

# STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR  
BETH A. WOOD, CPA



## FAYETTEVILLE STATE UNIVERSITY

FAYETTEVILLE, NORTH CAROLINA

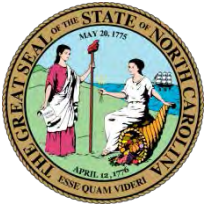
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

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

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

## AUDITOR'S TRANSMITTAL

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The Honorable Pat McCrory, Governor  
Members of the North Carolina General Assembly  
Board of Trustees  
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, 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 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



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**



**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 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 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, *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 an instance of noncompliance that is required to be reported in accordance with OMB Circular A-133 and which is described in the Findings, Recommendations and Responses section of this report.

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

Management of Fayetteville 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 deficiency described in the Findings, Recommendations and Responses section of this report to be a material weakness in internal control over compliance.

**Fayetteville State University's Responses to Audit Findings**

The University's response to the finding identified in our audit is included in the Findings, Recommendations and Responses section of this report. The University's 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.

**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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### **Lack of Verification To Ensure the University is Not Contracting with Debarred Vendors**

The University did not timely verify that their vendors were not suspended or debarred<sup>1</sup> from doing business with the federal government. During fiscal year 2014, the University paid \$1,184,028 from federal funds to 19 vendors who are subject to this verification.

During the review of all vendors subject to verification, the University did not follow proper verification procedures in 11 (58%) instances:

- For eight of the 19 (42%) vendors reviewed, the University could provide no evidence that the verification of eligibility had taken place within the appropriate time frame established by the University.
- In three out of the 19 (16%) vendors reviewed, the University could provide no evidence that the verification had taken place at all.

Because the University did not timely verify that their vendors were not suspended or debarred, there was an increased risk that the University would be defrauded by entering into transactions with unscrupulous vendors. This increased the likelihood that federal funds would not be available to support improvements in educational quality, management, and financial stability of the university.

The University did not timely verify that vendors were not debarred because there was not a system in place to track that all verifications were completed.

Federal regulations<sup>2</sup> state that non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred and must verify that the entity is not suspended or debarred or otherwise excluded from participating in the transaction. University purchasing policy states that the University will review vendor suspension and debarment status at least once per year to comply with Federal regulations.

### **Federal Award Information**

This finding impacts CFDA 84.031 Higher Education Institutional Aid: Federal award P031B100016 for years October 1, 2012 – September 30, 2013 and October 1, 2013 – September 30, 2014; and Federal award P031B0120554 for years October 1, 2012 – September 30, 2013 and October 1, 2013 – September 30, 2014.

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<sup>1</sup> Debarment is the state of being excluded from enjoying certain rights, privileges, or practices and act of prevention by legal means. Companies can be debarred from contracts due to allegations of fraud, mismanagement, and similar improprieties.

<sup>2</sup> Office of Management and Budget (OMB) Circular A-133 2014 Compliance Supplement, Part 3, Section I

### **Recommendation**

The University should implement a system to ensure that the University verifies annually that vendors with whom a financial relationship exists are not suspended or debarred.

### **Agency Response**

The University agrees with the finding and recommendation. We are pleased to report that Fayetteville State University does not have any documented contracts with any debarred vendors for the financial period ended June 30, 2014. The University has implemented standards and controls; however, these mitigating controls have not been consistently administered during the past fiscal year. To improve the process, management will be providing professional development training to the Purchasing staff on the Single Audit Debarred Vendor Standards. Additionally, during our bi-monthly Business and Finance status meetings, we will address and place increased emphasis on the Debarred Vendor Transactions Certification process. Moreover, our Systems and Procedures Office is in the process of developing an electronic validation certification process within SciQuest. This electronic purchase to payment portal will require the debarred vendor certification for qualifying payments. Further, the Systems and Procedures Office will develop diagnostic reports for qualifying payments to validate required debarred vendor certifications which are documented in SciQuest and prerequisite vendor record files.

# ORDERING INFORMATION

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

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State of North Carolina  
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<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information contact:  
Bill Holmes  
Director of External Affairs  
**919-807-7513**



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This audit was conducted in 357.5 hours at an approximate cost of \$33,605.