

STATE OF NORTH CAROLINA

WINSTON-SALEM STATE UNIVERSITY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

WINSTON-SALEM STATE UNIVERSITY
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

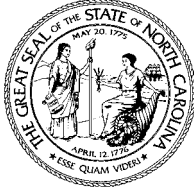
FOR THE YEAR ENDED JUNE 30, 2009

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves Perdue
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, 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.

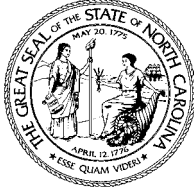
The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the Single Audit Act, these 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet <http://www.ncauditor.net>

**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, 2009, 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.

The results of our audit procedures at Winston-Salem State University disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and

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

which are described in findings 1, 2, 3, and 4 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.

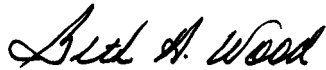
A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal 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, and 4 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, 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.



Beth A. Wood, CPA
State Auditor

March 17, 2010

[This Page Left Blank Intentionally]

AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control over federal compliance and/or noncompliance with laws, regulations, contracts, or grants.

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 \$69,144 in federal costs. During our audit, we noted the following:

- Undocumented changes to 17 student financial aid recipients' cost of attendance budgets resulted in over-awards of \$59,094. We tested 31 students with manual changes to their cost of attendance budgets in the 2008-2009 academic year and found that 29 of the 31 student files had no documentation to justify the budget changes. Modifications to the budgets can be made at the University's discretion for students with specific needs, but all changes are required to be documented in each student's file.

University Response: Concur with finding.

Corrective Action: The Office of Financial Aid will begin utilizing the student information system (BANNER) differently to document changes to the cost of attendance budgets as they occur. For FY2010, new components were added to the BANNER budget form to identify approved budget changes and messages are added to the student's electronic files to document the approved change. For FY2011 budgets will be standardized and a part of the initial set up in BANNER.

- We tested 45 students for eligibility during the 2008-2009 academic year and identified four students who were over-awarded aid. One student was over-awarded \$6,066 when an incorrect enrollment status was used in the student's award calculation. One student was over-awarded \$1,825 due to an oversight in the University's award calculation. Two students were over-awarded \$2,159 when the University did not consider correctly other scholarships received in the calculation of student need. We determined that 36 different scholarship programs and waivers awarded at the University were incorrectly considered in the calculation of student financial aid need.

University Response: Concur with finding.

Corrective Action: University Administration has reviewed the Change of Registration policy that states the allowable timeframe for the addition and reduction of course loads.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

Execution of this policy will eliminate over awards due to incorrect enrollment statuses in the future.

Beginning in FY 2011 the Office of Financial Aid will not use scholarships to replace the expected family contribution (EFC). The only funds that will be allowed to replace EFC will be federal unsubsidized loans and PLUS loan funds as approved by the Department of Education. For the remainder of FY 2010, access to the scholarship funds set-up form in BANNER has been restricted to management.

- In addition, the University erroneously awarded four students in our sample of 45 the wrong type of federal loans. The students received \$8,030 in unsubsidized federal loans when they should have received \$11,084 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.

University Response: Concur with finding.

Corrective Action: Beginning FY 2011 the Office of Financial Aid will run reports to identify students that have had manual changes to the loan amounts awarded. Staff will review each account to ensure that federal regulations in reference to subsidized and unsubsidized loan amounts are followed.

Significant aspects of this finding have been reported for three consecutive years.

Federal Award Information: Award #s – P063P061969, P007A063195, T08HP09694A0, and Federal Family Education Loans; Award year - 7/1/08 to 6/30/09.

Recommendation: The University should improve internal control to ensure that student financial aid is awarded in accordance with federal regulations and 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 three students selected for verification by the Department of Education. As a result, we are questioning \$32,148 in federal costs.

There was no documentation in three of 51 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.

This finding was also reported in the prior year.

Federal Award Information: Award #'s – P063P061969, P007A063195, and Federal Family Education Loans; Award year - 7/1/08 to 6/30/09.

AUDIT FINDINGS AND RESPONSES (CONTINUED)

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 Response: Concur with finding.

Corrective Action: The University reviewed each identified student's file. In each case, BANNER documents that the requested information was received and corrections were made to the student's application for financial aid, however we were unable to find the documents in the student files. For FY 2011, a staffing plan has been developed to hire additional staff responsible for data entry and filing. The University also has a plan to implement document imaging systems in the Office of Financial Aid by FY 2012.

3. STUDENT FINANCIAL AID FUNDS FOR WITHDRAWN STUDENTS NOT CLEARED TIMELY

The University did not properly return student financial aid funds to the federal government or appropriate lenders and disburse remaining funds to withdrawn students when due. We identified \$1,894 that was not returned to funding sources or disbursed to students at all and \$42,571 that was returned to the federal government or lenders 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. Any earned grant funds should be disbursed to the student's account. The funds must be returned or disbursed within 45 days of the date that the University determined that a student withdrew.

We tested 81 students who withdrew from the University during the 2008-09 academic year. In two cases, no calculation was performed to determine if there were funds subject to return. We performed the calculation and determined that \$1,801 should have been returned. In one case, the calculation was performed; however, the University failed to disburse earned grant funds in the amount of \$93 to the student's account. In 19 cases, the calculation was performed and funds totaling \$42,571 were returned; however, they were returned between 17 and 165 days late.

This finding has been reported for three consecutive years.

Federal Award Information: Award #s – P063P061969 and Federal Family Education Loans; Award year – 7/1/08 to 6/30/09.

Recommendation: The University should comply with federal regulations by ensuring that federal funds that are unearned by students who withdraw from the University are

AUDIT FINDINGS AND RESPONSES (CONTINUED)

returned to the federal government or appropriate lender within the required timeframe and any earned grant funds are disbursed to the student's account.

University Response: Concur with finding.

Corrective Action: On June 26, 2009 the University returned the \$1,801 to the lender and disbursed the \$93 in grant funds to the student's account. The Office of Financial Aid has developed procedures that will correct late and non-returns of title IV funds within a 45 day period. These processes will be put into effect immediately and are detailed below for official and unofficial withdrawals:

Official Withdrawal Return of Title IV Process

The Registrar's Office will provide the Billings and Receivables Department with approved official withdrawals immediately after the approval is granted. The Director of Billings and Receivables will ensure that funds are returned to the lenders/federal government within the required 45 day timeframe.

Unofficial Withdrawal Return of Title IV Process

Beginning Spring 2010, BANNER will be reprogrammed to ensure that faculty members are required to submit a "last date of attendance" for each student who has failed to earn a passing grade. This will allow the Office of Financial Aid to identify funds that must be returned to the lender/federal government because of non-attendance within the required 45 day timeframe.

4. INCONSISTENCIES IN STUDENTS' COST OF ATTENDANCE

The University established different cost of attendance budgets for categories of similar students and similar aid periods. Federal regulations require that the University establish standard costs of attendance for different categories of students and apply the cost allowances uniformly to all students within the categories.

The University's cost of attendance budgets for undergraduate students with children or undergraduate students who are married were different from the undergraduate students who have no children or are unmarried. We noted the following inconsistencies:

- Cost of attendance budgets were \$312 to \$1,875 more, depending on aid period, for an in-state student living off campus who has children or is married than for the same category of student who has no children or is unmarried.
- Cost of attendance budgets were \$312 to \$1,016 more, depending on aid period, for an out-of-state student living off campus who has children or is married than for the same category of student who has no children or is unmarried.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

In addition, the University's cost of attendance budgets for one semester (fall or spring aid period) were substantially less than half of the amount for a two-semester aid period (fall and spring budget combined).

Federal Award Information: Award #s – P063P061969, P007A063195, P0331083195, P376S061969, P375A081969, T08HP09694A0, A10HP10244-01-00, Federal Family Education Loans, and Federal Perkins Loan Program; Award year - 7/1/08 to 6/30/09

Recommendation: The University should apply the same cost of attendance budget to similar groups of students and similar aid periods in accordance with federal regulations.

This finding has been resolved: The University corrected inconsistencies in cost of attendance budgets and aid periods for the 2009-2010 academic year.

NOTE: Budget components were corrected on July 1, 2009, prior to the start of the 2009-2010 academic year.

[This Page Left Blank Intentionally]

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:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Telephone: 919/807-7500

Facsimile: 919/807-7647