



STATE OF NORTH CAROLINA

**NORTH CAROLINA AGRICULTURAL AND TECHNICAL STATE
UNIVERSITY**

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2008

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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UNIVERSITY**

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Office of the State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Beverly E. Perdue, Governor
Members of the North Carolina General Assembly
North Carolina Agricultural and Technical State University Board of Trustees
Dr. Stanley F. Battle, Chancellor
North Carolina Agricultural and Technical State University

We have completed certain audit procedures at the North Carolina Agricultural and Technical State University related to the State of North Carolina reporting entity as presented in the *Single Audit Report* for the year ended June 30, 2008. Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

In the *Single Audit Report*, the State Auditor presents the results of tests of the internal control and compliance with laws, regulations, contracts and grants applicable to the State's major federal programs. Our audit procedures were conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States and the Single Audit Act.

Our audit objective was to render an opinion on the State of North Carolina's administration of 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 audit findings referenced in the 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* or the Single Audit Act, 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 black ink that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



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**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

North Carolina Agricultural and Technical State University Board of Trustees
and Management of the North Carolina Agricultural and Technical State University

Compliance

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Circular A-133 Compliance Supplement* that are applicable to each of its major programs for the year ended June 30, 2008, we have performed audit procedures at the North Carolina Agricultural and Technical State University. Our report on the State of North Carolina's compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at the North Carolina Agricultural and Technical State University included the following:

- SFAC - 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.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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. Our audit does not provide a legal determination of compliance with those requirements.

The results of our audit procedures at the North Carolina Agricultural and Technical State University disclosed instances of noncompliance that are required to be reported in

**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
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IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONTINUED)**

accordance with OMB Circular A-133 and which are described in findings 1 and 2 in the Audit Findings and Responses section of this report.

Internal Control Over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider the significant deficiency described in finding 1 in the Audit Findings and Responses section of this report to be a material weakness.

Management's responses to the findings identified in our audit are included in the Audit Findings and Responses section of this report. We did not audit the responses, and accordingly, we express no opinion on them.

**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133 (CONCLUDED)**

This report is intended solely for the information and use of management, North Carolina Agricultural and Technical State University Board of Trustees, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Beth A. Wood

Beth A. Wood, CPA
State Auditor

January 8, 2009

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AUDIT FINDINGS AND RESPONSES

Matters Related to Federal Compliance Objectives

1. 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*.

University's Response: We concur. The amount for direct loans was broken out by the proper CFDA number, but was also included in the net total for grants without a CFDA number for the Office of Education. The University will institute an independent reconciliation of the schedule with the general ledger to ensure that the report reconciles to the supporting documentation. A revised schedule has been submitted to the Office of the State Controller.

2. 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-

AUDIT FINDINGS AND RESPONSES (CONCLUDED)

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.

University's Response: We concur. This finding was a result of miscommunication of the change in residency status. The financial aid awarded to these students was subsequently adjusted and the overaward was thus eliminated.

The University has instituted a process whereby the Admissions Office emails the Financial Aid and the Treasurer's Offices of any changes in residency status. To supplement this process, a weekly "residency status change" notification report is being developed, and the Treasurer's Office will review all refunds in excess of \$5,000 to ensure there are no inconsistencies.

ORDERING INFORMATION

Audit reports issued by the Office of the State Auditor can be obtained from the web site at 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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