



# STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE  
UNIVERSITY**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2010**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

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UNIVERSITY**

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State Auditor

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**Office of the State Auditor**

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**AUDITOR'S TRANSMITTAL**

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The Honorable Beverly Eaves Perdue, Governor  
Members of the North Carolina General Assembly  
North Carolina Agricultural and Technical State University Board of Trustees  
Dr. Harold L. Martin, Sr., Chancellor  
North Carolina Agricultural and Technical State University

We have completed certain audit procedures at the North Carolina Agricultural and Technical State University related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2010. 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; 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*.

Our audit objective was to render an opinion on the State of North Carolina's, 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 finding referenced in the report is also evaluated to determine its 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 OMB Circular A-133, this finding is 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 THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**

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North Carolina Agricultural and Technical State University Board of Trustees and Management of the North Carolina Agricultural and Technical 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 could have a direct and material effect on each of its major programs for the year ended June 30, 2010, we have performed audit procedures at the North Carolina Agricultural and Technical State University. Our report on the State of North Carolina's compliance with requirements that could have a direct and material on 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 North Carolina Agricultural and Technical 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 the University's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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The results of our audit procedures at the North Carolina Agricultural and Technical State University disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in the Audit Finding and Response 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

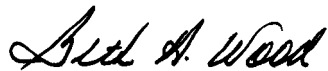
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we consider the deficiencies described in the finding in the Audit Findings and Responses section of this report to be a significant deficiency in internal control over compliance, as defined above.

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A  
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

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Management's response to the finding identified in our audit is included in the Audit Findings and Responses section of this report. We did not audit the response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the North Carolina Agricultural and Technical State University Board of Trustees, others within the entity, the Governor, the General Assembly, 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 11, 2011

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## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Financial Reporting or Federal Compliance Objectives**

The following finding and recommendation was identified during the current audit and discusses a condition that represents a deficiency in internal control and/or noncompliance with laws, regulations, contracts, or grants.

#### **UNIVERSITY FAILED TO PROPERLY RETURN UNEARNED STUDENT FINANCIAL AID FUNDS**

The University did not properly return unearned student financial aid funds for students who ceased attendance during the audit period. We identified \$3,624 that was not returned to the federal government or an appropriate lender.

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. Federal requirements also state that when a student does not begin attendance at the institution, all student financial aid funds must be returned to the federal government or appropriate lender.

We tested 40 students who officially withdrew and 34 students who unofficially withdrew from the University during the audit period. A student is identified as a potential unofficial withdrawal when the student receives all failing grades for the term.

In our test of official withdrawals, we identified two instances, totaling \$2,707, where the University did not compute and return unearned financial aid funds. We also identified two errors, totaling \$917, in our test of unofficial withdrawals. In one of these cases, the unearned portion of the student's financial aid was miscalculated and resulted in the University returning \$392 less than the required amount. In the other instance, the University could not document that the financial aid recipient began attendance at the University for the period. The student received \$525, which the University was required to return in its entirety but failed to do so.

The University's known questioned cost for failure to return student financial aid in accordance with federal regulations is \$3,624. Based on our evaluation of our test results, we estimate that the likely questioned costs exceed \$10,000 for this compliance requirement.

The University has since returned all unearned student financial aid identified for the known errors noted above.

*Federal Award Information:* Award #'s - Federal Pell Grant, P063P090317 and Federal Direct Loan, P268K100317. Award year July 1, 2009 – June 30, 2010.



## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Recommendation:* The University should review and improve procedures to ensure that all unearned student financial aid funds are returned to the federal government or to lending agencies in accordance with federal requirements. The University should review the records of all students receiving student financial aid who officially or unofficially withdrew from the University during the 2009-2010 award period to ensure that all unearned aid was returned in accordance with federal requirements.

*Audit Response:* We concur that the University should adhere to established policies and procedures for all withdrawals. All of the funds in question have been returned. Additional procedures are being developed to insure compliance.

## ORDERING INFORMATION

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://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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