

Minutes of the April 11, 2013 Meeting
of the Board of Governors Audit Committee

The Audit Committee met in Room 233 of the Chavis University Center at UNC Pembroke in Pembroke, North Carolina on Thursday, April 11, 2013 at 3:30 p.m.

Members in attendance were Mr. W. Louis Bissette, Jr., Mr. John M. Blackburn, Mr. Walter C. Davenport, Dr. Fred N. Eshelman, Mr. Thomas J. Harrelson, Dr. Franklin E. McCain, Mr. Hari H. Nath, Mr. Richard F. Taylor, and Mr. Phillip D. Walker. Others in attendance were incoming board member Mr. G.A. Sywassink; Chief of Staff Loren Baumhover and Vice Chancellor for Business Affairs Greg Lovins (ASU); Director of Budgeting Carlton Spellman (FSU); Chancellor Philip Dubois (UNCC); Chancellor Kyle R. Carter and Director of Internal Audit Kelley Horton (UNCP); Chancellor Gary Miller and Associate Vice Chancellor for Business Rick Whitfield (UNCW); Chancellor Donald Reaves (WSSU), and UNC General Administration staff.

Chair Davenport called the meeting to order and welcomed everyone.

On the motion from Mr. Bissette, seconded by Mr. Walker, the minutes of the February 7, 2013 meeting were approved.

Project Manager Gwen Canady explained staffing transition within the UNC FIT division. Associate Vice President Lynne Sanders and Assistant Vice President Jeff Henderson had moved from the Finance division to the UNC FIT division. Ms. Sanders would lead the Business Process Improvements program and she would staff the Audit Committee. Mr. Henderson would oversee various Auditing and Financial Reporting projects.

Ms. Sanders reviewed six Statewide Federal Compliance audit reports released by the Office of the State Auditor since the February meeting. (See Attachment) Three of the six reports noted audit findings related to Student Financial Aid (UNCC, UNCP and UNCW); two of the reports noted findings related to the Higher Education – Institutional Aid program (FSU and WSSU), and one report had no findings (ASU). Each institution with issued reports had a representative in attendance who was able to address the findings. Each issued report noted campus responses that progress was being made toward corrective actions. Ms. Sanders stated that the UNC FIT team would follow-up with the campuses to ensure successful remediation of the issues reported.

Mr. Davenport questioned the status of the Quality Assurance Reviews (QAR) that was discussed at the last meeting. Ms. Sanders gave an update. She explained UNCC had completed its QAR. In total, four campuses had completed their reviews. Most of the remaining campuses should be completed by January 2014.

There being no further business, the meeting was adjourned.

Mr. Walter C. Davenport
Chair of the Audit Committee

Mr. Hari H. Nath
Secretary of the Audit Committee

Note: The attachments for the Minutes of the April 11, 2013 meeting are not included due to size. They are posted on the Board of Governors June 2013 meeting site; they are on file in the Finance Division and available upon request.

2012 Federal Compliance Audit Reports Released Since Last Meeting by the N.C. Office of the State Auditor:

1. University of North Carolina Wilmington – (Federal Compliance Audit) One Audit Finding

Date Released: 3/14/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6060.pdf>

Matters Related to Federal Compliance Objectives

IMPROVEMENTS NEEDED IN DIRECT LOAN NOTIFICATION PROCESS

The University did not notify students each time a Direct Loan disbursement was credited to their account in accordance with federal regulations. As a result, students or parents were not provided certain written notifications that could result in the student or parent making an uninformed decision related to the acceptance or rejection of these loans.

Our test of 40 recipients revealed the following:

- The University did not notify nine recipients for 16 of the 42 payments credited to their accounts.
- The University did not notify one recipient for two of the five payments credited to the student's account within the timeframe specified in the federal regulations. The notification occurred two days late for this recipient.

The University is required by federal regulation 34 CFR section 668.165 to notify the student, or parent in writing of (1) the date and amount of the disbursement, (2) the student's right, or parent's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan disbursement. The University must provide the notification no earlier than 30 days before, and no later than 30 days after, crediting the student's account.

Federal Award Information: Award #P268K120329. Award Year July 1, 2011 - June 30, 2012.

Recommendation: The University should ensure that appropriate notification is made to all federal direct loan recipients in a timely manner.

Managements Response: As a result of this finding, the Office of Scholarships & Financial Aid conducted a thorough review of the programming used in Banner to identify and notify student and parent loan borrowers of their disbursement status in accordance with the federal regulation 34CFR section 668.165. During this review, a programmatic issue, within Banner, as well as, the policy and practice between the Office of Scholarships & Financial Aid and Student Accounts, was identified and corrected. It appears that the notification process had been transferred from Student Accounts to the Office of Scholarships & Financial Aid and the appropriate changes to the selection criteria within had not been made. The original selection criteria used the “date a loan disbursed” rather than the “net notification” when changes or adjustments were made to the loan and resulted in any subsequent disbursements. As a result of this discovery, the revised selection criteria was adjusted to include the “net notification” to ensure any loan change and/or adjustment that results in a disbursement will result in an automatic notification to the student loan borrower or parent borrower. In addition to the lack of proper notification to student loan borrowers and parent borrowers regarding their loan disbursements, the auditors also identified an individual who was notified of their loan disbursement outside of the specified timeframe allowable for notification (30 days). Prior practice in the Office of Scholarships & Financial Aid had been to send notification at the end of each month; however, no adjustment to that policy was made for those months that contained 31 days, or when the last day of the month fell on a holiday or weekend. The lack of adjustments for this particular instance resulted in at least this student not being notified within the proper timeframe of 30 days. To ensure compliance with the 30 day notification requirement for all students, the Office of Scholarships & Financial Aid policy and procedures were updated and the implementation schedule to process and send loan disbursement notifications twice per month (1st and 15th) started in September, 2012. This new policy and practice ensures that no loan disbursement notification occurs outside the allowable 30 day timeframe. In addition, this current process has been updated on the calendar of the Assistant Director responsible for processing, and the Office of Scholarships & Financial Aid Operational Calendar.

2. Winston-Salem State University – (Federal Compliance Audit) One Audit Finding
Date Released: 3/14/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6084.pdf>

Matters Related to Federal Compliance Objectives**LACK OF CONTROLS OVER FEDERAL SUSPENSION AND DEBARMENT
VERIFICATION**

The University did not have controls in place to ensure that contracts and procurements in excess of \$25,000 were made only to vendors that were eligible to participate in federal programs. The lack of controls increase the risk that the University may contract with, or provide funds to, suspended or debarred vendors. However, we did not identify any transactions with suspended or debarred vendors. OMB Circular A-110 requires verification of applicable contract and procurement transactions to ensure that recipients of federal funds are not suspended or debarred. This verification is to be accomplished by checking the Excluded Parties List System maintained by the General Services Administration or collecting a certification from the entity regarding its exclusion status and that of its principal employees.

Federal Award Information: CFDA 84.031 – Higher Education Institutional Aid: Federal award P031B070015-10 for award year October 1, 2010 – September 30, 2011; Federal award P031B070015-11 for award year October 1, 2011 – September 30, 2012; Federal award P031B100052-10 for award year October 1, 2010 – September 30, 2011; Federal award P031B100052-11 for award year October 1, 2011 – September 30, 2012.

Recommendation: The University should implement procedures to ensure compliance with federal suspension and debarment regulations.

University's Response: We concur. Sponsored Programs vets all vendors to be used by new grants against the Excluded Parties List System maintained by the General Services Administration. The Purchasing Department has linked its website to the Excluded Parties List System maintained by the General Services Administration. All new vendors are vetted against this list along with the State of North Carolina debarred vendors

3. The University of North Carolina at Charlotte – (Federal Compliance Audit) Two Audit Findings

Date Released: 3/14/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6050.pdf>

Matters Related to Federal Compliance Objectives

1. UNTIMELY RECONCILIATION OF DIRECT LOAN DISBURSEMENTS

The University did not reconcile Direct Loan disbursements to accounting information in a timely manner. Federal Regulations (34 CFR, section 685.102(b)) require the University to reconcile disbursement records monthly. We tested seven months for which reconciliations should have been completed. In three cases, the reconciliations were not completed by the University.

Federal Award Information: Award Year July 1, 2011 - June 30, 2012.

Recommendation: The University should design and implement effective controls to ensure that Direct Loan disbursements are reconciled to accounting information in a timely manner.

Response: To ensure that Direct Loan disbursements are reconciled to accounting information in a timely manner, the University created a full-time Financial Aid Accountant position in the Office of Student Financial Aid. The Financial Aid Accountant is responsible for the reconciliation of all federal funds, including Direct Loans, as well as the reporting of disbursement information to the Common Origination & Disbursement (COD) System. The incumbent has received adequate training for this role and a back-up plan is in place as a contingency. All Direct Loan monthly reconciliations for the fiscal year ended June 30, 2012, were completed and reviewed as of September 7, 2012. Direct Loan monthly reconciliations for FY13 will be up-to-date by December 31, 2012 and will be completed timely going forward.

2. FAILURE TO SEND DIRECT LOAN NOTIFICATIONS

The University failed to send required written notification to students, or parents, receiving Federal Direct Loan funds. Federal regulations (34 CFR, section 668.165) requires the University to notify students, or parents, who are loan recipients, in writing, and these notifications must include (1) the anticipated date and amount of the disbursement, (2) the

student's right or parent's right to cancel all or a portion of that loan or loan disbursement and have the proceeds returned to the holder of the loan, and (3) the procedures and time by which the student or parent must notify the University that he or she wishes to cancel the loan. The University must provide the notification no earlier than 30 days before, and no later than 30 days after, crediting the student's account at the University. We tested 36 disbursements of Direct Loan funds. In all 36 instances, notifications were not sent as required by federal regulations.

Federal Award Information: Award Year July 1, 2011 - June 30, 2012

Recommendation: The University should design and implement a control to ensure students, or parents, receive notification of Direct Loan disbursements as required.

Response: During a quality control check by the Office of Student Financial Aid in February 2012, it was determined that the University failed to send required written notification to students, or parents, receiving Federal Direct Loan funds. As a result, the University designed and implemented a control to ensure that the notification of Direct Loan disbursements are sent in conjunction with the loan funds crediting the students' accounts. The notification process is automated through the Banner Financial Aid module and successfully sent notifications for loans disbursed in the 2012 Summer and 2012 Fall terms.

4. The University of North Carolina at Pembroke– (Federal Compliance Audit) One Audit Findings
Date Released: 3/14/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6082.pdf>

Matters Related to Federal Compliance Objectives

LACK OF CONTROLS OVER DISBURSEMENTS TO OR ON BEHALF OF STUDENTS

The University does not have controls in place to notify students about Direct Loan disbursements in accordance with compliance requirements. As a result, students or parents were not provided certain written notifications that could result in the student or parent making an uninformed decision related to the acceptance or rejection of these loans.

The University is required by 34 CFR section 668.165 to notify the student, or parent in writing of (1) the date and amount of the disbursement, (2) the student's right, or parent's right

to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan, and (3) the procedure and time by which the student or parent must notify the institution that he or she wishes to cancel the loan disbursement.

Federal Award Information: This finding affects CFDA 84.268 Federal Direct Student Loans (Direct Loan) Federal Award P268K121947 for the award period July 1, 2011 – June 30, 2012.

Recommendation: The University should implement procedures to ensure that written notifications are provided to students or parents for each Direct Loan disbursement. The University should also ensure that these notifications include all the required information to ensure compliance with the Disbursements To or On Behalf of Students requirements.

Response: We agree with the auditor's comments, and the following actions have been taken to correct the deficiencies. The Office of Financial Aid has prepared letters in accordance with the Code of Federal Regulations and implemented procedures to ensure that students and parents are sent written notifications for each Direct and PLUS Loan disbursement. The procedures were implemented the Spring Semester 2013.

5. Fayetteville State University – (Federal Compliance Audit) Four Audit Findings

Date Released: 3/14/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6088.pdf>

Matters Related to Federal Compliance Objectives

1. INTERNAL CONTROLS OVER DAVIS-BACON REQUIREMENTS NEED IMPROVEMENT

For the Higher Education Institutional Aid program, the University entered into construction contracts totaling \$594,255 which did not comply with the Davis-Bacon Act. As a result, there is an increased risk that wages paid to laborers do not comply with appropriate wage requirements. Of the five construction contracts funded, all failed to contain the required prevailing wage clause. Four of the five contracts did not comply with the requirement for contractors to submit weekly certified payrolls to the University.

The A-133 Compliance Supplement states “all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established

for the locality of the project (prevailing wage rates) by the Department of Labor. Non-Federal entities shall include in their construction contracts subject to the Davis-Bacon Act, a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor. This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).”

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B085087-09 for the award period October 1, 2009 - September 30, 2010; Federal Award P031B070087-10 for the award period October 1, 2010 - September 30, 2011; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

Recommendation: The University should strengthen controls to ensure that all construction contracts financed by Federal assistance are in compliance with the requirements of the Davis-Bacon Act.

Response: The University agrees with the finding and recommendation. We have taken the necessary steps to ensure compliance with the Davis-Bacon Act. The Construction Contract Templates for federally funded projects now include the language related to the Davis-Bacon Act requirements. A corrective action plan has been outlined which will be monitored as part of the University’s annual internal auditing program.

2. INTERNAL CONTROLS OVER PROCUREMENT AND SUSPENSION AND DEBARMENT NEED IMPROVEMENT

For the Higher Education Institutional Aid program, the University did not have adequate controls to ensure compliance with procurement and suspension and debarment requirements. Thus, there is an increased risk of noncompliance with these laws and regulations. University personnel did not fully understand State purchasing policies and procedures for sole source and competitive purchases. In addition, University personnel were not aware of Federal requirements for certifications related to lobbying activity and suspension and debarment. Eighteen out of 72 purchases tested did not have the proper documentation to support the purchase in accordance with State and Federal regulations.

The A-133 Compliance Supplement states: “States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.” State purchasing policy requires all purchases that are expected to be over \$5,000 to be open to competition when selecting a vendor. The University can only waive competition for specific reasons detailed by State policy. When competition is waived, written justification must be maintained by the University. OMB Circular A-110 requires that a certification regarding lobbying activities and a certification regarding suspension and debarment be collected from a vendor if the expected purchase will be greater than \$100,000. This finding was also reported in the prior year.

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B085087-09 for the award period October 1, 2009 - September 30, 2010; Federal Award P031B070087-10 for the award period October 1, 2010 - September 30, 2011; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

Recommendation: The University should strengthen internal controls to ensure appropriate procurement and suspension and debarment policies are followed and relevant documentation is maintained.

Response: The University agrees with the finding and recommendation. We implemented a corrective action plan on June 30, 2012. Also, the Title III activity directors and principal investigators for other federal grant programs will adhere to the established policies and procedures for purchasing. These policies and procedures are on the University’s website under Business and Finance/Purchasing. The website now includes specific information related to Sole and Single Source Purchases; Waiver of Competitive Purchasing; Internal Policies and Procedures related to Federal Debarment; a Debarment Certification form and a link to Sam.gov and the Excluded Parties List System (EPLS). Training has been provided for the Title III activity directors on these requirements to make sure the processes are followed and understood; whereas additional training is ongoing.

The Purchasing Department reviews and maintains relevant documentation related to these requirements. The implemented corrective action plan will be monitored as part of the

University's annual internal auditing program.

3. CASH MANAGEMENT CONTROLS NEED IMPROVEMENT

The University did not have adequate internal controls over cash management for the Higher Education Institutional Aid program. As a result, Federal cash in excess of immediate cash needs was requested and received by the University. These excess amounts received ranged from \$173,017 to \$623,809 per payment request.

The University's internal controls did not properly limit cash payment requests to minimum amounts needed or time requests in accordance with the actual, immediate cash requirements of the program. Thus, all twelve payment requests examined were in excess of immediate cash requirements.

Title 34 CFR 74.22, states that payment methods shall minimize the time elapsing between the transfer of funds from the United States Treasury and the payment by the recipient.

Title 34 CFR 74.22(b)(2) states cash advances to a recipient organization are limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Title 34 CFR 74.22(b)(3) states that the timing and amount of cash advances are as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs.

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B085087-09 for the award period October 1, 2009 - September 30, 2010; Federal Award P031B070087-10 for the award period October 1, 2010 - September 30, 2011; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

Recommendation: The University should strengthen internal controls to ensure Federal cash management regulations are followed. Payment requests should be limited to the minimum amounts needed and timed in accordance with immediate cash needs.

Response: The University agrees with the finding and recommendation. In January 2013, we implemented a corrective action plan. In September 2012, a reconciliation of the Five (5) Year Title III Cycle was performed which identified excess cash. A detailed analysis was performed to confirm the excess cash drawdown, to identify the causes and to clarify the processes for returning funds. The excess cash was returned to the U. S. Department of Education on January 16, 2013. Procedures have been implemented to perform manual reviews of expenditures versus revenue for each fund within a federal award. This is in comparison to a negative cash report which will ensure that the review is timed in accordance with immediate cash needs. Cash balances are reviewed the last day of each month and drawdown requests for that period are submitted no later than the last day of the following month. If a subsequent review indicates excess cash, the funds will be returned immediately. The outlined corrective action plan will be monitored as part of the University's annual internal auditing program.

4. INTERNAL CONTROLS OVER EQUIPMENT NEED IMPROVEMENT

The University did not have adequate internal controls in place to properly identify, safeguard and maintain equipment purchased with Higher Education Institutional Aid funds. Thus, there is an increased risk of loss or mismanagement of equipment.

The Higher Educational Aid program had equipment totaling \$1,665,090 including \$765,474 or 77 items of equipment which were purchased by two capital leases. The equipment items acquired through capital leases were not identified individually in the inventory system. Without specific identification physical inventory procedures may not be effective.

The A-133 Compliance Supplement states that "equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained."

Federal Award Information: This finding affects CFDA 84.031 Higher Education Institutional Aid: Federal Award P031B085087-09 for the award period October 1, 2009 - September 30, 2010; Federal Award P031B070087-10 for the award period October 1, 2010 - September 30, 2011; Federal Award P031B070087-11 for the award period October 1, 2011 – September 30, 2012; Federal Award P031B100016-11 for the award period October 1, 2011 – September 30, 2012.

Recommendation: The University should strengthen internal controls to adequately maintain equipment records in order to safeguard and maintain equipment. Specifically, controls should be strengthened to ensure that equipment purchased with capital lease financing be properly itemized within the inventory system.

Response: The University agrees with the finding and recommendation. The unidentified equipment during the review by the State Auditor has now been identified and tagged. The University's inventory procedures require an annual physical inventory by departments. The physical inventory forms have been updated to include a field for Title III or federally funded tag numbers. Procedures are being implemented which will enable us to identify equipment purchased with federal funds. Hence, such equipment can be tagged accordingly upon receipt. The Fixed Asset Coordinator is also providing copies of the Fixed Asset Receiving Reports to the Title III Office as well as notices when equipment purchased with federal funds are disposed of and/or moved.

Capital Leases will be reviewed at the time of acquisition and at year end. This will allow us to verify that equipment purchased through capital leases are properly itemized within the inventory system and properly accounted for. Training will be provided for the Title III Activity Directors and the Principal Investigators of other federal grants. The training will further ensure that we understand and meet the requirements for asset management. A corrective action plan has been outlined which will be monitored as part of the University's annual internal auditing program.

6. Appalachian State University – (Federal Compliance Audit) No Audit Findings
Date Released: 3/15/2013

Report URL: <http://www.ncauditor.net/EpsWeb/Reports/Financial/FSA-2012-6080.pdf>