

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



NORTH CAROLINA STATE UNIVERSITY

RALEIGH, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2016



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STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Board of Trustees, North Carolina State University
Dr. W. Randolph Woodson, Chancellor

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 State University for the year ended June 30, 2016. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 major federal programs 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 in this 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*, this 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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INDEPENDENT AUDITOR'S REPORT

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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 THE UNIFORM GUIDANCE**

Board of Trustees and Management of
North Carolina 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 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2016, we have performed audit procedures at North Carolina 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is included in the State's *Single Audit Report*. Our federal compliance audit scope at North Carolina 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 federal statutes, regulation, and the terms and conditions of its federal awards applicable to its 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*

(Uniform Guidance). Those standards and the Uniform Guidance 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 State University disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and is 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 the Uniform Guidance, 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.

North Carolina State University's Response to the Finding

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, and accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor
Raleigh, North Carolina

March 16, 2017



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

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

ENROLLMENT STATUS REPORTING ERRORS

The University did not timely report enrollment status changes to the National Student Loan Data System (NSLDS) for students who received federal financial assistance. During the audit period, the University disbursed approximately \$133.6 million in federal financial assistance funding to 13,842 students subject to this reporting requirement.

Auditors tested the enrollment status reporting for a sample of 60 students who received federal financial assistance and whose enrollment status changed. The status for three (5%) of the 60 students were not reported to the NSLDS.

Because all three errors involved students who graduated from the University during the first 2016 summer term, auditors performed additional analysis and inquiry.

Auditors determined that none of the 89 students who graduated during the first 2016 summer term were reported to the NSLDS.

Failure to report student enrollment status changes to the NSLDS could delay or fail to initiate student loan repayments and could impact loan and PELL eligibility.

According to the University, it relied on the National Student Clearinghouse (Clearinghouse), a third-party service provider, to ensure accurate and timely reporting of enrollment status changes. The University did not monitor to ensure that the information reported to NSLDS by the service provider agreed with the University's records. Also, the University did not ensure that students who graduated after the first summer term were timely reported to the NSLDS.

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

Federal Award Information: Award Year July 1, 2015 – June 30, 2016. CFDA 84.063 Federal Pell Grant Program; CFDA 84.268 Federal Direct Student Loans

Recommendation: University management should work with the Clearinghouse to ensure that students who graduate at the midpoint of the summer term are reported timely and accurately to the NSLDS. Additionally, University management should implement monitoring procedures to ensure that student enrollment data reported to NSLDS agree with University records.

¹ 34 CFR 690.83 and 34 CFR 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, auditors defined timeliness in this instance to be within 75 days.

University Response: The University immediately took corrective action by manually reporting the graduation status of the affected students to the National Student Loan Data System (NSLDS) on 9/23/2016. A correction to the technical program that provides data to the University's third party servicer, the National Student Clearinghouse, was made on 11/1/2016 to ensure graduation status is correctly reported in future summer terms. Additionally, a process has been established to review a sample of students following the midpoint of the summer term to confirm graduation statuses have been accurately reported to NSLDS.

ORDERING INFORMATION

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This audit was conducted in 328 hours at an approximate cost of \$33,784.00.