

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, 2016



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STATE OF NORTH CAROLINA
Office of the State Auditor



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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Thomas E. H. Conway, 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, 2016. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 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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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
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 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 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 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 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 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 Elizabeth City State University disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance 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 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, 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 the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Elizabeth City State 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, 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 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. Finding numbers 2 and 4 were also reported in the prior audit.

1. UNIVERSITY DISBURSED FUNDS TO INELIGIBLE STUDENTS

The University disbursed federal assistance to students who did not meet all eligibility requirements. During the audit period, the University disbursed approximately \$15.4 million in federal assistance funds to 1,530 students.

Auditors tested eligibility for a sample of 60 students who received federal assistance during the fiscal year. Ten (17%) students did not meet all eligibility requirements. Specifically,

- 7 (12%) students did not have a final high school transcript on file at the University.
- 3 (5%) students were granted approval of their satisfactory academic progress (SAP) appeal without adequate supporting documentation.

As a result, the University disbursed \$125,656¹ in federal financial aid to ineligible students.

The seven errors related to high school transcripts occurred because the University's admissions office admitted students without obtaining the required transcripts. The admissions office also inaccurately indicated in the information system (BANNER) that all required documents had been received. The financial aid office then used the inaccurate BANNER information to determine if students were eligible for federal assistance.

The three errors related to SAP occurred because financial aid staff approved all SAP appeals regardless of whether the appeal contained all of the documents required by the University's SAP policy.²

Federal regulations³ require the University to disburse funds only to students who meet all eligibility requirements. Specifically, federal regulations require that:

- A student must have a high school diploma or its recognized equivalent to receive any federal funds.

¹ OMB A-133 Section .510(a)(3) requires auditors to report known questioned costs when likely questioned costs are greater than \$25,000. Therefore, the \$125,656 in awards are being questioned.

² The University's SAP policy requires supporting documentation such as doctor's letters/bills as well as a plan of action on how the Student will resolve the circumstances or situation which caused the student to not meet SAP and how the plan of action will prevent this from happening in the future.

³ 34 CFR 668.32

- A student must maintain satisfactory academic progress in his or her course of study according to the institution's published standards of satisfactory academic progress to receive any federal funds.

Federal Award Information: Award Year July 1, 2015 – June 30, 2016. CFDA 84.007 Federal Supplemental Educational Opportunity Grants; CFDA 84.033 Federal Work-Study Program; CFDA 84.063 Federal Pell Grant Program; CFDA 84.268 Federal Direct Student Loans.

Recommendation: University management should verify the collection and retention of documentation required to make student eligibility determinations. University management should also ensure financial aid staff responsible for review of SAP appeals adhere to the University's policy.

University's Response: Elizabeth City State University concurs with the findings that funds were disbursed to ineligible students.

The University has implemented AdmissionPros, a web based tool designed to manage the overall recruitment and admissions process for applicants and admitted students. This tool has an audit feature that will alert both the student and the University when a final high school transcript showing high school completion date has not been received. This alert can prompt the prospective student admit to submit the appropriate documents. In addition, the admissions team has access to run reports to track missing final high school transcripts. During June/July of each recruitment cycle, the Office of Financial Aid & Scholarships will work with the Office of Admissions & Recruitment to identify those prospective students who have failed to submit the final high school transcript. A document tracking requirement will be added to the student's Banner Financial Aid record. This tracking requirement will prevent any Title IV aid from disbursing as long as the final high school requirement is outstanding. Once the student has submitted the necessary final official high school transcript, the Office of Admissions will notify Financial Aid so that the student's Financial Aid tracking requirement can be updated. Once the Fall enrollment census has been tallied, the Office of Admissions & Recruitment will transfer all enrollment files including final high school transcripts to the Office of the Registrar for retention purposes.

The University has updated the Financial Aid SAP appeal review process effective for Spring 2017 to ensure the review process adheres to the University policy. Each student appeal that is submitted is reviewed in detail prior to being reviewed by the Financial Aid SAP Appeals committee. Appeals lacking any of the components dictated in the policy will be returned to the student to provide updated information. If a student chooses not to submit any additional information, the appeal will be denied by the Financial Aid SAP Appeal Committee based on insufficient documentation. Each completed appeal will be accompanied by a "SAP Appeal Review Results" Checklist. This checklist will outline the reason code for financial aid suspension, whether the student has submitted all appropriate information, places for the judges to indicate their decisions, standard denial reason codes, and a final approved/denied reason code. Additional guidelines have been provided to the SAP Appeal Committee members as well as the Financial Aid Staff to ensure appeals are reviewed in line with the policy. Effective with Spring 2017, the University saw a 12 percent increase in denied appeals due to insufficient documentation, lack of satisfactory progress, among other reasons.

2. ERRORS IN CALCULATION FOR RETURN OF TITLE IV FUNDS

The University incorrectly calculated how much money to return to the Title IV program (financial aid) after students supported by the program withdrew from school. Funds were also returned late. During the audit period, the University disbursed approximately \$15.4 million in financial aid to 1,530 students.

Auditors tested the return to Title IV calculations for a sample of 22 out of 105 students that met the requirements and had calculations performed.

- For 11 students (50%), the return calculations were incorrect, including over and under calculations.
- For 4 students (18%), the calculations were correct, but the University returned funds to the Title IV program late.

Additionally, auditors tested all nine students that had a “0” GPA and no return to Title IV calculation made.

- For 1 student (11%), a calculation should have been performed but was not.

As a result, the University failed to return \$2,483 to the Title IV program and returned another \$3,818 between five and 179 days late. Those funds could have been allocated to other students or reduced the cost of the federal programs. Also, the University returned \$2,028 in error.

The assistant financial aid director was assigned sole responsibility for performing the return to Title IV calculation without any review or oversight. The assistant director did not include all of the applicable student fees for the institutional charges in the calculations and used an incorrect number for total days in the Spring 2016 semester calculations.

Federal regulations⁴ state that if at the time of the student’s withdrawal the assistance earned by the student is less than the amount disbursed to the student or on his or her behalf, the difference must be returned to the Title IV program.

Additionally, federal regulations⁵ 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 or the appropriate lender as soon as possible, but no later than 45 days after the date the institution determined that the student withdrew.

This issue was previously reported in the 2014 Single Audit.

Federal Award Information: Award Year July 1, 2015 – June 30, 2016. CFDA 84.007 Federal Supplemental Educational Opportunity Grant; CFDA 84.063 Federal Pell Grant Program; CFDA 84.268 Federal Direct Student Loans.

⁴ 34 CFR 668.22(a)(1) through (a)(5)

⁵ 34 CFR 668.173(B)

Recommendation: University management should design and implement review and/or monitoring procedures to ensure that required calculations for returns to Title IV are complete and accurate, and funds are returned on a timely basis in accordance with federal compliance requirements.

University's Response: Elizabeth City State University concurs with the findings that there are errors in calculation for return of Title IV funds.

All students officially withdrawing must complete the Official Withdrawal Process with the Registrar's Office. The Registrar's Office will contact the appropriate faculty and verify academic engagement for the student. Once this process has been completed, the Registrar's Office will send the completed withdrawal form to the Office of Financial Aid & Scholarship. The Financial Aid Office will complete the necessary Return of Title IV Funds calculation within the required 30-day timeframe. A monthly report will also be forwarded to the Office of Financial Aid & Scholarships to verify that all the withdrawals have been tracked.

Any student who unofficially withdraws from the University by ceasing academic engagement will be tracked at the end of each semester once grades are posted. Any student who has earned all "F"s will be reviewed for Return of Title IV Calculation purposes. For students who are earning an "F" grade, faculty will be required to report last academic engagement at the time of grade submission. The Financial Aid Office will reach out to the Institutional Research Office prior to grades posting requesting the all "F"s grade report.

At the end of each semester, a comprehensive listing of Official and Unofficial withdrawals will be requested from Institutional Research to audit the Return of Title IV Calculation process and ensure that funds are returned timely and accurately.

At the time of completing the Return of Title IV Calculation, each R2T4 will have a checklist that outlines what information to review and where to pull data from to ensure all components are included in the calculation. Staff member(s) assigned to the completion of Return of Title IV Calculations will be required to complete trainings to ensure they fully understand the scope of the process and are able to complete the calculations correctly. Each Return of Title IV Calculation will be completed by the appropriately assigned financial aid staff member and signed off by the Director of Financial Aid prior to completion.

3. NONCOMPLIANCE IN ADMINISTRATION OF DIRECT LOANS

The University did not always notify loan recipients of their right to cancel the loan or provide the required exit counseling. During the audit period, the University disbursed approximately \$9.3 million in federal direct loans to 1,298 students.

Auditors tested a sample of 60 students who received federal direct loans during the fiscal year and found the following:

- 60 (100%) students were disbursed loans without being notified of their right to cancel the loan.
- 6 (10%) students did not receive the required exit counseling.

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

The University did not have monitoring procedures in place to ensure that right to cancel notifications are generated and sent weekly or ensure that students receive the required counseling. The University had staff turnover in the financial aid department. The new employees were unaware of their responsibilities to generate and send right to cancel notifications weekly or to provide loan counseling.

Federal regulations⁶ 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 loan funds are credited to a student's account.

Federal regulations⁷ also require the University to ensure that exit counseling is conducted with each loan borrower shortly before the borrower ceases at least half-time study at the University.

Federal Award Information: Award Year July 1, 2015 – June 30, 2016. CFDA 84.268 Federal Direct Student Loans.

Recommendation: University management should ensure that financial aid staff receives adequate training as well as design monitoring procedures to ensure students are provided required counseling and information concerning their rights to cancel loans.

University Response: Elizabeth City State University concurs with the findings of noncompliance in administration of direct loans.

4. ERRORS IN REQUIRED DIRECT LOAN RECONCILIATIONS

The University did not reconcile its Federal Direct Loan disbursement records with the Department of Education records timely. Additionally, some reconciliations contained differences that were not resolved. During the audit period, the University disbursed \$9.3 million in federal direct loans to 1,298 students.

Auditors reviewed five (42%) of the 12 monthly reconciliations performed during the year and found:

- The reconciliation completed for the month of August 2015 was not completed until October 2015 and was not reviewed until February 2016.
- The reconciliation completed for the month of October 2015 was not reviewed until April 2016.

⁶ 34 CFR 668.165

⁷ 34 CFR 685.304(b)

- The reconciliation completed for the month of January 2016 contained unresolved differences in the amount of \$12,814 between the University and Department of Education's records.
- The amounts on the reconciliation completed for the month of March 2016 did not agree with attached supporting records from the University or the Department of Education.
- The reconciliation for the month of May 2016 was not reviewed.

Due to the lack of thoroughly performed and reviewed reconciliations, federal records could be inaccurate, resulting in students owing more or less money than was disbursed to them.

The University did not monitor financial aid staff responsible for the preparation and review of the direct loan reconciliations.

Federal regulations⁸ require the University to reconcile the Student Account Statement (SAS) data file (received from the Department of Education) to the University's disbursements records monthly.

This issue was previously reported in the 2014 Single Audit.

Federal Award Information: Award Year July 1, 2015 – June 30, 2016. CFDA 84.268 Federal Student Direct Loans.

Recommendation: University management should monitor staff responsible for the completion and review of required reconciliations to ensure they are completed timely and accurately.

University's Response: Elizabeth City State University concurs with the finding regarding errors in required direct loan reconciliations.

The University has put additional measures in place to ensure financial aid staff responsible for completing the direct loan reconciliations are completing the requirement timely and accurately. Completed Direct Loan Reconciliations are submitted to the Director of Financial Aid each month for review and approval. Additional measures for monitoring include a deadline each month for submission of the Direct Loan Reconciliations as well as requirement to explain and show resolution of discrepancies. If any of these items are missing the reconciliation will be returned to the appropriate staff member to resolve. If additional resolution needed, the staff member will be responsible to resubmit the incomplete reconciliation for final approval.

⁸ 34 CFR 685

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