



# STATE OF NORTH CAROLINA

**FAYETTEVILLE STATE UNIVERSITY**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2011**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

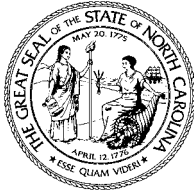
**STATE AUDITOR**

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**Beth A. Wood, CPA**  
State Auditor

STATE OF NORTH CAROLINA

# 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  
Board of Trustees, Fayetteville State University  
Dr. James A. Anderson, Chancellor  
Fayetteville State University

We have completed certain audit procedures at Fayetteville State University related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2011. 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.

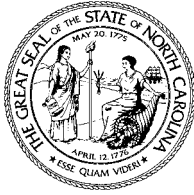
The audit findings referenced in the report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts, and grants. If determined necessary in accordance with *Government Auditing Standards* or the OMB Circular A-133, these 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 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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Fayetteville State University Board of Trustees  
and Management of Fayetteville 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, 2011, we have performed audit procedures at Fayetteville State University. Our report on the State of North Carolina's 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 is included in the State's *Single Audit Report*. Our federal compliance audit scope at Fayetteville State University included the following:

- 84.031 Higher Education Institutional Aid

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 Fayetteville 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.

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.

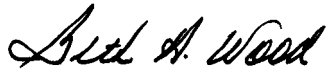
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and 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 findings 1 and 2 in the Audit Findings and Responses section of this report to be significant deficiencies 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 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, the 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 9, 2012

## **AUDIT FINDINGS AND RESPONSES**

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### **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 and/or noncompliance with laws, regulations, contracts, or grants.

#### **1. LACK OF CONTROLS OVER PREPARATION OF THE ANNUAL PERFORMANCE REPORT**

For the Higher Education Institutional Aid program, the University did not have controls in place to ensure that the Annual Performance Reports were prepared in accordance with program requirements. Thus, there is an increased risk of inaccurate and/or incomplete reports.

During our review of the report, we noted the following deficiencies:

- The Annual Performance Reports were prepared using data outside of the October 1, 2010 to September 30, 2011 reporting period. This resulted in the underreporting of \$160,062 in expenditures for the Student Aid and Fiscal Responsibility Act (SAFRA) grant and the underreporting of \$239,745 in expenditures for the Strengthening Historically Black Colleges and Universities Program (HBCU). In total, the University underreported grant expenses for the federal fiscal year 2011 in the amount of \$399,807.
- Documentation supporting the classification of grant expenses was inadequate to validate the Annual Performance Report's expense classification for legislative allowable activities (LAA). These expense classifications drive the information to be presented in the remainder of the performance report. Because an LAA's expense information was not properly entered or omitted, the preparer was not directed to answer performance measurement questions related to an activity area. This rendered the report incomplete.
- There were also areas of the Annual Performance Report where data presented was not consistent throughout the report.

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. More specifically, the OMB Circular A-133 requires that the non-Federal entity have controls in place "to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements."

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B070087-08 for the award period October 1, 2008-September 30, 2009; Federal Award P031B070087-09 for the award period October 1, 2009- September 30, 2010; Federal Award P031B085087-09 for the award period October 1, 2009- September 30, 2010; Federal award P031B070087-10 for the award period October 1, 2010- September 30, 2011.

*Recommendation:* The University should place greater emphasis on annual performance reporting. The University should strengthen internal controls to ensure the completeness and accuracy of these reports.

*Response:* The University agrees with the finding and recommendation. We will take the necessary steps to ensure greater emphasis on annual performance reporting. Additional procedures will be put in place to guarantee the completeness and accuracy of these reports. A corrective action plan has been outlined, which will be monitored as part of the University's annual internal auditing program.

### 2. INTERNAL CONTROLS OVER PROCUREMENT AND SUSPENSION AND DEBARMENT NEED IMPROVEMENT

For the Higher Education Institutional Aid program, the University did not have adequate controls to ensure compliance with procurement and suspension and debarment requirements. Thus, there is an increased risk of noncompliance with these laws and regulations.

University personnel did not fully understand State purchasing policies and procedures for sole source and competitive purchases. In addition, University personnel were not aware of Federal requirements for certifications related to lobbying activity and suspension and debarment. Seventeen out of 39 purchases tested did not have the proper documentation to support the purchase in accordance with State and Federal regulations.

The A-133 Compliance Supplement states: "States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations."

State purchasing policy requires all purchases that are expected to be over \$5,000 to be open to competition when selecting a vendor. The University can only waive competition for specific reasons detailed by State policy. When competition is waived, written justification must be maintained by the University.

OMB Circular A-110 requires that a certification regarding lobbying activities and a certification regarding suspension and debarment be collected from a vendor if the expected purchase will be greater than \$100,000.



## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B070087-08 for the award period October 1, 2008-September 30, 2009; Federal Award P031B070087-09 for the award period October 1, 2009- September 30, 2010; Federal Award P031B085087-09 for the award period October 1, 2009- September 30, 2010; Federal award P031B070087-10 for the award period October 1, 2010- September 30, 2011.

*Recommendation:* The University should strengthen internal controls to ensure that appropriate procurement and suspension and debarment policies are followed and relevant documentation is maintained.

*Response:* The University agrees with the finding and recommendation. Title III activity directors will adhere to the policies and procedures for purchasing as printed on the Business and Finance website. Additional training will be provided for the Title III activity directors on purchasing policies and procedures, including procurement and suspension and debarment requirements, to assure that they understand the processes. The corrective action plan for this finding will be monitored as part of the University's internal auditing program.

## **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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