State Contractual Scholarship Fund

AUDIT COMPLIANCE

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY

Schedule of Funding

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Agency Contact Person

Information and interpretive advice on the SCSF program is available to the CPA firm from the Authority by writing to or calling Grants, Training & Outreach, NCSEAA, PO Box 13663, Research Triangle Park, NC 27709-3663 telephone (919) 248-4650.

A copy of the independent audit report on the SCSF programs should be provided to the Authority by the Approved Institution as soon as possible after the end of the State’s fiscal year (June 30). Should the audit firm find significant exceptions for this program at the Approved Institution being audited, and the Approved Institution does not take immediate action to rectify these exceptions, the Authority may withhold funding for that program from that Approved Institution for the next academic term until such matters are resolved.

Unless the context clearly indicates some other meaning, capitalized words and phrases shall have the corresponding meaning as described in Section .0102 of the Rules Governing the State Contractual Scholarship Fund Program (Program Rules).

Rev. 9-09
STATE CONTRACTUAL SCHOLARSHIP FUND (SCSF) PROGRAM

I. BACKGROUND, PURPOSE, AND APPLICABILITY

The SCSF program was created by the 1971 General Assembly of North Carolina to provide financial assistance to needy North Carolina resident undergraduate students enrolled full or part time in a degree-granting program at a private, non-profit college or university located in the State (see G.S. 116-19, Session Laws 1985, c.479, and Section 501c3 of the Internal Revenue Code). There are currently 37 Approved Institutions in North Carolina that meet the definition of non-profit institutions.

The North Carolina State Education Assistance Authority (hereinafter, the Authority) has administered the SCSF program since July of 1993. This Audit Supplement is effective for the SCSF program for 1994-1995 and forward under the SCSF Regulations adopted by the Authority Board in March 1994 and as amended in February 1995, August 1995, February 1999 and February 2007. These Regulations were renamed Rules Governing the State Contractual Scholarship Fund (Program Rules) and establish the definitions, terms of participation, eligibility procedures, method of payment, refund policy, residence requirements, and rules for program integrity. In order to participate in the program, each Approved Institution is required to enter into an “Agreement Concerning Payment of State Funds to North Carolina Private Educational Institutions to Provide Scholarship Awards to Needy North Carolina Students”. This Participation Agreement remains in effect and must be re-executed only if the status of the Approved Institution changes, e.g., from two-year to four-year status.

An annual appropriation is made by the General Assembly to the Board of Governors for the SCSF program. The appropriation is allocated among the eligible Approved Institutions in proportion to the ratio that each Approved Institution occupies to the total enrollment of North Carolina undergraduates as of October 1 of each year. The funds are then distributed by the Approved Institutions to needy North Carolina students during the State’s fiscal year, ending June 30.

Each Approved Institution must complete and return to the Authority an SCSF Enrollment Data Certificate FTE Calculation Form and an electronic roster of eligible students. On the basis of the figures submitted on this form and roster, the Authority determines if the appropriation is sufficient to pay the Approved Institutions the legislatively-determined maximum authorized by law. The Session Laws of the General Assembly in 1994 provided that the Board of Governors of The University of North Carolina, with the approval of the Office of State Budget and Management, may transfer funds from the NCLTG program to cover any shortfall in the SCSF program. In the event the appropriation still is not sufficient to pay Approved Institutions the maximum award, the total monies provided to the eligible Approved Institutions may be prorated according to available funds provided by the General Assembly.

On the basis of the FTE enrollment reported by each Approved Institution after October 1 on their SCSF Enrollment Data Certificate and the electronic roster, the Authority requests a master check or electronic funds transfer from UNC General Administration. A single payment for the entire academic year is made to a clearing account maintained at each Approved Institution. Immediately upon receipt of Program Funds from the Authority and no later than ten days, each Approved Institution shall deposit the Program Funds into a separate ledger account identified as the “State Contractual Scholarship Fund” within the Approved Institution’s accounting system. Each Approved Institution has full authority, consistent with their institutional financial aid packaging policy, to select recipients who are determined to have financial need in meeting educational expenses.
Payments to SCSF recipients are made by debiting the SCSF account and crediting the individual recipient’s account at the Approved Institution. Each student is notified of the source and amount of the SCSF grant so credited. After June 30 but no later than August 1, each Approved Institution must provide the Authority with the Certification of Institutional Eligibility Form and supporting electronic rosters, verifying how SCSF monies were expended and to whom payments were made during the preceding academic year. Funds not utilized by the Approved Institution by June 30 must be returned to the Authority. No disbursement of state funds shall occur after June 30.

II. MATRIX OF COMPLIANCE REQUIREMENTS

A. ACTIVITIES ALLOWED OR DISALLOWED

The Auditor is not expected to test for services allowed or disallowed. An administrative cost allowance is not provided for this program. All funding is to be applied to student accounts. The 1994 North Carolina Session Laws provided for a transfer of funds from the NCLTG program to cover any shortfall in the SCSF program. There is, however, no test required by an auditor for this activity.

B. CASH MANAGEMENT

In July of 1993, responsibility for administration of the State Contractual Scholarship Fund program was transferred from UNC General Administration to the North Carolina State Education Assistance Authority. The General Assembly determines annually the dollar amount that when multiplied by the NC FTE undergraduate enrollment at the Approved Institutions is available for needy North Carolina residents. Approved Institutions receive an appropriation based on their North Carolina FTE enrollment at October 1 and divide that appropriation among their needy NC residents to be used throughout the academic year (fall, spring, summer). SCSF awards to students vary according to their documented financial need. Any monies remaining in the SCSF account at June 30 of each year must be refunded to the Authority within 30 days.

C. ELIGIBILITY

1. INSTITUTIONAL ELIGIBILITY - Defined in G.S. 116-22(1) and in Section 501c3 of the Internal Revenue Code.

2. STUDENT ELIGIBILITY - Defined in G.S. 116-22(2).

D. REPORTING

An Annual Report on the program is produced after June 30 each year. The report contains a reconciliation of all SCSF awards made to the Approved Institutions and refunds received for the current academic year. It is available upon request to interested parties.
E. SUBSEQUENT MONITORING

Each Approved Institution participating in the SCSF program that receives an award greater than $500,000 in total state funds is required to provide the Authority with a yellow book audit report conducted by their independent auditor. This audit should contain reference to all State-funded programs in which the Approved Institution participates. The amounts contained in this report should match those contained in the records of the Authority and any other state grantor. Once the Authority has reviewed the independent audit report, the Authority notifies the Approved Institution whether or not their audit report figures are consistent with the SCSF financial records at the Authority. If there are discrepancies in the audit report that the Authority and the Approved Institution have been unable to resolve or refunds that are due the Authority for the program have not been repaid, then the Authority may withhold any future SCSF payments until the matter has been resolved.

Approved Institutions receiving less than $500,000 are notified via mail that they do not have to provide the Authority with an audit report, but they must state in a letter the amount of SCSF monies they received and the amount of any refunds they made to the program during the year in question. Any inconsistencies regarding SCSF awards must be subsequently resolved with the Approved Institution or future SCSF funding may be withheld.

F. SPECIAL TESTS AND PROVISIONS.

1. COMPLIANCE REQUIREMENT - STUDENT ACCOUNTS

Upon receipt of SCSF payments from the Authority, the Approved Institution is required to first deposit all SCSF monies into a separate ledger account within the Approved Institution's accounting system identified as the “State Contractual Scholarship Fund.” Then the Approved Institution must credit the individual student accounts of all students eligible to receive the SCSF award.

Suggested Audit Procedure (Local Auditor)

Determine that SCSF monies are promptly deposited into the “State Contractual Scholarship Fund” ledger account.

A sample of student account records in the Approved Institution’s business office should be reviewed to make certain that the accounts of students certified as eligible on SCSF rosters and forms have been credited with the amount of the SCSF award debited against the “State Contractual Scholarship Fund.”

2. COMPLIANCE REQUIREMENT - PAYMENT ERRORS

In the event that it is determined at any time that an Approved Institution has knowingly or through error certified an ineligible student to be eligible for a grant under the SCSF program, or that the Authority has knowingly or through error made payments to an Approved Institution that were not lawfully due and payable to the Approved Institution, the amount of such payments must be immediately refunded to the Authority by the Approved Institution.

Suggested Audit Procedure (Local Auditor)

Review refund policy of Approved Institution to make certain refunds, if any, are being submitted to the Authority in a timely and accurate manner.
Ascertain whether or not Approved Institutions are following refund procedure detailed in the SCSF Program Rules, .0307.

Select a sample of student accounts who have withdrawn from Approved Institution to determine if a refund was due the Authority, and if so, was it made in a timely manner.

III. COMPLIANCE REQUIREMENTS - GENERAL

A. COMPLIANCE REQUIREMENT - IN-STATE RESIDENCE

All SCSF recipients must be residents of North Carolina for purposes of tuition payment under the terms and conditions of *A Manual to Assist the Public Higher Education Institutions of North Carolina in the Matter of Student Residence Classification for Tuition Purposes* (current edition). Each Approved Institution should have on file a copy of the SCSF Program Rules and the North Carolina Residence Manual. (The North Carolina Residence Manual has been provided to all Approved Institutions in the State. A photocopy of the current Residence Manual may be obtained by contacting the SCSF Program Manager at the Authority.)

Suggested Audit Procedure (Local Auditor)

Review names of all students on rosters with out-of-state address to make certain that a reason for their inclusion is acceptable (e.g., grace period, parental military service, parental temporary assignment out of state, etc.). Rules of eligibility regarding residency are the same as those that govern eligibility for payment of in-state tuition at North Carolina’s public institutions.

B. COMPLIANCE REQUIREMENT - MATRICULATION STATUS

All SCSF recipients must be enrolled full or part time as undergraduate students in a degree program at an eligible North Carolina private college or university as defined in G.S. 116-22(1).

Suggested Audit Procedure (Local Auditor)

Review student registration records to make certain student was enrolled as of October 1 in a degree-granting program (not as a special or audit student) -- see Program Rules, Chapter 2.

C. COMPLIANCE REQUIREMENT - UNDERGRADUATE DEGREE STATUS

Persons already possessing a baccalaureate degree are not eligible for SCSF payments. Persons who have one associate degree are not eligible for SCSF payments for study to obtain another associate degree. Persons who have received an associate degree are not eligible for SCSF payments for lower division coursework (e.g., freshman or sophomore) unless required by a senior Approved Institution as part of a transfer agreement to pursue a baccalaureate degree. Also, SCSF recipients may not be enrolled in a program of study for a degree in theology, divinity, or religious education or any other program of study that is designed by the Approved Institution primarily for career preparation in a religious vocation.
**Suggested Audit Procedure** (Local Auditor)

For a random sample of students classified as seniors at four-year Approved Institutions, determine that the number of hours completed does not qualify the student for a bachelor’s degree. For a random sampling of students at two-year Approved Institutions, determine that the number of hours completed does not qualify the student for one or more associate degree(s).

Determine from the Approved Institution’s catalog the course requirements leading to a degree or career preparation in a religious vocation.

Obtain a list of students who are enrolled in a program of study the objective of which is the attainment of a degree in theology, divinity, or religious education or in any other program of study that is designed by the Approved Institution primarily for career preparation in a religious vocation and verify that they are not receiving an SCSF award.

**D. COMPLIANCE REQUIREMENT - DEFAULT STATUS**

No student in default should be allowed to receive the SCSF award unless he/she has received a clearance letter from the lender stating that the defaulter has made satisfactory repayment arrangements.

**Suggested Audit Procedure**

Review a sample of Student Aid Reports (SAR) or Institutional Student Information Record (ISIR) for students receiving the SCSF award to make certain that SCSF recipients meet this requirement.

**E. COMPLIANCE REQUIREMENT - NEED DETERMINATION**

All SCSF recipients must have financial need as determined by the Approved Institution, employing its institutional aid policy in conjunction with the College Scholarship Services’ Institutional Methodology (IM) or with the Federal Methodology (FM) need analysis criteria that are recognized by the Authority.

**Suggested Audit Procedure**

Verify that all SCSF recipients have filed the Free Application for Federal Student Aid (FAFSA) form and/or a multiple data entry (MDE) form, if an MDE is required by the Approved Institution. The individual Approved Institutions are authorized to select recipients based upon the extent of the applicant’s financial need, consistent with their institutional financial aid policy. The individual SCSF awards will vary for each eligible recipient, but in no instance should the annual award (including the summer term) exceed the approved cost of attendance as determined by the Approved Institution.

**F. COMPLIANCE REQUIREMENT - INSTITUTIONAL CERTIFICATION**

An Approved Institution must certify to the Authority the eligibility and enrollment, as defined in the program regulations, of students receiving SCSF awards.

**Suggested Audit Procedure** (Local Auditor)

Select a sample of students from the SCSF payment rosters submitted by the Approved Institution to make certain that the SCSF award has been credited to the account of the students listed on the roster.
G. COMPLIANCE REQUIREMENT - SELECTIVE SERVICE REQUIREMENT

The 1989 General Assembly enacted legislation prohibiting receipt of any State-supported financial aid unless the student gives proof of Selective Service registration compliance to the educational institution he attends. An Approved Institution has the option of meeting this requirement through the Federal system of Selective Service verification, by obtaining documentation from the current NCLTG application, ISIR or by having the student complete the Statement of Selective Service Registration Compliance.

Suggested Audit Procedure (Local Auditor)

From a sample of recipients, determine that proof of selected service registration has been provided.