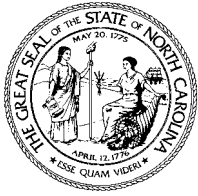


PERFORMANCE AUDIT
of the
NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY
Affiliated with the University of North Carolina System

OFFICE OF THE STATE AUDITOR
RALPH CAMPBELL, JR.
STATE AUDITOR

JUNE 2003



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State Auditor

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June 3, 2003

The Honorable Michael F. Easley, Governor
Dr. Steven E. Brooks, Executive Director
North Carolina State Education Assistance Authority
Members, Board of Directors
North Carolina State Education Assistance Authority
Members of the North Carolina General Assembly

Ladies and Gentlemen:

We are pleased to submit this performance audit of the *North Carolina State Education Assistance Authority*.

This report consists of an executive summary and findings and recommendations that contain program overview information. The objectives of the audit were to: 1) determine if the current State funding limits are appropriate to meet the goals of the various student loan programs and the needs of students, 2) determine NCSEAA's effectiveness in the collection of loan repayments either through service or cash repayments, 3) assess NCSEAA's use of technology and to determine technology needs to improve efficiency and effectiveness, and 4) examine NCSEAA organizational structure and staffing levels for the State loan programs to determine if they are sufficient to handle the volume of work.

The Executive Director of the North Carolina State Education Assistance Authority has reviewed a draft copy of this report. His written comments are included as Appendix A, page 35.

We wish to express our appreciation to Dr. Brooks and his staff for the courtesy, cooperation, and assistance provided us during this effort.

Respectfully submitted,

A handwritten signature in black ink that reads "Ralph Campbell, Jr." in a cursive style.

Ralph Campbell, Jr.
State Auditor

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EXECUTIVE SUMMARY

Program Description

The North Carolina State Education Assistance Authority was created in 1965 by the General Assembly. The Authority's mission is to establish a system to provide financial assistance, both federal and State, to qualified students to enable them to obtain an education beyond the high school level by attending public or private educational institutions. It administers both federal and State student loans, with \$1.1 billion in total loans outstanding at November 30, 2002. The North Carolina General Assembly has established a variety of educational loans, both merit and need based, administered by the Authority. (See page 10 for description of the State loans.) Approximately 7% of the total outstanding loans are from State funds.

Audit Scope and Methodology

This performance audit of the North Carolina State Education Assistance Authority was undertaken at the discretion of the State Auditor, concentrating on the State student loan programs. The scope of the audit encompassed all operations of the Authority, but focused mainly on the Health, Education, and Welfare Division, which handles the State-funded loan programs. The Teaching Fellows Program, administered by the Public School Forum of North Carolina, also was included since the Authority became responsible for cash collections for the program during the audit period.

Conclusions in Brief

Objective 1: Funding Limits

While the State student loans were not intended to cover the entire cost of college attendance, the programs' funding limits are meeting a decreasing portion of students' needs over time. Thus, they may not be meeting the goals of the programs to encourage students to repay their State loans through employment in North Carolina in their selected field. The exception to this is the Principal Fellows Program, which covers more than the program costs. Awarded loan amounts for most programs have not been adjusted over the years to reflect the increased cost of tuition since 1989 (141% at public universities and 251% at Community Colleges). Students are reported to have an average loan debt of over \$12,500 at graduation, even with other loans, scholarships, and grants. Most Nurse Education Scholarship Loan students receive less than full-time community college tuition costs. This program pays for only 9.1% of the cost of an Associates degree and 7.9% of the costs of a Bachelors degree. The only program for which awarded loan amounts have been increased is the Teaching Fellows Program.

Objective 2: Loan Repayment

The goal of all State funded loan programs is to provide financial resources to students, with the hope that these resources will be repaid through employment in North Carolina for the specified number of years. Examination of loan payment data shows that 93.9% of the loans administered by the Authority are repaid, with 72.0% repaid through service. Adding in the data for the Teaching Fellows Program increases this percentage to 73.2% for repayment through service. Merit-based loans have a lower default rate than need-based loans. The Nurse Education Scholarship Loan program, which is need-based, has the highest overall default rate at 9.3%. The Authority does not have specific, written guidelines for administering each of the loan programs, which can lead to inconsistent administration.

EXECUTIVE SUMMARY

**Objective 3:
Technology
Use**

The Authority uses two separate databases to administer the State student loan programs from application through repayment. This is the result of the merger of the Health Science and Math Loan Program Division and the Health Education and Welfare Loan Programs Division. Employees from each division are most familiar with the database designed for their individual loan programs. Most staff are unable to effectively work on all loans now under the merged Health Education and Welfare Division. Further, the two databases contain erroneous and incomplete monitoring data. They do not have edits in place to recognize errors, make corrections, or inform staff that errors have occurred. To improve efficiency and effectiveness, the Authority should develop a combined database that incorporates edits to flag questionable data.

**Objective 4:
Organization
/ Staffing**

The number of Authority staff has increased by only 6.5% from fiscal year 1997-98 through 2001-02, while the number of loan **awards** for all loan types has increased by 86.8%. However, award numbers do not account for increases in total applications processed. The Health, Education, and Welfare Division is handling over 7,500 State student loans in various stages, an average of 577 loans per person. Deadlines in the loan programs require the use of temporary employees to handle the workload. For fiscal year 2001-02, the Authority's temporary workforce accounted for 32% of the total positions. The Authority could reduce staffing costs by approximately \$155,204 annually by converting long-term temporary positions to full time positions. The Authority needs to address pay grade and salary inequities in the Division that resulted from combining two separate groups into one.

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Specific Findings

Objective 1: Funding Limits

- ❑ Awarded loan amounts have not been adjusted over the years to reflect the increase in tuition costs..... 14
- ❑ Most nurse education scholarship loan (NESLP) students receive less than full-time community college tuition costs..... 15

Objective 2: Loan Repayment

- ❑ Most of the NCSEAA administered loans are repaid through service..... 19
- ❑ NCSEAA's HEW Division lacks specific guidelines for administering loan programs..... 20
- ❑ The HEW Division of NCSEAA does not have a procedure for tracking files being taken in and out of the file room..... 21

Objective 3: Technology Use

- ❑ Using two separate databases limits employees' ability to work on all programs under HEW. 24
- ❑ The current computer database systems, (HEWIE) and (MERLIN), contain erroneous and incomplete monitoring data. 24
- ❑ Verification of employment notices are not being actively monitored..... 25

EXECUTIVE SUMMARY

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SUMMARY OF MAJOR FINDINGS and RECOMMENDATIONS
 FROM THE PERFORMANCE AUDIT OF
"The North Carolina State Education Assistance Authority"
 Issued May 2003

MAJOR CONCLUSIONS:

1. Funding Limits

Loan funding limits may not be meeting goals of programs.

2. Loan Repayment

Merit-based loans have lower default than need-based loans.

3. Technology Use

Separate databases cause inefficiencies; limit staff work.

4. Organization / Staffing

Number of applications and awards has increased, while staffing has decreased.

MAJOR RECOMMENDATIONS:

1

Work to increase loan funding levels.

2

Review programs to determine need to restructure.

3

Replace databases with a single database.

4

Examine use / cost of temporary positions.

- Maximum amounts of most State loans have not been increased
- State loans cover only portion of degree costs
- NESLP recipients receive only 9.4% of cost of Associates degree and 8.2% of cost of Bachelors degree

- Consider adding merit based components to all programs; merging NESLP into HSM or converting to a grant program
- Participating institutions should provide initial and exit counseling for loan recipients
- NCSEAA establish administration guidelines for each program
- NCSEAA implement file tracking system

- Identify loan administration best practices
- Purchase program that can run on existing server
- Design edits for existing databases until converted
- Actively monitor verification of employment data

- Consider converting long-term temporary positions to permanent
- Determine best rate for temporary positions used
- Review classifications and address pay inequities in HEW Division

AGENCY RESPONSE:

Agree that review of funding limits is appropriate.

Believe programs are achieving established goals.

Examining possibility of combining databases.

Examining use / cost of temporary positions.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

North Carolina General Statutes (GS) 147-64.6 empowers the State Auditor to conduct performance audits of any State agency or program, as well as local entities receiving State and federal funds. Performance audits are reviews of activities and operations to determine whether the resources are being used economically, efficiently, and effectively.

This audit of the **North Carolina State Education Assistance Authority (NCSEAA)**, located administratively within the Office of the President of the University of North Carolina System, was undertaken at the discretion of the State Auditor. The audit sought to answer a number of questions relative to the NCSEAA student loan process for State-funded loans and NCSEAA's operation. Questions included:

- *Are the current loan programs meeting the intent of the General Statutes that established them?*
- *Are the current loan programs meeting the needs of the students they were established to benefit?*
- *What are the default rates for the different types of State student loan programs?*
- *Is NCSEAA effectively collecting repayment of the loans it awards either through service or cash payments?*
- *Does NCSEAA have the necessary resources to effectively and efficiently administer the state loan programs under its purview?*

These questions lead to the development of the following objectives:

- To determine if the current State funding limits are appropriate to meet the goals of the various student loan programs and the needs of students.
- To determine NCSEAA's effectiveness in the collection of loan repayments either through service or cash repayments.
- To assess NCSEAA's use of technology and to determine technology needs to improve efficiency and effectiveness.
- To examine NCSEAA organizational structure and staffing levels for the State loan programs to determine if they are sufficient to handle the volume of work.

During the period May 2002 to December 2002, we conducted the fieldwork for the audit. The scope of the audit encompassed all operations of the North Carolina State Education Assistance Authority, but focused mainly on the Health, Education, and Welfare Division (HEW), which handles the State-funded loan programs. We also conducted additional fieldwork in October and November 2002 at the North Carolina Teaching Fellows Program (TFP). The Teaching Fellows Program was included because the cash collection responsibilities for this program were transferred from a collection agency to the HEW Division of NCSEAA on September 30, 2002.

To achieve the audit objectives, we employed various auditing techniques that adhere to the generally accepted auditing standards as promulgated in ***Government Auditing***

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Standards issued by the Comptroller General of the United States. These techniques included:

- Review of existing General Statutes, federal and North Carolina Administrative Codes relating to NCSEAA functions.
- Review of policies and procedures established by NCSEAA and specifically the HEW Division.
- Review of internal reports and documentation at NCSEAA.
- Interviews with key personnel within NCSEAA including staff in the HEW Division.
- Analysis of borrower files in relation to cash repayment and service repayment of loans.
- Analysis of potential borrower files and applications involved in the loan awarding process.

This report contains the results of the audit including conclusions and recommendations. Specific recommendations aimed at improving the operations of the program in terms of economy, efficiency, and effectiveness are reported. Because of the test nature and other inherent limitations of an audit, together with the limitations of any system of internal and management controls, this audit would not necessarily disclose all weaknesses in the systems or lack of compliance. Also, projections of any of the results contained in this report to future periods are subject to the risk that procedures may become inadequate due to changes in conditions and/or personnel, or that the effectiveness of the design and operation of the procedures may deteriorate.

PROGRAM OVERVIEW

Program Overview: The 1965 General Assembly enacted General Statute 116 Section 203, creating the North Carolina State Education Assistance Authority (NCSEAA). NCSEAA's mission is to establish a system to provide financial assistance, both federal and State, to qualified students to enable them to obtain an education beyond the high school level by attending public interest or private educational institutions. While NCSEAA administers both federal and state student loans, this audit will focus on the State loans only.

The North Carolina General Assembly has established a number of different types of educational loans, administered by NCSEAA, to provide educational assistance. (See page 10 for description of the State loans.) NCSEAA is governed by a seven member Board of Directors, appointed by the Governor to serve four-year terms. Currently NCSEAA is responsible for and provides the following services:

- Administers inter-institutional programs of student financial assistance, created by State and federal law, as well as private resources, designed to help North Carolinians meet the cost of higher education.
- Provides significant online [<http://www.cfnc.org> and <http://www.ncseaa.edu>] and telephone resources [(866) 866-CFNC], and publishes and distributes annual printed publications that assist students, parents, financial aid administrators, and school counselors as they investigate financial assistance for post-secondary education.
- Maintains a student loan collection system for recovery of defaulted and matured student loan obligations, including significant default prevention and aversion activities.
- Obtains and insures capital for educational loans made available under North Carolina's Federal Family Education Loan Program (FFELP).
- Promotes access to financial aid opportunities through outreach activities with school counselors and financial aid administrators so they can assist students and families in planning for post-secondary educational opportunities.
- Administers North Carolina's "529" National College Savings Program, providing flexible savings and investment options for parents, grandparents, and others.
- Assists the University of North Carolina System, the North Carolina Community College System, and the North Carolina Independent Colleges and Universities in various matters pertaining to financial aid.

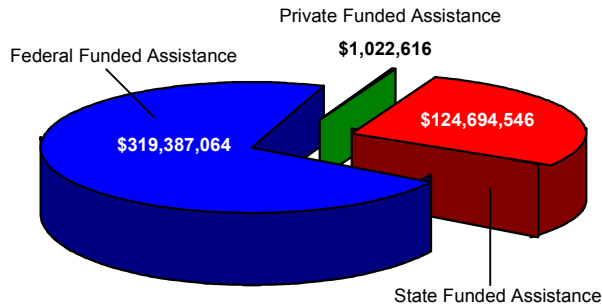
The majority of the loans administered by NCSEAA are from federal funds. As of November 30, 2002, NCSEAA reported \$1,138,926,809 in outstanding loans, with \$73,660,876 (6.5%) of these loans from State funds. Exhibit 1, page 8, shows a breakdown of available assistance funds by source. The federal funds are audited every three years for the prior three years by the United States Department of Education. Therefore, this audit concentrates on the State funds that are administered by the Health, Education, and Welfare Division (HEW) of NCSEAA.

PROGRAM OVERVIEW

Exhibit 1

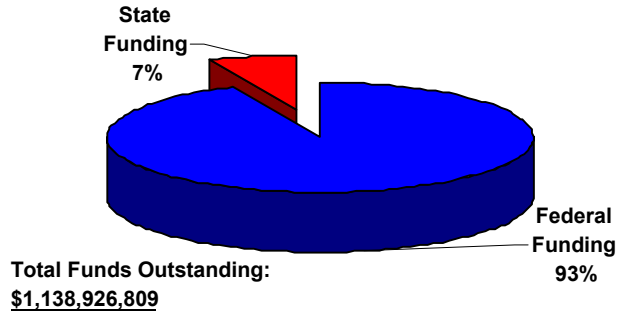
Student Loan Assistance Sources

**Available Assistance by Funding Source
June 30, 2002**



Source: NCSEAA

**Outstanding Loan Amount Percentages
By Source
November 30, 2002**



**Total Funds Outstanding:
\$1,138,926,809**

Source: NCAS, NCSEAA

Table 1 contains NCSEAA's financial statement for fiscal years 1998-99 through 2001-02.

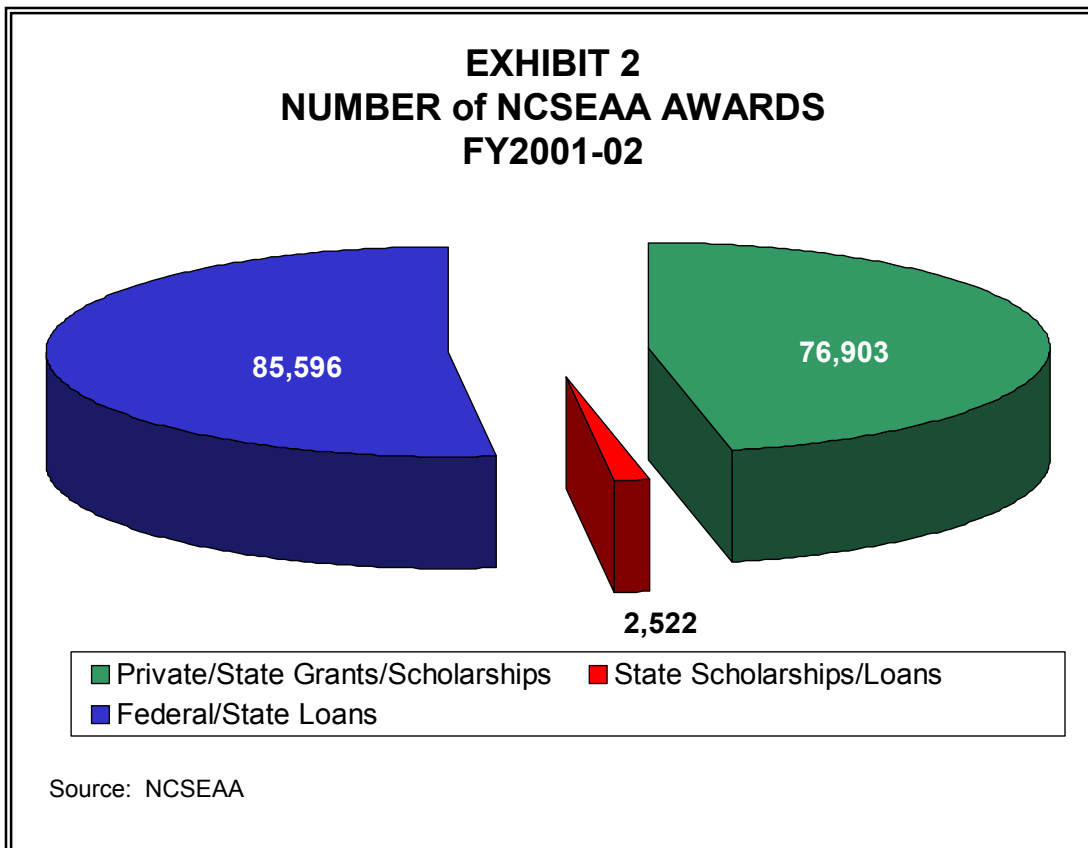
TABLE 1				
NCSEAA Financial Statement				
	6/30/1999	6/30/2000	6/30/2001	6/30/2002
REVENUES				
Transfers From Primary Government	\$26,532,812	\$24,293,297	\$36,362,897	\$51,048,548
Investment Earnings	19,383,634	18,133,932	21,518,009	22,952,724
Interest Earnings On Loans	43,251,253	56,480,398	71,485,393	63,325,958
Other Revenues	1,431,007	1,662,945	6,168,412	6,026,198
Non Operating Revenues/(Expenses)	645,054	-120,295	-686,534	-12,837,784
Less: Interest Costs	-31,324,383	-35,657,095	-44,538,872	-28,479,675
TOTAL NET REVENUES	\$59,919,377	\$64,793,182	\$90,309,305	\$102,035,969
EXPENSES				
Personal Services (Salaries/Benefits)	\$1,557,977	\$1,765,640	\$1,815,623	\$1,884,302
Supplies And Materials (Temp. Employees/ Collection Agency Fees)	55,860	55,929	63,612	44,140
Services	7,572,004	12,605,736	15,025,530	8,619,706
CFI Program Operations	2,429,008	4,334,727	11,089,650	21,437,912
Depreciation/Amortization	467,683	640,469	818,857	1,075,778
Student Loan Service Cancellations	8,933,828	9,259,883	10,429,782	9,675,269
Other Expenses	6,268,268	10,945,123	11,930,953	13,215,787
TOTAL OPERATING EXPENSES	\$27,284,628	\$39,607,507	\$51,174,007	\$55,952,894
NET REVENUES OVER EXPENSES	\$32,634,749	\$25,185,675	\$39,135,298	\$46,083,075

Source: NCSEAA

FINDINGS AND RECOMMENDATIONS

This section of the report details the individual findings and recommendations for each of the major objectives of the audit. Performance audits, by nature, focus on areas where improvements can be made to increase the effectiveness and efficiency of the operation under audit. **The identification of areas for improvement should not be taken to mean that the staff has not performed its duties or provided the State with needed services within the existing resource constraints.** The findings and recommendations contained in this report should be viewed in that light.

In fact, NCSEAA has recovered over \$20.4 million from defaulted borrowers during the last two years. NCSEAA's collections efforts include wage garnishment, seizure of tax refunds, and litigation. During those same years, NCSEAA confirmed repayment of \$15 million in State loans through vocational service under program terms and collected cash in excess of \$14 million from borrowers who did not fulfill the vocational service obligation. NCSEAA administered 165,021 student financial awards in 2001-02 (see Exhibit 2), a 29 % increase from the previous year. As a result of good financial management, NCSEAA derived over 96% of its operating costs from program revenues, leaving less than 4% of the costs having to be borne by State appropriations.



FINDINGS AND RECOMMENDATIONS

Objective 1: *To determine if the current State funding limits are appropriate to meet the goals of the various student loan programs and the needs of students.*

Overview: The North Carolina General Assembly, responding to its citizens' needs for education assistance, has established a number of student loan programs. The ultimate goal of these programs is to increase the number of professionals in a variety of careers. Thus, all the loan programs can be repaid through either **service for a specified number of years** or **cash payments**. The loan programs are:

Health Science and Math Programs (HSM) GS 143-47.21 – 143-47.24 A **need-based loan program** that provides a variety of loan amounts depending on the student's course of study. The program provides up to \$3,000 per year for two years if the student is pursuing an Associate Degree or is enrolled in a Certificate Program. The program provides up to \$5,000 per year for two years for a student pursuing a Baccalaureate Degree. An additional \$5,000 may be granted for the clinical year requirement for a degree. The program provides up to \$6,500 per year for up to two years for a Master's Program. The program also provides up to \$8,500 per year for a total of four years for students pursuing Health Professional / Doctoral Programs. The loan may be repaid through service at the rate of one year of service for each year of full-time scholarship assistance received. (The maximum aggregate amount allowed is \$58,000.)

Nurse Education Scholarship Loan Program (NESLP) GS 90-171.65 A **need-based loan program** that provides various loan amounts to students ranging from \$400 to \$5,000 depending on course of study and demonstrated financial need. The maximum is \$3,000 for Associate Degree or Licensed Practical Nurse students and \$5,000 for students pursuing Baccalaureate Degrees. Loans are cancelled for each calendar month of approved full-time employment as a LPN or RN based upon the principal amount, at the rates of \$417/month for a recipient practicing as a licensed RN, and \$250/month for a recipient practicing as a licensed LPN in North Carolina.

Social Worker Education Loan Fund (SWELF) GS116-209.30 A **need-based loan program** that provides funds for students pursuing degrees in the field of Social Work. This program was only funded for one fiscal year and as of December 2002 has only five recipients remaining. Scholarship loans are cancelled for each calendar month of approved full-time employment at the rates of \$334/month for Baccalaureate recipients and \$417/month for Master's recipients. Loans may only be cancelled through service within six years of graduation.

Master's Nurse Scholars Program (MNSP) GS 90-171.61 A **merit-based loan program** that provides up to \$6,000 per year for two years for full time students pursuing a Master's Degree in Nursing. Recipients are required to work as an RN for one year in North Carolina for each year of full-time scholarship assistance received.

Nurse Scholars Program (NSP) GS 90-171.61 A **merit-based loan program** that provides up to \$3,000 per year for up to two years for those students pursuing an Associate Degree in Nursing, or up to \$5,000 per year for four years for those students pursuing a Baccalaureate Degree in Nursing. Recipients are required to work as an RN for one year in North Carolina for each year of full-time scholarship assistance received.

Principal's Fellows Program (PFP) GS 116-74.42-74.43 A **merit-based loan program** that provides \$20,000 per year for two years for students pursuing a Master of School Administration degree. Recipients are required to work as an administrator for a minimum of four years within six years of graduating from the MSA program to repay the loan through service.

Teaching Fellows Program (TFP) GS 115C-363.23A A **merit-based loan program** that provides \$6,500 per year for four years for students pursuing degrees in the teaching profession. The program awards 400 new scholarships / loans per year, and the student must attend one of

FINDINGS AND RECOMMENDATIONS

fourteen colleges or universities¹ that participate in the program. This program is administered by the Public School Forum of North Carolina. NCSEAA is only responsible for the cash collection on these loans. Recipients are required to teach as licensed full-time teachers in a North Carolina public school for four years within seven years of graduating from the program. If the recipient does not complete the program, the loan may only be repaid in cash.

NCSEAA's Health, Education, and Welfare Division (HEW) has the responsibility for administering these loans. Table 2 details fiscal year 2001-02 State appropriated funds for the six on-going loan programs, the number of loans awarded, the total dollar amount of the awards, and the average award for each loan program. The current amount of awards available is determined by the appropriation plus the principal and interest that has been repaid.

Program	Total State \$ Appropriated	Number of Awards	Amount of Awards	Average Award
HSM	\$ 853,351	433	\$ 2,991,684	\$ 6,909
MNSP	150,000 *	98	558,700	5,701
NESLP	900,000	1021	1,121,467	1,098
NSP	3,403,800	795	3,141,939	3,952
PFP	3,620,000	175	3,500,000	20,000
TFP	10,794,508	415	10,790,000	6,500
Totals	\$19,721,659	2,937	\$22,103,790	\$ 4,771
* The MNSP amount is not appropriated directly, but taken from the appropriation for NSP. Source: NCSEAA, TFP				

The maximum amounts of the loans have remained unchanged for all the loan programs except the Teaching Fellows Program² over the last fifteen years. However, as shown in Exhibit 3, page 12, since 1989 the cost of tuition and fees at public universities has risen on average by 141% and by 251% at Community Colleges.

The cost of attendance for the 2002-03 school year at our State's public universities for in-state students could be as high as \$12,502 and \$24,286 for out-of-state students. The reported August 2002 tuition cost for in-state students in the Community College system is \$34.25 per credit hour, with a maximum fee of \$548 per semester. This tuition rate increase is estimated to affect approximately 250,000 students across North Carolina. Table 4, page 13, shows the average

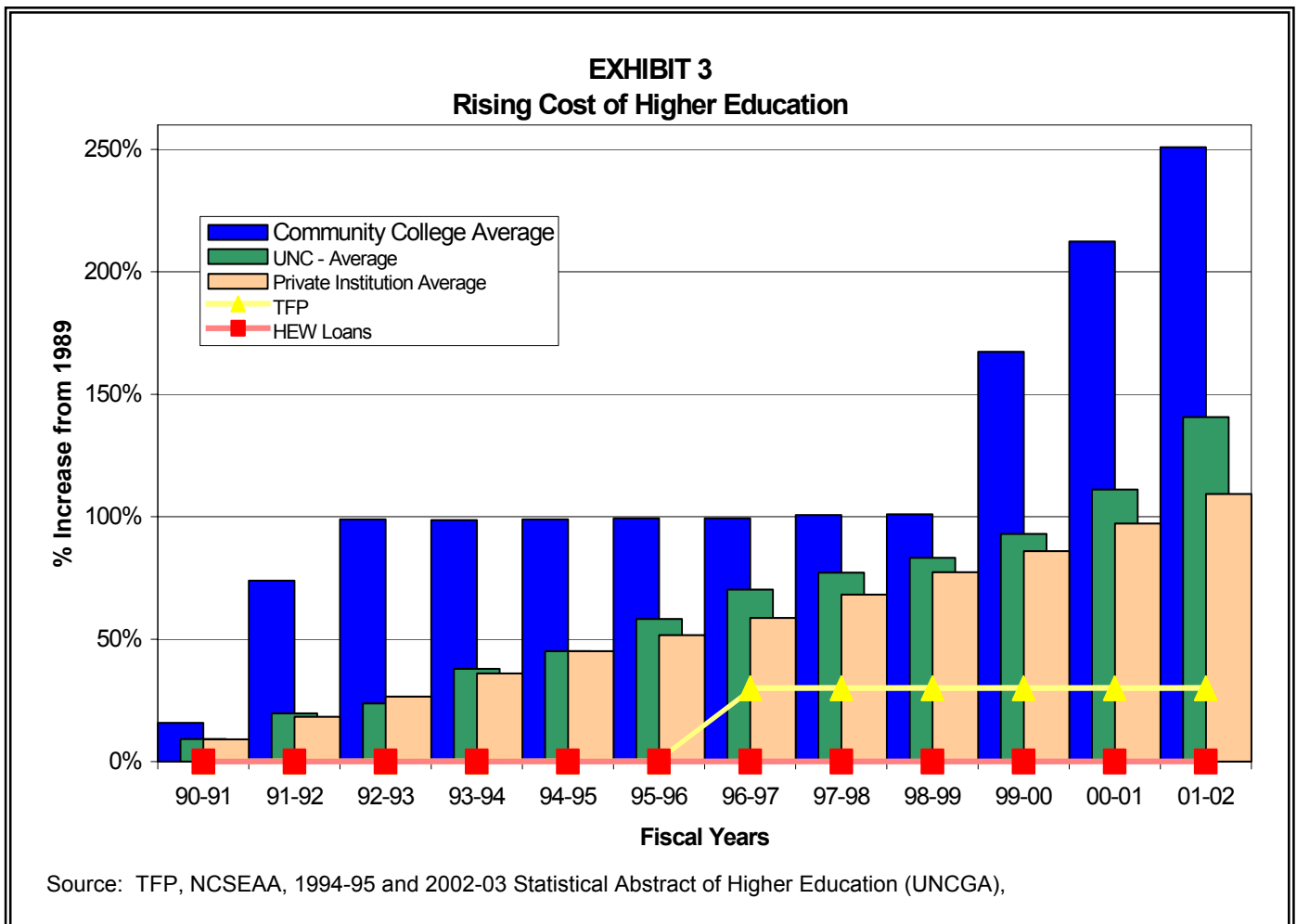
¹ Appalachian State University, East Carolina University, Elon University, Meredith College, North Carolina A&T State University, North Carolina Central University, North Carolina State University, University of North Carolina at Asheville, University of North Carolina at Chapel Hill, University of North Carolina at Charlotte, University of North Carolina at Greensboro, University of North Carolina at Pembroke, University of North Carolina at Wilmington, and Western Carolina University.

² The award amounts for the TFP program has increased over the last ten years. The first awards for the TFP program were granted in 1987-88 school year in the amount of \$20,000 over a four-year period. That amount was increased in 1998 to \$26,000 and remains at that amount today.

FINDINGS AND RECOMMENDATIONS

annual cost of attendance versus the average award amounts for public institutions for the State loan programs. As can be seen from the table, the State loan awards generally do not cover the cost of the degrees. However, most of these students would also qualify for other student loans, scholarships, and/or grants, as shown in Table 3.

Pell Grants	\$1,910
Stafford Loans	3,214
Unsubsidized Stafford Loans	3,327
PLUS Loans	7,127
Federal Work Study	1,534
Perkins Loans	1,696
FSEOG	678
Source: US Department of Education, 2000 National Postsecondary Student Aid Study	



FINDINGS AND RECOMMENDATIONS

TABLE 4
Comparing College Cost of Attendance to Loan Awards
FY2001-02 Data

LOAN PROGRAM	DEGREE PURSUED	AVG. ANNUAL COST OF ATTENDANCE	MAXIMUM AWARD PER YEAR	AVERAGE AWARD PER YEAR	DIFFERENCE (ANNUAL COST – AVG. AWARD)
Health, Science Math ¹	Associate Degree	\$12,873	\$3,000 (2yrs)	\$2,681	(\$10,192)
	Baccalaureate Degree	\$15,062	\$5,000 (2yrs)	\$4,695	(\$10,367)
	Master's Degree	\$20,309	\$6,500 (2yrs)	\$6,141	(\$14,168)
	Doctor of Pharmacy	\$24,183	\$8,500 (4yrs)	\$8,213	(\$15,970)
	Professional Degree ⁵	\$26,476	\$8,500 (4yrs)	\$8,157	(\$18,319)
	Certificate ⁶	\$32,598	\$6,500 (2yrs)	\$5,045	(\$27,553)
Nurse Education Scholarship ^{2,3}	Associate Degree Nursing	\$11,986	\$3,000 (2yrs)	\$1,126	(\$10,860)
	Baccalaureate Degree Nursing	\$13,815	\$5,000 (4yrs)	\$1,126	(\$12,689)
Nurse Scholars ⁴	Associate Degree Nursing	\$11,986	\$3,000 (2yrs)	\$3,000	(\$8,986)
	Baccalaureate Degree Nursing	\$13,815	\$5,000 (4yrs)	\$4,643	(\$9,172)
Master's Nurse Scholars ⁴	Master of Nursing	\$13,481	\$6,000 (2yrs)	\$5,878	(\$7,603)
Principal's Fellows ⁴	Master of School Administration	\$13,481	\$20,000 (2yrs)	\$20,000	\$6,519
Teaching Fellows	Baccalaureate Degree Education	\$13,815	\$6,500 (4yrs)	\$6,500	(\$7,315)

¹ HSM numbers were generated from the FY2001-02 year funding report for HSM and take into account public and private institutional costs as well as estimated family contribution.
² NESLP costs of attendance were generated from the FY2002-03 year funding report. The NESLP average awards were calculated using actual FY 2001-02 funding amounts. Costs are for public institutions only.
³ FY 2001-02 funding reports indicate that only 5 awards were made for the maximum of \$3,000 for the two year programs and only 8 awards were made for the maximum of \$5,000 for the four year programs.
⁴ Cost of attendance for the NSP, MSNP, and PFP programs are based only on public institutional cost information.
⁵ Any health, science, math doctoral degree other than Doctor of Pharmacy.
⁶ Certificate Programs include: Medical Technology; Physician Assisting Primary Care and Radiology.

Source: NCSEAA

Methodology: We reviewed the relevant North Carolina General Statutes, the North Carolina Administrative Code, applicable or comparable federal rules and regulations used to determine financial need, Public and Private University financial cost of attendance information, Community College financial cost of attendance information and Private Institutional (such as hospitals that offer educational training) financial cost information. We also reviewed the North Carolina Teaching Fellows Program (TFP) for cost information and loan amount information.

Conclusions: While the State student loans were not intended to cover the entire costs of college attendance, the programs' funding limits are meeting a smaller portion of the needs of the students over time. Thus, they may not be meeting the goals of the programs. The exception to this is the Principal Fellows Program, which covers more than the program costs. Awarded loan amounts for most of the programs have not been adjusted over the years to reflect the increase in the cost of tuition. Students are reported to have an average loan debt of over \$12,500 at graduation, even with other loans,

FINDINGS AND RECOMMENDATIONS

scholarships, and / or grants. The only program for which awarded loan amounts have been increased is the Teaching Fellow Program. Further, most Nurse Education Scholarship Loan students receive less than full-time community college tuition costs. This program pays for only 9.1% of the cost of an Associates degree and 7.9% of the costs of a Bachelors degree.

FINDINGS—FUNDING LIMITS

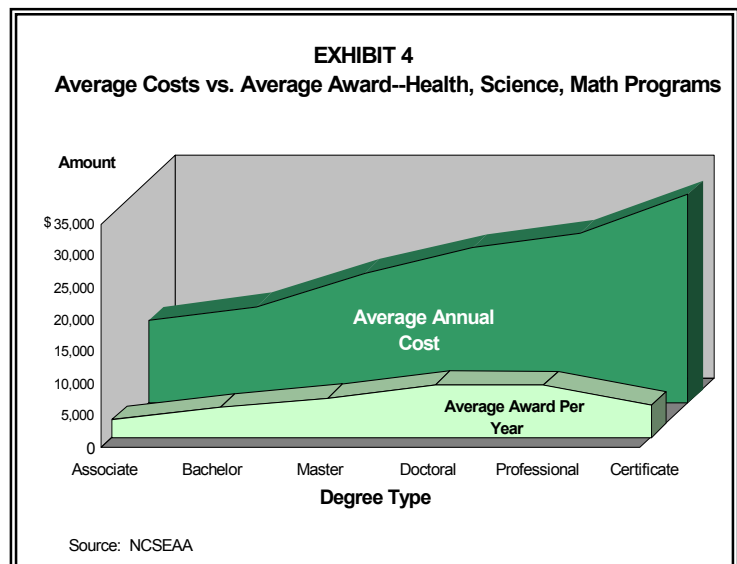
AWARDED LOAN AMOUNTS HAVE NOT BEEN ADJUSTED OVER THE YEARS TO REFLECT THE INCREASE IN TUITION COSTS.

While tuition for the State's public universities has risen by 141% and 251% at community colleges since 1989, the maximum award amounts associated with each of the loans administered by NCSEEA has remained unchanged. The only current loan that meets the entire cost of attendance is the Principal Fellows Program loan, as shown in Table 4, page 13. In fact, that loan actually is some \$6,500 greater than the average cost of a Master's in School Administration degree at the public institutions. Using the same cost of attendance that is used for federal student loan awards, the State loan awards for the other programs fall anywhere from \$7,603 to \$27,553 short of meeting tuition costs. The highest amounts awarded by NCSEEA are for health, science, and math degree programs, which have a maximum of \$8,500 per year. However, reports indicate that students still have an average debt of over \$12,500 upon graduation. (See Exhibit 4.) While other scholarships and loans are available, the current State loans are meeting a smaller portion of the rising tuition costs each year. If the goal of these loans is to get more people in the specific careers identified by the legislation, the loan amounts may need to be adjusted so that they can be more of a benefit to the potential students and make attending college less of a hardship.

Are the current loan programs meeting the needs of the students they were established to benefit?

RECOMMENDATION

NCSEEA should work in tandem with the University and Community College Systems to lobby the General Assembly to increase scholarship loan funding levels. Increasing the loan amounts would encourage more students to pursue careers in the professions singled out by the legislation creating these State student loan programs.



FINDINGS AND RECOMMENDATIONS

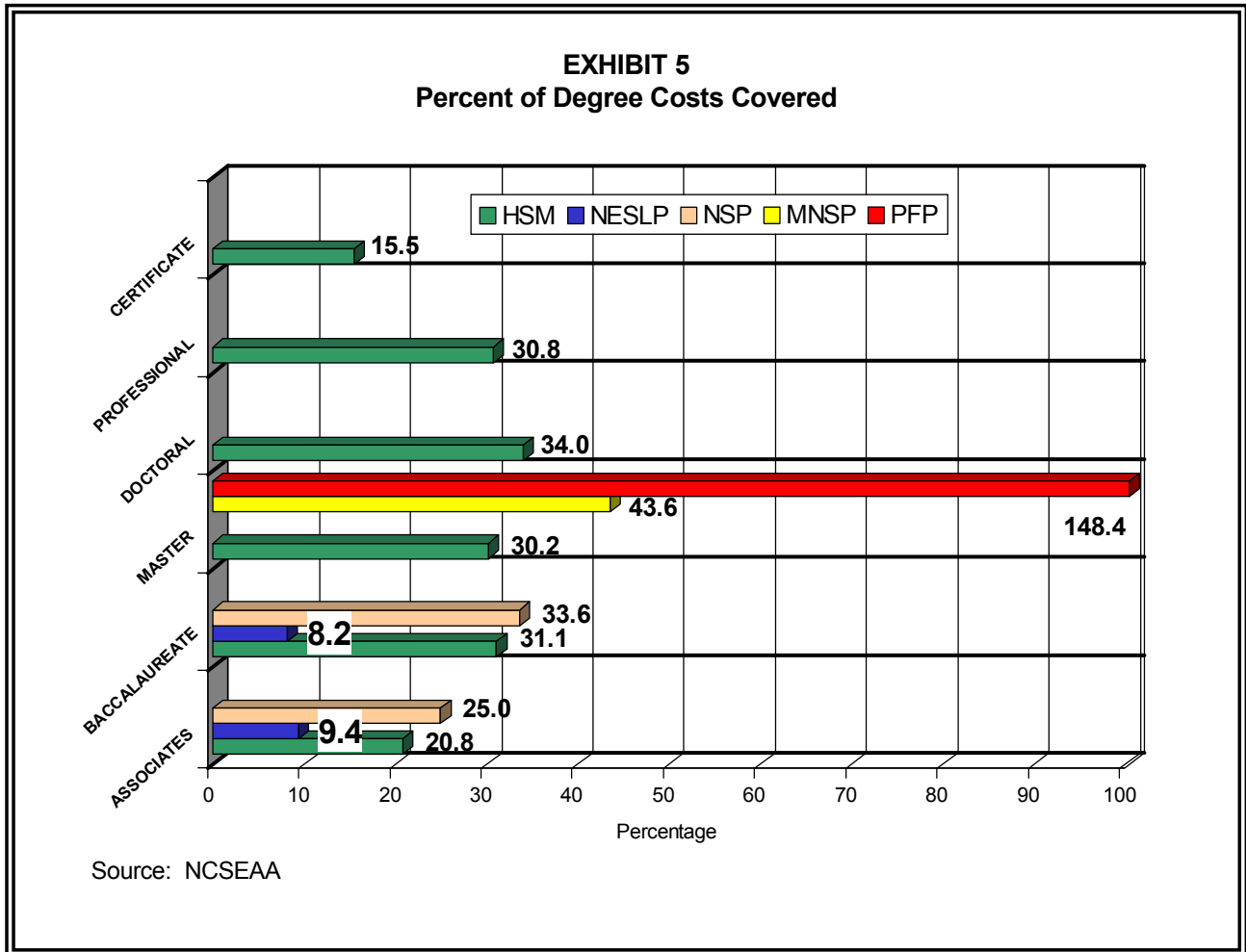
MOST NURSE EDUCATION SCHOLARSHIP LOAN (NESLP) STUDENTS RECEIVE LESS THAN FULL-TIME COMMUNITY COLLEGE TUITION COSTS.

Are the current loan programs meeting the intent of the General Statutes that established them?

Examination of the data for the NESLP loans reveals a concern in the awarding of these loans. Under the specifics of this program, each participating school is awarded a total amount of funds, and then the school determines how many students will divide that money. The total awarded to each university is based on Nursing enrollment and the number of Pell Grant recipients. Private institutions receive funds to provide one full-time student award. Community College funds are awarded to the Department of Community Colleges, which determines the amount awarded to each school. Normally, the Director of Student Aid at each community college selects the recipients from among the eligible nurse education students enrolled in the participating school. Recipients are chosen based on criteria that include financial need, satisfactory academic progress or acceptance in a nurse education program for which NESLP loans are awarded, and the student's willingness to enter into a contractual agreement to practice full-time as a LPN or RN in North Carolina following graduation.

Examination of loan data shows that 67.5% of students awarded loans under this program received less than \$1,100, which may not cover the cost of tuition or books. Of the 1,024 loans awarded for fiscal year 2001-02, only five recipients received the maximum award of \$3,000 for the Associate Degree in Nursing program and eight recipients received the maximum award of \$5,000 for the Bachelor of Science in Nursing program. The remaining 1,011 loan recipients received only some portion of those amounts, with an average award of \$1,086. As shown in Exhibit 5, page 16, the average NESLP loan award of \$1,086 pays for only 9.4% of an Associates degree and 8.2% of a Bachelors degree. Since the average loan award pays for only a small portion of the cost, this loan program may not be achieving its intended goal of recruiting more people into the nursing profession.

FINDINGS AND RECOMMENDATIONS



RECOMMENDATION

NCSEAA should work with schools offering nursing degrees to provide data to the General Assembly on the current cost of a nursing education. The General Assembly should consider increasing loan appropriations to attract more students into nursing careers. The General Assembly should also consider amending the way the Nurse Education Scholarship Loan Program funds are distributed to allow NCSEAA to make individual awards for this program, as it does for the other State funded student loan programs. Consideration should be given to distributing the funds in a manner that would encourage more NESLP recipients to complete the nursing programs, i.e., larger award amounts to fewer recipients. Larger award amounts should improve recruitment and service repayment. A second option to consider would be moving NESLP into the HSM program, which would accomplish many of the recommendations.

FINDINGS AND RECOMMENDATIONS

Objective 2: *To determine NCSEAA's effectiveness in the collection of loan repayments either through service or cash repayments.*

Overview: The Health Education and Welfare (HEW) Division of NCSEAA is responsible for the administration of six loan programs and the cash collections of an additional program. Three programs provide merit-based loans while the others are need-based loans. (See page 10 for description.) The ultimate goal of the State funded student loan programs is to increase the number of professionals in the identified careers actively working in North Carolina by encouraging students to repay their loans through a specified number of years of service in their respective careers. However, all loans may be repaid through either service or cash repayment, and HEW has the responsibility for assuring that mature loans are being repaid. Table 5, page 18, shows the status of all State funded loan accounts as of March 31, 2003. NCSEAA uses the Verification of Employment (VOE) form to award service credit. This form is forwarded to NCSEAA by the borrower or the borrower's employer and verifies the length of actual employment so that service credit can be applied against the outstanding loan balance. It also provides NCSEAA with updated addresses and other personal information necessary for tracking and staying in contact with the borrowers. Examination of NCSEAA records showed that the HEW Division had VOE information on 97% of the borrowers in service repayment status.

Methodology: To achieve this objective, we reviewed the relevant North Carolina General Statutes, applicable federal regulations, the North Carolina Administrative Code, and a NCSEAA database printout of all borrowers currently listed as "Cash Repayment" and a second printout for "Service Repayment." For the cash repayment review, we randomly selected a list of borrowers from each of the seven programs administered by the HEW Cash Repayment Services staff. In total we reviewed 148 files, including 40 Teaching Fellows Program files that were reviewed at the offices of the Public School Forum of North Carolina (program administrator). The selected borrower files were reviewed individually for content related to the qualifications of the borrower, amount of loan awarded, interest associated with the loan, reason for cash repayment, and documented follow-up by HEW staff to ensure that the loan was being worked at set intervals and paid back in a timely manner.

For the service repayment review, we randomly selected a list of borrowers from each of the programs administered by the HEW Service Repayment Services staff. In total we reviewed 120 files at NCSEAA and 30 files from the Teaching Fellows Program for comparative analysis. The selected borrower files were reviewed individually for content related to the qualifications of the borrower, amount of loan awarded, interest associated with the loan, location of employment for service credit purposes, and documented follow-up by the HEW division staff to ensure that the loan was being paid back in a timely manner through active employment service in the borrower's selected vocation.

FINDINGS AND RECOMMENDATIONS

What are the default rates for the different types of State student loan programs?

TABLE 5
Loan Status from Inception
As of March 31, 2003

	Number	Amount	% of Total	Number	Amount	% of Total	Number	Amount	% of Total	Grand Totals Needs-Based	
NEED-BASED	Health, Science, Math			Nurse Education Scholarship			Social Worker Education Loan			Number	% of Total
Total Disbursement	4,578	\$ 56,469,377		10,285	\$13,684,293		28	\$212,040		14,891	
Less: In-School	649	8,248,734	14.2	1,388	1,618,301	13.5	2	4,879	7.1	2,039	13.7
Total Matured Loans	3,929	48,220,643		8,897	12,065,992		26	207,161		12,852	
Cash Repayments	1,328	19,019,671	33.8	1,776	1,876,014	20	7	64,560	26.9	3,111	24.2
Service Repayments	2,538	28,545,391	64.6	6,296	9,305,388	70.7	17	127,517	65.4	8,851	68.9
Default	35	452,797	0.9	807	863,380	9.1	2	15,077	7.7	844	6.6
Write-Offs	28	202,784	0.7	18	21,210	0.2	0	7	0	46	0.3
	Number	Amount	% of Total	Number	Amount	% of Total	Number	Amount	% of Total	Grand Totals Merit-Based	
MERIT-BASED	Master's Nurse Scholars			Nurse Scholars			Principal's Fellows			Number	% of Total
Total Disbursement	324	\$ 3,318,642		5,405	\$36,916,241		716	\$26,550,000		6,445	
Less: In-School	86	815,715	26.5	862	6,730,368	15.9	196	6,000,000	27.4	1,144	17.8
Total Matured Loans	238	2,502,927		4,543	30,185,873		520	20,550,000		5,301	
Cash Repayments	37	259,353	15.6	776	3,376,468	17.1	34	817,303	6.5	847	16
Service Repayments	199	2,231,558	83.6	3,558	26,010,598	78.3	479	19,522,299	92.3	4,236	79.9
Default	2	12,000	0.8	202	752,884	4.4	3	98,021	0.5	207	3.9
Write-Offs	0	16	0	7	45,923	0.2	4	112,377	0.7	11	0.2

Number	Amount	% of Total	Grand Totals Merit-Based With TFP	
Teaching Fellows			Number	% of Total

¹ **Percent of Total** for all loan programs was computed by dividing the number of borrowers for each category by the number of Total Disbursement borrowers minus the number of In-School borrowers.

Total Disbursement	6,395	\$133,293,264		12,840	
Less: In-School	1,608	40,241,000	25.1	2,752	21.4
Total Matured Loans	4,787	93,052,264		10,088	
Cash Repayments	1,396	20,941,764	29.2	2,243	22.2
Service Repayments	3,370	71,689,000	70.4	7,606	75.4
Default	0	0	0	207	2.1
Write-Offs	21	421,500	0.4	32	0.3

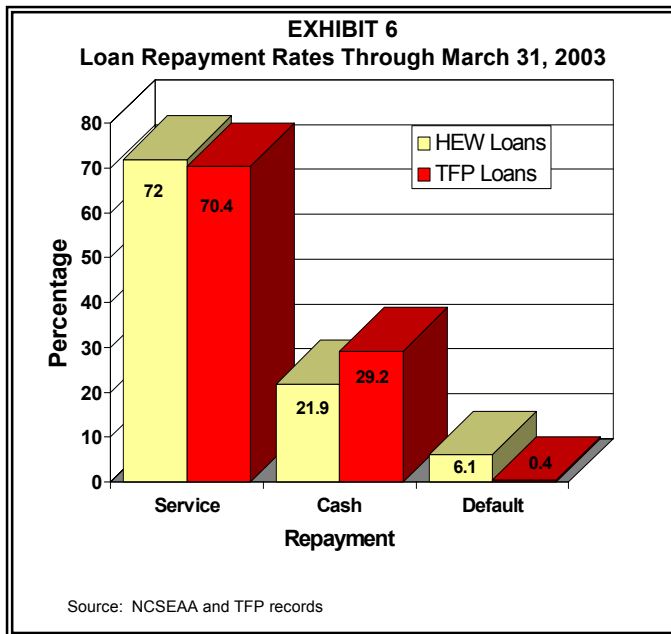
FINDINGS AND RECOMMENDATIONS

Conclusions: The goal of all State funded loan programs is to provide financial resources to students, with the hope that these resources will be repaid through employment in North Carolina for the specified number of years. Examination of loan payment data shows that 93.9% of the NCSEAA administered loans are repaid, with 72.0% repaid through service. Adding in the data for the Teaching Fellows Program increases this percentage to 73.2% for repayment through service. Merit based loans have a lower default rate than do need based loans, such as the Nurse Education Scholarship Loan program with an overall default rate of 9.3%. Lastly, NCSEAA does not have specific, written guidelines for administering each of the loan programs.

FINDINGS—LOAN REPAYMENTS

MOST OF THE NCSEAA ADMINISTERED LOANS ARE REPAYED THROUGH SERVICE.

The goal of all State funded loan programs is to provide financial resources to students, with the hope that these resources will be repaid through employment in North Carolina for the specified number of years. (See page 10 for loan description.) An indicator of the success of the program is the number of borrowers currently repaying by providing service in the various disciplines allowed and receiving credit toward their loan debt. As of March 31, 2003, NCSEAA's database



indicated that historically 72.0% of student borrowers were repaying their student loans by earning service credit for the six State loans administered by NCSEAA's HEW division. These individuals represent outstanding debt in the amount of \$113,732,596. For comparison, 70.4% of the borrowers in the Teaching Fellows Program were repaying through service. See Exhibit 6.

As shown in Table 5, page 18, the most "successful" State funded loan program in terms of repayment through service is the Principals Fellows program, with 92.3% of borrowers repaying through service. The least successful of the on-going programs is the Health, Science, and Math

FINDINGS AND RECOMMENDATIONS

Loan Program, with 64.6% of borrowers repaying through service. However, the Nurse Education Scholarship Loan Program shows the highest rate of default on payments at 9.3% overall, including loans that have been written off as uncollectible. Examination of the data for the different loan types shows that the three programs which base loans on merit have a higher repayment rate than do the needs based programs. Not only is the repayment rate higher for merit based loans, but more of these borrowers repay the loan through service in their chosen profession—the ultimate goal of the State loan programs.

RECOMMENDATION

The General Assembly should review the results of the various State funded loan programs to determine whether all programs should be continued as now defined or restructured. Serious consideration should be given to adding a merit-based component to the Nurse Education Scholarship Loan Program, or perhaps merge it into the existing HSM program. Such a change could work to improve the rate of repayment, especially repayment by service in North Carolina. A second option to consider is converting NESLP to a grant program. Further, each participating institution should consider providing initial and exit counseling. The initial counseling should be focused on the commitment required for each program. Exit counseling for those who did not complete the program should focus on identifying difficulties encountered and repayment options. Exit counseling for those completing the program should re-emphasize the student's responsibility to repay the loan, preferably through service in the State.

NCSEAA'S HEW DIVISION LACKS SPECIFIC GUIDELINES FOR ADMINISTERING LOAN PROGRAMS.

The HEW Division is responsible for the administration of six State funded student loan programs:

- 1) Health, Science and Mathematics Program (HSM);
- 2) Master's Nurse Scholars Program (MNSP);
- 3) Nurse Education Scholarship Loan Program (NESLP);
- 4) Nurse Scholars Program (NSP);
- 5) Principal Fellows Program (PFP); and
- 6) Social Worker Education Loan Fund (SWELF).

HEW has also recently taken over the cash collection portion of the Teaching Fellows Program (TFP), which is administered by the Public School Forum of North Carolina. HEW staff is responsible for making awards, monitoring recipients as they attend institutions of higher learning, making decisions regarding the status of outstanding loans, and then collecting repayment of those loans either through cash repayment or service repayment. As unique situations arise on a given loan, the staff must make decisions regarding deferments, cash repayment begin dates, interest accrual capitalization dates, as well as the rules and regulations

FINDINGS AND RECOMMENDATIONS

regarding repayment of the loans for each specific profession. Each program has established rules and regulations outlining specific criteria that must be met. Additionally, HEW has a policy and procedures manual for data input into the computer systems. However, there are no guidelines or policies in place to address specific case problems that are likely to arise. Under the current system, these decisions are often left to the discretion of each staff member. Review of the files revealed inconsistencies in cash repayment begin dates, interest capitalization dates, deferment practices, and interpretations of repayment rules and regulations.

RECOMMENDATION

NCSEAA should establish a set of guidelines or policies for each loan program that address specific case issues. NCSEAA's staff should create the guidelines based on prior experiences. A procedure should be implemented to update the guidelines periodically and to distribute the guidelines to all staff. Once the guidelines are established, all decisions should be made based on the guidelines to ensure consistency and fair treatment of each borrower.

THE HEW DIVISION OF NCSEAA DOES NOT HAVE A PROCEDURE FOR TRACKING FILES BEING TAKEN IN AND OUT OF THE FILE ROOM.

HEW is responsible for administering and handling the loan programs discussed previously. In FY 2001-02, HEW staff awarded 2,522 loans to students. During that same period, there were 3,552 borrowers who were repaying their loans either through service or cash. In order to handle over 7,500 loan files in various stages, including pending and deferred files, HEW maintains both a computer database and a hardcopy file for each borrower in the programs. These files are kept in a file room in the HEW Division. However, HEW internal procedures do not address removing or replacing files from the file room, nor is there a file tracking system in place. At least 20 employees have access to and use the borrower files to perform their work. When files are needed, they are simply removed and replaced without indicating who took the file, when they took it, or for what purpose. During the fieldwork, we noted employees were sometimes unable to locate files they needed. Without a system in place to track files, no one can be held responsible for lost or missing data. Misplaced files or missing data negatively impacts the service to borrowers and could be costly to the borrower or the State. Untimely responses could result in overcharges or undercharges to borrowers. Misplaced files could result in inability to collect on outstanding loans. HEW recently changed from an alphabetical filing system to a numerical system using the borrower's social security number. Bar code labels were added to the files at that time. These labels could possibly be used with a file tracking software system similar to that used in a library setting to establish a tracking system for the files.

RECOMMENDATION

NCSEAA should implement a policy that requires anyone with access to the file room to document removing a file, showing who removed it, when it was removed, and when it was returned. Using the bar codes now on the files

FINDINGS AND RECOMMENDATIONS

should enable HEW to establish a computerized tracking system to improve the efficiency of the Division. Such a system would also enable management to hold employees responsible for the files and decrease wasted time searching for files.

Auditor's Note: Since the completion of the fieldwork, NCSEAA has purchased a computerized system to track files.

FINDINGS AND RECOMMENDATIONS

Objective 3: *To access NCSEAA's use of technology and to determine technology needs to improve efficiency and effectiveness.*

Overview: NCSEAA's HEW Division was formed by combining the Health, Science and Mathematics Loan Program subdivision and the Health Education and Welfare (HEW) Loan Program subdivision in one location. Prior to June 1, 2000, the subdivisions were administered in separate locations. During 1997-1998, both subdivisions identified the need to update their loan administration software packages. Because the subdivisions were housed at different locations, two different systems were designed and put into use. Each system was designed with input from the respective employees to meet the needs of the specific programs, resulting in applications known to staff as the "HEWIE" and "MERLIN" database systems. In June of 2000, the subdivisions were merged into one location as a cost cutting measure since the loan programs are similar; however, there was no attempt at that time to consolidate the database information into a single system. Both databases are still in place today, and most employees are only proficient in one system or the other.

NCSEAA also administers the debt collection process for a number of federal student loan programs, as well as serving as guarantor for the federal loans. These duties are performed using a separate database software package called "GALAHAD." The "GALAHAD" system was purchased from the State of Vermont in 1999 and runs on an IBM AS/400 (now called the "I Series Server") platform. NCSEAA has a full-time contract employee who is the administrator for this platform.

Methodology: To achieve this objective, we reviewed 235 borrower repayment files, 85 borrower files with in-school status, as well as 28 borrower files still in the loan awarding process. Information contained in the hardcopy files was compared to information contained in the computer databases. We also reviewed the relevant policy and procedures manuals related to awarding and monitoring loans for each of the programs under the HEW Division. We interviewed HEW staff members to determine their access to computer data and their proficiency on the current systems in place. Lastly, we discussed the computer databases with the supervisors who were instrumental in the development of the current systems.

Conclusions: **NCSEAA currently uses two separate yet similar databases to administer the State student loan programs, from application through repayment. This is the result of the merger of the Health Science and Math Loan Program Division and the Health Education and Welfare Loan Programs Division. Employees from each division are most familiar with the computer program designed for their individual loan program needs. Thus, they are unable to effectively work on all loans now under the merged Health Education and Welfare Division. Further, the two databases (HEWIE and MERLIN) contain erroneous and incomplete**

FINDINGS AND RECOMMENDATIONS

monitoring data. They do not have edits in place to recognize errors, make corrections, or inform staff that errors have occurred. To improve efficiency and effectiveness, HEW should develop a combined database that incorporates edits to flag questionable data.

FINDINGS—TECHNOLOGY USE

USING TWO SEPARATE DATABASES LIMITS EMPLOYEES' ABILITY TO WORK ON ALL PROGRAMS UNDER HEW.

Prior to June 2000, the programs currently administered by the HEW division were housed at two different locations. Thus, two distinct computer systems ("HEWIE" and "MERLIN") were designed for the specifics of the loans administered by each subdivision. When the subdivisions were combined at one location, the computer databases were not. Those employees proficient with HEWIE are unable to function effectively in MERLIN and vice versa. Since the two systems have not been merged, the result has been that employees are limited in which loans they can work based on their knowledge of one system or the other. This can also lead to data input mistakes when an employee has to input data into the system he/she doesn't know well, slow follow-up service to borrowers, possible misinformation if an employee answers a phone call about a loan in the "other" system, and a lack of trust in either system by the employees fostered by lack of knowledge about both systems. The lack of trust in the systems has led to poor employee moral and mistakes that are costly to either the borrower or to the State.

IS NCSEAA effectively collecting repayment of the loans it awards either through service or cash payments?

RECOMMENDATION

NCSEAA should explore loan administration best practices and use these as a guide to purchase a single database software package to replace HEWIE and MERLIN. Consideration should be given to a software package that would operate on or could be easily converted to run on the existing server platform that currently runs the federal programs GALAHAD system. This would allow NCSEAA to maintain one platform instead of two. A single database system should increase the effectiveness and efficiency of the employees by allowing them to work on all loans administered by HEW.

FINDINGS AND RECOMMENDATIONS

THE CURRENT COMPUTER DATABASE SYSTEMS, (HEWIE) AND (MERLIN), CONTAIN ERRONEOUS AND INCOMPLETE MONITORING DATA.

HEWIE and MERLIN are the major tools used by NCSEAA staff to administer the various student loan programs. The information contained in these databases is critical for monitoring borrowers in repayment, processing current loan recipients, and processing loan applications. Review of database information indicated erroneous and incomplete data, as follows:

- 14 (6%) out of 235 files where service credit was erroneously calculated and applied;
- 13 (5.5%) out of 235 files where interest was being accrued on wrong dates;
- 1 (<1%) instance where interest was not accrued at all;
- 71 (30.2%) out of 235 files with instances of incomplete data where the description of events was often very brief or difficult to interpret, leaving the person trying to follow the monitoring to make assumptions as to why an event took place.

Because of the problems noted with interest, we reviewed a printout of interest charges for all cash repayment files. We found 93 (7.9 %) out of 1184 files from all programs in which double interest was charged on the remaining balances. The interest calculation errors also led to billing errors and payoff errors that were communicated to the borrowers. (HEW management corrected the interest problems after we brought them to management's attention during fieldwork.)

RECOMMENDATION

As long as NCSEAA continues to use HEWIE and MERLIN, management should implement a policy requiring all supervisors and managers to periodically check records to search for keying and other errors in the database. Further, all events should be adequately documented. NCSEAA should also consider adding edits to the computer system to identify transactions that do not appear to be normal so they can be reviewed to determine if errors have occurred. (See next finding.) The review for keying errors could also be used as a management tool to evaluate employees' job performance. Lastly, prior to importing this data into a new database, NCSEAA staff should review and correct problems.

VERIFICATION OF EMPLOYMENT NOTICES ARE NOT BEING ACTIVELY MONITORED.

HEW staff uses the verification of borrower employment to determine service credit against an outstanding loan. According to HEW policy, once a loan is approved for service cancellation, Repayment Services sends a verification of employment (VOE) to the borrower's current employer. The VOE notice is sent every six months for nursing programs and every twelve months for all the other programs. The returned form contains employment beginning and

FINDINGS AND RECOMMENDATIONS

ending dates that are used to determine service credit. Review of borrower files showed 52 (3%) of 1,638 files in service repay had no future VOE notice sending dates, resulting in files not being monitored for over 12 months. This could be the result of files being moved from service repayment to cash repayment by the databases for no apparent reason or from keying errors. Additionally, there are no database compensating controls or edits in place to monitor the return of a completed VOE. The review identified 129 out of 353 files (37%) in which VOE notices were periodically sent out, but no completed VOE was returned. Since no standard report showing this type of activity is generated, the files were not actually being monitored even though actions were taking place. A computer report currently available on the system can be used to identify these unmonitored files.

RECOMMENDATION

NCSEAA management should require the Manager of the Service Repayment section to run a report that identifies all borrowers under service repayment that have VOE notice sending dates in the past that show no updated input to the file. This report should be run at least quarterly to ensure that monitoring of borrower files is as timely as possible. NCSEAA should also design a computer edit to monitor VOE returns. If the completed VOE is not returned within a given time frame, the system should generate a monthly report to notify staff or automatically transfer the account to cash collections so appropriate follow up will take place.

Auditor's Note: Since the completion of the fieldwork, HEW established a system of checks and balances as it relates to the VOE process.

FINDINGS AND RECOMMENDATIONS

Objective 4: To examine NCSEEA organizational structure and staffing levels for the State loan programs to determine if they are sufficient to handle the volume of work.

Overview: NCSEEA, established by the General Assembly in 1965, is organized into five different divisions:

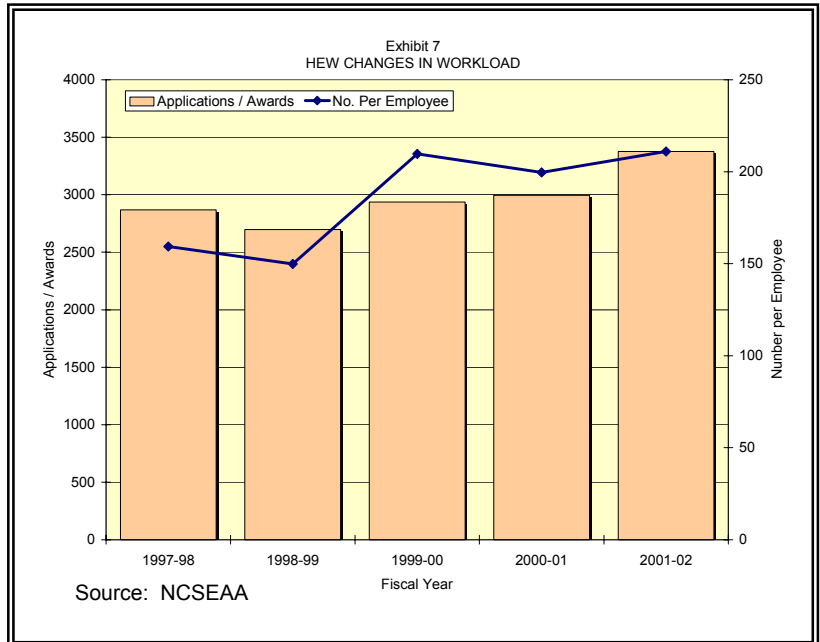
Does
NCSEEA
have the
necessary
resources to
effectively
and
efficiently
administer
the State
loan
programs
under its
purview?

- Administration;
- Legal Affairs;
- Guaranty Agency Services;
- Education, Training and Outreach; and
- Health, Education and Welfare.

A Board of Directors, consisting of seven members who are appointed by the Governor to serve four-year terms, governs NCSEEA. NCSEEA is headed by an Executive Director who is responsible for operations. Each division is overseen by a director who handles the day-to-day operations. To supplement the staff, NCSEEA uses a number of temporary positions to handle fluctuations in the workloads.

The number and types of programs that NCSEEA is responsible for have increased during the last few years. Overall, the number of awards and applications handled by HEW has **increased** by 17.7%, while staffing has **decreased** by 11.1% resulting in increased workloads for staff, as shown in Exhibit 7. Additionally, HEW has taken on the

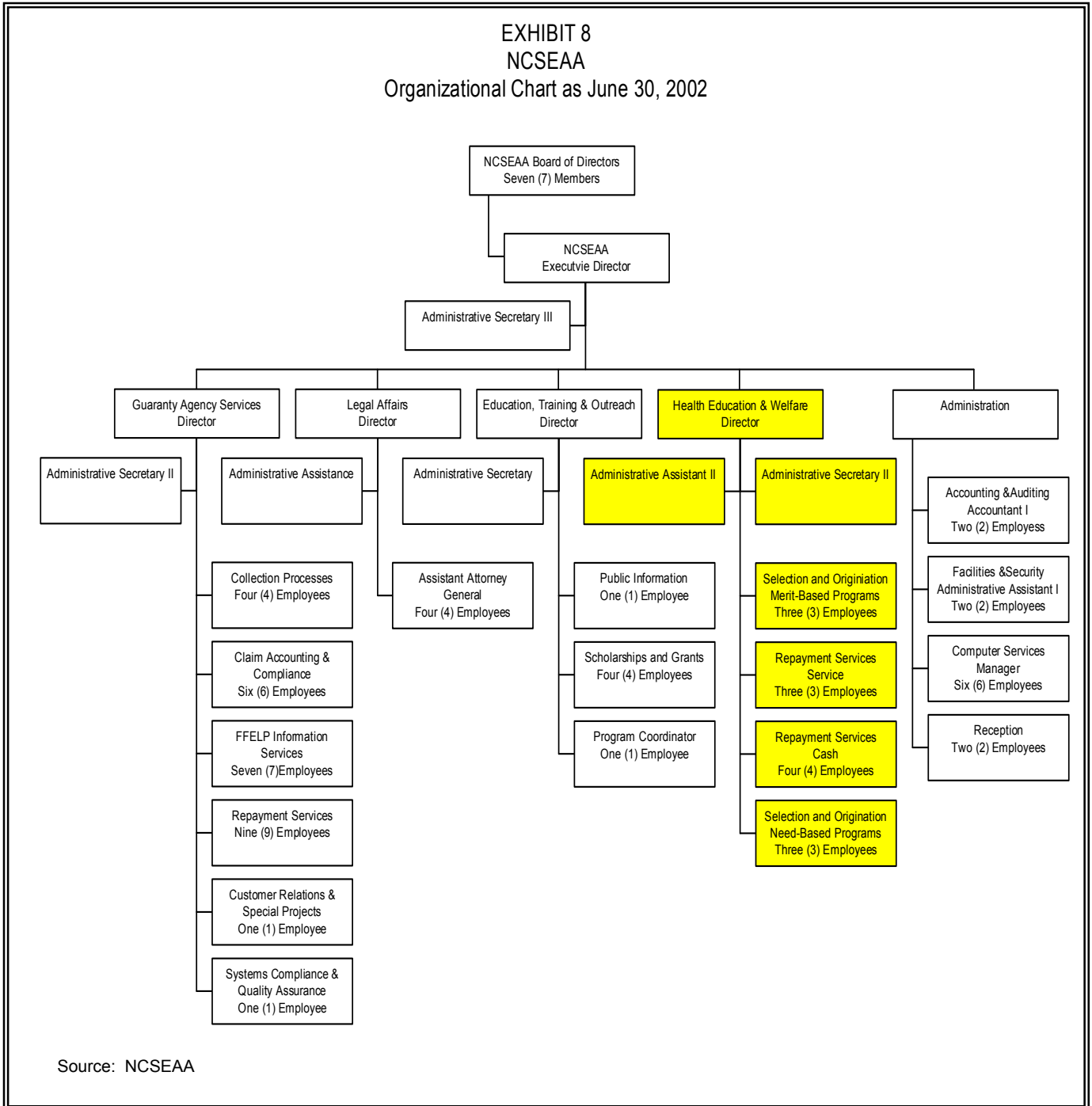
responsibility of cash collections for three teaching programs (Teaching Fellows Program, Prospective Teachers Program and Teacher Assistant Loan Program³ that are not shown in Exhibit 7.



³ HEW assumed responsibility for cash collections on the Teaching Fellows Program in September 2002. The General Assembly moved the Prospective Teachers Loan Program and the Teacher Assistant Loan Program to NCSEEA for administration as of April 1, 2003.

FINDINGS AND RECOMMENDATIONS

Exhibit 8 shows the organizational structure in place at the time of the audit. The audit concentrated on the HEW Division, highlighted.



FINDINGS AND RECOMMENDATIONS

NCSEEA contracts with the College Foundation Incorporated (CFI) of Raleigh for awarding and servicing of federal loans such as Stafford Loans. CFI is a non-profit organization, chartered in 1955 under Chapter 55A of the North Carolina General Statutes to assist North Carolinians in financing the cost of higher education. As an agent and independent sole source contractor for NCSEEA since 1996, it serves as the central loan originator under the North Carolina Federal Family Education Loan Program (FFELP). CFI administers grant programs and the college savings program on behalf of NCSEEA and makes, collects, and services student loans on behalf of NCSEEA. NCSEEA reimburses CFI for its pro-rata share of operating and reasonable capital costs incurred in the administration of the programs for which it contracts. No State-appropriated funds are used for this contractual program, which is self-sustaining with loan program revenue. As shown in Table 1, page 8, NCSEEA reimbursed CFI \$21 million for services rendered in fiscal year 2001-02.

Methodology: To satisfy this objective, we examined NCSEEA's organizational charts, job descriptions, and internal information concerning organizational changes. We reviewed the temporary positions within NCSEEA, and interviewed staff to determine job duties and functions. We also reviewed workload data for the HEW Division for fiscal years 1997-98 through 2001-02.

Conclusions: NCSEEA routinely uses a large number of temporary employees to handle fluctuations in workload. The number of loan *awards* for all loan types has increased by 86.8% from fiscal year 1997-98 through 2001-02. However, award numbers do not account for increases in total applications processed. During this same period, the number of staff has increased by only 6.5%. The HEW Division is handling over 7,500 State student loans in various stages, an average of 577 loans per person. HEW program loans have deadlines for filing applications that fall on February 15th, May 3rd, and June 1st, requiring the use of temporary employees to help process the applications. Merit program applications must be ranked in a timely manner to allow ample time to award loans to the most deserving students. Applications must also be reviewed timely to allow loan payments to be processed by the beginning of the academic session. For fiscal year 2001-02, NCSEEA's temporary workforce accounted for 32% of the total positions. NCSEEA could reduce staffing costs by approximately \$155,204 annually by converting long-term temporary positions to full time positions. Lastly, NCSEEA needs to address pay grade and salary inequities in the HEW Division that resulted from combining two separate divisions into one.

FINDINGS AND RECOMMENDATIONS

FINDINGS—ORGANIZATION / STAFFING

NCSEAA COULD REDUCE STAFF COSTS BY SECURING MORE FAVORABLE RATES FROM TEMPORARY STAFFING AGENCIES.

For the fiscal years 2000-01 and 2001-02, NCSEAA expended \$1,006,807 and \$1,153,668 respectively on temporary and/or contract employees. These amounts represent approximately 2.5% of total operational expenditures for each of those years. NCSEAA uses contract or temporary employees to supplement existing staff during the year, many during workload peaks resulting from application deadlines. NCSEAA also hires contract employees to perform special tasks that regular employees don't have the time or expertise to perform. NCSEAA provided a list of employees showing 74 employees, 24 (32%) of which were temporary positions. Of the 24 positions, five are contracted through the College Foundation Incorporated to provide computer support. NCSEAA incurs only the actual costs of these employees' salaries.

While some of the remaining 19 temporary positions are for short-term use, others have been used for periods ranging from one to seventeen years. Table 6, page 31, shows that NCSEAA has expended \$2.1 million for these long-term temporary positions. The use of temporary employees for extended periods of time generally costs more due to overhead costs charged by the temporary agencies. For example, NCSEAA uses a contract employee to provide AS/400 computer programming support at a cost of \$78 per hour. Current salary data for this type of service obtained from an employment agency indicates that the services could be provided for as little as \$23 per hour, for a potential savings of approximately \$107,000 annually. Table 7, page 31 indicates temporary NCSEAA positions as of June 30, 2002 that were filled with long-term temporary employees and compares the costs of those positions with what it would cost to fill similar full-time state positions. The state position information is based on job classification titles for the temporary positions as provided by NCSEAA staff.

RECOMMENDATION

Management should review all temporary positions used at NCSEAA and determine if those positions are truly needed. For the temporary positions that are deemed necessary and that will be needed long term, management should seek permission to convert these positions into permanent positions and fill them as soon as possible. For all functions that are deemed necessary to be filled on a temporary basis based on workload, management should use companies that provide these services at the best rate possible.

Auditor's Note: Since the completion of the fieldwork, NCSEAA has secured temporary staff at a lower overhead rate than was in effect at June 30, 2002.

FINDINGS AND RECOMMENDATIONS

TABLE 6
NCSEAA Use of Temporary Positions Through Temporary Agencies or Personal Service Contracts

Position Title	Start Date	Days in Temporary Position As of June 30, 2002	Bill Rate	Estimated Total Cost per Year	Actual Cost FYE 6/30/02	Estimated Total Cost of Position Over Time
Accounting Clerk	3/21/2001	466	\$23.60	\$46,256	\$52,353	\$62,843
Accounting Clerk IV	12/4/2001	208	\$18.30	\$35,868	\$16,220	\$21,751
Administrative Secretary	4/30/1999	1,157	\$21.05	\$41,258	\$41,262	\$139,171
Computer Consultant	10/23/2000	615	\$45.00	\$88,200	\$43,479	\$158,143
Help Desk Coordinator	9/1/2000	667	\$19.60	\$38,416	\$33,349	\$74,704
Mail Clerk	7/30/2000	700	\$17.11	\$33,536	\$34,135	\$68,440
Office Asst./Receptionist	2/21/2001	494	\$17.11	\$33,536	\$32,641	\$48,299
Processing Assistant	5/9/1999	1,148	\$16.80	\$32,928	\$31,618	\$110,208
Processing Assistant III	7/23/2001	342	\$16.68	\$32,693	\$25,529	\$32,597
Processing Assistant III	4/30/2002	61	\$12.77	\$25,029	\$1,311	\$1,311
Processing Assistant III	5/21/2002	40	\$14.39	\$28,204	\$921	\$ 921
Program Coordinator	3/20/2000	832	\$31.44	\$61,622	\$60,664	\$149,475
Programmer	12/6/1999	937	\$76.00	\$148,960	\$144,096	\$406,926
Quality Assurance Asst.	4/18/2001	438		\$21,640	\$21,640	\$21,640
Receptionist/Office Asst.	7/6/2000	724	\$19.45	\$38,122	\$40,021	\$80,467
Repayment Counselor	6/26/2000	734	\$17.11	\$33,536	\$33,089	\$71,764
Repayment Counselor	5/15/2001	411	\$16.32	\$31,987	\$28,605	\$38,329
Repayment Counselor	4/1/2002	90	\$12.77	\$25,029	\$18,195	\$6,567
Special Assistant	1/1/1985	6,389	\$16.80	\$32,928	\$20,594	\$613,344
Totals				\$829,748	\$679,722	\$2,106,900

Source: NCSEAA

TABLE 7
Potential Savings/Costs from Converting Temporary Positions to Full Time
As of June 30, 2002

A	B	C	D	E	F	G	H
Position	State Position Pay grade	Estimated Annual Salary For FT State Position	Costs of Benefits ¹	Estimated Total Cost for State Position	Current Pay Rate for Contract Position ²	Contract Position Estimated Annual Bill Rate ³	Difference (Col. G – Col. E) Savings (Costs)
Accounting Clerk IV	59	\$20,576	\$5,130	\$25,706	\$26,460	\$31,066	\$5,360
Accounting Clerk IV	59	\$20,576	\$5,130	\$25,706	\$30,380	\$35,770	\$10,064
Admin. Assistant II	65	\$25,968	\$5,706	\$31,674	\$41,160	\$61,622	\$29,948
Computer Programmer	80	\$62,857	\$9,646	\$72,503	\$152,880	\$152,880	\$80,377
Mail Clerk II	56	\$18,418	\$4,900	\$23,318	\$23,520	\$27,146	\$3,828
Office Assistant IV	59	\$20,576	\$5,130	\$25,706	\$23,520	\$27,146	\$1,440
Processing Assistant III	57	\$19,105	\$4,973	\$24,078	\$24,500	\$28,204	\$4,126
Processing Assistant III	57	\$19,105	\$4,973	\$24,078	\$23,520	\$27,146	\$3,068
Processing Assistant III	57	\$19,105	\$4,973	\$24,078	\$21,560	\$25,029	\$951
Processing Assistant III	57	\$19,105	\$4,973	\$24,078	\$22,540	\$32,693	\$8,615
Processing Assistant III	57	\$19,105	\$4,973	\$24,078	\$21,560	\$25,029	\$951
Processing Assistant IV	59	\$20,576	\$5,130	\$25,706	\$21,560	\$33,536	\$7,830
Processing Assistant IV	59	\$20,576	\$5,130	\$25,706	\$21,560	\$25,029	(\$677)
Processing Assistant IV	59	\$20,576	\$5,130	\$25,706	\$21,560	\$25,029	(\$677)
Totals:		\$326,224	\$75,897	\$402,121	\$476,280	\$557,325	\$155,204

¹ Cost of Benefits Annual Cost of Insurance of \$2,933, plus 7.65% FICA and 3.03% Retirement.
² The Current Contract Position costs were derived using the salary rate as provided by NCSEAA and using 49 weeks at 40 hours per week.
³ Bill Rate includes premium paid to temporary agency.

Source: Office of State Personnel, NCSEAA Records

FINDINGS AND RECOMMENDATIONS

THERE ARE INEQUITIES IN THE POSITION CLASSIFICATIONS IN THE HEALTH EDUCATION AND WELFARE DIVISION.

The Health Education and Welfare Division (HEW) is responsible for the origination and maintenance of specific State funded loans. During the audit, HEW re-organized into four distinct areas based on operations. There are two repayment areas: one for cash repayment, one for service repayment. The other two areas involve the origination of loans depending on the loan type: either need-based or merit-based. After reviewing information provided by the Office of State Personnel, job descriptions provided by NCSEAA, and interviewing staff, we noted inconsistencies in staff classification and pay-grades among both the Selection and Origination Services Supervisor/Manager and the Repayment Services Managers. The Selection and Origination Services Supervisor⁴ performs the same function as the Selection and Origination Services Manager, but is classified eleven grades lower, approximately a 56% difference in pay. Likewise, the Repayment Services Managers perform the same function, one dealing with canceling loans through service and the other with canceling loans through cash payment. However, there is a seven grade (33% pay) difference in classification. These inequities resulted when the two divisions were merged to form HEW. Such inequities in classification can lead to question of authority, poor employee moral, and higher turnover.

RECOMMENDATION

The Director of NCSEAA should conduct a study on all positions within the HEW Division. This study should review the classification of the HEW staff and consider the current and future responsibilities as additional programs are absorbed.⁵ Once the study is completed and appropriate classifications are identified, management should work with General Administration to change the classifications and compensate these individuals at the appropriate level. A possible solution to the classification difference could be reorganization so that position responsibilities reflect pay levels.

⁴ This position was upgraded from a grade 59 to a grade 61 on March 25, 2002.

⁵ The General Assembly moved the Prospective Teachers Loan Program and the Teacher Assistant Loan Program to NCSEAA for cash collection on these loans as of April 1, 2003.

APPENDIX

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A	Response from the North Carolina State Education Assistance Authority	35

APPENDIX

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Response to Performance Audit

North Carolina State Education Assistance Authority

May 2003

We appreciate this opportunity to comment on the findings and recommendations contained within the Performance Audit of the North Carolina State Education Assistance Authority. We also appreciate the courtesies extended to us by State Auditor Ralph Campbell, by the auditors who did the field work and by their supervisors.

The experience with the audit was a positive one for us, and we have gained insights as a result of the process. It was good to have objective observers, not engaged in the daily press of our business, on our site to examine our programs. We are grateful that the structure of the audit gave us the opportunity to communicate with the auditors throughout the process, which enabled us to make some changes in procedures and practices even before receiving the official report. We believe that our processes will be stronger, more effective and more efficient, as a result of the experience.

Our responses to specific sections of the audit are found below.

Program Overview

We appreciate the thoroughness of the 13-month performance review experience. We also appreciate the acknowledgement of the increased scale and scope of the programs administered and of the "good financial management" of NCSEAA. While the nature of a performance audit is to identify processes that should be improved, it was gratifying that the report also contains recognition of the good work done at NCSEAA.

Objective 1 - Funding Limits

We agree that a review of per-student funding limits for the programs is appropriate, especially in the case of the Nurse Education Scholarship Loan Program [NESLP]. We believe that adopting the same loan limits and selection procedures as are currently used in the Health, Science, and Mathematics Program [HSM] would be a positive move.

Otherwise, we believe that increased total funding for these programs should result in additional recipients rather than higher per student loan amounts. One aspect of funding that should be carefully considered when loan programs are involved would be the amount of repayment in cash required when young people change their minds (or their circumstances) after accepting the funds. We would not want the burden to be too severe, as might be the case if larger sums were borrowed. We believe that access to higher education is better fostered by grants to needy students, and we have concentrated our efforts on securing support for statewide grants that help students pay the costs of college attendance. Scholarship-loan programs, when combined with sufficient grants, can play an important role in making attendance possible while still promoting vocational service in areas of scarcity.

Objective 2 - Collection of Loan Repayments through Service or Cash

We are pleased that cumulative data on the loan programs indicate the effectiveness of the programs overall. With the exception of needed strengthening of the NESLP award amounts and process, which we agree should be enhanced, we believe the data demonstrate that the programs are achieving the dual goals of fostering vocational service while simultaneously assisting students in meeting the costs of their higher education. The cumulative default rate is relatively low, at just over 6%, and the percentage of the loans repaid through targeted vocational service in North Carolina is relatively high, at some 72%. Given the proclivity for the circumstances of young people to change after they begin their higher education, we are proud of these data. It is also important to note that, even when loans default, the collection of the debt is still pursued by our staff. Loans are written off as uncollectible in the event of the death or disability of the borrower, but, generally, all legal means available are employed in pursuit of legitimate debt owed to the programs.

We agree that NCSEAA needs to develop more detailed and specific written guidelines for special situations that arise in the service-cancellation arena. While program rules and regulations cover the majority of circumstances, a "case study" manual would be of benefit to staff. We have begun the process of compiling a manual at this level of detail. We plan to use these enhanced guidelines in training new staff and to keep the manual updated going forward.

We agree that file tracking procedures needed enhancing when the auditors visited, and, as noted, we have purchased and are implementing a computerized system. While our old system did not ever result in permanently lost files, we believe the new procedures will save staff time in looking for files that are temporarily misplaced.

Objective 3 - Use of Technology

We agree with the conclusions that NCSEAA should develop a combined database for its HEW programs and that the database should incorporate sophisticated error-detecting technology. The current bifurcated systems, which were developed prior to the merger of programs into one division, would serve staff better if they were combined into one system and were enhanced to include edits for recognition of problem areas and errors.

We agree that both the IBM AS/400 platform used for the federal program and a personal computer platform should be given full consideration as a successor for the combined and enhanced software. Staff has now begun an assessment of similar programs in other states and will determine whether there currently exists a software package that would be beneficial.

We agree with the recommendation that management should perform and document periodic checks for keying and other errors in HEWIE and MERLIN and should add edits to identify potential errors where such edits are cost-feasible. We also agree that before exporting data to a new successor computer system thorough error-checking must be accomplished on a case by case basis.

We agree with the recommendation regarding verification of employment notices (VOE) and, as noted, have already implemented the system.

Objective 4 - Organizational Structure and Staffing Levels

Temporary employees at NCSEEA are not paid from state appropriations, and we believe that temporary employees can be properly used to handle fluctuations in workload. We found the insights of the audit helpful and are currently undertaking a review of our use of temporary employees and the terms of their contracts.

We appreciate the suggestion that increased staff may be necessary. We will examine staffing in the HEW area and determine if permanent staff should be added because of the increased applications and case load identified by the audit. We will attempt to address these issues via better technology where possible.

We also agree that we should review all temporary positions in the agency to see if permanent state positions are necessary because the positions are required year round, full time, and long term.

When temporary staff members are needed, we agree that they should be hired through the most advantageous arrangement with the best possible rates. In fact, we have already moved to secure such arrangements. Overhead costs for most contract employees have changed since the time of the audit and are now less than overhead above state salaries. That change may result in a lower overall cost to NCSEEA of temporary versus permanent employees.

Table 7 indicates potential cost savings going forward from converting temporary positions to full time state positions. We believe that future cost savings are actually substantially lower, if they exist at all. The AS/400 programmer that is on staff through an agency is indeed costing more money than we would like. We originally employed him for what we believed was to have been a short term arrangement on an agency contract. Our need of his services, however, persisted. Consequently, we retained him on the agency contract. That arrangement ends on June 30, 2003 and will not be renewed. That change, in itself, will reduce the identified potential savings by more than half.

Of the 13 additional temporary positions identified during the field work by the auditors, three are no longer filled at this time. Based on preliminary analysis as a result of the issues identified by the audit, we expect that one additional temporary position will be eliminated after June 30, two (1.5 FTE) will be continued after June 30, and that seven may be converted to permanent state positions.

We will want to consider the costs and benefits of conversion on a case-by-case basis. While the audit pegged positions at certain state pay grades, we will want to examine carefully whether or not the skill sets required for some of the positions would actually necessitate a higher pay grade than posited in Table 7, resulting in an increased cost to NCSEEA. We will also need to consider any possible savings against potentially lower annual income for some skilled employees who have served in contract slots and to consider both short-term and long-term cost consequences of conversion to permanent state positions.

We agree with the recommendation to study all positions within the HEW division with a purpose of addressing any salary inequities that may exist as a result of the combination of separate programs into one division.

In summary, we are appreciative of the opportunity to gain insights into our program and administration at NCSEAA. Having the presence of independent reviewers, with expertise in program efficiencies and an ‘outside’ perspective on our programs, has helped us to examine ourselves in new ways. We are proud of the job we do and the way in which we do it. We believe that the results of the dialogue with the auditors will enable us to do an even better job in the future.

Source: Dr. Steven E. Brooks, Executive Director of the NCSEAA.

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