



STATE OF NORTH CAROLINA

ELIZABETH CITY STATE UNIVERSITY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

ELIZABETH CITY STATE UNIVERSITY

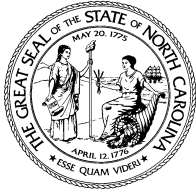
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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue
Members of the North Carolina General Assembly
Board of Trustees, Elizabeth City State University
Dr. Willie J. Gilchrist, Chancellor
Elizabeth City State University

We have completed certain audit procedures at Elizabeth City 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 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.

Beth A. Wood, CPA
State Auditor

**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 Elizabeth City 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 Elizabeth City 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 Elizabeth City 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.

The results of our audit procedures at Elizabeth City State University disclosed instances of noncompliance that 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.

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

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 and 2 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 10, 2009

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. INADEQUATE RECONCILIATION 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 and finance department or to the funds that the University received from the federal government in order 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.

The University also did not reconcile their Direct Loan School Account Statement (SAS) to the University's financial records during the audit period. The University must report all loan disbursements to the Direct Loan Servicing System within 30 days of disbursement. Each month the University receives a SAS data file which consists of a cash summary and cash detail report from the Direct Loan Servicing System. The University is required to reconcile these files to their financial records. Auditors compared direct loan disbursements per the Direct Loan SAS year-to-date cash summary from the Department of Education to direct loan disbursements per the University's records and noted an unreconciled difference of \$74,856.

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 reconciliations of individual federal student aid awards as recorded in the financial aid, business office, student account, and federal systems. Federal regulations also require the University to reconcile their Direct Loan School Account Statement to the University's records each month.

Federal Award Information: Awards #s P063P070321, P375A070321, P007A0703094, P033A073094, and P376S070321 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 and finance department to the funds received from the federal government. The University should also perform monthly reconciliations of the University's financial records and the Direct Loan System records to ensure compliance with federal regulations.

Response: We concur with the recommendation and acknowledge the critical need for compliance with federal regulations. During August 2007, the university converted to a different enterprise system, Banner, from Student Information Systems. As a result of implementing a different system, all reconciliation processes among the Office of Student Financial Aid, Office of Student Accounts and Contracts & Grants were not finalized prior to the beginning of the 2007 academic year.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Effective February 2009, the Office of Student Accounts and the Office of Contracts and Grants have modified procedures concerning reconciling federal funds. The Office of Financial Aid will report all disbursements within 30 days of disbursement to the Direct Loan Servicing System. The offices of Student Accounts and Contracts & Grants will reconcile all cash summary and detail reports received from the Office of Financial Aid to the financial records of the University. In addition, these reconciliations will be included in the monthly close-out review report.

2. FEDERAL LOAN FUNDS NOT DISBURSED TIMELY

The University did not disburse federal loan funds to students and did not return to lenders undisbursed loan funds within the required timeframe. Title 34 CFR, Part 668.167(b) requires the University to disburse loan funds within three business days following the date the funds are received and to return undisbursed loan funds to the lender no later than 10 business days after the date the University is required to disburse the funds.

We tested 40 students who were awarded Federal Family Education Loans. In 31 cases, the students did not receive their loan funds until four to 40 days after the University had received the funds from the lenders. Also, loan funds received by the University on January 2, 2008 that were not disbursed to three students were not returned to the lender until February 29, 2008, 41 business days after the funds were received.

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

Recommendation: The University should implement procedures to ensure that Federal Family Education Loan funds are disbursed to students or returned to lenders within the required time frame.

Response: We concur with the recommendation and acknowledge the critical need for compliance with federal regulations. As previously stated, the University converted to a different enterprise system, Banner, in the Fall of 2007. Student enrollment for the semester was not verified prior to the release of the electronic disbursement records.

A new enrollment verification process was implemented for the Fall 2008 semester that requires faculty members to verify a student's attendance. This will resolve enrollment issues for the Office of Student Financial Aid. Starting with the Spring 2009 semester, faculty has 2 weeks to verify enrollment before disbursements are made. The Registrar's Office has worked with the Office of Student Financial Aid to ensure that enrollment verification is processed before funds are disbursed.

3. INELIGIBLE FEDERAL AID RECIPIENT

The University disbursed federal financial aid to one student who did not meet eligibility requirements. As a result, we are questioning \$4,461 in financial aid costs. It is likely that questioned costs exceed \$10,000 in the total population.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

We examined a sample of 131 students and found one that did not meet the satisfactory academic progress requirements. The student received \$965 of Pell funds and \$3,496 of Direct Loan funds.

Title 34 CFR, Part 668.32 establishes the eligibility requirements for student financial aid. The regulations require that all recipients of federal funds remain in good academic standing, including maintaining a minimum grade point average and satisfactory progress towards their degree.

Federal Award Information: Award # P063P070321 Award year July 1, 2007 – June 30, 2008.

Recommendation: The University should have a management review process in place to ensure that students meet all eligibility requirements before federal funds are disbursed.

Response: We concur with the recommendation and acknowledge the critical need for compliance with federal regulations. This problem occurred as a result of the transition between systems. The student in question had discontinued his academic studies two years earlier in 2005. At the time that the student ceased to pursue his academic studies, he had attempted over 150% of the number of hours required for graduation. Due to the extensive length of time between the student's enrollment in 2007 and his withdrawal from the university in 2005, the student's academic history had not been transferred to the new system, Banner. Federal funds were disbursed in error to the student.

The Office of Student Financial Aid has modified the SAP procedure. Furthermore, academic histories of all students for the last ten years have been loaded into Banner, the new enterprise system for the University. The Office of the Registrar also maintains the academic history of students that attended the University more than ten years in the past. This will prevent a recurrence of this error.

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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