

STATE OF NORTH CAROLINA

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

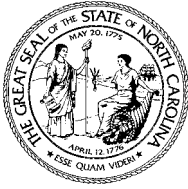
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Gary Miller, Chancellor
University of North Carolina at Wilmington

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 Wilmington 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*.

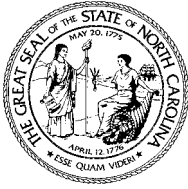
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor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

Board of Trustees
and Management of the University of North Carolina at Wilmington

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 Wilmington. 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 Wilmington included the following:

- 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)**

The results of our audit procedures at the University of North Carolina at Wilmington disclosed no instances of noncompliance that are required to be reported in accordance with OMB Circular A-133.

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.

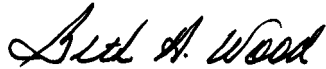
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 deficiency described in the Audit Findings and Responses section of this report to be a significant deficiency 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)**

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 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

Matters Related to Federal Compliance Objectives

IMPROVEMENTS NEEDED IN DIRECT LOAN NOTIFICATION PROCESS

The University did not notify students each time a Direct Loan disbursement was credited to their account in accordance with federal regulations. As a result, students or parents were not provided certain written notifications that could result in the student or parent making an uninformed decision related to the acceptance or rejection of these loans.

Our test of 40 recipients revealed the following:

- The University did not notify nine recipients for 16 of the 42 payments credited to their accounts.
- The University did not notify one recipient for two of the five payments credited to the student's account within the timeframe specified in the federal regulations. The notification occurred two days late for this recipient.

The University is required by federal regulation 34 CFR section 668.165 to notify the student, or parent in writing of (1) the 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 loan proceeds returned to the holder of that loan, and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan disbursement. The University must provide the notification no earlier than 30 days before, and no later than 30 days after, crediting the student's account.

Federal Award Information: Award #P268K120329. Award Year July 1, 2011 - June 30, 2012.

Recommendation: The University should ensure that appropriate notification is made to all federal direct loan recipients in a timely manner.

Managements Response: As a result of this finding, the Office of Scholarships & Financial Aid conducted a thorough review of the programming used in Banner to identify and notify student and parent loan borrowers of their disbursement status in accordance with the federal regulation 34CFR section 668.165. During this review, a programmatic issue, within Banner, as well as, the policy and practice between the Office of Scholarships & Financial Aid and Student Accounts, was identified and corrected. It appears that the notification process had been transferred from Student Accounts to the Office of Scholarships & Financial Aid and the appropriate changes to the selection criteria within had not been made. The original selection criteria used the "date a loan disbursed" rather than the "net notification" when changes or adjustments were made to the loan and resulted in any subsequent disbursements. As a result of this discovery, the revised selection criteria was adjusted to include the "net notification"

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

to ensure any loan change and/or adjustment that results in a disbursement will result in an automatic notification to the student loan borrower or parent borrower.

In addition to the lack of proper notification to student loan borrowers and parent borrowers regarding their loan disbursements, the auditors also identified an individual who was notified of their loan disbursement outside of the specified timeframe allowable for notification (30 days). Prior practice in the Office of Scholarships & Financial Aid had been to send notification at the end of each month; however, no adjustment to that policy was made for those months that contained 31 days, or when the last day of the month fell on a holiday or weekend. The lack of adjustments for this particular instance resulted in at least this student not being notified within the proper timeframe of 30 days. To ensure compliance with the 30 day notification requirement for all students, the Office of Scholarships & Financial Aid policy and procedures were updated and the implementation schedule to process and send loan disbursement notifications twice per month (1st and 15th) started in September, 2012. This new policy and practice ensures that no loan disbursement notification occurs outside the allowable 30 day timeframe. In addition, this current process has been updated on the calendar of the Assistant Director responsible for processing, and the Office of Scholarships & Financial Aid Operational Calendar.

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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Facsimile: 919/807-7647

This audit required 438 audit hours at an approximate cost of \$31,536. The cost represents .04% of the \$83.2 million in total federal expenditures subjected to audit.