

2007 Financial Audit Reports Released Since Last Meeting By the North Carolina Office of the State Auditor:

1. East Carolina University: – (Financial Audit): Two Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6065.pdf>

Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. ESTIMATED USEFUL LIFE OF CAPITAL ASSETS NEEDS TO BE RE-EVALUATED

The University has not periodically evaluated the appropriateness of the estimated useful lives of its capital assets. After we requested that the University perform such an evaluation, staff identified an estimated overstatement of accumulated depreciation of approximately \$6.6 million.

When the University implemented GASB 34/35, it used the suggested Office of the State Controller useful lives of assets but has not adjusted those suggested guidelines based on actual experience. A periodic review of useful lives is necessary to ensure that costs are allocated based on actual use of the assets.

Recommendation: The University should establish and implement procedures to ensure that the useful lives of capital asset classes are periodically re-evaluated.

University Response: The University will implement procedures to periodically study and re-evaluate the useful lives of its capital asset classes.

2. LACK OF ACCOUNTABILITY FOR EQUIPMENT PURCHASED WITH FEDERAL RESEARCH AND DEVELOPMENT FUNDS

The University did not perform a complete physical inventory of equipment purchased with research and development grant funds and reconcile counts to its equipment records. The OMB Circular A-133 Compliance Supplement requires that a physical inventory of equipment purchased with federal funds be taken at least every two years and the results reconciled with equipment records.

Two departments purchased equipment with research and development funds and did not complete and return the equipment inventory listing as required. According to equipment records, one department held six pieces of equipment purchased with federal funds totaling \$29,165, and the other department held five pieces of equipment purchased with federal funds totaling \$108,955. We also noted that these same departments failed to return signed equipment listings in the 2006 fiscal year. Total equipment dollars examined was \$473,215, which resulted in a total error rate of 29%.

Recommendation: The University should ensure the departments improve their controls over capital assets and comply with applicable federal requirements.

University Response: The Office of Grants and Contracts will work with Materials Management Fixed Assets (Administration & Finance) to ensure that the departments are in compliance with applicable State and federal requirements regarding fixed assets.

2. The University of North Carolina at Chapel Hill: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6020.pdf>

3. Winston-Salem State University: – (Financial Audit): Six Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6084.pdf>

Matters Related to Financial Reporting or Federal Compliance Objectives

The following audit findings were identified during the current audit and describe conditions that represent significant deficiencies in internal control or noncompliance with laws, regulations, contracts, grant agreements or other matters.

1. INAPPROPRIATE STUDENT FINANCIAL AID AWARDED TO EMPLOYEES

The University awarded questionable federal and non-federal financial aid funds to its employees by disregarding its own policies and procedures, overriding system-generated award calculations, and not abiding by federal regulations. As result, we are questioning cost of \$40,119, of which \$39,723 is federal cost.

We tested eligibility for 24 University employees who were awarded student financial aid during the 2006-2007 academic year and determined the following:

- a. Four University employees who were enrolled as less than half-time students received federal loans totaling \$26,615. Federal regulations require that students be enrolled at least half-time to be eligible for these loans.
- b. Four University employees received over-awards totaling \$4,105 because the University did not include the employees' tuition and fee waivers (a benefit available to certain University employees that eliminates costs associated with taking classes at the University) as one of the employees' financial resources when calculating their need for financial aid.
- c. Three University employees received over-awards totaling \$5,400 because the University increased these employees' calculations of financial aid need for reasons that were not documented.
- d. One financial aid employee received a \$3,999 Federal Supplemental Educational Opportunity Grant (the maximum award for this grant is \$4,000) even though federal regulations require that these grants be awarded to students with the greatest need. Students with greater calculated need were awarded less than \$3,999.

We also noted other deficiencies in awarding student financial aid to employees. Financial aid employees calculated their own financial aid awards and disbursed the funds to their own accounts. According to financial aid office management, there is an unwritten policy requiring that

employees' receiving financial aid have their application reviewed by a management team member, which includes the Director, Associate Director, or the Assistant Director of Student Financial Aid. However, this was not done in numerous cases.

Further, non-federal aid was disproportionately awarded to two financial aid employees and an employee managing student accounts, as compared to other University employees included in our audit. Out of \$41,821 in non-federal aid awarded to 24 employees, two financial aid employees received \$21,764 or 52% of the aid and one employee who manages student accounts received \$6,341 or 15% of the aid.

Finally, we found that 16 University employees received \$13,430 in tuition and fee waivers for which they were not eligible. According to University policy, employees receiving non-repayable financial aid such as grants and scholarships are not eligible for tuition or fee waivers, and tuition may be waived for no more than one course per semester. The University granted waivers to employees in violation of both of these requirements.

Recommendation: The University should improve internal control to ensure that student financial aid is awarded in accordance with federal regulations and University policy. Additional internal control is required when awards are made to employees. Financial aid employees should not have the system access rights to award and distribute funds to their own accounts or accounts of their co-workers. In addition, University employees should not be given special consideration for financial aid awards.

(Award #s P063P061969, P007A063195, and Federal Family Education Loans Award year - 7/1/06 to 6/30/07)

University Response: Concurs with finding.

Corrective Action: Effective August 2007, all University employee aid packages are reviewed for compliance with the University's official tuition waiver policy. At the end of the fourth week of each semester, Financial Aid will request from the Director of Billings & Receivables, a list of all employees who have had tuition waivers applied to their accounts. The Assistant Director or Senior Counselor in Financial Aid will review the list of employee-students receiving non-repayable aid. Billings & Receivables will be responsible for removing the ineligible waiver and notifying the student.

The process adopted by Financial Aid for awarding eligible students has been revised in the Banner Information System used to process and disburse student aid awards. Furthermore, Financial Aid will review all student refunds prior to release to ensure eligibility. System security has been revised to restrict staff edit capabilities to budget assignment screens. Budget changes must be documented and approved by the Director, Associate Director or Assistant Director. Finally, the employee responsible for the report system abuses has been terminated.

Financial Aid packaging guidelines have been established to ensure equitable distribution of available funds to eligible student applicants only. Any increase above initial award limit must be documented and approved by the Financial Aid Director, Associate Director or Assistant Director. The Financial Aid Office has established a written policy regarding employee awards. FA employees are not allowed to process aid or loan requests for family members or close associates at any time. Any effected student's application must be processed by the Director, Associate Director or the Assistant Director. Employees who violate this policy are subject to disciplinary action.

2. STUDENT FINANCIAL AID OVER-AWARDED

The University over-awarded financial aid to several students, two of whom were relatives of a financial aid employee. As a result, we are questioning \$8,983 in federal costs.

We tested eligibility for 41 students who were awarded financial aid during the 2006-2007 academic year and identified four students who were over-awarded financial aid. The excess awards resulted from the financial aid office increasing the students' cost of attendance budget without documented justification. Students are assigned a cost of attendance budget by the University based on a variety of factors including enrollment status, living arrangements, etc. to ensure that students are treated equitably in their consideration for financial aid. Modifications to the budgets can be made at the University's discretion for students with specific needs, but all changes should be documented and placed in the students' files.

Federal regulations require that when a University establishes standard costs of attendance for different categories of students, the University must apply the cost allowances uniformly to all students within its established categories

Recommendation: The University should improve internal control to ensure that student financial aid is awarded in accordance with federal regulations and University policy. The University should maintain documentation for all changes to its standard cost of attendance calculations that determine students' need for financial aid. Special consideration should not be given to family members of University employees awarding financial aid, nor should financial aid employees be involved in the processing of financial aid for a relative.

Federal Family Education Loans - Award year -7/1/06 to 6/30/07)

University Response: Concurs with finding.

Corrective Action: Costs of attendance budgets have been established and standardized for similar student groups. Students may request in writing that the cost of attendance be increased due to documented expenses, not considered in the initial budget, required to continue their educations. Revisions to these established costs of attendance must be documented and approved by the Director, Associate Director or Assistant Director. Furthermore, system security has been revised to restrict staff edit capabilities. Employees are expressly forbidden from processing family and close associates' aid applications or loan requests. Those must be reviewed and processed by a senior management team member.

3. STUDENT FINANCIAL AID FUNDS NOT RETURNED TO PROVIDERS AS REQUIRED

The University did not properly return student financial aid funds to the federal government or appropriate lenders as required when students who received aid withdraw from classes. We identified \$15,036 that was not returned at all and \$7,433 that was returned late.

The University is required to calculate and return to the applicable party in a timely manner the amount of federal financial aid that is unearned by a student who withdraws from the University. We tested 25 students who withdrew from the University during the 2006-2007 academic year. In two cases, no calculation was performed to determine if there were funds subject to return. We performed the calculation and determined that \$290 should have been returned. In eight cases, the calculation was performed; however, the University failed to return \$14,746 of the calculated amount. In three cases, the calculation was performed and funds totaling \$7,433 were returned; however, they were returned between 86 to 250 days late.

Federal regulations require that when a student withdraws from the University, the University must calculate the amount of federal financial aid that was not earned by the student and return those funds to the federal government or appropriate lender. The funds must be returned within 45 days

of the date that the University determined that a student withdrew.

Recommendation: The University should comply with federal regulations by ensuring that federal funds that are unearned by students who withdraw from the University are returned to the federal government or appropriate lender within the required timeframe.

(Award #s P063P061969 and Federal Family Education Loans; Award year - 7/1/06 to 6/30/07)

University Response: Concurs with finding.

Corrective Action: The return to Title IV calculations are in progress from academic years 2004 to the current year based on both the State and Federal program reviews. New procedures have been established in Financial Aid to ascertain if unofficial withdrawals have occurred. Financial Aid will review any students receiving all W, I or F grades at mid-term and finals to identify potential unofficial withdrawals. Any students deemed to have withdrawn unofficially from the University are reported to Billings & Receivables. This Department has the responsibility of returning the funds, as appropriate.

4. FINANCIAL AID AWARDED TO STUDENTS WHO DID NOT MEET ACADEMIC STANDARDS

The University awarded student financial aid to students who were not in compliance with the University's satisfactory academic progress policy, which is not allowed by federal regulations. As a result, we are questioning \$46,271 of federal costs.

We tested eligibility for 41 students who received federal student financial aid and found that four did not meet the University's satisfactory academic progress financial aid policy. The Code of Federal Regulations, Title 34, Part 668.16(e), Standards of Administrative Capability, states that students must maintain satisfactory academic progress in their courses of study according to the institution's published standards of satisfactory academic progress.

The University's satisfactory academic progress policy that determines financial aid eligibility can differ from its satisfactory academic progress policy that determines academic eligibility, but it cannot be less strict. We reviewed the portion of both policies that indicate what the University considers successful progression toward a degree; however, based on the manner in which the policies were written, we were unable to determine whether the financial aid policy was less strict than the overall policy.

Recommendation: The University should improve internal control to ensure that student financial aid is awarded in accordance with federal regulations. The satisfactory academic progress policy for student financial aid should clearly be at least as strict as the satisfactory academic progress policy for students overall.

(Award #s - P063P061969, P007A063195, and Federal Family Education Loans, and Federal Perkins Loan Program; Award year -7/1/06 to 6/30/07)

University Response: Concurs with finding.

Corrective Action: Financial Aid guidelines for determining satisfactory academic progress (SAP) have been updated and brought into compliance with federal aid regulations. Students not maintaining SAP are ineligible for student aid unless granted an appeal and placed on financial aid probation. Appeal forms are available to effected students online and in office. Appeals are considered and decided by the Appeals Committee or the Director of Financial Aid.

5. INAPPROPRIATE INFORMATION SYSTEM ACCESS

The University allowed information system access rights inconsistent with adequate internal controls to prevent error or misappropriation. We identified four employees who continued to have system access rights after their termination from the University and three employees who had system access rights inconsistent with their job duties.

Prudent internal control principles require that users be given access to the specific computer resources needed for their job duties, and upon termination, such access be revoked to prevent unauthorized access to University data.

Recommendation: The University should improve internal control over computer system access to ensure only authorized personnel are granted the necessary system access to perform their job duties, and such access is revoked in a timely manner upon employee termination.

University Response: Concurs with finding.

Corrective Action: The University's policy as related to staff separations and terminations will be revised. The revised policy will reflect the hiring supervisor's responsibility to notify Human Resources, as appropriate, for any staff separations, terminations and/or transfers. Human Resources will notify Information Technology to terminate all system access. The revised policy will also include consequences for noncompliance up to and including disciplinary action.

Electronic processes will be developed to notify other parties of personnel movements as appropriate.

The University will be educated of the revisions to these policies and procedures through the use of various forums such as the "Ask HR" quarterly meetings, and the monthly Budget Managers' Meetings.

6. DEFICIENCIES IN BANK RECONCILIATIONS

The University did not accurately reconcile its Short Term Investment Fund account and has not kept the reconciliations current. This increases the risk that an error or misappropriation could occur and not be detected in a timely manner.

The June 30, 2007, reconciliation for the University's Short Term Investment Fund account contained several errors:

- a. The account was reconciled to the wrong general ledger balance. The balance used on the reconciliation was \$22,644,013, while the balance per the University's accrual basis general ledger was \$23,258,317, a difference of \$614,304.
- b. The true difference between the adjusted bank balance and the general ledger balance was \$882,452; however, the University could only explain \$160,234 of the difference.
- c. Items totaling \$737,212 and identified as deposits in transit per the University's reconciliation could not be verified as being deposited per review of subsequent months' bank statements for the account.

As of December 27, 2007, the Short Term Investment Fund reconciliations for the months of July 2007 through November 2007 had not been completed.

Recommendation: The University should improve internal control to ensure that all its bank accounts are reconciled completely, accurately and timely.

University Response: Concurs with finding.

The following steps have been performed:

- a. We have reconciled the bank statement balance to the Banner Bank Fund balance. Any postings to the actual Banner Fund (primarily Billings & Receivables feeds) were not always posting properly to the associated Bank Fund Account Code. This is due primarily to the implementation of the Banner Student Accounts Receivable module in July 2006 and staffing issues (proper training) in the Billings & Receivables area. Most of the problems were in the first four months of implementation and have declined tremendously since the implementation. We have currently reconciled the differences between the Banner Bank Funds and the individual Banner Funds. These adjustments are reflected on the updated Bank Reconciliation.
- b. We have identified all differences between the adjusted Bank Balance and the General Ledger. As we have noted above, some of the differences are due to improper postings to the Bank Fund balance and also to human error with regards to improperly recording deposits to the correct bank account.
- c. We have assigned our Trust Fund Accountant to work with Billings & Receivables to identify all deposit discrepancies. Through June 30, 2007, all deposit discrepancies have been identified and reflected on the updated Bank Reconciliation.

Additionally, we are working on the current year reconciliation and plan to be up to date by April 30, 2008. From the analysis that we have completed, we now have a better understanding of how Banner Student interacts with Banner Finance. Also, we have approached assistance from UNC Greensboro, since they have the most experience with Banner Student in the University System and on the interfaces with Banner Finance. We are currently implementing UNCG's reconciliation methodology since it is more streamlined and automated. Implementation is targeted for July 1, 2008.

4. North Carolina School of the Arts: – (Financial Audit): No Audit Findings

Report URL:

<http://www.ncauditor.net/EpsWeb/Reports/Financial/FIN-2007-6092.pdf>