

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



DURHAM TECHNICAL COMMUNITY COLLEGE

DURHAM, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2015



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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

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. William G. Ingram, President
Durham Technical Community College

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 Durham Technical Community College 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 College's, administration of major federal programs. However, the report included herein is in relation to our audit scope at the College 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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Beth A. Wood, CPA
State Auditor

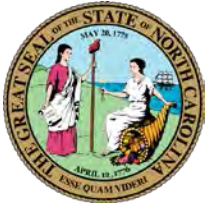
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Article V, Chapter 147 of the North Carolina General Statutes, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The 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
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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 Durham Technical Community College

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 Durham Technical Community College. 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 Durham Technical Community College included the Student Financial Assistance Cluster.

The audit results described below are in relation to our audit scope at the College 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 College'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 the Durham Technical Community College disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described 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, as described in the accompanying Findings,

Recommendations, and Responses section, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. We consider the deficiencies described in findings two, three, four, and five in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance. Furthermore, we consider the deficiency described in finding one in the Findings, Recommendations, and Responses section of this report to be a significant deficiency in internal control over compliance.

Durham Technical Community College's Response to Findings

The College's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this report. The College'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. COLLEGE DISBURSED FUNDS TO INELIGIBLE STUDENTS

The College disbursed federal student assistance funds to students who did not meet all eligibility requirements. During the audit period, the College disbursed approximately \$16.9 million in federal student assistance funds to 3,388 students.

Out of a sample of 60 students who received federal financial assistance, three students (5%) did not meet all eligibility requirements. The students were found to be ineligible for the following reasons:

- Two students were not registered with the selective service.
- One student received loan funds but was not enrolled at least half time.

As a result, the College disbursed at least \$5,915¹ in financial assistance funds to ineligible students.

According to the College, they rely on the information system (Colleague, to identify ineligible students. During the audit period, the rules/parameters that were set up in Colleague did not properly identify all students that did not meet all of the eligibility requirements.

Federal regulations² require that the College disburse funds only to students who meet all eligibility requirements. The eligibility requirements with errors identified were:

- Male students must have been registered for the selective service, or waived in accordance with the allowable circumstances, to receive any federal funds.
- Students must be enrolled at least half time at the time federal loan funds are disbursed.

Federal Award Information

Award Year July 1, 2014 – June 30, 2015. CFDA 84.268 Federal Direct Student Loans; CFDA 84.063 Federal Pell Grant; CFDA 84.033 Federal Work Study; CFDA 84.007 Federal Supplemental Educational Opportunity Grant

¹ OMB A-133 Section .510(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than \$10,000. Even though sample results identified only \$5,915 in questioned costs, if tests were extended to the entire population, questioned costs would likely exceed \$10,000 and could be material to the program.

² 34CFR 668.32

Recommendation

The College should establish procedures to ensure changes to the rules/parameters in Colleague are appropriate and made timely to ensure that students meet all applicable eligibility requirements before being awarded federal assistance.

College Response

Durham Tech concurs with the finding that funds were disbursed to students not meeting all eligibility requirements. Colleague, the College's information system, has been set up with several rules checking student eligibility. The Financial Aid Review Team completed much of the work (creating rules, correspondence request, etc.) to make sure students in an eligible status are awarded/dispensed federal and state financial aid funds. These rules and internal controls were created in Colleague to ensure that the College would be compliant with federal regulations. The College's financial aid staff was not aware that some of the rules had either been deleted or overridden, so the eligibility controls did not always work during the 14-15 fiscal year. The following rules and controls have now been implemented:

- Loans with less than six hours

To prevent Federal Direct Loans from disbursing to students enrolled in less than 6 hours, Durham Tech will use the Award Eligibility Criteria in Colleague (AEC) to establish criteria a student must pass before aid, in this case Federal Direct Loan, can be transmitted to Accounts Receivable. The rule FAAE6CR is used on all Federal Loans to ensure only loan recipients are enrolled in at least 6 credit hours prior to transmittal.

- Selective Service

To prevent students who have not registered for selective service, Durham Tech now uses tracking methods (set up in Colleague) to request required documents from student. Each track contains rules that are regulatory as well as containing requirements for the NC Community Colleges. Colleague uses the communication code FA15CSEL for Selective Services and checks for the associated rule FARSSEL (which looks for SAR Comment Code 030, which includes the following text: *The Selective Service reported that you have not registered with them. If you are female or were born before 1960, registration is not required. Otherwise, if you are not yet registered, are male, and are 18 through 25 years of age, to receive aid you must do one of the following: (1) answer "Male" to Item 21 and "Register Me" to item 22 on this SAR, (2) complete a Selective Service registration form at your local post office, or (3) register online at <http://www.sss.gov/>*). When a student's ISIR is received, and if they have SAR Comment Code 030, they receive correspondence from the Financial Aid Office requesting proof of registration, and the student's record is stamped with communication code, FA15SEL. This communication creates an open document request that must be satisfied/fulfilled before any awards can be made. Awards for FSA funds can only be created when all regulatory requirements have been satisfied.

- Limit access to the rules/parameter screen

Access to the rules/parameters screen is now limited to only two financial aid staff members and the Director who is responsible for approving any changes to the rules as set-up in Colleague. Documentation for any exceptions is now maintained by the Director. Staff is also responsible for verifying each term that the rules are in place and are working properly.

2. ERRORS IN CALCULATION FOR RETURN OF TITLE IV FUNDS

The College incorrectly calculated how much money to return to the Title IV (financial aid) program after students supported by the program withdrew from the school. The calculations/returns were also untimely.

As a result, the College had incorrect or late payments back to the Title IV program.

The College incorrectly calculated the return amounts for both official and unofficial withdrawals³ during the audit period.

- For official withdrawals, we found the following errors:
 - There were seven students for which the calculation to determine the amount of aid earned was incorrect, resulting in \$971 that was not returned to Title IV and \$124 that was not disbursed to students.
 - There were five students for which the calculation of aid earned was not done, resulting in \$1,713 that was not returned
- For unofficial withdrawals, out of a sample of 100 students who received financial assistance and non-passing grades, 17 students were unofficially withdrawn. These students received \$17,840 in federal aid, \$5,530 of which should have been calculated in amounts to be returned.

Further, the College did not return funds to Title IV timely. Specifically,

- There was \$19,347 in aid to be returned for 34 students that was between nine and 212 days late.
- There was \$1,946 in aid for two students that was not returned.

According to the College, they had significant turnover in the financial aid department, resulting in no calculations of Title IV returns being completed until near the end of fiscal year 2015. At that time, the new staff was overwhelmed by the amount of students who had withdrawn and calculations of earned aid not complete. As a result, some calculations and returns were inaccurate or not completed.

Federal regulations⁴ state 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

³ A student is considered unofficially withdrawn if they stop attending all classes and do not withdraw themselves from the College by going through the formal withdrawal process.

⁴ 34CFR 668.22(a)(1) through (a)(5)

institution's determination that the student withdrew, the difference must be returned to the Title IV programs.

Federal regulations⁵ 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.

Further, regulations⁶ require that returns of Title IV funds be deposited or transferred into the Student Financial Aid account or that electronic fund transfers be initiated to the Department of Education as soon as possible, but no later than 45 days after the date the institution determined that the student withdrew.

Federal Award Information

Award Year July 1, 2014 - June 30, 2015. CFDA 84.268 Federal Direct Student Loans; CFDA 84.063 Federal Pell Grant; CFDA 84.033 Federal Work Study; CFDA 84.007 Federal Supplemental Educational Opportunity Grant

Recommendation

The College should continue to identify and process return of Title IV funds, ensuring accurate calculations of unearned aid and timely return of funds.

College Response

Durham Tech concurs with the finding that the College incorrectly calculated how much money to return for some students withdrawing from the College and that calculations/returns were not completed timely. As stated in the finding, the College had significant turnover in our financial aid staff and the new Director found that that Return of Title IV calculations were not being done and had not been done for the last year. Once the Director became aware of this, the new staff used the Colleague system to perform the R2T4 calculations. However, some of the calculations were not done properly because the previous staff did not always keep the student records in Colleague up to date and correct. Once they became aware of this problem the following procedures were put into place:

- A weekly student withdrawals report has been created and beginning in the Fall Term of 2015, this report is automatically delivered every Thursday, via Informer, to the financial aid director and select financial aid advisors who have been assigned the responsibility of processing R2T4 calculations. Return of Funds calculation will be performed using the ROFC mnemonic. This mnemonic captures the withdrawal determined date, last date of attendance, and enrollment status, and charges. These reports are used to determine which students have withdrawn from all classes. R2T4 calculations are completed on students that dropped all their classes since the last report was run. To mitigate errors, all

⁵ 34CFR 668.22(c) and (d)

⁶ 34CFR 668.173(b)

R2T4 calculations are now being reviewed by at least two financial aid advisors to make sure there have been no keying errors.

- Reports have also been created that will identify students who have completely withdrawn from the college due to not receiving any passing grades (ALL F's, zero GPA) and due to receiving W's in all classes. The zero GPA report will be ran at the end of each semester to identify those students, and the appropriate calculations will be processed.

3. STUDENTS WERE NOT NOTIFIED ABOUT LOAN INFORMATION

The College did not provide the required notifications to students, including the loan amount and the right to cancel the loan⁷. Approximately \$7.8 million in federal direct loan disbursements requiring these notifications were paid to students during the audit period.

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

According to the College, due to substantial turnover and lack of training in the financial aid division, the staff was not aware of the requirement to send the written notifications to students.

Federal regulations⁸ require the College to provide the required information in writing, no earlier than 30 days before, and no later than 30 days after, each loan disbursement is made to a student's account.

Federal Award Information

Award Year July 1, 2014 - June 30, 2015. CFDA 84.268 Federal Direct Student Loans

Recommendation

The College should provide the financial aid staff with specific training to ensure they are aware of all requirements for administering federal programs. Additionally, the College should monitor to ensure that required notifications are provided to students.

College Response

The College concurs with the finding that students receiving loans were not provided notifications detailing the loan amount and their right to cancel the loan. Beginning with the 2016 spring term, the College provides notifications to students receiving loans within the required timeframe, no earlier than 30 days before, and no later than 30 days after, each loan disbursement is made to a student's account. The financial aid office

⁷ The College must notify the students who receive loan funds of the anticipated date and amount of the disbursement, the right to cancel all or a portion of the loans, and the procedures and time by which the student must notify the institution that he or she wishes to cancel the loan.

⁸ 34CFR 668.165

has created a document using the X.CS.LOAN.DET field to merge the loan data into it, that will be delivered to students electronically(via email) to inform them of their right to cancel all or a portion of their loan and to request that Durham Tech return the loan proceeds to the holder of the loan.

4. ERRORS IN ENROLLMENT STATUS REPORTING

The College did not timely report enrollment status changes for students who received federal student assistance to the National Student Loan Data System (NSLDS). During the audit period, the College disbursed approximately \$16.7 million in federal student financial assistance funding subject to this reporting.

Out of a sample of 60 students who received federal financial assistance and whose enrollment status changed, 25 students (41.7%) were not reported in accordance with federal requirements. Specifically,

- There were 16 students' change in enrollment status reported between 77 and 206 days after the change occurred.
- There were nine students' change in enrollment status that was not reported 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.

According to the College, student status changes were not reported in accordance with federal requirements because they did not monitor to ensure that the third-party service provider (the National Student Clearinghouse) was timely reporting student status information to the NSLDS.

Federal regulations⁹ require the College to notify NSLDS within 75¹⁰ days of a change in student status for those students that received Pell Grant or Federal Direct Loan funds. In addition, the NSLDS Enrollment Reporting Guide states that the College is ultimately responsible for timely and accurate reporting.

Federal Award Information

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

⁹ 34CFR 690.83 and 34CFR 685.309

¹⁰ The College 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 College expects to complete its enrollment roster with the NSLDS within 60 days of the student's change in enrollment, the College must notify the lender or guarantee agency, via NSLDS within 30 days. The College has 15 days to turn around the roster file. Therefore, we have determined timeliness to be established as within 75 days.

Recommendation

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

College Response

Durham Tech concurs with the finding that the college did not timely report enrollment status changes for students who received federal assistance to the National Student Loan Data System (NSLDS). The College has determined that these reporting issues occurred for several different reasons, some of which the college was already aware of, and have already taken action upon. The College has or will take the following actions to correct the issues:

- In January, 2016, the College placed a greater emphasis on data reporting to the National Student Clearinghouse. The duties of the reporting to the National Student Clearinghouse were reassigned to the Data Coordinator as one of her primary responsibilities, from the Student Information Specialist, where this task was just one additional responsibility. The Data Coordinator is better trained to correct errors as shown on the preliminary report and the monthly reports should be cleaner. Cleaner reports should enable the Clearinghouse to get data to NSDLS quicker.
- The College will add a step to the weekly R2T4 process, whereas once the R2T4 list of students is generated, any student receiving a loan and dropping all their courses will be identified and will be individually entered into the National Student Loan Data system by one of the Financial Aid counselors.
- In addition, once the weekly R2T4 list is generated, a listing of the students that are identified as withdrawing will be sent to the Director of Student Information and Records who will update each R2T4 student's enrollment status in the National Student Clearinghouse.

5. DISBURSEMENTS NOT TIMELY REPORTED TO FEDERAL GOVERNMENT

The College did not report disbursement data for Pell and Direct Loan recipients to the federal Department of Education (Department); nor did the College perform necessary reconciliations during the audit period that would alert them that the disbursement data was not reported.

During the audit period, the College disbursed approximately \$16.7 million in federal student financial assistance funding that was required to be reported to the Department.

Out of a sample of 60 students who received federal financial assistance disbursements that should have been reported, 10 students (16.6%) were reported between nine and 96 days late.

If student information is not reported or not reported timely, the Department does not have a complete record of the student's federal assistance to date. Decisions about the

amount of future aid the student should be eligible for could be impacted. Lifetime or annual limits could be reached or exceeded and the school or the Department may not be aware.

According to the College, they rely on their information system (Colleague) to identify the disbursements to be reported. During the audit period, the rules/parameters in Colleague were not properly established to identify and report all student disbursements. The College also stated that reconciliations between the Department and the College's records were not performed because the financial aid department experienced substantial turnover during the audit period, and priority was not given to these reconciliations.

Federal regulations¹¹ require the College to report Pell or Direct Loan disbursements to the Department within 30 days of the disbursement to a student's account. Further, federal regulations¹² require the College to reconcile the college's records to the Department's records.

Federal Award Information

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

Recommendation

The College should review the rules/parameters in Colleague used to identify and report disbursement data to the federal Department of Education. Additionally, the College should provide adequate staff and training to perform necessary reconciliations between the College's records and the Department of Education's records.

College Response

Durham Tech concurs with the finding that the College did not report disbursement data for Pell and Direct Loan recipients to the federal Department of Education nor did the College perform necessary reconciliations during the audit period. The College was aware of these issues and realized the critical need for compliance with federal regulations, but it took time to hire new staff, identify all the different issues that the new staff was facing, catch up with the daily activities of processing student applications, training the new staff, and developing new procedures. Once all those things were completed, the College implemented new procedures to ensure that disbursement data is reported timely to the Department of Education and that monthly reconciliations are completed for fiscal year 2015-16. The new procedures consist of the following:

- Reporting Disbursement Timely

The director or the financial aid advisors (at the request of the director) runs the batch financial aid transmittal register (FATR). The Student Accounts Coordinator completes the FATR and posts the award changes to the student'

¹¹ Office of Management and Budget (OMB) Circular A-133 2015 Compliance Supplement, Part 5, Section III.

¹² 34CFR 685.300

accounts. Once that is completed, the Student Accounts Coordinator notifies the financial aid staff that the posting process is complete. Then a financial aid staff member will run CODE (CODE export) to send student records to COD. This process is now run "wide open" to ensure all records have been sent to COD. In addition, once a week CODE is run "wide open", just in case someone was missed. We also added the step that once CODE is run, that someone is responsible for checking to see if the CODE file was transmitted to COD. If for some reason, the file did not get transmitted from Colleague to COD, it can be pushed through using FA exports (FAEX). Previously, that had been a problem, and the staff did not know that the file had not been transmitted.

- Reconciliations

The Office of Financial Aid began reconciling with the federal system including actual drawdowns per the Common Origination and Disbursement (COD) system in September 2015 when awards for FY 15-16 were first posted. The offices of Financial Aid and Student Accounts began performing monthly reconciliations of calculated student financial aid awards to actual financial aid paid to students. We completed the reconciliation process by reconciling financial aid, student accounts and Contracts and Grants drawdowns of federal funds in GS with the revenue posted to the general ledger.

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



This audit was conducted in 428 hours at an approximate cost of \$42,372.