



# STATE OF NORTH CAROLINA

**APPALACHIAN STATE UNIVERSITY**

**FISCAL CONTROL AUDIT**

**OFFICE OF THE STATE AUDITOR**

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## AUDITOR'S TRANSMITTAL

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September 25, 2009

The Honorable Beverly E. Perdue, Governor  
The General Assembly of North Carolina  
Board of Trustees, Appalachian State University  
Dr. Kenneth E. Peacock, Chancellor

This report presents the results of our fiscal control audit at Appalachian State University. Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources.

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. These items are described in the Audit Findings and Responses section of this report.

*North Carolina General Statutes* require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this report.

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor

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# **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS**

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## **OBJECTIVES, SCOPE, AND METHODOLOGY**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a fiscal control audit at Appalachian State University. There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

The objective of a fiscal control audit is to identify improvements needed in internal control over selected fiscal matters, such as financial accounting and reporting; compliance with finance-related laws, regulations, and provisions of contracts or grant agreements; and/or management of financial resources. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

To accomplish our audit objectives, we gained an understanding of internal control over matters described below and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that may reveal significant deficiencies in internal control. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances. Whenever sampling was used, we applied a nonstatistical approach but chose sample sizes comparable to those that would have been determined statistically. As a result, we were able to project our results to the population but not quantify the sampling risk.

As a basis for evaluating internal control, we applied the internal control guidance contained in *Internal Control Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). As discussed in the framework, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONTINUED)**

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit scope covered the period September 1, 2008 through February 28, 2009 and included selected internal controls in the following organizational units:

### University Bookstore – Textbook Rental Program

This organizational unit is responsible for acquisition, maintenance of inventory, and rental of textbooks to undergraduate students. The Bookstore Textbook Rental Program had over \$2.4 million in revenues at February 28, 2009.

### University Office of Student Accounts

This organizational unit is responsible for the billing and collections of student accounts, and the receipting and depositing of all University related funds. The student accounts receivable balance was \$4.3 million at February 28, 2009.

### University Office of Conferences and Institutes

This organizational unit offers conference management services to faculty, staff, students and external clients that have an educational mission. The Office of Conferences and Institutes had a primarily receipt supported operating budget of approximately \$1 million for the period September 1, 2008 thru February 28, 2009.

During our audit, we considered internal control related to the following accounts and control objectives.

*Office of Conferences and Institutes – Cash, Sales and Services Revenues, and Expenses* – Fees are charged to clients in providing management services for conferences and are reported as sales and services revenues. For the audit period, the Office reported sales and services revenues of \$954,258.09. Expenses include costs of personnel, supplies and materials, and administrative expenses incurred in providing the conferences. For the audit period, the Office reported expenses of \$1,080,254.62. The Office also had a cash balance of \$449,843.58 at February 28, 2009. We examined internal control designed to ensure that Conferences and Institutes properly safeguards and accounts for these revenues, and expenses and safeguards the assets.

*Student Accounts Receivables* – This classification includes balances due from students resulting from charges for tuition and fees and charges for auxiliary enterprises' sales and services. As of February 28, 2009 the University had \$4.3 million in student accounts receivable, including \$99,002.56 in charges for unreturned rental textbooks. We examined internal control designed to ensure that the University properly safeguards, accounts for, and reports these assets. We also examined evidence to support compliance with university policies and North Carolina General Statutes related to collection of outstanding receivables.

## **OBJECTIVES, SCOPE, METHODOLOGY, AND RESULTS (CONCLUDED)**

*Textbook Rental Inventories* – These are textbooks purchased for rental purposes. At June 30, 2008, the textbook rental inventory was valued at cost using first-in, first-out for a total of \$3,774,475.28. We examined internal control designed to ensure that the University properly safeguards, accounts for, and reports these assets.

*Textbook Rental Fee Revenue* – All on campus undergraduate students are charged a book rental fee based on the number of hours enrolled. The charge per student is \$29.25 per hour for zero to five semester hours, \$58.25 per hour for six to eight semester hours, and \$87.50 per hour for nine semester hours or more. The University reported textbook rental revenues of \$1,186,449.23 for fall semester 2008. We examined internal controls designed to ensure that the fee was properly computed and reported.

### **RESULTS**

The results of our audit disclosed deficiencies in internal control and/or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. These items are described in the Audit Findings and Responses section of this report.

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## AUDIT FINDINGS AND RESPONSES

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### 1. INAPPROPRIATE SHARING OF USER NAMES AND PASSWORDS

The University did not maintain internal control over access to accounting software and data. This increases the risk of error or fraud that may not be detected.

Temporary bookstore employees were allowed to use the full-time bookstore employees' user names and passwords to enter data into the accounting system. These temporary employees were responsible for entering data to bill students for unreturned rental textbooks.

The Office of Conferences and Institutes assigned unlimited access to its Conference Programmer software to all employees. In the receipting software, the user name and password are generic and is used by all users.

Sharing a user identification and password reduces accountability for any error or misappropriation that may occur.

*Recommendation:* The University should implement controls to ensure that unique user names and passwords are assigned to each individual system user. The Office of Conferences and Institutes should evaluate and reassign job duties and system access rights as necessary to better segregate duties and enhance internal control.

*Response:* The University Bookstore's temporary employees are now assigned their own user name and password that allows them access to the Bookstore's accounting system. Training regarding confidentiality takes place with each employee to ensure they understand the policy not to exchange passwords. In addition, a process has been put into place to discipline employees who allow access to their user name and password.

The Office of Conferences and Institutes has taken steps to limit access to its accounting systems and assign unique user names and passwords only to employees whose job duties require such access. Conference and Institutes operates two computer programs for its non credit program registrations, Conference Programmer and QuickBooks. Both programs are external to the registration and accounting functions in Banner Student and Banner Finance which are used for degree credit enrollments. In both of these programs, separate and unique passwords are now assigned only to staff members in Conferences and Institutes whose job requires access to either function. Each transaction in both programs is now traceable to the individual staff member who makes any transaction entry.

### 2. DEFICIENCIES IN INTERNAL CONTROL OVER REVENUES – OFFICE OF CONFERENCES AND INSTITUTES

We identified certain internal control deficiencies over revenues in the Office of Conferences and Institutes. As a result, there was an increased risk of error or fraud

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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occurring without detection. Specifically, we noted the following internal control deficiencies:

- The Office of Conferences and Institutes did not properly segregate cash receipting duties from the preparation of the bank deposit. Five employees, including the office manager, three program assistants, and a program director, may receipt funds, void receipts, and prepare the bank deposit. These functions should be segregated so that the duties of one employee automatically provide a cross-check on the work of other employees.
- The Office of Conferences and Institutes did not have written policies and procedures in place to document the process of charging clients for services. A document was prepared at the request of the auditors to demonstrate typical operating procedures. For seven out of 15 client contracts tested, the typical operating procedures were not followed and thus it was difficult to verify that the client paid an appropriate cost for services. The actual revenue for three of these contracted amounts could not be recomputed using participant lists and rates defined per participant.

*Recommendation:* The Office of Conferences and Institutes should seek to segregate duties for the receipting of cash and preparation of bank deposits, or if this is not practical, implement compensating monitoring controls. The Office of Conferences and Institutes should also establish written policies and procedures for charging clients for services and reconciling actual income to contract terms.

*Response:* The Office of Conferences and Institutes has made changes in internal operational policy which requires two staff members (whose program responsibilities and duties are not involved with the program receipts being deposited) to balance and prepare bank deposits as necessary. This step separates employees who receive money from those who balance cash collections and prepare bank deposits. In addition, Conferences and Institutes will immediately establish, create and aggregate into one manual all necessary written policies and procedures for ensuring that charges for client services are reconciled with actual income in all agreements and contracts. This will involve pre-and-post program reviews of all receipts and expenditures to ensure accounting accuracy. Finally, we are initiating a review of personnel assignments in Conferences and Institutes to ensure that accounting and fiscal responsibilities are properly segregated.

### 3. MANUAL RECEIPT BOOKS NOT PROPERLY CONTROLLED

The University did not properly control the issuance and use of manual cash receipts books to ensure accountability for collections. The use of pre-numbered receipts, when properly reconciled to amounts deposited, is designed to ensure that all moneys received are deposited and not lost or misappropriated.

## **AUDIT FINDINGS AND RESPONSES (CONTINUED)**

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The University Cashier's Office is responsible for maintaining an inventory of all receipt books assigned to various University users. We examined the receipt books issued to and used by the Office of Conferences and Institutes. During our audit, we noted the following:

- a. This Cashier's Office inventory did not include two out of 43 receipt books issued to the Office of Conferences and Institutes.
- b. Three out of 43 receipt books examined were incorrectly assigned to a different user on the receipt book inventory.
- c. Three receipt books were completely used but had not been returned to the Cashier's office.
- d. Two receipt books had pre-signed receipts and had receipts that were altered with white-out.
- e. Nine receipt books assigned to the Office of Conferences and Institutes could not be located.

The use of receipts as a control against error or misappropriation is only effective if all receipts are completely and accurately accounted for and reconciled to collections.

*Recommendation:* The University should establish effective internal controls over the manual receipt books to ensure they are properly safeguarded for official use. Pre-numbered receipts issued should be accounted for and reconciled to amounts deposited.

*Response:* We are implementing several steps to strengthen internal controls over receipt books, as follows:

- When a department becomes a first time receipt book user, the Cashier's Office reviews the procedures with the user.
- All new users now receive a copy of written procedures for using receipt books.
- New receipt books issued now have the written procedure attached to the inside front cover of the receipt book so a new employee responsible for issuing receipts has a written procedure to follow.
- The written procedure indicates that failure to follow the procedure could result in disciplinary action, including an audit finding to be shared with the Chancellor.
- Each year, the Cashier's Office will send a list of receipt books in the inventory log to each department for confirmation that the inventory is accurate. Discrepancies will be noted and resolved if possible. Departments not responding will be reported to the ASU Office of Internal Audits.
- The receipt book log will be reviewed on a periodic basis to make sure that all outstanding receipt books remain on the active log.

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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### 4. NO PRICING METHODOLOGY FOR RENTAL TEXTBOOK PROGRAM

The University Bookstore's management does not have a methodology in place to determine if revenue generated from the rental textbook program is sufficient to cover costs. Without such a methodology, the Bookstore could unknowingly lose money on the program.

*Recommendation:* The University Bookstore should establish a process to analyze revenues generated from the textbook rental program and associated costs to prices are fixed in accordance with management's objectives.

*Response:* We are in the process of developing a WebFOCUS program that will provide data to help us analyze, in real time, revenue generated from rental textbook fees and all other student fees to ensure that we are collecting the correct amount of revenue and that the amount is adequate to cover costs. We will run the program upon demand but especially at the beginning of each academic semester to compare revenues collected with enrollment.

## **ORDERING INFORMATION**

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