

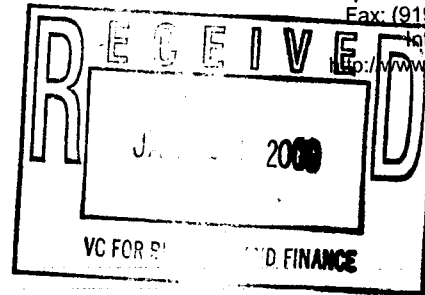


Beth A. Wood, CPA
State Auditor

STATE OF NORTH CAROLINA
Office of the State Auditor

RECEIVED
JAN 28 2009

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0601
Telephone: (919) 807-7500
Fax: (919) 807-7647
Internet
<http://www.ncauditor.net>



January 22, 2009

Dr. Stanley F. Battle, Chancellor
North Carolina Agricultural and Technical State University
Greensboro, NC Courier #02-12-11

Dear Dr. Battle:

We have completed our audit at the North Carolina Agricultural and Technical State University for the year ended June 30, 2008, as described in our engagement letter dated May 7, 2008. An exit conference to discuss the results of our audit, including the attached audit findings, was held on January 15, 2009, at 2 p.m.

A written response for each individual audit finding, with a copy in electronic format, is required from you and should be submitted to the Office of the State Auditor no later than January 29, 2009. You should also submit to us a corrective action plan, with a copy in electronic format, for findings 3 and 4.

The audit findings are not considered final until we evaluate your written response. This letter is considered part of our confidential audit documentation until the release of the audit reports, at which time it may be made available to interested parties upon request.

After receiving your written response, we will determine which of the audit findings are reportable under *Government Auditing Standards* or the Single Audit Act. If considered reportable, the findings will be included, along with your written response, in separate bound reports for the University. Although a final determination will not be made until we receive your written response, we currently consider finding numbers 1, 3 and 4 to be reportable.

The reportable audit findings will also be considered with the findings resulting from our financial audit efforts at other state agencies and institutions in order to make a determination of their impact, as a whole, 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* or the Single Audit Act, these findings will be reported in the State's *Single Audit Report*.

Dr. Stanley F. Battle, Chancellor
January 22, 2009
Page 2

We express our appreciation to you and your staff for the cooperation extended to us during our audit. Please contact me if you have any questions or concerns about the audit.

Sincerely,

BETH A. WOOD, CPA
STATE AUDITOR

Faye Steele

Faye Steele, CPA
Audit Manager

BAW/FS:sh

cc: Robert Pompey Jr., Vice Chancellor for Business and Finance
Mr. David King, Associate Vice President for Finance, UNC Office of the
President

Attachment

AUDIT FINDINGS AND RECOMMENDATIONS

Matters Related to Financial Reporting or Federal Compliance Objectives

The following findings and recommendations were identified during the current audit and discuss conditions that represent deficiencies in internal control and/or noncompliance with laws, regulations, contracts or grants. Finding number 2 was also reported in the prior audit.

1. ERROR IN CALCULATION OF SCHOLARSHIP DISCOUNT

The University made an error in the calculation of the scholarships to be netted from revenues rather than reported as an expense. As a result, reported tuition and fees revenue was understated by \$4,380,561; sales and services revenue was understated by \$1,162,534; and scholarships and fellowships expense was understated by \$5,543,095.

Student tuition and fees revenues and certain other revenues from University charges are reported net of scholarship discounts in the Statement of Revenues, Expenses, and Changes in Net Assets. The scholarship discount is the difference between the stated charge for tuition and fees and the amount that is paid by the student or a third party on the students' behalf. The University overstated the discount by inappropriately including state grants that are not recognized as revenue.

The University revised its model for calculating the scholarship discount and the appropriate audit adjustment was made to the financial statements. This error did not result in an adjustment to the net assets of the University.

Recommendation: The University should improve review procedures to ensure that the scholarship discount calculation is accurately prepared.

2. DEFICIENCIES IN MANAGEMENT OF STUDENT ACCOUNTS RECEIVABLE

The University did not have internal controls in place to adequately manage student accounts receivable. As a result, accounts receivable were overstated, accounts were not collected, and invalid disbursements were made.

We examined a sample of 20 student accounts receivable balances that were more than 180 days past due as of June 30, 2008. The balances examined totaled \$78,347. Based on our tests, we determined that these accounts were overstated by \$9,011 and noted the following other concerns:

- a. Six students were allowed to register for classes without paying their past due balance.

- b. Seven student accounts were "validated" in error. An account should only be validated after payment has been made or a financial aid source has been confirmed as available.
- c. In two instances, students were not dropped from classes, meal plans, and/or housing when payment was not received by the last day to validate an account.
- d. In two instances, additional charges were added after the accounts had been validated without requiring additional payment.
- e. Refunds totaling \$4,871 were incorrectly issued to a student.

The deficiencies in managing student accounts contribute to a large estimate of uncollectible amounts. At June 30, 2008, gross student accounts receivable totaled \$1,392,763. Of this total, \$574,710 (41%) were older than 180 days old and deemed to be uncollectible.

Office of the State Controller policy states that agencies should develop internal policies and procedures for withholding services to persons who do not pay their debts. Policies further state that universities should develop policies and procedures to ensure that no student having any outstanding past-due accounts with that institution is allowed to enroll for the next term.

Recommendation: The University should strengthen internal controls over student accounts to ensure that accounts receivable balances are valid, amounts owed are collected, and all disbursements are appropriate. In addition, internal controls established should ensure compliance with policies established by the Office of the State Controller.

3. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS CONTAINED MISSTATEMENTS

The schedule of expenditures of federal awards prepared by the University contained misstatements. Had the schedule not been corrected as a result of our audit adjustments, it could have been misleading to users.

The expenditures included on the schedule were overstated by \$59,329,042. This was caused by duplication of Federal Direct Student Loan expenditures in the amount of \$45,591,480 and inclusion of non-federal alternative loans in the amount of \$13,737,562. In addition, expenditures of \$720,993 for the Academic Competitiveness Grant and \$145,276 for the National Smart Grant were not disclosed as components of the Student Financial Aid Cluster, and the Catalog of Federal Domestic Assistance number was omitted for these grants.

Controls were not in place to ensure that the schedule was prepared in accordance with federal requirements. OMB Circular A-133 requires that the schedule provide total federal awards expended for each individual federal program and the Catalog of Federal Domestic Assistance number.

Federal Award Information: Award numbers P268K080317, P375A070317, and P376S070317. Award year July 1, 2007 - June 30, 2008.

Recommendation: The University should improve review procedures to ensure that the schedule of expenditures of federal awards is accurate and presented correctly. The University should submit a revised schedule to the Office of the State Controller for inclusion in the State's *Single Audit Report*.

4. FINANCIAL AID OVER-AWARDS

The University over-awarded financial aid to three students. As a result, we are questioning \$14,616 in awards of Federal Direct Student Loans.

The over-awards occurred because the University made the awards based on out-of-state residency tuition rates, but the students applied for and were determined eligible for in-state residency status. The awards were not reduced to reflect the lower in-state tuition rates.

The errors were noted when we examined the financial aid awards of all students who were also employees of the University and received refunds in excess of \$20,000. Of the seven examined, we found two students who received over-awards. These individuals were student employees and not permanent employees of the University. In addition, while gaining an understanding of the process for changing residency status, we noted another student who was inappropriately awarded and paid financial aid based on out-of-state tuition charges. There was a change in residency status for these students, but the financial aid was not reduced. Internal controls were not in place to detect or prevent these errors.

Federal Award Information: Award number P268K08317. Award year July 1, 2007 - June 30, 2008.

Recommendation: The University should improve procedures to ensure that the Financial Aid Office is notified if residency status is changed and that appropriate revisions are made to the financial aid awards.