



STATE OF NORTH CAROLINA

WINSTON-SALEM STATE UNIVERSITY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

LESLIE W. MERRITT, JR., CPA, CFP

STATE AUDITOR

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Michael F. Easley, Governor
Members of the North Carolina General Assembly
Winston-Salem State University Board of Trustees
Dr. Donald Julian Reaves, Chancellor
Winston-Salem State University

We have completed certain audit procedures at Winston-Salem State University 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 the 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.

Leslie W. Merritt, Jr.

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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**

Winston-Salem State University Board of Trustees
and Management of Winston-Salem State University

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 Winston-Salem State University. 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 Winston-Salem State University 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.

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

The results of our audit procedures at Winston-Salem State University disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in findings 1, 2, and 3 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, and 3, 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 accompanying audit findings and responses to be material weaknesses in relation to our audit scope at the University.

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

Management's responses to the findings are included in the accompanying audit findings and responses. We did not audit the responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Winston-Salem State University 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.

Leslie W. Merritt, Jr.

Leslie W. Merritt, Jr., CPA, CFP
State Auditor

November 20, 2008

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. STUDENT FINANCIAL AID OVER-AWARDS AND ERRORS

The University over-awarded financial aid to several students and awarded the wrong type of student loans to other students. As a result, we are questioning \$15,158 in federal costs.

We tested eligibility for 72 students who were awarded financial aid during the 2007-08 academic year and identified six students who were over-awarded. One student received a \$4,946 over-award because the financial aid office increased the student's cost of attendance budget without documented justification. Another student received a \$3,487 over-award because the financial aid office applied a cost of attendance budget inconsistent with the student's enrollment status. Students are assigned a cost of attendance budget by the University based on a variety of factors to ensure that students are treated equitably in their consideration for financial aid. Modifications to the budgets can be made at the University's discretion for students with specific needs, but all changes should be documented in the students' files.

Four students in our sample received over-awards totaling \$6,725 because the University did not include outside scholarships or tuition waivers as part of the students' financial resources when calculating need. Federal regulations require that the University take other financial resources into consideration when awarding financial aid.

The University erroneously awarded two students in our sample the wrong type of federal loans. The students received \$9,000 in unsubsidized federal loans when they should have first been awarded \$8,500 in subsidized federal loans. Unsubsidized loans result in more interest expense to students, and federal regulations require that institutions determine subsidized loan eligibility prior to awarding unsubsidized loans.

Federal Award Information: Federal Family Education Loans; Award year – 7/1/07 to 6/30/08.

Recommendation: The University should improve internal control to ensure that student financial aid is awarded in accordance with federal regulations. The University should ensure that changes to student financial aid budgets are documented.

University's Response: Concur with finding.

Corrective Action: The University has improved internal controls to ensure that student financial aid is awarded in accordance with federal regulations. Currently, cost of attendance budgets have been established and standardized for similar student groups. Students may request in writing that the cost of attendance be increased based on documented expenses not considered in the initial budget required to continue their

AUDIT FINDINGS AND RESPONSES (CONTINUED)

educations. Revisions to established budgets must be documented and approved. The University will implement quarterly audit procedures to ensure that changes to student financial aid budgets are documented.

2. WEAKNESS IN THE STUDENT FINANCIAL AID APPLICATION VERIFICATION PROCESS

The University did not document that eligibility verification procedures were performed for four students selected for verification by the Department of Education. As a result, we are questioning \$29,576 in federal costs.

There was no documentation in four of 60 student files examined to show that verification procedures were performed. The University is required by federal regulations to obtain documentation to validate application data for selected students.

Federal Award Information: Award #s – P063P061969, P007A063195, P033A073195, Federal Family Education Loans, and Federal Perkins Loan Program; Award year - 7/1/07 to 6/30/08.

Recommendation: The University should improve internal controls over the eligibility verification process to ensure that all student application data, for those selected for verification by the central processor, are verified in accordance with program requirements. The appropriate documentation should be maintained on file as evidence that the verification process occurred.

University's Response: Concur with finding.

Corrective Action: The University has improved internal control as it relates to the eligibility verification process which ensures that all student application data are verified in accordance with program requirements for students selected for verification by the central processor. Appropriate documentation will be maintained electronically and serve as evidence that the verification process occurred through implementation of document management procedures for securing information in student files. The University will implement quarterly audit procedures to ensure that the eligibility verification process through evidence has occurred.

3. STUDENT FINANCIAL AID FUNDS NOT RETURNED TO PROVIDERS AS REQUIRED

The University did not properly return student financial aid funds to the federal government or appropriate lenders when due. We identified \$19,418 that was not returned at all and \$4,367 that was returned late.

Federal regulations require 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 those funds to the federal government or appropriate lender. The funds must be returned within 45 days of the date that the University determined that a student withdrew.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

We tested 18 students who withdrew from the University during the 2007-08 academic year. In five cases, no calculation was performed to determine if there were funds subject to return. We performed the calculation and determined that \$5,005 should have been returned. In 10 cases, the calculation was performed; however, the University failed to return \$14,413 of the calculated amount. In three cases, the calculation was performed and funds totaling \$4,367 were returned; however, they were returned between 34 to 257 days late.

Federal Award Information: Award #s - P063P061969, P007A063195, and Federal Family Education Loans; Award year - 7/1/07 to 6/30/08.

Recommendation: The University should comply with federal regulations by ensuring that federal funds that are unearned by students who withdraw from the University are returned to the federal government or appropriate lender within the required timeframe.

University's Response: Concur with finding.

Corrective Action: Procedures in Financial Aid have been established to identify students with all W-withdraw, I-incomplete, or F-failure grades at mid-term and at the end of the semester to identify potential unofficial withdrawals. The University is in the process of introducing a class attendance policy that will require faculty to call class roll for the first ten days of each semester. This will assist in identifying students who are not attending class regularly and who are unlikely to earn Title IV funding support. In addition, new procedures have been implemented to disseminate a student withdrawal report from the Office of the Registrar on a weekly basis to ensure accurate calculation and timely return of Title IV fund repayments. The University will ensure that federal funds that are unearned by students who withdraw from the University are returned to the federal government or appropriate lender within the required timeframe by implementing monthly audit procedures.

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