

STATE OF NORTH CAROLINA

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

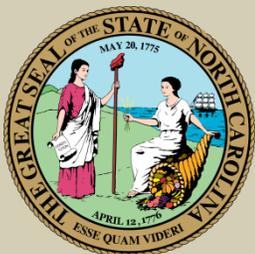


MARTIN COMMUNITY COLLEGE

WILLIAMSTON, NORTH CAROLINA

STATEWIDE FEDERAL COMPLIANCE AUDIT PROCEDURES

FOR THE YEAR ENDED JUNE 30, 2017



NC  **OSA**
The Taxpayers' Watchdog

STATE OF NORTH CAROLINA
Office of the State Auditor



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State Auditor

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AUDITOR'S TRANSMITTAL

The Honorable Roy Cooper, Governor
Members of the North Carolina General Assembly
Board of Trustees
Dr. Kenneth Boham, Interim President
Martin Community College

As part of our audit of the State of North Carolina's compliance with requirements applicable to its major federal programs, we have completed certain audit procedures at Martin Community College for the year ended June 30, 2017. We conducted our audit 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). Our audit was performed by authority of Article 5A of Chapter 147 of the *North Carolina General Statutes*.

Our audit objective was to render an opinion on the State of North Carolina's major federal programs and not the College's administration of major federal programs. However, the report included herein is in relation to our audit scope at the College and not to the State of North Carolina as a whole. The State Auditor expresses an opinion on the State's compliance with requirements applicable to its major federal programs in the State's *Single Audit Report*.

The audit findings in this report are also evaluated to determine their impact on the State's internal control and the State's compliance with rules, regulations, contracts and grants. If determined necessary in accordance with *Government Auditing Standards*, these findings are reported in the State's *Single Audit Report*.

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

A handwritten signature in cursive script that reads "Beth A. Wood".

Beth A. Wood, CPA
State Auditor



Beth A. Wood, CPA
State Auditor

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	1
FINDINGS, RECOMMENDATIONS, AND RESPONSES.....	4
ORDERING INFORMATION	10

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.



INDEPENDENT AUDITOR'S REPORT

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**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees and Management of
Martin Community College

Report on Compliance for Each Major Federal Program

As part of our audit of the State of North Carolina's compliance with the types of requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major programs for the year ended June 30, 2017, we have performed audit procedures at Martin Community College. Our report on the State of North Carolina's compliance with requirements that could have a direct and material effect on each major program and on internal control over compliance in accordance with Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) is included in the State's *Single Audit Report*. Our federal compliance audit scope at the Martin Community College included the Student Financial Assistance Cluster.

The audit results described below are in relation to our audit scope at the College and not to the State of North Carolina as a whole.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulation, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State of North Carolina's major federal programs based on our audit of the types of compliance requirements referred to above, which we issue in the State's *Single Audit Report*. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and 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 the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the College's compliance with those requirements.

Opinion on Each Major Federal Program

As stated above, our opinion on compliance for each of the State of North Carolina's major federal programs is included in the State's *Single Audit Report*.

Other Matters

The results of our audit procedures at Martin Community College disclosed instances of noncompliance that are required to be reported in accordance with the Uniform Guidance and which are described in the Findings, Recommendations, and Responses section of this report.

Report on Internal Control Over Compliance

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we consider the deficiencies described in the

Findings, Recommendations, and Responses section of this report to be material weaknesses in internal control over compliance.

Martin Community College's Response to Findings

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

Purpose of Report on Internal Control Over Compliance

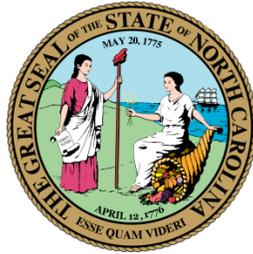
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Beth A. Wood, CPA
State Auditor

Raleigh, North Carolina

March 19, 2018



FINDINGS, RECOMMENDATIONS, AND RESPONSES

Matters Related to Federal Compliance Audit Objectives

1. ERRORS IN RETURN OF TITLE IV FUNDS

The College incorrectly calculated how much money to return to the Title IV program (financial aid) after students supported by the program withdrew from school. Funds were also returned late. During the audit period, the College disbursed approximately \$898,000 in financial aid to 242 students.

Auditors tested the return of Title IV calculations for all 25 students that met the requirements and had calculations performed.

- For 23 students (92%), the return calculations were incorrect due to under calculation.
- For 15 students (60%), the College returned funds to the Title IV program late.

Additionally, auditors tested all 29 students that had a “0” GPA¹ and no return to Title IV calculation made.

- For 16 students (55%), a calculation should have been performed but was not.

As a result, the College failed to return \$23,508 to the Title IV program and returned another \$8,652 between four and 215 days late. Those funds could have been allocated to other students or reduced the cost of federal programs.

The errors occurred because the financial aid director used a report from the information system (Colleague) to perform return of Title IV calculations. The Colleague report that was used did not include all of the applicable student charges, and there were no controls in place to ensure that all charges were included in the Title IV calculations. In addition, College personnel did not follow procedures to identify all students subject to return to Title IV calculations.

Federal regulations² state that if the total amount of assistance earned by the student is less than the amount that was disbursed to the student or on his or her behalf as of the institution’s determination that the student withdrew, the difference must be returned to the Title IV program.

Additionally, federal regulations³ require that returns of Title IV funds be deposited or transferred into the Student Financial Aid account or that electronic fund transfers be initiated to the Department of Education or the appropriate lender as soon as possible, but no later than 45 days after the date the institution determines that the student withdrew.

Federal Award Information: Award Year July 1, 2016 – June 30, 2017. CFDA 84.063 Federal Pell Grant Program.

Recommendation: The financial aid director should perform manual calculations for a sample of returns to ensure that information system calculations for returns to Title IV

¹ Represents students who did not pass any classes during the semester and did not withdraw from the College.

² 34 CFR 668.22(a)(1) through (a)(5)

³ 34 CFR 668.173(b)

include all applicable student charges. In addition, college management should design and implement review and/or monitoring procedures to ensure that required calculations for returns to Title IV are complete and accurate, and funds are returned on a timely basis in accordance with federal compliance requirements.

Agency Response: See pages 7-8 for Martin Community College's response to this finding.

2. ENROLLMENT STATUS REPORTING ERRORS

The College 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 College disbursed approximately \$851,000 in federal financial assistance funding to 241 students subject to this reporting requirement.

Auditors tested the enrollment status reporting for all 77 students who received federal financial assistance and whose enrollment status changed. A total of 87 enrollment status changes were tested as a result of several students having multiple status changes throughout the period.

Five (6%) students were not reported in accordance with federal compliance requirements. Specifically:

- Four (5%) students were reported between 81 and 97 days after the status change occurred.
- One (1%) student was not reported at all.

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

According to College management, the College did not have written policies and procedures to ensure the accurate and timely reporting of information to NSLDS, or to monitor the information reported to NSLDS to ensure its agreement with College records. Since the College did not have a Registrar on staff until November 2016, inexperienced staff members were tasked with reporting student status changes without the proper tools to ensure its accuracy, and no one was assigned to monitor the submissions to NSLDS.

Federal regulations⁴ require the College to notify NSLDS within 75⁵ days of a change in student status for those students that received Pell Grant funds. In addition, the NSLDS Enrollment Reporting Guide states that the College is ultimately responsible for timely and accurate reporting.

Federal Award Information: Award Year July 1, 2016 – June 30, 2017. CFDA 84.063 Federal Pell Grant Program.

⁴ 34 CFR 690.83 and 34CFR 685.309

⁵ The College is required to notify the NSLDS when it discovers that a student who received loans or Pell grants is no longer enrolled at least half-time. Unless the College expects to complete its enrollment roster with the NSLDS within 60 days of the student's change in enrollment, the College must notify the lender or guarantee agency, via NSLDS within 30 days. The College has 15 days to turn around the roster file. Therefore, we have determined timeliness to be established as within 75 days.

Recommendation: College management should have written policies and procedures to ensure the accurate and timely submission and monitoring of student enrollment data reported to NSLDS.

Agency Response: See pages 8-9 for Martin Community College's response to this finding.

3. FAILURE TO TIMELY REPORT DISBURSEMENTS TO THE FEDERAL GOVERNMENT

The College did not timely report disbursement data to the Department of Education (Department) for students who received federal financial assistance. During the audit period, the College disbursed approximately \$851,000 in federal financial assistance funding to 241 students subject to this reporting requirement.

Auditors tested the disbursement data reporting for a sample of 120 students who received federal financial assistance. There were 22 (18%) students with disbursements totaling \$23,609 that were reported between four and 81 days late.

Failure to report disbursement data to the Department could impact Pell eligibility. Lifetime or annual limits could be reached or exceeded and the College or the Department may not be aware.

The errors occurred for two reasons.

First, in accordance with its procedures, the financial aid office waited to report disbursement data to the Department until after receiving notification from the business office that the disbursements have been posted to the general ledger. However, this year the business office failed to provide notification to the financial aid office for disbursements that occurred late in the semester. Consequently, the financial aid office was also late in reporting the disbursements to the Department.

Second, there were no documented reconciliations between the Department and the College's disbursement records during the year. The reconciliations would have identified unreported differences between the Department and the College's disbursement records.

Federal regulations⁶ require that Pell disbursement records be reported within 15 days of disbursement to students.

Federal Award Information: Award Year July 1, 2016 – June 30, 2017. CFDA 84.063 Federal Pell Grant Program

Recommendation: The financial aid director should report disbursement data to the Department after the award is made to the student's account instead of waiting to receive notification from the business office. Additionally, the financial aid director should perform documented reconciliations between the College's and Department's disbursement records.

Agency Response: See page 9 for Martin Community College's response to this finding.

⁶ Office of Management and Budget (OMB) Uniform Guidance 2017 Compliance Supplement, Part 5, Section III



MARTIN COMMUNITY COLLEGE

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Audit Finding Response Award Year July 1, 2016 – June 30, 2017

1. Errors in Return of Title IV Funds

Recommendation: The financial aid director should perform manual calculations for a sample of returns to ensure that information system calculations for return to Title IV include all applicable student charges. In addition, college management should design and implement review and/or monitoring procedures to ensure that required calculations for returns to Title IV are complete and accurate, and funds are returned on a timely basis in accordance with federal compliance requirements

Agency Response

Martin Community College agrees with the finding for Return of Title IV Funds. Errors were found with applicable student charges that were not included in setup of the Colleague module and therefore were not included in calculation. Also, procedures for students with a "0" GPA were not conclusive and resulted in late calculation and Title IV funds being returned late.

Martin Community College Financial Aid Director has worked with North Carolina Community College System, to identify and correct errors in Colleague Return of Title IV setup. All errors have been corrected and the module is now functioning correctly. Correct functioning has been verified by comparison of information system calculations with manual calculations.

Martin Community College instructors process Administrative Withdrawals for students that have in effect withdrawn from class without processing the necessary paperwork. The grade for an Administrative Withdrawal reflects "WF" on the student's transcript. More research into the process has revealed that Administrative Withdrawals are not being utilized correctly and students are receiving final grades of "F" instead of properly receiving "WF's" with a last date of attendance. Some students are receiving "F" grades that are not true earned grades. An Administrative Withdrawal should have been processed. The Dean of Academic Affairs and department chairs will continue to communicate to faculty regarding administrative withdrawal policy and procedures. A record of late submissions of administrative withdrawals will be maintained by the Financial Aid Director. Faculty who fail to submit administrative withdrawals in a timely manner will receive communication via email from the Financial Aid Director and copied

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to the Dean of Academic Affairs. Repeated instances will result in additional communications from the Financial Aid Director and a warning from the faculty member's supervisor and will be considered in the instructor's annual evaluation. A class final grade report is processed weekly in Informer to detect students who have received grades of "W," "WF," or "F" in all registered classes. Emails are being sent to instructors for last dates of attendance on classes in question. If last dates of attendance cannot be obtained, Title IV return is being calculated on the 50% point of the semester for financial aid recipients with grades of all "W," "WF," and "F" or a combination thereof.

All financial aid students identified on Informer final grade report that are in question for Return of Funds for the Award Year July 1, 2016 – June 30, 2017, are being recalculated manually on Department of Education R2T4 worksheets and recalculated in the Colleague system.

Informer final grade report is run weekly to identify students who are completely withdrawn from class so that calculation can be processed and monies returned timely in accordance with federal compliance requirements. Students with grades of "W," "WF," or "F" or a combination thereof, will be investigated to determine if "F" grades are true grades or obtain a last date of attendance

Terri Leggett, Financial Aid Director, is processing recalculations and return of funds for Award Year July 1, 2016 – June 30, 2017. This process will be completed no later than November 22, 2017. FISAP Report will be corrected on December 15, 2017.

2. Enrollment Status Reporting Errors

***Recommendation:* College management should have written policies and procedures to ensure the accurate and timely submission and monitoring of student enrollment data reported to NSLDS.**

Agency Response

Martin Community College agrees with the finding on non-timely enrollment status changes being reported to the National Student Loan Data System (NSLDS) for federal financial assistance recipients. The college has experienced significant staff turnover. Part-time staff and interim staff were insufficiently allocated to ensure accuracy and consistent, timely submission of reports.

Martin Community College, as of November 2016, has permanently filled the Registrar's position. Written policies and procedures for NSLDS reporting have been created in order to ensure accurate and timely reporting of student information. The Registrar, Registrar's Office Technician, and Vice President, Student Services, are alerted to upcoming and past-due enrollment reports. Timely submission of reports are considered in the Registrar's annual evaluation.

Eileen Jarmul, Registrar, completed written policies and procedures dated January 31, 2017.

3. Failure to Timely Report Disbursements to the Federal Government

Recommendations: The financial aid director should report disbursement data to the Department after the award is made to the student’s account instead of waiting to receive notification from the business office. Additionally, the financial aid director should perform documented reconciliations between the College’s and Department’s disbursement records.

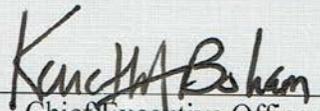
Agency Response

Martin Community College agrees with the finding that the College did not timely report disbursement data to the Department of Education (DOE) for students who received federal financial assistance. Also, that there were no documented reconciliations between the Financial Aid Office, Business Office and the DOE.

Workflow procedures between the Financial Aid Office and the Business Office have been revised in order for student disbursements to be reported within the required 15-day time frame. Disbursements will now be loaded to the DOE before the disbursement reports are submitted to the Business Office for processing.

Documented reconciliations between the Financial Aid Office and the business office will be performed after each disbursement or R2T4 transaction with email notification provided to the Dean of Administrative Services and Vice President, Student Services.

Terri Leggett, Financial Aid Director, has implemented these procedures effective the beginning of the Fall 2017 semester, 8/18/2017.



 Chief Executive Officer

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