



# **STATE OF NORTH CAROLINA**

**NORTH CAROLINA STATE EDUCATIONAL ASSISTANCE  
AUTHORITY**

**FINANCIAL RELATED AUDIT**

**JUNE 2012**

**OFFICE OF THE STATE AUDITOR**

**BETH A. WOOD, CPA**

**STATE AUDITOR**

**NORTH CAROLINA STATE EDUCATIONAL ASSISTANCE  
AUTHORITY**

**FINANCIAL RELATED AUDIT**

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**Beth A. Wood, CPA**  
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## AUDITOR'S TRANSMITTAL

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June 6, 2012

The Honorable Beverly Eaves Perdue, Governor  
The General Assembly of North Carolina  
Steven E. Brooks, Executive Director

This report presents the results of our financial related audit at the North Carolina State Educational Assistance Authority (Authority). Our work was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes* and was conducted in accordance with the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under *Government Auditing Standards*. We determined that the Authority complied, in all material respects, with the *Rules Governing the North Carolina Legislative Tuition Grant and the State Contractual Scholarship Fund* programs related to obtaining and reviewing audit reports from approved institutions that receive funding from the Authority.

*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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## **BACKGROUND, GENERAL OBJECTIVES, AND METHODOLOGY**

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### **BACKGROUND**

As authorized by Article 5A of Chapter 147 of the *North Carolina General Statutes*, we have conducted a financial related audit at the North Carolina State Education Assistance Authority (Authority). There were no special circumstances that caused us to conduct the audit, but rather it was performed as part of our effort to periodically examine and report on the financial practices of state agencies and institutions.

### **GENERAL OBJECTIVES**

The general objectives of this financial related audit included determining whether:

- the organization has complied with finance-related laws, regulations, and provisions of contracts or grant agreements;
- improvements are needed in internal control over selected fiscal matters.

Management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that relevant objectives are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate. Our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

### **METHODOLOGY**

To accomplish our audit objectives, we gained an understanding of internal control over matters described in the Scope and Specific Objectives section of this report, and evaluated the design of the internal control. We then performed further audit procedures consisting of tests of control effectiveness and/or substantive procedures that provide evidence about our audit objectives. Specifically, we performed procedures such as interviewing personnel, observing operations, reviewing policies, analyzing accounting records, and examining documentation supporting recorded transactions and balances.

As a basis for evaluating internal control, we applied the internal control guidance contained in professional auditing standards. As discussed in the standards, internal control consists of five interrelated components, which are (1) control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

We conducted this audit in accordance with generally accepted government auditing standards applicable to performance audits. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives.

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## SCOPE, SPECIFIC OBJECTIVES, AND RESULTS

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### SCOPE AND SPECIFIC OBJECTIVES

Our audit scope covered the period March 1, 2011 through February 29, 2012 and included selected monitoring procedures used by the Authority to ensure that private institutions receiving state funds comply with rules and regulations related to the North Carolina Legislative Tuition Grant (NCLTG) and State Contractual Scholarship Fund (SCSF) programs.

The Authority, a component unit of the State of North Carolina, was created to provide a system of financial assistance, consisting of grants, loans, and other aids to qualified students to obtain an education beyond the high school level by attending public or nonprofit, private educational institutions in North Carolina. Funds for the NCLTG and SCSF programs are appropriated each fiscal year by the General Assembly for aid to private institutions and are disbursed in accordance with the provisions of *North Carolina General Statutes 116-19, 116-21, and 116-22*.

During our audit, we considered selected internal controls and control objectives related the following programs administered by the Authority:

#### North Carolina Legislative Tuition Grant

The NCLTG program provides a grant to eligible undergraduate North Carolinians enrolled at an approved private institution. The Authority administers the program as designated by statute. *Rules Governing the NCLTG Program (NCLTG Rules)* adopted in August 1975 by the Board of Directors of the Authority, govern the operation of the program. We examined internal controls designed to ensure that the Authority properly and effectively monitors the disbursement of grant funds. We also examined evidence to support compliance with *NCLTG Rules* which require each approved institution to provide their independent audit report within nine months after their fiscal year end. The Authority reviews each audit report to verify that expenditures reconcile to Authority records and to gain assurance that funds are expended in accordance with NCLTG grant regulations. Any audit findings are reviewed to determine whether the monitoring process should be adjusted for the particular institution.

#### State Contractual Scholarship Fund

The SCSF provides financial assistance to needy North Carolina residents attending eligible independent colleges and universities in North Carolina. The Authority has been the program administrator since 1993. The *Rules Governing the State Contractual Scholarship Fund, (SCSF Rules)* adopted on March 18, 1994 by the Board of Directors of the Authority govern the operation of the program. We examined internal controls designed to ensure that the Authority properly and effectively monitors the disbursement of grant funds. We also examined evidence to support compliance with *SCSF Rules* which require each approved institution to provide their independent audit report within nine months after their fiscal year end. The Authority reviews each audit report to verify that expenditures reconcile to Authority records and to gain assurance that funds are expended in accordance with SCSF



## **SCOPE, SPECIFIC OBJECTIVES, AND RESULTS (CONCLUDED)**

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grant regulations. Any audit findings are reviewed to determine if the monitoring process should be adjusted for the particular institution.

### **RESULTS**

The results of our audit disclosed no internal control deficiencies or instances of noncompliance or other matters that are considered reportable under generally accepted government auditing standards. We determined that the Authority complied, in all material respects, with the *NCLTG Rules* and the *SCSF Rules* related to obtaining and reviewing audit reports from approved institutions who receive funding from the Authority.

## **ORDERING INFORMATION**

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Audit reports issued by the Office of the State Auditor can be obtained from the web site at [www.ncauditor.net](http://www.ncauditor.net). Also, parties may register on the web site to receive automatic email notification whenever reports of interest are issued. Otherwise, copies of audit reports may be obtained by contacting the:

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