

STATE OF NORTH CAROLINA

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

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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

FOR THE YEAR ENDED JUNE 30, 2009

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State Auditor

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue
Members of the North Carolina General Assembly
Board of Trustees, The University of North Carolina at Pembroke
Dr. Charles R. Jenkins, 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, 2009. 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.

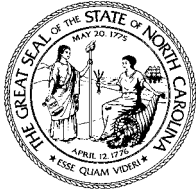
Our audit objective was to render an opinion on the State of North Carolina's administration of major federal programs and not the University's administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North 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, 2009, 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 an instance of noncompliance that is 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 is described in finding 2 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.

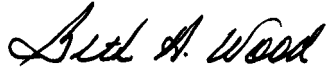
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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 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 of The University of North Carolina at Pembroke, 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.



Beth A. Wood, CPA
State Auditor

March 17, 2010

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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 office and to the funds the University received from the federal government during the period July 2008 through March 2009. 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 requires that a school's financial management system include a monthly reconciliation of federal student aid awards recorded in the financial aid, business office, student account, and federal systems.

This finding was also reported in the prior year.

Federal Award Information: CFDA # 84.007 - Federal Supplemental Educational Opportunity Grant, Award # P007A083145; CFDA # 84.032 - Federal Family Education Loans; CFDA # 84.033 - Federal Work Study Program, Award # P033A083145; CFDA # 84.038 - Federal Perkins Loan Program; CFDA # 84.063 - Federal Pell Grant Program, Award # P063P081947; CFDA # 84.375 - Academic Competitiveness Grant, Award # P375A081947; CFDA # 84.376 - National Science and Mathematics Access to Retain Talent Grant, Award # P376S081947; CFDA # 84.379 - Teacher Education Assistance for College and Higher Education Grants, Award # P379T081947. Award Year July 1, 2008 – June 30, 2009.

This finding has been resolved. The University implemented procedures to reconcile federal awards and correct the deficiencies as of April 2009.

Auditee's Response: We agree with the auditor's comments, and the following action has been taken to correct the deficiencies. The University has implemented procedures and controls to reconcile federal awards received, financial awards calculated by the financial aid department, awards paid by the business office. The deficiencies were corrected and the controls were implemented as of April 2009.

2. FEDERAL REPORTING TO OFFICE OF THE STATE CONTROLLER CONTAINED MISSTATEMENTS

The University incorrectly reported expenditures of federal awards to the Office of the State Controller for inclusion in the State's schedule of expenditures of federal awards. We compared the reported expenditures to the University's accounting records and identified the following errors in the reported amounts:

AUDIT FINDINGS AND RESPONSES (CONTINUED)

- Federal Supplemental Educational Opportunity Grants were understated by \$15,085.
- Federal Pell Grants were understated by \$131,814.
- Academic Competitiveness Grants were overstated by \$5,125.
- National Science and Mathematics Access to Retain Talent Grants were overstated by \$8,000.
- Federal Family Education Loans were overstated by \$767,494.

Controls were not in place to ensure that the reporting to the Office of State Controller were prepared in accordance with federal requirements. OMB Circular A-133 requires that the University prepare federal expenditure reporting for the period covered by the University's financial statements.

Federal Award Information: CFDA # 84.007 - Federal Supplemental Educational Opportunity Grant, Award # P007A083145; 84.032 - Federal Family Education Loans; CFDA # 84.063 - Federal Pell Grant Program, Award # P063P081947; CFDA # 84.375 - Academic Competitiveness Grant, Award # P375A081947; and CFDA # 84.376 - National Science and Mathematics Access to Retain Talent Grant, Award # P376S081947. Award Year July 1, 2008 - June 30, 2009.

Recommendation: The University should enhance internal control to ensure that reports of expenditures of federal awards submitted to the Office of the State Controller are complete and accurate.

Auditee's Response: We agree with the auditor's comments, and the following action has been taken to correct the deficiencies. The UNCP Finance Office and Financial Aid Office have jointly implemented controls and procedures to ensure timely completion of the A-133 Schedule of Expenditures of Federal Awards (SEFA) report to ensure those figures are reported for the standard July 1st to June 30th fiscal year. The Finance Office has corrected the SEFA report covering the 2008-2009 year.

3. INAPPROPRIATE INFORMATION SYSTEM ACCESS STUDENT FINANCIAL AID SYSTEMS AND DATA

The University did not maintain adequate internal control over access to student financial aid computer systems and data. As a result, there is an increased risk of error or fraud occurring without detection.

We identified four student service specialists, responsible for awarding financial aid, who had access to modify data and the rules for processing data. Access to modify rules for processing data should be limited to employees who are not involved with the awarding and disbursing of financial aid. These employees and an administrative support associate/verification specialist also had access to areas within the financial aid system that are not used by the University.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

Employees should be assigned the minimal level of information systems access needed to perform their job duties. Duties should be segregated such that employees, in the normal course of performing their assigned functions, can prevent or detect errors or fraud on a timely basis.

Significant aspects of this finding were also reported in the prior year.

Federal Award Information: CFDA # 84.007 - Federal Supplemental Educational Opportunity Grant, Award # P007A083145; CFDA # 84.032 - Federal Family Education Loans; CFDA # 84.033 - Federal Work Study Program, Award # P033A083145; CFDA # 84.038 - Federal Perkins Loan Program; CFDA # 84.063 - Federal Pell Grant Program, Award # P063P081947; CFDA # 84.375 - Academic Competitiveness Grant, Award # P375A081947, CFDA # 84.376 - National Science and Mathematics Access to Retain Talent Grant, Award # P376S081947, CFDA # 84.379 - Teacher Education Assistance for College and Higher Education Grants, Award # P379T081947. Award Year July 1, 2008 - June 30, 2009.

Recommendation: The University should take appropriate steps to strengthen internal control over access to the computer systems and data and address the deficiencies described above.

Auditee's Response: We agree with the auditor's comments and the following action has been taken to correct the deficiencies. The Financial Aid Department and the Division of Information and Technology have modified the access for the student service specialists to the minimum level of information system access needed to perform their job duties. The Financial Aid Director will conduct an annual review of Banner classes to ensure that employees' security access does not exceed the level necessary to perform their assigned job duties.

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