

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA



THE UNIVERSITY OF NORTH CAROLINA AT CHAPEL HILL

CHAPEL HILL, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2019



NC  **OSA**
The Taxpayers' Watchdog



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
AUDITOR'S TRANSMITTAL	1
FINDINGS, RECOMMENDATIONS, AND RESPONSES.....	4
ORDERING INFORMATION	6

Article V, Chapter 147 of the *North Carolina General Statutes*, gives the Auditor broad powers to examine all books, records, files, papers, documents, and financial affairs of every state agency and any organization that receives public funding. The Auditor also has the power to summon people to produce records and to answer questions under oath.

STATE OF NORTH CAROLINA
Office of the State Auditor



Beth A. Wood, CPA
State Auditor

2 S. Salisbury Street
20601 Mail Service Center
Raleigh, NC 27699-0600
Telephone: (919) 807-7500
Fax: (919) 807-7647
<https://www.auditor.nc.gov>

AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Dr. Kevin M. Guskiewicz, Chancellor
The University of North Carolina at Chapel Hill

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs, we have completed certain audit procedures at The University of North Carolina at Chapel Hill for the year ended June 30, 2019.

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. However, the results included herein are 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*.

Our federal compliance audit scope at The University of North Carolina at Chapel Hill included the Student Financial Assistance Cluster.

Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

We conducted our audit of compliance in accordance with the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Other Matters

Compliance

The results of our audit procedures at The University of North Carolina at Chapel Hill disclosed an instance of noncompliance that is required to be reported in accordance with the Uniform Guidance and which is described in the Findings, Recommendations, and Responses section.

Internal Controls

Management 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 the Uniform Guidance, 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. Therefore, material weaknesses and significant deficiencies may exist that were not identified. However, we consider the deficiency described in our finding in the Findings, Recommendations, and Responses section to be a material weakness in internal control over compliance.

The University of North Carolina at Chapel Hill's Response to Findings

The University's response to the finding identified in our audit is included in the Findings, Recommendations, and Responses section of this transmittal. The University's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

Purpose of This Transmittal

The purpose of this transmittal is solely to describe the scope of our testing of internal control over compliance and testing of compliance and the results of that testing at The University of North Carolina at Chapel Hill based on the requirements of the Uniform Guidance. Accordingly, this transmittal is not suitable for any other purpose.

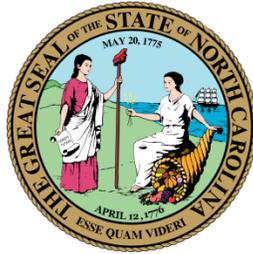
North Carolina General Statutes require the State Auditor to make audit reports available to the public. Copies of audit reports issued by the Office of the State Auditor may be obtained through one of the options listed in the back of this transmittal.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 20, 2020



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

ENROLLMENT STATUS REPORTING ERRORS

The University did not timely report enrollment status changes to the National Student Loan Data System (NSLDS) for students who received federal financial assistance. During the audit period, the University disbursed approximately \$198 million in federal financial assistance funding to 12,223 students subject to this reporting requirement.

Auditors tested the enrollment status reporting for a sample of 60 students who received federal financial assistance and whose enrollment status changed.

Four (7%) students were not reported in accordance with federal compliance requirements. Specifically:

- Three (5%) students were reported 82 to 84 days after the status change occurred.
- One (2%) student was reported with an incorrect status change.

Failure to report student enrollment status changes to the NSLDS could impact student Pell and Direct Loan eligibility.

According to University management, it relied on the National Student Clearinghouse (Clearinghouse), a third-party service provider, to ensure accurate and timely reporting of enrollment status changes. The University did not monitor the information reported to the NSLDS to ensure its agreement with University records.

Federal regulations¹ require the University to notify NSLDS within 75² 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 that the University is ultimately responsible for timely and accurate reporting.

Federal Award Information: Award Year July 1, 2018 – June 30, 2019. CFDA 84.063 Federal Pell Grant Program; CFDA 84.268 Federal Direct Student Loans

Recommendation: University management should monitor submissions of student enrollment status changes submitted by the Clearinghouse to ensure they are reported timely and accurately to the NSLDS. University management should also implement monitoring procedures to ensure all students with enrollment status changes are identified and communicated to the appropriate parties.

Agency Response: See page 5 for The University of North Carolina at Chapel Hill's response to this finding.

¹ 34 CFR 690.83 and 34 CFR 685.309

² The University is required to notify the NSLDS when it discovers that a student who received loans or Pell grants has had a reduction or increase in attendance levels, graduated, withdrew/dropped out, dropped below half-time, or enrolled but never attended. Unless the University expects to complete its enrollment roster with the NSLDS within 60 days of the student's change in enrollment, the University must notify the lender or guarantee agency, via NSLDS within 30 days. The University has 15 days to turn around the roster file. Therefore, we have determined timeliness to be established as within 75 days.



THE UNIVERSITY
of NORTH CAROLINA
at CHAPEL HILL

OFFICE of SCHOLARSHIPS
and STUDENT AID

111 PETTIGREW HALL
CAMPUS BOX 2300
PO BOX 1080
CHAPEL HILL, NC 27514-1080

M-F 8:00 to 5:00

T 919-962.8396
F 919.962.2716
aidinfo@unc.edu
studentaid.unc.edu

January 21, 2020

The Honorable Beth A Wood
State Auditor
2 S. Salisbury St.
20601 Mail Service Center
Raleigh, NC 27699-0601

UNC-CHAPEL HILL RESPONSE TO STATE AUDIT

Like many institutions of higher education and as noted in the management letter, the University of North Carolina at Chapel Hill utilized the National Student Clearinghouse (Clearinghouse) to report enrollment changes on our behalf to NSLDS. The enrollment reporting requirement is intended to allow the federal government and loan servicers to appropriately cease or adjust payments and change the in-school status of borrowers to a new appropriate status based on NSLDS information. While we have instituted training and implemented procedures and monitoring of these students, we acknowledge the delay which ranged from 7 to 9 days beyond the required timeline for the three cases identified. We also acknowledge that the sample identified a student that separated from the institution with the incorrect separation type.

Please note that the planning and implementation of a monitoring process with our third party service provider, National Student Clearinghouse, to review the data and status changes submitted on our behalf to the NSLDS began immediately upon receipt of the report and the University will continue to ensure accurate and timely reporting for this process. As recommended, we also are investing in federal regulations training for our staff to ensure compliance of current standards and safeguards. The Office of the University Registrar will work with both the Clearinghouse and UNC Information Technology Systems department on determining if the file needs to be submitted earlier, more often or both in order to rectify this finding. In response to the incorrect separation status, the corrective action to run reports for late graduation conferrals is under development. The Office of the University Registrar has also developed an internal process to identify and manually update the Clearinghouse.

The Office of the University Registrar will also work to put additional safeguards in place to monitor the submissions of the enrollment files to the Clearinghouse to ensure the information is meeting the necessary timeline to address this finding. We will also schedule regular reviews of the error reports to ensure accurate reporting to NSLDS.

We anticipate completion of these corrective actions on or before March 31, 2020.


Kevin M Guskiewicz, Chancellor

1-21-2020
Date


Jonathan Pruitt, Vice Chancellor Finance and Operations

1-23-2020
Date

ORDERING INFORMATION

COPIES OF THIS REPORT MAY BE OBTAINED BY CONTACTING:

Office of the State Auditor
State of North Carolina
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0600

Telephone: 919-807-7500
Facsimile: 919-807-7647
Internet: <https://www.auditor.nc.gov/>

To report alleged incidents of fraud, waste or abuse in state government contact the
Office of the State Auditor Fraud Hotline: **1-800-730-8477**
or download our free app.



https://play.google.com/store/apps/details?id=net.ncstateauditor.ncauditor&hl=en_US



<https://itunes.apple.com/us/app/nc-state-auditor-hotline/id567315745>

For additional information, contact the
North Carolina Office of the State Auditor at 919-807-7666.



This audit was conducted in 538 hours at an approximate cost of \$55,952.