



# STATE OF NORTH CAROLINA

**FAYETTEVILLE STATE UNIVERSITY**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**FAYETTEVILLE STATE UNIVERSITY**

**STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES**

**FOR THE YEAR ENDED JUNE 30, 2012**

**BOARD OF TRUSTEES**

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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, Fayetteville State University  
Dr. James A. Anderson, Chancellor  
Fayetteville State University

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 Fayetteville State University 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*.

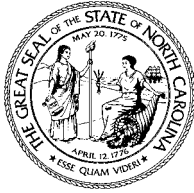
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor 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 cursive script 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 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, 2012, 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.

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 one through four in the Audit Findings and Responses section of this report.

**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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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 findings one thru four in the Audit Findings and Responses section of this report to be material weaknesses in internal control over compliance, as defined above. 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

## **AUDIT FINDINGS AND RESPONSES**

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

#### **1. INTERNAL CONTROLS OVER DAVIS-BACON REQUIREMENTS NEED IMPROVEMENT**

For the Higher Education Institutional Aid program, the University entered into construction contracts totaling \$594,255 which did not comply with the Davis-Bacon Act. As a result, there is an increased risk that wages paid to laborers do not comply with appropriate wage requirements.

Of the five construction contracts funded, all failed to contain the required prevailing wage clause. Four of the five contracts did not comply with the requirement for contractors to submit weekly certified payrolls to the University.

The A-133 Compliance Supplement states “all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor.

Non-Federal entities shall include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).”

*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: 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; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

*Recommendation:* The University should strengthen controls to ensure that all construction contracts financed by Federal assistance are in compliance with the requirements of the Davis-Bacon Act.

*Response:* The University agrees with the finding and recommendation. We have taken the necessary steps to ensure compliance with the Davis-Bacon Act. The Construction Contract Templates for federally funded projects now include the language related to the Davis-Bacon Act requirements. A corrective action plan has been outlined which will be monitored as part of the University’s annual internal auditing program.

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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### 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. Eighteen out of 72 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.

This finding was also reported in the prior year.

*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: 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; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

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

*Response:* The University agrees with the finding and recommendation. We implemented a corrective action plan on June 30, 2012. Also, the Title III activity directors and principal investigators for other federal grant programs will adhere to the established policies and procedures for purchasing. These policies and procedures are on

## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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the University's website under Business and Finance/Purchasing. The website now includes specific information related to Sole and Single Source Purchases; Waiver of Competitive Purchasing; Internal Policies and Procedures related to Federal Debarment; a Debarment Certification form and a link to Sam.gov and the Excluded Parties List System (EPLS). Training has been provided for the Title III activity directors on these requirements to make sure the processes are followed and understood; whereas additional training is on-going.

The Purchasing Department reviews and maintains relevant documentation related to these requirements. The implemented corrective action plan will be monitored as part of the University's annual internal auditing program.

### 3. CASH MANAGEMENT CONTROLS NEED IMPROVEMENT

The University did not have adequate internal controls over cash management for the Higher Education Institutional Aid program. As a result, Federal cash in excess of immediate cash needs was requested and received by the University. These excess amounts received ranged from \$173,017 to \$623,809 per payment request.

The University's internal controls did not properly limit cash payment requests to minimum amounts needed or time requests in accordance with the actual, immediate cash requirements of the program. Thus, all twelve payment requests examined were in excess of immediate cash requirements.

Title 34 CFR 74.22, states that payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the payment by the recipient.

Title 34 CFR 74.22(b)(2) states cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Title 34 CFR 74.22(b)(3) states that the timing and amount of cash advances are as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs.

*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: 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; Federal Award P031B070087-11 for the award period October 1, 2011 - September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 - September 30, 2012.



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*Recommendation:* The University should strengthen internal controls to ensure Federal cash management regulations are followed. Payment requests should be limited to the minimum amounts needed and timed in accordance with immediate cash needs.

*Response:* The University agrees with the finding and recommendation. In January 2013, we implemented a corrective action plan. In September 2012, a reconciliation of the Five (5) Year Title III Cycle was performed which identified excess cash.

A detailed analysis was performed to confirm the excess cash drawdown, to identify the causes and to clarify the processes for returning funds. The excess cash was returned to the U. S. Department of Education on January 16, 2013. Procedures have been implemented to perform manual reviews of expenditures versus revenue for each fund within a federal award. This is in comparison to a negative cash report which will ensure that the review is timed in accordance with immediate cash needs. Cash balances are reviewed the last day of each month and drawdown requests for that period are submitted no later than the last day of the following month. If a subsequent review indicates excess cash, the funds will be returned immediately. The outlined corrective action plan will be monitored as part of the University's annual internal auditing program.

#### 4. INTERNAL CONTROLS OVER EQUIPMENT NEED IMPROVEMENT

The University did not have adequate internal controls in place to properly identify, safeguard and maintain equipment purchased with Higher Education Institutional Aid funds. Thus, there is an increased risk of loss or mismanagement of equipment.

The Higher Educational Aid program had equipment totaling \$1,665,090 including \$765,474 or 77 items of equipment which were purchased by two capital leases. The equipment items acquired through capital leases were not identified individually in the inventory system. Without specific identification physical inventory procedures may not be effective.

The A-133 Compliance Supplement states that "equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: 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; Federal Award P031B070087-11 for the award period October 1, 2011 - September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 - September 30, 2012.

*Recommendation:* The University should strengthen internal controls to adequately maintain equipment records in order to safeguard and maintain equipment. Specifically,

## AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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controls should be strengthened to ensure that equipment purchased with capital lease financing be properly itemized within the inventory system.

*Response:* The University agrees with the finding and recommendation. The unidentified equipment during the review by the State Auditor has now been identified and tagged. The University's inventory procedures require an annual physical inventory by departments. The physical inventory forms have been updated to include a field for Title III or federally funded tag numbers. Procedures are being implemented which will enable us to identify equipment purchased with federal funds. Hence, such equipment can be tagged accordingly upon receipt. The Fixed Asset Coordinator is also providing copies of the Fixed Asset Receiving Reports to the Title III Office as well as notices when equipment purchased with federal funds are disposed of and/or moved.

Capital Leases will be reviewed at the time of acquisition and at year end. This will allow us to verify that equipment purchased through capital leases are properly itemized within the inventory system and properly accounted for. Training will be provided for the Title III Activity Directors and the Principal Investigators of other federal grants. The training will further ensure that we understand and meet the requirements for asset management. A corrective action plan has been outlined which will be monitored as part of the University's annual 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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