

# STATE OF NORTH CAROLINA

**FAYETTEVILLE STATE UNIVERSITY  
FAYETTEVILLE, 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**

**FAYETTEVILLE STATE UNIVERSITY  
FAYETTEVILLE, NORTH CAROLINA**

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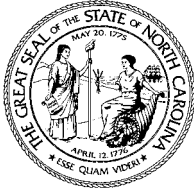
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Beth A. Wood, CPA  
State Auditor

STATE OF NORTH CAROLINA  
**Office of the State Auditor**

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**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, 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*.

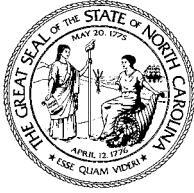
Our audit objective was to render an opinion on the State of North Carolina's, and not the University's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the University and not to the State of North Carolina as a whole. The State Auditor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

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Board of Trustees  
and Management of Fayetteville 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 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.

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,

**INDEPENDENT AUDITOR'S REPORT ON  
COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
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IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

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*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 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 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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COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND  
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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. However, we consider the deficiencies described in both findings in the Audit Findings and Responses section of this report to be material weaknesses 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 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

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### Matters Related to Federal Compliance Objectives

#### 1. CASH MANAGEMENT CONTROLS NEED IMPROVEMENT

The University did not time the drawdown of Higher Education Institutional Aid program funds with the associated disbursements. During the first three months of the fiscal year, funds were drawn down in excess of immediate needs, violating federal requirements. The University used the excess drawdowns over the next four months. However, for the period after February 2013, the University failed to promptly draw down federal funds, waiting over five months before making a request. This resulted in the University using other funds to cover the Higher Education Institutional Aid program expenditures.

Seven of the 13 reimbursement requests for the months of July 2012 through September 2012 were in excess of monthly expenses. The excess amounts received ranged from \$1,755 to \$319,137 per payment request. The total excess amounts drawn for this period was \$723,775.

After February 2013, the University did not make monthly requests for Higher Education Institutional Aid funds for the three individual awards tested. For two of the awards, a request was made August 27, 2013, for \$2,411,701, to cover the expenditures made since February. For the third award, a request was made on July 25, 2013, in the amount of \$289,791, to cover the expenditures made since February.

Title 34 CFR 74.22 states that drawdowns should be limited to the minimum amounts needed and are as close as is administratively feasible to the actual disbursements by the recipient organization.

*North Carolina General Statute* 147-86.11 states that funds due to a State agency by another governmental agency shall be promptly billed, collected, and deposited.

*Federal Award Information:* This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B085087 for the award period October 1, 2009 – September 30, 2010; Federal Award P031B085087-08 for the award period October 1, 2008 – September 30, 2009; Federal Award P031B085087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-12 for the award period October 1, 2012 – September 30, 2013; Federal Award P031B120554 for the award period October 1, 2012 – September 30, 2013.

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



## AUDIT FINDINGS AND RESPONSES (CONTINUED)

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*University Response:* The University agrees with the finding and recommendation. We have taken the necessary steps to ensure that compliance with federal and state cash management regulations are followed. Payment requests will be limited to the minimum amounts needed and timed in accordance with immediate cash needs. Going forward the Contracts and Grants office will ensure that all draws are done at least monthly to coincide with the monthly payroll schedule. Attached to the draw request will be documentation of all expenditures for the requested draw, such as, a reconciliation of revenue to expenditures for each fund related to the draw request. The Director of Contracts and Grants is currently in the process of reassigning this function to another staff member and will monitor the process to make sure that the draws are done timely and accurately.

A corrective action plan has been outlined and implemented, and will be monitored as part of the University's annual internal auditing program.

### 2. EXPENDITURES UNDERSTATED ON ANNUAL PERFORMANCE REPORT

The University understated federal expenditures by a combined \$1,708,039 on the 2012 annual performance reports for the Student Aid and Fiscal Responsibility Act (SAFRA) grant and the Strengthening Historically Black Colleges and Universities (HBCU) program. These errors may reduce the usefulness of the reports to the federal funding agencies.

The expenditures reported on the SAFRA report were understated by \$719,090 and the HBCU expenditures were understated by \$988,949. The University only included expenditures for the 2012 award when completing the report, even though it had incurred expenditures for grant awards from earlier years.

Title 2 CFR part 215 requires recipients' financial management systems to provide for accurate, current and complete disclosure of the financial results of each federally sponsored project.

*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 place greater emphasis on annual performance reporting. The University should strengthen internal controls to ensure the completeness and accuracy of annual performance reports.

*University Response:* The University agrees with the finding and recommendation. We have taken the necessary steps to ensure that the expenditures reported in the annual

## **AUDIT FINDINGS AND RESPONSES (CONCLUDED)**

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performance report are complete and accurate. To ensure that expenses used in the APR are those reported for the fiscal year of the grant, the Office of Title III, in collaboration with the Office of Contracts and Grants, has hired an accounting technician to support the Title III Office. This position will provide assistance to the Title III Office by performing various duties to include technical and administrative accounting, examining budget estimates for completeness and accuracy, and will provide all financial reporting for applications and reports due to the Federal Department of Education, and other external and internal offices. A corrective action plan has been outlined and will be monitored as part of the University's annual internal auditing program.

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## ORDERING INFORMATION

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Copies of this report may be obtained by contacting the:

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For additional information contact:

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