greater control over the tracking and reporting of the required 1% statutory cost sharing. In addition, they should comply with NSF guidelines pertaining to conflict of interest documentation.

NCCU Response to Finding No. 10:

The non-compliance with the 1% cost share requirement stems only from NCCU's interpretation of the federal abolishment of that requirement in 2007. NCCU interpreted the abolishment to mean that from the date of the 2007 abolishment forward, the 1% cost share requirement no longer applied. WSB's position is that for awards received prior to the 2007 abolishment, for which funds are still being received, the 1% requirement still applies post 2007.

NCCU has now implemented a process to ensure that annual disclosure statements are completed by all Principal Investigators on all NSF awards.

WS+B Response to NCCU Response:

There is no change in our position as it relates to the 1% cost sharing requirement. We are encouraged that NCCU has now implemented a process to ensure annual disclosure statements are completed but we have not done any additional procedure to test the new claims of NCCU Management. There is no change in questioned costs as noted in the finding.

Summary of NCCU Response and Auditors' Comments

In responding to the draft report on February 26, 2011, NCCU management was in agreement with only Finding # 6 related to Inadequate Accounting and Reporting of Indirect Costs from our total ten findings included in the draft report. Three of the ten findings did not involve any questioned costs, and NCCU provided responses including new procedures implemented to address internal control observations from our report. In respect of the balance six findings, NCCU provided additional explanations and new information. WS+B reviewed NCCU's responses and in one case (related to questioned costs of \$965 under Findings No. 8 - Fixed Asset Physical Inventory Deficiencies) where documentary evidence was provided, we agreed with NCCU and accordingly reduced the questioned costs. In all other cases, NSF needs to review and conclude as to the allowability of questioned costs wherever noted in the report. WS+B breakdown of \$351,340 in questioned costs (including questioned participant support costs) and \$4,193 in questioned cost sharing is as follows:

Finding #	Finding Description	WS+B Questioned Costs	Comments
1	Lack of Procedures for Enforcing University's Own Budgetary Policies	\$0	NCCU should strength its controls and follow its own policies and procedures.
2	Lack of Adequate Internal Control for Budgeting and Accounting for Participant Support Costs	\$266,007	1) NCCU indicated that \$215,853 were spent on participant support costs, however, no breakdown of the amount spent by awards was provided to assess the compliance with specific individual awards. 2) No explanation was provided for the balance \$50,154. As a result of (1) & (2),WS+B retained \$266,007 as questioned costs and recommends that NSF follow up as an item for audit resolution
3	University & Federal Travel Policies Not Followed	\$2,621	Since NCCU is following State rules as per A-21, WS+B recommends that NSF follow up as an item for audit resolution.
4	Lack of Adequate Control over Equipment Purchases	\$45,471	WS+B recommends that NSF follow up whether the cost incurred by NCCU without specific approval on purchase of GPS Robots and additional computers - both not forming part of original award is allowable.

5	Payroll and Fringe Benefits Procedures not followed	\$17,152	WS+B recommends that NSF follow up as an item for audit resolution.
6	Inadequate Accounting and Reporting of Indirect Cost	\$20,089	NCCU concurred with the questioned cost.
7	Inadequate Compliance with University's Own Background / Reference Check Policies	\$0	NCCU should strengthen its compliance function and track sick/ vacation for all categories of employees. WS+B recommends that NSF follow up if compensation based on deliverables vs. hours worked is allowable.
8	Fixed Assets Physical Inventory Deficiencies	\$0	Based on NCCU response on the draft report and additional documentary evidence provided, WS+B removed the \$965 questioned costs.
9	Lack of Compliance with NCCU's Own IT General Controls	\$0	NCCU Management's response does not completely address the identified risk of unauthorized access to Banner GL system. However, WS+B recommends that NSF review and follow-up NCCU's claims of remediation.
	TOTAL COSTS QUESTIONED	\$351,340	
10	Inadequate Internal Controls over NSF Grant Compliance Requirements for Cost Share and Conflict of Interest	\$4,193	WS+B recommends that NSF follow up as an item for audit resolution.
	TOTAL COSTS AND COST SHARE QUESTIONED	\$355,533	

NCCU has indicated in its response that it has accepted \$70,928 of questioned costs and none of the \$4,193 in questioned cost sharing. NCCU has not provided details of the breakdown of \$70,928.

In addition, NCCU responded to the Executive Summary of the report in Appendix A. NCCU noted that NCCU was audited by NSF in spite of the fact that North Carolina Central University latest issued audit by the Office of State Auditor for 2009 reported no material weaknesses in internal control. We disagree with this statement as the performance audit was instituted in November 2009. The 2009 state auditor report was dated June 22, 2010 and thus was not available to NSF at the time the performance audit was performed (Jan to June 2010).

Further, NCCU commented that the audit performed does not mention the limitations of a system of internal controls but identifies questioned costs and then basically claims that their questioning of costs is equivalent to a control weakness. We disagree as this performance audit was primarily instituted to evaluate NCCU internal controls and it was the weakness in internal controls that subsequently resulted in questioned costs and not vice-versa.

STATUS OF PRIOR AUDIT FINDINGS

During our audit, we performed a follow up on the internal control deficiencies and noncompliance with laws, regulations, contracts, grant agreements or other matters identified in various audit reports issued by OSA from 2008 onwards. Further we noted that the Financial Statement Audit Report (A-133) for the year ended June 30, 2009 did not report any deficiencies.

The status of the deficiencies identified in various reports from 2008 is as follows:

REPORT 1

Financial Statement Audit Report (A-133) for the year ended June 30, 2007 prepared by the Office of the State Auditor dated June 13, 2008

Findings:

1. Deficiencies in Financial Reporting & Bank Reconciliation:

- *The financial statements prepared by the University contained misstatements that were corrected as a result of State audit.*
- *The University did not prepare bank reconciliations accurately or timely during our audit year. This increases the risk that an error or misappropriation could occur and not be detected in a timely manner.*

WS+B Comment: These deficiencies do not impact NSF Grants directly and thus were not included in our NSF performance audit scope. However, WS+B reviewed the amounts reported to NSF and verified the following:

- FFR Reporting spreadsheet is prepared by Grant Accountant and reviewed and approved by Director Contracts and Grants. The balance on the spreadsheet was traced to the FFR report and GL. No significant variances noted.
- Reviewed sample of drawdown amounts and traced them to the Bank Statement and GL. No significant variances noted.

In addition, WS+B noted that this deficiency was not reported in the State Auditor Audit Report for the year ended June 30, 2008.

2. Information System Access and Security needs to be strengthened: *The University has weaknesses in assigning information system access rights and security classes, as well as the monitoring of information technology activity. These deficiencies could result in unauthorized or inappropriate transactions.*

State Auditor Recommendation: The University should limit system access rights to ensure that employees are assigned the least amount of system access necessary to perform their job. Adequate segregation of duties should be maintained. System access rights should be reviewed on a regular basis and the Information Technology Manager's activity should be monitored.

NCCU Response as stated in audit report: The University concurs. The University has implemented a process whereby monthly security reports of user access are provided to the functional areas for review. Additionally, the University underwent a security assessment by an external technology firm to identify areas for improvement. The University is also monitoring all Banner activity of the IT staff, including the Database Administrators via logs, which is accessible only to the IT Security Officer and the Chief Information Officer. The activity of the Information Technology Manager is being monitored.

WS+B Comment: Refer to WS+B comment under "Report 2 – Finding # 2".

3. *Untimely Notice to Lenders of changes in Student' status:* *The University did not provide student financial aid lenders with timely notice when students withdrew from the University.*

WS+B Comment: This deficiency does not impact NSF Grants and was not included in our NSF performance audit scope.

REPORT 2

Financial Statement Audit Report (A-133) for the year ended June 30, 2008 prepared by the Office of the State Auditor dated March 17, 2009

Findings:

1. *Deficiencies in Payroll Processing:* *The University paid several employees incorrectly during the year. We identified \$13,383 in salary overpayments and \$6,217 in salary underpayments.*

State Auditor Recommendation: The University should take the steps necessary to ensure that employees are paid in accordance with their approved salaries and to review and correct prior payroll errors that resulted in over/under payments to employees.

NCCU Response as stated in audit report: We concur. The University has stabilized personnel in the Payroll Office, re-organized the Human Resources function, and is reviewing employment/payroll practices.

WS+B Comment: The University has stabilized personnel in the Payroll Office. All Payroll personnel are permanent employees and have been performing the payroll function at NCCU for the past 1-2 years. HR Department is also comprised mainly of permanent employees.

The Payroll office has instituted controls to detect instances of over/ under payment. The Payroll calculation spreadsheets are reviewed for accuracy by the Payroll Manager or another person who did not prepare the spreadsheets. According to the University, it is currently working to automate the payroll processing by moving towards a Banner supported system. Banner is the University's Financial Record / General Ledger System.

However, we noted three instances (out of 20 samples tested) in which the amount paid to an employee was in excess of the NSF Proposal/ Award, though the amounts paid matched the approved employment contracts. Further, we tested 100% of Fringe benefits paid out of NSF Grants and noted that Fringe benefits of \$703 (out of a total of \$ 38,747 for the year 2008-09) were paid out of NSF Grant which was not allowed per the respective NSF Proposal/ Award. We also tested 17 employees Time and Effort approvals (33 Forms) and noted 2 exceptions. In

the first exception the employee's entire salary was charged to NSF and no salary adjustment was made for months where the employee's did not spent 100% of the time on NSF grant. Second exception related to non approval of Time & Effort Form.

Refer to the Findings and Recommendations section of this Report – Finding # 5 for more details.

2. Information System Access and Security needs to be strengthened: *The University had weaknesses in the information system access rights, the security classes, and the monitoring of information technology activity during our audit period. These could result in unauthorized or inappropriate transactions.*

State Auditor Recommendation: The University should continue in their efforts to limit system access rights to ensure that employees are assigned the least amount of system access necessary to perform their job and that adequate segregation of duties is maintained. System access rights should be reviewed on a regular basis.

NCCU Response as stated in audit report: We concur. The University has put considerable efforts into strengthening controls over security access and will continue to ensure that access is granted to persons commensurate with job duties.

WS+B Comment: The University has strengthened existing controls and implemented new controls over the process of granting and monitoring security access to the network and key information system (Banner). However we found weaknesses in the operating effectiveness of some of these controls that relate to removal of access after termination of staff. For both the samples that were tested for terminations, user accounts were not completely disabled and were found to be partially active.

Refer to the Findings and Recommendations section of this Report – Finding # 9 for more details.

3. Deficiencies in managing student accounts: *The University did not properly manage students' accounts. As a result, ineligible students were allowed to live on campus, students were improperly allowed to register for classes, and the accounts receivable balance was misstated.*

WS+B Comment: This deficiency does not directly impact NSF Grants. However, on inquiry with the PI/ Co-PI, we were informed that the University has developed a framework defining the eligibility criteria for students to join programs funded by NSF and monitoring of the same. The framework was not tested as this does not directly impact the NSF awards, therefore not included in the scope.

REPORT 3

Financial Statement Audit Report (A-133) for the year ended June 30, 2009 prepared by the Office of the State Auditor dated June 22, 2010

Findings:

No Deficiencies were noted in the report.

WS+B Comment: WS+B met with the State Auditors in January 2010 and reviewed their work papers for 2008-09 fiscal year audits. We noted that the control issues raised in the 2006-07 and 2007-08 reports had minimal impact on the audit scope of the WS+B 2008-09 performance audit. Further, no issues were noted on the review of the work papers.

REPORT 4

Statewide Federal compliance audit procedures for the year ended June 30, 2009

Background:

The Office of the State Auditor performed audit procedures at NCCU as part of their audit of the State of North Carolina's compliance with the types of requirements described in the OMB Circular A-133 Compliance Supplement that are applicable to each of its major programs for the year ended June 30, 2009. The audit results were in relation to the audit scope at the University and not to the State of North Carolina as a whole.

Findings:

1. Untimely notice to lender of changes in students' status - The University did not provide student financial aid lenders timely notice of students who graduated or ceased enrollment at the University. State Auditors examined the notifications for 30 students who graduated or ceased enrollment from the University and identified seven instances where the University failed to provide timely notice. The seven notifications were four to 38 days late.

Federal Award Information: Award # P268K090326; Award Year July 1, 2007 to June 30, 2008

State Auditors Recommendation: The University should improve internal control to ensure timely notification of changes in student status.

NCCU Response as stated in audit report: The University concurs with the audit finding and recognizes the importance in strengthening controls pertaining to reporting graduating students to the National Student Clearinghouse. We began reporting degree files every two weeks and once monthly thereafter to the National Student Clearinghouse with the December 2009 graduating class. Every effort will be made going forward to make absolutely sure that each student will be reported accurately and timely to the National Student Clearinghouse.

WS+B Comment: This finding did not impact NSF Grants and thus it was not included in our NSF performance audit scope.

REPORT 5

Special Review by the Office of the State Auditor (Feb 2008)

Background:

An allegation was received through the State Auditor's Hotline concerning improper payments made by the North Carolina Central University (University) Assistant Provost and Associate Vice- Chancellor of Academic Affairs (Assistant Provost). The State Auditor's review of the allegations included the following procedures:

- Examination of checks, supporting documentation, and accounting records.
- Examination of graduate assistant contracts.
- Examination of federal grant proposals, awards, and reports.
- Interviews of current and former North Carolina Central University employees and students.
- Interviews of individuals external to North Carolina Central University.
- Examination of applicable federal, state, and North Carolina Central University policies and procedures.

The review was conducted pursuant to G.S. 147-64.6(c)(16) rather than a financial statement audit or review.

Findings:

1. The Assistant Provost improperly authorized payments of Federal Grant Funds. The Assistant Provost inappropriately authorized graduate assistant contracts and honoraria for unauthorized individuals.

State Auditor Recommendation: The University should implement administrative controls to ensure funds are used according to federal, state, and local funding statutes and procedures. A review of the payment authorization and grant administration process should also be performed. The University should immediately begin procedures requiring the repayment of these funds by the Assistant Provost.

NCCU Response as stated in audit report: The University will review its procedures to ensure that we are in compliance with federal and state regulations and where appropriate, make the necessary adjustments to further reduce the possibility of fraud. Consistent with state statutes, the University will require the Assistant Provost to repay the funds.

WS+B Comment: On review of the University's payroll process, we noted that there exists proper segregation of duties starting from the approval of employee employment contract, submission of the Time and Effort forms to the final disbursement to the employee. Proper segregation of duties significantly reduces the risk of collusion. In addition to the PI, all Graduate Assistant contracts have to be approved (electronic or wet signature) by the following: Dean, Vice Chancellor, Comptroller and Director of Contracts and Grants or Grant Accountant. Further the Director of Contracts and Grants in her review verifies if the employee payroll expense can be charged to the Grant per the NSF grant award and other federal guidelines. Time and Effort forms are approved by the Director of Contracts and Grants or Grant Accountant in addition to the PI. Payments made through Payroll are reviewed by the Payroll Manager or designee while payments made through Accounts Payable are reviewed by the AP Manager.

However, we noted three instances (out of 20 samples tested) in which the amount paid to an employee was in excess of the NSF Proposal/ Award, though the amounts paid matched the

approved employment contracts. Further, we tested 100% of Fringe benefits paid out of NSF Grants and noted that Fringe benefits of \$703 (out of a total of \$ 38,747 for the year 2008-09) were paid out of all 9 active NSF Grants which was not allowed per the respective NSF Proposal/ Award. We also tested 17 employees Time and Effort approvals (33 Forms) and noted 2 exceptions. In the first exception the employee's entire salary was charged to NSF and no salary adjustment was made for months where the employees did not spent 100% of the time on NSF grant. Second exception related to non approval of Time & Effort Form. Refer to the Findings and Recommendations section of this Report – Finding # 5 for more details.

No Honoraria payments were paid out of NSF Grants during the period 2008-09.

2. Documents related to improper payments were falsified and did not contain the appropriate approvals.

State Auditor Recommendation: The University should continue to coordinate with appropriate law enforcement authorities to determine whether the Assistant Provost's conduct constitutes a violation of North Carolina General Statutes or other regulation or law. In addition, the University should take appropriate disciplinary action against the Assistant Provost, which should include restitution.

The University should also implement administrative controls to ensure proper authorization of graduate assistant contracts, so that such egregious misconduct of position, if not criminal wrongdoing, is not repeated. All University policies and procedures that address accountability should be relevant, adequate and, if appropriate, available in electronic format for ease of access. The latest revision dates should be clearly stated on the policies and procedures.

NCCU Response as stated in audit report: The University's Campus Police is conducting a thorough review and continues to work with appropriate external law enforcement officials. Additionally, the University will undertake a review of current procedures and strengthen, where appropriate, to further reduce the possibility of fraud.

WS+B Comment: NCCU has written policies and procedures such as "Code of Ethics" and "Whistleblower policy" which address Professional Integrity and Conflict of Interest. All the HR related policies and procedures are uploaded on the NCCU's website. If NCCU does not have a policy on a topic, policies at the OSP (Office of State Personnel) or UNC-GA (University of North Carolina Office of the President and General Administration) apply.

However, it was observed during the audit that NCCU Management is not maintaining proper documentation in relation to background checks/ reference checks, along with degree certificate checks. Refer to the Findings and Recommendations section of this Report – Finding # 7 for more details.

Also see our response under "Report No. 5 - to Finding No.1 above.

3. The Assistant Provost violated University Policy by not reporting an improper relationship in a timely manner.

State Auditor Recommendation: In combination with other audit findings in this report and in light of the importance of the position of Assistant Provost, it is our opinion this violation represents a very serious offense and the punishment should reflect this. The University's sanctions against improper relationships include a warning, a letter of reprimand, suspension

(with or without pay), diminishment in rank, or discharge from employment. University management should consider the strongest disciplinary action available given the magnitude of the misconduct and send a clear message throughout the University that such conduct is not tolerated.

NCCU Response as stated in audit report: In accordance with University policies and the results of the investigative audit, the Assistant Provost has been removed from all administrative responsibilities.

WS+B Comment: NCCU has written policies and procedures such as “Code of Ethics” and “Whistleblower policy” which address Professional Integrity and Conflict of Interest. In our discussion with Director- Internal Audit, we were informed that the University takes this matter very seriously and any issue is immediately escalated to the Audit committee for corrective action. In addition no instances of conflicts of interest or improprieties came to our attention during our audit.

4. The Assistant Provost charged personal expenses to a credit card issued by the University.

State Auditor Recommendation: Controls should be reviewed to ensure employees use credit cards issued by the University for Business Use only. In addition, periodic audits of credit card usage and appropriate management actions for violations should be undertaken. We believe it would be prudent of the University to review the prior credit card audit.

NCCU Response as stated in audit report: The University will review controls over university-issued credit cards and conduct periodic internal audits of credit card usage. It should be noted that the University is not liable for individual credit card charges.

WS+B Comment:

- On inquiry, internal audit informed WS+B that they did not perform any audit procedures on Credit Cards and Travel Expenses; therefore no such reports were available to us for review.
- Employees are individually responsible for credit card charges. The expenses incurred on credit cards are paid by the employee and then are reimbursed by NCCU following multiple approvals including Travel Office, PI and Director Contracts & Grants.

Our test procedures identified that travel expenses were reviewed by the NCCU travel department for State government rules, however detail evidence of compliance with Federal government rules was not available specifically for lodging and meals. Other relatively minor exceptions regarding Travel policies / reimbursement were noted in the Findings and Recommendations section of this Report – Finding # 3 for more details.

5. Graduate Assistant payments were improperly charged to Federal Grants.

State Auditor Recommendation: The University should make the proper accounting adjustments to correct the improper charges to federal grants. The University should also implement administrative controls to ensure proper use of these funds. Potential controls could include updating the employment recommendation forms to require more specificity of the work to be done, requiring a written job description signed by the student, requiring a written evaluation of job performance signed by the supervisor and student, requiring timesheets to be filled out by the student and approved by the supervisor, and ensuring these documents are

reviewed by the Contracts and Grants or Budget Office to help ensure fund objectives are met. We believe it would be prudent of the University to review all grants for proper accounting of graduate assistant payments.

NCCU Response as stated in audit report: The University will review its current procedures and make the necessary adjustments to further reduce the possibility of fraud. Additionally, the University will review the improper charges and make the needed corrections.

WS+B Comment: See our response to “Report No. 5” - Findings No. 1 and 2 above.

Graduate Assistants are required to submit “Time and Effort Report” Forms on a monthly basis. These forms contain details such as Grant Number, Percentage of Effort, Distribution of Effort and the Month. The Forms are completed by respective personnel for their effort and forwarded to PI for approval. On a monthly basis, PI reviews the Form and certifies the effort by sign-off on the Form, and forwards them to C&G Office. During our audit, we did not find any exception specifically related to Graduate Assistants payments; however refer to the Findings and Recommendations section of this Report – Finding # 5 for other payroll related exceptions.

6. Honoraria payments did not have proper approvals and lacked written justification.

Honoraria payments were paid to individuals out of federal grants who advised the University on research matters. This is allowable as long as it is in budget and associated with a task specified in the grant. However, the State Audit found that honoraria did not have adequate internal controls when compared to other service or consulting agreements. In addition, there was no independent review of the credentials of the honoraria recipients.

State Auditor Recommendation: A University Vice Chancellor or above should review written credentials of prospective honoraria recipients and should approve all honoraria forms. A minimum of two signatures should be required on the honorarium authorization form. The Contracts and Grants Office should require evidence of honoraria recipient attendance and should include such documentation in the file.

Proper accounting corrections should be made for improper honoraria payments charged to grants. We believe it would be prudent of the University to review all grants for proper accounting of honoraria payments.

NCCU Response as stated in audit report: The University will undertake a thorough review of the honoraria process and make the necessary revisions in requirements for documentation, review, and approval to further reduce the possibility of fraud. Additionally, the University has placed a moratorium on honoraria payments until controls are strengthened. Corrections will be made for falsified honoraria payments.

WS+B Comment: No Honoraria payments were paid out of NSF Grants during the period 2008-09 and thus not specifically addressed in our audit.

REPORT 6

Special Review by the Office of the State Auditor (June 2008)

Background:

The Office of the State Auditor was contacted by the University of North Carolina General Administration after they became aware of allegations regarding potential inappropriate use of the NCCU computer networks. Allegedly, employees within NCCU's Information Technology Services Department misused the University's networks and computers by downloading copyrighted and pornographic materials. In addition, these employees allegedly circumvented purchasing procedures to acquire items for personal use. The State Auditor's special review of these allegations included the following procedures:

- Interviews with current and former employees of NCCU.
- Examination of relevant documents and records of the University including purchase orders, invoices, fixed asset inventories, personnel files, and financial statements.
- Review of policies and procedures and federal and State regulations including the North Carolina General Statutes and North Carolina Administrative Code.
- Forensic analysis of computer data storage devices and network drives.

The review was conducted pursuant to North Carolina General Statute §147-64.6(c)(16) rather than a financial statement audit or review.

Findings:

1. University Information Technology Services employees misused the University network and computers by downloading movies, music, games, software, and pornography.

State Auditor Recommendation: The University should take strong disciplinary action against the Data Base Administrator and IT Manager. In addition, the University should review all items for which they had access to determine the extent of their inappropriate use. Further, this review should seek to determine whether the University's computer system and network security were harmed.

NCCU Response as stated in audit report: We concur with the recommendation. The University has taken immediate disciplinary action by releasing the two employees in question from the University. Furthermore, the following steps have been taken:

a) The University brought in a company that specializes in the assessment of security threats or violations of security systems, Unisys Corporation, to do a complete NCCU threat assessment. The threat assessment has been completed. No direct threats or intentional damage/ harm to University computer systems or network security by the individuals in question were found. ITS is proactively working with Unisys to address their recommendations on how to better secure our networking equipment and computer systems.

WS+B Comment: This deficiency has no direct impact on NSF Grants and thus not included in our NSF performance audit scope.

2. University Information Technology Services employees distributed copyrighted materials.

State Auditor Recommendation: The University should take strong disciplinary action against the Data Base Administrator. The University's copyright administrators should work in conjunction with law enforcement personnel to determine whether federal copyright laws were violated. Further, the University should perform periodic forensic reviews of its data networks to determine whether unauthorized copyrighted materials are being accessed and distributed.

NCCU Response as stated in audit report: We concur with the recommendation. The University has taken immediate disciplinary action by releasing the two employees in question from the University. Furthermore, the following steps have been taken:

1. Information Technology Services (ITS) has taken proactive steps to ensure all ITS employees are familiar with University policies regarding Copyright Materials and Federal copyright laws contained in Title 17 of the United States Code. All ITS employees will be given copies of this Federal code and attend an annual training session on Copyright laws.
2. ITS will state clearly in its employee guide that any such violation of this law will result in strong disciplinary action being taken by the University up to and including dismissal.
3. ITS will deploy software during the summer of 2008 as recommended by an external Security Consultant that can monitor the illegal downloading of movies, music, and games by all University personnel.

WS+B Comment: This deficiency has no direct impact on NSF Grants and thus not included in our NSF performance audit scope.

3. The Information Technology Manager was granted unauthorized access to another University's server in order to download music files.

State Auditor Recommendation: The University should take strong disciplinary action against the IT Manager. In addition, the University should provide additional training to all Information Technology Services Department employees that stress the need to ensure network security.

NCCU Response as stated in audit report: We concur with the recommendation. The University has taken immediate disciplinary action by releasing the two employees in question from the University. Furthermore, the following steps have been taken:

1. ITS is currently setting up a series of educational classes that will occur annually during the summer months with all ITS employees that will address network security; privacy laws, copyright infringement, and other topics related to responsible use of University computing resources.

WS+B Comment: This deficiency has no direct impact on NSF Grants and thus not included in our NSF performance audit scope.

4. There exists a lack of adequate controls over assets.

State Auditor Recommendation: University management should implement policies and procedures to ensure that all equipment purchases are properly approved and tracked as to where the equipment is being used. ITS personnel should work with the Fixed Asset Office to implement procedures to ensure that equipment is properly accounted for.

NCCU Response as stated in audit report: We concur with the recommendation. The University has taken steps to educate all employees within the ITS division about the Policies and Procedures in place by the University Fixed Asset Office. Furthermore, the following steps have been taken:

1. All ITS employees have completed and turned in fixed asset forms referencing any assets within their belongings. This process will be conducted annually to ensure all forms are up-to-date.
2. ITS has met with both Purchasing and the Fixed Asset office to discuss existing University policies and procedures and the steps that need to be taken to ensure that employees are adhering to these policies and procedures.
3. ITS has purchased and deployed an Asset Management System that will be used to track all assets purchased or maintained by the ITS division. By July 15, 2008, all ITS management assets will be tracked and managed by the new ITS asset management tool.

WS+B Comment: We were told that Management has implemented a more robust physical inventory process that occurs annually; however we found two exceptions (observations with respect to the May 2009 inventory):

- a) The asset with tag #19014 was not included in physical inventory count. Upon inquiry, the Fixed Asset Accountant informed us that one of the locations (Biology Building) was completely omitted from the Fixed Asset Count. After our inquiry the inventory of the assets at the Biology Building was performed by the Fixed Asset Team to verify their existence. The Fixed Asset Team provided us with pictures of the sampled asset as evidence of its existence and we physically verified the existence of the asset.
- b) There was one laptop item noted as stolen from our physical verification of five items, in the physical count results. Upon inquiry we were informed that the student did not return the laptop and, therefore, it was treated as stolen. The stolen laptop was not reported to campus police and no complaint was filed. Moreover no further efforts were made to recover the laptop from the student.

Therefore WS+B recommended NCCU (as included in the Findings and Recommendations of this Report – Finding # 8) to follow-up on any discrepancies and adhere to their own internal control policies and procedures related to the reporting of a theft.

5. Employees are not required to complete secondary employment forms.

Note: Per North Carolina State Personnel Manual, the employment responsibilities to the State are primary for any employee working full-time; any other employment in which that person chooses to engage is secondary. An employee shall have approval from the agency head before engaging in any secondary employment. The purpose of this approval procedure is to determine that the secondary employment does not have an adverse effect on the primary employment and does not create a conflict of interest.

State Auditor Recommendation: University management should ensure that all employees have completed a secondary employment form in accordance with State Personnel policies and should annually remind employees of the need to complete the form if there have been any changes.

NCCU Response as stated in audit report: We concur with the recommendation. The University has taken steps to educate all employees within the ITS division about the Policies and

Procedures in place regarding the completion of secondary employment forms. Furthermore, the following mandate has been put in place:
ITS Managers will be held accountable for ensuring these forms are updated on an annual basis.

WS+B Comment: This deficiency does not directly impact NSF Grants and thus was not included in our NSF performance audit scope.

6. University officials do not properly verify degrees, prior employment and credentials when hiring and promoting employees.

State Auditor Recommendation: University management should ensure that any discrepancies that are discovered related to a new employee's employment history and educational achievements are noted and addressed. Any actions taken related to the discrepancies (up to and including rescinding the employment offer) should be noted in the employee's personnel file for review in future promotions and/or hiring decisions.

NCCU Response as stated in audit report: The University agrees with the recommendation. During the period in question, there were many vacancies in the employment area, which contributed to the lack of proper verifications. Currently, the Department of Human Resources has procedures in place for verifying credentials and/ or degrees. This issue has been corrected.

WS+B Comment: It was also observed during our audit that NCCU Management is not maintaining proper documentation in relation to background / reference checks, along with degree certificate checks. See the Findings and Recommendations section of this Report – Finding # 7.

News Article

October 17, 2008 - Chronicle.com - New Report Criticizes North Carolina Central University's Unauthorized Satellite Campus

Findings:

1. Students at a now-defunct unauthorized satellite campus of North Carolina Central University got a tuition discount, and millions of dollars in federal student aid given to them may have to be returned, according to an internal report issued on Thursday by the University of North Carolina system.

The report says that students on the satellite campus, which was located at a church in Georgia, paid \$100 less per credit hour than what NCCU charged nonresident distance education students, according to *The News & Observer* - the North Carolina newspaper that broke the story about the camp in August.

The university system's report also says that, during its four years in operation, students on the campus received more than \$3-million in federal grants and loans. According to *The News & Observer*, some of that money will be given back to the U.S. Department of Education and around \$55,000 will be reimbursed to the State of North Carolina for employee compensation and operating costs.

[REDACTED] The university's Board of Trustees never voted on the satellite campus, the report says.

The satellite campus was shut down in June, after the university's accreditor said it was not authorized. The accreditor initially cast doubt on the validity of the students' degrees, but last month said it would recognize the 25 degrees earned by students at the church.

State Auditor Report – Not addressed in any State Auditor Report.

WS+B Comment: This deficiency did not impact NSF Grants for the fiscal year 2008-09 period and thus was not specifically included in our NSF performance audit scope for that period.

Appendix A: NCCU Responses to Audit Findings

Copy of E-mail Received from NCCU



NCCU Response to Executive Summary

North Carolina Central University was selected by the National Science Foundation for an internal control audit due to the 2007 annual audit by the Office of State Auditor reporting a material control weakness, a reported case of fraud, and an unauthorized satellite campus. This is in spite of the fact that North Carolina Central University's latest issued audit by the Office of State Auditor for 2009 reported no material weaknesses in internal control.

Internal controls can assist in preventing errors and fraud but controls are subject to management override, collusion, and error. Many controls are actually designed to detect error or fraud after it has occurred since controls may not always prevent either. Internal controls in place can easily lapse due to employee turnover, employee absenteeism, abnormally heavy workloads, implementation of new procedures, and implementation of new financial or management software. Even with good internal controls, there can not only be errors and fraud but disagreements over the interpretation of rules, regulations, and policies.

The audit performed does not mention the limitations of a system of internal controls but identifies questioned costs and then basically claims that their questioning of costs is equivalent to a control weakness. North Carolina Central University has the control framework and processes in place but there can be questioned costs in spite of this. NCCU adopts an annual budget, amends its budget, audits invoices for expenses and travel, maintains time and effort reports, tags and inventories equipment, monitors contracts and grants, and performs many other control procedures. In none of the areas audited were there no control procedures in place. In spite of these procedures, there were transactions that may be reason for further inquiry, disagreement, or questioned costs. NCCU is committed to maintaining controls to manage funds in the most appropriate manner and will improve controls where the benefit of the control outweighs its costs.

The audit identified \$352,305 of questioned costs. In addition, WSB identified \$4,193 in questioned cost sharing. Based on the items identified by WSB, NCCU agrees with \$70,928 of questioned costs and none of the questioned cost sharing.

NCCU Response to Findings

Finding No. 1: Lack of Procedures for Enforcing University's Own Budgetary Policies

NCCU Response:

In North Carolina Central University's written policy, there is no mention of a requirement to seek the aforementioned prior approval. The policy does state that budget amendments are processed based on the original budget. It is the practice of the University to seek approval for budgetary transfers in accordance with NSF guidelines.

Apparently, the former Director of Sponsored Research informed WSB of an NCCU policy of seeking prior approval from the awarding agency for budget transfers exceeding 25% of the respective account balance at the time of transfer, which would result in constant seeking of approval if based on an account balance.

Further investigation of the budget transfer for \$1,507 was in fact appropriate. Federal guidelines indicate that certain travel expenses are part of participant support costs. The State of NC Chart of Accounts indicates that travel expenses are to be reported separately from the other items comprising participant support costs. The \$1,507 transfer was made to comply with state reporting guidelines.

For grant 554310, the applicable scholarship was adjusted \$3,297 using indirect cost funds during Fiscal Year 2010. This adjustment resulted in expenses on the FFR report matching expenses shown in the general ledger. NCCU was aware of the need for this adjustment prior to WSB contacting NCCU about the audit, which is evidenced by emails between the Grants Office and the Principal Investigator.

Lastly, Banner has been configured since 2006 to stop the processing of any purchase requisitions, purchase orders, and invoice payments that are beyond the available budgetary balance for each line item.

Finding No. 2) Lack of Adequate Internal Control for Budgeting and Accounting for Participant Support Costs

NCCU Response:

From the inception date of all NSF awards through 6/30/09, NCCU's accounting records and supporting documentation indicate \$215,853 of participant support cost expenditures. Please see the schedule below for the account information comprising the participant support costs.

<u>Account Description</u>	<u>Acct Number</u>	<u>Amount</u>
Stipends	76911G	\$199,457
	73141G -	
Travel	73149G	<u>16,396</u>
Total Participant Support Costs		<u>\$215,853</u>

For any disbursement, North Carolina Central University maintains supporting documentation for our annual financial audit scrutiny. Moreover, for stipend payments, we maintained supporting documentation that was approved by the Principal Investigator to verify participation and the Financial Aid office to verify eligibility for each participant. The stipends listed above are solely for participant support stipends (non-work related) and the University has supporting documentation to that effect.

Although stipends and non-employee travel have always been exclusively for students, we have now modified our general ledger to make it easier for outside parties to identify participant support costs. We have also separated student participation stipends from student work-related stipends. For example, account 76911G is now called Participants Stipends and that account is used exclusively for that purpose. Account 614590 is now called Student Stipends Work Related. The revised general ledger descriptions will enable NCCU to improve compliance with participant support cost requirements.

Finding No. 3) University & Federal Travel Policies Not Followed

NCCU Response:

OMB circular A-21 states that costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the institution in its regular operations as the result of the institution's written travel policy. NCCU follows NC Office of State Budget Management's (OSBM) policies and procedures which state that OSBM policies for travel take precedence over federal guidelines governing the use of federal grant funds. The \$2,621 of expenses were properly supported, and properly approved per OSBM guidelines and should therefore not be considered exceptions or questioned costs.

NCCU will continue to use state rates as required by NC OSBM and allowed by OMB circular A-21.

NCCU will continue to approve actual travel based on supporting documentation in accordance with state rates as required by NC OSBM and allowed by OMB circular A-21.

Finding No. 4) Lack of Adequate Control over Equipment Purchases

NCCU Response:

The finding indicates a budgetary control problem. The finding also recommends that NCCU obtain NSF approval for major changes in equipment purchase agreements. NCCU believes this item deals with interpretation flexibility in the terms of the award as opposed to one of budgetary control. The interpretation flexibility issue also addresses when approval from NSF is needed for changes in equipment purchases.

Regarding the GPS systems, the PI responsible for the grant stated that computers previously on hand in the department were used for the project. Therefore, no additional computer purchase was required. The PI also stated the proposal was only an initial estimate and actual cost and configuration of the equipment at the time of order was different. The \$34,975 should

therefore not be questioned costs. Regarding the laptops, the PI responsible for the grant indicated that 7 of the 12 laptops in question were ordered for persons who decided not to participate in the 2009 Summer Enrichment Program at the last minute and the additional laptops were used to replace students' computers that either crashed or had damage that usually took longer than a week to repair. In addition, the PI indicated all of the laptops in question were used by Initiatives for Transforming and Sustaining Science, Technology, Engineering and Mathematics (ISSTEM) Program students who were STEM majors. The \$10,496 should therefore not be questioned costs.

In both cases, award interpretation flexibility as circumstances changed is the issue rather than one of budgetary controls. NSF approval was not sought based on award interpretation flexibility.

Finding No. 5) Payroll and Fringe Benefits Procedures not followed

NCCU Response:

It is the practice of North Carolina Central University to seek approval from any granting agency to pay excess salaries. One week prior to the start of program, the PI for the ISSTEM Program had to appoint a new program manager as the former manager abruptly resigned. Given the lateness of the resignation, an email notification was sent to NSF of this change. The new program manager was previously the Instructional Technology and Banner Specialist to ISSTEM. A stipend of \$10,167 was added to his prior salary to match the salary of the former program manager. The former program manager's position had previously been approved by NSF.

The finding indicated that an employee only spent 70 – 80% of their time on NSF activity, but 100% of the salary was charged to an NSF award. The employee worked full-time on the NSF activity and additional time after hours on a nonrelated project. As more than 100% effort cannot be shown on the time and effort form, the 20 – 30% was reported as a means to document the overtime on the nonrelated activity. As an exempt employee from the state personnel act and the federal fair labor standards act pertaining to overtime compensation, the employee did not receive additional compensation for the overtime and was merely trying to show the 20 – 30% as in kind. Going forward, we will address how overtime effort for employees is captured.

Lastly, Management did not state that deliverables for the NSF project were achieved by the employee expending 70 – 80% of his effort on the project, as reported in the Executive Summary. Therefore, the \$6,300 is not an excess charge.

Finding No. 6): Inadequate Accounting and Reporting of Indirect Cost

NCCU Response:

NCCU concurs with finding No. 6.

Finding No. 7) Inadequate Compliance with University's Own Background / Reference Check Policies

NCCU Response:

Background checks, reference checks and degree certificate checks are performed for employees subject to the State Personnel Act. Reference checks and degree certificate checks are performed for employees exempt from the State Personnel Act. Proper documentation is maintained for these checks. One exception was found in WSB's sample of approximately 12 employees. Each hiring department performs reference checks and forwards the results to a central location - Human Resources. Human Resources reviews the information and requests changes and additional information from the hiring department as needed. Background checks for employees subject to the State Personnel Act is a centralized process performed by Human Resources. As this information is centrally located in Human Resources, NCCU does not see the need for it to be forwarded to the Director of Contracts & Grants.

NCCU tracks sick / vacation leave based on state employee class. Certain classes of state employees are not eligible to earn leave; it is therefore not tracked for those types of employees. Non-administrative exempt from the State Personnel Act employees, Post Doctorate Students, Graduate Assistants and Students receiving work based stipends do not earn leave. They are all compensated based on the completion of the work product or deliverable and not based on hours worked. The concept is similar to that of someone performing professional services. They may quote a price for completing a certain task. If they complete the task in 40 hours, 90 hours or 30 hours, the compensation is the same per the terms of the agreement. If the work product or deliverable isn't completed, the department would inform Contracts & Grants and/or Human Resources. The aforementioned employee classes' pay would then be adjusted as instructed by the department.

Finding No. 8) Fixed Assets Physical Inventory Deficiencies

NCCU Response:

North Carolina Central University has a very comprehensive inventory system. We hire extra temporary workers annually to assist with inventory taking; therefore, we have independent parties counting and identifying capital inventory. Additionally, we have a complete listing of asset locations. A review of the inventory is performed daily by the Fixed Asset/Reconciliation Office Supervisor.

The audit sample consisted of 52 items. The one item not inventoried was the result of an entire building not being accessible due to a complete renovation of the building in the prior year. This exception was an isolated event.

The stolen laptop was reported to Campus Police. A copy of the police report was provided. The \$965 should therefore not be a questioned cost.

Finding No. 9) Lack of Compliance with NCCU's Own IT General Controls

NCCU Response:

NCCU ITS is always improving processes and procedures and constantly striving to improve the reliability of our user systems and user experience and reliability.

- i) As production services are very important to the operation of the University, the change management system allows ITS senior management to give verbal approval so that services can be restored. Documentation within the change management system will indicate that such an emergency occurred and that verbal approval was given.
- ii) At the time of the noted exception, NCCU was in the process of upgrading from Banner 7.X to 8.X. ITS evaluation determined the patches in question may have adversely affected the production systems if installed prior to the completion of the upgrade. All patches were applied after the Banner upgrade was completed and all systems had been completely tested and verified. Future server system patches will be evaluated by NCCU ITS for their appropriateness and timeliness of adoption. Once it is determined that new server system patches are safe and will not cause any issues to the productions systems, the patches will be scheduled into production.
- iii) When notified, NCCU ITS promptly deactivates employees' network access. When a user's Active Directory account is disabled, it is no longer possible for the user to access the Banner system. It is important to note that NCCU uses a multi-level account security. Banner access is NOT possible without Active Directory (AD) access. For both of the samples listed in this finding, the multi-level security did what it was designed to do.
- iv) The most accurate way to provide a current listing of authorized personnel to the Data Center is to provide an electronic listing to the agency or official requesting the information. The paper listing that was posted has been removed.

Access to the Data Center by visitors, that are not listed as authorized to access the Data Center, will only be allowed once the visitor has successfully "Signed In" to the "Data Center Access Book" located at the reception area of the ITS department, 3rd floor room 3020 of the H.M. Michaux, Jr. School of Education Building. In addition, the visitor must be escorted while visiting the Data Center and must display the "Self-Expiring" name tag.

The Key access into the Data center and the Network room from Hallway, 3030, has been removed. A blank cylinder with NO key-way was installed. This will allow staff in 3030 to exit via the hallway door but no ingress access can occur. Access to the Data Center is via Security Card access through the front door via hallway 3045.

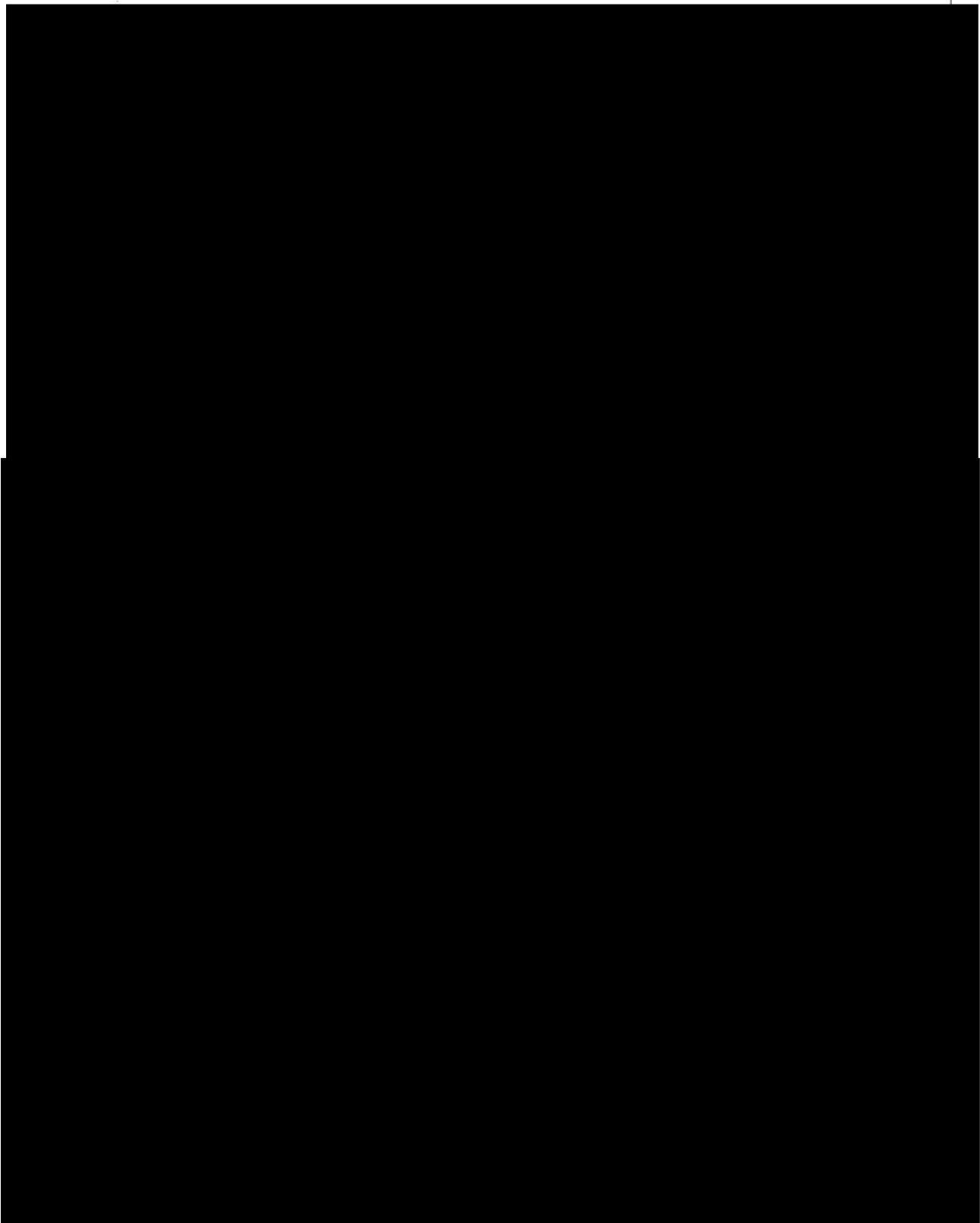
Finding No. 10) Inadequate Internal Controls over NSF Grant Compliance Requirements for Cost Share and Conflict of Interest

NCCU Response:

The non-compliance with the 1% cost share requirement stems only from NCCU's interpretation of the federal abolishment of that requirement in 2007. NCCU interpreted the abolishment to mean that from the date of the 2007 abolishment forward, the 1% cost share requirement no longer applied. WSB's position is that for awards received prior to the 2007 abolishment, for which funds are still being received, the 1% requirement still applies post 2007.

NCCU has now implemented a process to ensure that annual disclosure statements are completed by all Principal Investigators on all NSF awards.

Copy of Police Report



Appendix B: Objectives, Scope and Methodology

Objectives

The objective of our internal control performance audit of NCCU was to provide an assessment of the adequacy of NCCU's internal control system for effectively accounting for, monitoring and administering NSF awards in compliance with Federal and NSF award requirements. Our objectives also included providing an assessment of the corrective actions taken by NCCU for the internal control deficiencies (which may have an impact on NSF grants) identified in various reports issued by OSA from 2008 onwards, including OMB Circular A-133 audit reports.

Scope

To address our objectives, we reviewed the NCCU's internal controls over financial compliance, reporting, and administration of all NSF awards for the period of July 1, 2008 through June 30, 2009 ("2008-09").

As of June 30, 2009, NCCU had 9 active NSF awards. Total project costs incurred by NCCU during the period 2008-09 from these 9 NSF awards were approximately \$1.1 million. Additionally, our scope included following up on the corrective actions implemented by the NCCU in its response to internal control deficiencies noted in various State Auditor reports. The results of our follow-up have been included in "Status of Prior Audit Findings" section of this report.

Methodology

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 fieldwork was completed in June 2010.

The criteria we used for this performance audit included:

- The Committee of Sponsoring Organizations of the Treadway Commission's report: *Internal Control – Integrated Framework* (COSO Framework);
- Generally Accepted Government Auditing Standards;
- NSF Grants Policy Manual (GPM);
- NSF Audit Guide
- NSF Audit Guide for Financial Audits of Participant Support Costs.
- NSF awards specific terms and conditions; and,
- OMB Circulars A-21, A-110 and A-133.

Our performance audit methodology followed the following four phases:

Phase I	Planning
Phase II	Fieldwork
Phase III	Post-Fieldwork
Phase IV	Reporting

Phase I: Planning

We held a planning meeting on November 11, 2009 led by the Engagement Partner. The advisory partner, managers, and staff assigned to the audit were in attendance. The nature of the audit assignment and specifically the issues that NSF-OIG identified in its Request for Quotation (RFQ) were discussed. Further, we reviewed the OMB A-133 Audit reports of North Carolina State Auditor for NCCU for the years ended June 30, 2007 and June 30, 2008, and various other investigative reports to obtain a better understanding of the issues involved. Finally, the audit scope was determined based on our assessment of the inherent risks and the control risks at NCCU and on our prior internal control audit experience.

An audit planning document was prepared documenting our audit scope, audit procedures, timeline and engagement team. The audit planning document details were discussed with NSF during the Planning Phase Story Conference held on December 15, 2009 and the comments of NSF were included in the final planning document.

Phase II – Fieldwork

Phase II included the on-site fieldwork at NCCU following the audit approach and methodology documented in the Audit Planning Document discussed and agreed to by NSF-OIG at the end of Phase 1. The Fieldwork phase was divided into two segments:

- (1) Internal Control Assessment wherein we documented the significant processes in Narratives and Risk Control Matrices leading to identification and evaluation of design effectiveness of Internal Control. This was performed in January 2010, and
- (2) Tests of Effectiveness of the Internal Controls, which was performed in June 2010.

- **Segment 1 – Internal Control Assessment**

WS+B conducted the internal control assessment utilizing the components of internal control as presented in *Internal Control-Integrated Framework* (COSO Report). We met with senior executives and key operational staff and assessed NCCU's control environment in terms of integrity and ethical standards, commitment to competence, management philosophy and operating style, organization structure, assignment of authority and responsibility, as well as human resource policies and practices. We reviewed existing process documentation (if any) and gained a more in-depth understanding of NCCU's finance/accounting operations and the general control environment.

We reviewed the audit work papers of the North Carolina State Auditor, for the year 2007-08 for areas of risk related to NCCU's accounting and reporting related to NSF awards. We also met with the State Auditor's Field Manager and were informed that control issues reported in 2006-07 and 2007-08 had minimal impact on State Auditor's financial audit scope for 2008-09.

We performed walkthroughs of the following key processes:

- Contracts and Grants (includes cash receipts and recording, budget monitoring, cash management, accounting close and grant reporting/ FCTR, cost allocations, internal service charges and indirect costs, cost transfers and journal entries, participant support costs, travel expenses and use of NCCU's credit cards)

- Payroll and Benefits
- Purchasing and Disbursements
- Fixed asset accounting
- IT General Controls (includes program development and change management, access to programs and data, and Computer Operations)

Walkthroughs entailed interviewing each of the process owners and key personnel for each process to gain a detailed understanding of each of the processes by “walking through” sample transactions from origin to completion along with supporting documents. The processes were documented in the form of various narratives. After the Narratives were reviewed internally at WS+B, they were provided to NCCU process owners for review and confirmation. Risk Control Matrices were also prepared to document the key internal controls and how they address the risks identified with respect to accounting and reporting for the NSF awards. Previous audit deficiencies reported in A-133 audits and other reports were also considered.

Observations and recommendations to improve the internal control processes and procedures were identified and shared with NCCU following field work. An interim Story Conference with NSF by phone was held to share the preliminary observations during the field work. Final Narratives were provided to NSF for review in February 2010.

- **Segment 2 – Tests of Effectiveness of Internal Controls**

Based on the key controls identified in the Internal Control Assessment segment, a Test Planning Document was completed and submitted to NSF along with the Risk Control Matrices in April 2010. The Test Plan covered detailed audit steps, attributes to be tested, and periods to be sampled. The sampling was based on the relative level of risk associated with the identified control, together with the frequency of the performance of the control and the population of relevant transactions/items affected. On confirmation of the Test Plans by NSF, the fieldwork testing was performed in June 2010.

For each key control, a Test script was prepared documenting the samples that were selected, the attributes tested and the results of the test performed. All exceptions to the testing were highlighted and captured.

Phase III – Post-Fieldwork

At the conclusion of Phase II, we shared our test results with NCCU management along with any audit deficiencies (compliance with internal controls) and questioned costs found. Responses received from NCCU officials were documented. The test results were provided to NSF in July 2010. All audit findings were further developed as to condition, criteria, cause and effect and a Notice of Findings (NOF) report prepared. The NOF report was submitted to NSF in August 2010.

Refer to the “Findings and Recommendations” section of this report for the results of the testing performed and our recommendations to help strengthen internal controls at NCCU.

Phase IV – Reporting

Phase IV includes preparation and finalization of this report. A Phase 4 Story Conference was held in January 2011 with NSF to discuss and finalize the performance Audit report.

Appendix C: Glossary of Acronyms

CAAR	NSF Cost Analysis and Audit Resolution Branch
DIAS	Division of Institution and Award Support
Director – EAS	Director of Enterprise Application Services
Director of C&G	Director of Contracts and Grants at NCCU
FFR	Federal Financial Report
GL	NCCU Banner General Ledger
GPS	Global Positioning System
HHS	Department of Health and Human Services
IT	Information Technology
ITS	NCCU Information Technology Services
NCCU	North Carolina Central University
NSF	National Science Foundation
OIG	Office of Inspector General
OMB	Office of Management and Budget
OS	Operating System
OSA	Office of State Auditor
OSRP	Office of Sponsored Research
RFC	Request for Change
WS+B	WithumSmith+Brown

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