

STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

GREENSBORO, 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 AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

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STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2013

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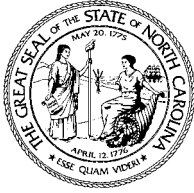
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Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
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<http://www.ncauditor.net>

AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Harold L. Martin, Sr., Chancellor
North Carolina Agricultural and Technical 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 Agricultural and Technical 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*.

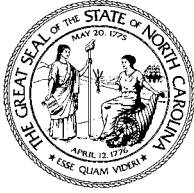
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor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

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 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

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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 Agricultural and Technical State University disclosed an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and which is described in the finding 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 type of compliance requirement of a federal program on a timely basis. A *material weakness*

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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. However, we consider the deficiency described in the finding in the Audit Findings and Responses section of this report to be a material weakness in internal control over compliance.

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 response to the finding identified in our audit is included in the Audit Findings and Responses section of this report. The response was 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 it.



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

IMPROVEMENTS NEEDED IN DIRECT LOAN NOTIFICATION PROCESS

The University did not notify students or parents each time a Direct Loan disbursement was credited to the student's account, as required by federal regulations. Therefore, students and parents were not provided information needed to make an informed decision related to the acceptance or rejection of these loans.

We examined a sample of 60 recipients and determined that six recipients did not receive proper notification for seven payments credited to their accounts.

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.

The reporting omissions occurred because the internally-generated report used by the University to identify students requiring notification was incomplete. The parameters of the report improperly omitted the criteria necessary to capture parent loans and loans to students that only registered for the spring semester.

Federal Award Information: CFDA 84.268 - Federal Direct Student Loans: Federal Award P268K130317 for award year July 1, 2012 - June 30, 2013.

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

University's Response: We concur that improvement is needed in the Direct Loan Notification Process for notifying students and parents of their right to cancel the loan disbursement. Corrective Action was immediately taken. The Office of Student Financial Aid has developed the following corrective actions:

- The parameter in the Direct Loan disbursement report generating the listing of loan recipients, disbursement amount and date of disbursement was revised immediately. The new parameters were sent to the State Auditor for verification.
- The Office of Student Financial Aid has increased the number of times the loan disbursement report runs per week to ensure timely notification.
- Timely notification of disbursements is now being sent to all direct loan borrowers.

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Copies of this report may be obtained by contacting the:

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Office of the State Auditor Fraud Hotline: 1-800-730-8477

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For additional information contact:

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Director of External Affairs

919-807-7513