



# STATE OF NORTH CAROLINA

**UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**UNIVERSITY OF NORTH CAROLINA AT CHARLOTTE**  
**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**  
**FOR THE YEAR ENDED JUNE 30, 2012**

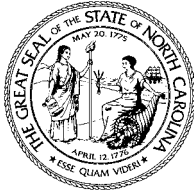
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Beth A. Wood, CPA  
State Auditor

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Office of the State Auditor

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**AUDITOR'S TRANSMITTAL**

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The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Board of Trustees  
Dr. Phillip L. Dubois, Chancellor  
University of North Carolina at Charlotte

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at the University of North Carolina at Charlotte for the year ended June 30, 2012. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*. We conducted the audit 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*.

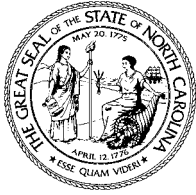
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA  
State Auditor



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**INDEPENDENT AUDITOR'S 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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Board of Trustees  
and Management of the University of North Carolina at Charlotte

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, 2012, we have performed audit procedures at the University of North Carolina at Charlotte. 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 the University of North Carolina at Charlotte 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.

**INDEPENDENT AUDITOR'S 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 University of North Carolina at Charlotte 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.

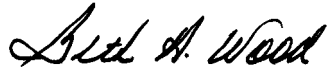
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses, and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

**INDEPENDENT AUDITOR'S 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, 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 5, 2013

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## **AUDIT FINDINGS AND RESPONSES**

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### **Matters Related to Federal Compliance Objectives**

#### 1. UNTIMELY RECONCILIATION OF DIRECT LOAN DISBURSEMENTS

The University did not reconcile Direct Loan disbursements to accounting information in a timely manner. Federal Regulations (34 CFR, section 685.102(b)) require the University to reconcile disbursement records monthly.

We tested seven months for which reconciliations should have been completed. In three cases, the reconciliations were not completed by the University.

*Federal Award Information:* Award Year July 1, 2011 - June 30, 2012

*Recommendation:* The University should design and implement effective controls to ensure that Direct Loan disbursements are reconciled to accounting information in a timely manner.

*Response:* To ensure that Direct Loan disbursements are reconciled to accounting information in a timely manner, the University created a full-time Financial Aid Accountant position in the Office of Student Financial Aid. The Financial Aid Accountant is responsible for the reconciliation of all federal funds, including Direct Loans, as well as the reporting of disbursement information to the Common Origination & Disbursement (COD) System. The incumbent has received adequate training for this role and a back-up plan is in place as a contingency. All Direct Loan monthly reconciliations for the fiscal year ended June 30, 2012, were completed and reviewed as of September 7, 2012. Direct Loan monthly reconciliations for FY13 will be up-to-date by December 31, 2012 and will be completed timely going forward.

#### 2. FAILURE TO SEND DIRECT LOAN NOTIFICATIONS

The University failed to send required written notification to students, or parents, receiving Federal Direct Loan funds. Federal regulations (34 CFR, section 668.165) requires the University to notify students, or parents, who are loan recipients, in writing, and these notifications must include (1) the anticipated date and amount of the disbursement, (2) the student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the proceeds returned to the holder of the loan, and (3) the procedures and time by which the student or parent must notify the University that he or she wishes to cancel the loan. The University must provide the notification no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the University.

We tested 36 disbursements of Direct Loan funds. In all 36 instances, notifications were not sent as required by federal regulations.



## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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*Federal Award Information:* Award Year July 1, 2011 - June 30, 2012

*Recommendation:* The University should design and implement a control to ensure students, or parents, receive notification of Direct Loan disbursements as required.

*Response:* During a quality control check by the Office of Student Financial Aid in February 2012, it was determined that the University failed to send required written notification to students, or parents, receiving Federal Direct Loan funds. As a result, the University designed and implemented a control to ensure that the notification of Direct Loan disbursements are sent in conjunction with the loan funds crediting the students' accounts. The notification process is automated through the Banner Financial Aid module and successfully sent notifications for loans disbursed in the 2012 Summer and 2012 Fall terms.

## 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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