

STATE OF NORTH CAROLINA

ELIZABETH CITY 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

ELIZABETH CITY STATE UNIVERSITY

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AUDITOR'S TRANSMITTAL

The Honorable Beverly Eaves 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, 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**

Elizabeth City State University 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, 2009, 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 and 2 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.

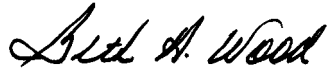
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did 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.

This report is intended solely for the information and use of management, Elizabeth City State University Board of Trustees, others within the entity, and federal awarding agencies and

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

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

March 17, 2010

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. FEDERAL LOAN FUNDS NOT DISBURSED TIMELY

The University did not disburse federal loan funds to students within the required timeframe. Federal regulations (34 CFR section 668.167(b)) require the University to disburse loan funds to students within three business days following the date the funds are received by electronic transfer and within 30 calendar days if the funds are received by check.

We tested 60 students who were awarded Federal Family Education Loans. In 15 cases, the students did not receive their loan funds until one to 29 business days beyond the date funds should have been disbursed.

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

Federal Award Information: Federal Family Education Loans for award year July 1, 2008 - June 30, 2009.

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

University's Response: We concur with the recommendations. At the time the findings for the 2008 year were released, all Federal Family Education Loans for the fall 2008 disbursements and all but 35 spring 2009 disbursements were already made and could not be corrected. From the previous finding, we implemented a corrective action plan to address this issue in the spring 2009 (too late to impact the spring). These actions resulted in correcting the audit finding during the summer of 2009. The 35 remaining spring disbursements all disbursed within the 3 day limit. The additional controls have been added:

- a. July 2009 - A loan aging report is run twice a week to show any Federal Family Education Loans funds not disbursed. Under the UNC FIT standard, we have 3 days to disburse funds. This information is reported to General Administration.
- b. August 2009 - All awards are locked until ready to disburse.
- c. September 2009 - We modified when funds are received from the lenders. Each lender now sends funds once a week instead of everyday.
- d. January 2010 - Student Accounts allows Financial Aid to continue to disburse daily so that FFEL funds are not waiting to post to the students' accounts.

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

2. INADEQUATE RECONCILIATION OF STUDENT FINANCIAL AID AWARDS

The University did not complete all the monthly reconciliations for the students' financial aid awards as required by federal guidelines. As a result, there was an increased risk of errors in payments, receipts, and/or financial aid records and reports.

The financial aid department began preparing the monthly reconciliations between financial aid awards calculated by the University and the funds approved by the federal government to pay students' financial aid in September 2008. The student accounts department prepared a monthly reconciliation of the financial aid awards calculated by the University and the students' awards paid by the business and finance department only for April 2009 through June 2009. At no point during the fiscal year did the University reconcile financial aid disbursements per the financial aid department and the awards paid by the business and finance department to the federal funds drawn and deposited with the University.

Chapter 12 of the federal Blue Book states that a school's financial management system must include monthly reconciliations of individual federal student aid awards as recorded in the financial aid, business office, student account, and federal systems. It also states that in order to have adequate internal control, the school must compare the total draws per the federal system to the amount disbursed to students or returned to the federal agency.

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

Federal Award Information: Award numbers P063P080321, P375A080321, P007A083094, P033A083094, P379T09032, and P376S080321 for award year July 1, 2008 - June 30, 2009.

Recommendation: The University should enhance internal control to ensure that all the required reconciliations are completed. A full reconciliation process should include comparisons of student financial aid awards recorded in the financial aid department, business office, federal system, and moneys actually received from the federal government.

University's Response: We concur with the recommendation and acknowledge the critical need for compliance with federal regulations. The Office of Financial Aid began reconciling with the federal system including actual draw downs per the Common Origination and Disbursement (COD) system in September 2008. In April 2009, the offices of Financial Aid and Student Accounts began performing monthly reconciliations of calculated student financial aid awards to actual financial aid paid to students. We completed the reconciliation process by reconciling financial aid, student accounts and Contracts and Grants draw downs of federal funds in G5 with the revenue posted to the general ledger effective January 2010.

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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