

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA CENTRAL UNIVERSITY

DURHAM, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2015



NCOSA
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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Debra Saunders-White, Chancellor
North Carolina Central 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 Central University for the year ended June 30, 2015. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental 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 in this 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*, 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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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

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Office of the 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 Central 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, 2015, we have performed audit procedures at North Carolina Central 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 Central University included the following:

- Higher Education – Institutional Aid
- 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 North Carolina Central University disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in the findings in the Findings, Recommendations, 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 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.

North Carolina Central University's Response to 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 28, 2016



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

The following audit findings were identified during the current audit and describe conditions that represent deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements, or other matters.

1. ERRORS IN ENROLLMENT STATUS REPORTING

The University did not timely report enrollment status changes for students who received federal student aid to the National Student Loan Data System (NSLDS). The University had approximately 7,100 students that received approximately \$99.9 million in federal student financial assistance subject to this reporting.

The University uses a third party servicer (National Student Clearinghouse) to report student status information to the NSLDS. Enrollment records were sent by the University to the National Student Clearinghouse for submission to the NSLDS.

Out of a sample of 120 students who received federal financial assistance and whose enrollment status changed, nine student enrollment statuses (7.5%) were not reported in accordance with federal requirements. Specifically,

- there were six students that had graduated, but their change in enrollment status was not reported to NSLDS,
- there were two students' change in enrollment status reported to NSLDS between 78 and 178 days after the change occurred, and
- there was one student's change in enrollment status that was not reported to NSLDS at the time of audit.

Failure to report student enrollment status changes to NSLDS could interfere with a student's loan privileges, deferment privileges, and grace periods.

Student status changes were not reported to the NSLDS in accordance with federal requirements due to untimely submissions by the National Student Clearinghouse. The University failed to monitor the National Student Clearinghouse to ensure the submissions of enrollment data to the NSLDS on behalf of the University met federal requirements.

Federal regulations¹ require the University to notify NSLDS within 75² days of a change in student status for those students that received Pell Grant and Federal Direct Loan funds. In addition, the NSLDS Enrollment Reporting Guide states that the University is ultimately responsible for timely and accurate reporting.

¹ 34CFR 690.83 and 34CFR 685.309

² The University is required to notify the NSLDS when it discovers that a student who received loans or Pell grants is no longer enrolled at least half-time. Unless the University expects to complete its enrollment roster with the NSLDS within 60 days of the student's change in enrollment, the University must notify the lender or guarantee agency, via NSLDS within 30 days. The University has 15 days to turn around the roster file. Therefore, we have determined timeliness to be established as within 75 days.

Federal Award Information

Award Year July 1, 2014 - June 30, 2015. CFDA 84.063 Federal Pell Grant Program (Pell); CFDA 84.268 Federal Direct Student Loans (Direct Loan)

Recommendation

The University should monitor submissions of student enrollment status changes to the Clearinghouse to ensure they are submitted timely to the NSLDS.

University Response

The University agrees with the auditor's findings and recommendations for reporting enrollment status changes. In accordance with federal requirements, NCCU can elect to use a third party to assist in reporting to the National Student Loan Data System. NCCU properly and timely reported enrollment status changes for students who received federal student aid to the National Student Clearinghouse (NSC). This issue arises as a result of the failure of the NSC to timely report NCCU's information to National Student Loan Data System. As an enhanced control and monitoring procedures, NCCU has already implemented a monthly reconciliation to monitor submissions of student enrollment status changes on October 9, 2015. This monthly reconciliation is being conducted to identify and update the enrollment status in NSLDS for students who are not automatically and timely updated by NSC.

2. STUDENTS MAY NOT BE NOTIFIED ABOUT LOAN CANCELLATION RIGHTS

The University did not maintain adequate supporting documentation to show that students received the required notification about their right to cancel their federal loan (Direct Loan or Perkins Loan). Approximately \$82.3 million in federal student aid loans that required notification of the right to cancel were paid to students during the audit period.

Out of a sample of 55 students who received federal student loans during the fiscal year

- there were 46 students (84%) with no documentation that they had been notified of their right to cancel for loan disbursements made during the spring or summer semester, and
- there were four students (7%) that were not notified within 30 days of the disbursement of their right to cancel for loan disbursements made during the fall semester.

If students are not made aware of information related to their loans, including the right to cancel, there is increased risk of incorrect decisions and potential default on the loans.

The University did not adequately monitor the automated process to make sure that right to cancel notices were sent to students. The University relies on an automated process which creates the notice once a loan disbursement is posted to the student's account. Once the notification process is completed, the system populates a "date sent" field on the student's record. For the instances noted above, the "date sent" field was

not populated, which is indicative of one of two scenarios. Either the notifications were never sent or the automated process had flaws for the spring and summer semesters.

Federal regulations³ require the University to notify students of their right to cancel student loans in writing no earlier than 30 days before and no later than 30 days after each time loan funds are credited to a student's account.

Federal Award Information

Award Year July 1, 2014 - June 30, 2015. CFDA 84.038 Federal Perkins Loan Program; CFDA 84.268 Federal Direct Student Loans (Direct Loan)

Recommendation

The University should monitor the automated job designed to send and document the required right to cancel notice to students to ensure that it completes and designates the completion in the "date sent" field on the student's record.

University Response

The University agrees with the auditor's findings and recommendations for monitoring the automated job designed to notify and document the Right to Cancel notification. While the Right to Cancel job did not abort at the time it was run, it did not populate the "date sent" file. The Office of Scholarships and Student Aid modified the Right to Cancel script to ensure that all components of the program is properly executing. The changes to the script were implemented for Fall, 2015.

³ 34 CFR 668.165

ORDERING INFORMATION

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This audit was conducted in 986 hours at an approximate cost of \$97,614.