

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## ELIZABETH CITY STATE UNIVERSITY

ELIZABETH CITY, NORTH CAROLINA  
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES  
FOR THE YEAR ENDED JUNE 30, 2014



**NCOSA**  
The Taxpayers' Watchdog

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



**Beth A. Wood, CPA**  
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  
Dr. Stacey Franklin Jones, Chancellor  
Elizabeth City 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 Elizabeth City State University for the year ended June 30, 2014. 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 was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

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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Beth A. Wood, CPA  
State Auditor

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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.



# **INDEPENDENT AUDITOR'S REPORT**

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



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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 Elizabeth City State University

**Report on Compliance for Each Major Federal Program**

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, 2014, we have performed audit procedures at Elizabeth City 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 Elizabeth City 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 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 Elizabeth City State University disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in Finding 1 in the Findings, Recommendations, and Responses section of this report.

## **Report on Internal Control Over Compliance**

Management of Elizabeth City State University 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 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 the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

### **Elizabeth City State University's Responses to Audit Findings**

The University's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this report. The University's 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.

### **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.



Beth A. Wood, CPA  
State Auditor

Raleigh, North Carolina

March 24, 2015



# **FINDINGS, RECOMMENDATIONS, AND RESPONSES**



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## MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

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### 1. Error in Calculation for Return of Title IV Funds

The University incorrectly calculated how much money to return to the Title IV program after students supported by the program withdrew from school. The calculations were also untimely.

As a result, the University had more than \$18,300 in incorrect or late payments to the Title IV program that could have been allocated to support other students.

The University's calculations for how much to return to Title IV failed to include amounts for unofficial student withdrawals. For the fiscal year ended June 30, 2014, eight students received all grades of FA (Failure due to absenteeism). These students received \$46,981 in Title IV funds, and \$14,134.84 of this amount should have been calculated into the amounts to be returned. Additionally, two students who officially withdrew from all classes during the Spring 2014 semester were not included in the University's original calculation of return of Title IV funds, resulting in \$4,201.93 being returned late.

Federal regulations (34 CFR 668.22(a)(1) through (a)(5)) states that if the total amount of assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the of the institution's determination that the student withdrew, the difference must be returned to the Title IV programs.

The regulations (34 CFR sections 668.22(c) and (d)) also state that if the student ceases attendance without providing official notification to the institution of his or her withdrawal, the midpoint of the payment period, or if applicable, the period of enrollment is the withdrawal date.

Additionally, regulation ((34 CFR section 668.173(b)) requires that returns of Title IV funds be deposited or transferred into the Student Financial Aid account or that electronic fund transfers be initiated to ED or the appropriate FFEL lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

#### **Federal Award Information**

Award Year July 1, 2013 – June 30, 2014. CFDA 84.063 Federal Pell Grant Program (Pell); CFDA 84.268 Federal Direct Student Loans (Direct Loan)

#### **Recommendation**

The University should design and implement effective procedures to ensure that required calculations for returns of Title IV are complete and accurate and funds are returned on a timely basis in accordance with federal compliance requirements

#### **Agency Response**

The Director for Financial Aid will ensure that the following procedures are implemented immediately to ensure required calculations for the return of Title IV funds are complete, accurate, and returned on a timely basis. Further, Financial Aid will apply this procedure retrospectively starting with July 1, 2014.

### **Official Withdrawals**

- A monthly report from the Testing/Counseling of all students that have “officially” withdrawn from ECSU will be obtained by Financial Aid.
- Financial Aid will evaluate the report to determine which students received federal funding and will conduct a return to Title IV calculation to determine if there are “unearned” funds that must be returned to the awarding agency.
- Financial Aid will send a memo to Student Accounts of the Title IV funds that need to be returned listing the student, award agency, and amount.
- Financial Aid will send a letter to the student’s permanent address on file advising them of the amount of “unearned” aid that was returned to the awarding agency based on the official withdrawal date.
- Student Accounts will notify Contracts and Grants the amount to be returned electronically to the awarding agency and will also collect any balances due from the student.

### **Unofficial Withdrawals**

- Financial Aid will contact Institutional Research one week following the submission of mid-term grades requesting a report of all students that received a grade of “FA” in all of their coursework.
- Financial Aid will then contact the professors of the students identified to determine the last day that the student attended the class.
- The last day that student attended the class will be used and the “unofficial” withdrawal date for the return to Title IV calculation.
- Financial Aid will send a memo to Student Accounts of the Title IV funds that need to be returned listing the student, award agency, and amount.
- Financial Aid will send a letter to the student’s permanent address on file advising them of the amount of “unearned” aid that was returned to the awarding agency based on the official withdrawal date.
- Student Accounts will notify Contracts and Grants the amount to be returned electronically to the awarding agency and will also collect any balances due from the student.

## **2. Lack of Controls Over Required Direct Loan Reconciliations**

The University does not have a system in place to ensure that the amounts of Federal Direct Loans to students reported to the Department of Education agrees to actual loan disbursements in the accounting records.

As a result, federal records could be inaccurate

Federal regulations (34 CFR 685) require the University to reconcile the Student Account Statement (SAS) data file (received from the Department of Education) to the University’s financial records each month.

During our testing, actual noncompliance was not identified. However, lack of internal controls increases the risk that the University would not comply with the federal regulations.

### **Federal Award Information**

Award Year July 1, 2013 – June 30, 2014. CFDA 84.268 Federal Direct Student Loans (Direct Loan)

### **Recommendation**

The University should implement controls to ensure that required reconciliations are completed timely and accurately and are documented in accordance with federal compliance requirements.

### **Agency Response**

The Director of Financial Aid will ensure the following procedures are implemented starting with the month of January 2015 to ensure that required reconciliations are completed timely, accurately, and documented in accordance with federal compliance requirements:

- Financial Aid will load the monthly SAS data file into the Banner Financial Aid Module.
- A process will run that will generate a file with edits for review.
- This file will be loaded into the Direct Loan Tools software for further review and evaluation.
- Once the review is complete, the report will be saved on the Financial Aid shared drive as well as printed and signed by the Director of Financial Aid to signify that the monthly reconciliation is complete and accurate.
- The monthly report will be retained in a binder for access and review as necessary.

# ORDERING INFORMATION

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## COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

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