

STATE OF NORTH CAROLINA

NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2013

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

NORTH CAROLINA STATE UNIVERSITY

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2013

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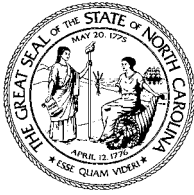
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

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Raleigh, NC 27699-0601
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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. W. Randolph Woodson, Chancellor
North Carolina 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 North Carolina State University for the year ended June 30, 2013. 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*.

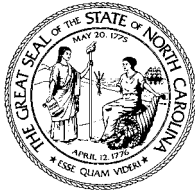
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor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

Board of Trustees and Management of North Carolina State University

Report on 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, 2013, we have performed audit procedures at North Carolina 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 North Carolina State University included the following:

- Student Financial Assistance Cluster
- Research and Development 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.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts, and grants applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's *Single Audit Report*. 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*

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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. However, our audit does not provide a legal determination of the University's compliance with those requirements.

Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's *Single Audit Report*.

Other Matters

The results of our audit procedures at North Carolina 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 Findings and Responses section of this report.

Report on Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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

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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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, as described in findings 1 and 2 in the Audit Findings and Responses section of this report, that we consider to be significant deficiencies.

Purpose of Report on Internal Control Over Compliance

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.

Management's Responses to Audit Findings

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. The responses were not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on them.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 14, 2014

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. UNTIMELY NOTICE TO LENDERS OF CHANGES IN ENROLLMENT STATUS

The University did not provide student financial aid lenders timely notice of student enrollment status changes. Federal regulations (34 CFR, section 682.610(c)) require the University to notify the lender within 30 days of discovery that a recipient of Federal Direct Loans has either ceased to be enrolled on at least a half-time basis, failed to enroll, has ceased to be enrolled on a full-time basis, or has changed his or her permanent address, unless the University expects to submit the next student status confirmation report within 60 days.

The University failed to provide timely notice to the lender for 3 of the 40 student enrollment status changes we tested.

Federal Award Information: Award Year July 1, 2012 through June 30, 2013

Recommendation: The University should improve controls to provide for timely notification to lenders of changes in students' status.

Response: The Office of Registration and Records has amended the enrollment reporting schedule utilized by the National Student Loan Clearinghouse to report student enrollment statuses. The Clearinghouse reporting schedule has been revised to include submission of an enrollment report the day after the end of each term. The end of the term is defined as the end of final exams for that term.

2. LACK OF CONTROLS OVER REQUIRED REPORTING OF FEDERAL GRANT DATA

The University did not have a system in place to ensure that required reporting under the Federal Funding Accountability and Transparency Act (Act) is complete, timely, and is supported by accounting records. One employee gathers, prepares, and submits the required information. The information submitted is not reviewed to ensure completeness and accuracy, nor is it monitored to ensure timely submission.

Of the 40 items we tested, actual noncompliance was not identified. However, lack of internal controls increases the risk that the University would not comply with federal regulations for reporting under the Act.

The Act requires that the University make available information to the public for subawards made on or after October 1, 2010 that are greater than \$25,000 via a single, searchable database (www.USASpending.gov). OMB Circular A-133 requires that the

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

reports include all activity for the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

Federal Award Information: The finding impacts federal funding period July 1, 2012 through June 30, 2013.

Recommendation: The University should implement controls to ensure that required reporting is completed timely and accurately.

Response: The Office of Sponsored Programs and Regulatory Compliance Services has developed a process to formally verify successful completion and oversight of the FFATA monthly reporting process, including procedures that will prevent a failure to submit a required report, a late submission of a required report, and/or a submission of a report with inaccurate information. The control adds to our existing process by having a member of SPARCS management team review the report prior to on-line submission for timeliness and accuracy and documenting said review and approval prior to the monthly submission deadline.

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Copies of this report may be obtained by contacting the:

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For additional information contact:

Bill Holmes
Director of External Affairs
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