

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

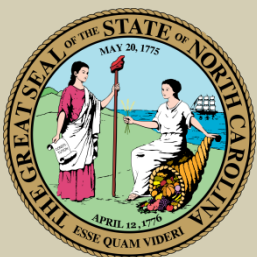


NASH COMMUNITY COLLEGE

ROCKY MOUNT, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2019



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Beth A. Wood, CPA
State Auditor

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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
Dr. Lew K. Hunnicutt, President
Nash Community College

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 federal programs, we have completed certain audit procedures at Nash Community College for the year ended June 30, 2019.

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. However, the results included herein are 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*.

Our federal compliance audit scope at Nash Community College included the Student Financial Assistance Cluster.

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Other Matters

Compliance

The results of our audit procedures at Nash 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.

Internal Controls

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. Therefore, material weaknesses and significant deficiencies may exist that were not identified. However, as discussed in the Findings, Recommendations, and Responses section, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies. The deficiency described in finding 2 is considered to be a material weakness in internal control over compliance. Furthermore, the deficiencies described in findings 1 and 3 are considered to be significant deficiencies in internal control over compliance.

Nash 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 transmittal. 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 This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at Nash Community College based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

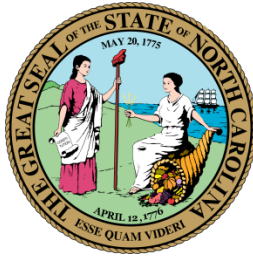
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 20, 2020



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

1. DIRECT LOAN RECONCILIATION ERRORS

The College did not reconcile Federal Direct Loan disbursements to students to the Department of Education records. During the audit period, the College disbursed \$2.3 million in Federal Direct Loans to 421 students.

Auditors tested all 12 of the monthly reconciliations during the audit period and found no evidence that the reconciliations were performed for five (42%) months.

As a result, federal records could be inaccurate or incomplete. Failure to perform reconciliations could also result in students owing more or less money than was disbursed by the College.

The College did not have procedures in place to ensure reconciliations were completed accurately and reviewed.

Federal regulations¹ require the College to reconcile the Student Account Statement (SAS) data file (received from the Department of Education) to the College's disbursement records each month.

Federal Award Information: Award Year July 1, 2018 – June 30, 2019. CFDA 84.268 Federal Direct Student Loans

Recommendation: College management should design and implement review and/or monitoring procedures over the reconciliations to ensure they are completed accurately.

Agency Response: See page 7 for Nash Community College's response to this finding.

2. 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 \$7.2 million in federal financial assistance funding to 1,462 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.

Five (8%) students were not reported in accordance with federal compliance requirements. Specifically:

- Three students were not reported at all.
- One student was reported 92 days after the status change occurred.
- One student was reported with an incorrect status.

¹ 34 CFR 685.300(b)

Failure to report student enrollment status changes to the NSLDS could impact student Pell and Direct Loan eligibility.

According to College management, it relied on the National Student Clearinghouse (Clearinghouse), a third-party service provider, to ensure accurate and timely reporting of enrollment status changes. The College did not monitor the information reported to NSLDS to ensure its agreement with College records.

Federal regulations² require the College to notify NSLDS within 75³ days of a change in student status for those students that received Pell Grant and Federal Direct Loan funds. In addition, the NSLDS Enrollment Reporting Guide states that the College is ultimately responsible for timely and accurate reporting.

Federal Award Information: Award Year July 1, 2018 – June 30, 2019. CFDA 84.063 Federal Pell Grant Program; CFDA 84.268 Federal Direct Student Loans.

Recommendation: College management should monitor submissions of student enrollment status changes submitted by the Clearinghouse to ensure they are reported timely and accurately to the NSLDS. College management should also implement monitoring procedures to ensure all students with status changes are identified and communicated to the appropriate parties.

Agency Response: See page 7 for Nash Community College's response to this finding.

3. INFORMATION SECURITY PROGRAM DOES NOT MEET MINIMUM FEDERAL REQUIREMENTS

The College's risk assessment over protecting students' financial aid information did not include all of the elements as required by federal regulations.⁴ During the audit period, the College disbursed approximately \$7.2 million in federal financial assistance to 1,462 students subject to this requirement.

As a result, student information is more susceptible to unauthorized disclosure, misuse, alteration, destruction, or other compromise because risks could exist for which safeguards have not been designed and implemented.

The error occurred because the College was unaware that federal regulations require a risk assessment that identifies risks to employee training and management over the security, confidentiality, and integrity of students' financial aid information.

The Gramm-Leach-Bliley Act requires financial institutions to develop, implement, and maintain an information security program that includes a risk assessment over employee training and management to facilitate the design and implementation of appropriate safeguards to students' financial aid information.

² 34 CFR 690.83 and 34 CFR 685.309

³ The College is required to notify the NSLDS when it discovers that a student who receives loans or Pell grants has had a reduction or increase in attendance levels, graduated, withdrew/dropped out, dropped below half-time, or enrolled but never attended. 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.

⁴ 16 CFR 314.4

Federal Award Information: Award Year July 1, 2018 – June 30, 2019. 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: College management should ensure responsible staff receive training on the federal regulations required under the Gramm-Leach-Bliley Act and revise its information security program as necessary.

Agency Response: See pages 8-9 for Nash Community College's response to this finding.



Office of the President

December 19, 2019

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Dear Auditor Wood:

Nash Community College agrees with the findings and recommendations as detailed below.

1. Direct Loan Reconciliation Errors

Nash Community College agrees with the finding that the College did not document Direct Loan Reconciliations each month. Based on this finding, the College has established the following procedure to ensure Direct Loan Reconciliations are completed.

The Direct Loan Reconciliations will be completed by the Assistant Director of Financial Aid by the 15th of each month. Once the reports are reconciled, the Assistant Director of Financial Aid will submit the reports to the Director of Financial Aid for review. The Direct Loan Reconciliation files will be maintained in the office of the Assistant Director of Financial Aid. Corrective action for the reconciliation process was implemented as of September 30, 2019.

2. Enrollment Status Reporting Errors

Nash Community College agrees with the finding that the College did not timely report enrollment status changes to the National Student Loan Data System. Based on this finding, the College is strengthening its current procedure to monitor enrollment status changes.

The College acknowledges the importance of accurate enrollment reporting to the National Student Loan Data System. The errors in reporting occurred when students were approved for graduation after the end of the semester and after the initial graduate file had been sent. The Records Office will manually update students that are approved for graduation after the initial graduate file has been sent to the National Student Clearinghouse.

The Records Office will maintain a shared file with the Financial Aid Office with a list of manually updated students sent to the National Student Clearinghouse. The Financial Aid Office will review the manually updated students to check for accuracy in the National Student Loan Data System. The Financial Aid Office will also review a sample of student graduates each semester in the National Student Loan Data System for reporting accuracy and correct any errors made in reporting. The anticipated completion date for the corrective action is January 31, 2020.

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3. Information Security Program Does Not Meet Minimum Federal Requirements

Nash Community College agrees with the finding that College management should ensure responsible staff receive training on the federal regulations required under the Gramm-Leach-Bliley Act and will revise our information security programs as necessary. As of this academic year, the employees of the College will have the opportunity to attend a variety of training and information sessions pertaining to the security, confidentiality, and integrity of students' records, including financial aid information. These training sessions are a formal part of the professional development calendar for all employees, and are a requirement for any employee with a security class able to add, view, modify, or delete students' financial aid data.

An example of Nash's formalized risk and security training is the "Colleague Mnemonics and Security and Safety Protocols for Computer Usage" training led by the College's Systems Administrator on November 15, 2019. Both faculty and staff, including those who have access to financial aid and other secure data, attended this session. To assure a continuous and well documented risk and security education and assessment program, the Professional Development Coordinator has reserved at least one session for every future professional development day devoted to reinforce the College's training on the security, confidentiality, and integrity of student records. The IT department also holds "lunch and learn" events to review best practices on a number of topics including those relevant to the securing and housing of financial aid data. Attendance to these events are housed with the Professional Development Coordinator's office.

In addition to employee training, risk assessments are conducted on multiple levels of the institution transparent to the end user. Nash Community College conducts monthly security scans of outside facing servers for vulnerabilities using CoalfireOne Scanning Services. Any issues identified in the scan are either resolved through updates or patches, or are applied to the list of exceptions within the CoalfireOne system. Servers that are considered exceptions to vulnerability scans are those used by academic departments for training or are located outside the firewall with no access to the college network.

To assure safeguards are in place for risks to data security, Nash contracts with security vendors to perform internal security and vulnerability testing once a quarter. This scan includes attempting to breach known administrative networks, violating security policies by crossing VLANs, direct scanning of network servers, and compromising the wireless network. If any issues are identified, they are addressed with the appropriate remedy, or excluded if they are known issues existing in non-secure/open areas of the network.

For information security, Nash uses security classes within its administrative computing system to group users with specific rights within the system. Per the North Carolina State Security Manual, these security classes are reviewed and formally approved annually. If a user no longer needs access to a specific level of data, the department manager issues a request to modify the access within the electronic documents system where it is held for documentation and audit when necessary.

Responding to security or outage incidents is documented within the Nash Community College Business Continuity Plan. Depending on the type of incident, ranging from physical outage to a data breach, once the Institutional Technology department is notified of an issue or becomes aware of an issue through the active scanning tools in place on the firewall, servers, or desktops, the Network and Systems Administrators work in tandem to isolate the problem and appropriate the necessary resources for resolution. The recovery process is tested at least once every six months by retrieving and restoring data located in the off-site cloud storage container. Breach incidents are prepared for via training and the aforementioned preventative measures. If a

security breach were ever to occur, the College would follow its IT Data Breach or Imminent Breach Policy and Procedures. To date, no such security breach has occurred.

The Vice President of Technology and Chief Information Officer is responsible for the coordination of Nash's information security program.

Through the above practices, Nash Community College adheres to the requirements of the Gramm-Leach-Bliley Act to take ongoing, pro-active, and well documented measures to educate its employees regarding security, confidentiality, and integrity of student financial aid data. Corrective action was completed on November 15, 2019.

The College appreciates your assistance through this audit process. Please contact us if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lew K. Hunnicutt', with a long horizontal flourish extending to the right.

Lew K. Hunnicutt, Ph.D.
President

LKH:oh

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