



STATE OF NORTH CAROLINA

THE UNIVERSITY OF NORTH CAROLINA AT PEMBROKE STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

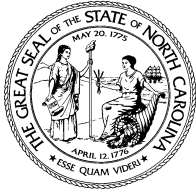
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
Members of the North Carolina General Assembly
Board of Trustees, The University of North Carolina at Pembroke
Dr. Allen C. Meadors, Chancellor
The University of North Carolina at Pembroke

We have completed certain audit procedures at The University of North Carolina at Pembroke related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *Single Audit Report*, the State Auditor presents the results of tests of internal control and compliance with laws, regulations, contracts, and grants applicable to the State's major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the Single Audit Act.

Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the University's administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole.

The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, these findings are reported in the State's *Single Audit 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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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
and Management of The University of North Carolina at Pembroke

Compliance

As part of our 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, 2008, we have performed audit procedures at The University of North Carolina at Pembroke. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at The University of North Carolina at Pembroke included the following:

- SFAC - Student Financial Assistance Cluster

The audit results described below are in relation to our audit scope at the University and not to the State of North Carolina as a whole.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of compliance with those requirements.

The results of our audit procedures at The University of North Carolina at Pembroke disclosed instances of noncompliance that are required to be reported in accordance with

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

OMB Circular A-133 and which are described in findings 3, 4 and 5 in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in findings 1, 2, 3, 4, and 5 in the Audit Findings and Responses section of this report to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the Audit Findings and Responses section of this report to be material weaknesses in relation to our audit scope at the University.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Beth A. Wood". The script is cursive and fluid.

Beth A. Wood, CPA
State Auditor

February 13, 2009

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. INAPPROPRIATE SYSTEM ACCESS RIGHTS TO FINANCIAL AID DATA

The University has assigned some employees in the financial aid department information system access rights inconsistent with adequate security over financial data. This increased the risk of unauthorized or inappropriate transactions.

When we examined the access rights to the financial aid software and data, we noted the following:

- Security classes had been established in which employees could modify data and also the rules for processing data.
- Security classes had been established in which employees were authorized to award financial aid and modify the logs of who entered data into the system.
- Some employees were assigned to multiple security classes with overlapping responsibilities.
- One employee had more than one user identification.

Sound internal controls require that University employees be assigned the least level of information system access necessary to perform their jobs and that adequate segregation of duties be maintained to prevent or detect errors or fraud.

Federal Award Information: Award #s P007A073145, P033A073145, P063P071947, P375A071947, P376S071947, and P03A043145. Award Year July 1, 2007 – June 30, 2008.

Recommendation: The University should ensure that access rights to the financial aid software are appropriate for employees' job requirements. The access rights should support a segregation of duties to prevent or detect errors or fraud.

University's Response: The University "went live" with Banner Financial Aid in July 2007. During the initial set-up of this new system, employees were given access rights beyond their current levels of responsibility. This access was never curtailed after Banner Financial Aid was fully implemented. The University limited access rights to those necessary to carry out job responsibilities on February 25, 2009. UNCP has limited the Financial Aid Administrator class (the function in Banner which controls all processing rules) to the Associate Director of Technology and Support, who does not award financial aid to students. UNCP has limited the Banner screen, which logs all user access, to the Associate Director of Technology and Support. University Financial Aid staff have multiple security classes and in some situations there are overlapping job

AUDIT FINDINGS AND RESPONSES (CONTINUED)

responsibilities, due to the limited number of Financial Aid staff. However, the Director of Financial Aid has reviewed the appropriate Banner access of each Financial Aid employee and will review this access bi-annually, in January and July, to ensure that appropriate security access is consistent with job responsibilities. The University has eliminated the multiple user ID of the Financial Aid employee detailed in the findings.

2. INADEQUATE RECONCILIATIONS OF STUDENT FINANCIAL AID AWARDS

The University did not reconcile students' financial aid awards calculated by the financial aid department to students' awards paid by the business office and to the funds the University received from the federal government to pay students' financial aid. As a result there was an increased risk of error in payments, receipts, and/or financial aid records and reports.

Chapter 12 of the federal Blue Book states that at a minimum, a school's financial management system, including its accounting system must provide monthly reconciliation of individual federal student aid awards as recorded in the financial aid, business office, student account and federal systems.

Federal Award Information: Award #s P007A073145, P033A073145, P063P071947, P375A071947, P376S071947, and P03A043145. Award Year July 1, 2007 – June 30, 2008.

Recommendation: The University should perform monthly reconciliations of student awards calculated by the financial aid department to student awards paid by the business office to the funds received from the federal government.

University's Response: The University agrees that monthly reconciliations should be performed between Financial Aid and the Business Office, regarding federal awards. The University is developing a protocol to ensure that monthly reconciliations are performed and documented between Financial Aid and the Business Office.

3. ERRORS IN THE RETURN OF FEDERAL FUNDS

The University made errors in calculating the amount of unearned student financial aid due back to the federal government and did not return the funds in a timely manner. Based on the results of our tests, the University returned \$5,630 less than required. It is likely that more than \$10,000 is due back to the federal government from the total population.

Title 34 CFR, Part 668.22 requires that when a student withdraws from the University, the University must calculate the amount of federal financial aid that was not earned by the student and return that amount as soon as possible, but no later than 45 days after the date the University determines the student withdrew.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

We tested a sample of 29 students who were awarded federal financial aid and then withdrew from the University and found:

- In 20 cases there was unearned financial aid to be returned to the federal government, and in all 20 cases the refund calculated by the University was incorrect.
- In 11 of the 20 cases where funds were unearned, the University returned the unearned award funds from two to 271 days late, with an average of 121 days late.
- In seven of the 20 cases where funds were unearned, the University returned different amounts than indicated by its own calculations.

Federal Award Information: Award #P063P071947. Award Year July 1, 2007 – June 30, 2008.

Recommendation: The University should ensure that federal funds that are unearned by students who withdraw from the University are accurately determined and returned to the federal government within the required timeframe.

University's Response: The University agrees with this finding and has taken the following steps:

1. Financial Aid is reviewing all returns to Title IV (also know as R2T4) for the 2007-08 award year and will make adjustments as necessary to ensure returns are correct. The University will return to the Department of Education all unearned student financial aid immediately after concluding its review of past calculations.
2. Financial Aid has reviewed all returns to Title IV completed for the 2008-09 award year to ensure that they are correct.
3. Financial Aid will complete the good practice assessments for return to Title IV found on the U.S. Department of Education website:
<http://www.ifap.ed.gov/qahome/fsaassessment.html>
4. The Vice Chancellor for Enrollment Management, Registrar, Dean of Graduate Studies, the Associate Vice-Chancellor of Academic Affairs and the Director of Financial Aid met to review the University's student withdrawal policy and procedures. As a result of this review, Graduate Studies has amended their withdrawal application. The Registrar is in the process of amending both their online and paper withdrawal processes. The Registrar will record the last date of attendance into Banner within one week after the student has given notice of their intent to withdraw. Financial Aid will pull a report of new withdrawals every two weeks and perform the return calculation for these students. The Director of Financial Aid or the Associate Director of Financial Aid will review both the withdrawal report and the calculations on a monthly basis to ensure compliance with federal guidelines.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

4. UNTIMELY NOTICE TO LENDER OF CHANGES IN STUDENTS' STATUS

The University did not provide student financial aid lenders timely notice of student withdrawals from the University. Title 34 CFR, Part 685.309(b)(2) requires the University to notify the National Student Clearinghouse within 30 days of its discovery that a recipient of a federal direct loan has ceased to be enrolled on at least a half-time basis, failed to enroll, or changed his or her permanent address unless it expects to submit its next student status confirmation report within the next 60 days.

The University failed to provide timely notice for 13 of the 21 student withdrawals we reviewed. Withdrawals were reported from 4 to 71 days late, with an average of 30 days late.

Federal Award Information: Award Year July 1, 2007 – June 30, 2008.

Recommendation: The University should improve controls to provide timely notification of changes in student status.

University Response: The University agrees that it failed to notify the National Student Clearinghouse as required by federal guidelines. In the future, to correct the untimely notice of changes in student status, the Registrar will submit withdrawal notices to the National Student Clearinghouse within thirty (30) days of discovery. This specific task has been assigned to the Associate Registrar and has been added to his/her work plan.

5. INCORRECT FEDERAL AID AWARDS

The University did not award the correct amount of federal financial aid to three students. As a result, we are questioning \$1,120 in financial aid costs. It is likely that questioned costs exceed \$10,000 in the total population.

Three of the 70 students tested did not receive the correct amount of aid. Two students should have received different amounts of aid because their unmet financial need was not updated after their information was verified. This resulted in one under-award of \$150 and one over-award of \$1,100 in Pell funds. One student received \$20 more in Federal Family Education Loans than the student was eligible to receive.

Title 34, CFR, Part 668.61(a) requires the University to recover overpayment of financial aid when the verification process reveals the award exceeded financial need. Part 682.603(e) of that title limits Federal Family Education Loans to the students' calculated financial need.

Federal Award Information: Award #P063P071947. Award Year July 1, 2007 – June 30, 2008.

Recommendation: The University should have a management review process in place to ensure that students receive the correct amount of federal financial aid.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

University Response: The University agrees with this audit finding. Financial Aid will conduct a random review of Financial Aid files each semester to reduce the number of errors and ensure that students are receiving the correct amount of financial aid. This review will include periodic reviews of student folders. The Director of Financial Aid or the Associate Director will sample the work of each aid counselor to ensure compliance with federal guidelines. The University has begun the process of collecting unearned financial aid from the two (2) over-awards discovered during this audit.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at www.ncauditor.net. Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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