

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR
BETH A. WOOD, CPA



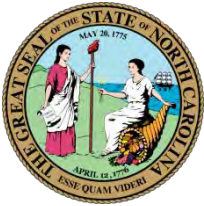
WINSTON-SALEM STATE UNIVERSITY

WINSTON-SALEM, NORTH CAROLINA
STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES
FOR THE YEAR ENDED JUNE 30, 2014



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STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Pat McCrory, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Elwood L. Robinson, Chancellor
Winston-Salem State University

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 Winston-Salem State University for the year ended June 30, 2014. We conducted the audit 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*. 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, 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 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 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 OMB Circular A-133, 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 OMB CIRCULAR A-133**

Board of Trustees
and Management of Winston-Salem State University

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2014, we have performed audit procedures at Winston-Salem State University. 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 OMB Circular A-133 is included in the State's *Single Audit Report*. Our federal compliance audit scope at Winston-Salem State University included the 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.

Management's Responsibility

Management is responsible for compliance with laws, regulations, contracts, and grants applicable to 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 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. However, our audit does not provide a legal determination of the University'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 Winston-Salem State University disclosed instances of noncompliance that are required to be reported in accordance with OMB Circular A-133 and which are described in all of the findings in the Findings, Recommendations, and Responses section of this report.

Report on Internal Control Over Compliance

Management of Winston-Salem State University 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 OMB Circular A-133, 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 all of the findings in the Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Winston-Salem State University's Responses to Audit Findings

The University's responses to the findings identified in our audit are included in the Findings, Recommendations, and Responses section of this report. The University's responses were not subjected to the auditing procedures applied in the audit of compliance or consideration of internal control over compliance, and accordingly, we express no opinion on them.

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 OMB Circular A-133. Accordingly, this communication is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 24, 2015



FINDINGS, RECOMMENDATIONS, AND RESPONSES

MATTERS RELATED TO FEDERAL COMPLIANCE OBJECTIVES

1. Enrollment Reporting Errors Threaten Eligibility For Title IV Student Aid

The University did not timely report changes to the enrollment status of students that received federal student aid to the National Student Loan Data System (NSLDS). The University had 1,384 students that received \$5,586,603 in federal student financial assistance subject to this reporting.

Out of a sample of 60 students who received federal student financial assistance and whose enrollment status changed, 31 (52%) did not meet the federal compliance requirements:¹

- In 27 of the sample items not in compliance, the changes in enrollment statuses were 29 to 89 days late.
- In four of the sample items not in compliance, the changes in enrollment statuses were never reported.

Information in NSLDS that is not reported timely by the University may interfere with a student's loan privileges, deferment privileges, grace periods, and other considerations including the evaluation and funding of the Title IV programs by the Department of Education. Further, the University could have had its eligibility for Title IV federal student financial aid revoked.

According to the University, enrollment status changes of students that received federal student aid were not reported timely because employees relied upon the National Student Clearinghouse (NSC), a third party service provider, to ensure the reporting was timely. Additionally, employees stated they did not understand it was their responsibility to ensure that the information reported to NSLDS was in agreement with the University records, therefore no control system was in place to ensure the reporting was being performed as required.

Federal regulations require the University to notify NSLDS within 30 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 the University is ultimately responsible for timely and accurate reporting.

Federal Award Information

Award Year July 1, 2013 – June 30, 2014. CFDA 84.063 Federal Pell Grant Program (Pell); CFDA 84.268 Federal Direct Student Loans (Direct Loan)

Recommendation

The University should implement procedures to ensure required student enrollment changes are reported timely and accurately to the Department of Education.

¹ 34 CFR sections 682.610, 685.309, and 690.83

Agency Response

Winston-Salem State University (WSSU) agrees with the finding that there were enrollment reporting errors which threaten eligibility for Title IV Student Aid.

WSSU has determined that some of the identified issues with enrollment reporting have been resolved. Resolution for the remaining issues will be completed by March 27, 2015.

2. Required Direct Loan Reconciliations Were Not Properly Performed

The University did not perform timely and accurate required reconciliations of Federal Direct Loan (FDL) amounts, which totaled \$32,562,498 during the audit year. During the 12 months period that comprised our audit year, we found:

- Five months (42%) for which reconciliations were not performed at all.
- Seven months (58%) for which reconciliations were incomplete. In these instances, only the FDL disbursements were being reconciled and the ending cash balances were not being reconciled as required.² There was also no evidence that the reconciliations that were performed were reviewed.

As a result, federal loan records could be inaccurate. Reconciliation ensures that the amount of Direct Loan funds the school has received can be substantiated by records for eligible borrowers at the school.

According to the University, required reconciliations were not performed because the Financial Aid employees placed reliance on a consultant for these duties. In addition, the Financial Aid Department believed that it was not their responsibility to reconcile the ending cash balances.

Federal regulations² require the University to reconcile Student Account Statement (SAS) data file (received from the Department of Education) to the University's financial records each month. This reconciliation includes reconciling the disbursements as well as the ending cash balance in the SAS data file to the University's financial records, ensuring that any discrepancies are resolved, and any reasons for a positive or negative cash balance are documented.

Federal Award Information

Award Year July 1, 2013 – June 30, 2014. CFDA 84.268 Federal Direct Student Loans (Direct Loan)

Recommendation

The University should implement procedures to ensure that required reconciliations are completed timely and accurately.

² 34 CFR section 685

Agency Response

WSSU agrees with the finding that required Direct Loan reconciliations were not properly performed.

WSSU has reviewed its reconciliation processes and determined the necessary changes, which will bring the University into compliance. The implementation of the new reconciliation process will be completed by July 1, 2015, in time for the new fiscal year.

3. Required Written Notifications Were Not Supplied to Students

The University did not notify students of the amount of funds that the student or his or her parent can expect to receive under each Title IV program. Out of a sample of 60 randomly selected students who received Title IV funds during our audit period, 26 students (43%) did not receive the required written notification letter. As a result, the student or parent is not given the opportunity to make an informed decision about their federal student aid.

The University did not notify students of the amounts of funds to expect to receive under each Title IV program due to reliance upon the Banner system to send the notification letters automatically. According to the University, a setting within the system was changed by an employee that caused the letters to not be sent, and the Financial Aid Department did not monitor to ensure letters were being sent.

Federal regulations³ require the University to notify a student of the amount of funds that the student or his or her parent can expect to receive under each Title IV program, and how and when those funds will be disbursed.

Federal Award Information

Award Year July 1, 2013 – June 30, 2014. CFDA 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG); CFDA 84.033 Federal Work Study Program (FWS); CFDA 84.038 Federal Perkins Loans (FPL); CFDA 84.063 Federal Pell Grant Program (Pell); CFDA 84.268 Federal Direct Student Loans (Direct Loan)

Recommendation

The University should implement procedures to ensure that required notifications are being supplied to the student or parent.

Agency Response

WSSU agrees with the finding that required written notifications were not supplied to students or parents.

WSSU identified the issues of notifications not being sent in late July/early August of 2014. The issues were subsequently addressed and fixed during the later part August 2014, resolving problem for the 2013-14 award-year as well as subsequent award-years.

³ 34 CFR section 668.165

ORDERING INFORMATION

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This audit was conducted in 773 hours at an approximate cost of \$72,662.