

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



MITCHELL COMMUNITY COLLEGE

STATESVILLE, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2016



NC  **OSA**
The Taxpayers' Watchdog

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
Dr. James T. Brewer, President
Mitchell 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 Mitchell Community College 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 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



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 Mitchell Community College

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 Mitchell 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 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 Mitchell 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 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 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 Mitchell Community College 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, we consider the deficiencies described in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Mitchell 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, and accordingly, we express no opinion on the responses.

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.

1. ENROLLMENT STATUS REPORTING ERRORS

The College 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 College disbursed approximately \$4.4 million in federal financial assistance funding to 1,377 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. Nine students (15%) were not reported to the NSLDS in accordance with federal compliance requirements.

Failure to report student enrollment status changes to the NSLDS could impact the student's PELL Grant eligibility.

The nine errors occurred for two reasons.

First, the College did not review its reports to the National Student Clearinghouse (Clearinghouse) to ensure that the reports were complete and accurate. The College uses the Clearinghouse, a third-party service provider, to report student enrollment status changes to the NSLDS. However, the College failed to report six of the nine status changes to the Clearinghouse.

Second, the College did not monitor to ensure that the information the Clearinghouse reported to NSLDS agreed with the College's records. Although the College reported three of the nine changes to the Clearinghouse, the Clearinghouse failed to report the changes to the NSLDS.

Federal regulations¹ require the College to notify the NSLDS within 75 days² 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 College 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

Recommendation: College management should review reports submitted to the Clearinghouse to ensure they are complete and accurate. College management should

¹ 34CFR 690.83 and 34CFR 685.309

² The College is required to notify the NSLDS when it discovers that a student who received a Pell Grant or Direct Loan funds 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, auditors defined timeliness in this instance to be within 75 days.

FINDINGS, RECOMMENDATIONS, AND RESPONSES

also implement monitoring procedures to ensure that student enrollment data reported to NSLDS by the Clearinghouse agrees with College records.

College Response: Mitchell Community College agrees with the finding and recommendations. Mitchell Community College is implementing corrective actions to ensure that the information being reported to the National Student Clearinghouse (NSC) is both complete and accurate and that the information the National Student Clearinghouse is reporting to NSLDS agrees with what the College has reported.

The following corrective actions are being put into place to address the recommendations:

1. The College will convert the flat file generated by the College's database system and compare it with a local Informer query to check counts. This report will be done on a monthly basis.
2. The College is working with other colleges and the NSC to learn how to use both the Reject Detail information provided by the NSC's Enrollment Status reporting and to determine why reported statuses to NSC are not being reported to NSLDS when no error is identified. The Reject Detail information will be reviewed on a monthly basis.
3. The College is working with other colleges and the NC Community College System Office (NCCCS) to determine why some students are not reported when the College is following the NSC and NCCCS recommended best practices for submission.
4. NSLDS, effective January 2017, produced a new SSCR reject report for schools to review and process. For reported students with SSN error warnings, the College has begun placing registration holds on student accounts until verification is received, as their enrollment is not being reported to lenders, servicers, or NSLDS. The SSCR reject report will be reviewed on a monthly basis.
5. The Director of Admissions/Registrar will be attending a NSC workshop on March 15, 2017 for NSC training.

The corrective actions will be implemented by March 15, 2017, and will be performed by the Director of Admissions/Registrar.

2. UNTIMELY RETURN OF TITLE IV FUNDS

The College did not timely return Title IV funds (financial aid) after students supported by the program withdrew from school. During the audit period, the College disbursed approximately \$4.5 million in financial aid to 1,377 students.

Auditors tested the return calculations for a sample of 30 out of 148 students that met the requirements and had Title IV calculations performed. Additionally, auditors tested 30 out of 149 students who had a "0" grade point average and no return to Title IV calculation performed.

- In a sample of 30 students who had the calculations performed, auditors found seven students (23%) in which unearned funds were returned to the Title IV program late.
- In a sample of 30 students who had no calculations performed, auditors found two students (7%) who should have had a calculation performed but did not.

As a result, the College failed to return \$1,179 to the Title IV program and returned another \$3,825 between four and 44 days late. Those funds could have been allocated to other students or reduced the cost of the federal programs.

The College did not have procedures to ensure that once return to Title IV calculations were performed, they were reviewed and funds returned timely. In addition, the College did not have procedures to identify all students for which return to Title IV calculations should have been performed.

Federal regulations³ 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 institution's determination that the student withdrew, the difference must be returned to the Title IV program.

Additionally, federal regulations⁴ 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.

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

Recommendation: College management should design and implement procedures to ensure that all required calculations for returns to Title IV are performed, and funds are returned on a timely basis in accordance with federal compliance requirements.

College Response: Mitchell Community College agrees with the finding and recommendation to implement procedures to ensure funds are returned on a timely basis in accordance with federal compliance requirements. Mitchell Community College is strengthening current procedures to ensure the timely return of unearned funds no later than 45 days from the determination of a student's withdrawal.

Corrective action is being taken to modify current procedures to streamline the turnaround time from the point the Financial Aid Office provides the Accounts Receivable Office with the ROFD (Return of Funds Detail Report) and copy of the withdrawal paperwork for review, to the time the FATR (Batch FA Transmittal Register) and FATP (Batch FA Transmittal Update) processes are run.

³ 34 CFR 668.22(a)(1) through (a)(5)

⁴ 34 CFR 668.173(B)

FINDINGS, RECOMMENDATIONS, AND RESPONSES

As noted in the audit, 'In a sample of 30 students who had calculations performed, auditors found seven students (23%) in which unearned funds were returned to the Title IV program late'. Of these seven, each were reviewed to determine the reason for the lateness. As result, we are establishing better tracking in our current procedures by modifying an existing report to include each student's withdrawal determination date and the date the FATR was run. In addition, we are closely monitoring the timing of the FATR and FATP being run in conjunction with month end.

In addition, as noted in the audit, 'In a sample of 30 students who had no calculations performed, auditors found two students (7%) who should have had a calculation performed but did not.' In each incident, this was due to the instructor inaccurately reporting a 'F' (fail) grade. The instructor should have reported a 'WF' (withdrawal fail), which would have resulted in calculations being performed. Our grading policy includes a 'W', 'WF', and 'F' grade, purposely, for financial aid to promptly identify unofficial withdrawals. There is a clear distinction between a student who's assigned a 'WF' grade when they are failing on their last day of attendance versus a student who earns a 'F' grade by completing the course but failing to achieve the course objectives; therefore, the student would not be treated as a withdrawal for Title IV purposes. We have always and we will continue to ensure required calculations for returns to Title IV are performed on all official and unofficial withdrawals. To address the inaccurate reporting of an earned 'F' grade, training will be provided to Faculty and Staff on this issue.

Recently, a meeting to discuss best compliance practices in regards to Return to Title IV was requested of the NC Community College System Office on behalf of the colleges. The requested platform would consist of someone from the Department of Education, the State Auditor's Office, State Approving Agency/VA, College Faculty, and Financial Aid Director's. The expectation is to provide consistency among the 58 Community Colleges.

The corrective actions will be implemented by March 31, 2017, and will be performed by the Director of Financial Aid.

ORDERING INFORMATION

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This audit was conducted in 372.5 hours at an approximate cost of \$38,368.