



UNCSA

**Winston-Salem State University | University of North Carolina School of the Arts
Office of Internal Audit & Institutional Compliance**

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November 27, 2013

Ms. Lynne Sanders, CPA
UNC FIT Deputy Program Management Officer
UNC-General Administration
140 Friday Center Drive
Chapel Hill, NC 27517

Dear Ms. Sanders:

North Carolina G.S. 116-30.1 requires that University of North Carolina School of the Arts (UNCSA) make satisfactory progress toward resolving Office of State Auditor findings within a three-month period. The following report addresses the findings noted in the Office of the State Auditor investigative audit report released on August 29, 2013.

The report includes a restatement of the auditors' original findings and recommendations, the University's response and corrective action plan, and a summary section explaining the results of Internal Audit's review procedures and opinions.

Respectfully Submitted,

Shannon B. Henry
Chief Audit Officer and Executive Director of Institutional Compliance

Cc: Mr. Thomas Ross, President of the University of North Carolina
Mr. Charles Perusse, Vice President for Finance (UNC-GA)
Ms. Beth A. Wood, State Auditor
Mr. James Moeser, Interim UNCSCA Chancellor
Mr. George Burnette, Chief Operating Officer (UNCSCA)
Mr. Ben McLawhorn, Office of State Controller
Audit Committee, UNCSCA Board of Trustees

AUDIT FINDINGS AND RESPONSES

1. CHIEF INFORMATION OFFICER MISAPPROPRIATED SCHOOL COMPUTER

The Chief Information Officer (CIO) used her position to misappropriate a laptop computer owned by the University of North Carolina School of the Arts (School). Specifically, the CIO gave the laptop computer to her son for his personal use while attending Appalachian State University. This inappropriate use violated School policy¹ and may have violated *North Carolina General Statute § 143-58.1*.²

The CIO is entrusted with the management of all computing and telecommunications resources at the School. Her responsibilities include the purchase of all computers and computer equipment used by the School's Information Technologies Department as well as the approval of large purchases of computers and computer equipment for other departments.

Two 15-inch Apple MacBook Pro laptop computers were among the computers purchased by the CIO for the Information Technologies Department. The School's records were inadequate to determine the purchase dates of the two laptops. As a result, investigators contacted Apple and obtained the product information shown in Table 1.

TABLE 1				
APPLE MACBOOK PRO COMPUTERS ACQUIRED BY CIO				
User	Product	Serial Number (S/N)	Purchase Date	Cost
CIO	Apple MacBook Pro	W8011270642	March 16, 2010	\$2,828
CIO/CIO's son	Apple MacBook Pro	W80230H2AGX	June 2, 2010	\$2,373

The CIO told investigators that she acquired the first of the two laptop computers in June 2010. She said that, when this laptop computer began having connectivity problems with Wi-Fi³ and the School's Virtual Private Network (VPN)⁴, she acquired another 15-inch Apple MacBook Pro laptop computer. The CIO initially denied, but later confessed that, after acquiring a new laptop computer later that year, she took the "malfunctioning" laptop to her home. In late 2010, the CIO gave that laptop to her son who ultimately took it to Appalachian State University in August 2012. The CIO said, "There was no thought process about why or when to return [the laptop]." Her justification for taking the laptop for her son was that there was no need for the laptop at the School.

It appears that the laptop computer the CIO gave to her son was, in fact, working properly. Investigators determined through forensic examination of the laptop that it

¹ University of North Carolina School of the Arts, Technology Use Policy #508 IV. C.1.d.

² *North Carolina General Statute § 143-58.1* - Unauthorized use of public purchase or contract procedures for private benefit.

³ Wi-Fi is short for "Wireless Fidelity." Wi-Fi refers to wireless networking technology that allows computers and other devices to communicate over a wireless signal.

⁴ VPN is short for "Virtual Private Network." A VPN is a network that uses the internet to transfer information using secure methods.

AUDIT FINDINGS AND RESPONSES *(continued)*

had been connected to Wi-Fi at Appalachian State. Investigators also asked the School's Assistant Director of Information Technologies to inspect the laptop for connectivity problems with Wi-Fi or the School's VPN. He confirmed that the Wi-Fi was functioning properly. He also said that there was no VPN software installed on the laptop computer. Without this software, the computer would not have been able to access the School's network.

No evidence exists indicating that the CIO attempted to repair the original laptop computer although it was covered under an extended warranty plan. Further, no repair estimates were obtained and the only recorded references to a possible VPN issue are in two e-mails, the earliest of which is dated December 2011. That was more than a year after the CIO brought the laptop home for her son. A School employee who is responsible for MacBook Pro VPN issues stated he would recall if someone came to him "multiple times" with a VPN issue. The employee had no such recollection regarding the CIO's MacBook Pro. All available evidence indicates that the laptop computer given by the CIO to her son worked properly.

The CIO attempted to conceal her son's use of the laptop computer by deleting his unauthorized user profile. The CIO later admitted that she deleted the unauthorized user profile the day before investigators took possession of the laptop.

Investigators performed a forensic analysis of the laptop computer and determined the CIO's son had used it since late 2010. This matched the time frame outlined by the CIO during her interviews with investigators. The analysis of the laptop's hard drive revealed extensive Internet activity attributable to the CIO's son.

The son's use of a School computer violated the School's Technology Use Policy.⁵ The policy stipulates that only authorized users may access the School's computing equipment. It also states that the use of computing equipment may not result in any direct cost to the School.⁶ The use of this laptop by the CIO's son suggests that either the School did not need this laptop or had to purchase an additional laptop for a School employee. Either way, the laptop was not used to fulfill the mission and objectives of the School.

The personal use of School equipment by the CIO's son also violated the School's Fixed Assets Policy.⁷ This policy stipulates that items purchased with School funds are the property of the state and are not intended for personal use.

RECOMMENDATION

School management should take disciplinary action against the Chief Information Officer regarding her misappropriation of state property.

⁵ University of North Carolina School of the Arts, Technology Use Policy #508 IV. A.1., A.2., B.1, B.3, C.1.c.

⁶ University of North Carolina School of the Arts, Technology Use Policy #508 IV. C.1.d.

⁷ University of North Carolina School of the Arts, Fixed Assets Policy #304 IV. A.

AUDIT FINDINGS AND RESPONSES *(continued)*

School management should re-emphasize its computer use and fixed asset policies to all faculty and staff. The computer use and fixed asset policies should include consequences for non-compliance and all employees should provide written acknowledgement of their understanding of both policies.

The School should update its State Property Incident Report filing with the State Bureau of Investigation to reflect the details of the misappropriation of the Apple MacBook Pro laptop computer. (See *North Carolina General Statute §114-15.1* for filing requirements.)

UNIVERSITY'S RESPONSE

The University concurs that there was a misappropriation of school property. As you know, the school, immediately upon admission by the employee, took disciplinary action. This disciplinary action will be reviewed again in context of the findings and recommendations outlined in this report.

As recommended, the school will include annually, in its weekly campus-wide email, a reminder of the school's computer and fixed assets policies. The school will review its policies, procedures and new employee orientation practices to ensure that all employees acknowledge that they have read and understand the UNCSA fixed assets policies and procedures and expectations associated with compliance.

Thank you for acknowledging that the school did comply with the required statutory State Bureau of Investigation (SBI) filing (G.S. 114-15.1) of this incident. It was always the intent of the Chief of Police to update the initial SBI submission once the school had obtained this report. The SBI Incident Report will be updated within one week of the release of this report.

As reflected in the responses below, the school has reviewed and enhanced its internal controls over certain categories of non-capitalized IT related equipment to try to further reduce its risk of a potential misuse of school property.

INTERNAL AUDIT'S REVIEW

Based on our review of the available evidence and inquiry of staff, we determined the following related to the details mentioned in audit finding #1 as of our report date:

- Upon admission by the Chief Information Officer that she gave a University-owned laptop to her son for his personal use, and prior to release of the investigative audit report, University management took disciplinary action against the Chief Information Officer. This disciplinary action was reviewed by University management subsequent to the release of the investigative report and determined to be adequate.
- Following the release of the investigative audit report, University management initiated a new annual equipment review process. The new process is web-based and requires each University employee to login to the University's policy portal and review and accept key University policies, including the University's technology use and fixed asset policies. All University employees were required to review and accept each policy by November 18th, 2013.

AUDIT FINDINGS AND RESPONSES *(continued)*

- The University's technology use and fixed assets policies include consequences for non-compliance.
- The University provided evidence of an updated filing submitted to the State Bureau of Investigation on September 3, 2013 reflecting the details of the Chief Information Officer's misappropriation of the laptop computer. The updated submission appears to be in compliance with the filing requirements per North Carolina General Statute § 114-15.1.

INTERNAL AUDIT'S OPINION

It is our opinion that satisfactory progress has been made toward resolving this finding.

2. NONCOMPLIANCE WITH SCHOOL EQUIPMENT POLICY

Investigators found that the CIO did not follow School policies for safeguarding and tracking equipment in the Information Technologies Department. According to School policy, department heads are responsible for safeguarding and tracking all School equipment in their departments. As the head of the School's Information Technologies Department, the CIO is responsible for the equipment in that department.

Investigators also determined that the School's recently installed "Track-It" system, used for tracking issues with computers, tablets, cell phones, and other electronic devices was deficient. Specifically, the CIO informed investigators that, while repairs to students' computers were always recorded in "Track-It," repairs to faculty member's computers usually were not.

The School's fixed asset policy states that department heads are responsible for safeguarding all assets purchased for the department and assisting with the physical inventory process.⁸ The policy further states that departments must have an internal tracking procedure for school equipment.⁹ School equipment would include computers with an acquisition cost of less than \$5,000. The CIO told investigators that her department does not conduct an annual inventory of any computers with an acquisition cost of less than \$5,000.

In addition to the School's policies, the North Carolina Office of the State Controller (State Controller) established best practices for safeguarding assets. The State Controller's policies separate fixed assets into two categories: inventoried assets and capitalized assets. While computers do not rise to the level of a capitalized asset in terms of cost (more than \$5,000), they are still considered to be inventoried assets; "goods or objects" that are valued between \$500 and \$4,999.¹⁰ The State Controller also stipulates that a physical inventory will be taken of inventoried assets at least once a year at the same time the capitalized fixed assets are inventoried.¹¹

⁸ North Carolina School of the Arts, Fixed Assets Policy #304 IV. B.1.

⁹ North Carolina School of the Arts, Fixed Assets Policy #304 IV. B.2.

¹⁰ Office of the State Controller Policies and Procedures – Fixed Asset Overview.

¹¹ Office of the State Control Capitalization/Classification Policy.

AUDIT FINDINGS AND RESPONSES *(continued)*

RECOMMENDATION

School management should verify that a physical inventory of School equipment is performed in conjunction with the annual fixed asset inventory.

The School's fixed asset policy should be re-emphasized with all department heads to ensure compliance.

School management should establish a requirement that all issues with computers and other electronic devices processed through its Information Technologies Department are recorded in the "Track-It" system.

UNIVERSITY'S RESPONSE

The North Carolina Office of the State Controller offers state agencies four options regarding non-capitalized assets. These four options can be found in the Fixed Asset Overview section of the State Information Guide. UNCOSA adopted option four of this policy. This policy states: "The \$5,000 threshold indicates that your agency chooses not to document assets valued at less than \$5,000." Since UNCOSA elected this option, an annual inventory of non-capitalized items is not mandated. Even though UNCOSA made this election, the school felt that additional controls over certain categories of these assets were warranted. As noted in the report, UNCOSA developed an institutional policy that states: "For fixed assets and school equipment, departments will develop an internal tracking procedure which includes specific locations." Upon additional analysis, this policy will need further elaboration. Due to its lack of specificity, the school's departments have interpreted and implemented this policy in various ways and at various levels of detail. Some of the departments were managing these inventorial items with more detail while others were not. Since becoming aware of this audit issue, four departments, including the IT department, have created an inventory process for certain categories of non-capitalized IT related equipment. The school will review its current policies and processes to provide more direct guidance to the departments and will determine the necessary refinements to its policies and procedures that are manageable with the existing personnel resources and processes in place. UNCOSA will develop an annual inventory process for the non-capitalized (inventoried) assets that are tracked at the departmental level.

The school, on an annual basis, will remind all employees of its fixed assets policies.

INTERNAL AUDIT'S REVIEW

Based on our review of the available evidence and inquiry of staff, we determined the following related to the details mentioned in audit finding #2 as of our report date:

- Following the release of the investigative audit report, University management developed new policies and procedures for tracking mobile information technology (IT) equipment. The University defines mobile IT equipment as laptops, iPads, tablets, notebook computers, printers, and cell phones. As part of the new procedures, all University employees with

AUDIT FINDINGS AND RESPONSES *(continued)*

mobile IT equipment were to list each item on the University's newly implemented "Off-Campus Equipment Report Form" by November 11th, 2013. The University required each department or division head to authorize the forms, send the originals to the Purchasing Department and to designate a contact person to maintain copies of the forms within the department. The form is to be kept current at all times and renewed and sent to the Purchasing Department annually by January 31st each year.

- The University provided evidence to show that issues with computers and other electronic devices, specifically related to IT staff, are now being recorded in the "Track-It" system.

INTERNAL AUDIT'S OPINION

It is our opinion that satisfactory progress has been made toward resolving this finding.

3. SUPERVISORY APPROVAL NOT REQUIRED FOR EQUIPMENT PURCHASES

School management told investigators that supervisory approval was not required for department heads purchasing equipment for use in their respective departments.

The School uses a staggered three-year cycle for issuing new computers to various departments. The School refers to this cycle as the "recycling process." Within the three- year recycling process for the School's Information Technologies Department, the CIO requisitioned a variety of digital equipment for her own use, as shown in Table 2.

TABLE 2			
DIGITAL EQUIPMENT REQUISITIONED BY CIO*			
Product	Serial Number	Date	Cost
27" Apple iMac Desktop	QP0230845PM	6/6/2010	\$2,693
27" Apple Cinema Display	W82171636JL	6/10/2012	\$1,028
Apple MacBook Pro Laptop	W8011270642	3/16/2010	\$2,828
Apple MacBook Pro Laptop	W80230H2AGX	6/2/2010	\$2,373
Dell Latitude E6530 Laptop	4X2ZKV1	10/2/2012	\$1,083
Apple iPad 64GB	DMPHJ3MVDJ8V	4/12/2012	\$798
Apple iPad Mini 64GB	F4KKK4PNF195	3/26/2013	\$667
LG Smart 42LV5500 42" LED HD TV	201RMKU4B125	2/10/2012	\$898
Panasonic TC L42E50 42" LCD TV	22820724	1/24/2013	\$730
Total			\$13,098

AUDIT FINDINGS AND RESPONSES *(continued)*

<p>* The equipment listed above was requisitioned by the CIO for her own use. The cost figures represent the amounts paid by the School for these products during the three-year recycling process ended March 2013.</p>
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The Apple MacBook Pro laptop S/N W80230H2AGX, listed above, was in the possession of the CIO's son the day before investigators arrived at the School and took possession of it. If the CIO had been required to provide justification and obtain supervisory approval prior to purchase, it is possible that the purchase of the other laptops, including the one given to her son, would have been questioned.

Requiring supervisory approval helps ensure accountability over the acquisition of equipment. Supervisors should evaluate the appropriateness of each request for new equipment prior to approving the purchase. The approval policy should apply to all employees, including department heads.

RECOMMENDATION

School management should adopt a policy that requires supervisory approval for department heads requisitioning equipment for their own use at the School.

UNIVERSITY'S RESPONSE

The school concurs with the recommendation and will adopt a procedure that requires all equipment and furniture purchases of the direct reports to either the Provost or the Chief Operating Officer be approved by them.

INTERNAL AUDIT'S REVIEW

Based on our review of the available evidence and inquiry of staff, we determined the following related to the details mentioned in audit finding #3 as of our report date:

- On November 5th, 2013, the University adopted a new "Approval of Equipment or Furniture" purchasing procedure for department heads. The new procedure requires that all department heads obtain approval from the Chief Operating Officer (COO) or the Provost prior to purchasing equipment or furniture. Further, the Purchasing and Accounts Payable Departments have been instructed not to generate orders or payments for department heads without notification of prior approval by the COO or Provost.

INTERNAL AUDIT'S OPINION

It is our opinion that satisfactory progress has been made toward resolving this finding.